FINANCIAL STATEMENTS

Year ended March 31, 2011

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 accounting, financial, information and management control 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. The internal control systems are periodically reviewed by the Corporation's internal auditors. These systems and practices are also designed to provide reasonable assurance that transactions are in accordance with 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F-10 of the Revised Statutes of Canada 1970, as it read immediately before September 1, 1984, as if it had not been repealed and as if the Corporation continued to be named in Schedule C to that Act, with the relevant sections of Part X of the *Financial Administration Act*, with the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 exercises its responsibilities through the Audit and Finance Committee, which consists of directors who are not officers of the Corporation. The Committee reviews the quarterly financial statements, as well as the annual financial statements and related reports and may make recommendations to the Board of Directors with respect to these and/or related matters. In addition, the Committee periodically meets with the Corporation's internal and external auditors, as well as with management, to review the scope of the audit and to assess the reports on their audits.

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 Official Languages.

Carolle Brabant, CA, MBA
Executive Director

Denis Pion,
Director – Administration and Corporate Services

Montreal, Canada
June 17, 2011

INDEPENDENT AUDITOR'S REPORT

To the Minister of Canadian Heritage and Official Languages

Report on the Financial Statements

I have audited the accompanying financial statements of Telefilm Canada, which comprise the balance sheet as at 31 March 2011, and the statement of operations, comprehensive income and equity of Canada and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of Telefilm Canada as at 31 March 2011, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Report on Other Legal and Regulatory Requirements

As required by the *Financial Administration Act*, I report that, in my opinion, Canadian generally accepted accounting principles have been applied on a basis consistent with that of the preceding year.

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

Sylvain Ricard, CA auditor
Assistant Auditor General
for the Interim Auditor General of Canada

17 June 2011
Montréal, Canada

Statement of Operations, Comprehensive Income and Equity of Canada
Year ended March 31, 2011

In thousands of dollars	Schedule	**2011**	**2010**
Assistance expenses			
Canada Feature Film Fund	A	96,463	99,211
Other Funds	B	3,707	2,876
Canada New Media Fund		98	13,189
		100,268	115,276
Recoveries		(9,109)	(9,252)
Net assistance expenses		91,159	106,024
Operating and administrative expenses	C	28,370	28,905
Cost of operations		119,529	134,929
Revenues			
Management fees from the Canada Media Fund		9,599	7,887
Interest and other revenues		361	504
Investment revenues		93	148
		10,053	8,539
Net cost of operations before government funding		109,476	126,390
Government funding			
Parliamentary appropriation		105,604	105,667
Contributions from the Department of Canadian Heritage		-	13,098
Amortization of deferred government assistance (Note 8)		1,312	1,708
		106,916	120,473
Net result from operations and comprehensive income		(2,560)	(5,917)
Equity of Canada at the beginning		44,489	50,406
Equity of Canada at the end		41,929	44,489

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

Balance Sheet
March 31, 2011

In thousands of dollars	Note	2011	2010
Assets			
Current assets			
Receivable from Canada		37,239	37,391
Accounts receivable	4	3,487	4,048
Receivable from the Canada Media Fund		3,028	2,028
Contributions receivable from the Department of Canadian Heritage		-	2,663
Prepaid expenses		1,797	2,017
		45,551	48,147
Long-term accounts receivable	4	355	-
Property and equipment	5	2,305	2,995
Intangible assets	5	958	1,517
		49,169	52,659
Liabilities and equity of Canada			
Current liabilities			
Accounts payable and accrued liabilities	6	2,360	1,535
Long-term liabilities			
Deferred lease inducements		360	503
Severance benefit obligation	7 b)	1,257	1,620
Deferred government assistance	8	3,263	4,512
		4,880	6,635
Equity of Canada	9	41,929	44,489
		49,169	52,659

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

TELEFILM CANADA

Statement of Cash Flows
Year ended March 31, 2011

In thousands of dollars	2011	2010
Operating activities		
Net result from operations and comprehensive income	(2,560)	(5,917)
Items not affecting cash:		
Amortization of property and equipment	690	693
Amortization of intangible assets	622	1,015
Decrease in deferred lease inducements	(143)	(143)
Increase (decrease) in severance benefit obligation	(363)	139
Amortization of deferred government assistance	(1,312)	(1,708)
	(3,066)	(5,921)
Changes in non-cash working capital items:		
Decrease in accounts receivable	561	765
Decrease (increase) in receivable from the Canada Media Fund	(1,000)	337
Decrease (increase) in contributions receivable from the Department of Canadian Heritage	2,663	(1,938)
Decrease (increase) in prepaid expenses	220	(93)
Increase (decrease) in accounts payable and accrued liabilities	825	(3,038)
Increase in long-term accounts receivable	(355)	-
	(152)	(9,888)
Financing activities		
Parliamentary appropriation - government assistance	63	-
Investing activities		
Acquisition of intangible assets	(63)	-
Decrease in liquidity	(152)	(9,888)
Receivable from Canada at the beginning	37,391	47,279
Receivable from Canada at the end	37,239	37,391

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

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*.

The Corporation is not subject to income taxes.

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, grants and contributions; 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 and contributions 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.

2. 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 Canada Media Fund financing programs. The fees are recorded on an accrual basis.

Interests and other revenues

Interests and other revenues are recorded on an accrual basis and are recognized during the year they are earned and measurable.

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.

2. 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

Pension plan

All eligible employees participate in the Public Service Pension Plan administered by the Government of Canada. This defined benefit pension plan provides benefits based on years of service and average earnings of the best five consecutive years. The contributions as employer are based on the Public Service Pension Plan and 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. The Corporation is not 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 their conditions of employment. The cost of these benefits is accrued as employees render the services necessary to earn them. The accrued severance benefits obligation is calculated at a current value according to management's best estimates such as, wage increases, employees age, years of service, the probability of departure for reasons of resignation or retirement and other factors. These assumptions are revised annually. These benefits represent the only obligation of this nature for the Corporation that entails settlement by future payment.

2. 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 Canada Media 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

Future accounting changes

Financial reporting standards

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 effects of these new standards will be recorded retroactively with restatement of comparative financial statements. The accounting policies impacted by this change in generally accepted accounting principles affecting the results are mainly; deferred lease inducements, employee future benefits, and deferred government assistance.

4. Accounts receivable

In thousands of dollars	**2011**	**2010**
Accounts receivable related to recoveries	1,904	683
Taxes to be recovered	1,074	2,825
Other accounts receivable	864	540
	3,842	4,048
Short-term portion	3,487	4,048
Long-term portion	355	-
	3,842	4,048

5. Property, equipment and intangible assets

In thousands of dollars			**2011**	**2010**
	Cost	Accumulated Amortization	Net Value	Net Value
Property and equipment				
Leasehold improvements	4,595	2,790	1,805	2,382
Technological equipment and furniture	1,143	643	500	613
	5,738	3,433	2,305	2,995
Intangible assets				
Software and licenses	14,499	13,604	895	1,517
Work in progress	63	-	63	-
	14,562	13,604	958	1,517
	20,300	17,037	3,263	4,512

6. Accounts payable and accrued liabilities

In thousands of dollars	2011	2010
Accounts payable related to assistance expenses, trade payables and accrued liabilities	2,054	1,337
Current portion of deferred lease inducements	143	143
Current portion of severance benefit obligation	163	55
	2,360	1,535

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 which 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	2011	2010
Corporation contributions	1,943	1,984
Employee contributions	1,010	1,017

b) Severance benefit obligation

The Corporation provides severance benefits to its employees based on the reason for departure, the 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. To calculate the accrued severance benefit obligation the Corporation uses, a wage increase rate of 2.75%, a discount rate of 3.75%, an employee departure probability of 10% before the age of 55 and the age of 59 as a hypothesis for retirement departure. During the year, the estimation method of calculating the accrued severance benefits obligation has been revised. The revision of estimate had the effect of diminishing the severance 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	2011	2010
Balance at the beginning	1,675	1,585
Revision of estimate	(343)	-
Cost for services rendered during the year	210	278
Benefits paid during the year	(122)	(188)
Balance at the end	1,420	1,675
Short-term portion (included in accounts payable)	163	55
Long-term portion	1,257	1,620
	1,420	1,675

8. Deferred government assistance

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

In thousands of dollars	2011	2010
Balance at the beginning	4,512	6,220
Parliamentary appropriation for government assistance	63	-
Amortization of deferred government assistance	(1,312)	(1,708)
Balance at the end	3,263	4,512

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) Assistance expenses

The Corporation is contractually committed to disburse sums under its programs. The total expected payments to be paid in subsequent years is as follows:

In thousands of dollars	Total
2012	32,043
2013	1,842
	33,885

b) Leases

The Corporation has entered into long-term leases for the rental of office space and equipment used in its operations. The total minimum annual lease payments to be paid during subsequent years is as follows:

In thousands of dollars	Total
2012	1,256
2013	1,686
2014	1,302
2015	738
	4,982

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, Short-term Accounts receivable, Contributions receivable from the Department of Canadian Heritage, the amount receivable from the Canada Media 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. The fair values of long-term accounts receivable have been established by discounting the drawdowns expected in the repayment agreements based on the average Bank of Canada discount rate as at the balance sheet date.

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, 2011:

In thousands of dollars	2011	2010
1-30 days	1,624	1,155
31-90 days	80	62
91 days to 1 year	656	318
Total book value and contractual cash flow	2,360	1,535

12. 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 Canada Media 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, 2011, the maximum credit risk exposure with respect to Accounts receivable is equal to the carrying amount.

Accounts receivable:

In thousands of dollars	2011	2010
Current - 30 days	2,244	2,438
31-90 days	659	1,277
91 days and more	2,450	1,567
Allowance for bad debts	(1,511)	(1,234)
Total	3,842	4,048

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	2011	2010
Balance at the beginning	1,234	1,269
Bad debt expense	518	378
Debts written off and collections	(241)	(413)
Balance at the end	1,511	1,234

13. Contingencies

In the normal course of business, various lawsuits have been brought against the Corporation. Management is in no position to predict the outcome of these lawsuits and the potential losses cannot reasonably be estimated. Thus, no provision was taken in this regard in the Corporation's accounts. The Corporation has not incurred any loss during the year.

14. Comparative figures

Some of the 2010 figures have been reclassified to conform to the presentation adopted for 2011.

Schedules A and B – Other Information

Year ended March 31, 2011

A – Canada Feature Film Fund

In thousands of dollars	2011	2010
Assistance expenses		
Production assistance	62,419	68,399
Distribution and marketing assistance	15,027	12,143
Development assistance	9,288	8,553
Low budget independent feature film assistance	2,284	2,407
Screenwriting assistance	548	1,070
Official coproduction assistance	420	475
Versioning and subtitling assistance	446	311
	90,432	93,358
Complementary activities		
Industrial and professional development	4,347	4,326
Participation in foreign festivals and markets	1,684	1,527
	6,031	5,853
Assistance expenses	96,463	99,211

B – Other Funds

In thousands of dollars	2011	2010
Assistance expenses		
Official coproduction assistance – Television	273	233
Production and development assistance	78	-
	351	233
Complementary activities		
Industrial and professional development	2,345	2,054
Participation in foreign markets	1,011	589
	3,356	2,643
Assistance expenses	3,707	2,876

Schedule C and D – Other Information
Year ended March 31, 2011

C – Operating and administrative expenses

In thousands of dollars	2011	2010
Salary and employee benefits	19,099	18,552
Professional services	2,824	3,421
Rent, taxes, heating and electricity	1,713	1,699
Amortization of property, equipment and intangible assets	1,312	1,708
Information technology	1,168	1,268
Office expenses	968	935
Travel and hospitality	816	937
Advertising and publications	470	385
	28,370	28,905

D – Costs of main programs

In thousands of dollars	Canada Feature Film Fund	Canada Media Fund
Salary and employee benefits		
Management, administration and delivery	4,126	5,215
Shared services departments	1,626	1,356
Departments in support of operations	2,244	2,727
Other costs	1,142	301
	9,138	9,599

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 Strategy 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. 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.