

ANNUAL REPORT
2006-2007

40
YEARS
OF STORIES
SO MANY
MORE
TO TELL

Canada



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40 YEARS OF STORIES ROOTED IN CANADIAN CULTURE



1967-2007: FROM THEN TO NOW

It all began in 1967. A young, modern nation looking to the future deemed that the time was ripe for creating a public film funding body. Originally named the Canadian Film Development Corporation, the agency was endowed with an initial appropriation of \$10 million a year. This served to produce 32 feature films between 1968 and 1974, including classics such as *The Act of the Heart*, *L'Initiation*, *The Apprenticeship of Duddy Kravitz*, *Why Shoot the Teacher?* and *Réjeanne Padovani*.

Today, 40 years later, Telefilm Canada has grown and now offers its business expertise to numerous clients and partners seeking success in the domestic market, a foothold on the international scene and the means to realize a vast array of projects. With an annual budget of close to \$133 million in 2006-2007, the Corporation contributed to the marketing of 44 feature films and 34 new media products. In addition, the Corporation administered the funding programs of the Canadian Television Fund, whose annual resources total \$265 million.

TELEFILM CANADA:

MODERN AND RESPONSIBLE

A MANDATE THAT MAKES US PROUD

Under the *Telefilm Canada Act*, c. 16, s. 10 (1) and (8), as revised in 2005, the mandate of the Corporation is to foster and promote the development of the audiovisual industry in Canada and to act in connection with agreements entered into with the Department of Canadian Heritage for the provision of services or programs relating to the audiovisual industries.

As an instrument of government policy, Telefilm provides support to Canada's audiovisual industries to create cultural programs and products that reflect the diversity of Canada, for the benefit of Canadian audiences. Through its programs, Telefilm serves three sectors of the Canadian industry: feature film, television and new media.

Telefilm Canada is a Crown Corporation reporting to Parliament through the Minister of Canadian Heritage. Headquartered in Montréal, Telefilm provides its services to the Canadian audiovisual industries through four Canadian offices, in Vancouver, Toronto, Montréal and Halifax.

CANADIAN VISION, CANADIAN VALUES

Telefilm strives to finance the highest quality works that have the best chance of reaching Canadian audiences, while at the same time fostering the long-term sustainability of the audiovisual industry. Our vision is to assure a thriving Canadian audiovisual culture, produced by Canadian creators and production companies, and disseminated through Canadian distribution companies, broadcasters, Web operators and local festivals. Telefilm's participation ensures the renewal of the Canadian industry and the creative expression of talented Canadians.

Telefilm promotes six fundamental values:

- Celebrate the expression of original Canadian stories;
- Champion the Canadian audiovisual industry;
- Reward performance and stimulate innovation;
- Ensure the accessible, transparent and responsible delivery of valuable services to partners, clients and Parliament;
- Promote diversity within administration, policies and programs; and
- Respect and encourage work/personal life balance and a sustainable environment.

OUR RAISON D'ÊTRE

Telefilm's main strategic objective is to ensure that Canadians have access to high-quality popular Canadian audiovisual productions. In order to achieve that strategic objective, Telefilm has articulated three corporate objectives in its *Corporate plan 2006-2007 to 2010-2011 – From Cinemas to Cell Phones*:

- Building audiences for Canadian stories;
- Building industry capacity; and
- Strengthening ties with our clients: achieving value for Canadians.

The Corporation services the Canadian audiovisual industry by providing assistance to Canadian companies and professionals throughout the entire value chain, from highly specialized training to project financing, from development to distribution and marketing, and from promotion to sales of finished products.

Telefilm is also a catalyst for talent. Its support has made it possible for thousands of Canadian screenwriters, directors, producers, distributors, technicians, performers and new media creators to pursue careers in Canada, and to work in their region and in the official or Aboriginal language of their choice. Telefilm also provides support for visible minority and Aboriginal professionals. Telefilm is an active player in the worldwide market – from promoting Canadian films at major festivals to stimulating new coproduction partnerships.

RESPONSIBLE MANAGEMENT AND LEADERSHIP

Telefilm is governed by a national board and is composed of a Chair and six members, including the Government Film Commissioner. The Board works in partnership with management to define Telefilm's strategic directions, and to ensure that the Corporation's objectives are achieved. The Board sees to it that management practices, and information and audit systems, meet the organization's needs and generate trustworthy results.

Although Telefilm is exempt from certain Divisions of *Part X* of the *Financial Administration Act*, the Office of the Auditor General of Canada audits its annual financial statements and the Corporation's annual report is tabled annually to Parliament. In 2006-2007, the agency issued a five-year corporate plan (2006-2007 to 2010-2011). This plan was developed voluntarily for the purpose of ensuring greater transparency and accountability vis-à-vis Parliament, the audiovisual industry and Canadians at large.



AT YOUR SERVICE!

Telefilm is the first public agency to operate with a *Client Service Charter* that defines what its clients can expect of the Corporation and what Telefilm expects of its clients. Meeting client service standards is an important performance indicator for Telefilm.

Telefilm achieves its objectives by means of the quality and skills of its employees. For many years now, the Corporation has fostered a stimulating working environment based on a qualified professional workforce that reflects the agency's high standards. Telefilm encourages a diversity of talent, experience and cultural origins within its team.

Telefilm recognizes and honours its outstanding employees. It sponsors a Fitness Incentive Program designed to support the efforts of employees wanting to make physical activity part of their daily routine. And it has set up a Green Committee charged with instituting new environment-friendly practices in the workplace.

Most of Telefilm Canada's 200 employees are professionals with extensive experience in the industry, as well as in the legal, administrative, financial, communications and political fields. Telefilm requires that all professionals involved in investment decisions have industry experience.



STRATEGIC OBJECTIVE 1
**INCREASE
AUDIENCES**

AN INDUSTRY IN EVOLUTION

Overall market share fell this year in comparison with the peak of 5.3% reached last year. With a 4.1% box-office share at the end of 2006, Canadian cinema seemed to be taking a small step backwards.

- Despite this drop, Canadian cinema gave birth to its first major bilingual hit. Produced with Telefilm Canada's support, *Bon Cop, Bad Cop* broke all box-office records for a Canadian film, and ended the year with strong DVD sales.
- French-language films represent 52.7% of the independent film market and 17.1% of the total market; down from the 26.6% of the total market at the end of 2005. In 2006, box-office totals exceeded \$22 million.
- English Canadian films accounted for 1.7% of the overall market and 11.7% of the independent market; a significant improvement over last year's 1.1%. In 2006, box-office totals exceeded \$12 million.

In 2006-2007, recoveries on investments increased by 4%, for a total of \$27 million for all of Telefilm's activities. To facilitate film funding, especially in the French-language market where production costs, the number of projects and Telefilm's share of funding increased, the Corporation invested \$96 million, a new high in level of investment.

Telefilm began tracking audiences to products distributed on multiple platforms. Convergent Websites supported by the Canada New Media Fund (CNMF) are by far the most popular among users. The more successful the television program, the more online users its convergent namesake seems to attract:

- Last year, CNMF-supported projects garnered 149 million page views and almost 4 million unique visitors;
- Overall, these projects attracted an average of more than 300,000 unique visitors per month; and
- The most page views a single project received for the year was well over 59 million.

Overall percentage of successful applications in Telefilm's two largest and highest volume programs, the Canada Feature Film Fund (CFFF) and the CNMF:

	Number of applications	Number of signed contracts	% of approved applications
CFFF	967	444	45.9%
CNMF	327	112	34.3%

A PROMISE KEPT: WORKING CLOSELY WITH THE INDUSTRY

During fiscal 2006-2007, the first cycle of quarterly meetings of the CFFF Working Groups was held. The Working Groups include representatives from industry associations, creators, producers, distributors, broadcasters and provincial agencies. The intensive consultation sessions allowed stakeholders to identify strategies for the future, including Fund guidelines specific to the English and French markets.

STRATEGIC OBJECTIVE 2
**BUILD INDUSTRY
CAPACITY**



2006-2007 WAS A FRUITFUL YEAR FOR CANADA IN INTERNATIONAL MARKETS

Telefilm continued its support at international markets and festivals, and launched a new initiative, Perspective Canada, to help stimulate sales by Canadian companies.

Telefilm's ongoing support of Canadian companies in international markets yielded positive results: companies concluded a total of \$5 million in closed deals and over \$100 million in likely sales. For each dollar of Telefilm support, Canadian professionals achieved a five-fold return in sales and spin-offs.

TRAINING AND DEVELOPMENT PROGRAMS

Telefilm-financed training and development programs were measured for their impact in 2006-2007. Emerging directors, creators and writers having participated in previous years were surveyed and reported that the programs had had a positive impact and significantly contributed to their career advancement and professional development.



STRATEGIC OBJECTIVE 3
**ADMINISTER
WELL**

AN EFFECTIVE AND INNOVATIVE ADMINISTRATOR

Fiscal 2006-2007 was a pivotal year for Telefilm. It marked the end of Telefilm's investments in television production, and the implementation of a major service agreement between the Corporation and the Canadian Television Fund. These changes profoundly altered the Corporation's operational and financial realities.

A promotional campaign for eTelefilm, Telefilm's online service, resulted in a 77% increase in the number of registered companies, a 42% increase in online applications, and a 30% increase in online transactions. This business portal improves the quality of services offered to Telefilm's clients; notably, clients can now directly follow up on the progress of their files.

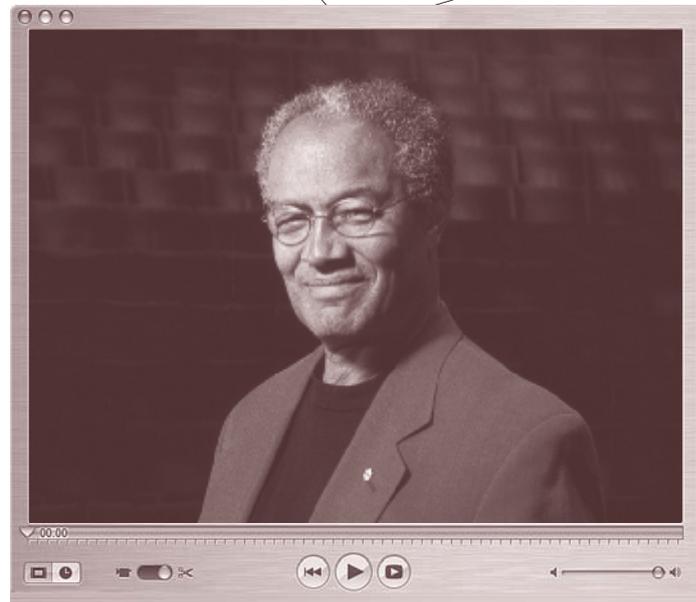
Telefilm also fine-tuned its tracking, analysis and control systems related to calculating costs for the management of its programs, in order to be more effective and efficient.

“ TELEFILM’S 40-YEAR HISTORY MAKES CLEAR THAT THE CORPORATION IS A SOLID AND RELIABLE ADMINISTRATOR, ONE THAT HAS CONTRIBUTED TO THOUSANDS OF CANADIAN STORIES TOLD IN FILM, TELEVISION AND NEW MEDIA. THESE STORIES REPRESENT A RICH AND VIBRANT CULTURAL HERITAGE THAT IS CONTINUALLY BEING RENEWED. “

A SOLID AND RELIABLE ADMINISTRATOR

In spring 2007, the celebration of Telefilm Canada's 40th anniversary elicited testimonials from creators, producers, distributors and partners throughout the country. Telefilm was warmly thanked for its historical and critical role in developing and promoting the audiovisual industry.

Thanks to Telefilm, support for the film industry and new media has risen over the past 40 years from a budget of \$10 million to \$133 million, to which is added the \$265 million that the Corporation administered this year on behalf of the Canadian Television Fund. Over time, Telefilm's activities have expanded to include the multimedia industry and interactive digital content. The Corporation was assigned to manage the Canada New Media Fund on behalf of the Department of Canadian Heritage.



Telefilm's 40-year history makes clear that the Corporation is a solid and reliable administrator, one that has contributed to thousands of Canadian stories told in film, television and new media. These stories represent a rich and vibrant cultural heritage that is continually being renewed.

As the Canadian government's preferred instrument of support for the Canadian audiovisual industry, Telefilm must show sound leadership in a constantly evolving environment. To do so, the Corporation has set itself three public interest objectives: to reach Canadian audiences, to contribute to the industry's development, and to be an exemplary and forward-thinking administrator.

Various aspects of this annual report demonstrate that the Corporation is on track with its objectives. According to a national survey conducted by Telefilm in 2006-2007, the 2006-2011 corporate plan, *From Cinemas to Cell Phones - Telefilm Canada Responds to the Multiplatform Challenge*, is in line with the industry's national and international priorities. Telefilm, its clients and its partners feel that talent support, industry development and audience building are the true measures of the agency's success.

MESSAGE FROM THE CHAIR

A BRAVE NEW WORLD

Sitting on Telefilm's Board at this point in the Corporation's history, as an unprecedented technological revolution unfolds, is both a privilege and a challenge. It is a privilege because Telefilm, with a presence in all regions of the country and clients spanning a wide range of audiovisual activities, enjoys a unique perspective and ability to take action. It is a challenge because the coming years will be decisive in terms of preserving cultural and commercial assets and strongly positioning our country in a 500-channel entertainment universe.

Audiovisual companies operate in a world where the stakes are increasing every day. Production costs are on the rise, international competitiveness is realigning due to new political entities, and creators must fight to retain intellectual property rights to their products. Business and revenue models are changing. Audiovisual product marketing methods are being disrupted. And the very definition of an independent producer is evolving as the distinctions between content creators, producers and distributors are becoming blurred. In brief, maintaining the status quo and clinging to previously established models is synonymous with going backward.

Telefilm is committed to supporting the audiovisual industry in conquering the multiplatform universe, which means identifying and seizing market opportunities. In a few years, cultural policies will reflect a new order of things, and the industry must prepare for these changes right now. Consequently, we must clarify our strategies, share our research and findings, be attentive to industry needs and grasp the future, however elusive it may appear. To this end, Telefilm will have to weigh the risks in a responsible manner, working closely with the Department of Canadian Heritage, its other federal and provincial partners, and the private sector.

We will emphasize the need to provide constant support to a diverse pool of talented creators, whose content can be released on multiple distribution platforms in an increasingly international and highly concentrated market. It is clear that television will have to be one of the building blocks of this multiplatform strategy.

AN INDUSTRY IN EVOLUTION

In 2006, the box-office share of Canadian films fell from 5.3% (in 2005) to 4.1%. Although the industry is working with Telefilm to find solutions to this decline, the reality remains that no new monies have been injected into the Canada Feature Film Fund since its inception. This leads not only to the production of fewer films, but, just as importantly, it severely limits our ability to market them effectively.

Telefilm's investment responsibilities have increased from an average of 25% prior to the implementation of the CFFF to 35% since then, yet the Corporation's investment capacity is being eroded. Taking into account the impact of inflation, the agency's purchasing power, in terms of parliamentary appropriations, decreased by 23.7% between 1994-1995 and 2006-2007.

At a time where there is little likelihood of additional public monies for all sectors of the industry, the Corporation must propose new cultural funding methods that combine public funds with new public-private resources. We are currently studying various models with our industry partners. This openness to new forms of partnership does not call into question the need for solid, stable and foreseeable public funding.

It bears noting that, despite Telefilm's and the industry's success, the industry remains precarious and highly diverse, hence the need for customized development strategies and tools. Telefilm will continue to consider asymmetrical solutions to the problems of the different markets. These solutions will be firmly anchored in regional and linguistic realities, and in the need to maintain a wide variety of content showcasing our country's multicultural richness and its wealth of Aboriginal cultural expression.

TOWARDS A NEW ACT AND A RENEWED BOARD

I must stress, however, that there are two conditions essential to making Telefilm a modern organization in this digital age.

The first concerns the agency's governing Act. The *Telefilm Canada Act* passed in 2005 grants the Corporation the powers of a natural person – that is, all rights and the legal capacity to exercise them – as well as a legislative mandate covering the audiovisual industry in its entirety. However, these fundamental recognitions are still tainted by significant administrative restrictions. The extent of the oversight to which Telefilm's directors are subjected leaves the Board with little leeway to interpret its mandate and determine the best way to accomplish it. Telefilm looks forward to working with the Department of Canadian Heritage to find a solution in order that the Corporation may be able to operate with greater flexibility while meeting the requirements of present-day governance.

The second condition concerns Telefilm's Board. For the past two years, the organization has functioned with a reduced board, which has compromised the members' ability to act and that of the Linguistic Diversity and other committees. A full board reflecting expertise in all of the industries we support is needed if Telefilm is to play the leading role it has always held. It is my hope that this condition will be fulfilled as soon as possible in fiscal 2007-2008, including the appointment of a new chair.

A WORD OF THANKS AND WELCOME

In closing, I want to acknowledge the excellent work of my predecessor, Charles Bélanger, who accomplished a great deal in often difficult conditions. Under his guidance, from February 2002 to February 2007, the Corporation moved towards stimulating, measurable objectives and closer ties with its partners and clients – an initiative we must continue to pursue and build on in light of the current environment.

I also want to welcome two recently arrived members of Telefilm's Board: Elise Orenstein, a lawyer from Toronto, has been with the Board since January 2007, and Tom Perlmutter, the new Government Film Commissioner and National Film Board Chair, has just joined as an ex-officio member. Telefilm will be able to count on their know-how and ability to remain a vibrant force in the Canadian audiovisual industry.



Felix (Fil) Fraser
Acting Chair

“ WE WANT TO ENSURE THAT
OUR ORGANIZATION’S HISTORY
SECURES ITS FUTURE. TELEFILM’S
TEAM REMAINS COMMITTED TO
SUPPORTING CANADIAN TALENT
CREATING CANADIAN CONTENT
THAT ENGAGES CANADIAN
AUDIENCES AND THE WORLD. “



During fiscal 2006-2007, Telefilm Canada launched its 40th anniversary celebrations by highlighting four decades of partnership with Canada's audiovisual industry.

We want to ensure that our organization's history secures its future. Telefilm's team remains committed to supporting Canadian talent creating Canadian content that engages Canadian audiences and the world.

The industry is firmly committed to building audiences, both at home and on the international scene. Drawing on its exceptional cultural and administrative expertise, acquired over 40 years, Telefilm acts as a dynamic catalyst of the industry's drive to assert itself and achieve success. Telefilm continues to strive for increased audiences for Canadian cultural products, no matter which platform these products are designed for, and to support the industry's development in the areas of training, promotion, sales and international coproduction-while earning renown as an exemplary administrator.

Fiscal 2006-2007 was a year of innovation for the Corporation, in the areas of policies, programs and administrative practices. As such, Telefilm was able to meet needs that had been identified through several public consultations, including a national survey of 600 clients, and in structured consultations with the industry and its private and public partners.

INCREASING CANADIAN AUDIENCES FOR CANADIAN STORIES

Box-office market share results achieved in 2006-2007 well illustrate the different challenges faced by the two linguistic markets. Thanks to the cooperation of the English-language and French-language Working Groups of the Canada Feature Film Fund, which were set up in April 2006, we are now endowed with asymmetrical guidelines that meet the respective needs of the two linguistic markets.

Although the market share of English-language feature films increased last year to reach 1.7%, the fact remains that a majority of stakeholders in the value chain must do more to work together in pursuit of common solutions. The production portfolio is still not diversified enough, with the volume of dramas remaining high. Finally, not enough is being invested in marketing to promote English-language films, which face aggressive competition from U.S. promoters.

In 2006-2007, Telefilm invited the industry to participate in a group discussion on feature film as well as in a creative immersion. The goal was to create a more collaborative environment for success in the English-language market. Several strategies were put in place to better align the CFFF to the realities of the English-language market, notably by introducing performance development envelopes, by giving distributors greater autonomy to distribute resources based on market realities, by eliminating the minimum cut-off for expenses relating to marketing activities, and by granting production performance envelopes to eligible feature-length documentaries.

MESSAGE FROM THE EXECUTIVE DIRECTOR

Telefilm was strongly affected by the challenges facing French-language feature film. The rising costs of production of French-language films, coupled with the fact that no new resources are being made available, is making it difficult to maintain the volume of French-language titles necessary to retain market share. In addition, Telefilm's share of funding has increased from 25% to more than 35% in only a few years, which has led to a drop in the number of films supported by the Corporation. This reality threatens the French-language market's ability to reach audiences, and, indeed, French-language cinema achieved a 17.1% market share in 2006, compared with 26.6% the year before.

In 2006-2007, therefore, Telefilm worked to find solutions to increase resources and close the funding gaps faced by productions aimed at the French market. On the French-language side, Telefilm in October 2006 announced that resources available to the selective component would be increased and that there would be fewer recipients of performance envelopes, but that they would enjoy greater autonomy and would have access to higher levels of funding so as to reduce their need to access the selective component.

Telefilm and the Finance Subcommittee of the French market Working Group are continuing their work regarding parallel methods of funding for French-language feature films. In support of the Finance Subcommittee, Telefilm commissioned a study that will compare funding methods for French-language productions in Canada with methods used in other countries facing similar challenges.

The adjustments in the two markets will take effect in 2007-2008 and will be assessed in the next annual report.

DEVELOPING THE INDUSTRY'S POTENTIAL

On the international scene, the number of coproductions continues to decline. In 2006-2007, it was very difficult for Canadian companies to access international funding, in feature film as much as in new media.

To counteract this trend, Telefilm once again took an innovative step by launching the Perspective Canada program, which offers targeted and sustained support for screenings of Canadian titles in major international markets such as Berlin and Cannes. This program, aimed at raising the profile of Canadian cinema, has been a real success with international buyers. Telefilm also launched a new International Marketing Program to provide additional support to Canadian companies promoting their products at international markets and festivals.

In November 2006, Telefilm launched The Great Canadian Video Game Competition, which elicited 63 submissions from across the country. Thanks to support from the Canada New Media Fund and private partners such as Electronic Arts, Radical Entertainment and Ubisoft, along with the expert knowledge of a jury and mentors drawn from the industry, Canadian creators can now design and market games while resting assured that they will retain intellectual property rights to their works—a major concern in this activity sector where talent is being siphoned off by service companies and by international competition.

Finally, Telefilm also launched regional initiatives aimed at creators from outside Montréal and outside Quebec. One of these initiatives was for the development of French-language fiction features, while

two other initiatives, aimed at English-language writers, writer-directors and producers working in Quebec, were for the development of market-focused film and television comedies. The goal of these initiatives is to widen the pool of Quebec-based creators and to fulfil recommendations of the Standing Committee on Canadian Heritage.

Telefilm wants to help create an environment favourable to the growth and success of projects and companies, including those in the television sector. Indeed, we are continuing to promote the development of the television industry, in training and coproduction as well as at national and international events.

A MODERN ADMINISTRATION

Telefilm is proud to take on the challenge of its service agreement with the Canadian Television Fund. The “one board, one administration” model has now proved itself. The experience in 2006-2007, the first year of the service agreement, was a positive one for Telefilm, the Canadian Television Fund and the industry. Recommendations are currently being studied that will bring continuous improvement to the quality and the effectiveness of client services.

Telefilm’s restructuring continued in 2006-2007, and the industry now benefits from better-integrated strategic and operational services. In 2003, Telefilm undertook an evaluation of its programs in the aim of better aligning program objectives with corporate objectives. The program evaluation continued in 2006 with the launch of the new department of Industry Development Operations. An accountability framework now identifies tools the management team needs to achieve our corporate plan. Telefilm meets the criteria for excellence required of public companies focused on customer service and accountability. Performance, information and risk assessment are priorities.

Fiscal 2006-2007 marked the first full year of existence for the new Industry Development Operations department. This team was put together to address the challenges of a multiplatform environment. A complex arrangement of industry-supporting initiatives previously dispersed under various operational umbrellas was streamlined. An immediate strategy of performance tracking and measurement was put in place in the early part of the year, allowing the team to have a clear picture of the year’s successes and challenges. Results have already been tabulated and this invaluable data is reshaping strategies for the coming years.

Telefilm’s senior management team will work closely with the Board, and together with the industry and with its partners, to take on the challenge of a multiplatform environment. Lastly, I want to warmly thank Telefilm’s employees who, throughout our offices, worked in a collaborative and well-focused manner to support the development and promotion of Canada’s audiovisual industry.



S. Wayne Clarkson
Executive Director

CHALLENGES

**40 YEARS OF EXPERTISE
AND THE WILL TO SUPPORT
TALENTED CREATORS,
CANADIAN CONTENT,
AND THEIR SUCCESS WITH
AUDIENCES, AT HOME AND
AROUND THE WORLD**

CHALLENGE # 1
ADAPTING TO THE MULTIPLATFORM ENVIRONMENT

CHANGING TOGETHER

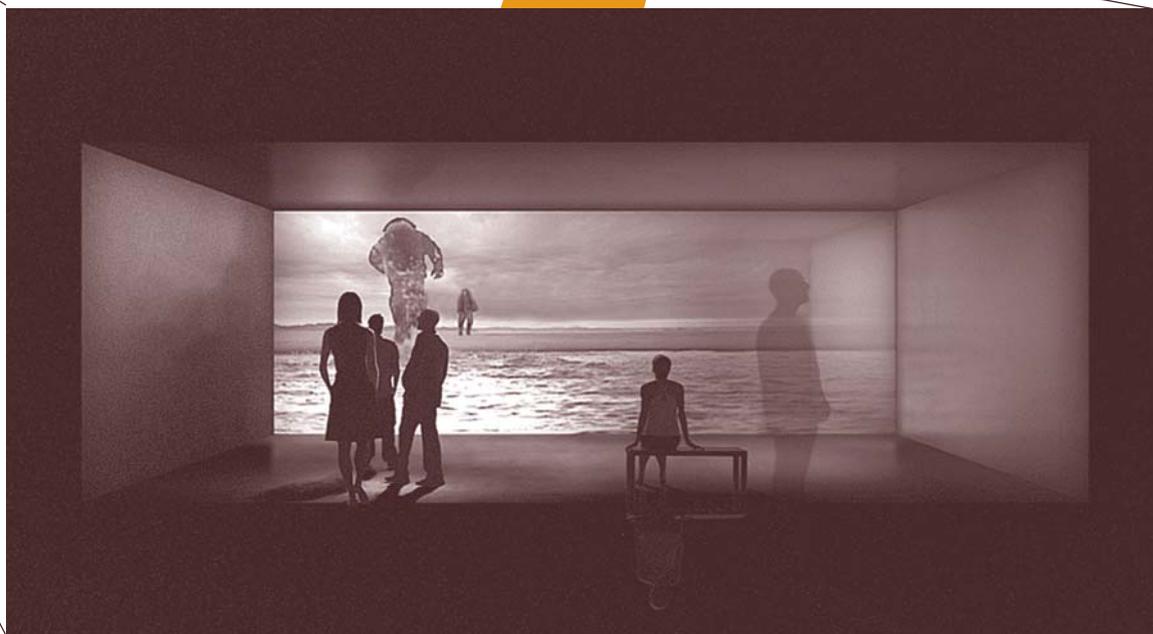
“With each passing month, new distribution platforms for audiovisual products are being created. We have to rethink our business models, modernize our funding tools, and consolidate the feature film and new media industries.”

“Our policies and programs must reflect new realities. Access to distribution networks, broadcasting rights, and revenue-sharing frameworks are among the issues that need our prompt attention. Telefilm will do its part, in concert with the industry and the government.”

S. Wayne Clarkson
Executive Director



CHALLENGE # 2
ENHANCE OUR LEVERAGING EFFECT



DARING TOGETHER

In a world where risks are increasing daily for our industry, owing to production costs, the realignment of distribution channels and high-speed international competition, it is crucial that we maximize public investments. To achieve this, Telefilm is working to develop new partnerships with other public- and private-sector organizations, nationally as well as internationally. These partnerships may be financial, strategic and/or promotional in nature, depending on industry needs. In this way, monies allocated to Telefilm will have an enhanced leveraging effect for Canadian creators and companies.

CHALLENGE # 3

IDENTIFY, TRAIN, NURTURE AND RETAIN CANADIAN TALENT

BUILDING TOGETHER

Our industry's growth and success depends in large part on new talent, which must carve out a place for itself in a demanding, innovative and changing world. We have to give talented young Canadians the tools they need to create, market and retain copyright to works that will appear on multiple platforms. The new media sector is particularly vital, given that major international game companies are setting up shop in Canada. We want talented young Canadians to choose to create Canadian products rather than work in the commercial production of generic games.



2

CHALLENGE # 4
WORK FOR CANADIANS

3



CREATING VALUE TOGETHER

By encouraging creators and companies from all regions of the country, by making it possible for Canadian works to find and appeal to increasingly growing audiences, Telefilm looks out for the public interest and seeks to be a real value-added organization for Canadians – in the cultural as well as the economic sphere. All elements that make up the machinery of governmental share this concern. Telefilm will be an active player in the modern audiovisual system, which the government is in the process of defining and implementing.

SUCCESSING TOGETHER

Telefilm made a commitment to think differently and act differently, by keeping an eye on the future. Being visionary implies working outside traditional silos, internally by reorganizing our structure and externally by encouraging companies to innovate and seize new business opportunities. For Telefilm as for the industry, the challenge is to attain this objective by clearly measuring risks, by continually consulting our private- and public-sector partners, by readjusting our approach, as required-indeed, to pursue the path we've followed for 40 years and that will ensure we remain relevant for decades more.

4



STRATEGIC OBJECTIVE 1

INCREASE AUDIENCES



STRATEGIC OBJECTIVES	KEY PERFORMANCE INDICATORS	TARGETS	2006-2007 RESULTS
<p>Feature Film Greater number of Canadians enjoy Canadian films</p>	<p>Market share of Canadian box office revenues</p>	<p>Achieve a market share of at least 5% of the Canadian box office</p>	<p>Achieved 4.1% box-office share, down from 5.3% in 2005-2006, achieved the highest share for the English- language Canadian box office since the inception of the Fund</p>
<p>New Media Greater number of Canadians find Canadian cultural experiences on interactive platforms</p>	<p>Number of unique visitors for online products, sales revenues for offline products</p>	<p>Establish baseline data for online audiences, determine appropriate approach and methodology for measurement</p>	<p>Full year of successful new media measurement pilot project saw almost 4 million unique visitors to Telefilm-supported Websites</p>
<p>Invest in a diverse portfolio</p>	<p>Diversification by genre, budget size, language, region and cultural diversity of content</p>	<p>Establish baseline data for portfolio diversification. Increase number of genres represented in portfolio</p>	<p>Number of unique genres in portfolio of supported projects grew, from four to seven</p>
<p>Festivals and awards Canadian cultural products are promoted to audiences in Canada and abroad</p>	<p>Prizes earned at major Canadian and international festivals</p>	<p>Maintain or increase current levels of awards won</p>	<p>Telefilm-supported films maintained a consistent level of awards won: 15 national and international awards and a nomination for an Oscar®</p>

REPORT ON ACHIEVEMENTS IN 2006-2007

STRATEGIC OBJECTIVE 1

STATE OF THE BOX OFFICE

The feature film box office in Canada amounted to some \$846 million in 2006, up slightly from \$831 million in 2005¹. Despite this minor increase, the size of the overall market is below what it was in the previous three or four years. If this trend continues, the total box-office take will remain flat or contract over the next few years and films, both Canadian and foreign, will be competing for fewer dollars.

In 2005, Canadian films generated more than \$44 million in ticket sales attaining an unprecedented national market share of 5.3%. This strong box-office performance, largely due to the strength of Quebec French-language films, exceeded the federal government's objective of attaining 5% of overall box-office receipts in Canada. Building the audience to this level has been a central goal in Canadian feature film policy and reflects well on the Canada Feature Film Fund.

However, in 2006, Canadian films earned just under \$35 million in box-office receipts, reducing their market share to 4.1%. This drop is largely the product of a decline in the French market, down to 17.1% from its 26.6% high last year. The good news is that the English-market share climbed to 1.7%, which represents a significant increase and the highest market share in the five years of the Fund.

2006 Value of Total Feature Film Market and Canadian-Produced Box-Office Take

(in thousands of dollars)

Box-Office Take For Canadian Films	\$ 34,755
All Others	\$ 811,347
Total Market Value	\$ 846,102

It was also a banner year for Telefilm Canada-supported titles. Of the top 10 Canadian films, nine of them had some level of Telefilm involvement. The number-one Canadian film was *Bon Cop, Bad Cop*, financed by Telefilm. This film set a new standard for box-office performance.

The independent market represents over \$149 million or 17.6% of the total market of \$846 million. Box-office receipts for Canadian films make up 4.1% of the total market, but 23.3% of the independent (i.e., non-Hollywood studio) market.

Linguistic Breakdown Canadian and Independent Box Office

(in thousands of dollars)

	Canadian Film Box Office	Total Independent Film Box Office	Total Market
French Market Box Office	\$ 22,278	\$ 42,287	\$ 130,425
English Market Box Office	\$ 12,477	\$107,094	\$ 715,677
Total	\$ 34,755	\$149,381	\$ 846,102

¹Box-office receipts are tabulated on a calendar year basis, from January 1 to December 31. The receipts of films having played in more than one calendar year are ascribed to the year in which they were earned.



**THERE WERE SIGNIFICANT
SUCCESS STORIES IN 2006,
INCLUDING *BON COP, BAD COP*,
TRAILER PARK BOYS: THE MOVIE,
AND *LE SECRET DE MA MÈRE*.**

ALTHOUGH THE TARGET OF 5% MARKET SHARE WAS NOT REACHED, IT IS CLEAR THAT CANADIAN FILM IS HOLDING STEADY WITH THREE YEARS OF MORE THAN 4% MARKET SHARE.

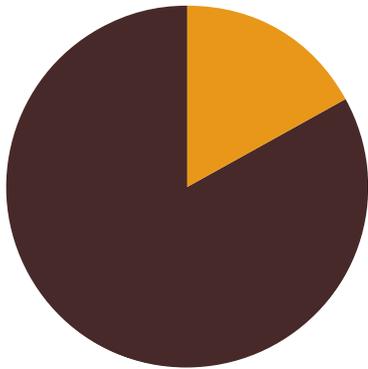
MOREOVER, IT WAS THE BEST YEAR YET FOR PERFORMANCE IN THE ENGLISH-LANGUAGE MARKET SINCE THE CREATION OF THE CFFF.

French-language films represented 52.7% of the independent film market and 17.1% of the total market. However, this is down from 26.6% of the total market at the end of 2005.

English Canadian films accounted for 1.7% of the overall market and 11.7% of the independent market. This is a significant improvement over last year's 1.1% and even shows growth over 2004, the best year prior to 2006 (1.6%).

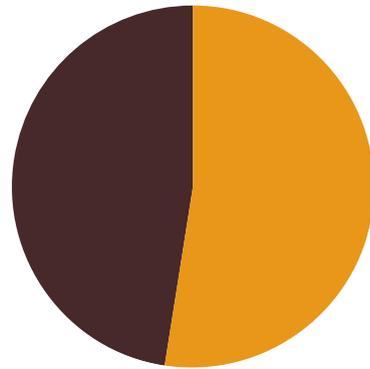
**Canadian French-Language
Film – Share of Total Market**

■ % of total market **17.1%**



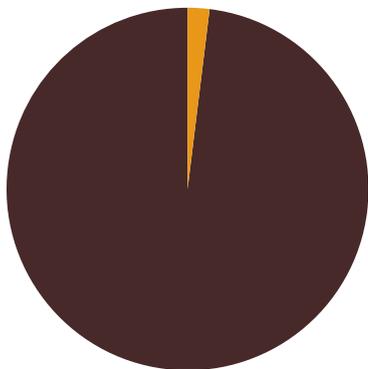
**Canadian French-Language
Film – Share of Independent Market**

■ % of independent market **52.7%**



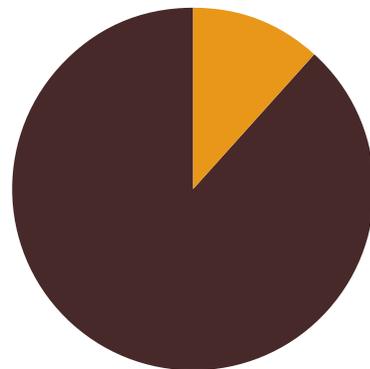
**Canadian English-Language
Film – Share of Total Market**

■ % of total market **1.7%**



**Canadian English-Language
Film – Share of Independent Market**

■ % of independent market **11.7%**



BON COP, BAD COP – A CASE STUDY IN SUCCESS

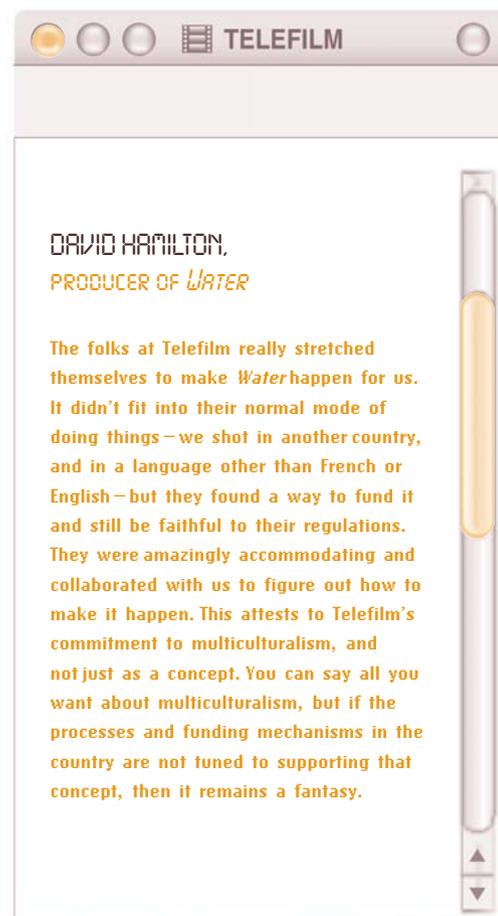
Some have dubbed it Canada's *Lethal Weapon*. It attracted large box-office audiences, was extremely competitive as a DVD, and won awards and accolades. *Bon Cop, Bad Cop*, the hit bilingual film (it had separate English- and French-language releases) is an example of the kind of success Telefilm and the industry have been striving for.

SOME QUICK FACTS ABOUT BON COP, BAD COP:

- Ranked first among Canadian films for 2006;
- Ranked 14th among all films in 2006, with a larger box-office take than heavily marketed American titles such as *The Departed*, *The Devil Wears Prada* and *The Break-Up*;
- Overall it grossed over \$12 million at the box office; and
- According to Nielsen Videoscan data, in the first month of its release, the DVD ranked number 3 in all of Canada, bested only by two iterations of *Pirates of the Caribbean* (regular and box set).

Bon Cop, Bad Cop's performance has been indicative of the asymmetrical nature of the feature film language markets in Canada. When looked at by language market, the film fared much better in the French-language market. This is not surprising and reflects the trend in these two markets over the last few years.

This project is also symbolic of the greater mandate of Telefilm: to reach Canadian audiences in both languages with a uniquely Canadian story—and do it successfully!



CANADA FEATURE FILM FUND

- 62 CANADIAN FEATURE FICTION FILMS SCREENED IN CANADA FOR AT LEAST ONE WEEK (OF THESE, 46 RECEIVED PRODUCTION AND/OR MARKETING FINANCING ASSISTANCE FROM TELEFILM CANADA);
- 7 CANADIAN FILMS BROKE THE \$1-MILLION MARK IN 2006, A DROP FROM 13 IN 2005;
- TELEFILM-SUPPORTED FILMS IN PRODUCTION ACCOUNTED FOR 85% OF THE TOTAL BOX OFFICE FOR CANADIAN FILMS;
- AND OF THE TOP 20 EARNERS, 18 RECEIVED FINANCIAL SUPPORT FROM TELEFILM.

Top 20 Canadian Films of 2006 by Total Box Office

Rounded to the nearest thousands dollars

	French- Language Box Office	English- Language Box Office	Total 2006 Box Office Receipts
Bon Cop, Bad Cop	\$ 9,707.4	\$ 2,431.7	\$ 12,139.0
Silent Hill	\$ 639.0	\$ 3,677.5	\$ 4,316.5
Trailer Park Boys	\$ -	\$ 3,851.5	\$ 3,851.5
Le Secret de ma mère	\$ 2,251.5	\$ 65.4	\$ 2,317.0
Maurice Richard	\$ 1,348.8	\$ 564.2	\$ 1,913.0
Les Boys IV	\$ 1,675.6	\$ 6.2	\$ 1,681.8
Un dimanche à Kigali	\$ 1,019.6	\$ 21.0	\$ 1,040.5
Roméo et Juliette	\$ 787.1	\$ 8.8	\$ 795.9
La Vie secrète des gens heureux	\$ 695.9	\$ 6.6	\$ 702.5
Guide de la petite vengeance	\$ 547.7	\$ 7.8	\$ 555.5
La Rage de l'ange	\$ 458.3	\$ 7.5	\$ 465.8
Beowulf & Grendel	\$ -	\$ 445.8	\$ 445.8
Histoire de famille	\$ 414.7	\$ -	\$ 414.7
Water	\$ 9.2	\$ 402.0	\$ 411.2
Congorama	\$ 364.7	\$ 12.8	\$ 377.5
Délivrez-moi	\$ 310.4	\$ 13.7	\$ 324.1
Cheech	\$ 315.8	\$ 7.3	\$ 323.1
Spymate	\$ 183.3	\$ 100.6	\$ 283.9
Duo	\$ 277.3	\$ 0.8	\$ 278.1
Manufacturing Landscapes	\$ 16.5	\$ 256.9	\$ 273.4

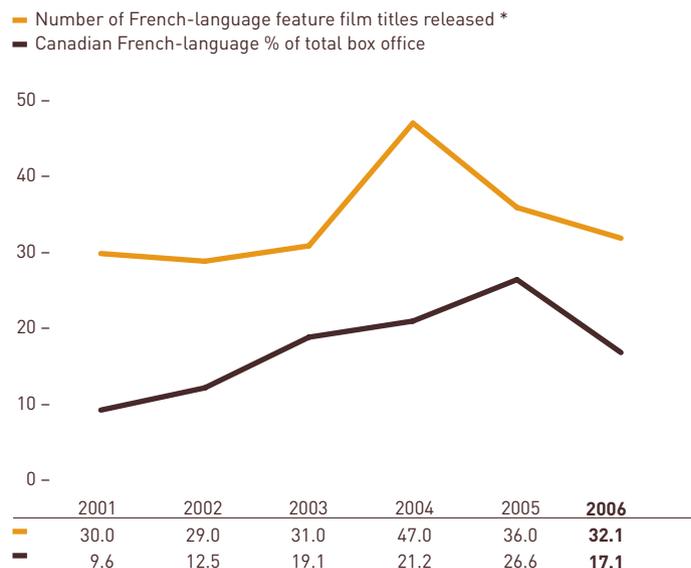
ANALYSIS OF THE FRENCH-LANGUAGE MARKET

Film consumers in the French-language market have enjoyed and continue to expect a certain level of quality and polish in their home-grown cinema. A steady supply is crucial to maintaining visibility and market share. Individual titles, for the most part, perform well. However, the growing demand for French-language film is not being met with a growing supply. At the same time, box-office successes also lead to more ambitious and expensive projects, and with increasing production costs, fewer films are being financed and produced. The table below indicates the number of original French-language Canadian films released (excluding documentaries and short films) in each of the past six years.

In 2006, 32 original, Canadian French-language films were screened in commercial theatres. This is a drop from the 36 films in 2005 and the 47 films in 2004. This drop in box office partly explains why the French market saw its market share fall from 26.6% in 2005 to 17.1% in 2006. For this reason, it is crucial that a critical mass of film titles be maintained in the market. Although volume has still not fallen below pre-2004 levels, Telefilm continues to recognize the importance of maintaining an adequate volume of French-language titles and has made it a key strategy of the Canada Feature Film Fund to boost the output of French-language films.

In order to meet the challenges of the feature film sector, where the number of films had been falling for three years, Telefilm maximized its production commitments in 2006-2007 by taking into account all anticipated revenues. As a result, French-language commitments through the main program of the CFFF rose from \$17 million in 2005-2006 to \$23.9 million in 2006-2007. Overall, 44 productions were funded in 2006-2007: 18 French-language productions and 26 English-language productions. This compares with the total of 32 productions funded the year before. These commitments, while having a positive impact for 2006-2007, will not help to lessen the pressure in subsequent years.

Number of French-Language Feature Film Titles Released Versus Percentage of Total Box Office



* Excluding documentaries and short films

ANALYSIS OF THE ENGLISH-LANGUAGE MARKET

Although the market share of English-language features increased to reach 1.7% this year, the fact remains that a majority of stakeholders in the value chain must do more to work together in pursuit of common solutions. Canadian film in the English market has been on a slow, yet very steady climb upward since 2002.

This year was the best yet for English Canadian cinema.

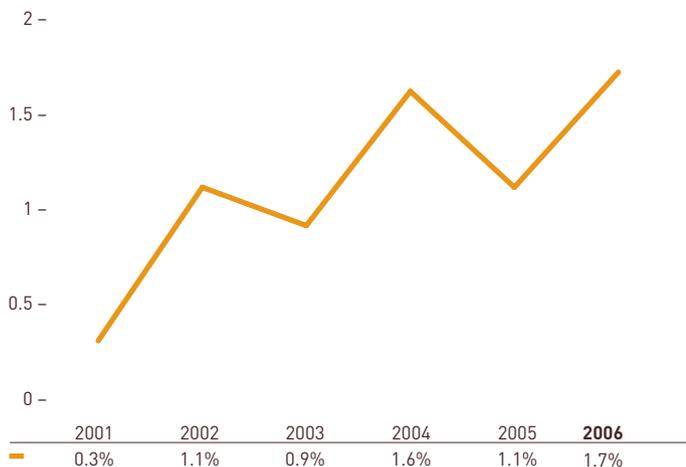
In comparison to the previous years, 2006 saw the highest box-office share for English Canadian film with 1.7% of the box office and \$12.5 million in sales. 2006's success was mostly due to a few very successful Telefilm-financed projects like *Bon Cop, Bad Cop* (as discussed here, the English version of a dual French/English release) and *Trailer Park Boys: The Movie*. These titles came within striking distance of hit Hollywood movies.

What was also notable about these two leading films, *Bon Cop, Bad Cop* and *Trailer Park Boys: The Movie*, is that they are comedies. In order to diversify its investments in a variety of genres, Telefilm recognizes the importance of supporting projects other than dramas. The 2006 box-office results have already demonstrated the high potential for such an approach. Diversification continues to be one of the significant strategies that Telefilm has undertaken to boost English-language film market share. With the broad spectrum of films coming out of Hollywood, it is imperative that the Canadian industry recognizes that there needs to be more non-drama titles. To build on the successes of the 2006 box office, Telefilm has continued to diversify its portfolio of supported films. This year, a full 32% of films funded in production with CFFF support were non-drama.

One of the other challenges facing Canadian films in the English market is insufficient investment in marketing. It is not unusual for large Hollywood films to have larger advertising budgets than actual production budgets. This gives American titles a huge competitive edge over home-grown production. Canadian films in the French market are also not immune to the problems of small or non-existent marketing budgets.

Throughout the past year, Telefilm worked closely with the industry through the Feature Film Focus Group and Creative Immersion to create a more collaborative environment for the successful marketing of productions to the English-language market. Only preliminary results are in as of yet, but they suggest that there has been an improvement: last year, the average marketing budget stood at half a million dollars. Finally, several other strategies were put in place to better align the CFFF to the realities of the English-language market, notably by introducing performance envelopes for development.

Canadian English-Language Share of Feature Film Market



A DIVERSE PORTFOLIO OF PROJECTS

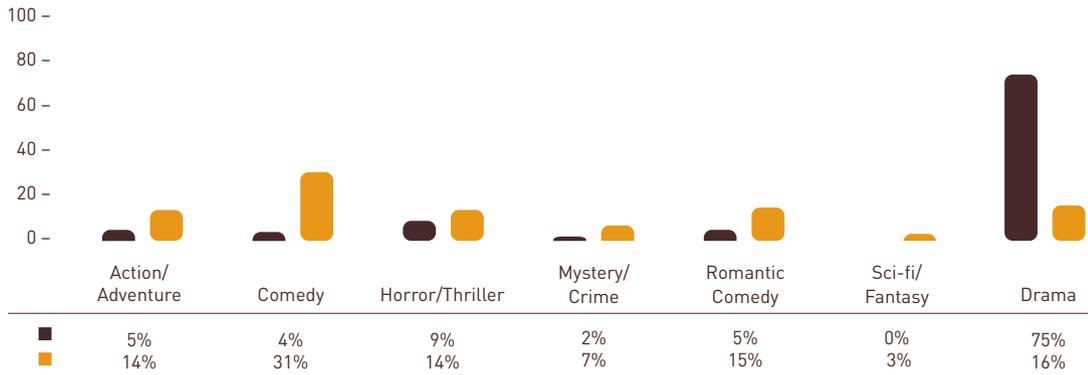
TELEFILM IS WORKING WITH THE INDUSTRY TO FOSTER THE PRODUCTION OF DIVERSE PROJECTS. IN 2006-2007, THERE WAS SOME FURTHER MOVEMENT TO DIVERSIFICATION, MOST NOTABLY THROUGH INVESTMENTS IN FEATURE-LENGTH DOCUMENTARIES. THREE TITLES WERE SUPPORTED IN PRODUCTION THROUGH THE PERFORMANCE COMPONENT OF THE FUND.

Also of note in 2006-2007, there was a slight increase in the overall number of unique genres appearing in the portfolio, going from four genres in 2005-2006 to seven. For the year overall, English projects were more diverse across genres with five distinct categories represented; however, the French projects showed more diversity in area of budget sizes. Although the full year's results did not reflect a significant increase in diversity, the results of the final quarter indicated an increase in diversity across genres in both English and French.

As seen in the following chart, there is a significant disconnect between the weight of Telefilm investment in a genre and its average box-office performance. Drama and comedy illustrate where the dissimilarities are most striking.

COMMITMENTS VS. BOX OFFICE RECEIPTS

■ % of \$ Commitments 2006-2007
 ■ Average % 2006 Box Office

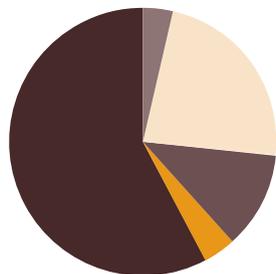


Number of Titles by Genre

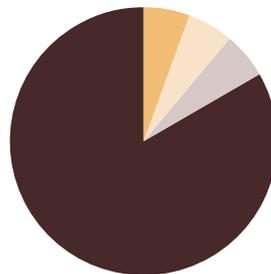
	English	French
Action/Adventure	–	1
Animation	1	–
Comedy	6	1
Documentary	3	–
Horror/Thriller	1	–
Mystery/Crime	–	1
Drama	15	15
Total	26	18

Number of Titles by Budget Size

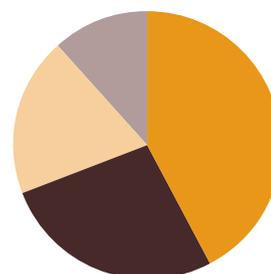
	English	French
Low	11	5
Medium low	7	8
Medium High	5	4
High	3	1
Total	26	18



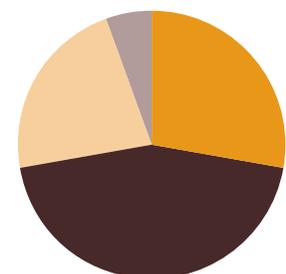
English



French



English



French

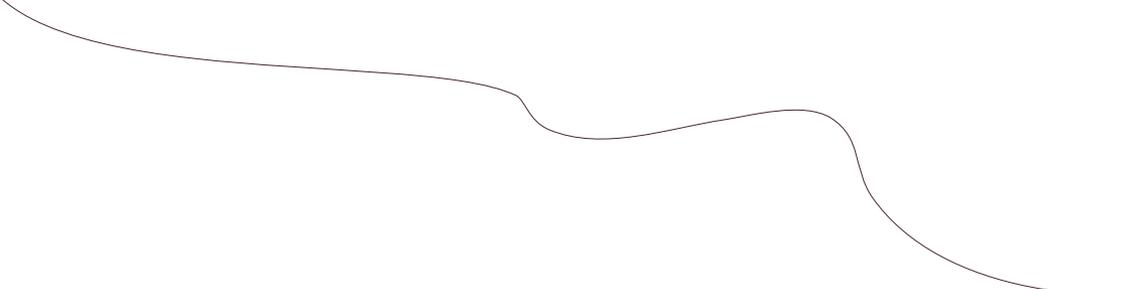
TRACKING ON MULTIPLE PLATFORMS

A feature film title now has, more than ever, a life cycle beyond the box office. DVD, VOD, downloads on PCs and cells all add to the life cycle of films. Telefilm, in collaboration with the Department of Canadian Heritage and the Working Groups, is working towards a global audience measurement strategy. Given the relative novelty of many of these emerging platforms, there are still large gaps in the way the industry measures success. For these reasons, it has been an ongoing challenge for Telefilm to track the performance of our projects as they make their way through the so-called "value chain."

For example, we are now able to track DVD sales of our titles through Nielsen Videoscanner, however this source of data comes with its own shortcomings as it does not include bulk sales to rental video stores, which some estimates report account for about 50% of the total sales of a title. Nevertheless, with the data that is available, it is becoming clear that some of Telefilm's projects are competitive on platforms beyond the big screen. In fact, there is a clear relationship between a product's success on one platform and its success on other platforms.

For example, *Bon Cop, Bad Cop* has moved more than 120,000 units and was in the top five DVDs during the week of its release. It proved to be the strongest performing Canadian DVD since tracking began. This perfectly mirrors the fantastic success this film saw on the big screen. Likewise, when this title finds its way to television, it will no doubt draw in large, single viewing audiences. In the end, *Bon Cop, Bad Cop* will undoubtedly see its audience grow larger and larger as it moves through the chain.

Many other Telefilm-partnered films have already extended their life cycle to television. The best performing, (single-episode audience) Telefilm-partnered feature film during 2006 was *La Grande séduction*. It attracted more than half a million television viewers. Like the echo effect of *Bon Cop's* DVD sales, this title's television performance mirrored its huge box-office draw of almost \$9 million in theatres in the previous year. This title was top ranked in two forms of media.



Les Boys III was the second most watched television title for 2006, with 425,000 viewers. It too had enjoyed a good box-office performance in 2005, almost hitting \$6 million in cumulative box-office receipts.

Whereas a popular title in the theatres will perform well on television, it is also common for a modest performance to improve its performance on other platforms. This is more notable among English titles. Secondary and tertiary platforms can actually boost an audience and build viewers with a snowballing effect. For example, the best performing English feature film on television during 2006 was *The Snow Walker*, which aired on CityTV. It attracted 200,000 viewers to the Toronto station and an additional 50,000 each to the CityTV outlets in Alberta and Vancouver.

The Snow Walker is a good example of the power of television as a “single-view” audience attractor. This film only managed modest box-office dollars. If an average movie ticket is \$10, then the estimated theatrical audience for this film was about 23,000 viewers over several weeks. However, on television, it achieved in the neighbourhood of 300,000 viewers in a single airing.

The online environment is another platform for which the value chain can be seen at work. Television products are most successful on the Internet; the more successful the television program, the more online users its convergent namesake seems to attract. Our data suggests that the Canada New Media Fund has supported many online projects over the last several years.

Recent data has proven that CNMF-supported convergent media is by far the largest draw for online audiences. Popular Canadian television can indeed draw viewers with different technologies. These well-nurtured brands can leap easily from a television screen to a computer screen. For example, CTV’s *Degrassi: The Next Generation*, one of the top-ranking youth-oriented Canadian programs, regularly attracts between 750,000 and a million viewers for new episodes during primetime. Likewise, the CNMF-supported Website, www.degrassi.tv, is one of the best performers.

REPORT ON ACHIEVEMENTS IN 2006-2007

STRATEGIC OBJECTIVE 1

Telefilm Canada - Financed Feature Films Performance on Television*

CTF coded period: August 2006-November 2006

Rank	Film Title	Station	Air Date	Day	Time	Average Minute Audience	Cumulative Box Office in Million of Dollars
1	La Grande séduction	SRC	11/25/06	Saturday	7:30 PM	517,000	\$ 8.9
2	Les Boys III	SRC	11/18/06	Saturday	7:30 PM	425,500	\$ 6.0
3	Les Invasions barbares	SRC	10/21/06	Saturday	7:30 PM	394,000	\$ 7.4
4	L'Incomparable Mademoiselle C.	SRC	9/23/06	Saturday	7:30 PM	390,700	\$ 1.4
5	Monica la mitraille	SRC	11/4/06	Saturday	7:30 PM	385,600	\$ 1.6
6	La Mystérieuse Mademoiselle C.	SRC	9/16/06	Saturday	7:30 PM	360,800	\$ 0.7
7	Mambo Italiano	SRC	10/7/06	Saturday	7:30 PM	314,100	\$ 5.1
8	Gaz Bar Blues	SRC	11/11/06	Saturday	7:30 PM	289,400	\$ 1.0
9	The Snow Walker	Citytv Ontario (CITY)	11/25/06	Saturday	8:00 PM	200,300	\$ 0.2
10	Mambo Italiano	Citytv Ontario (CITY)	11/18/06	Saturday	9:00 PM	95,900	\$ 5.1
11	La Loi du cochon	TVA	9/1/06	Friday	11:30 PM	61,900	\$ 0.1
12	The Snow Walker	Citytv Alberta	11/25/06	Saturday	9:00 PM	51,400	\$ 0.2
13	The Snow Walker	Citytv Vancouver (CKVU)	11/25/06	Saturday	8:00 PM	51,300	\$ 0.2
14	La Conciergerie	Canal D	9/4/06	Monday	1:00 PM	43,600	\$ 0.3
15	Lost and Delirious	Bravo	11/17/06	Friday	3:00 PM	41,000	\$ 0.4

Source: BBM Infosys

* Viewers that are two years-of-age or older

Some highlights from the 12 months of measurement (February 2006 to January 2007):

- LAST YEAR, PROJECTS SUPPORTED BY THE CNMF GARNERED 149 MILLION PAGE VIEWS AND ALMOST 4 MILLION UNIQUE VISITORS;
- OVERALL, THESE PROJECTS ATTRACT AN AVERAGE OF MORE THAN 300,000 UNIQUE VISITORS PER MONTH; AND
- THE MOST PAGE VIEWS A SINGLE PROJECT RECEIVED FOR THE YEAR WAS WELL OVER 59 MILLION.

Measurement for online content is still in evolution. The interactive digital content industry at large has been grappling with the best way to track online audiences. Despite the fact that these data may not be as easily quantified as box-office dollars, what is clear is that there are millions of users of Telefilm- and CNMF-partnered online content.



TELEFILM-PARTNERED PRODUCTIONS THAT DREW INTERNATIONAL AND NATIONAL CRITICAL ACCLAIM

FEATURE FILM

Water
Deepa Mehta

2007 Academy Awards (Oscars®) (2007), United States
Nomination – Best Foreign Language Film

Bon Cop, Bad Cop
Éric Canuel

Prix Jutra (2007), Canada
Billet d'or

Genie Awards (2007), Canada
Best Motion Picture / Golden Reel Award

Congorama
Philippe Falardeau

Prix Jutra (2007), Canada
Best Motion Picture

C.R.A.Z.Y.
Jean-Marc Vallée

Seattle International Film Festival (2006), United States
Best Director – Audience Awards

Manufactured Landscapes
Jennifer Baichwal

Toronto International Film Festival (2006), Canada
Toronto-City Award for Best Canadian Feature Film

Genie Awards (2007), Canada
Best Documentary

The Rocket (Maurice Richard)
Charles Binamé

Tokyo International Film Festival (2006), Japan
Best Leading Actor – International Competition

Genie Awards (2007), Canada
Achievement in Direction

Sur la trace d'Igor Rizzi
Noël Mitrani

Toronto International Film Festival (2006), Canada
City TV Award for Best Canadian First Feature Film



NEW MEDIA

Snow Cake
Marc Evans

Seattle International Film Festival (2006), United States
Best Actor – Audience Awards

A Sunday in Kigali
Robert Favreau

International Film Festival of Marrakech (2006), Morocco
Best Leading Actress – Feature Film

Whole New Thing
Amnon Buchbinder

Festival du Cinéma Indépendant Américain (2006), Paris, France
Best Feature Film

Commonwealth Film Festival (2006), Manchester, United Kingdom
Best Feature Film

The Art of Seduction
Marblemedia Inc

GSM Association Global Mobile Awards (2007), Barcelona, Spain
Best Made for Mobile Video Service

ReGenesis Extended Reality Game
Xenophile Media

International Interactive Emmy Awards (2007), Cannes, France
Best Interactive Program

STRATEGIC OBJECTIVE 2

BUILD INDUSTRY CAPACITY



STRATEGIC OBJECTIVES	KEY PERFORMANCE INDICATORS	TARGETS	2006-2007 RESULTS
Strategic investments leverage other sources of financing	Percentage of financing from other sources	Maintain or increase percentage of financing from other sources	Leveraging held reasonably steady year over year
Companies increase their capacity through sales and business development at markets	Level of sales and business achieved at markets	Establish baseline data through development of an export database in 2006-2007	Over \$5 million in closed sales and pre-sales at markets and \$100 million in potential business development
Industry professionals benefit from high-quality training initiatives	Level of satisfaction and positive career impact due to Telefilm training and development	Launch survey methodology	Successful launch of training survey, participants report high satisfaction levels and positive impact on their career due to Telefilm training initiatives
Visible-minority and Aboriginal professionals benefit from opportunities to advance in their careers	Level of resources committed to initiatives and programs designed to promote professional development within culturally diverse communities	Maintain or increase level of investments	In 2006-2007, Telefilm invested \$385,000 in programs devoted to Aboriginal peoples and \$3.4M in programs devoted to cultural communities.



BECAUSE TELEFILM CANADA IS OFTEN THE FIRST INVESTOR IN A PROJECT, ITS CONTRIBUTION NOT ONLY AIDS IN THE DEVELOPMENT AND PRODUCTION OF CANADIAN-MADE PROJECTS, IT ALSO AIDS IN ATTRACTING OTHER INVESTORS. TYPICALLY, THE CORPORATION'S INVOLVEMENT LEADS TO STRONG FINANCIAL PARTICIPATION FROM OTHER PARTIES.

LEVERAGING IN FEATURE FILM

Analysis of the financing of feature films that were funded in 2006-2007 reveals that Telefilm's share of funding went from 33% to 39%. This elevated contribution is largely due to the decline—almost 13%—in the level of foreign funding compared with the previous year. This decline is due in large part to the limited number of official coproductions. Indeed, only three majority Canadian coproductions were funded in 2006-2007 (the French-language *L'Âge des ténèbres* and the English-language *Almost Heaven* and *The Cassandra Syndrome*). In light of this situation, Telefilm intends to promote the sale of films on the international market in order to increase the funding available to Canadian productions and support international marketing initiatives for Canadian films.

In the spring of 2006, the Quebec media made much of the funding difficulties faced by French-language films. In only a few short years, the number of French-language films supported by the CFFF had dropped from 18 to 13, jeopardizing the strong position of Francophone films in their market. In 2006-2007, therefore, Telefilm looked to finding short- and long-term solutions aimed at increasing resources and closing the funding gaps for productions destined for the French-language market.

For the French-language market, Telefilm announced in October 2006 that selective component resources would be increased, and that there would be fewer recipients of performance envelopes, but that they would enjoy greater autonomy and would have access to higher levels of funding so as to reduce their need to access the selective component. Furthermore, for fiscal 2006-2007, Telefilm brought its average level of participation in films back to \$1.3 million per film, making it possible to fund 18 films. In recent years, average levels of participation had reached \$1.8 million, thereby reducing the volume of production.

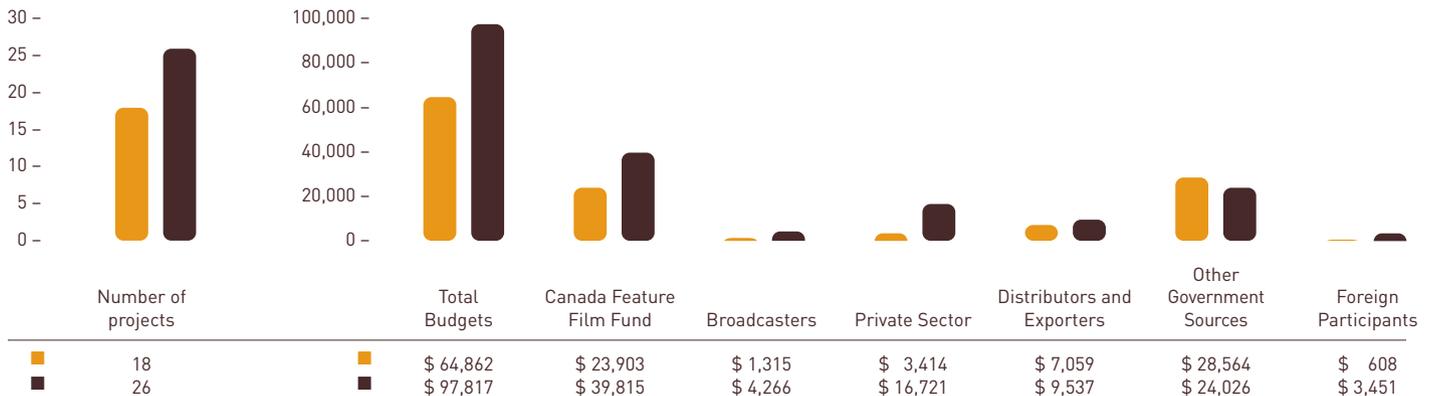
In the medium term, Telefilm and the Finance Subcommittee of the CFFF Working Group for the French market are continuing their work regarding parallel methods of funding for French-language feature films. As mentioned earlier, Telefilm commissioned a study that will compare funding methods for French-language productions in Canada with those found in other countries facing similar challenges.

LEVERAGING OTHER FINANCING

Canada Feature Film Fund (CFFF) – Financial Analysis

Production - New Contracts Only *
(in thousands of dollars)

■ English
■ French



* Does not include the foreign share (\$31,775) of Official co-production budgets in which Canada is a minority partner. All percentages are based on these amounts.

REPORT ON ACHIEVEMENTS IN 2006-2007

STRATEGIC OBJECTIVE 2

In conjunction with these initiatives, Telefilm also launched a number of pilot programs aimed at supporting production, sales and coproduction, such as the *International Sales Promotion Pilot Initiative* and *Screening in New York*. These programs will return in 2007-2008 or earlier, depending on how quickly their outcomes can be measured. In addition, we invited cultural agencies from France, Switzerland and Belgium, along with SODEC, to a meeting in Montréal in January 2007 to discuss the conditions of success for Francophone coproduction. The dialogue is ongoing and should result in a concrete action plan.

INTERNATIONAL MARKETS

Due to the financing challenge, international markets have taken on ever more importance in the media industry. The year 2006 was no exception. Of note in the last year were the European Film Market at the Berlin Film Festival, the Marché du Film at Cannes, E³, and two television markets, MIPTV and MIPCOM.

In 2006, Telefilm changed its approach to the promotion of Canadian products in foreign markets. The Perspective Canada initiative was launched at Cannes to promote and encourage sales of Canadian products in foreign markets by organizing screenings of selected Canadian titles for prospective buyers.

In total, Telefilm helped (either directly or indirectly) 269 companies participate in these markets. MIPTV was the most successful for both sales and pre-sales in terms of the percentage of participants. About 95% of companies at MIPTV saw some sales activity. Almost \$800,000 in completed sales and about \$17.8 million in likely sales were reported at MIPCOM. The highest sales figure for closed deals occurred at MIPTV, which saw almost \$1.7 million in completed sales, making up almost half of all sales from the markets for 2006.

Not surprisingly, Canadian companies also showed strong sales in the drama category. This is most notable for feature film titles. At Berlin, sales and likely sales of drama accounted for \$1.1 million, and at Cannes, sales activities among Canadian participants reached almost \$11 million.

MIPCOM was not only successful with respect to sales, it was also the market with the highest level of overall satisfaction. On a scale of 1 to 10, respondents awarded this market a rating of 8.5. The perception of value was also highest for MIPCOM. It received a mean score of 7.8 out of 10 for value.



PERSPECTIVE CANADA-RELATED SALES

The Perspective Canada initiative spurred some sales activities; of the titles screened through this program at Cannes, three companies made deals for four titles. Closed sales accounted for \$213,000 and likely sales reached \$75,000. All the Perspective Canada titles sold at Cannes fell into the drama genre. The largest deal for a single title was \$185,000.

The return on Telefilm's investment in these markets was significant: for every dollar committed to international markets, Canadian companies reported \$5.11 in completed sales. If likely deals are included, every dollar spent by Telefilm resulted in more than \$100 in sales. That is a 1 to 100 return on investment!

For a full copy of the report please see: www.telefilm.gc.ca.

International Markets

Distribution of Sales, Presales and Likely Sales Among Telefilm Canada Supported Companies

	Berlin	MIPTV	E ³	Cannes	MIPCOM	Total
Sales completed at market	\$ 500,000	\$ 1,660,050	\$ 0	\$ 929,000	\$ 772,630	\$ 3,861,680
Sales likely to occur from discussions at market	\$ 3,209,000	\$ 20,651,004	\$ 3,330,000	\$ 14,825,000	\$ 17,761,900	\$ 59,776,904
Pre-sales completed at market	\$ 0	\$ 530,400	\$ 0	\$ 450,000	\$ 95,000	\$ 1,075,400
Pre-sales likely to occur from discussions at market	\$ 1,400,000	\$ 14,481,200	\$ 500,000	\$ 9,165,000	\$ 13,815,000	\$ 39,361,200
Total completed sales and pre-sales	\$ 500,000	\$ 2,190,450	\$ 0	\$ 1,379,000	\$ 867,630	\$ 4,937,080

REPORT ON ACHIEVEMENTS IN 2006-2007

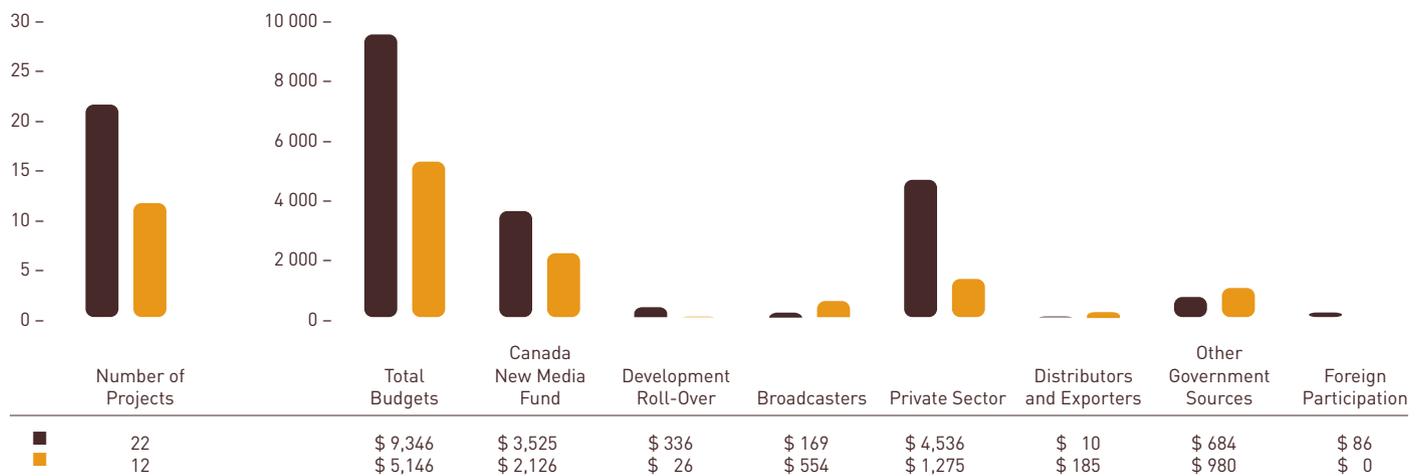
STRATEGIC OBJECTIVE 2

LEVERAGING IN NEW MEDIA

Canada New Media Fund (CNMF) – Financial Analysis

Product Assistance - Production Only - Signed Contracts
(in thousands of dollars)

■ English
■ French



In 2006-2007, Telefilm saw a marked decrease in private investments in interactive digital content projects funded through the Canada New Media Fund (CNMF). The private sector's share of the overall budget went from 53% in 2005-2006 to 40% in 2006-2007. However, there was an increase, most notably in the French-language market, of broadcaster support over the year (1.5% up to 5%). Although this is an encouraging reflection of the power of convergent projects, the growth in broadcaster support was not quite high enough to make up for the loss in private sector and foreign investment. Given that Telefilm's share of the overall budgets only rose minimally, it was largely other government sources that filled the gap left by private investors.

Nevertheless, shrinking private investment in this industry has a detrimental effect on Canada's nascent, albeit celebrated, videogame industry. Given the size of these projects' budgets and the high risk associated to them, Canadian companies need to be able to attract more much needed private investment for the development of Canadian games.

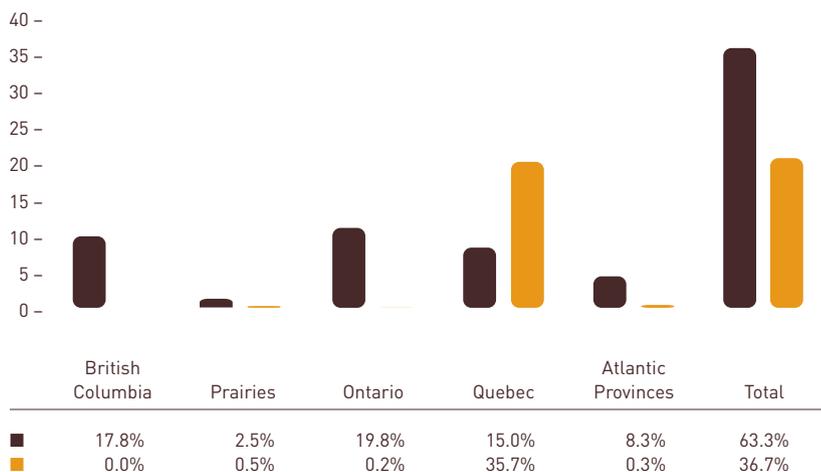
In 2006-2007, Telefilm developed a strategy designed to leverage other sources of funding for this sector of the interactive digital content industry. Telefilm leveraged the resources of the CNMF and launched *The Great Canadian Video Game Competition* to create meaningful opportunities for Canadian firms to develop their business skills while developing new and innovative videogame concepts, through a pooling of public- and private-sector resources as well as highly valued private sector mentoring. It's worth noting that creating a game is a cultural act. A game tells a story, establishes strategies, and introduces characters and situations that reflect the creative imagination of a Canadian designer.

SHARING STORIES FROM ACROSS THE COUNTRY

Regional and Linguistic Breakdown of Commitments

Production and Development

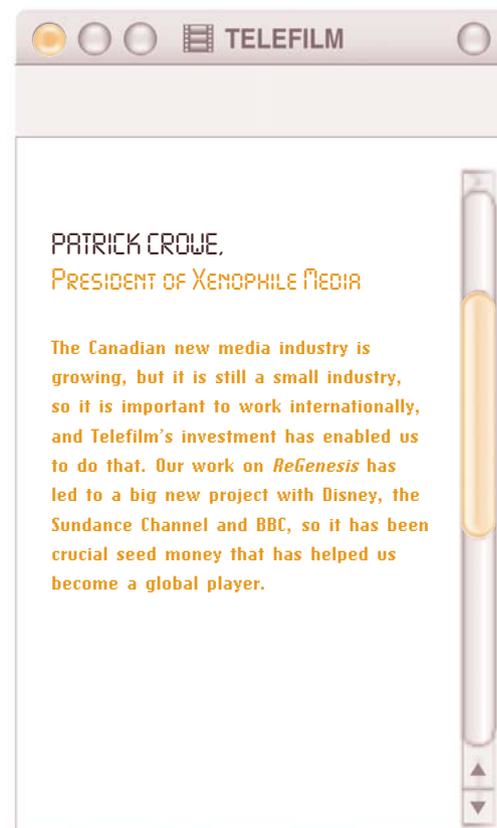
■ English
■ French



REGIONAL INVESTMENTS: STORIES FOR ALL CANADIANS

Telefilm is committed to supporting the development and production of stories from every region of the country. The primary objective of this balanced investment approach is to ensure that contracts are entered into with regional companies, thus stimulating the growth of local economies.

- 33.2% of projects were from outside the greater Montréal and Toronto areas.
- Nearly \$28 million went to the regions. The decline from last year's allocation (\$60 million) is due to the gradual reduction of our activities in connection with the Equity Investment Program of the Canadian Television Fund.



THE INDUSTRY DEVELOPMENT OPERATIONS TEAM HAS TAKEN OVER THE ADMINISTRATION OF ALL TRAINING PROGRAMS AND INITIATIVES. THIS YEAR SAW THE FIRST ATTEMPT TO MEASURE THE SATISFACTION AND PROFESSIONAL IMPACT THESE COURSES AND PROGRAMS HAVE ON THE INDUSTRY. PRELIMINARY RESULTS REVEAL STRONG PARTICIPANT SATISFACTION AND A MARKED IMPACT ON THEIR PROFESSIONAL CAREERS.

PROFESSIONAL DEVELOPMENT OUTCOMES

NATIONAL TRAINING PROGRAMS

Telefilm Canada, in its efforts to develop talent and excellence in the audiovisual industries in Canada, continued its many professional education initiatives in 2006-2007. These programs include a range of modest professional development courses, such as market preparation, funding initiatives like the *Low Budget Independent Feature Film Assistance Program*, and the larger and more ambitious programs delivered by national training schools.

In order to gauge overall satisfaction levels of these courses, as well as the professional impact these programs may or may not have on the participants, Telefilm has embarked on a large-scale survey. Audiovisual professionals who participated in Telefilm-financed programs were surveyed after a program to determine their satisfaction and a year later to determine the impact of the course on their professional career.

For 2006-2007, reports are available on the satisfaction levels of the *On the Road to GDC*, a market preparedness program, as well as the impact of last year's *Low Budget Independent Feature Film Assistance Program* and *Writers First* (formerly the Screenwriting Assistance Program).

Some highlights:

SATISFACTION REGARDING TELEFILM TRAINING INITIATIVES

Overall, there were strong satisfaction levels among participants: 77% expressed satisfaction and 12% expressed a neutral opinion. Only 5.9% expressed any dissatisfaction.

- 80% of the participants agreed that the objectives of their course were achieved;
- 82% agreed that they had learned a great deal from the program;
- 94% reported that the program was well worth the costs; and
- 88.2% would recommend the program to someone else in their industry.

Some verbatim comments from participants who attended supported program *On The Road To GDC*:

"I certainly appreciated the opportunity provided by Telefilm Canada for me to attend the On the Road to GDC. I would definitely recommend it to anyone going for the first time because I know this program was very effective for our group."

"I appreciate the great value of this program, and I wish that I could be involved in next year's activity, especially for the new questions we will be facing this year. Getting help from industrial experts will definitely help us grow faster, stronger."

REPORT ON ACHIEVEMENTS IN 2006-2007

STRATEGIC OBJECTIVE 2

IMPACT OF TELEFILM'S PROGRAMS ON PARTICIPANTS

Telefilm-financed training and development programs were measured for impact in 2006-2007. Emerging directors, creators and writers from the previous year were surveyed and the results reflected positively on Telefilm's programs.

Filmmakers

- All respondents (100%) reported that the program had a positive impact on the advancement of their careers; and
- Three-quarters of the respondents agreed that the program made a strong positive contribution to their professional development.

Scriptwriters

- Almost 70% reported that the program had a positive impact on the advancement of their careers; and
- 87% of the respondents agreed that the program made a strong positive contribution to their professional development.

In the coming year, this research initiative will grow to include surveys of more Telefilm training programs, as well as a full survey amongst the students attending the national training schools sustained by the National Training Program in the Film and Video Sector.

As the sample pool of surveyed professionals grows over the next several years, a clearer picture will emerge of the value of these ambitious programs and their impact on the Canadian industry.



ABORIGINAL PRODUCTION, AND CULTURAL AND LINGUISTIC DIVERSITY

In 2005-2006, Telefilm administered three distinct programs aimed at fostering the development of industry professionals from Canada's Aboriginal, cultural and official-languages minority communities. However, in 2006-2007, the administration of the Aboriginal-language production program in television — valued at \$1 million— was taken over by the Canadian Television Fund, and as such is no longer a part of Telefilm's portfolio.

As for the Spark Plug program, it is currently under review and was not renewed in 2006-2007 by the Department of Canadian Heritage. While awaiting results of the Spark Plug Program review, Telefilm decided not to offer any initiatives under the program last year.

Of the three programs aimed at fostering the development of industry professionals from Canada's diverse communities, only one, the program for official-languages minority communities was offered jointly with the Department of Canadian Heritage through its Interdepartmental Partnership with the Official-Language Communities (IPOLC) program. A new component aimed at Quebec Anglophones was added in 2006-2007. The component covers English-language feature films as well as television dramas. The Corporation also renewed the competitive program that allows French-language producers, writers and directors working outside Quebec to produce two dramatic shorts for television.

Telefilm had committed to maintaining or increasing the level of investment in programs aimed at fostering the development of industry professionals from these communities. However, in light of the past year's events and the program review, it is difficult to compare this year's results with those of last year. In 2006-2007, Telefilm committed \$ 385, 000 to programs dedicated to the professional development of Aboriginal talent and \$3.4 M to programs dedicated to the professional development of visible minority creators.

Telefilm submits two annual reports to the federal government, one on multiculturalism and one on official languages.

Finally, Telefilm's commitment to cultural diversity and Aboriginal production is evidenced by projects funded through the main programs of the Canada Feature Film Fund and the Canada New Media Fund. The Corporation thus funded some 20 works, including *L'Étrangère*, *Shépaghé'la*, *Amal*, *Tales of an Urban Indian* and *NorthStar*, all of which testify to the richness of Canada's various multicultural and Aboriginal communities.

STRATEGIC OBJECTIVE 3

ADMINISTER WELL



STRATEGIC OBJECTIVES	KEY PERFORMANCE INDICATORS	TARGETS	2006-2007 RESULTS
Be an efficient and innovative administrator	Overhead percentages	Overhead percentages remain low	<p>CFFF at 8%, down from 10% in 2005-2006</p> <p>Television Business Unit 3% (first year in operation)</p> <p>CNMF rose from 14% to 19% in 2006-2007</p>
Provide client-oriented services	Client satisfaction	Client satisfaction maintained or higher than 2001 survey	Overall satisfaction comparable to 2001-2002
To be transparent and accountable	Implement performance measures	Report on performance measures for all programs	All top level performance indicators now implemented and reported on

CANADIAN TELEVISION FUND

In August 2006, Telefilm Canada and the Canadian Television Fund entered into an agreement whereby the Corporation was engaged by the CTF as the exclusive service provider for the administration of CTF programs for an initial three-year period.

Under the terms of the CTF's new governing principle of "one board, one administrator," Telefilm is now responsible for administering the CTF's Broadcaster Performance Envelopes and the Special Initiatives stream. Telefilm began accepting funding applications on April 1, 2006; in addition to processing a total of 956 new files, it performed transactions (including rough cut and phase 2 analysis) for 1,429 other projects.

SOME OF THE CHALLENGES AND HIGHLIGHTS OF THE FIRST YEAR

The creation of the Television Business Unit (TBU) at Telefilm, which involved the integration of staff from both organizations into a single team, was likely the greatest challenge and success of the past fiscal year. The agency's goal was to build the best possible team, by incorporating the knowledge and experience from employees of both organizations into one unit. Since the merger of the two teams, staff turnover has been low, and team efficiency and effectiveness has been high.

However, there were a few challenges related to human resources. The French-language market team was short staffed and had a significant file backlog for much of the year; it is now fully staffed and has been able to eliminate any inherited backlog. Overcoming a significant learning curve was also a challenge for all team members regarding organization structure, tools, guidelines and documentation. An internal audit process, launched in November 2006, revealed an excellent level of compliance and understanding of the new business processes as well as the systems supporting TBU-related activities.

The integration required the creation of new internal processes, systems and documentation, as well as a new protocol for interaction and reporting with the CTF. The guiding principle of the design and implementation of the new process was a review of best practices from both organizations. Telefilm has consistently delivered all required CTF reporting within the requirements of the Service Agreement.

Arising from the transition was the requirement to not only process new files, but to incorporate existing CTF files into the TBU's operations. This required the data entry of more than 800 "legacy" files into Telefilm's data system, and the integration of a significant backlog of projects at Phase 2 from both the English and French markets.

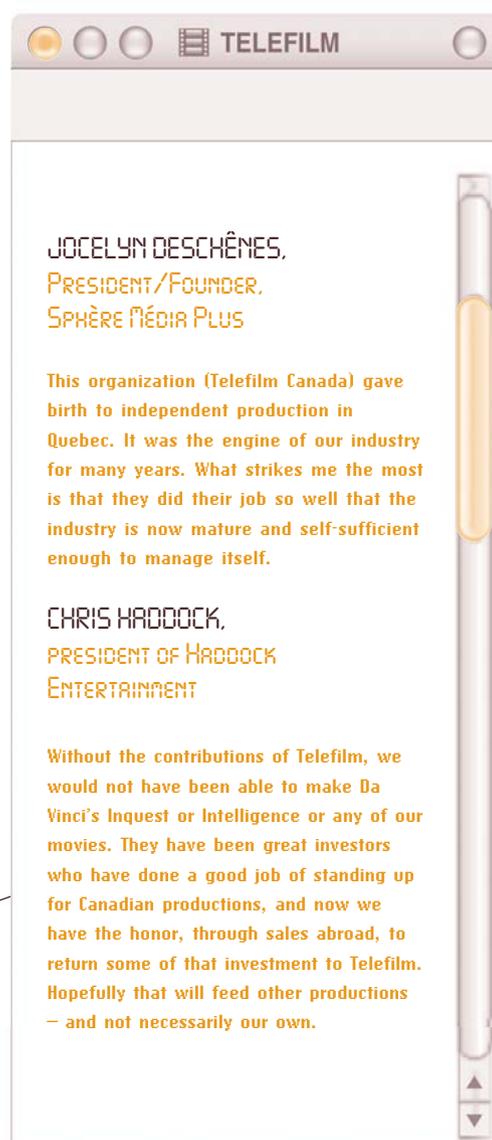
Despite the fact that approximately 45% of applications for support under the Broadcaster Performance Envelope are received between October and December, the TBU managed to sign 96% of applications received.

SERVICE LEVELS

The Service Agreement with the CTF outlines how the TBU's performance will be measured, using the key indicator of "turn-around time." Similar to Telefilm's own commitment to service levels in its *Client Service Charter*, the TBU is committed to processing transactions within a certain number of business days.

Overall, the TBU performed well and respected the Service Levels as defined in the Service Agreement with the CTF, despite a few challenges early in the year related to the transition and with the large volume of new applications arriving late in the year. However, in both cases managers took steps to respond to the needs of applicants and worked through the initial delays to provide the best possible level of service in the circumstances.

A number of recommendations and revisions have already been considered and supported by the CTF and its Board, and Telefilm is working in close collaboration with the CTF to continually improve our performance as service administrator and quality of service to our clients.



THE eTELEFILM PROJECT WAS ALSO SELECTED IN 2006 AS A FINALIST AT THE 14TH GTEC AWARDS IN THE CATEGORY A: SERVICE DELIVERY TO CITIZENS & BUSINESSES. OTHER FINALISTS IN THAT CATEGORY WERE: CANADA REVENUE AGENCY, INDUSTRY CANADA, NATIONAL DEFENCE, PUBLIC HEALTH AGENCY OF



CANADA AND SERVICE CANADA. THE DISTINCTION AWARDS 2006 PROGRAM AND GALA WAS DESIGNED TO FORMALLY RECOGNIZE AND CELEBRATE LEADERSHIP, INNOVATION AND EXCELLENCE IN ENABLING AND MANAGING E-GOVERNMENT WITHIN THE PUBLIC SECTOR.

eTELEFILM

A high-performing tool for conducting business as well as communicating with our clients, the eTelefilm service has made a remarkable breakthrough. eTelefilm makes it possible to submit applications online, and access and track the status of current and past files on an ongoing basis. With certain programs, eTelefilm also allows for direct deposit of funds.

eTelefilm users in particular were happy with services offered by the Corporation. The eTelefilm promotional campaign had a strong impact both internally and externally. Results demonstrated a considerable increase in the number of registered companies, online application submissions and online transactions. The positive response is largely attributed to the desire on the part of Telefilm's staff to offer clients high-quality services, as well as by a growing sense of environmental responsibility.

As at March 31, 2007, 304 companies were registered for eTelefilm, compared with 172 in the fall of 2006—an increase of 77%. Registrations were up 87% in the Western Region 41% in Ontario/Nunavut 62% in Quebec; and 47% in the Atlantic Region.

Telefilm's initial target was to achieve a rate of online submissions of 20% between November 2006 and April 2007—an ambitious goal given that the rate stood at 8.5% prior to the start of the campaign.

Overall, we achieved a rate of 12.2%, representing an increase of 44%. We reached our goal in feature film (20% of all applications) and in new media (26%), while application submissions in coproduction stood at 15%. Targets were not met in television, primarily because a number of proposed incentives could not be implemented this year and several clients were doing business with Telefilm for the first time, resulting in a certain amount of uncertainty vis-à-vis the tool. Other targets were met thanks to an increase in training for Telefilm employees, simplified registration and application submission processes—which remained highly secure—and extended Telefilm business hours, brought in to better serve clients in all regions; eTelefilm is now available from 6 a.m. to 1 a.m.

WWW.TELEFILM.GC.CA

A survey conducted in April 2006 with 505 frequent users showed that 73% of Telefilm's clients were either satisfied or very satisfied with the Corporation's Website. When looking at clients who are using the Website almost every day, this proportion reaches 88%.

Through sections like the coproduction directory or our catalogues, the Website also provides information on Canadian productions and companies, reaching over 40,000 unique visitors who generate around 575,000 page views each month.

The Website's content management tools were simplified last year, which allowed Telefilm to make information accessible with greater efficiency in a reduced publication time.

REPORT ON ACHIEVEMENTS IN 2006-2007

STRATEGIC OBJECTIVE 3

CLIENT SATISFACTION

In 2006-2007 the Corporation conducted a Canada-wide survey of its clients in order to more effectively meet their needs.

The results of Telefilm's first client survey since 2001 show that our newest and youngest clients are the most satisfied, i.e., the interactive and online media industry. The report revealed a stronger than average satisfaction with the Corporation among Canada New Media Fund clients. This is encouraging given the novel and dynamic nature of the clients and projects that apply for CNMF funding.

Moreover, three-quarters of all French-language clients of Telefilm expressed high overall levels of satisfaction with the services they received.

In general, the study showed no significant changes in satisfaction levels since the previous survey commissioned in 2001. The results indicated that clients wanted even more transparency, accessibility and speediness in the area of services as well as a quicker access to Telefilm payments. Among the findings, Telefilm was also surprised to learn that a large percentage of the client base did not know how to use the online eTelefilm tool. Since this information was reported, Telefilm has embarked on a promotional campaign. As seen in the eTelefilm chapter, the results have been excellent.

AN EFFECTIVE MANAGER

Telefilm endeavours to administer its operations according to sound management principles of transparency, accountability, efficiency and results. Although these principles have been integral to our governance structure for the past decade, they have been reinforced over the last five years by such directives as *Results for Canadians*, issued by the Treasury Board, and, more recently, *Advantage Canada*, published in November 2006 by the Department of Finance Canada. In addition to these directives, Telefilm is being increasingly guided by standards of effectiveness and efficiency that are in force in the private sector. Meeting the requirements of the service agreement with the Canadian Television Fund is also a pledge of performance. This agreement clearly specifies the service levels to be attained, the controls to exercise and the reports necessary to evaluate our performance.



MANAGEMENT EXPENSE RATIO

Over the past three years, the Corporation has sought to simplify and enhance the pertinence of the methods used to account for operating expenses attributable to its activities. Striving for continuous improvement, management has adopted the cost reporting model from the Canadian Television Fund service contract to standardize the reporting of expenses by fund. This new model has served as a catalyst in the accounting of fund operating costs vis-à-vis the available financial resources. The detailed program costs appear in Schedule E of the financial statements.

First, it should be noted that the management costs cannot be compared against each other. Each fund has specific guidelines that substantially influence the efforts required to deliver the programs. Furthermore, the number of files analyzed, approved and rejected varies for each fund, and this is also a considerable factor in program management cost.

The management expense ratio for feature film is 8%, down from 10% in fiscal 2006. This net improvement directly correlates to the increase in film support spending in 2006-2007.

Management expense ratio per fund

(In millions of dollars)

	Canada Feature Film Fund	Television Business Unit	Canada New Media Fund
Assistance expenses	96.1	n/a ¹	13.4
Fund operating expenses before amortization and write-offs	7.6	7.6	2.6
Management expense ratio	8%	3%	19 %

¹ The assistance expenses inherent to the service agreement are incurred by the CTF, and therefore are not reported in the Corporation's financial statements.

The ratio for the Television Business Unit represents 3% of the monies administered by the Corporation for the Canadian Television Fund. Given the program delivery parameters, Telefilm considers this an extremely advantageous management expense ratio for the services provided. This being the first year of operations under the service contract, there are no previous figures for comparison.

The expense ratio for the Canada New Media Fund rose from 14% in 2006 to 19% in 2007. The increase is chiefly attributable to the complexity of tracking audiences, to performance and report measurement, to the hiring of additional staff to deliver the program, and to a portion of the operating expenses related to the launch of The Great Canadian Video Game Competition.

PRACTICES AND TRANSFER OF EXPERTISE

In order to properly carry out its mandate pertaining to management of CTF programs, Telefilm reviewed all television sector processes in place during fiscal 2006-2007. This review allowed us to identify best practices, which in turn led to changes in other sectors.

REVISION OF CFFF BUSINESS PRACTICES

Inspired by the success of the Television Business Unit, Telefilm is now reviewing Canada Feature Film Fund processes so as to better focus these processes on the Fund's objective. An internal committee studied ways to effectively increase the number of high-quality feature films in English that are marketed to Canadian audiences. The goal was to establish a set of practices that would improve the decision-making process. An evaluation of roles and responsibilities within the feature film business units and an analysis of business practices allowed us to determine that we needed to create national staff positions to support the units. These positions focus on business relations, data integrity and marketing. This special project, aimed at retargeting resources and practices, was completed in June 2007; a period of assessment and adjustment is expected to follow.

A MODERN TECHNOLOGY INFRASTRUCTURE ALIGNED WITH ORGANIZATIONAL NEEDS

Telefilm completed an overhaul of its computer systems one year ago. Over the last year, the emphasis has been on promoting the use of these systems in order to derive greater benefits, efficiency, and organizational performance. More particularly, the increased use being made of our information systems has made it possible to gradually centralize the organization's informational assets. This has helped to standardize and simplify the implementation of information control points.

Thanks to the fact that we have retained a long-term vision of our IT services, Telefilm has been able to ensure that its infrastructure remains flexible. As a result, we have been able to integrate CTF operations into our own information systems, with the need for few technological adjustments. This vision has also allowed the organization to protect its investments by making it possible to continually orient its systems toward new business strategies.

A CULTURE OF ACCOUNTABILITY ENHANCING OUR CAPACITY FOR ACCOUNTABILITY

An accountability framework was put in place for Telefilm's senior managers. This framework makes it possible to better identify responsibilities and defines certain performance indicators upon which managers accept to be measured. Better-performing tools, such as those related to budgetary oversight and the production of quarterly management reports, illustrate the culture of accountability found within the organization.

This year, there has been a push to tighten standards governing the security of information. To this end, an information security policy was issued, which included an education program for all employees and managers. More than 90% of staff participated in the program.

Lastly, senior management put forward a risk management plan aimed at helping the organization better respond to the major risks it faces.

A SOCIALLY RESPONSIBLE ADMINISTRATOR

Human resources initiatives support the Corporation's business plan. Inspired by the values of "workplace community," our relationships are based on mutual respect and honesty.

In 2006-2007, Telefilm repeated its Physical Fitness Incentive Program, celebrated Healthy Workplace Week, and organized surprise work breaks, all aimed at ensuring the well-being of employees. Telefilm places great importance on maintaining a healthy balance between personal and professional life, as the well-being of employees is key to retaining high-calibre personnel.

TOWARDS A GREEN TELEFILM

During the past year, Telefilm set itself a goal of becoming a good citizen by identifying a number of solid environmental objectives, such as:

- Improving Telefilm's operations by, among other ways, making more extensive use of available technological management tools;
- Reducing material costs by making better use of water, energy, office furnishings, paper (two-sided printing);
- Ensuring that new office spaces are outfitted and used on the basis of sound environmental principles;
- Reducing the number of printers in use and consolidating computer servers in one location; and
- Eliminating Styrofoam-type materials.

A Green Committee was created in the Montréal office, and a number of environmental initiatives were launched in each of the organization's other offices. Moreover, Telefilm employees' firm commitment to promote eTelefilm to our clients was strongly motivated by a desire to reduce the amount of paper used by the Corporation. Telefilm is also in the process of establishing a "green code of conduct" to guide the Corporation's purchasing, conservation and recycling policies.





TELEFILM CANADA'S 2005-2006 ANNUAL REPORT WAS **A TRIPLE-AWARD WINNER** AT THE 2006 LACP VISION **AWARDS ANNUAL REPORT COMPETITION.**

The corporate publication placed 36th out of the 2,500 reports submitted from 21 countries in five geographic regions, winning the **Platinum Award – Best Overall Annual Report (Government category)**, the **Bronze Award – Best Agency Report**, and a **Top 100 rank**.

STRATEGIES GOING FORWARD: CONTINUE TELLING CANADIAN STORIES



This is an exciting time for Telefilm Canada. Looking back at the past 40 years, it is clear that Telefilm has played a major role in the growth and success of Canada's film, television and new media industries, and in the careers of talented Canadian professionals.

EVEN THOUGH THE CORPORATION IS NOW MAKING THE SHIFT TO A MULTIPLATFORM ENVIRONMENT, THERE IS STILL MUCH TO BE DONE

Telefilm believes that the country needs companies that can take risks on Canadian content; invest in the next generation of producers, writers, directors and distributors; and at the same time achieve long-term financial stability. These are the building blocks of what is considered a “sustainable” industry. In the new multiplatform marketplace, this kind of success will depend very much on the industry’s skills in pre-selling, selling and promoting content. New technologies have changed the behaviours and attitudes of Canadians and the way in which they consume media product.

Against the backdrop of a rapidly changing media landscape and evolving consumer behaviours, the future for the interactive digital content sector is indeed an exciting one. However, the future for interactive digital content also represents uncharted territory with several regulatory issues. As we are committed to working with the industry to help keep Canada ahead of the game, Telefilm also needs a more flexible operating structure to succeed in this environment.



LARGER CANADIAN AUDIENCES AND MORE CANADIAN STORIES

PARTNERSHIPS FOR THE SUCCESS OF CANADIAN CONTENT ON DIVERSE PLATFORMS

Telefilm's annual budget will not be increased in 2007-2008. That being so, the challenge ahead is to develop cultural products with audience appeal.

To make the most of its resources, the Corporation will continue to work with the CFFF Working Groups in the two markets. The industry's input in this area is invaluable, since it nourishes and influences the agency's policies.

Furthermore, Telefilm will pursue its efforts with the Department of Canadian Heritage to determine whether distinct targets can be established for English- and French-language features by 2010, and how such asymmetrical goals are to be supported. A policy on international co-production is also expected.

Resources are just one of Telefilm's concerns. The Corporation will pursue its active search for new public-private partnership opportunities and review its expenses to find other ways to derive the greatest possible benefit from its annual budget.

DIVERSIFYING OUR INVESTMENTS

Telefilm continues to develop strategies that enable the Corporation to diversify its investment portfolio. From seeking out new scripts to penetrating niche markets, feature-length documentaries, such as *The Corporation*, *Les voleurs d'enfance* and *Sharkwater*, are becoming increasingly popular. Further to extensive consultation with the industry, Telefilm continues to recognize that long-form documentaries are eligible for some forms of funding through the CFFF. Owing to higher than expected revenues derived from the CFFF, the Corporation is in a position to extend the Theatrical Documentary Pilot Program for another year. However, the renewal offers only a temporary solution to the problem of long-term funding for the feature documentary community.

In another area, discussions with government representatives from Alberta, Manitoba, Ontario and Quebec have confirmed a shared desire to create new national and international public-private financing models for both feature films and new media products.



BUILDING INDUSTRY CAPACITY

MULTIPLATFORM

Mobile and interactive digital technologies put consumers in control; they blur the distinctions between content creators, product packagers and distributors, as well as the distinctions between products destined for movie theatres, television and other screens. That is why television is an integral part of Telefilm's multiplatform strategy.

Over the next three years, producers of even the most traditional projects will have to take into account a host of possible uses, from the Internet to cell phones. To succeed in today's market, no product can afford to be designed for a single delivery platform.

In collaboration with the industry, Telefilm is providing leadership to ensure that Canadian creators continue to develop Canadian content, preserve their intellectual property rights and make their unique vision known in the new multiplatform environment at home and abroad. Telefilm will also evaluate the impact of *The Great Canadian Video Game Competition* and explore how it can be extended to other platforms, such as mobile devices, in its multiplatform strategy.

SUPPORTING THE INDUSTRY

Telefilm recently completed evaluations of the Spark Plug Program and the Interdepartmental Partnership with the Official-Language Communities. The Corporation is reviewing the evaluation conclusions with an eye to making the programs more effective in strengthening the skills of talented, experienced creators and producers from cultural, Aboriginal and official-language minority communities. Together, these programs help to develop new and diverse voices that enrich the production of Canadian content.

Telefilm will also pursue activities designed to support the industry at international festivals and markets. Encouraged by strong foreign sales results in 2006-2007, the Corporation will refine its strategies in an effort to offset the decline in international coproductions.





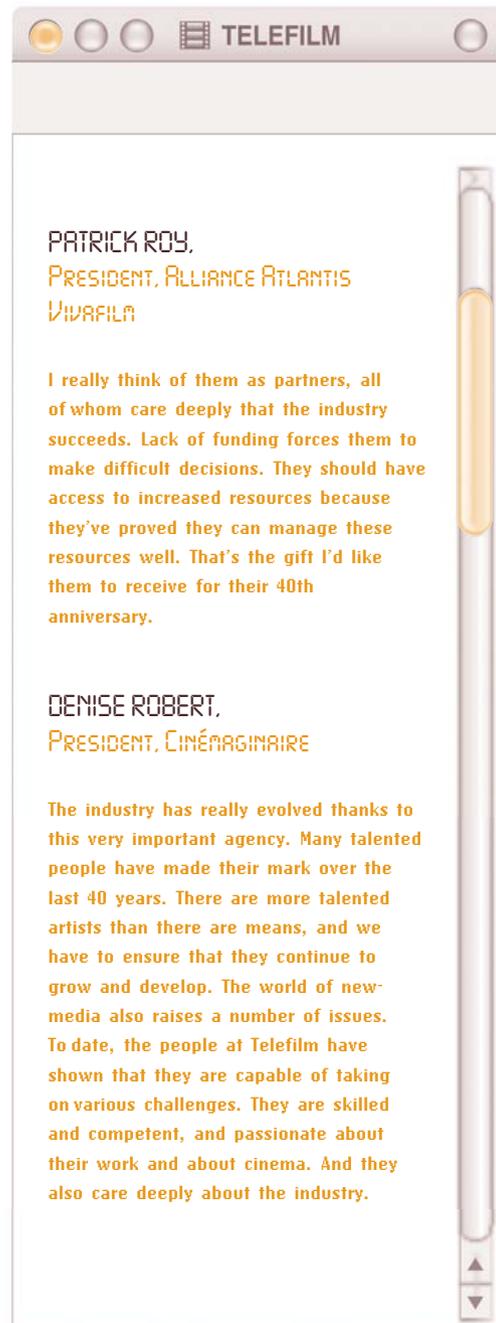
EFFECTIVE, EFFICIENT ADMINISTRATION: GREATER FLEXIBILITY

As a federal Crown Corporation reporting to Parliament through the Minister of Canadian Heritage, Telefilm operates in a policy and regulatory environment that often lags behind the technological advances of a market-driven industry. With the advent of a multiplatform era that is constantly shaping and redefining the ways producers, distributors and consumers interact, the audiovisual industry as a whole faces a variety of challenges.

For Telefilm to remain a relevant player in this industry, it must be able to adapt its strategies and policies according to industry needs, which will no doubt have undergone new changes by the time this annual report is tabled. But even in this fast-paced environment, it is possible to identify medium- to long-term strategies that will permit Telefilm to be proactive and anticipate the trends, business models and technological innovations that directly impact the industry's success and growth.

Tracking the successes of Canadian productions on various platforms makes it clear that Telefilm's role as a facilitator between the various audiovisual sectors is more important than ever. Given the technological advances unheard of 40 years ago, it is essential that Telefilm have an adequate governance structure that enables it to flexibly and responsibly adjust its policies and manage its programs so as to address the industry's needs. We can no longer work in silos, and business models must be suited to the new realities.

With greater flexibility, Telefilm will continue to introduce tools and systems in support of the sound, transparent management of its operations. For 2007-2008, Telefilm will bring in a code of conduct governing the use and management of its electronic information and information structures. Furthermore, in accordance with the *Public Servants Disclosure Protection Act*, Telefilm has asked that any disclosures be made to the Public Service Integrity Commissioner.



PATRICK ROY,
PRESIDENT, ALLIANCE ATLANTIS
VIVAFILA

I really think of them as partners, all of whom care deeply that the industry succeeds. Lack of funding forces them to make difficult decisions. They should have access to increased resources because they've proved they can manage these resources well. That's the gift I'd like them to receive for their 40th anniversary.

DENISE ROBERT,
PRESIDENT, CINÉMA IMAGINAIRE

The industry has really evolved thanks to this very important agency. Many talented people have made their mark over the last 40 years. There are more talented artists than there are means, and we have to ensure that they continue to grow and develop. The world of new-media also raises a number of issues. To date, the people at Telefilm have shown that they are capable of taking on various challenges. They are skilled and competent, and passionate about their work and about cinema. And they also care deeply about the industry.

STRENGTHENING CORPORATE GOVERNANCE

During fiscal 2006-2007, the membership of Telefilm's Board was incomplete, thereby making it difficult for certain committees, among them the diversity committee, to meet. Furthermore, since February 2007, the Board was headed by an Acting Chair. Telefilm strongly urged that a Chair be appointed as quickly as possible and that the Board itself be expanded to represent the different sectors of activity served by the Corporation. We wish that a renewed Board will be in place for the greater part of fiscal 2007-2008.

In 2007-2008, the members of the Board are to be provided with a *Directors Manual* comprising all key information and documents necessary to a good grasp of the Corporation's governance. Another targeted priority for the coming year is a senior management succession plan, which the Corporation lacks at present. Lastly, Telefilm is updating the mandates of the Board committees in order to provide better support for the directors charged with governing the Corporation.

LOOKING TO THE FUTURE

As an efficient, responsible administrator, Telefilm intends to continue delivering its programs and the services of the Canadian Television Fund according to the established standards in order to meet the audiovisual industry's needs. The Corporation will also analyze the effects of the strategies put in place this year and the results of the investments made in 2007-2008.

The Corporation will maintain the quality of the services it provides to the television industry under the Canadian Television Fund service agreement through regular outreach initiatives, client surveys and its regional offices. Telefilm is committed to upholding the service standard for application processing time, and for scheduled management and financial reports. The Corporation will adjust its audit methods to make them more efficient and more effective. Telefilm also plans to offer new services for the television industry, in particular through eTelefilm, its online business tool.

Over the past four decades, the Corporation has demonstrated a will to expand its accountability framework by aligning its programs and objectives with its Program Activity Architecture and with industry needs. Assessed against a set of performance measures for each corporate objective, the results presented in this annual report demonstrate the Corporation's commitment to its mandate and its desire to operate within a robust risk management framework that includes implementing best practices from Treasury Board Secretariat policies in its day-to-day operations. As the Corporation celebrates its 40th anniversary, it looks forward to the challenges and opportunities that lie ahead.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Declaration of reliable, up-to-date information

The Management's discussion and analysis was prepared by senior management for the purpose of providing information complementary to the financial statements and of reporting on the agency's past performance and future perspectives. It supplements the audited financial information presented on pages 89-103. It has been reviewed by the Executive Committee and approved by the Corporation's Board.

MANAGEMENT'S DISCUSSION AND ANALYSIS THE YEAR'S HIGHLIGHTS AND ACHIEVEMENTS

Fiscal 2006-2007 marked a turning point for Telefilm Canada. The key highlight was clearly the deployment and delivery of activities covered by the service contract with the Canadian Television Fund for management of its programs, as a result, the decline of Telefilm's investments in the area of television. These changes have profoundly altered the Corporation's operational and financial realities. With this landmark year of repositioning, Telefilm is firmly focused on the future as the manager of programs for the Canadian audiovisual industry.

2006-2007: A great year

- Massive **reinvestment** of recoveries for a negative net operating result of \$1.6 million;
- Administrative budget **savings**, with \$130,000 reallocated to program expenditures;
- Budget **targets met** for the Feature Film Fund and the New Media Fund;
- **A new high** in feature film investments: \$96.1 million; and
- **Rigorous execution** of head office reorganization: on time, on budget.

Reorganization of head office

In 2007, Telefilm undertook major renovations at its head office in Montréal, aiming for sustainable solutions in line with best practices, as recommended by the Treasury Board Secretariat, and its own environment objectives. This project is part of a process aimed at reorganizing our office space.

Recurrent lighting, acoustic and air-quality problems have been solved. Among other benefits derived, reorganizing workspaces has made it possible, to save space and to integrate new Television Unit employees without the need for additional space. And to encourage synergy in program delivery, all Operations teams (Feature Film, Television, New Media, Industry Development Operations) are now grouped together on the same floor. In addition, Telefilm will have modern meeting rooms suited the Corporation's needs.

Well planned and rigorously managed, the reorganization was carried out in accordance with the plan submitted. Employees are satisfied with their new environment, which they find stimulating in terms of both working conditions and communications.

Responsible budget management, financial risks and financial targets

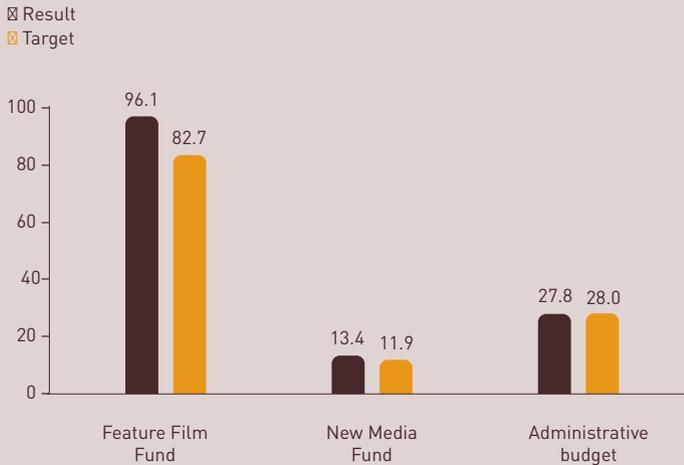
Budget management is of critical importance to the Corporation. Telefilm's financial framework is subject to numerous constraints stemming from its contribution agreements and its parliamentary appropriation. In establishing budget levels, the organization applies an iterative process that favours the optimal allocation of its financial resources. Among other things, this process takes the corporate plan objectives into account, thus ensuring that the goals and the resources required to achieve them are effectively aligned.

One of the important risks facing the Corporation is the financial risk of failing to meet the established budget targets. There are three major areas of financial risk: project-related financial commitments, program-related expenditures, and compliance with the administrative budget. The budgetary oversight process relies, most notably, on advanced information-management systems that update information on a daily basis, as well as on an oversight committee that meets weekly.

As part of effective, transparent accounting, the Corporation discloses the results of its operations in relation to minimum spending targets so as to prevent funds from lapsing. These targets derive either from agreements with the Department of Canadian Heritage or from government rules.

Established financial targets

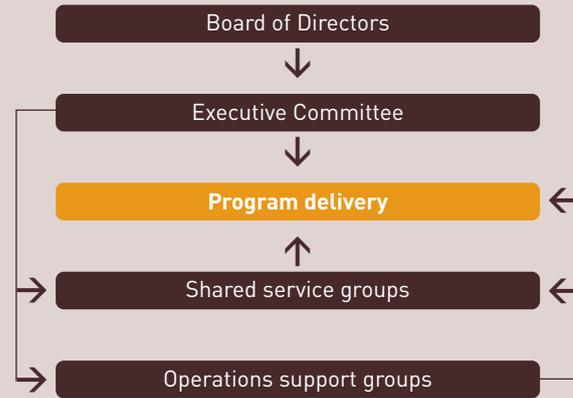
(in millions of dollars)



The results speak for themselves, demonstrating a positive outcome in all key target areas. It is normal that the Canada Feature Film Fund and Canada New Media Fund expenses exceed the established minimum targets, since both of these funds benefit from reinvested recoveries and both benefited from an injection of additional, non-recurring sums. Furthermore, the Corporation realized modest savings on its administrative budget. It should be noted that the administrative expenses are calculated on a modified cash basis, rather than an accrual basis, and therefore cannot be compared to the financial statements.

A flexible, efficient organization: a competitive advantage

The Corporation has the capacity to produce the results expected from its corporate plan. However, the ability to deal with numerous challenges and carry out multiple projects depends on a flexible organizational structure and an educated, qualified staff. Whether in delivering recurrent activities or in executing projects, Telefilm favours a process-based work management approach and takes individual skills into account. The following diagram illustrates the dynamic process followed in carrying out the Corporation's business.



This organizational structure encourages reporting and accountability, and furnishes a competitive advantage in that our program delivery expertise is adequately supported by the shared service groups (Finance, Communications, Policy, Planning and Research, etc.), which benefit in turn from enhanced computerized tools and modern workspaces provided by the operations support groups (IT, Material Resources, etc.). This structure allows the Corporation to offer its partners and clients high-quality service and real added value.

Significant accounting policies

The Corporation applies Canadian generally accepted accounting principles in preparing all financial information that it publishes. There has been no change to the accounting policies applicable to fiscal 2007. The preparation of financial statements requires management to make estimates and assumptions that substantially affect the reported amounts. The most significant items where estimates are used include the severance benefit obligation and contingent liabilities.

Transfer of Equity Investment Program titles to the Canadian Television Fund

In connection with the service agreement with the Canadian Television Fund, the Corporation is to transfer the titles in which it has invested since November 1996. This is scheduled to take place on July 1, 2007. Once the property is transferred, Telefilm will no longer assume assistance expenses relating to the Equity Investment Program.

MANAGEMENT'S DISCUSSION AND ANALYSIS

RISK MANAGEMENT

Telefilm's executives and managers must increasingly incorporate risk management into their activities. This reflects the government's growing resolve to ensure that sound management practices are applied to activities, focused on results, efficiency and transparency. This new era of accountability and transparency requires that mechanisms be put in place to better mitigate and manage the risks inherent to our activities.

At Telefilm, risk management relies on the quality of services offered to our clients, on principles of accountability and transparency, as well as on the achievements of objectives pertaining to performance and effectiveness.

Risk management processes

Risk management is an integral part of Telefilm's organizational strategy, and is integrated into every level of the organization. The Information, Performance and Risk department, which is specifically responsible for managing organizational risk, identifies major risks and ensures that the Corporation can properly account for its management practices at all levels, on an ongoing basis.

Telefilm faces four major kinds of risk: **strategic, organizational, financial, and operational.**

Strategic risks are those that interfere with the Corporation's ability to achieve its objectives. Some of the factors that could affect the agency's ability to achieve its objectives include changes in client and partner needs, amendments to regulations governing Telefilm, changes to the organization's mandate, and changes to the envelopes associated with funds that the Corporation manages.

Telefilm helps attenuate these risks by engaging in close communication and collaboration with its clients and partners in the aim of continually understanding their needs. The two CFFF Working Groups we created have greatly helped us achieve this goal, and have made it possible to better align client needs with services offered by Telefilm. Paying close and constant attention to regulatory changes and to developments in the audiovisual market provides the organization with the necessary ability to minimize the impact of such risks.

Organizational risks are those associated with costs and losses arising from a non-optimal organizational structure (human resources management, management of knowledge and competencies, values and rules of behaviour). During fiscal 2005-2006, Telefilm overhauled its organizational structure. The purpose of the restructuring was to clearly demarcate operational activities from more strategic activities. The new structure is overseen by an Executive Committee composed of our most senior managers: the Executive Director, the Chief Operating Officer and the Chief Administration Officer. This structure enhances Telefilm's capacity for accountability by more clearly identifying organizational responsibilities and priorities.

The Executive Committee is ultimately responsible for managing risk. The Committee receives support from the Information, Performance and Risk department to identify and monitor control mechanisms aimed at lessening the impact of organizational risks.

This year, an organizational risk management plan was put in place to handle major risks. The plan ensures that required actions are identified by order of priority and pursued in a concerted manner throughout the organization. The plan includes a number of action elements, such as succession planning for key employees, the implementation of a business-continuity plan, a code of conduct, as well as the strengthening of information security practices.

Operational risks arise from shortcomings in internal control processes or systems associated with daily activities. The documentation and annual review of operational policies and procedures, the annual program pertaining to quality control and compliance with these policies and procedures, as well as employee training programs, have all mitigated this type of risk. Compliance audits of television-sector procedures that were conducted this year revealed that there was excellent application and understanding of risks associated with operational processes in effect.

Financial risks are associated with losses arising from poor management of the Corporation's finances. Telefilm's senior management relies on systems and practices aimed at ensuring the quality of financial information used for management purposes. The Finance department systematically produces detailed financial reports that are shared with other departments for purposes of analysis and management. Annual improvements to our business policies and procedures, such as budgetary oversight, application of the signature grid, and cash management, allow us to manage risks proactively and to better understand their impact on management of finances.

MANAGEMENT'S DISCUSSION AND ANALYSIS FINANCIAL REVIEW

Industry assistance expenses

Total industry assistance expenses fell off sharply by \$63 million, declining from \$201 million in 2006 to \$138 million in 2007. This is chiefly due to the gradual decline in Telefilm activities related to the Canadian Television Fund's Equity Investment Program. At the same time, recoveries derived from these investments and advances rose by 4% to \$27 million. The following graphs summarize the assistance expenses, recoveries and funding sources for each of the main funds.

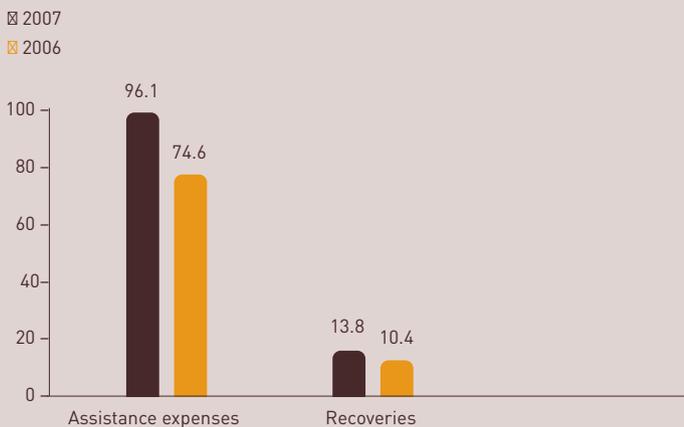
Canada Feature Film Fund

Feature film investments reached an unprecedented high of \$96.1 million, up \$21.5 million over the previous year. This growth is attributable mainly to our increased investments in production.

- 62 Canadian fiction feature films were shown in theatres in Canada for at least one week (of these, 46 had received production and/or marketing financial assistance from Telefilm Canada).

Canada Feature Film Fund

(in millions of dollars)



The year 2007 is noteworthy for the recovery of feature film. Hits such as *C.R.A.Z.Y.*, *Maurice Richard*, *White Noise* and *Water* swelled recoveries to \$13.8 million, up 33% from the year before.

Funding sources for Canada Feature Film Fund expenses

(in millions of dollars)

▣ Recoveries

▣ Parliamentary appropriation



The preceding graph shows the upward trend in feature film funding. Telefilm's parliamentary appropriation for film rose by more than \$15 million in 2007. This came as a result a decrease in the Corporation's television-related activities and the ensuing transfer of the Canadian Television Fund's film-related parliamentary appropriation to the Canada Feature Film Fund. It should be noted, however, that this transfer does not imply more money for feature films, since the money was already earmarked for that purpose. The annual recoveries were used in 2007, that is 96%, contrary to 2006, when just 66% of the recoveries were reinvested.

- The films that have received financial assistance from Telefilm took in 85% of the total box-office receipts of Canadian films.
- Among the 20 most profitable films, 18 had received financial assistance from Telefilm.

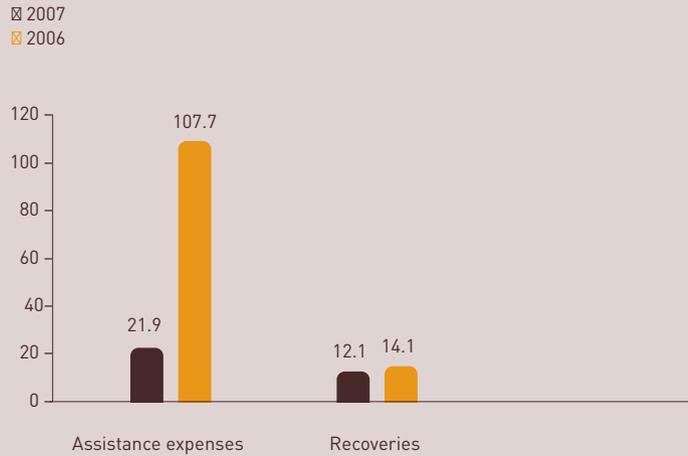
Canadian Television Fund: Equity Investment Program

All new investments made through the Equity Investment Program since April 1, 2006, are now under the sole governance of the Canadian Television Fund. The support expenses shown for 2007 represent Telefilm's final disbursements during the phasing-out of this program. Television-related transactions are scheduled to end definitively on June 30, 2007.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Canadian Television Fund

(in millions of dollars)



The decline in television-related recoveries is due mainly to a decrease in revenue from licence fees for English-language productions and a decrease in the repayment of advances made to development projects. Given the termination of operations on June 30, only marginal recoveries are expected in 2008.

Funding sources for Canadian Television Fund expenses

(in millions of dollars)



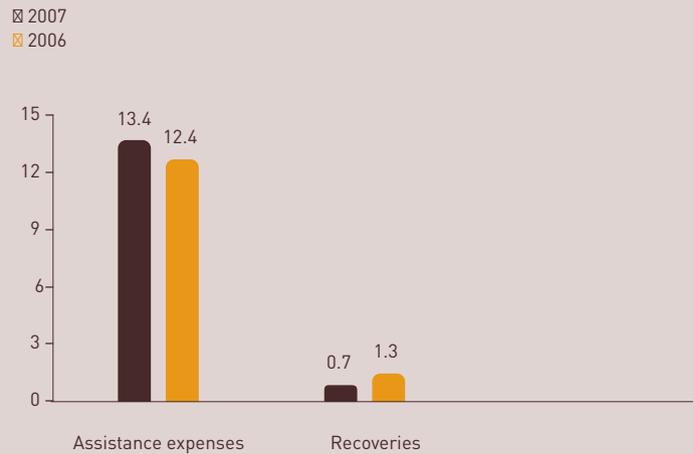
The graph of funding sources for television expenditures illustrates the phasing out of activities in 2007. Telefilm's contribution agreement with Canadian Heritage was not renewed in 2007. Moreover, the parliamentary appropriation specific to television was transferred to the Canadian Television Fund. Financing for future expenses will come from recoveries on investments made through the program and contributions by the Canadian Television Fund in case of a shortfall.

Canada New Media Fund

Assistance expenses are up by \$1 million for 2007. The most significant factor this year is the promising The Great Canadian Video Game Competition initiative, through which 10 companies benefited from \$975,000 in financial support. This new initiative has met with great enthusiasm in the industry and exemplifies the successful integration of emerging industry needs, Telefilm's expertise and private-sector sponsorship.

Canada New Media Fund

(in millions of dollars)



The decline in recoveries from new media products is mainly due to the fact that the recovery figure for 2006 includes a \$500,000 repayment arising from a sale of rights. Under the new agreement for the Canada New Media Fund, all recoveries going forward will be returned to the Consolidated Revenue Fund of Canada.

Funding sources for Canada New Media Fund expenses

(in millions of dollars)

- Recoveries
- Parliamentary appropriation
- Canadian Heritage



Funding rose by \$1 million in 2007, largely as a result of a supplementary increase of \$600,000 from the parliamentary appropriation. The Corporation is firmly convinced of the industry's potential for growth and strives to encourage the start-up, emergence and consolidation of creative, innovative companies. To this end, Telefilm increased its funding in 2007 to support, among other things, The Great Canadian Video Game Competition.

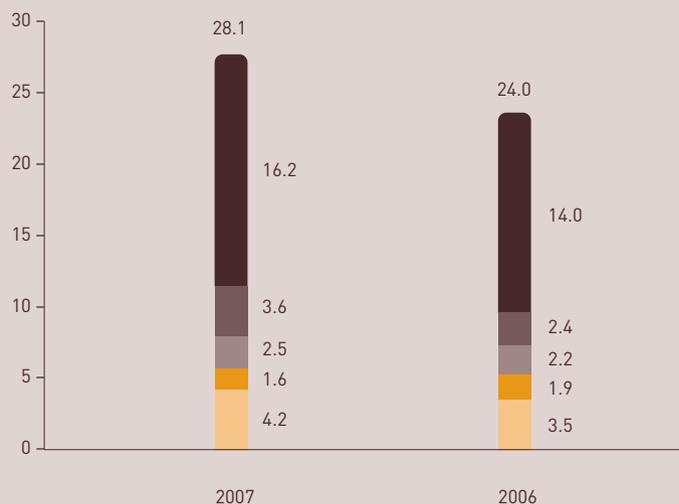
Operating and administrative expenses

Telefilm incurs operating and administrative expenses to manage and deliver programs and to carry out tasks inherent to corporate activities. The main cost items are salaries and benefits and professional fees, which account for 70% of all operating and administrative expenses in 2007.

Operating and administrative expenses

(in millions of dollars)

- Salaries
- Professional services
- Amortization and write-offs
- Rent
- Other expenses



Operating and administrative expenses amounted to \$28.1 million in 2007, up by 17% from \$24 million in 2006. This is mainly attributable to payroll growth arising from the hiring of new employees for the Television Business Unit and from annual salary raises. The additional television staff was needed to handle the operations covered by the service agreement with the Canadian Television Fund. Professional fee expenses also rose in 2007, by \$1.2 million. This increase is largely due to service costs related to information system optimization and fees entailed by special initiatives such as The Great Canadian Video Game Competition. Telefilm calls on the expertise of external specialists to get the best value for its money.

MANAGEMENT'S DISCUSSION AND ANALYSIS

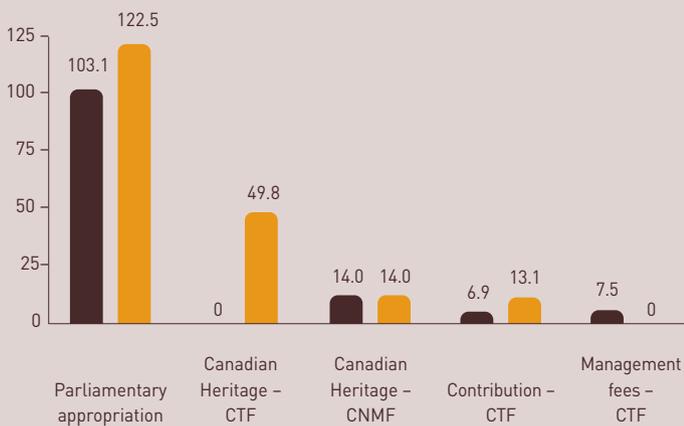
Government funding and revenues

Overall funding fell from \$205 million in 2006 to \$137 million in 2007. The substantial decrease of \$68 million is chiefly due to a recurrent reduction of the Corporation's parliamentary appropriation by nearly \$20 million, and the non-renewal of the agreement for the Canadian Television Fund's Equity Investment Program, representing \$49.8 million. This decrease will be long-lasting, since it is directly related to the reduction in television activities. Another consequence of this reduction is a drop in the Canadian Television Fund's \$6.2 million contribution used to cover the shortfall in funds for CTF program expenses.

Overview of major funding sources

(in millions of dollars)

2007
2006



On the other hand, the figures for 2007 include a new source of funding: management fees billed under the service agreement with the Canadian Television Fund, which amounted to \$7.5 million. Funding through the contribution agreement for the Canada New Media Fund remained unchanged at \$14 million. This is the final year of that agreement, which will be renewed for a two-year period with an annual budget of \$14.5 million.

Net results

The net operating result shows a loss of \$1.6 million. For Telefilm, this is a very positive outcome, since it means that all available funds were used, including recoveries amounting to more than \$27 million. We present below the components of the deficit by funds.

Net operating result: (\$1.6 million)

(in millions of dollars)

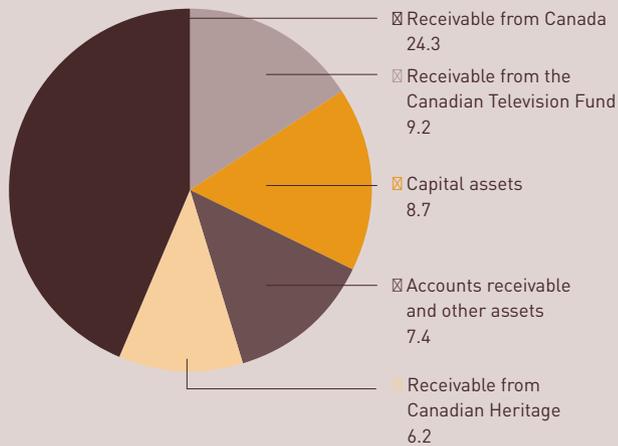


Assets

Our balance sheet is solid and shows as the principal asset a balance receivable from Canada equivalent to the cash on hand. This amount of \$24.3 million is readily available for reinvestment. The other substantial receivables are recoverable from Canadian Heritage (\$6.2 million) and the Canadian Television Fund (\$9.2 million) and relate for the most part to program expenses. The most significant asset variances are related to the balance receivable from Canada, which is down by \$10.9 million, and the accounting of a \$9.2 million receivable from the Canadian Television Fund. These two variances are tightly correlated and result from the use of cash flow for television-related activities.

Assets: \$55.8 million

(in millions of dollars)

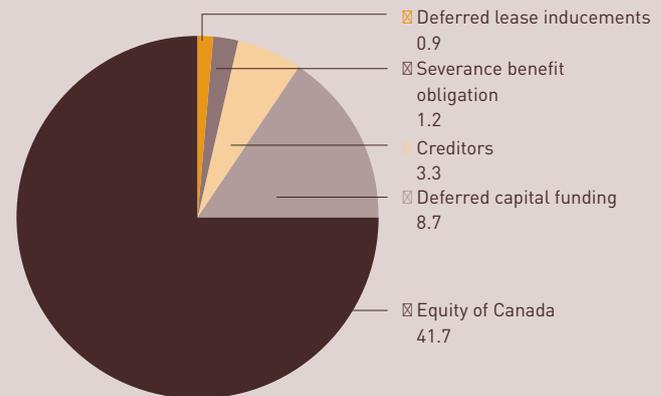


Liabilities and Equity of Canada

The Equity of Canada is by far the largest item on our balance sheet (\$41.7 million). It is composed primarily of recoveries not yet reinvested. Given the nature of Telefilm's activities, it is normal that there be a delay between the receipt and the reinvestment of recoveries; in the present instance, a substantial portion of our Equity is already committed to production projects. This situation reflects the special context of an industry in which major film productions are subject to constraints such as the completion of financing, the availability of key personnel (cast, director, etc.) and seasonal conditions crucial to the project. These operational realities result in a production cycle of an average of 490 days.

As regards liabilities, the deferred capital funding is the largest item (\$8.7 million). It is composed of amounts used for the purchase of property and equipment.

Liabilities and Equity of Canada: \$55.8 million



MANAGEMENT'S DISCUSSION AND ANALYSIS

Cash flow

Operating activities generated a negative cash flow of \$10.9 million in 2007, bringing the receivable from Canada to \$24.3 million. This variance arises directly from television-related activities. In addition, the Corporation spent \$2.1 million on the purchase of capital assets, mainly to renovate and renew the furnishings of its head office at a cost of \$1.8 million.

Fluctuations inherent to treasury activities

(in millions of dollars)



Risk-based approach

Client service is a priority at Telefilm, and this notion paves the way for a client focus based on business risk. Telefilm is pragmatic in wanting to position itself with clients in business relations based on trust. To achieve this, the Corporation seeks to improve client cash flow, to take a business approach based on project-related contractual expectations, to separate the triggering of certain payments from established control points, and to avoid using final payment as leverage with its clients.

By reducing the bureaucracy involved in many payments and adopting a risk-based approach, Telefilm will be able to reduce the administrative burden inherent to disbursements and build industry capacity. Project-related risk management will become more efficient by making companies that received funding more accountable, rather than using the payment as a management risk.

Process- and performance-based management

Telefilm is a modern, efficient organization that constantly seeks new ways to generate added value for its stakeholders. To this end, the Corporation has already made the shift to process-based management for many operational activities, including the installation, deployment and day-to-day management of the new television team. Telefilm is also gradually implementing the concept of management based on performance measures. This allows, among other things to align efforts, desired results and risk factors apt to impede the achievement of objectives.

MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW OF THE LAST FIVE YEARS – STATEMENT OF OPERATIONS

(in thousands of dollars)

	2007	2006	2005	2004	2003
Expenses					
Canada Feature Film Fund	96,096	74,573	79,304	91,875	78,866
Canadian Television Fund – Equity Investment Program	21,930	107,673	109,890	110,043	114,206
Canada New Media Fund	13,356	12,445	8,608	9,737	8,469
Other funds	6,838	5,945	5,690	5,535	7,859
Music Entrepreneur Program	–	–	5,389	8,797	4,355
Assistance expenses	138,220	200,636	208,881	225,987	213,755
Net recoveries	(27,268)	(26,214) ¹	(24,764)	(19,823)	(22,392) ²
Operating and administrative expenses	28,066	23,996 ¹	23,788	22,413	21,614 ²
Cost of operations	139,018	198,418	207,905	228,577	212,977
Government Funding and Revenues					
Parliamentary appropriation	103,053	122,476	126,300	123,419	134,953
Department of Canadian Heritage: Canada New Media Fund	14,000	14,000	8,907	9,656	7,452
Professional training schools	2,516	2,550	2,550	2,550	2,795
Other contributions	135	–	–	–	–
Canadian Television Fund – Equity Investment Program	–	49,775	49,775	49,775	47,275
Music Entrepreneur Program	–	175	5,443	9,560	5,740
Management fees from Canadian Television Fund	7,544	–	–	–	–
Contributions of the Canadian Television Fund	6,930	13,082	2,000	24,509	26,761
Amortization of deferred capital funding	2,540	2,241	2,182	1,961	1,498
Other revenues	654	933	671	441	909
	137,372	205,232	197,828	221,871	227,383
Net result	(1,646)	6,814	(10,077)	(6,706)	14,406

¹ Financial data have been adjusted to conform to the presentation format adopted in 2007.

² Financial data have not been adjusted to conform to the presentation format adopted in 2006 and 2005.

MANAGEMENT'S DISCUSSION AND ANALYSIS OVERVIEW OF THE LAST FIVE YEARS – BALANCE SHEET

(in thousands of dollars)

	2007	2006	2005	2004	2003
Assets					
Receivable from Canada	24,348	35,238	14,783	–	8,854
Contributions receivable:					
Canadian Television Fund	9,154	–	2,000	24,509	26,761
Department of Canadian Heritage	6,210	4,656	18,502	30,664	15,381
Accounts receivable, prepaid expenses and loans	7,283	7,500	6,771	8,289	10,108
Long-term accounts receivable, loans and investments	55	268	164	243	428
Property and equipment	8,741	9,135	8,991	9,194	6,714
	55,791	56,797	51,211	72,899	68,246
Liabilities and Equity of Canada					
Payable to Canada	–	–	–	8,551	–
Accounts payable and accrued liabilities	3,247	2,072	3,639	6,544	6,388
Severance benefit obligation	1,208	1,125	914	727	585
Deferred leasehold inducements	943	1,167	1,183	1,322	1,292
Deferred capital funding	8,741	9,135	8,991	9,194	6,714
Equity of Canada	41,652	43,298	36,484	46,561	53,267
	55,791	56,797	51,211	72,899	68,246



FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 2007

MANAGEMENT REPORT

The financial statements of Telefilm Canada are the responsibility of management and have been approved by the Board of Directors of the Corporation. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and, where appropriate, include estimates based on the experience and judgment of management. Management is also responsible for all other information in the annual report and for ensuring that this information is consistent with the financial statements.

Management maintains books of accounts, financial and management controls, and information systems, together with management practices designed to provide reasonable assurance that reliable and relevant information is available on a timely basis, that assets are safeguarded and controlled, that resources are managed economically and efficiently in the attainment of corporate objectives, and that operations are carried out effectively. These systems and practices are also designed to provide reasonable assurance that transactions are in accordance with the Part VIII of the *Financial Administration Act*, as it read before its repeal on September 1, 1984, with the relevant sections of part X of the *Financial Administration Act*, with the *Telefilm Canada Act* and with the by-laws and policies of the Corporation.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting as stated above. The Board reviews the quarterly financial statements as well as the annual financial statements and related reports. In addition, the Board also meets annually with the external auditor to discuss the audit of the financial statements.

The external auditor, the Auditor General of Canada, conducts an independent audit of the financial statements, and reports to the Corporation and to the Minister of Canadian Heritage and Status of Women.



S. Wayne Clarkson
Executive Director



Carolle Brabant, CA, MBA
Chief Administration Officer

Montréal, Canada
June 12, 2007

AUDITOR'S REPORT

To the Minister of Canadian Heritage and Status of Women

I have audited the balance sheet of Telefilm Canada as at March 31, 2007, and the statements of operations and equity of Canada and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with the applicable provisions of Part X of the *Financial Administration Act*, the *Telefilm Canada Act* and the by-laws of the Corporation.



Nancy Y. Cheng, FCA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada
June 12, 2007

STATEMENT OF OPERATIONS AND EQUITY OF CANADA

Year ended March 31, 2007

In thousands of dollars

	Schedule	2007	2006
Assistance expenses			
Canada Feature Film Fund	A	96,096	74,573
Canadian Television Fund – Equity Investment Program	B	21,930	107,673
Canada New Media Fund	C	13,356	12,445
Other funds	D	6,838	5,945
		138,220	200,636
Net recoveries	A, B, C, D	(27,268)	(26,214)
Net assistance expenses		110,952	174,422
Operating and administrative expenses	E	28,066	23,996
Cost of operations		139,018	198,418
Revenues			
Management fees from the Canadian Television Fund (Note 12)		7,544	–
Contribution from the Canadian Television Fund		6,930	13,082
Investment revenues		403	668
Interest and other revenues		251	265
		15,128	14,015
Net cost of operations before government assistance		123,890	184,403
Government assistance			
Parliamentary appropriation		103,053	122,476
Contributions from the Department of Canadian Heritage	F	16,651	66,500
Amortization of deferred capital funding (Note 7)		2,540	2,241
		122,244	191,217
Net result from operations		(1,646)	6,814
Equity of Canada at the beginning		43,298	36,484
Equity of Canada at the end		41,652	43,298

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

BALANCE SHEET

March 31, 2007

In thousands of dollars

ASSETS

Current assets

Receivable from Canada		24,348	35,238
Receivable from the Canadian Television Fund		9,154	-
Contributions receivable from the Department of Canadian Heritage		6,210	4,656
Accounts receivable	3	5,750	5,827
Prepaid expenses		1,533	1,673

46,995 47,394

Long-term accounts receivable

55 268

Property and equipment

4 8,741 9,135

55,791 56,797

LIABILITIES AND EQUITY OF CANADA

Current liabilities

Accounts payable and accrued liabilities	5	3,247	2,072
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Long-term liabilities

Deferred lease inducements		943	1,167
Severance benefit obligation	6	1,208	1,125
Deferred capital funding	7	8,741	9,135

10,892 11,427

Equity of Canada

41,652 43,298

55,791 56,797

Commitments (Note 8)

Contingencies (Note 10)

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

Approved by the Board:



Felix Fraser, Interim Chair

STATEMENT OF CASH FLOWS

Year ended March 31, 2007

In thousands of dollars

	<u>2007</u>	2006
Operating activities		
Net result from operations	(1,646)	6,814
Items not affecting cash:		
Amortization of property and equipment	2,372	2,241
Loss on write-offs of property and equipment	168	-
Increase in the severance benefit obligation	83	211
Decrease in deferred lease inducements	(224)	(16)
Amortization of deferred capital funding	(2,540)	(2,241)
	(1,787)	7,009
Changes in non-cash working capital items:		
Decrease (increase) in receivable from the Canadian Television Fund	(9,154)	2,000
Decrease (increase) in contributions receivable from the Department of Canadian Heritage	(1,554)	13,846
Decrease (increase) in accounts receivable	77	(85)
Decrease (increase) in prepaid expenses	140	(662)
Increase (decrease) in accounts payable and accrued liabilities	1,175	(1,567)
Decrease (increase) in long-term accounts receivable	213	(125)
	(10,890)	20,416
Financing activities		
Parliamentary appropriation for capital funding	2,146	2,385
Investing activities		
Acquisition of property and equipment	(2,146)	(2,385)
Repayments of loans	-	39
	(2,146)	(2,346)
Increase (decrease) in liquidity	(10,890)	20,455
Receivable from Canada at the beginning	35,238	14,783
Receivable from Canada at the end	24,348	35,238

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

NOTES TO FINANCIAL STATEMENTS

Year ended March 31, 2007

1. AUTHORITY AND ACTIVITIES

- The Corporation was established in 1967 by the *Telefilm Canada Act*. The mandate of the Corporation is to foster and promote the development of the audiovisual industry in Canada, including feature film, television and new media industries. The Corporation may also act through agreements with the Department of Canadian Heritage for the provision of services or programs relating to audiovisual or sound recording industries.

The Corporation is a Crown corporation subject inter alia to the provisions of Part VIII of the *Financial Administration Act* as it read before its repeal on September 1, 1984, and as if it continued to be named in Schedule C of the Act. The Corporation is also subject to certain provisions of Part X of the *Financial Administration Act*.

2. SIGNIFICANT ACCOUNTING POLICIES

- These financial statements have been prepared by management in accordance with Canadian generally accepted principles. The significant accounting policies followed by the Corporation are summarized as follows:

a) Assistance expenses

Assistance expenses include all forms of assistance granted to activities related to feature film, television and new media industries. Assistance expenses are carried out mainly through investments, forgivable advances and grants; they are accounted for as follows:

- i) Investments granted in return for a share in operating revenues and forgivable advances are recorded for the operations in the year in which the funds are paid or have become payable; they are all recorded as assistance expenses due to the uncertainty of the amounts that can be recovered.
- ii) Grants are recorded for the operations in the year in which the funds are paid or have become payable.

b) Recoveries

Recoveries come from recovered advances and shares in operating revenues resulting from investments. Recoveries are recorded for the operations once they have become due. Any recovery of investment that exceeds the amount invested is recorded as investment revenue. Recoveries are shown net of the costs incurred to recover them.

c) Revenues

Management fees

The management fees correspond to the reimbursement of expenses relating to the administration and the delivery of the Canadian Television Fund financing programs. The fees are recorded on an accrual basis.

Contribution and interest and other revenues

The contributions and the interest and other revenues are recorded on an accrual basis.

d) Government assistance

The Corporation obtains its funds by means of parliamentary appropriation and contributions from the Department of Canadian Heritage. Parliamentary appropriation used to finance the assistance expenses and the operating and administrative expenses is recorded on the Statement of Operations and Equity of Canada. The portion of parliamentary appropriation used to finance the acquisition of property and equipment is recorded as deferred capital funding on the balance sheet and is amortized on the same basis as the related property and equipment.

The contributions from the Department of Canadian Heritage are recorded on the Statement of Operations and Equity of Canada up to allowable incurred expenditures.

NOTES TO FINANCIAL STATEMENTS

Year ended March 31, 2007

2. SIGNIFICANT ACCOUNTING POLICIES (CONT.)

e) Amount receivable from Canada

The Receiver General for Canada processes the financial operations of the Corporation through the consolidated revenue fund, thus the absence of bank accounts. For the purposes of the financial statements, the result of banking operations appears on the balance sheet as an amount receivable from Canada.

f) Property and equipment

Property and equipment are recorded at cost. Amortization is based on their useful life using the following method and rates:

Asset	Method	Rates
Software and licenses	Straight-line	14% and 20%
Leasehold improvements	Straight-line	Terms of the leases
Technological equipment	Straight-line	20%
Furniture	Straight-line	10%

Assets related to work in progress are not subject to amortization. When work in progress is completed, the sums relating to assets are reported in the appropriate item and are amortized in compliance with the Corporation's policy.

g) Employee future benefits

Pension plan

All eligible employees participate in the Public Service Pension Plan administered by the Government of Canada. The Corporation's contributions reflect the full cost as employer. This amount is currently based on a multiple of the employees' required contributions and may change over time depending on the experience of the Plan. The Corporation's contributions are expensed during the year in which the services are rendered and represent the total pension obligation of the Corporation. The Corporation is not currently required to make contributions with respect to any actuarial deficiencies of the Public Service Pension Plan.

Severance benefits

Employees are entitled to severance benefits as provided for under conditions of employment. The cost of these benefits is accrued as employees render the services necessary to earn them. Management determines the severance benefit obligation using a method based upon assumptions and its best estimates. The main assumption is related to the estimate of employees who will benefit from maximal admissible severance that is related to the number of years of service and to the reason for termination employment. This assumption is revised annually. These benefits represent the only obligation of the Corporation that entails settlement by future payment.

h) Measurement uncertainty

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reporting period. The allowance for bad debts, the useful life of property and equipment and the severance benefit obligation and contingencies are the most significant items where estimates are used. Actual results could differ from those estimates and such differences could be material.

NOTES TO FINANCIAL STATEMENTS

Year ended March 31, 2007

3. ACCOUNTS RECEIVABLE

In thousands of dollars

	2007	2006
Tax to be recovered	1,970	3,094
Accounts receivable related to recoveries	3,371	2,400
Other accounts receivable	409	333
	5,750	5,827

4. PROPERTY AND EQUIPMENT

In thousands of dollars

			2007	2006
	Cost	Accumulated Amortization	Net Value	Net Value
Software and licenses	14,294	9,025	5,269	6,957
Leasehold improvements	3,507	1,017	2,490	1,781
Technological equipment and furniture	1,198	474	724	251
Work in progress	258	-	258	146
	19,257	10,516	8,741	9,135

5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

In thousands of dollars

	2007	2006
Accounts payable related to assistance expenses, trade payables and accrued liabilities	2,957	1,743
Current portion of deferred lease inducements	153	195
Current portion of severance benefit obligation	137	134
	3,247	2,072

NOTES TO FINANCIAL STATEMENTS

Year ended March 31, 2007

6. EMPLOYEE FUTURE BENEFITS

a) Pension plan

The Corporation and all eligible employees contribute to the Public Service Pension Plan. This pension plan provides benefits based on years of service and average earnings at retirement. The benefits are fully indexed to the increase in the Consumer Price Index. The Corporation's and employees' contributions to the Public Service Pension Plan were as follows:

In thousands of dollars	2007	2006
Corporation contributions	1,715	1,461
Employees contributions	782	606

b) Severance benefit obligation

The Corporation provides severance benefits to its employees based on years of service and final salary. This benefit plan is not pre-funded and thus has no assets, resulting in a plan deficit equal to the accrued benefit obligation. Benefits will be paid from future appropriations and other funding sources. Information about the plan, measured as at the balance sheet date, is as follows:

In thousands of dollars	2007	2006
Balance at beginning	1,259	1,014
Cost for services rendered during the year	120	277
Benefits paid during the year	(34)	(32)
Balance at end	1,345	1,259
Short-term portion (included in accounts payable)	137	134
Long-term portion	1,208	1,125
	1,345	1,259

7. DEFERRED CAPITAL FUNDING

The amount presented on the balance sheet is as follows:

In thousands of dollars	2007	2006
Balance at beginning	9,135	8,991
Parliamentary appropriation for capital funding	2,146	2,385
Amortization of deferred capital funding	(2,540)	(2,241)
Balance at end	8,741	9,135

NOTES TO FINANCIAL STATEMENTS

Year ended March 31, 2007

8. COMMITMENTS

a) Projects

The Corporation is committed contractually to disburse sums in the following funds:

In thousands of dollars	Total
Canada Feature Film Fund	21,758
Canadian Television Fund – Equity Investment Program	10,816
Canada New Media Fund	5,194
Other Funds	1,161
	<u>38,929</u>

b) Leases

The Corporation has entered into long-term leases for the rental of office space and equipment used in its operations. The aggregate minimum annual rentals payable during subsequent years are as follows:

In thousands of dollars	Total
2008	1,675
2009	1,732
2010	1,586
2011	1,543
2012	1,532
2013 – 2015	3,190
	<u>11,258</u>

9. RELATED PARTY TRANSACTIONS

The Corporation is related in terms of common ownership to all Government of Canada created departments, agencies and Crown corporations. The Corporation enters into transactions with these entities in the normal course of business. The transactions are recorded at exchange value.

10. CONTINGENCIES

In the normal course of business, various claims and lawsuits have been brought against the Corporation. Management is in no position to predict the issue of these lawsuits and the potential losses cannot reasonably be estimated. Thus, no provision was taken in this regard in the Corporation's accounts.

NOTES TO FINANCIAL STATEMENTS

Year ended March 31, 2007

11. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The carrying amounts reported for short-term accounts receivable and accounts payable and accrued liabilities approximate their fair value due to the relatively short periods to maturity of the instruments. There is no concentration of accounts receivable; consequently, any credit risk is low.

The following table represents the carrying amounts and fair values of the Corporation's other financial instruments:

In thousands of dollars

	2007		2006	
	Carrying amount	Fair value	Carrying amount	Fair value
Long-term accounts receivable	55	53	268	247

The fair values of long-term accounts receivable have been established by discounting the drawdowns expected in the repayment agreements at capitalization rates based on the interest rate assessed by the Corporation.

12. OUTSOURCING AGREEMENT WITH THE CANADIAN TELEVISION FUND AND SUBSEQUENT EVENT

In June 2005, the Minister of Canadian Heritage announced a "one board – one administration" model for the Canadian Television Fund. Consequently, on August 22, 2006, Telefilm and the Canadian Television Fund signed an agreement on the provision of services. In virtue of the said agreement, Telefilm is responsible, as of April 1, 2006, for all transactions relating to the administration and delivery of the Canadian Television Fund financing programs. The transactions resulting from this service agreement are the property of the Canadian Television Fund and thus, are not reported in the financial statements of the Corporation. The governance of the fund is the responsibility of the Canadian Television Fund. The duration of the agreement is for a period of three years and is renewable for three subsequent years. As per the said agreement, the Corporation is entitled to management fees based on reimbursement of costs incurred according to a determined method of calculation. For the fiscal year ending March 31, 2007, the management fees total \$7,543,890.

In accordance with the authorization received from the Governor General in Council, on July 1, 2007, Telefilm will transfer to the Canadian Television Fund all its rights, titles, interests and obligations, including copyrights, pertaining to the television productions and television projects in which it has participated financially or in which it has invested, or relating to the agreements that it has entered into since November 20, 1996 as part of the Equity Investment Program of the Canadian Television Fund, and this, without any financial compensation. As of the date of the transfer, the Canadian Television Fund will assume all the responsibilities relating to the balance of the commitments.

13. COMPARATIVE FIGURES

Some of the 2006 figures have been reclassified to conform to the presentation adopted for 2007.

SCHEDULES A AND B – OTHER INFORMATION

Year ended March 31, 2007

A – CANADA FEATURE FILM FUND

In thousands of dollars

	2007	2006
Assistance expenses		
Production assistance	66,510	43,025
Distribution and marketing assistance	14,029	14,944
Development assistance	7,495	7,732
Low budget independent feature film assistance	1,753	1,954
Screenwriting assistance	908	1,050
Official coproduction assistance	774	390
Versioning and subtitling assistance	292	539
	<u>91,761</u>	<u>69,634</u>
Complementary activities		
Grants to Canadian festivals	2,007	2,551
Participation to foreign festivals and markets	1,370	1,433
Grants for industrial and professional development	670	560
Advertising, promotion and publications	232	264
Other	56	131
	<u>4,335</u>	<u>4,939</u>
	<u>96,096</u>	<u>74,573</u>
Recoveries	<u>(14,157)</u>	<u>(10,838)</u>
Recovery fees	406	442
	<u>(13,751)</u>	<u>(10,396)</u>
Net assistance expenses	<u>82,345</u>	<u>64,177</u>

B – CANADIAN TELEVISION FUND – EQUITY INVESTMENT PROGRAM

In thousands of dollars

	2007	2006
Assistance expenses		
Production assistance	20,364	93,904
Development assistance	1,388	12,681
Versioning and subtitling assistance	167	963
Distribution and marketing assistance	–	50
	<u>21,919</u>	<u>107,598</u>
Complementary activities		
Grants for industrial and professional development	11	60
Grants to Canadian festivals	–	15
	<u>11</u>	<u>75</u>
	<u>21,930</u>	<u>107,673</u>
Recoveries	<u>(12,144)</u>	<u>(14,069)</u>
Net assistance expenses	<u>9,786</u>	<u>93,604</u>

SCHEDULES C AND D – OTHER INFORMATION

Year ended March 31, 2007

C – CANADA NEW MEDIA FUND

In thousands of dollars

	2007	2006
Assistance expenses		
Production assistance	6,424	5,237
Development assistance	2,168	3,709
Distribution and marketing assistance	1,994	2,109
	10,586	11,055
Complementary activities		
Grants for industrial and professional development	1,111	923
Video game competition	975	–
Grants to Canadian festivals	375	243
Participation to foreign markets	271	185
Advertising, promotion and publications	38	39
	2,770	1,390
	13,356	12,445
Recoveries	(711)	(1,358)
Recovery fees	21	55
	(690)	(1,303)
Net assistance expenses	12,666	11,142

D – OTHER FUNDS

In thousands of dollars

	2007	2006
Assistance expenses		
Production assistance	949	140
Official coproduction assistance – Television	378	456
Distribution and marketing assistance	–	1
Development assistance	–	103
	1,327	700
Complementary activities		
Grants to professional training schools	2,295	2,295
Grants for industrial and professional development	1,896	1,010
Participation to foreign markets	672	935
Grants to Canadian festivals	520	514
Other	87	274
Advertising, promotion and publications	41	217
	5,511	5,245
	6,838	5,945
Recoveries	(703)	(466)
Recovery fees	20	20
	(683)	(446)
Net assistance expenses	6,155	5,499

SCHEDULE E – OTHER INFORMATION

Year ended March 31, 2007

E – OPERATING AND ADMINISTRATIVE EXPENSES AND PROGRAM COSTING

Operating and administrative expenses

In thousands of dollars	Operating	Administrative	2007	2006
Salary and employee benefits	13,506	2,665	16,171	14,016
Professional services	2,375	1,237	3,612	2,389
Amortization and write-offs of property and equipment	2,145	341	2,486	2,191
Rent, taxes, heating and electricity	1,376	270	1,646	1,899
Information technology	1,143	183	1,326	1,119
Office expenses	1,056	232	1,288	1,113
Travel and hospitality	680	363	1,043	972
Advertising and publications	170	324	494	297
	22,451	5,615	28,066	23,996

Operating expenses represent expenses incurred to deliver the programs. Administrative expenses represent expenses associated with corporate activities inherent to responsibilities vested to the Corporation.

The administrative expenses include an amount of \$461,428 that represent expenses incurred by the Board of Directors for the fiscal year 2007. For the fiscal year 2006, these expenses amounted to \$306,171.

Operating expenses: Program costing

In thousands of dollars	Canada Feature Film Fund	Television business unit	Canada New Media Fund	Other funds and coproduction	2007
Salary and employee benefits					
Management, administration and delivery	3,237	3,621	1,162	1,056	9,076
Shared services departments	871	1,168	296	373	2,708
Departments in support of operations	2,044	2,525	722	784	6,075
Other costs	1,492	304	462	189	2,447
Program costs before amortization and write-offs	7,644	7,618	2,642	2,402	20,306
Amortization and write-offs of property and equipment					2,145
Total program costs					22,451

Management, administration and delivery of programs and departments with shared services

Management, administration and delivery of programs fees consist of; labour charges inherent to the managers responsible for the funds, administrative employees in support of operations and employees specialized in program delivery activities. The costs of departments with shared services come from wages and fringe benefits relating to the departments that service all of the programs, such as Finance, Communications and Policy, Planning and Research.

Departments in support of operations

These costs present the expenditures incurred to support all the employees designated to management, administration and delivery of programs as well as employees offering shared services. They correspond to expenses relating to human resources, data processing and material resources departments. These fees consist mainly of wages, professional fees, rent and information technology costs.

Other costs

Other costs are derived from operating expenses, other than wages and amortization, and are generated by management, administration and delivery of programs, as well as the shared services departments.

SCHEDULE F – OTHER INFORMATION

Year ended March 31, 2007

F – CONTRIBUTIONS FROM THE DEPARTMENT OF CANADIAN HERITAGE

In thousands of dollars

	2007	2006
Canada New Media Fund	14,000	14,000
Professional training schools	2,516	2,550
Other contributions	135	–
Canadian Television Fund – Equity Investment Program	–	49,775
Music Entrepreneur Program	–	175
	16,651	66,500



REPORT ON GOVERNANCE

REPORT ON GOVERNANCE



MEMBERS OF THE BOARD

FELIX (FIL) FRASER

Acting Chair
Edmonton, Alberta

Acting Chair since February 2007. Currently an adjunct Professor of Communications Studies at Athabasca University, Fil Fraser was previously President and Chief Executive Officer of Vision TV. He founded the Banff Television Festival, was the Chief Commissioner of the Alberta Human Rights Commission, and managed his own audiovisual production company for 10 years. Known for his commitment to human rights, multiculturalism and diversity, he has published many texts on these topics.

ELISE ORENSTEIN

Member
Toronto, Ontario

Elise Orenstein is a Toronto lawyer. Elise obtained a B.A. (Honours) from McGill University, a M. Phil. from Oxford University and a LL.B from Osgoode Hall Law School. She was called to the Bar of Ontario in 1983, was a senior partner in two major Toronto law firms and today has her independent legal practice. Ms. Orenstein has practiced in the area of corporate and commercial law with special emphasis on intellectual property law. She has represented public and private corporations as well as clients in a broad range of industries, particularly convergent media, the knowledge based and the entertainment sectors. Ms. Orenstein has served on the board of several privately held companies and as a volunteer, she has served on the board of various arts organizations. As a former Chair of the Artists' Health Centre Foundation, Ms. Orenstein currently sits on the Advisory Board of the Foundation as well as that of the Dancer Transition Resource Centre.

SUZANNE SHEAVES

Member
Halifax, Nova Scotia

Suzanne Sheaves has a solid track record in the business and investment sector. She is currently First Vice-President and Investment Advisor of CIBC Wood Gundy and conducts business there through the Suzanne Sheaves Group.

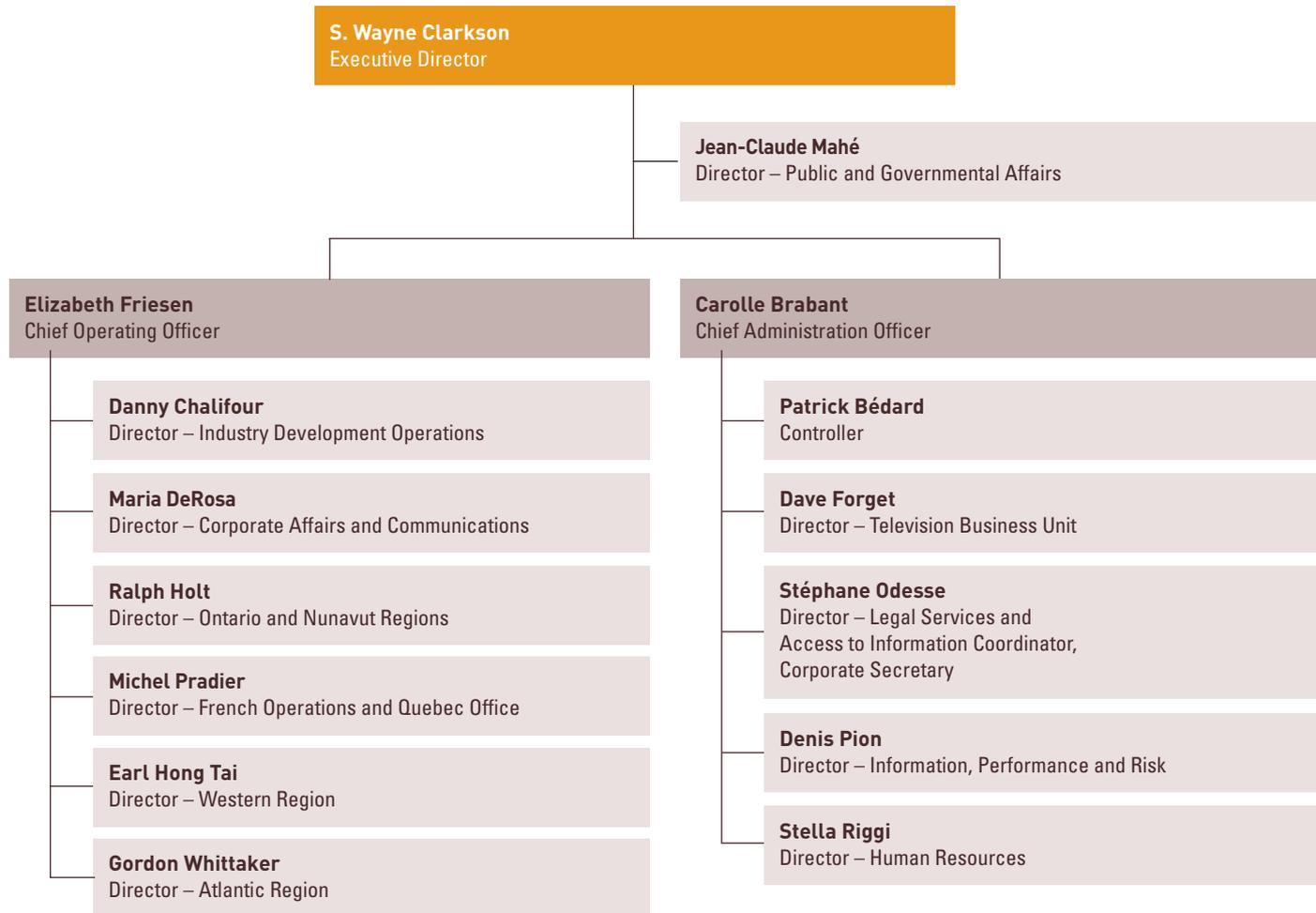
JACQUES BENSIMON

Ex-officio member
Government Film Commissioner and National Film Board Chair
(June 18, 2001 – December 17, 2006)
Montréal, Quebec

Since his appointment as Government Film Commissioner and Chairperson of the National Film Board (NFB) of Canada in 2001, Jacques Bensimon was an ex-officio member of Telefilm's Board from 2001 until 2006. He was previously Executive Vice-President of the Banff Television Foundation and its Chief Operating Officer. Mr. Bensimon also worked at the NFB for nearly 20 years as a scriptwriter, editor, director and producer, and served as Director of TFO, the French network of TVOntario.

SENIOR MANAGEMENT

As at March 31, 2007



TELEFILM'S BOARD

Telefilm's Board is statutorily composed of a Chair and six members. The Board works with senior management to define the Corporation's strategic directions and ensures that all efforts are made to achieve the stated objective. To this end, the Board usually meets six times a year, and in 2006-2007 it met seven times. The Board also sees to it that management practices and management and audit systems meet the Corporation's needs and produce reliable results.

Elise Orenstein was appointed to the organization's Board on December 19, 2006. Charles Bélanger's term as Chair ended in February 2007, at which time the Vice-Chair, Felix Fraser, became Acting Chair. In 2006-2007, Telefilm's Board consisted of only four members, putting at risk the task of achieving quorum.

At the end of Mr. Bensimon's mandate as Government Film Commissioner and NFB Chair in December 2006, Mr. Claude Joli-Cœur, Director, Business Affairs and Legal Services at the NFB, became Acting Government Film Commissioner and NFB Chair and therefore served as an *ex-officio* member on Telefilm's Board.

OBJECTIVES IN THE PUBLIC INTEREST

Telefilm is of real benefit to Canada and to Canadians. The Corporation encourages Canadian creators to create high-quality works for Canadians and for the world at large, thereby helping to raise our country's international profile. Telefilm contributes to the creation of thousands of highly skilled jobs that also energize the next generation.

STEWARDSHIP OF THE CORPORATION

Each year, senior management submits Telefilm's corporate plan to the Board for approval. Throughout the year, the administrators and the senior management team meet to discuss the major strategic issues facing the Corporation.

The Board and senior management work together and share responsibilities. To this end, members adopted a statement of the Board's mandate, which details its responsibilities.

The Board and the Executive Director together develop the Corporation's core objectives, with the Executive Director being accountable for the achievement of these objectives. Telefilm's three core objectives are to build Canadian audiences, to contribute to the industry's development, and to be a modern administrator.

INDEPENDENCE

At Telefilm, the Chair and the Executive Director are two separate positions. Board members and members of senior management meet several times a year. Several committees were created by the Board, these being the Audit and Finance Committee, Evaluation Committee, Selection Committee, Cultural and Linguistic Diversity Committee as well as Governance Committee.

AUDIT AND FINANCE COMMITTEE

The Audit and Finance Committee's objective is to help Board members fulfill their responsibilities as well as to review and approve Telefilm's information, its reporting systems, its internal control systems, its external and internal auditors' reports as well as the scope of internal auditing.

EVALUATION COMMITTEE

Each year, the Board evaluates the Executive Director's objectives and performance. To this end, a committee to evaluate the performance of the Executive Director was created. At present, the Board is not subject to a performance evaluation, whether of the Board as a whole or of individual Board members. However, it has been agreed that, beginning this year, measures will be put in place allowing for performance evaluation of the Board as a whole.

LINGUISTIC DIVERSITY COMMITTEE

The Linguistic Diversity Committee's objective is to see to it that, in keeping with the *Canadian Multiculturalism Act*, Canadian cultural diversity is reflected in, and expresses itself through, audiovisual products supported by Telefilm and that Canadian audiences have access to works arising from different communities across the country.

The above mentioned committees were inactive in 2006-2007 due to vacancies on the Board, and their mandates will be reviewed in 2007-2008.

TRAINING

Members of the Board have the opportunity to participate in training courses from time to time on a variety of pertinent topics, including governance. These courses are offered in response to specific needs that the administrators have identified.

REMUNERATION

Recently, the Corporation's Bylaw 1 was amended so as to allow Board members to decide on their remuneration, while ensuring that remuneration remains in line with guidelines established by the Office of the Privy Council and/or the Treasury Board. This subject will be up for discussion at the Board's June 2007 meeting.

GOVERNANCE REPORT

ETHICAL CONDUCT

A few years ago, the Board adopted a *Conflict of Interest and Post-Employment Code of Conduct* for employees and executives. Each year, all employees of the Crown Corporation must declare that they are in compliance with the Code.

As for the members of the Board, apart from the rules to which they are subject as public office holders, they are also subject to Section 5 of the *Telefilm Canada Act*, which states that "no person who has, directly or indirectly and individually or as a shareholder, partner or otherwise, any pecuniary interest in the audiovisual industry is eligible to be appointed or to hold office as a member of the Corporation." Furthermore, if an administrator were to have a material interest in a contract with the Corporation not covered by Section 5, he or she would be subject to Bylaw 1, which contains a declaration-of-interest mechanism.

TELEFILM AND THE STANDING COMMITTEE ON CANADIAN HERITAGE

The Chair, accompanied by Telefilm representatives, appeared before the Standing Committee on Canadian Heritage on November 29, 2006. Telefilm updated the Committee on its achievements in feature film—particularly in regard to English-language feature film—since its last appearance before the Committee, in October 2005. Telefilm underlined the need to modernize the *Telefilm Canada Act* so that the Corporation might better respond to the challenges of a multiplatform environment and enhance resources available for the development of new media products. Moreover, Telefilm indicated that management of the Canada New Media Fund needs to be more flexible so that the organization can achieve its corporate objectives, while continuing to act as an effective and efficient manager of public funds.

Following its appearance before the Standing Committee, Telefilm has taken the Committee's recommendations into consideration and is committed to developing strategies to effectively and transparently implement these recommendations. Telefilm will pursue its consultations with the industry in order to find solutions of benefit to its clients.

COMMUNICATIONS

The Corporation has a communications plan with its different clients and partners, the purpose of which is to elicit ongoing contribution and feedback from industry stakeholders. In addition, Telefilm regularly conducts surveys on client satisfaction and evaluations of its funds and programs, including consultations with its partners and clients. Given the special position the Board found itself in during the fiscal year, i.e., the fact that several positions, including that of Chair were vacant, no annual public meeting was held in 2006-2007. The meeting will be rescheduled to a later date.

TELEFILM CANADA: 40 YEARS AT A GLANCE



1967

The government of Canada allocates to the newly created Canadian Film Development Corporation (CFDC) \$10 million to foster the Canadian feature film industry.

1971

The government allocates an additional \$10 million to the Corporation.

1976

The CFDC is assigned to manage coproduction accreditation and begins developing international expertise. Its budget is raised by \$5 million to \$25 million.

1983

The government adds an additional \$5 million to the CFDC budget and creates the Canadian Broadcast Program Development Fund with the aim of revitalizing Canadian television.

1984

The CFDC's name is changed to Telefilm Canada to better reflect the full range of its activities in the film and television industries. Telefilm Canada opens offices in Vancouver and Halifax.

1986

The Feature Film Fund is created to support productions by Canadian filmmakers. This fund is designed to play a decisive role in the growth of Canadian cinema.

1996

The Canadian government announces the creation of the Canada Television and Cable Production Fund (now the Canadian Television Fund), a public-private partnership between the government of Canada and the cable and satellite distribution industry. Telefilm Canada is assigned to manage the equity investment component of the Fund.



1998

The Multimedia Fund is created with a budget of \$6 million per year for five years. It is designed to support creativity in the digital age and help the Canadian industry become competitive in the new technology environment.

2000

The Canadian Feature Film Policy, titled *From Script to Screen*, with an allocation of \$100 million is launched. The new Canada Feature Film Fund (CFFF), managed by Telefilm Canada, is a key element of this policy. The CFFF begins operating on April 1, 2001. The primary aspects of its four objectives are to build larger Canadian and international audiences through improved distribution and marketing, and to capture a domestic market share of at least 5%.

2001

Telefilm Canada issues the guidelines for the Canada New Media Fund (CNMF), which replaces the Multimedia Fund. Funding for the new media industry increases from \$6 million to \$9 million a year for five years

2005

The Department of Canadian Heritage mandates the Canadian Television Fund (CTF) and Telefilm Canada with the task of implementing a new governance structure for public and private television resources, based on the principle of "one board, one administrator."

2006

Telefilm Canada releases a five-year corporate plan titled *From Cinemas to Cell Phones – Telefilm Canada Responds to the Multiplatform Challenge*, a vision for the future that stresses the importance of Canadian content and the need to take advantage of digital platforms to reach vast audiences.

The government restructures the CTF, and Telefilm assumes administration of the Fund's programs. The CTF and Telefilm Canada sign a three-year service agreement.

The CNMF is extended for one year with a \$14 million budget.

10 Years On

TELEFILM

CANADA

1967-2007



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THE CYBERDOCUMENTARY [WWW.ARCTICMISSION.TV]
ATANARJUAT: THE FAST
RUNNER
ATLANTIC CITY
AWAY FROM HER
BETWEEN FRIENDS
BLACK ROBE
BOLLYWOOD/HOLLYWOOD
BON COP, BAD COP
C.R.A.Z.Y.
CHILDSTAR
CONGORAMA
CRASH
DEGRASSI.TV
DIDI AND DITTO
DRACULA: PAGES FROM A VIRGIN'S DIARY
EMPORTE-MOI
EVE AND THE FIRE HORSE
EXOTICA
GAZ BAR BLUES
HARD CORE LOGO
HIGHWAY 61
I'VE HEARD THE MERMAIDS SINGING
IT'S ALL GONE PETE TONG
JÉSUS DE MONTRÉAL
KAMOURASKA
LA GRANDE SEDUCTION
LA GUERRE DES TUQUES
LA VRAIE NATURE DE BERNADETTE
LÉOLO
LES BONS DÉBARRAS
LES FILLES DE CALEB
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SHATTERED CITY: THE HALIFAX EXPLOSION
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