Quarterly Financial Report
Period ended September 30, 2013

Second quarter of fiscal 2013-2014
Published November 29, 2013

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1. TELEFILM

Telefilm Canada is a Crown corporation reporting to Parliament through the Department of Canadian Heritage. Telefilm's vision is: Audiences everywhere demanding screen-based content created by Canadians - accessible anywhere, anytime and on any platform.

Our mission

Telefilm's mission is to foster and promote the development of the Canadian audiovisual industry by playing a leadership role through financial support and initiatives that contribute to the industry's cultural, commercial and industrial success.

What we do

Telefilm is dedicated to the cultural, commercial and industrial success of the Canadian audiovisual industry. Our funding programs provide financial support to dynamic Canadian production and distribution companies that deliver content to audiences. We promote Canadian audiovisual success and talent at festivals, markets and events-regionally, nationally and around the world.

Furthermore, Telefilm administers funding programs of the Canada Media Fund (CMF). We also make recommendations regarding the certification of audiovisual treaty coproductions to the Minister of Canadian Heritage. Our head office is located in Montreal and we also have offices in Vancouver, Toronto and Halifax to help serve our clients.

2. QUARTERLY FINANCIAL REPORT

This quarterly financial report complies with all requirements of the Standard on *Quarterly Financial Reports for Crown Corporations*[1] established by the Treasury Board Secretariat and with the *Canadian Public Sector Accounting Standards* (CPSAS). There is no requirement for an audit or review of the financial statements included in this quarterly financial report, and as such, the report has not been reviewed or audited by external auditors.

3. IMPORTANT CHANGES

Programs

The Corporation and the Rogers Group of Funds renewed their partnership for the Theatrical Documentary Program. This program has a combined envelope of $1.3 million for the 2013-2014 fiscal year. The objective of this program is to encourage the production of documentaries for theatrical release.

1 : www.tbs-sct.gc.ca/pol/doc-eng.aspx?id=18789&section=text

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3. IMPORTANT CHANGES (CONTINUED)

Activities

During the quarter, the Corporation financed 24 new productions for nearly $10 million. Moreover, Canadian cinema is shining on the international scene. Xavier Dolan's film *Tom at the Farm* (*Tom à la ferme*) was presented in the official selection of the international competition at the 70th Venice International Film Festival[2]. In addition, a pan-Canadian selection committee chose the feature film *Gabrielle* to represent Canada for the Best Foreign Language Film Oscar.

On the fringes of the Toronto International Film Festival[3] (TIFF), Telefilm launched a new initiative with Maison Birks by presenting the *Birks Diamond Tribute to the Year's Women in Film*, which honours 10 Canadian women directors and actors. Moreover, the Corporation multiplied its promotional activities at TIFF for both new talent and Canadian productions. Several different initiatives were held such as *Filmmaker Boot Camp, PITCH THIS! and TIFF Rising Stars*. In particular, these activities focused on the training of filmmakers, emerging talent and the creation of new projects, as well as the discovery of the next generation of Canadian actors. Lastly, the Corporation once again teamed up with the Calgary International Film Festival[4] and other partners as part of Movie Nights in Canada during the opening ceremony of the Festival and the screening of *The Grand Seduction*.

Personnel

The five-year term of Marlie Oden, board member and Chair of the Strategic Planning and Communications Committee, ended in July. There are no other changes to the Board or the Management Committee. Lastly, the Corporation relocated its employees who serve Western Canada. The new service point is located in the Canadian Broadcasting Corporation building in Vancouver; please visit our website for further details.

4. GOVERNANCE AND INTERNAL AUDIT

Governance of the Corporation is carried out through the activities of the Board, its committees and by the Management Committee, chaired by the Executive Director, and its subcommittees. The Board, Audit and Finance Committee and Nominating, Evaluation and Governance Committee each held one meeting during the quarter, while the Management Committee met almost every week.

The Corporation mandates an independent external firm with the task of conducting internal audits, and accountability is carried out at the Corporation's Audit and Finance Committee. The 2013-2014 internal audit plan comprises four mandates. The mandate to analyze the application process for coproduction treaties was completed during the quarter, while the internal audit mandate for the new development program is well on its way.

2 : http://www.labiennale.org/en/cinema/
3 : http://tiff.net/
4 : http://www.calgaryfilm.com/

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5. RISK MANAGEMENT

During the quarter, the Risk Management Committee carried out the biannual evaluation of the evolution of corporate risks. This exercise provided a retrospective review and an assessment of the risk level and identifies the risks that should be subject to close monitoring and mitigation measures. The risk level remains relatively stable overall. In addition, the Corporation is conducting an exercise to map the risks of fraud.

6. UNADJUSTED DIFFERENCES

Management strives to produce relevant financial information in compliance with CPSAS and within the deadline established by the Receiver General of Canada, namely five business days after the end of the quarter. Accordingly, Management uses means and methods that enable it to identify the required adjustments. For efficiency purposes, certain cut-off procedures applicable to the accounts payable and receivable cycles as well as certain adjustments concerning liabilities for employee future benefits were not carried out at September 30, 2013. Given that the importance of these adjustments is deemed immaterial by Management, the financial statements provide a fair representation in all their significant aspects.

7. ANALYSIS OF CUMULATIVE RESULTS

The identification of variances to be explained is based on thresholds established in collaboration with the Corporation's Audit and Finance Committee. The analysis tables illustrate rounded amounts and must be analyzed in relation to the financial statements for greater accuracy.

Assistance Expenses

For the six-month period ended September 30, 2013

	Budget ($M)		Actual ($M)		Variance			
			2013-	2012-	Budget		Actual	
	Annual	Period	**2014**	2013	$	%	$	%
Production	66.1	40.5	30.8	32.3	9.7	24	(1.5)	(5)
Development	6.0	2.9	3.0	3.7	(0.1)	(3)	(0.7)	(19)
	72.1	43.4	33.8	36.0	9.6	22	(2.2)	(6)
Promotion	6.9	4.5	4.3	4.1	0.2	4	0.2	5
Marketing	10.2	4.3	2.0	4.1	2.3	53	(2.1)	(51)
International events	2.3	1.5	1.3	1.4	0.2	13	(0.1)	(7)
	19.4	10.3	7.6	9.6	2.7	26	(2.0)	(21)
	91.5	53.7	41.4	45.6	12.3	23	(4.2)	(9)

Our funding programs present declining expenditures with respect to both established budgets and comparative amounts, particularly for our production and marketing programs.

The budgetary surplus arising from our production programs is temporary and attributable, on the one hand, to significant amounts liberated by certain companies with performance-based envelopes that informed the Corporation they would not be using their envelopes. On the other hand, even though the Corporation has made financial commitments to more films than the same period last year, the amounts invested are smaller and some large-scale projects are still not finalized. Lastly, the established budget was somewhat ambitious, which also contributed to the budgetary surplus.

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7. ANALYSIS OF CUMULATIVE RESULTS (CONTINUED)

Moreover, our development program expenses are less than the comparative figures. This reduction is the result of a program budget that was significantly higher for the previous fiscal year. The decrease in expenditures is consistent with the semester budget amount of this program.

In addition, the marketing program expenses show a budget surplus, as well, these expenses are lower than the comparative semester. These results are explained by a particular context. The new marketing program was launched in May and a significant amount related to a performance envelope was liberated due to the integration of two major distribution companies. Furthermore, the funding applications from distribution companies were submitted late, close to the theatrical release dates. These combined factors resulted in a temporary slowdown of marketing expenditures. Lastly, distribution companies with performance-based envelopes were much more active in 2012-2013 and also included applications requiring greater financing.

Lastly, our international activities present a slight budget surplus. Management carried out a review in 2012-2013 that will enable it to conduct its international business activities more efficiently. Savings in labor costs have already resulted in gains.

Operating and Administrative Expenses

For the six-month period ended September 30, 2013

	Budget ($M)		Actual ($M)		Variance			
			2013-	2012-	Budget		Actual	
	Annual	Period	**2014**	2013	$	%	$	%
Salaries & wages	19.9	10.6	10.1	9.9	0.5	5	0.2	2
Rent	1.9	1.1	1.1	1.0	-	-	0.1	10
Information technology	1.2	0.9	0.8	0.8	0.1	11	-	-
Professional services	2.2	0.8	0.6	0.5	0.2	25	0.1	20
Amortization	0.7	0.4	0.4	0.5	-	-	(0.1)	(20)
Office expenses	0.7	0.2	0.2	0.2	-	-	-	-
Travel	0.6	0.3	0.2	0.2	0.1	33	-	-
Advertising & publications	0.3	0.1	0.1	0.1	-	-	-	-
	27.5	14.4	13.5	13.2	0.9	6	0.3	2

Overall, the Corporation shows a budgetary surplus attributed mainly to vacant positions. At this stage, Management does not anticipate any significant variation with respect to the established yearly budget. In this regard, the professional fees present a temporary budget surplus position. Most of the semester budgetary surplus is explained by pushing back the work schedule of two projects: the automation for gathering our performance indicator data and the implementation of modern promotional communication methods. The reduced need for external reader and translation services also contribute to this favourable position. Moreover, the travel expenses incurred are less than those budgeted, with the cost savings coming primarily from our Board and program delivery sectors.

The expenses in the current period also show some variations with regard to the comparative semester. The rent presents an increase in expenditures related to the operating costs of leases. The professional fees are also on the rise. The activities commissioned by our Strategy and Research sector, notably in terms of studies, surveys and analyses, as well as internal audit expenses and legal fees, explain the increase in fees versus the comparative expenses. Lastly, the amortization expense has decreased with regards to the results of the comparative semester due to software programs and computer licenses that have reached the end of their useful accounting lives.

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7. ANALYSIS OF CUMULATIVE RESULTS (CONTINUED)

Revenues and Government Funding

For the six-month period ended September 30, 2013

	Budget ($M)		Actual ($M)		Variance			
					Budget		Actual	
	Annual	Period	**2013-2014**	2012-2013	$	%	$	%
Parliamentary appropriation	99.9	52.6	51.3	53.6	(1.3)	(2)	(2.3)	(4)
Investment revenues and recoveries	9.0	4.0	6.7	6.2	2.7	68	0.5	8
Management fees from the CMF	10.1	5.0	5.0	5.1	-	-	(0.1)	(2)
Talent Fund	0.7	-	0.1	-	0.1	-	0.1	-
Interest and other revenues	0.1	-	-	0.1	-	-	(0.1)	(100)
	119.8	61.6	63.1	65.0	1.5	2	(1.9)	(3)

The Parliamentary appropriation, our main source of funding, shows stability both with regard to the budget and comparative semester. Furthermore, the cumulative revenue presents a slight budget surplus at the first semester and places the organization in a favourable position. This increased funding is due mainly to recoveries of advances on marketing projects. In particular, *Goon* and *Blindness* together returned a substantial sum of nearly $2 million, pushing the recoveries well above the established budgets. Lastly, the Talent Fund reports revenues stemming from the first quarter. Since these amounts are donations, it is difficult to forecast. This is the second year for the Fund, which was just starting up at the same period last year.

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8. ANALYSIS OF RESULTS FOR THE SECOND QUARTER

	Actual ($M)		Variance	
	2013-2014	2012-2013	$	%
Assistance expenses	17.7	32.9	(15.2)	(46)
Operating and administrative expenses	6.8	6.2	0.6	10
Revenues	8.8	8.0	0.8	10
Parliamentary appropriation	27.7	34.9	(7.2)	(21)
Surplus	12.0	3.8	8.2	216

The industry assistance expenses present a significant reduction with regards to the comparative figures. This decrease is attributed mainly to our production program. In fact, the financial commitments for the comparative quarter in 2012-2013 included several large-scale investments, while this dynamic did not recur for the current quarter.

Revenues show an increase in funding stemming directly from the rise of exploitation revenues relating to films, especially recoveries on advances for marketing projects. With regards to the comparative quarter, notably for key amounts, the Corporation received a smaller number of remittances from distributors; however, these remittances comprise higher amounts, including a significant sum from the successful film *Goon*.

Lastly, the Parliamentary appropriation shows a decrease in the amount used versus the comparative quarter. The contextual reduction, in terms of investment size for the new productions financed, directly affects the use of our Parliamentary appropriation. It should be noted that the second quarter of the 2012-2013 fiscal year had assistance expenses activities that exceeded our expectations, particularly for the production program.

The second quarter results show a volatility that must be analyzed in light of the figures presented in section 7. Analysis of cumulative results and these results demonstrate spending levels and revenues that are relatively comparable to prior fiscal year.

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9. ANALYSIS OF FINANCIAL POSITION

	Actual ($M)		Variance	
	Sept. 30, 2013	March 31, 2013	$	%
Financial assets				
Due from Consolidated Revenue Fund	51.9	45.6	6.3	14
Cash - Talent Fund	0.1	-	0.1	-
Accounts receivable	2.4	2.6	(0.2)	(8)
Receivable from CMF	2.4	3.0	(0.6)	(20)
	56.8	51.2	5.6	11
Liabilities				
Accounts payable	1.1	2.1	(1.0)	(48)
Special termination benefits payable as a result of downsizing	-	0.3	(0.3)	(100)
Financial assistance programs obligations	29.9	33.7	(3.8)	(11)
Liabilities for employee future benefits	3.3	2.3	1.0	43
Net financial assets	22.5	12.8	9.7	76
Non-financial assets				
Tangible capital assets	1.5	1.6	(0.1)	(6)
Prepaid expenses	0.1	1.7	(1.6)	(94)
Accumulated surplus	24.1	16.1	8.0	50

The Corporation presents a solid financial position as demonstrated by the amount of its net financial assets. The most important financial asset, cash, has increased since March 31 through investment revenues and through recoveries that have been recorded but not yet used. Moreover, the receivable balance from the Canada Media Fund (CMF) shows a decrease that is related to the harmonized sales tax of 13% arising from the final invoice recorded at March 31, 2013 and efficiency measures introduced during the semester in the delivery of CMF funding programs.

The liabilities present a set of significant variations. The decrease in accounts payable is primarily explained by the payment of accrued liabilities recorded at March 31, 2013. In this context, at the close of the fiscal year, Management applies exhaustive cut-off procedures over a longer period that cannot be applied during a quarter. Also, as anticipated, most of the special termination benefits were paid during the semester. Furthermore, the reduction in financial assistance programs obligations mainly derives from payments for contracts covering the current fiscal year. Lastly, the liabilities for future employee benefits show a marked increase. As expected, and following the recommendation from the Treasury Board of Canada Secretariat to eliminate the voluntary severance for all federal employees, the Corporation will buy out the rights conferred to employees under the Policy on termination of employment.

Lastly, the prepaid expenses have decreased significantly as a result of all these amounts of the previous fiscal year being recorded as expenses in the current semester.

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10. RECONCILIATION OF COST OF OPERATIONS AND PARLIAMENTARY APPROPRIATION

The Corporation receives most of its funding through an annual Parliamentary appropriation. Items recognized in the Statement of Operations and the Statement of Financial Position may have been funded through a Parliamentary appropriation approved in either a previous or the current fiscal year. Some of the items in the reconciliation calculation cannot be linked directly to the financial statements.

In million of Canadian dollars	**Sept. 30, 2013**
Cost of operations	55.0
Adjustments affecting cost of operations :	
Amortization	(0.4)
Employee future benefits	(1.0)
Adjustments affecting the use of Parliamentary appropriation :	
Adjustment related to eligibility criteria of assistance expenses	3.5
Operating expenses funded by the CMF	(5.0)
Prepaid administrative expenses at March 31	(1.1)
Prepaid administrative expenses at September 30	0.1
Acquisition of property and equipment	0.2
	(3.7)
Use of Parliamentary appropriation at September 30	51.3
Parliamentary appropriation available for subsequent quarters	48.6
Parliamentary appropriation authorized	99.9

The amount of the Parliamentary appropriation comes from the 2013-2014 Main Estimates and from an increase from the Treasury Board compensation reserve funding.

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11. QUARTERLY FINANCIAL STATEMENTS FOR THE PERIOD ENDED SEPTEMBER 30, 2013

Statement of Management Responsibility

Management is responsible for the preparation and fair presentation of these quarterly financial statements in accordance with the *Treasury Board of Canada Standard on Quarterly Financial Reports for Crown Corporations* and for such internal controls as management determines is necessary to enable the preparation of quarterly financial statements that are free from material misstatement. Management is also responsible for ensuring all other information in this quarterly financial report is consistent, where appropriate, with the quarterly financial statements.

Based on our knowledge, these unaudited quarterly financial statements present fairly, in all material respects, the financial position, results of operations, change in net financial assets and cash flows of the Corporation, as at the date of and for the periods presented in the quarterly financial statements.

Carolle Brabant, CPA, CA, MBA
Executive Director

Denis Pion
Director - Administration and Corporate Services

Montréal, Canada
November 29, 2013

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Quarterly Statement of Operations

For the three-month period ended September 30, 2013

		Quarter ended Sept. 30	
In thousands of Canadian dollars	**Schedule**	**2013**	**2012**
Assistance expenses			
Development of the Canadian audiovisual industry			
Production assistance		11,055	24,591
Development assistance		2,756	3,588
		13,811	28,179
Promotional support in Canada and abroad			
Promotion		2,593	3,625
Distribution and marketing assistance		752	788
Participation in international events		574	307
		3,919	4,720
		17,730	32,899
Operating and administrative expenses	A	6,757	6,171
Cost of operations		24,487	39,070
Revenues			
Investment revenues and recoveries		6,354	5,516
Management fees from the Canada Media Fund		2,381	2,433
Interest and other revenues		27	49
		8,762	7,998
Net cost of operations before government funding		15,725	31,072
Government funding			
Parliamentary appropriation		27,706	34,879
Surplus		11,981	3,807
Accumulated surplus, beginning of period		12,290	16,486
Accumulated surplus, end of period		24,271	20,293

The accompanying notes and the schedules are an integral part of these financial statements.

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Statement of Operations

For the six-month period ended September 30, 2013

In thousands of Canadian dollars	Schedule	Semester ended Sept. 30 Cumulative Budget	Cumulative 2013	Cumulative 2012
Assistance expenses				
Development of the Canadian audiovisual industry				
Production assistance		40,450	30,822	32,291
Development assistance		2,900	3,015	3,697
		43,350	33,837	35,988
Promotional support in Canada and abroad				
Promotion		4,465	4,272	4,057
Distribution and marketing assistance		4,300	1,981	4,145
Participation in international events		1,500	1,299	1,409
		10,265	7,552	9,611
		53,615	41,389	45,599
Operating and administrative expenses	B	14,459	13,580	13,273
Cost of operations		68,074	54,969	58,872
Revenues				
Investment revenues and recoveries		4,020	6,741	6,211
Management fees from the Canada Media Fund		5,034	4,981	5,063
Talent Fund		-	100	-
Interest and other revenues		50	49	82
		9,104	11,871	11,356
Net cost of operations before government funding		58,970	43,098	47,516
Government funding				
Parliamentary appropriation		52,631	51,300	53,588
Surplus (Deficit)		(6,339)	8,202	6,072
Accumulated surplus, beginning of period			16,069	14,221
Accumulated surplus, end of period			24,271	20,293

The accompanying notes and the schedules are an integral part of these financial statements.

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Statement of Financial Position

In thousands of Canadian dollars	**September 30, 2013**	**March 31, 2013**
Financial assets		
Due from Consolidated Revenue Fund	51,943	45,561
Cash - Talent Fund	136	36
Accounts receivable	2,408	2,572
Receivable from the Canada Media Fund	2,410	2,973
	56,897	51,142
Liabilities		
Accounts payable and accrued liabilities	1,060	2,066
Special termination benefits payable as a result of downsizing	14	336
Financial assistance programs obligations	29,864	33,730
Liabilities for employee future benefits	3,278	2,250
	34,216	38,382
Net financial assets	22,681	12,760
Non-financial assets		
Tangible capital assets	1,458	1,585
Prepaid expenses	132	1,724
	1,590	3,309
Accumulated surplus	24,271	16,069

The accompanying notes and the schedules are an integral part of these financial statements.

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Statement of Changes in Net Financial Assets

For the six-month period ended September 30, 2013

In thousands of Canadian dollars	**September 30, Budget**	**September 30, 2013**	**March 31, 2013**
Surplus (Deficit)	(6,339)	8,202	1,848
Tangible capital asset transactions			
Amortization	354	355	1,036
Acquisitions	(600)	(228)	(357)
Other transactions			
Acquisitions of prepaid expenses	-	(132)	(1,724)
Use of prepaid expenses	1,724	1,724	1,875
Increase (decrease) in net financial assets	(4,861)	9,921	2,678
Net financial assets, beginning of year	12,760	12,760	10,082
Net financial assets, end of period	7,899	22,681	12,760

The accompanying notes and the schedules are an integral part of these financial statements.

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Statement of Cash Flows

For the period ended September 30, 2013

	Quarter ended Sept. 30		Semester ended Sept. 30	
In thousands of Canadian dollars	**2013**	**2012**	**2013**	**2012**
Operating transactions				
Surplus	11,981	3,807	8,202	6,072
Items not affecting cash:				
Increase in liabilities for employee future benefits	922	19	1,028	156
Amortization of tangible capital assets	180	267	355	536
	13,083	4,093	9,585	6,764
Changes in non-cash financial items:				
Decrease (increase) in accounts receivable	242	(2,949)	164	(1,517)
Decrease in receivable from the Canada Media Fund	190	179	563	180
Decrease in accounts payable and accrued liabilities	(446)	(131)	(1,006)	(472)
Decrease in special termination benefits payable as a result of downsizing	(24)	-	(322)	(138)
Increase (decrease) in financial assistance programs obligations	(6,802)	1,494	(3,866)	(1,434)
Decrease (increase) in prepaid expenses	339	(1)	1,592	1,731
	6,582	2,685	6,710	5,114
Capital transactions				
Acquisitions	(224)	-	(228)	-
Increase in Due from Consolidated Revenue Fund and Cash - Talent Fund	6,358	2,685	6,482	5,114
Due from Consolidated Revenue Fund and Cash - Talent Fund, beginning of period	45,721	43,517	45,597	41,088
Due from Consolidated Revenue Fund and Cash - Talent Fund, end of period	52,079	46,202	52,079	46,202

The accompanying notes and the schedules are an integral part of these financial statements.

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Notes to the Quarterly Financial Statements

1. Basis of financial statements presentation

These unaudited quarterly financial statements have been prepared by the Corporation's management in accordance with *Canadian Public Sector Accounting Standards* (CPSAS) pursuant to the Standard on *Quarterly Financial Reports for Crown Corporations* issued by the Treasury Board of Canada. They must be read in conjunction with the most recent annual audited financial statements of March 31, 2013. The accounting and calculation methods used in these quarterly financial statements are identical to those used in the annual financial statements of March 31, 2013.

Annual financial statements of March 31, 2013

2. Comparative figures

Certain 2012-2013 figures have been reclassified to conform to the presentation adopted for 2013-2014.

Schedules A and B - Other Information

A - Operating and administrative expenses

	Quarter ended Sept. 30	
	2013	**2012**
Salaries and employee benefits	5,254	4,767
Rent, taxes, heating and electricity	535	460
Professional services	407	206
Amortization of tangible capital assets	180	267
Information technology	143	204
Travel and hospitality	96	114
Office expenses	86	98
Advertising and publications	56	55
	6,757	6,171

B - Cumulative operating and administrative expenses

	Semester ended Sept. 30		
	Cumulative Budget	**2013**	**2012**
Salaries and employee benefits	10,583	10,129	9,884
Rent, taxes, heating and electricity	1,114	1,105	997
Information technology	894	818	826
Professional services	847	633	478
Amortization of tangible capital assets	354	355	536
Travel and hospitality	298	222	239
Office expenses	242	222	221
Advertising and publications	127	96	92
	14,459	13,580	13,273