Financial Statements Year ended March 31, 2010

Statement of Operations, Comprehensive Income and Equity of Canada

Year ended March 31, 2010

In thousands of dollars	Schedule	2010	2009
Assistance expenses			
Canada Feature Film Fund	A	**99,211**	94,476
Canada New Media Fund	B	**13,189**	13,314
Other Funds	C	**2,876**	5,896
		115,276	113,686
Recoveries	A and C	**(9,252)**	(13,155)
Net assistance expenses		**106,024**	100,531
Operating and administrative expenses	D	**28,905**	31,119
Cost of operations		**134,929**	131,650
Revenues			
Management fees from the Canadian Television Fund		**7,887**	7,740
Interest and other revenues		**504**	119
Investment revenues		**148**	245
Contribution from the Canadian Television Fund		**–**	192
		8,539	8,296
Net cost of operations before government funding		**126,390**	123,354
Government funding			
Parliamentary appropriation		**105,667**	108,699
Contributions from the Department of Canadian Heritage	F	**13,098**	14,051
Amortization of deferred government assistance (Note 8)		**1,708**	2,016
		120,473	124,766
Net result from operations and comprehensive income		**(5,917)**	1,412
Equity of Canada at the beginning		**50,406**	48,994
Equity of Canada at the end		**44,489**	50,406

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

Balance Sheet
March 31, 2010

In thousands of dollars	Note	**2010**	2009
Assets			
Current assets			
Receivable from Canada		**37,391**	47,279
Accounts receivable	4	**4,048**	4,813
Contributions receivable from the Department of Canadian Heritage		**2,663**	725
Receivable from the Canadian Television Fund		**2,028**	2,365
Prepaid expenses		**2,017**	1,924
		48,147	57,106
Property and equipment	5	**2,995**	3,688
Intangible assets	5	**1,517**	2,532
		52,659	63,326
Liabilities and equity of Canada			
Current liabilities			
Accounts payable and accrued liabilities	6	**1,535**	4,573
Long-term liabilities			
Deferred lease inducements		**503**	646
Severance benefit obligation	7	**1,620**	1,481
Deferred government assistance	8	**4,512**	6,220
		6,635	8,347
Equity of Canada	9	**44,489**	50,406
		52,659	63,326

Commitments (Note 10)
Contingencies (Note 13)

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

Approved by the Board:

Michel Roy
Chair

Statement of Cash Flows Year ended March 31, 2010

In thousands of dollars	**2010**	2009
Operating activities		
Net result from operations and comprehensive income	**(5,917)**	1,412
Items not affecting cash:		
Amortization of property and equipment	**693**	721
Amortization of intangible assets	**1,015**	1,295
Decrease in deferred lease inducements	**(143)**	(145)
Increase in the severance benefit obligation	**139**	112
Amortization of deferred government assistance	**(1,708)**	(2,016)
	(5,921)	1,379
Changes in non-cash working capital items:		
Decrease in accounts receivable	**765**	1,409
Decrease (increase) in contributions receivable from the Department of Canadian Heritage	**(1,938)**	4,846
Decrease (increase) in receivable from the Canadian Television Fund	**337**	(201)
Decrease (increase) in prepaid expenses	**(93)**	16
Increase (decrease) in accounts payable and accrued liabilities	**(3,038)**	2,283
Decrease in long-term accounts receivable	**–**	182
	(9,888)	9,914
Financing activities		
Parliamentary appropriation - government assistance	**–**	226
Investing activities		
Acquisition of intangible assets	**–**	(226)
Increase (decrease) in liquidity	**(9,888)**	9,914
Receivable from Canada at the beginning	**47,279**	37,365
Receivable from Canada at the end	**37,391**	47,279

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

Notes to Financial Statements Year ended March 31, 2010

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 the management of 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*, chapter F-10 of the Revised Statutes of Canada 1970, as it read immediately before September 1, 1984, as if it had not been repealed and as if the Corporation continued to be named in Schedule C to that 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 accounting principles. The significant accounting policies followed by the Corporation are 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 in 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 in 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 in 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 bad debt losses.

Significant accounting policies (cont.)

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 funding

The Corporation obtains funds by means of parliamentary appropriation and contributions from the Department of Canadian Heritage. The amount of parliamentary appropriation used to finance the assistance expenses and the operating and administrative expenses is recorded on the Statement of Operations, Comprehensive Income and Equity of Canada. The portion of parliamentary appropriation used to finance the acquisition of property and equipment and intangible assets is recorded as deferred government assistance on the balance sheet and is amortized on the same basis as the related assets. Parliamentary appropriation is recorded up to the amount of allowable expenditures incurred.

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

e) Amount receivable from Canada

The Receiver General for Canada processes the banking 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 all banking operations appears on the balance sheet as an amount receivable from Canada.

Significant accounting policies (cont.)

f) Property, equipment and intangible assets

Property, equipment and intangible assets are recorded at cost. They are amortized on a straight-line basis based on their respective useful life using the following rates:

Asset	Rates
Property and equipment	
Leasehold improvements	Terms of the leases
Technological equipment	20%
Furniture	10%
Intangible assets	
Software and licenses	14% and 20%

Assets related to work in progress are not subject to amortization. When work in progress is completed, the amounts relating to assets are reported under the appropriate property, equipment and intangible assets category and are amortized in compliance with the Corporation's policy.

g) Employee future benefits

<u>Pension plan</u>
All eligible employees participate in the Public Service Pension Plan administered by the Government of Canada. The Corporation's contributions as employer reflect the full cost for the Corporation. This amount is based on a multiple of the employees' contributions and may change over time depending on the financial situation 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 required to make contributions with respect to any actuarial deficiencies of the Public Service Pension Plan.

<u>Severance benefits</u>
Employees are entitled to severance benefits as provided for under their 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 the percentage of employees who will benefit from maximal admissible severance that is related to the number of years of service and to the reason for employment termination. This assumption is revised annually. These benefits represent the only obligation of this nature for the Corporation that entails settlement by future payment.

Significant accounting policies (cont.)

h) Financial Instruments

Financial assets and liabilities are initially accounted for at fair value. Their subsequent measurement depends upon their classification, as described below. Their classification depends upon the objective when the financial instruments were acquired or issued, their features and their designation by the Corporation.

Classification

The amount receivable from Canada is classified as held for trading. Any change in fair value during the period is recognized in operations.

Amounts receivable from the Canadian Television Fund, Contributions receivable from the Department of Canadian Heritage and Accounts receivable are designated as held for trading. Any change in fair value is recognized in operations. When the value of the return is not significant due to short-term maturities, the amounts receivable are accounted for at the amount of the initial invoice, net of the allowance for bad debts.

Long-term accounts receivable, net of the allowance for bad debts, are designated as held for trading. Any change in fair value is recognized in operations.

Accounts payable and accrued liabilities are held for trading. When the value of the return is not significant due to short-term maturities, the amounts payable are accounted for at the amount of the initial invoice.

i) 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 the financial statements and the reported amounts of revenues, government funding and expenses during the reporting period. The allowance for bad debts, the useful life of property, equipment and intangible assets, the severance benefit obligation and the contingencies are the most significant items where estimates are used. Actual results could differ from those estimates and such differences could be significant.

3 New accounting standards adopted

Effective April 1, 2009, the Corporation adopted the Canadian Institute of Chartered Accountants ("CICA") Accounting Handbook Section 3064, *Goodwill and Intangible Assets*. At the same date, it also adopted the amendments to Section 3855, *Financial Instruments – Recognition and Measurement*, and Section 3862, *Financial Instruments – Disclosures*.

Section 3064, *Goodwill and Intangible Assets*, reinforces the approach to recognize assets only when they meet the definition of an asset and the criteria for asset recognition. It also clarifies the application of the concept of matching revenues and expenses such that the current practice of recognizing as assets items that do not meet the asset definition and asset recognition criteria is eliminated. These changes, including disclosure requirements, had no impact on the Corporation's financial statements.

Amendments to Section 3855, *Financial Instruments - Recognition and Measurement*, include a change in the definition of the "loans and receivables" classification of financial assets. Therefore, the debt instruments that are not traded in an active market may be classified as loans and receivables. The loans and receivables that the entity intends to sell immediately or in the near term should be classified as held for trading. The loans and receivables for which the holder may not recover substantially all of its initial investment, for reasons other than credit deterioration, should be classified as available for sale. The reclassification into loans and receivables of financials assets held for trading purposes and available for sale is allowed under certain circumstances. The adoption of these amendments had no impact for the Corporation.

New accounting standards adopted (cont.)

Section 3862, *Financial Instruments – Disclosures*, has been amended to include improved and consistent disclosures on fair value measurements of financial instruments and liquidity risk. The enhanced disclosure requirements include the classification of fair value measurements within a three-level hierarchy. These new disclosure requirements had no impact for the Corporation, as the carrying amount of its financial instruments is a reasonable approximation of fair value.

Future accounting changes

Financial reporting standards

The Public Sector Accounting Board (PSAB) approved in September 2009 an amendment to the Introduction to Public Sector Accounting Standards (the Introduction) that will require government business enterprises to apply the International Financial Reporting Standards (IFRS). These amendments eliminate the “government business-type organizations” category; these organizations would be reclassified either as “government not-for-profit organizations” (GNFPOs) or “other government organizations”. The latter must determine the source of GAAP most appropriate for their needs and objectives.

During the year ended March 31, 2009, the Corporation has analyzed the impact of adopting the International Financial Reporting Standards (IFRS). During the year ended on March 31, 2010, the Corporation has analyzed the impact of adopting the Public Sector Accounting Standards. The Corporation is classified in the “other government organizations” category and has chosen to adopt the Public Sector Accounting Standards. These standards will be applicable to the fiscal year beginning on April 1, 2011. The Corporation is currently preparing a conversion plan for the transition to the accounting standards selected.

4 Accounts receivable

In thousands of dollars	**2010**	2009
Accounts receivable related to recoveries	**683**	2,129
Taxes to be recovered	**2,825**	2,515
Other accounts receivable	**540**	169
	4,048	4,813

5
Property, equipment and intangible assets

In thousands of dollars			2010	2009
	Cost	Accumulated Amortization	Net Value	Net Value
Property and equipment				
Leasehold improvements	**4,595**	**2,213**	**2,382**	2,959
Technological equipment and furniture	**1,159**	**546**	**613**	729
	5,754	**2,759**	**2,995**	3,688
Intangible assets				
Software and licenses	**14,499**	**12,982**	**1,517**	2,532
	20,253	**15,741**	**4,512**	6,220

6 Accounts payable and accrued liabilities

In thousands of dollars	**2010**	2009
Accounts payable related to assistance expenses, trade payables and accrued liabilities	**1,337**	4,326
Current portion of deferred lease inducements	**143**	143
Current portion of severance benefit obligation	**55**	104
	1,535	4,573

7 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 paid to the Public Service Pension Plan were as follows:

In thousands of dollars	**2010**	2009
Corporation contributions	**1,984**	1,860
Employee contributions	**1,017**	916

b) Severance benefit obligation

The Corporation provides severance benefits to its employees based on years of service and final salary at end of employment. 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 parliamentary appropriations and other funding sources. Useful information about the plan, as at the balance sheet date, is as follows:

In thousands of dollars	**2010**	2009
Balance at the beginning	**1,585**	1,446
Cost for services rendered during the year	**278**	297
Benefits paid during the year	**(188)**	(158)
Balance at the end	**1,675**	1,585
Short-term portion (included in accounts payable)	**55**	104
Long-term portion	**1,620**	1,481
	1,675	1,585

8 Deferred government assistance

The amount presented on the balance sheet consists of the following items:

In thousands of dollars	**2010**	2009
Balance at the beginning	**6,220**	8,010
Parliamentary appropriation for government assistance	**–**	226
Amortization of deferred government assistance	**(1,708)**	(2,016)
Balance at the end	**4,512**	6,220

9 Capital management disclosures

The Corporation defines its capital as the Equity of Canada. Under the *Telefilm Canada Act* and other federal laws, the Corporation must meet certain financial requirements. Thus, the Corporation manages the Equity of Canada by carefully monitoring its revenues, expenses, assets, liabilities and general financial transactions to ensure that it effectively achieves its objectives in conformity with those laws while continuing as a going concern. The Corporation did not make any changes to capital management during the year.

10 Commitments

a) Projects

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

In thousands of dollars	Total
Canada Feature Film Fund	**30,510**
Other Funds	**623**
Canada New Media Fund	**174**
	31,307

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
2011	**1,249**
2012	**1,882**
2013	**1,644**
2014	**1,264**
2015	**711**
	6,750

11 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 amount which is the amount established and agreed to by the related parties.

12 Financial instruments

Fair value

The amount receivable from Canada, Accounts receivable, Contributions receivable from the Department of Canadian Heritage, the amount receivable from the Canadian Television Fund and Accounts payable and accrued liabilities are part of the normal course of operations of the Corporation. The carrying amount of these financial instruments approximates their fair value due to the relatively short periods to maturity of the instruments.

Objectives and policies in relation to financial risk management

As a result of its operations, the Corporation is exposed to various financial risks. Management of financial risks is overseen by the Corporation's management. The Corporation does not enter into financial instruments contracts, including derivatives, for speculative purposes.

Interest rate risk

Interest rate risk is defined as the Corporation's exposure to a loss in interest revenue or a loss in value of financial instruments resulting from a change in interest rate. As substantially all the Corporation's financial instruments are short term, any change in interest rate would not have a material impact on the Corporation's financial statements. The Corporation's interest rate risk exposure is not significant.

Liquidity risk

The Corporation has contractual commitments (Note 10) and financial liabilities (Notes 6: Accounts payable and accrued liabilities and 7b: Severance benefit obligation). Consequently, it has a liquidity risk exposure.

The following table shows the contractual maturities of accounts payable and accrued liabilities as at March 31, 2010:

In thousands of dollars	**2010**	2009
1-30 days	**1,155**	2,872
31-90 days	**62**	90
91 days to 1 year	**318**	1,611
Total book value and contractual cash flow	**1,535**	4,573

Financial instruments (cont.)

The Corporation believes that the future funds to be generated by operating activities and the additional liquidities resulting from parliamentary appropriations will be sufficient to meet its obligations. Under the supervision of senior management, the Corporation manages its liquidities according to its financial forecasts and expected cash flows.

Credit risk

Due to its financial instruments, the Corporation may be exposed to a credit risk concentration mainly due to the amount receivable from Canada, Accounts receivable, Contributions receivable from the Department of Canadian Heritage and the amount receivable from the Canadian Television Fund.

There is no concentration of Accounts receivable from any client in particular, due to the nature of the clientele and its geographic coverage. The Corporation is therefore protected against credit risk concentration. As at March 31, 2010, the maximum credit risk exposure with respect to Accounts receivable is equal to the carrying amount.

Accounts receivable:

In thousands of dollars	**2010**	2009
Current - 30 days	**2,438**	3,738
31-90 days	**1,277**	935
91 days and more	**1,567**	1,409
Allowance for bad debts	**(1,234)**	(1,269)
Total	**4,048**	4,813

The Corporation established an allowance for bad debts and reviews the credit of all its clients on a regular basis.

Allowance for bad debts:

In thousands of dollars	**2010**	2009
Balance at the beginning	**1,269**	86
Bad debt expense	**378**	1,773
Debts written off and collections	**(413)**	(590)
Balance at the end	**1,234**	1,269

13 Contingencies

An action was instituted against the Corporation. Management is unable to predict the outcome of this dispute, and the loss that could result cannot be reasonably estimated. Consequently, no provision was made in the Corporation's accounts.

14
Comparative figures

Some of the 2009 figures have been reclassified to conform to the presentation adopted for 2010.

Schedule A – Other Information Year ended March 31, 2010

A – Canada Feature Film Fund

In thousands of dollars	**2010**	2009
Assistance expenses		
Production assistance	**68,399**	63,951
Distribution and marketing assistance	**12,143**	10,953
Development assistance	**8,553**	9,257
Low budget independent feature film assistance	**2,407**	2,752
Screenwriting assistance	**1,070**	1,169
Official coproduction assistance	**475**	763
Versioning and subtitling assistance	**311**	497
	93,358	89,342
Complementary activities		
Industrial and professional development	**4,235**	3,665
Participation in foreign festivals and markets	**1,527**	1,387
Advertising, promotion and publications	**91**	82
	5,853	5,134
	99,211	94,476
Recoveries	**(8,530)**	(11,902)
Net assistance expenses	**90,681**	82,574

Schedule B – Other Information Year ended March 31, 2010

B – Canada New Media Fund

In thousands of dollars	**2010**	2009
Assistance expenses		
Production assistance	**5,087**	7,844
Development assistance	**3,861**	3,795
Distribution and marketing assistance	**2,048**	415
	10,996	12,054
Complementary activities		
Industrial and professional development	**1,898**	921
Participation in foreign markets	**284**	187
Advertising, promotion and publications	**11**	15
Video game competition	**–**	137
	2,193	1,260
	13,189	13,314
Recoveries	**–**	97
Net assistance expenses	**13,189**	13,411

Schedule C – Other Information Year ended March 31, 2010

C – Other Funds

In thousands of dollars	**2010**	2009
Assistance expenses		
Official coproduction assistance – Television	**233**	353
Production and development assistance	**–**	172
	233	525
Complementary activities		
Industrial and professional development	**2,043**	2,037
Participation in foreign markets	**589**	820
Advertising, promotion and publications	**11**	44
Grants to professional training schools	**–**	2,470
	2,643	5,371
	2,876	5,896
Recoveries	**(722)**	(1,350)
Net assistance expenses	**2,154**	4,546

Schedule D – Other Information Year ended March 31, 2010

D – Operating and administrative expenses

In thousands of dollars	**Operating**	**Administrative**	**2010**	2009
Salary and employee benefits	**15,892**	**2,660**	**18,552**	18,406
Professional services	**2,048**	**1,373**	**3,421**	5,175
Amortization of property, equipment and intangible assets	**1,520**	**188**	**1,708**	2,016
Rent, taxes, heating and electricity	**1,497**	**202**	**1,699**	1,661
Information technology	**1,128**	**140**	**1,268**	1,410
Travel and hospitality	**603**	**334**	**937**	1,009
Office expenses	**756**	**179**	**935**	1,069
Advertising and publications	**179**	**206**	**385**	373
	23,623	**5,282**	**28,905**	31,119

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

Schedule E – Other Information Year ended March 31, 2010

E – Costs of main programs

In thousands of dollars	Canada Feature Film Fund	Television Business Unit	Canada New Media Fund
Salary and employee benefits			
Management, administration and delivery	**3,696**	**3,990**	**688**
Shared services departments	**2,249**	**1,243**	**383**
Departments in support of operations	**2,332**	**2,356**	**397**
Other costs	**1,348**	**298**	**102**
	9,625	**7,887**	**1,570**

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.

Schedules E and F – Other Information Year ended March 31, 2010

E – Costs of main programs (cont.)

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. These costs do not include amortization of property and equipment and intangible assets.

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.

F – Contributions from the Department of Canadian Heritage

In thousands of dollars	**2010**	2009
Canada New Media Fund	**13,000**	13,970
Other contributions	**98**	81
	13,098	14,051