Quarterly Financial Report
Period ended June 30, 2014

First quarter of fiscal 2014-2015
Published August 29, 2014

TELEFILM

Canada

TELEFILM CANADA

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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 commercial, cultural and industrial success.

What we do

Telefilm is dedicated to the commercial, cultural and industrial success of the Canadian audiovisual industry. Our funding programs provide financial support to 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 for the Canada Media Fund (CMF). We also make recommendations to the Minister of Canadian Heritage regarding certification of audiovisual treaty coproductions. Our head office is located in Montreal and we also have offices in Vancouver, Toronto and Halifax to 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

Following the redesign of its programs, the Corporation revised the components of the performance envelopes for its production and marketing assistance programs. These changes took place in collaboration with the industry. Starting April 1st 2014, the production assistance program recognizes the success of production companies that show exceptional performance levels by offering them an accelerated funding process. Following the acquisition of Astral Media, and in accordance with tangible benefits pursuant to CRTC's decisions, Bell Media and Corus Entertainment ratified funding agreements with Telefilm totalling 13.7 million dollars over a seven-year period to endow the Talent Fund.

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

3. IMPORTANT CHANGES (CONTINUED)

Activities

The Corporation financed 6 new productions during the quarter, including a documentary feature film, for a total amount of approximately $8 million. In addition, Canada Pavilion, under the direction of Telefilm and created in partnership with federal and provincial organizations as well as with the private sector, continued to offer an essential platform for Canadian companies to network in the largest market of audiovisual and digital content in the world (MIPTV). Note that more than 40 companies benefited from these business opportunities. For the first time in the history of our cinema, three Canadian films competed at the Cannes Festival: *Mommy* by Xavier Dolan, *Map to the Stars* by David Cronenberg and *The Captive* by Atom Egoyan. Canada's success reached an apex when Xavier Dolan was awarded the prestigious Jury Prize at Cannes for his film *Mommy.*

The Corporation continued to promote Canadian audiovisual work with *Perspective Canada*, which presented a series of Canadian feature films as part of the Cannes Film Market. This initiative highlighted Canadian feature films and talent for international buyers, sellers and producers. The Corporation is proud to announce its partnership with Air Canada to promote Canadian film during the 8th edition of the enRoute Air Canada Film Festival, which celebrates short films. Capsules from Telefilm's video series, *Off The Wall,* are now featured as part of the entertainment programming on Air Canada flights. These capsules are also available in Cineplex theatres and on *Rogers Any Place TV*. For the first time, Telefilm joined forces with C2MTL and its partners to create *Montreal: City of Cinema / Montréal : Ville de cinéma*, where James Cameron was the guest of honour. These activities sought to promote Canadian filmmakers in an interactive setting for discussion and innovation. Finally, Telefilm awarded the *Guichet d'Or Award* to the director and screenwriter of the Canadian French-language film, *Louis Cyr : l'homme le plus fort du monde*, which generated the highest grossing box office sales of any Canadian films this year, with more than $4.2 million.

Personnel

Sylvie L'Écuyer, Director, Strategy and Research and Project Management Officer, left the organization in May. Francesca Accinelli was promoted to the position of Director, National Promotion and Communication.

4. GOVERNANCE

Governance of the Corporation is carried out through activities of the Board and its committees and by the Management Committee, chaired by the Executive Director, and its subcommittees. The Board held two meetings during the quarter, while the Audit and Finance Committee and the Nominating, Evaluation and Governance Committee each held one meeting. The Management Committee met eight times. Moreover, Elise Orenstein, Vice-Chair of the Board, was appointed President of the Audit and Finance Committee of the Corporation at the committee's most recent meeting last June.

5. RISK MANAGEMENT

The Corporation conducts ongoing risk assessments and performs a formal review on a semi-annual basis. Moreover, the Corporation finalized its fraud risk assessment. This project was carried out with the help of external consultants and confirmed the initial fraud risk assessment carried out by the Corporation.

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 methods that enable it to identify the required adjustments. To this extent, 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 June 30, 2014. The importance of these adjustments is deemed immaterial by Management.

7. ANALYSIS OF QUARTERLY RESULTS AND OF FINANCIAL POSITION

The analysis tables show rounded amounts and must be read in conjunction with the financial statements for greater accuracy.

Assistance Expenses

For the three-month period ended June 30, 2014

	Budget ($M)		Actual ($M)		Variance			
			2014-	2013-	Budget		Actual	
	Annual	Period	**2015**	2014	$	%	$	%
Production	59.8	8.5	8.0	19.8	0.5	6	(11.8)	(60)
Development	7.8	0.3	-	0.3	0.3	100	(0.3)	(100)
	67.6	8.8	8.0	20.1	0.8	9	(12.1)	(60)
International events	2.2	0.8	0.8	0.7	-	-	0.1	14
Marketing	11.3	1.1	0.8	1.2	0.3	27	(0.4)	(33)
Promotion	6.9	1.6	0.6	1.7	1.0	63	(1.1)	(65)
	20.4	3.5	2.2	3.6	1.3	37	(1.4)	(39)
	88.0	12.3	10.2	23.7	2.1	17	(13.5)	(57)

The Corporation has implemented a new accelerated funding process for the production assistance program, which aims to provide more efficient allocation of funds, greater autonomy for our clients and decision-making in line with their needs. The eligible companies have more latitude to submit their projects when they are ready, which partly explains the decrease in expenses when compared to 2013-2014. In addition, the regular stream has undergone some changes: in particular, submission dates were abolished for French-language productions and, past successes and market participation were formally integrated into the evaluation criteria. The decrease in expenses of our production assistance program arises mainly from the regular stream, for which contracts of projects selected are not yet finalized. This is due particularly to the film's budgetary estimates for which funding must be completed by production companies.

The development assistance program also shows a decrease as compared to 2013-2014. The opening of the program took place in May, which postponed the funding process of portfolios for projects submitted by production companies. It is expected that the backlog will be cleared during the upcoming periods.

7. ANALYSIS OF CUMULATIVE RESULTS AND OF FINANCIAL POSITION (CONTINUED)

Our international activities show an increase in expenses in relation to the comparative quarter. This increase is mainly due to an unfavourable exchange rate for the Canadian dollar against the Euro, which appreciated by about ten percentage points as compared to the previous fiscal year-end.

Even though the results of our marketing program show a quarterly budgetary surplus and a decrease compared to the first quarter of 2013-2014, more projects were committed in 2014-2015. In fact, amendments relating to our projects justify most of the variances identified. Finally, the results of our promotional activities show both a quarterly budgetary surplus and a decrease in expenses as compared to the results of 2013-2014. The decrease in our expenses is partly due to: the opening of the promotion program at the end of the quarter, the fact that some organizations have postponed submission of funding applications for their events to the second quarter of 2014-2015, and the funding granted to an important film festival during the first quarter of 2013-2014.

Finally, even though at this point our industry assistance expenses show a significant decrease in terms of the comparative quarter, the Corporation anticipates a level of activity comparable to the previous fiscal year.

Operating and Administrative Expenses

For the three-month period ended June 30, 2014

	Budget ($M)		Actual ($M)		Variance			
					Budget		Actual	
	Annual	Period	**2014-2015**	2013-2014	$	%	$	%
Salaries & wages	18.6	4.7	4.3	4.9	0.4	9	(0.6)	(12)
Information technology	1.4	0.7	0.6	0.7	0.1	14	(0.1)	(14)
Rent	1.8	0.4	0.4	0.6	-	-	(0.2)	(33)
Professional services	2.1	0.4	0.3	0.2	0.1	25	0.1	50
Amortization	0.5	0.2	0.2	0.2	-	-	-	-
Travel	0.6	0.2	0.1	0.1	0.1	50	-	-
Office expenses	0.6	0.1	0.1	0.1	-	-	-	-
Advertising & publications	0.3	0.1	-	-	0.1	100	-	-
	25.9	6.8	6.0	6.8	0.8	12	(0.8)	(12)

Overall, the Corporation has a budget surplus position attributable to several expenditure components. Most of these savings are temporary and at this stage the Corporation does not anticipate any significant variation in terms of the annual budget. Moreover, the expenses of the 2014-2015 quarter are also favourable as compared to the previous fiscal year. This decrease, attributable to salaries and social benefits, can be explained by the fact that certain positions remained vacant during the quarter, by the capitalization of the labour costs related to an IT project and by a decrease in the expense related to the severance benefits, which were abolished in 2013-2014.

Information technologies show a slight budget surplus and a decrease in expenses compared with the comparative quarter. These variations are mainly attributable to a delay in billing from Shared Services Canada, to the postponement of a project aiming to improve telecommunications performance and to cost savings stemming from licences related to the IT systems. As for rent expenses, the decrease in spending as compared to the comparative quarter is due to savings from the relocation of the Vancouver and Halifax offices and favourable conditions related to the renewal of the lease at the headquarters in Montreal. Professional fees also show a budget surplus that is partly related to planned expenditures for projects that have not yet begun. In addition, the increase in expenses as compared to the comparative quarter in 2013-2014 stems mainly from auditing costs, and development costs for computer maintenance projects.

7. ANALYSIS OF CUMULATIVE RESULTS AND OF FINANCIAL POSITION (CONTINUED)

Expenses related to travel also show a budget surplus. Note that part of the travel budgeted may be postponed or cancelled to better attain operational objectives. In this respect, the temporary surplus is mainly attributable to our operational sectors of program delivery, which only travel when required. Finally, publicity and publication expenses arising from our communications sector show an insignificant temporary surplus. In fact, certain recurring expenses will be recorded during the next quarter.

Government Funding and Revenues

For the three-month period ended June 30, 2014

	Budget ($M)		Actual ($M)		Variance			
			2014-	2013-	Budget		Actual	
	Annual	Period	**2015**	2014	$	%	$	%
Parliamentary appropriation	95.5	18.9	18.0	23.6	(0.9)	(5)	(5.6)	(24)
Management fees from the CMF	10.0	2.5	2.4	2.6	(0.1)	(4)	(0.2)	(8)
Investment revenues and recoveries	10.0	0.5	0.6	0.4	0.1	20	0.2	50
Interest and other revenues	0.1	-	0.2	-	0.2	-	0.2	-
Talent Fund	-	-	-	0.1	-	-	(0.1)	(100)
	115.6	21.9	21.2	26.7	(0.7)	(3)	(5.5)	(21)

Overall, our funding for the first quarter shows satisfactory results, both in terms of the budget and the previous fiscal year. The good performance of our investment and other revenues is due partly to the film *Goon* and to the consideration from a real estate agency that assisted Telefilm in renewing the lease for its Montreal office space. Funding from our parliamentary appropriation shows a significant decrease relating to the budget and in comparison with 2013-2014. This decrease is directly attributable to the decrease of our disbursements which stem from our activities in industry support. This shortfall is not problematic and we anticipate that this situation will be resolved in the upcoming quarters. Finally, the fluctuation of revenue stemming from the Talent Fund demonstrates the volatility of cash flow in terms of income from donations.

7. ANALYSIS OF CUMULATIVE RESULTS AND OF FINANCIAL POSITION (CONTINUED)

Financial position

	Actual ($M)		Variance	
	June 30, 2014	March 31, 2014	$	%
Financial assets				
Due from Consolidated Revenue Fund	51.2	49.1	2.1	4
Cash - Talent Fund	0.2	0.2	-	-
Accounts receivable	1.9	3.1	(1.2)	(39)
Receivable from CMF	2.4	2.7	(0.3)	(11)
	55.7	55.1	0.6	1
Liabilities				
Accounts payable	1.5	2.0	(0.5)	(25)
Financial assistance programs obligations	30.4	35.8	(5.4)	(15)
Liabilities for employee future benefits	0.8	1.0	(0.2)	(20)
Net financial assets	23.0	16.3	6.7	41
Non-financial assets				
Tangible capital assets	1.8	1.8	-	-
Prepaid expenses	0.5	2.2	(1.7)	(77)
Accumulated surplus	25.3	20.3	5.0	25

The Corporation shows a good financial position as revealed by the level of its net financial assets. The decrease in receivables is partly due to the receipt of an important client account as well as lesser amounts of taxes receivable. The amount receivable from the Canada Media Fund shows a decrease due to the 13 % Harmonized Sales Tax. The delay in the production of financial information allows March 31st year-end to record this amount.

The decrease in liabilities is mainly due to the decrease in accounts payable and accrued liabilities in the quarter as compared to those posted on March 31. In that respect, at the closing of the fiscal year management applies extensive cut-off procedures over a longer period of time that cannot be carried out during the quarter. Furthermore, obligations related to financial aid programs also decreased significantly, mainly due to the weak level of contractual commitment over the quarter.

Finally, prepaid expenses decreased significantly due to the recording to expenditures of almost all prepayments from the previous fiscal year.

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8. 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	**June 30, 2014**	**June 30, 2013**
Cost of operations	16.2	30.5
Adjustments affecting cost of operations :		
Amortization	(0.2)	(0.2)
Employee future benefits	0.1	(0.2)
Adjustments affecting the use of Parliamentary appropriation :		
Adjustment related to eligibility criteria of assistance expenses	5.2	(3.0)
Operating expenses funded by the CMF	(2.4)	(2.6)
Prepaid administrative expenses at March 31	(1.2)	(1.1)
Prepaid administrative expenses at June 30	0.2	0.2
Acquisitions of property and equipment	0.1	-
	1.8	(6.9)
Use of Parliamentary appropriation at June 30	18.0	23.6
Parliamentary appropriation available for subsequents quarters	77.5	76.0
Parliamentary appropriation authorized	95.5	99.6

The amount of the Parliamentary appropriation comes from the 2014-2015 Main Estimates.

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9. QUARTERLY FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2014

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, FCPA, CA, MBA
Executive Director

Denis Pion
Director - Administration and Corporate Services

Montréal, Canada
August 29, 2014

TELEFILM CANADA

Statement of Operations

For the three-month period ended June 30, 2014

In thousands of Canadian dollars	Schedule	June 30 Budget	June 30, 2014	June 30, 2013
Assistance expenses				
Development of the Canadian audiovisual industry				
Production assistance		8,500	8,029	19,767
Development assistance		320	-	259
		8,820	8,029	20,026
Promotional support in Canada and abroad				
Participation in international events		800	798	725
Distribution and marketing assistance		1,050	770	1,229
Promotion		1,628	573	1,679
		3,478	2,141	3,633
		12,298	10,170	23,659
Operating and administrative expenses	A	6,789	6,052	6,823
Cost of operations		19,087	16,222	30,482
Revenues				
Management fees from the Canada Media Fund		2,501	2,432	2,600
Investment revenues and recoveries		494	572	387
Interest and other revenues		21	203	22
Talent Fund		-	4	100
		3,016	3,211	3,109
Net cost of operations before government funding		16,071	13,011	27,373
Government funding				
Parliamentary appropriation		18,855	18,012	23,594
Surplus (deficit)		2,784	5,001	(3,779)
Accumulated surplus, beginning of period			20,256	16,069
Accumulated surplus, end of period			25,257	12,290

The accompanying note and the schedule are an integral part of these financial statements.

TELEFILM CANADA

Statement of Financial Position

In thousands of Canadian dollars	**June 30, 2014**	**March 31, 2014**
Financial assets		
Due from Consolidated Revenue Fund	51,183	49,137
Cash - Talent Fund	174	170
Accounts receivable	1,959	3,054
Receivable from the Canada Media Fund	2,432	2,720
	55,748	55,081
Liabilities		
Accounts payable and accrued liabilities	1,495	2,025
Financial assistance programs obligations	30,393	35,779
Liabilities for employee future benefits	842	1,000
	32,730	38,804
Net financial assets	23,018	16,277
Non-financial assets		
Tangible capital assets	1,759	1,817
Prepaid expenses	480	2,162
	2,239	3,979
Accumulated surplus	25,257	20,256

The accompanying note and the schedule are an integral part of these financial statements.

Statement of Changes in Net Financial Assets

For the three-month period ended June 30, 2014

In thousands of Canadian dollars	**June 30 Budget**	**June 30, 2014**	**March 31, 2014**
Surplus	2,784	5,001	4,187
Tangible capital asset transactions			
Amortization	174	179	737
Acquisitions	(141)	(121)	(969)
Other transactions			
Acquisitions of prepaid expenses	-	-	(2,162)
Use of prepaid expenses	1,600	1,682	1,724
Increasen in net financial assets	4,417	6,741	3,517
Net financial assets, beginning of year	16,277	16,277	12,760
Net financial assets, end of period	20,694	23,018	16,277

The accompanying note and the schedule are an integral part of these financial statements.

TELEFILM CANADA

Statement of Cash Flows

For the three-month period ended June 30, 2014

In thousands of Canadian dollars	**June 30, 2014**	**June 30, 2013**
Operating activities		
Surplus (deficit)	5,001	(3,779)
Items not affecting cash:		
Increase (decrease) in liabilities for employee future benefits	(158)	106
Amortization of tangible capital assets	179	175
	5,022	(3,498)
Changes in non-cash financial items:		
Decrease (increase) in accounts receivable	1,095	(78)
Decrease in receivable from the Canada Media Fund	288	373
Decrease in accounts payable and accrued liabilities	(530)	(560)
Decrease in special termination benefits payable as a result of downsizing	-	(298)
Increase (decrease) of financial assistance programs obligations	(5,386)	2,936
Decrease in prepaid expenses	1,682	1,253
	2,171	128
Capital activities		
Acquisitions	(121)	(4)
Increase in Due from Consolidated Revenue Fund and Cash - Talent Fund	2,050	124
Due from Consolidated Revenue Fund and Cash - Talent Fund, beginning of year	49,307	45,597
Due from Consolidated Revenue Fund and Cash - Talent Fund, end of period	51,357	45,721

The accompanying note and the schedule are an integral part of these financial statements.

Note 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, 2014. The accounting and calculation methods used in these quarterly financial statements are identical to those used in the annual financial statements of March 31, 2014.

Annual financial statements of March 31, 2014

Schedule A - Other Information

A - Operating and administrative expenses

In thousands of Canadian dollars	**June 30 Budget**	**June 30, 2014**	**June 30, 2013**
Salaries and employee benefits	4,698	4,282	4,875
Information technology	700	567	675
Rent, taxes, heating and electricity	432	450	570
Professional services	437	335	226
Amortization of tangible capital assets	174	179	175
Travel and hospitality	163	111	126
Office expenses	115	111	136
Advertising and publications	70	17	40
	6,789	6,052	6,823