Quarterly Financial Report

Period ended June 30, 2015

First quarter of fiscal 2015-2016

Published August 28, 2015

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 has a team of some 180 employees dedicated to the success of the Canadian audiovisual industry. On behalf of the Government of Canada, in our capacity as a Crown corporation, we support dynamic companies and creative talents by providing financial assistance to Canadian film projects and by highlighting the value of Canadian audiovisual industry talent at regional, national and international festivals, markets and events.

In addition, the Corporation is implementing its new strategic plan, *Inspired by Talent. Viewed Everywhere.*[1], which sets out six priorities:

- Industry recognition: promoting the value of Canadian content;
- Marketing practices: encouraging innovation to reach audiences;
- Market intelligence: deciding with meaningful metrics;
- Industry funding: diversifying sources;
- Ecosystems of companies: delivering together; and
- Organizational excellence: performing in a changing environment.

Finally, we administer the funding programs of the Canada Media Fund (CMF) and are responsible for making recommendations to the Minister of Canadian Heritage and Official Languages regarding certification of audiovisual treaty coproductions. Our head office is located in Montreal and we serve clients through our four offices in Vancouver, Toronto, Montreal and Halifax.

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 published on April 1, 2015 the guidelines governing audiovisual coproduction treaties by issuing new guidelines for treaties that took effect on July 1, 2014 as well as by updating the guidelines applicable to treaties that took effect before July 1, 2014. These updates clarify the language, requirements and processes of the guidelines, and certain of the guidelines apply to the audiovisual coproduction treaty now in effect between Canada and India.

1 : www.telefilm.ca/en/telefilm/corporate-publications/corporate-plan
2 : www.tbs-sct.gc.ca/pol/doc-eng.aspx?id=18789&section=text

3. IMPORTANT CHANGES (CONT.)

Changes were also made to the Production Program; notably, the Corporation will now consider, among other evaluation criteria, a project's overall financial viability. Moreover, following consultations with the industry, changes were made to the Development Program with a view, notably, to improving decision turnaround times and enhancing the transparency of the decision-making process. Henceforth, Development program funding will now be attributed, for the most part, automatically on the basis of the success generated by Canadian films produced during the reference period.

Finally, the program based on festivals performance has been integrated to the promotion program as a recurring event.

Activities

During the quarter, the Corporation funded 11 new productions for a total of more than $4 million. On the international scene, eight Canadian films were screened in the non-competitive sections of the fifth Beijing International Film Festival. Also, MIPTV, a large market for television and digital media content, cast the spotlight on four Canadian digital-media companies (Secret Location, Félix & Paul Studios, MiiScan and Zandel), which showcased their latest innovations in immersive storytelling. In addition, the *Not Short on Talent* series of screenings were back at the Cannes Marché du Film market for a fifth year, with 39 short films representing the freshest voices emerging from Canada. Finally, the director of *Sleeping Giant* and the co-directors and co-producers of *Bleu Tonnerre* screened their films, respectively, at Critics' Week and the Directors' Fortnight at the Cannes Film Festival.

In addition, the Shanghai International Film Festival paid tribute to Canada by screening 12 Canadian films, most of them in a specially reserved sidebar, *The Best of Canada*. Also worth noting is that a delegation of Canadian producers and directors attended the Festival, thus taking advantage of this gateway to Asia for the Canadian film industry. Finally, seven Canadian movies, including three debut features, will screen at the Karlovy Vary International Film Festival. The productions—*Le bruit des arbres*, *Le dep* and *23 Kilomètres*—testify, among other things, to the vitality and diversity of Canada's audiovisual industry, where emerging talents stand alongside seasoned artists.

Lastly, in June the Corporation announced the 15 finalists for the Micro-Budget Production Program, under which recipients will receive a maximum of $120,000 each in funding. It should be noted that, henceforth, the Talent Fund will participate in the financing of this program and that Technicolor will offer free encoding services for digital distribution of the productions.

Personnel

During the quarter, the Corporation promoted Roxane Girard to the position of Director, Business Affairs and Coproductions.

4. GOVERNANCE AND MEMBERS OF THE BOARD

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, the Audit and Finance Committee and the Nominating, Evaluation and Governance Committee each held one meeting. The Management Committee met nine times.

In addition, the mandate of the Chair of the Strategic Planning and Communications Committee, Ram Raju, was renewed for five years. The Governor in Council also appointed Marie-Linda Lord to the Corporation's board for a five-year term.

5. RISK MANAGEMENT

The Corporation manages risk through the Risk Management Committee, comprised of all members of the Management Committee. An assessment of risks and their mitigation measures is conducted semi-annually, and the latest review undertaken took into account, notably, the new strategic plan's six priorities and their inherent risks. The Corporation completed, during the quarter, the risk mapping based on the 2015-2018 Strategic Plan.

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, 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, 2015. The importance of these adjustments is deemed immaterial by Management.

7. ANALYSIS OF QUARTERLY RESULTS AND FINANCIAL POSITION

Assistance Expenses

For the three-month period ended June 30, 2015

	Budget ($M)		Actual ($M)		Variance			
			2015-2016	2014-2015	Budget		Actual	
	Annual	Period			$	%	$	%
Production	61.5	4.1	4.3	8.0	(0.2)	(4)	(3.8)	(47)
Development	7.6	0.1	0.1	-	-	21	0.1	-
	69.1	4.2	4.4	8.0	(0.1)	(3)	(3.7)	(46)
Marketing	11.3	2.0	2.2	0.8	(0.2)	(13)	1.4	185
International events	2.2	0.9	0.8	0.8	0.1	8	-	4
Promotion	7.3	0.6	0.4	0.6	0.1	20	(0.1)	(23)
	20.8	3.5	3.4	2.2	(0.1)	(2)	1.3	62
	89.9	7.7	7.8	10.2	(0.2)	(3)	(2.4)	(23)

Note that all figures shown in the analysis are rounded and the variance calculations are based on the figures of the financial statements.

Our expenditures in support of the industry are in keeping with our budgetary estimates and present an overall variance of 3%, while the most significant differences are observed with respect to the same quarter last year (23%). The funds in our Production Program declined by close to $3.8 million, mainly due to a single investment—the movie project *Remember*—in the first quarter of fiscal 2014-2015. The Development Program, for its part, underwent significant changes and was thus only available for applications at the beginning of the second quarter. As a result, the Program saw very little activity in the first quarter, a similar situation to the previous quarter.

Money disbursed for our marketing support was higher than budgeted and exceeded spending in the previous quarter. Support for the projects *Maps to the Stars* and *Elephant Song* exceeded the support level granted during the first quarter 2014-2015. Finally, expenses associated with our promotional activities were lower than our budgetary expectations, and declined from the previous quarter. In this regard, the funding of certain promotional activities was postponed to subsequent quarters and a recurrent initiative was abandoned.

7. ANALYSIS OF QUARTERLY RESULTS AND FINANCIAL POSITION (CONT.)

Operating and Administrative Expenses

For the three-month period ended June 30, 2015

	Budget ($M)		Actual ($M)		Variance			
			2015-	2014-	Budget		Actual	
	Annual	Period	**2016**	2015	$	%	$	%
Salaries & wages	18.8	4.8	4.5	4.3	0.3	6	0.3	6
Information technology	1.5	0.7	0.6	0.6	-	6	0.1	11
Rent	1.7	0.4	0.4	0.4	-	-	-	(1)
Professional services	2.0	0.4	0.3	0.3	-	5	-	4
Office expenses	0.6	0.2	0.2	0.1	-	(3)	-	44
Travel	0.6	0.1	0.1	0.1	-	31	-	(7)
Amortization	0.3	0.1	0.1	0.2	-	(9)	(0.1)	(55)
Advertising & publications	0.2	-	-	-	-	30	-	65
	25.7	6.7	6.2	6.0	0.4	6	0.3	5

Operating expenses are relatively stable and comparable to those of the budget and the previous quarter, and account for, respectively, a budgetary surplus of 6% and comparative increase in expenditures of 5%. Salaries chiefly account for these variances, which are not considered significant.

IT expenditures increased by 11% over the previous quarter, due mainly to higher costs related to cloud computing, to the data back-up site and to videoconferencing services. No significant increases in expenses related to these items were expected as at March 31. With respect to office expenses, the 44% increase in these expenses over the same quarter last year was due mainly to computer purchases and training costs aimed at fostering greater cohesion, collaboration and communication among employees. The Corporation's travel budget recorded a temporary surplus of 31% as a result of the postponement or cancellation of a number of business trips. Finally, amortization expenses decreased by 55% over the same quarter last year due to the fact that certain assets—mainly leasehold improvements—were fully amortized.

7. ANALYSIS OF QUARTERLY RESULTS AND FINANCIAL POSITION (CONT.)

Government Funding and Revenues

For the three-month period ended June 30, 2015

	Budget ($M)		Actual ($M)		Variance			
			2015-	2014-	Budget		Actual	
	Annual	Period	**2016**	2015	$	%	$	%
Parliamentary appropriation	95.5	17.7	20.5	18.0	2.8	16	2.5	14
Management fees from the CMF	10.0	2.5	2.4	2.4	(0.1)	(3)	-	-
Investment revenues and recoveries	10.0	0.5	1.0	0.6	0.5	89	0.4	69
Talent Fund	2.0	-	0.1	-	0.1	-	-	1,200
Interest and other revenues	0.1	-	-	0.2	-	8	(0.2)	(87)
	117.6	20.7	24.0	21.2	3.2	16	2.7	13

The parliamentary appropriation generated variances both with regard to the budget (+16%) and the comparative period (+14%). These two variances are explained by disbursements that were made more quickly than expected, with regard to both prior fiscal-year commitments and to current fiscal-year commitments. Investment revenues and recoveries also show a favorable budgetary position as well as the comparative quarter last year, with an increase, respectively, of 89% and 69%. These revenues are difficult to forecast; the film *The Captive* alone remitted an amount of $517,000. Finally, interest and other revenues were down from the previous quarter. This drop can be explained by the fact that, in the previous quarter, the Corporation had received a monetary rebate in connection with the renewal of the lease of our head office premises.

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

Financial position

	Actual ($M)		Variance	
	June 30, 2015	March 31, 2015	$	%
Financial assets				
Due from Consolidated Revenue Fund	50.6	47.6	3.0	6
Cash - Talent Fund	0.6	0.5	0.1	9
Accounts receivable	2.6	4.2	(1.6)	(37)
Receivable from CMF	2.5	3.3	(0.9)	(27)
Loan	0.7	0.7	-	-
	57.0	56.3	0.6	1
Liabilities				
Accounts payable	2.0	2.3	(0.3)	(14)
Deferred revenues - Talent Fund	0.2	0.2	-	-
Financial assistance programs obligations	22.4	32.3	(9.9)	(31)
Liabilities for employee future benefits	0.8	0.8	(0.1)	(7)
Net financial assets	31.6	20.7	10.9	53
Non-financial assets				
Tangible capital assets	2.7	2.6	0.2	7
Prepaid expenses	0.6	1.9	(1.2)	(66)
Accumulated surplus	34.9	25.2	9.8	39

The Corporation's financial position improved during the quarter, as shown by the increase in our net financial assets. The Corporation's main financial asset remains the amount due from the Consolidated Revenue Fund, at $50.6 million. The decrease in accounts receivable is explained by the receipt of the majority of taxes receivable from March 31 as well as planned receivables from major clients. The amount receivable from the Canada Media Fund (CMF), for its part, declined, due to the recovery of non-recurrent costs invoiced as at March 31 and to the 13% Harmonized Sales Tax applicable on the delivery of program services.

The decrease in liabilities is due mainly to a decline in accounts payable and to accruals incurred during the quarter compared with those recorded as at 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. The major decrease in financial obligations related to funding programs stems from the fact that few contractual commitments were made during the first quarter and from the fact that disbursements for contractual commitments were higher in both previous and current fiscal years.

Finally, prepaid expenses declined significantly, due to the fact that almost all said expenses paid in advance during the previous quarter were transferred to expenses for the current quarter.

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, the parliamentary appropriation being calculated using a modified cash basis accounting method.

In million of Canadian dollars	**June 30, 2015**	**June 30, 2014**
Cost of operations	14.1	16.2
Adjustment affecting the use of parliamentary appropriation :		
Assistance expenses adjustment where parliamentary appropriation eligibility criterias have been met	9.9	5.2
Prepaid expenses	(1.3)	(1.0)
Operating expenses funded by the CMF	(2.4)	(2.4)
Acquisitions of property and equipment	0.2	0.1
Amortization	(0.1)	(0.2)
Employee future benefits	0.1	0.1
Use of Parliamentary appropriation at June 30	20.5	18.0
Parliamentary appropriation available for subsequents quarters	75.0	77.5
Parliamentary appropriation authorized	95.5	95.5

The amount of the Parliamentary appropriation comes from the 2015-2016 Main Estimates.

TELEFILM CANADA

9. QUARTERLY FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2015

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, FCA, MBA
Executive Director

Denis Pion
Director - Administration and Corporate Services

Montréal, Canada
August 28, 2015

Statement of Operations

For the three-month period ended June 30, 2015

In thousands of Canadian dollars	**Schedule**	**June 30, Budget**	**June 30, 2015**	**June 30, 2014**
Assistance expenses				
Development of the Canadian audiovisual industry				
Production assistance		4,100	4,252	8,029
Development assistance		100	79	-
		4,200	4,331	8,029
Promotional support in Canada and abroad				
Distribution and marketing assistance		1,950	2,198	770
Participation in international events		900	826	798
Promotion		550	441	573
		3,400	3,465	2,141
		7,600	7,796	10,170
Operating and administrative expenses	A	6,749	6,326	6,052
Cost of operations		14,349	14,122	16,222
Revenues				
Management fees from the Canada Media Fund		2,506	2,436	2,432
Investment revenues and recoveries		510	966	572
Talent Fund		-	52	4
Interest and other revenues		25	27	203
		3,041	3,481	3,211
Net cost of operations before government funding		11,308	10,641	13,011
Government funding				
Parliamentary appropriation		17,666	20,469	18,012
Surplus		6,358	9,828	5,001
Accumulated surplus, beginning of period		25,173	25,173	20,256
Accumulated surplus, end of period			35,001	25,257

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

Statement of Financial Position

In thousands of Canadian dollars	June 30, 2015	March 31, 2015
Financial assets		
Due from Consolidated Revenue Fund	50,641	47,596
Cash - Talent Fund	604	552
Accounts receivable	2,642	4,196
Receivable from the Canada Media Fund	2,436	3,348
Loan	655	655
	56,978	56,347
Liabilities		
Accounts payable and accrued liabilities	1,970	2,297
Deferred revenues - Talent Fund	206	206
Financial assistance programs obligations	22,422	32,316
Liabilities for employee future benefits	773	829
	25,371	35,648
Net financial assets	31,607	20,699
Non-financial assets		
Tangible capital assets	2,749	2,581
Prepaid expenses	645	1,893
	3,394	4,474
Accumulated surplus	35,001	25,173

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, 2015

In thousands of Canadian dollars	**June 30, Budget**	**June 30, 2015**	**March 31, 2015**
Surplus	6,358	9,828	4,917
Tangible capital asset transactions			
Amortization	74	81	553
Acquisitions	(279)	(249)	(1,317)
Other transactions			
Acquisitions of prepaid expenses	-	(362)	(1,893)
Use of prepaid expenses	1,900	1,610	2,162
Increase in net financial assets	8,053	10,908	4,422
Net financial assets, beginning of year	20,699	20,699	16,277
Net financial assets, end of period	28,752	31,607	20,699

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

Statement of Cash Flows

For the three-month period ended June 30, 2015

In thousands of Canadian dollars	**June 30, 2015**	**June 30, 2014**
Operating activities		
Surplus	9,828	5,001
Items not affecting cash:		
Decrease in liabilities for employee future benefits	(56)	(158)
Amortization of tangible capital assets	81	179
	9,853	5,022
Changes in non-cash financial items:		
Decrease in accounts receivable	1,554	1,095
Decrease in receivable from the Canada Media Fund	912	288
Decrease in accounts payable and accrued liabilities	(327)	(530)
Decrease of financial assistance programs obligations	(9,894)	(5,386)
Decrease in prepaid expenses	1,248	1,682
	3,346	2,171
Capital activities		
Acquisitions	(249)	(121)
Increase in Due from Consolidated Revenue Fund and Cash - Talent Fund	3,097	2,050
Due from Consolidated Revenue Fund and Cash - Talent Fund, beginning of year	48,148	49,307
Due from Consolidated Revenue Fund and Cash - Talent Fund, end of period	51,245	51,357

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

TELEFILM CANADA

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 as at March 31, 2015. The significant accounting policies used in these quarterly financial statements are similar to those used in the annual financial statements of March 31, 2015.

Annual financial statements of March 31, 2015

Schedule A - Other Information

A - Operating and administrative expenses

In thousands of Canadian dollars	**June 30 Budget**	**June 30, 2015**	**June 30, 2014**
Salaries and employee benefits	4,845	4,532	4,282
Information technology	670	627	567
Rent, taxes, heating and electricity	449	447	450
Professional services	367	348	335
Office expenses	155	160	111
Travel and hospitality	149	103	111
Amortization of tangible capital assets	74	81	179
Advertising and publications	40	28	17
	6,749	6,326	6,052