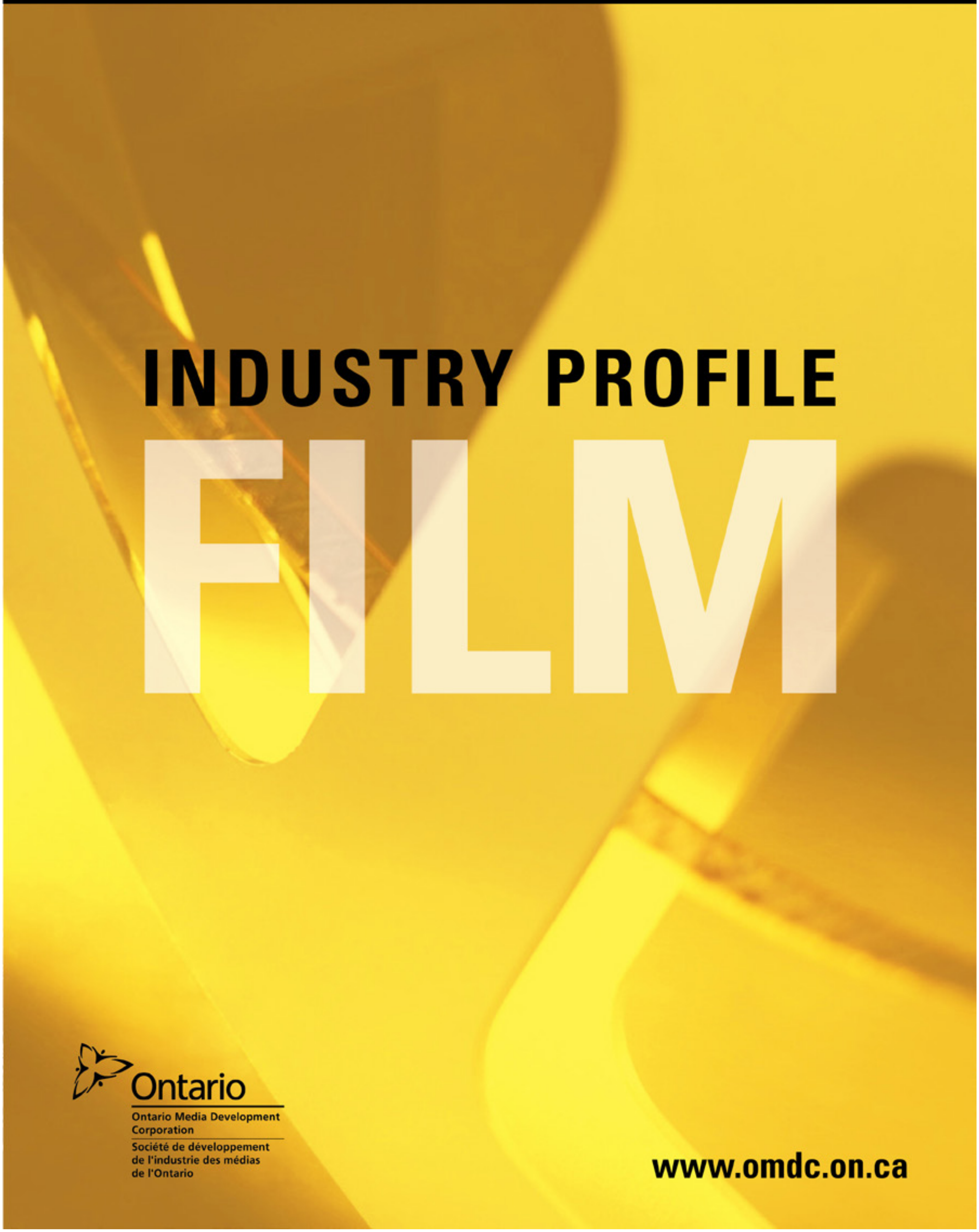
ONTARIO MEDIA DEVELOPMENT CORPORATION



INDUSTRY PROFILE

FILM

Ontario

Ontario Media Development Corporation

Société de développement de l'industrie des médias de l'Ontario

www.omdc.on.ca

Introduction

The feature film sector includes a variety of players who perform a range of functions in the feature film supply chain. The film production community creates the content; distributors negotiate release patterns and promote the films; and theatrical exhibitors, DVD vendors and Video-on-Demand (VOD) providers make the content available to audiences. The Ontario film sector includes players operating in all of these areas. A high concentration of Canada's film production companies, distribution firms and labour force is located in Ontario, specifically in the Greater Toronto Area.[1] Ontario's film production sector mainly comprises small- to medium-sized production companies, producing a combination of proprietary productions and service productions for international producers.

Ontario feature films continue to receive attention at home and abroad for their excellence:

- Seven OMDC Film Fund recipients—*A Dangerous Method*, *The Guantanamo Trap*, *The Bang Bang Club*, *The Whistleblower*, *Edwin Boyd: Citizen Gangster*, *Oliver Sherman* and *Take This Waltz* have been nominated for 2012 Genie Awards. *A Dangerous Method*, directed by David Cronenberg and produced by Martin Katz, Marco Mehlitz and Jeremy Thomas, received 11 nominations.

- Another high profile feature film shot in Ontario is the Canada-Germany co-production *Resident Evil: Afterlife*, the most successful production in Canadian feature film history, surpassing $300 million in worldwide box-office receipts.

- Two Ontario teams working behind the scenes in the technical side of feature film were awarded 2012 Technical Oscars. Andrew Clinton and Mark Elendt of Toronto's Side Effects Software received a technical achievement award for their work on the rendering of 3D effects. A team based in Hamilton and Burlington, Ontario (Raigo Alas, Greg Marsden, Michael Lewis and Michael Vellekoop) won a scientific and engineering Oscar for their work on the Pictorvision Eclipse, an aerial camera platform.

- The Canada-Poland-Germany co-produced film *In Darkness* received a 2012 Oscar nomination for Best Foreign Language Film. Ontario-based The Film Works were the Canadian producers of the film.

Industry Size and Economic Impact

Employment and wages

- Ontario's film and television industry contributed $1.26 billion to the provincial economy in calendar 2011—an increase of $300 million over 2010, and the strongest performance in the province since OMDC started keeping records in 1986. This production activity accounted for almost 30,000 full-time direct and spin-off jobs.[2]

- Statistics Canada figures show that Canadian film, television and video production companies provided $643.6 million in salaries, wages and benefits to workers in the sector in 2009. Ontario accounted for well over a third of those payments, disbursing $252.9 million in salaries—more than any other province.[3]

- Figures from the Canadian Media Production Association's (CMPA) *Profile 2011* show that the production of Canadian theatrical films generated an estimated 7,100 jobs in Canada during the 2010-11 fiscal year. Two thousand eight hundred of these positions were direct jobs in feature film production, while 4,300 were indirect jobs created elsewhere in the Canadian economy.[4]

Production volume and budgets

- OMDC figures show that in 2011, feature film spending in Ontario spiked, totaling $397.5 million. This included a 45% increase in foreign feature film spending, to $231.6 million on 15 productions. Domestic feature film spending saw even greater growth, of 165% to $165.9 million, due in large part to a number of big budget treaty co-productions such as *Resident Evil: Retribution*, *Cosmopolis* and *Silent Hill: Revelation 3D*.[5]

- These increases in Ontario are happening at a time when feature film production in Canada is slowing slightly. Data from CMPA's *Profile 2011* shows that Canadian theatrical film production fell to $306 million in 2010-11. This decrease of 11% from 2009-10 was due to fewer feature films overall, and also fewer very-large budget films. Many mid-range budget films such as the OMDC-funded *Take This Waltz* populated the slate of Canadian films in 2010-11.The number of full-length Canadian films produced for theatrical release during the 2010-11 period fell to 86 and the volume of English language production also decreased to $205 million[6]

- CMPA figures show that the number of Canadian treaty co-production projects in theatrical film increased in 2010, from 16 to 27, while the value of these projects grew by 21%, from $178 million in 2009 to $216 million in 2010, continuing the recovery from 2008's 11-year low that began in 2009. France continued to be Canada's largest treaty co-producing partner in 2010 with 65 feature films totaling $592 million in production volume.[7]

Revenues and related figures

- In 2009, Canadian film, television and video production businesses reported $3.0 billion in operating revenues, reflecting a decline of 9.3% from 2008, and generated a 2.2% profit margin, according to Statistics Canada. The majority of Canadian production revenues—60.1%—were generated by television production, including both independent and broadcaster in-house production. Feature film production accounted for 10.6% of production revenues during the year.[8]

- Statistics Canada figures also confirm that Ontario is central to the Canadian film and television production sector. In 2009, Ontario film, television and video production companies accounted for 45.3% of Canada's overall film and video production operating revenues, followed by Quebec at 30.2% and B.C. at 14.3%. Ontario film, television and video production companies earned a similar $1.36 billion in operating revenues in 2009 as compared to 2008, but their profit margin decreased significantly from 9.3% in 2008 to 1.8% in 2009.[9]

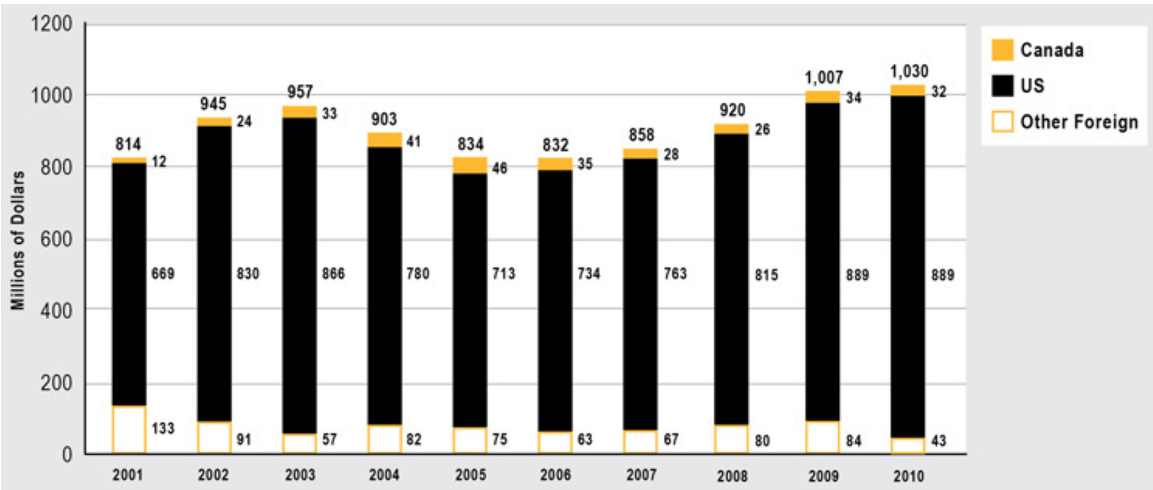
- Figures from the Computer Animation Studios of Ontario (CASO) show that the computer animation and visual effects industry in Ontario alone earns estimated revenues between $170 million and $200 million on an annual basis.[10]

Consumer market

- According to PricewaterhouseCoopers, the global filmed entertainment market (which includes theatrical box office take for feature film, consumer spending on home video, purchases at online stores and the purchase of physical home video products, as well as online, download and streaming services) is estimated to be valued at US $90.6 billion in 2011, up 5.1% from 2010. The Canadian portion of the market is estimated at US $3.9 billion for 2011, up 4.9% from 2010.[11]

- Canadian theatres surpassed the $1 billion threshold in box office revenues for the second year in a row in 2010 with $1.03 billion in earnings, continuing a four-year trend of rising revenues. Canadian English and French language features earned $32 million of those revenues, for a 3.1% share of the national box office, with Canadian English language features capturing a 1.4% share of the Canadian market. American films accounted for 92.7% of the box office during 2010. One hundred and eleven Canadian films screened in Canadian theatres that year.[12]

Box-Office Revenues in Canada by Origin of Production, 2001-2010



Source: CMPA, *Profile 2011 - An Economic Report on the Canadian Film and Television Industry*, p. 71-73.

- While theatrical box office still represents a key platform for the exhibition of Canadian films, other platforms such as physical home video rentals and sales and television release windows (e.g. video-on-demand, specialty and pay television and conventional television) account for a large share of the total audience for films. In 2010, the 3.1% box office share for Canadian films was higher than both home video sales at 1.2% and home video rentals at 2.9%. However, Canadian English feature films in 2010 had a 7.4% share of pay television, 6.9% of conventional television and 3.1% of specialty television—in each case, equal to or more than in the theatrical market.[13]

Trends and Issues

Growth rate and industry trends

- The Canadian filmed entertainment market is anticipated to grow at a compound annual growth rate of 4.2% through 2015. This pace is slower than in the fastest growing regions, Asia and Latin America, as well as the U.S. Canada will, however, record larger percentage gains in box office and electronic spending, as 3D and streaming services are earlier in their development stages in Canada than in the U.S. and are growing faster from a smaller base. Overall, the global filmed entertainment market is anticipated to increase at a compound annual rate of 5.9% through 2015, for a total projected value of US $115 billion.[14]

- Several developments are spurring change in the global filmed entertainment market. The expanding Blu-ray market is becoming large enough, and the DVD market is shrinking enough, so that Blu-ray growth will begin to offset DVD declines in 2011. The electronic market worldwide is seeing growth thanks to tablet computers, better broadband penetration and faster broadband speeds. Finally, the proliferation of 3D screens is raising average box office prices, and these higher prices are dampening admissions growth. In Canada, Cineplex signed an agreement in early 2012 with RealD to bring 3D to an additional 100 Cineplex screens; PricewaterhouseCoopers estimated that there were 350 theatrical 3D screens in Canada in 2011.[15]

- The physical home video market is undergoing a transformation in North America. Lower cost rentals have gained ground in recent years, and are increasingly a growing preference for electronic access to content. In Canada, the physical (also called "sell-through") market has been performing better than that of the U.S. Although sell-through is declining in Canada, it is doing so later and less severely than in the U.S. The total home video market (including physical home video rentals and sales, and electronic distribution) in Canada is projected to increase from $2.9 billion in 2011 to $3.3 billion in 2015.[16]

Global and domestic issues

- Changes in the way consumers access content could have a negative impact on the financing of Canadian feature films. Research on over-the-top broadcasting services and online video, both of which operate outside the Canadian regulatory environment, was recently undertaken by the CMPA in order to examine the impact of these services on the acquisition and exhibition of Canadian content. A key finding of this research found that Canadian producers had, at the time of the research, not been able to sell to or receive financing from Netflix Canada for any new product. On the other hand, over-the-top services like these do offer large Canadian film distributors a sales channel for catalogue titles, providing some revenue for those particular companies.[17]

- Companies operating in the Canadian feature film sector find attracting investment capital a challenge. Canadian producers consistently struggle to raise sufficient capital to create feature films. In doing so, they are forced to sell most if not all of the potentially lucrative intellectual property rights to the productions, and often their producer fees are tied up in tax credits that take time to access; for reasons of cash flow, producers sometimes choose to delay payment of their producer fees until receipt of the tax credits, which were designed to be received at the tail end of the process. In the interim, these credits are financed through bank loans with interest fees that further reduce producers' profits.[18] Project or hit-based revenues make it difficult to leverage loans and attract private investors.[19] This keeps production budgets small, thereby decreasing production value. All of these factors diminish Canadian producers' ability to generate capital, which hampers growth and innovation in the sector.

Government assistance[20]

- At the federal level, feature film producers have access to government funding through tax credits and the Canada Feature Film Fund (CFFF). In 2010-11, CFFF funding accounted for $65 million, or 24% of the financing, for Canadian feature films.[21]

- Ontario feature film producers currently have access to provincial government funding through tax credits including the Ontario Film and Television Tax Credit, the Ontario Computer Animation and Special Effects Tax Credit and the Ontario Production Services Tax Credit as well as the OMDC Film Fund, the OMDC Export Fund and the Entertainment and Creative Cluster Partnerships Fund. OMDC also provides funding to trade and event organizations in the production sector through the Industry Development Program for events and activities that stimulate the growth of the industry.

- In November 2011, an OMDC delegation including ten Ontario screen-based producers led a trade mission to India, in partnership with Telefilm. The mission delegates travelled to Mumbai and Goa, to meet with Indian film industry leaders and encourage the forging of new relationships between Ontario and Indian filmmakers. Business-to-business meetings with Indian producers, executives and financiers were among the activities.[22]

- Through its Film Commission, OMDC markets the province as a preferred location for filming and provides complimentary location scouting and facilitation assistance to feature film producers, both domestic and service, who are considering Ontario for their productions. OMDC, through a financial partnership with the City of Toronto and with targeted marketing support provided by industry trade organization FilmOntario, maintains a full time marketing presence in Los Angeles. The office provides on-the-ground marketing to attract production to Ontario as well as support to Ontario screen-based content creators in accessing the L.A. marketplace. The L.A. office continues to make a significant contribution to Ontario's foreign production activity, building on 2010-11 results, when a total of 16 productions that received direct assistance through the office chose to shoot in Ontario, representing $210 million in economic activity.[23]

- Ontario's Entertainment and Creative Cluster Partnerships Fund, co-administered by OMDC and the Ministry of Tourism, Culture and Sport, has enabled technological development and education in the field of film and television production. Since its inception in 2006, the Fund has provided almost $12.7 million in support to 79 projects involving 487 partners with total budgets of $30.6 million.[24]

- Four Film Fund recipients—*Splice*, *Cooking With Stella*, *Score: A Hockey Musical* and *Barney's Version* are among the Top Ten Canadian-produced films in the English market in 2010, with a combined theatrical box office of over $2.5 million.[25]

Profile current as of February 14, 2012

Top Ten Canadian-produced Films in English Market, 2010

Title	Canadian Box Office (Millions)
1. Resident Evil: Afterlife†	5.84
2. Splice*†	1.87
3. The Imaginarium of Dr. Parnassus	0.98
4. Fubar 2	0.56
5. Gunless	0.54
6. The Trotsky	0.36
7. Cooking With Stella*	0.29
8. Score: A Hockey Musical*†	0.25
9. Nowhere Boy	0.22
10. Barney's Version*	0.18
* OMDC-funded † supported by OMDC Ontario Film Commission	

Source: Motion Picture Theatre Associations of Canada (MPTAC); CMPA Profile 2011, p. 72.

Endnotes

1 Women in Film and Television – Toronto (WIFT-T), *Frame Work II: Canada's Screen-based Workforce*, January 2012, p. 43.

2 Ontario Media Development Corporation (OMDC), Production Statistics, 2011.

3 Statistics Canada, "Film, Television and Video Production 2009," Catalogue no. 87010X, Table 1.

4 Canadian Media Production Association (CMPA), *Profile 2011 – An Economic Report on the Canadian Film and Television Production Industry*, p. 58.

5 OMDC, Production Statistics, 2011.

6 Canadian Media Production Association (CMPA), *Profile 2011*, pp. 58-59.

7 ibid, pp. 67-68.

8 Statistics Canada, "Film, Television and Video Production 2009," Tables 1 and 2.

9 ibid, Table 1.

10 Computer Animation Studios of Ontario (CASO), *Economic Profile of the Ontario Computer Animation and Visual Effects Industry*, p. 7.

11 PricewaterhouseCoopers, (PwC), *Global Entertainment and Media Outlook 2011-2015,* pp. 59 and 344.

12 CMPA *Profile 2011*, pp. 69-71.

13 ibid, pp. 73-74.

14 PwC, *Outlook*, pp. 59, 63 and 344. PwC groups Europe, the Middle East and Africa into a single group for statistical purposes.

15 ibid, pp. 63 and 345; Etan Vlessing, "RealD to fit 100 more Cineplex screens in Canada with 3D," www.hollywoodreporter.com, February 8, 2012.

16 PwC, *Outlook*, pp. 347-349 and 351.

17 CMPA, Alliance of Canadian Cinema, Television and Radio Artists (ACTRA), Association des producteurs de films et de télévision du Quebec (APFTQ), Directors' Guild of Canada (DGC), Writers' Guild of Canada (WGC), *Foreign Over the Top Services and the Creation, Acquisition and Exhibition of Canadian Content*, July 2011, pp. 3, 8 and 9.

18 PwC, *Economic Study for the Film, Television and Digital Media Sector in Ontario*, October 4, 2006, p. 5.

19 SECOR Consulting Ltd., *Ontario Media Development Corporation: Towards a Strategic Plan,* September 2008, pp. 9-11.

20 The information included in this section is an overview of some of the government assistance to the film industry. This is not intended to be a comprehensive list of government assistance available.

21 CMPA *Profile 2011*, p. 64.

22 OMDC press release, "OMDC Leads Ontario Producers in Mission to Boost Co-Production," www.omdc.on.ca, November 28, 2011.

23 OMDC, 2010-11 Internal Results.

24 OMDC press release, "Strengthening Ontario's Creative Industries," www.omdc.on.ca, February 10, 2011.

25 Motion Picture Theatre Associations of Canada (MPTAC) quoted in CMPA, *Profile 2011*, p. 72.