



Canada Council
for the Arts

Conseil des arts
du Canada

Quarterly

Financial Report

Unaudited

Period ended December 31, 2020
Published February 26, 2021



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Management Discussion and Analysis

Quarterly Report

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INTRODUCTION

This narrative discussion relates to the financial results of the Canada Council for the Arts (the Council) for the third quarter and the nine-month period ended December 31, 2020 as set out in the accompanying unaudited quarterly financial statements. Those statements are disclosed in accordance with the requirements of section 131.1 of the Financial Administration Act and are prepared in accordance with Canadian Public Sector Accounting Standards (PSAS) as promulgated by the Chartered Professional Accountants (CPA) of Canada.

Management is responsible for the information presented in the unaudited quarterly financial statements and in this narrative discussion, both of which have been reviewed and endorsed by the Audit and Finance Committee of the Council's Board. In assessing what information is to be provided in the narrative discussion, management applies the materiality principle as guidance for disclosure. Management considers information material if it is probable that its omission or misstatement, judged in the surrounding circumstances, would influence the decisions of the primary user of this information, the Government of Canada.

This discussion contains "forward-looking statements" that reflect management's expectations regarding the Council's results of operations. These statements are not facts but only estimates based upon information and assumptions that are currently available to, or made by, management and which are subject to a number of risks and uncertainties. These and other factors may cause actual results to differ substantially from the expectations stated or implied in the forward-looking statements.

The Financial Administration Act does not require the Council to file a Corporate Plan with the Government of Canada. Therefore, neither this narrative discussion nor the unaudited quarterly financial statements disclose a comparison of results against the Council's Corporate Plan. As required by PSAS, the unaudited quarterly financial statements provide comparisons to the Council's approved annual budget for the year.

HIGHLIGHTS

Throughout the quarter, Director and CEO, Simon Brault, continued to conduct interviews with national media and participate in various panels and events to speak about the impact of COVID-19 on the arts sector and the Council's work.

October 8 - The [Textile Museum of Canada was announced as the winner of the 2020 York Wilson Endowment Award](#). This prize will enable the museum to acquire six works by Anishinaabekwe artist Bev Koski, from her 2018 series, Beaded Sampler.

October 16 - The Council launched the [2019-20 Annual Report, Together with Purpose](#). Prepared during the onset of the COVID-19 pandemic, this report underscores the essential role of both the arts and the creativity of artists, as exemplified by artists and arts organizations in their efforts in giving Canadians ongoing access to the arts.

October 19 - The Director and CEO participated in a discussion on *New global challenges for culture* as part of the Creative Mexico Forum on Sustainable Cultural Development.

October 22 - The Canada Council Art Bank presented two digital exhibitions on the [Google Art platform, A Feast for your Eyes](#) explores close to 40 works by contemporary Canadian artists. The works of art in this collection span several decades, artistic medium, scale and subject matter, allowing viewers to grasp the diversity of the field of Canadian contemporary art. [The Impressive Legacy of the Canada Council Art Bank's Print Programme](#) features artworks commissioned and created in the 1970s for the Art Bank.

October 24 - The 2020 Governor General's Award in Visual and Media Arts (GGArts) exhibition opened at the [Art Gallery of Alberta, along with a virtual exhibit, and will run until February 14, 2021](#). GGArts awards celebrate Canada's vibrant arts community and recognize remarkable careers in the visual and media arts. Up to eight awards are distributed every year: six awards recognize artistic achievements, one award recognizes excellence in fine craft (Saidye Bronfman Award) and one award recognizes an outstanding contribution to contemporary visual arts, media arts or fine craft. The [winners of the 2020 GGArts awards](#) were announced on February 19, 2020.

November 2-5 - The Council held a series of dialogue sessions to help inform the 2021-26 Strategic Plan. Community dialogue sessions explored the evolution of the Canadian arts landscape within the current context and the Council's priorities for the next five years. Dialogue sessions with Indigenous stakeholders, in November and December, focused on the topic of decolonizing arts funding.

November 12 - The Council announced [Margaret Grenier as the winner of the Walter Carsen Prize for Excellence in the Performing Arts](#). The Prize is awarded on a four-year cycle and recognizes artistic excellence and distinguished career achievement by Canadian professional artists in dance, theatre, and music.

November 24 - The Director and CEO participated in the [Big Conversation: values and international cooperation in a changing world](#), an international panel organized by the British Council to discuss the importance of shared values in cultural relations and international cooperation to face global challenges.

November 26 - The Council and its partners announced the participants for the [UK-Canada Immersive Exchange](#). Twenty-four participants - 12 from Canada and 12 from the UK - were chosen. They include six creative leads - a mix of artists, filmmakers, theatre directors and visionaries - as well as six creative producers from each country, each with a range of experience and backgrounds.

November 27 - Canadian Heritage, in collaboration with the Council, Telefilm Canada, and the Canada Media Fund, published the results of a [survey](#) to determine whether phase 1 of the Government's Emergency Support Fund (ESF) for cultural, heritage and sport organizations achieved its main objectives. Seventy-seven percent of respondents reported that the ESF helped them stay in operation to a large or moderate extent. Respondents reported that they used complementary support measures to weather the effects of the pandemic and overall were satisfied with each step of the ESF's delivery process. Forty-four percent of respondents also perceived that the ESF helped stabilize their sector to a large extent.

December 2020 - CBC/Radio-Canada highlighted successful [Digital Originals](#) projects on their websites and social media platforms. More than 1,000 artists were awarded grants by the Council, and a selection of those projects was featured on CBC Arts.

December 11 - The Director and CEO sent [a message](#) on December 11 to inform the community about the upcoming new funds announced on November 30 by the federal government in its [2020 Fall Economic Statement](#). The government announced \$181.5M in additional funds in 2021-22 for the Department of Canadian Heritage and the Council to enhance their support to the arts sector.

December 11 – The Council completed the first stage of engagement of the [Research on the Value of Public Funding for Indigenous Arts and Cultures](#). In partnership with Archipel Research and Consulting Inc., an Indigenous-owned firm, this is the Council's first project aimed at developing a framework that furthers its understanding of the significance of the Council's funding for Indigenous artists and the vital role that Indigenous arts and cultures play in the lives of all Canadians.

December 14 – The Council published the [2020 Stats and Stories](#), a companion to the Council's 2019-20 Annual Report and a vital tool that provides a breadth of information on the Council's investments in the arts.

Net Results

(in thousands of dollars)	Three months ended December 31			Nine months ended December 31		
	2020	2019	Variance	2020	2019	Variance
Revenue	14,766	13,282	1,484	14,289	27,129	(12,840)
Expenses	(40,158)	(28,896)	(11,262)	(324,918)	(251,235)	(73,683)
Government funding	45,127	71,000	(25,873)	342,927	274,000	68,927
Surplus for the period	19,735	55,386	(35,651)	32,298	49,894	(17,596)

Overview of the Third Quarter Net Results

The surplus for the quarter was \$19.7M compared to \$55.4M for the same period last year. This variance is directly related to the timing of the recommendations for grants compared to the parliamentary appropriations received.

The Council will continue to monitor its financial results with the aim of achieving a balanced budget but with a higher granting budget because of the \$62.8M funding received from the federal government to deliver the COVID-19 Emergency Support Funds for Cultural, Heritage and Sports Organizations and an additional \$9.0M in savings resulting from the cancellation or postponements of activities and lower meeting costs from using virtual conference platforms because of COVID-19.

IMPORTANT CHANGES

Programs

No change in program delivery for this quarter.

Operational

Council staff continued working remotely without interruption, delivering services to the arts community and holding virtual peer assessment committee meetings.

Leadership and Governance

No change in leadership or governance for this quarter.

FINANCIAL RESULTS

The following section provides further detail and explanation of financial results presented in the quarterly financial statements:

Revenues

(in thousands of dollars)	Three months ended December 31			Nine months ended December 31		
	2020	2019	Increase/ (Decrease)	2020	2019	Increase/ (Decrease)
Net realized investment income	13,117	9,961	3,156	11,337	20,536	(9,199)
Other revenue	1,649	3,321	(1,672)	2,952	6,593	(3,641)
Total	14,766	13,282	1,484	14,289	27,129	(12,840)

Net realized investment income

Net realized investment income for the quarter was higher by \$3.2M than the prior year period. As capital markets rebounded strongly from the sharp decline earlier in the year caused by the global pandemic, the distributed income was higher by \$3.0M due to that rebound and the maturation of the infrastructure investments. These increases were somewhat offset by a decline in realized gains with fewer sales in the quarter compared to the same period last year.

The year-to-date net realized investment income was significantly lower than the prior year mostly due to realized losses of \$8.0M originating from the sales of assets in the Canadian and Global equity asset classes shortly after the market downturn in May 2020. This compares with strong realized gains of \$10.5M last year from some real estate and infrastructure investments winding up in 2019. The realized losses were somewhat offset by an cumulative increase of \$2.7M in dividends from fixed income and infrastructure investments due to the strong market in the latter part of 2020 and the maturation of some infrastructure investments.

The net realized investment income is still forecasted to be aligned with the budget with distributed income to be received by year-end.

Other revenue

The other revenues for the quarter are lower compared to the same period last year mainly due to transfers received last year from the Departments of Global Affairs Canada and Canadian Heritage for activities related to the 2020 Cervantino Festival and 2020 Frankfurt Book Fair. Other revenues are expected to be aligned with the budget for this year.

Expenses

(in thousands of dollars)	Three months ended December 31			Nine months ended December 31		
	2020	2019	Increase/ (Decrease)	2020	2019	Increase/ (Decrease)
Grants, author payments and prizes	28,351	17,532	10,819	291,219	216,636	74,583
Transfer program delivery	5,632	5,398	234	15,578	15,656	(78)
Arts community services	407	591	(184)	1,590	2,529	(939)
Net Art Bank results	8	38	(30)	(62)	97	(159)
Canadian Commission for UNESCO	660	551	109	1,590	1,584	6
General administration	5,100	4,786	314	15,003	14,733	270
Total	40,158	28,896	11,262	324,918	251,235	73,683

Grants, author payments and prizes

The increase of \$10.8M in the third quarter, compared to the same period last year, relates to the timing in the approval of a higher volume in grants awarded in the Explore and Create program and in the Digital Strategy Fund in the third quarter, using funds that were reallocated from the Arts Across Canada and Arts Abroad programs that had to cut back on awarding grants due to the current pandemic and travel restrictions. The year-to-date figures show an increase of \$74.6M from the same period last year, directly linked to the additional government funds received for the COVID-19 Emergency Support Funds for Cultural, Heritage and Sports Organizations.

The planned annual budget of \$319.7M for grants, author payments and prizes, which included an increase of \$34.3M in 2020-21 due to the progressive doubling of the Council's government funding, has been revised upwards considering the \$62.8M received from the federal government for the COVID-19 Emergency Support Funds for Cultural, Heritage and Sports Organizations as well as intra-year savings of \$9.0M. The total granting budget for 2020-21 is now revised to \$391.5M.

Transfer program delivery

This expense is slightly higher compared to last year's quarter. The increase in salaries and employee benefits and in amortization expense was offset by a reduction in peer and advisory committees' costs as those meetings are now being held virtually, and by a reduction in staff travel expenses, due to the travel restrictions imposed by the COVID-19 pandemic. For the year-to-date results, the savings in peer committees' costs and staff travel expenses have offset completely the increase in salaries and benefits for program staff as per the collective agreement.

Arts community services

This expense is lower for the quarter and year-to-date compared to prior year periods resulting from the cancellation or postponements of activities because of the COVID-19 pandemic.

Net Art Bank results

This expense is lower for the quarter and year-to-date compared to prior year periods resulting from some savings in salaries and benefits, no travel costs and a reduction in rental costs due to fewer installation of artworks at client sites.

General Administration

This expense is slightly higher for the quarter and year-to-date compared to the same periods last year due to a planned increase to the information management expenses, mostly related to the Digital Shift Roadmap in modernizing Council's systems and infrastructure and moving to cloud computing and storage. The increase was offset in part by a decrease in salaries and employee benefits due to restructuring and vacant positions, by a decrease in staff travel due to COVID-19 travel bans and by a decrease in printing and office supplies with employees doing telework.

Financial Assets

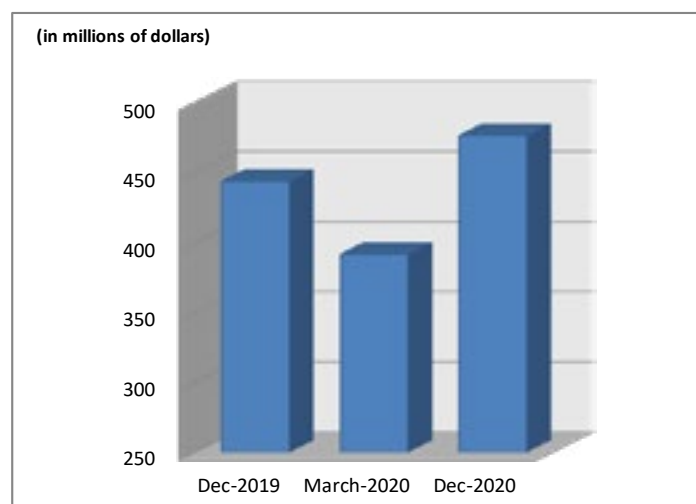
(in thousands of dollars)	December 31	March 31	Increase/ (Decrease)
	2020	2020	
Cash	95,987	21,624	74,363
Accounts receivable	5,071	3,347	1,724
Portfolio investments	476,088	391,200	84,888
Total	577,146	416,171	160,975

Cash

The increase of \$74.4M in cash is mainly explained by the increase of \$50.1M in grants, author payments and prizes payable which represents the grant commitments made that were not yet paid out as at December 31, 2020, plus the \$32.3M surplus for the nine-month period minus the \$9.7M cash used by investing activities related to the portfolio investments.

Portfolio investments

The total market value of the portfolio as at December 31, 2020, was \$476.1M, of which \$114.3M was externally restricted. This represents an increase of \$84.9M in the market value since March 31, 2020, and an increase of \$32.8M since December 31, 2019.



The total fund generated an absolute positive return of 5.5% for the quarter, outperforming the benchmark return by 0.3%. All asset classes exceeded their benchmark during the third quarter, except for Fixed Income and Infrastructure. The Canadian and Global Equity categories were the main contributors posting returns of 12.7% and 9.7% respectively.

The total fund one-year return was 9.4% for December 2020, underperforming the benchmark by 0.3%. All asset classes generated positive results for the one-year return, except for Real Estate. The Global and Canadian Equity and Fixed Income Bonds asset classes, representing 80% of the portfolio, posted strong returns of 14.3%, 6.2% and 8.0% respectively.

Liabilities

	December 31 2020	March 31 2020	Increase/ (Decrease)
(in thousands of dollars)			
Grants, author payments and prizes payable	108,199	58,070	50,129
Accounts payable and accrued liabilities	2,232	5,128	(2,896)
Deferred revenues	6,362	6,604	(242)
Employee future benefits	4,816	4,340	476
Externally restricted contributions	68,425	50,253	18,172
Total	190,034	124,395	65,639

Grants, author payments and prizes payable

The increase of \$50.1M in comparison to the value as at March 31, 2020 arises from an increase in overall funding as well as the timing of payments schedules.

Accounts payable and accrued liabilities

The decrease of \$2.9M in comparison to the value as at March 31, 2020 is due to a reduction in commercial invoices due to the timing of the payment schedule.

Externally restricted contributions

The increase of \$18.2M in comparison to the value as at March 31, 2020 arises mainly from the externally restricted net proportionate share of the market value increase of the portfolio investments less the realized losses incurred and funds used during the quarter.

Non-Financial Assets

	December 31 2020	March 31 2020	Increase/ (Decrease)
(in thousands of dollars)			
Tangible capital assets	12,219	11,446	773
Art Bank assets	19,465	19,465	-
Musical instruments	1	1	-
Prepaid expenses	472	748	(276)
Total	32,157	31,660	497

Tangible capital assets

The net increase of \$0.8M in comparison to the value as at March 31, 2020 is attributable to continuous investments made as part of the Council's Digital Shift Roadmap to modernize both its technology infrastructure and its systems.

Art Bank assets

The Council owns over 17,170 works of contemporary Canadian art within its Art Bank collection. At December 31, 2020 the appraised value of the Art Bank assets was approximately \$71.7M. The Council insures its Art Bank assets based on its assessment of risk.

Musical instruments

The Council operates a Musical Instrument Bank and it currently owns a fine cello bow and nine prestigious musical instruments. In addition, the Council manages fifteen instruments on loan. The appraised value of its musical instruments as at December 31, 2020 was US \$46.7M. These are included on the Statement of Financial Position at a nominal value. The Council insures the musical instruments at their appraised value, in US dollars.

RISK MANAGEMENT

Effective risk management is fundamental to the success of the Council in fulfilling its mandate. The Council continues to develop a strong risk management culture where risk management is a responsibility shared by all of its employees. The primary goal of enterprise risk management is to ensure that the outcomes of risk-taking activities are consistent with the Council's plans, strategies and risk appetite.

The Council's existing risk management framework consists of four key elements:

- risk governance;
- risk appetite;
- risk profile, assessment and mitigation; and,
- financial risk mitigation.

Risk Governance

The Council's risk management governance begins with oversight by its Board, either directly or through its committees, to ensure that decision-making is aligned with strategies and risk appetite. The Board receives regular updates on the Council's key risks regarding its risk profile and related mitigation, financial performance and performance of the investment portfolio. The Council's executive management is responsible for risk management under the direct oversight of the Board.

Risk Appetite

The Council follows a prudent risk-taking approach in managing its activities. It defines prudent risks as those seen to contribute to the organization's capacity to better deliver its mandate within a range of consequences that are well understood and appropriately mitigated. It manages risk within the constraints of its mandate, values, organizational culture, and both its public and internal commitments. The Council's full Risk Appetite Statement is disclosed in the 2020 Annual Financial Statements.

Risk Profile

Using the Council's risk appetite as key context, the risk profile is reviewed and updated on an annual basis. All identified risks were ranked based on likelihood and potential impact on the Council's operations with a focus on potential operational, financial, and reputational dimensions. The corporate risk profile highlighting the top risk areas and their mitigation strategies was presented to the Board in October 2020.

The risk mitigation strategies and related activities are monitored on an ongoing basis by assigned members of the executive management to reduce the risk exposure. Regular updates on these risks are provided to the Audit and Finance Committee to ensure continuous oversight and the effectiveness of the mitigation strategies that have been put in place.

Financial Risk

The Council is exposed to a variety of financial risks as a result of its activities. These include credit risk, liquidity risk and market risk. Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Council. A significant portion of the Council's receivables are normally deposited within 30-60 days after quarter-end and as such the related credit risk is very low. Liquidity risk is the risk that Council will not be able to meet its financial obligations as they fall due. The Council currently receives most of its revenues by way of Parliamentary appropriations drawn down monthly. That revenue is invested in a preferred rate account at a financial institution until it is required. The Council's investment activities are primarily exposed to price risk, interest rate risk and currency risk. The directive to the Council's investment managers is to manage the Council's market risks on a daily basis in accordance with the Council's policies. Overall market positions are monitored quarterly by the Investment Committee and the Board.

USE OF PARLIAMENTARY APPROPRIATION

The following information is intended to supplement that provided elsewhere in this discussion regarding the Council's use of its Parliamentary appropriation.

The Council receives its main funding through an appropriation voted by Parliament. The Council records the Parliamentary appropriation received in the period as revenue in the Statement of Operations or as Deferred Parliamentary appropriations to the extent they relate to the months following the period end. The Council submits a monthly cash flow analysis to the Department of Canadian Heritage to justify its monthly drawdown cash requirements. The cash-flow requirements may not necessarily match the timing of expenses reported in the Statement of Operations. The monthly drawdown is invested in a short-term pooled fund managed by a professional investment manager or in a preferred rate account at a financial institution from which the Council draws its daily cash requirements.

The Parliamentary appropriations approved and received by the Council for the nine months ended December 31 were as follows:

(in thousands of dollars)	December 31	
	2020	2019
Approved annual operating funding		
Vote 1 - Operating costs	362,644	327,644
Statutory Vote - COVID-19 Emergency Support Fund	62,800	-
Supplementary Estimates	127	-
	425,571	327,644
Parliamentary appropriations for operating expenses recorded in the Statement of Operations for the nine-month period	(342,927)	(274,000)
Balance of operating funding to be received	82,644	53,644



Canada Council
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Quarterly

Financial Statements

Unaudited

These financial statements for the quarter ended December 31, 2020
have not been audited or reviewed by our Auditor

Management's Responsibility for Financial Reporting

Management is responsible for the preparation and fair presentation of these quarterly financial statements in accordance with the Treasury Board of Canada's Directive on Accounting Standards: GC 5200 Crown Corporations Quarterly Financial Reports, and for such internal controls as management determines are necessary to enable the preparation of quarterly financial statements that are free from material misstatement. Management is also responsible for ensuring all other information in this quarterly financial report is consistent, where appropriate, with the quarterly financial statements.

Based on our knowledge, these unaudited quarterly financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of the corporation, as at the date of and for the periods presented in the quarterly financial statements.

February 26, 2021



Simon Brault, O.C., O.Q., FCPA, FCGA
Director and Chief Executive Officer



Carole Boileau, CPA, CA
Chief Financial Officer

Statement of Financial Position

(Unaudited)		
(in thousands of dollars)	December 31	March 31
	2020	2020
FINANCIAL ASSETS		
Cash	\$ 95,987	\$ 21,624
Accounts receivable	5,071	3,347
Portfolio investments (Note 3)	476,088	391,200
Total financial assets	577,146	416,171
LIABILITIES		
Grants, author payments and prizes payable	108,199	58,070
Accounts payable and accrued liabilities	2,232	5,128
Deferred revenues	6,362	6,604
Employee future benefits	4,816	4,340
Deferred revenues - Externally restricted contributions (Note 5)	68,425	50,253
Total liabilities	190,034	124,395
NET FINANCIAL ASSETS	387,112	291,776
NON-FINANCIAL ASSETS		
Tangible capital assets	12,219	11,446
Art Bank assets	19,465	19,465
Musical instruments	1	1
Prepaid expenses	472	748
Total non-financial assets	32,157	31,660
ACCUMULATED SURPLUS (Note 6)	\$ 419,269	\$ 323,436
Accumulated surplus is comprised of:		
Accumulated surplus from operations	355,766	323,468
Accumulated remeasurement gains (losses)	63,503	(32)
ACCUMULATED SURPLUS	\$ 419,269	\$ 323,436

The accompanying notes and schedules form an integral part of the financial statements

Statement of Operations

(Unaudited) (in thousands of dollars)	Yearly Budget	Three months ended December 31		Nine months ended December 31	
	2020-2021	2020	2019	2020	2019
Revenue					
Net realized investment income (Note 7)	\$ 13,189	\$ 13,117	\$ 9,961	\$ 11,337	\$ 20,536
Other revenue	2,160	1,649	3,321	2,952	6,593
Total revenue	15,349	14,766	13,282	14,289	27,129
Expenses					
Transfer Programs					
Grants, author payments and prizes	319,711	28,351	17,532	291,219	216,636
Transfer program delivery	26,016	5,632	5,398	15,578	15,656
Arts community services	9,232	407	591	1,590	2,529
	354,959	34,390	23,521	308,387	234,821
Net Art Bank results (Note 8)	111	8	38	(62)	97
Canadian Commission for UNESCO (Note 9)	2,623	660	551	1,590	1,584
General administration	20,266	5,100	4,786	15,003	14,733
Total expenses	377,959	40,158	28,896	324,918	251,235
Deficit from operations before Parliamentary appropriations for the period	(362,610)	(25,392)	(15,614)	(310,629)	(224,106)
Parliamentary appropriations	362,644	45,127	71,000	342,927	274,000
SURPLUS FROM OPERATIONS FOR THE PERIOD	34	19,735	55,386	32,298	49,894
ACCUMULATED SURPLUS FROM OPERATIONS, BEGINNING OF PERIOD	323,468	336,031	298,898	323,468	304,390
ACCUMULATED SURPLUS FROM OPERATIONS, END OF PERIOD	\$ 323,502	\$ 355,766	\$ 354,284	\$ 355,766	\$ 354,284

Statement of Remeasurement Gains and Losses

(Unaudited) (in thousands of dollars)	Three months ended December 31		Nine months ended December 31	
	2020	2019	2020	2019
ACCUMULATED REMEASUREMENT GAINS (LOSSES), BEGINNING OF PERIOD	\$ 48,276	\$ 32,500	\$ (32)	\$ 30,731
Unrealized gains attributable to:				
Portfolio investments	18,830	6,827	61,144	17,160
Amounts reclassified to the Statement of Operations:				
Portfolio investments	(3,603)	(2,694)	2,391	(11,258)
NET REMEASUREMENT GAINS FOR THE PERIOD	15,227	4,133	63,535	5,902
ACCUMULATED REMEASUREMENT GAINS, END OF PERIOD	\$ 63,503	\$ 36,633	\$ 63,503	\$ 36,633

The accompanying notes and schedules form an integral part of the financial statements

Statement of Change in Net Financial Assets

(Unaudited)	Three months ended December 31		Nine months ended December 31	
	2020	2019	2020	2019
(in thousands of dollars)				
SURPLUS FROM OPERATIONS FOR THE PERIOD	\$ 19,735	\$ 55,386	\$ 32,298	\$ 49,894
Acquisition of tangible capital assets	(771)	(923)	(2,456)	(1,995)
Amortization of tangible capital assets	561	491	1,683	1,472
Acquisition of Art Bank assets	-	-	-	(11)
	(210)	(432)	(773)	(534)
Acquisition of prepaid expenses	(124)	(301)	(421)	(659)
Use of prepaid expenses	4	37	697	254
	(120)	(264)	276	(405)
Net remeasurement gains	15,227	4,133	63,535	5,902
INCREASE IN NET FINANCIAL ASSETS	34,632	58,823	95,336	54,857
NET FINANCIAL ASSETS, BEGINNING OF PERIOD	352,480	301,682	291,776	305,648
NET FINANCIAL ASSETS, END OF PERIOD	\$ 387,112	\$ 360,505	\$ 387,112	\$ 360,505

Statement of Cash Flow

(Unaudited)	Three months ended December 31		Nine months ended December 31	
	2020	2019	2020	2019
(in thousands of dollars)				
Operating Transactions				
Surplus from operations for the period	\$ 19,735	\$ 55,386	\$ 32,298	\$ 49,894
(Gains) losses from disposal of portfolio investments (Note 7)	(913)	(2,986)	7,128	(10,500)
Amortization of tangible capital assets	561	491	1,683	1,472
(Increase) decrease in prepaid expenses	(120)	(264)	276	(405)
Increase in employee future benefits	168	138	476	428
Income transferred to (from) Deferred revenues - Externally restricted contributions from (to) investment income (Note 5)	859	2,945	(577)	5,246
Net change in other non-cash items (Note 10)	(10,456)	(42,165)	45,267	(8,065)
Cash provided by operating activities	9,834	13,545	86,551	38,070
Capital Transactions				
Cash used to acquire tangible capital and Art Bank assets	(771)	(923)	(2,456)	(2,006)
Investing Transactions				
Acquisition of portfolio investments	(10,367)	(21,832)	(69,750)	(36,464)
Disposal of portfolio investments	3,754	6,942	60,018	21,977
Cash used by investing activities	(6,613)	(14,890)	(9,732)	(14,487)
NET INCREASE (DECREASE) IN CASH	2,450	(2,268)	74,363	21,577
CASH, BEGINNING OF PERIOD	93,537	55,080	21,624	31,235
CASH, END OF PERIOD	\$ 95,987	\$ 52,812	\$ 95,987	\$ 52,812

The accompanying notes and schedules form an integral part of the financial statements

Notes to the Financial Statements

For the period ended December 31, 2020

(Unaudited)

1. AUTHORITY, MANDATE AND ACTIVITIES

The Canada Council for the Arts (the "Council"), established by the *Canada Council Act* in 1957 and subsequently amended in 2001 by Bill C-40 to the *Canada Council for the Arts Act*, is not an agent of Her Majesty and is deemed to be a registered charity for the purposes of the *Income Tax Act*. In accordance with section 85(1.1) of the *Financial Administration Act*, the Council is exempt from Divisions I to IV of Part X of this Act, except for subsection 105(2) and sections 113.1 and 119 of Division II, sections 131 to 148 of Division III and section 154.01 of Division IV. The Council is a Crown corporation whose objectives are to foster and promote the study and enjoyment of, and the production of works in, the arts.

The Council achieves its objectives primarily through grant programs to professional Canadian artists and arts organizations. The Council incurs administration and services expenses in the delivery of programs. Transfer Program delivery expenses represent the direct costs of program delivery. Arts community services expenses represent costs incurred for non-grant activities in fulfillment of the Council's mandate. General administration costs represent the costs related to corporate management, communications, human resources, information management, finance, accommodation and amortization.

The Canadian Commission for UNESCO (CCUNESCO) was established by the Canada Council pursuant to a 1957 Order in Council. The CCUNESCO acts as a forum for governments and civil society to mobilize the participation of Canadians in UNESCO's mandated areas of education, natural and social sciences, and culture, communication and information. The Secretariat for the CCUNESCO is provided by the Canada Council and led by a Secretary General who reports directly to the Director and Chief Executive Officer.

3. PORTFOLIO INVESTMENTS

	Year-to-date December 31, 2020					Year-end March 31, 2020		
	Cost	Unrealized losses	Unrealized gains	Fair value		Cost	Fair value	
(in thousands of dollars)	\$	\$	\$	\$	%	\$	\$	%
Canada Council Endowment and Special Funds								
Pooled funds								
Canadian Equity	42,672	-	10,044	52,716	13	8,205	6,896	2
Global Equity	142,044	-	33,923	175,967	45	139,975	131,213	41
Fixed income	87,344	-	4,688	92,032	23	87,118	87,258	27
Alternatives	20,630	-	12,604	33,234	9	20,630	29,259	9
Canadian Equity	-	-	-	-	-	35,086	28,122	9
Real estate	7,579	-	1,102	8,681	2	7,660	9,802	3
Infrastructure	22,674	221	7,223	29,676	8	23,537	29,958	9
Cash	935	-	-	935	-	1,583	1,583	-
	323,878	221	69,584	393,241	100	323,794	324,091	100
Killam Fund								
Pooled funds								
Canadian Equity	9,173	-	1,208	10,381	12	8,795	6,959	10
Global Equity	30,215	-	6,702	36,917	45	27,741	26,001	39
Fixed income	17,761	-	916	18,677	22	17,704	17,715	26
Alternatives	5,298	-	3,229	8,527	10	5,298	7,507	11
Real estate	1,945	-	278	2,223	3	1,965	2,530	4
Infrastructure	3,796	28	1,705	5,473	7	4,168	5,752	9
Cash	649	-	-	649	1	645	645	1
	68,837	28	14,038	82,847	100	66,316	67,109	100
Total investments	392,715	249	83,622	476,088		390,110	391,200	

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

These unaudited interim financial statements have been prepared in accordance with Canadian public sector accounting standards (PSAS) as promulgated by the Chartered Professional Accountants (CPA) of Canada.

Basis of preparation

These interim financial statements are intended to provide an update on the latest complete set of audited annual financial statements for the year ended March 31, 2020. Accordingly, they should be read in conjunction with the audited annual financial statements. The interim financial statements are unaudited for all periods presented. The accounting policies used in the preparation of these interim condensed financial statements are consistent with those disclosed in the Council's last audited annual financial statements.

Measurement uncertainty

The preparation of financial statements in accordance with Canadian PSAS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the financial statement date and the reported amounts of revenues and expenses during the reporting period. Employee future benefits, the estimated useful lives of tangible capital assets, the residual and appraised value of the Art Bank assets, and the fair value of financial instruments are the most significant items where estimates are used. Actual results could differ from those estimated.

Budgeted figures

Budgeted figures have been provided for comparison purposes and have been approved by the Board.

Unrealized gains/losses on investments are primarily due to the timing of the market prices, foreign exchange movements, or the early years in the business cycle for some investments. Annually, the Council assesses each of its investment instruments against specific criteria to determine whether there is objective evidence that the adjusted cost may not be recovered and is therefore impaired.

The Council manages two separate portfolios, the Canada Council Endowment and Special Funds and the Killam Fund. The Killam will requested that its donation be invested separately. Apart from the Killam Fund, all other externally restricted contributions are consolidated into the Canada Council Endowment and Special Funds and represent 8% (March 31, 2020 - 8%) of that Fund with a total fair value of \$31,499,000 (March 31, 2020 - \$25,960,000). The total fair value of the externally restricted investment including the Killam Fund is \$114,346,000 (March 31, 2020 - \$93,069,000).

The long-term objectives of the Canada Council Endowment and Special Funds and the Killam Fund are to generate long-term real returns to supplement the costs of administering the various programs, while maintaining the purchasing power of the endowed capital.

The Council invests in units of equity, fixed income and alternative pooled funds, and in limited partnership units of three real estate funds and six infrastructure funds (March 31, 2020 - also into a segregated Canadian equity fund). The permitted and prohibited investments, the asset mix as well as some maximum holding quantity restrictions are governed by a Board approved investment policy to mitigate risk. All of the investments are managed by professional investment managers.

The Council manages its portfolio to the following benchmarks as per the *Statement of Investment Policies and Goals* approved by the Board. The benchmarks allow asset class allocations to vary between a minimum and a maximum.

Asset Classes	Market Value	Minimum	Benchmark	Maximum
Canadian equities	13%	5%	12.5%	20%
Global equities	45%	35%	40%	45%
Fixed income	23%	15%	25%	45%
Alternatives	9%	0%	10%	15%
Real estate	2%	0%	5%	10%
Infrastructure	8%	0%	7.5%	10%
Money market/Cash	0%	0%	0%	10%

The amounts in the money market or cash asset classes are for future investments or to fund capital calls on commitments already approved and signed.

There are a total of six equity pooled funds: two Canadian funds and four funds that are invested in the global equity markets. The Canadian equities are measured against the returns of the Standard and Poor's Toronto Stock Exchange Index (S&P/TSX). The global equities are measured against the returns of the Morgan Stanley Capital International (MSCI) All Country World Index. Investments in the fixed income pooled fund are comprised of a mix of bonds, mortgages, emerging debt and other fixed income instruments. The fixed income fund is measured against the returns of the Financial Times Stock Exchange (FTSE) Canada Universe Bond Index. Investments in the alternative pooled funds are comprised of units of one hedge fund with diversified positions across global asset classes. This investment is measured against the returns of the FTSE Canada 91-day T-bill plus 4%. The assets included in the real estate funds are commercial real estate properties in Canada, the United States and globally. These investments are measured against the returns of the Investment Property Databank. The infrastructure funds include six portfolios of diversified infrastructure investments. These investments are measured against the Consumer Price Index (CPI) plus 4.5%.

4. FINANCIAL RISKS AND FAIR VALUE

The measurement categories of the Council's financial instruments, as well as their carrying amounts and fair values are as follows:

		Year-to-date	Year-end
		December 31, 2020	March 31, 2020
		Carrying amount	Carrying amount
		and fair value (\$)	and fair value (\$)
<i>(in thousands of dollars)</i>			
Financial assets and liabilities and classifications		Measurement categories	
Cash	Fair value	95,987	21,624
Accounts receivable	Amortized cost	5,071	3,347
Portfolio Investments ¹	Fair value	476,088	391,200
Grants, author payments and prizes payable	Amortized cost	108,199	58,070
Accounts payable and accrued liabilities	Amortized cost	2,232	5,128

¹ The detailed fair value for the investments is listed in Note 3.

a) Establishing fair value

The carrying values of accounts receivable, grants, author payments and prizes payable and accounts payable and accrued liabilities approximate their fair values due to their short-term maturity.

The fair values of the investments are determined as follows:

- Canadian Equity, Global Equity, Fixed Income and Money Market pooled fund investments are valued at the unit values supplied by the pooled fund managers, which represent the Council's proportionate share of the underlying net assets at fair values, determined using closing market prices.
- The Alternatives is a pooled fund investment which is valued at the unit values supplied by the pooled fund manager. The fund manager manages multiple funds with different strategies within the fund and determines the unit's fair value predominantly using valuation models with unobservable inputs and for smaller portions using closing market prices when available.
- Real estate and Infrastructure investment values are supplied by the fund managers using internally determined appraisals based on valuation models with unobservable inputs.

b) Fair value hierarchy

The financial instruments are grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

The following table presents the financial instruments recorded at fair value in the Statement of Financial Position, classified using the fair value hierarchy described above:

Financial assets at fair value

	Year-to-date December 31, 2020				Year-end March 31, 2020			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
(in thousands of dollars)	\$	\$	\$	\$	\$	\$	\$	\$
Cash	95,987	-	-	95,987	21,624	-	-	21,624
Portfolio Investments								
Canada Council Endowment and Special Funds								
Pooled Funds								
Canadian Equity	-	52,716	-	52,716	-	6,896	-	6,896
Global Equity	-	175,967	-	175,967	-	131,213	-	131,213
Fixed Income	-	92,032	-	92,032	-	87,258	-	87,258
Alternatives	-	-	33,234	33,234	-	-	29,259	29,259
Canadian Equity	-	-	-	-	28,122	-	-	28,122
Real Estate	-	-	8,681	8,681	-	-	9,802	9,802
Infrastructure	-	-	29,676	29,676	-	-	29,958	29,958
Cash	935	-	-	935	1,583	-	-	1,583
Killam Fund								
Pooled Funds								
Canadian Equity	-	10,381	-	10,381	-	6,959	-	6,959
Global Equity	-	36,917	-	36,917	-	26,001	-	26,001
Fixed Income	-	18,677	-	18,677	-	17,715	-	17,715
Alternatives	-	-	8,527	8,527	-	-	7,507	7,507
Real Estate	-	-	2,223	2,223	-	-	2,530	2,530
Infrastructure	-	-	5,473	5,473	-	-	5,752	5,752
Cash	649	-	-	649	645	-	-	645
	1,584	386,690	87,814	476,088	30,350	276,042	84,808	391,200
Total	97,571	386,690	87,814	572,075	51,974	276,042	84,808	412,824

Level 3 Sensitivity Analysis - In the course of measuring fair value of financial instruments classified as Level 3, valuation techniques used incorporate assumptions that are based on unobservable inputs. As the underlying assumptions used in these valuations are not available to the Council, a sensitivity of reasonably possible alternate assumptions for estimation of the fair value measurement of the Level 3 financial instruments is not possible.

5. DEFERRED REVENUES - EXTERNALLY RESTRICTED CONTRIBUTIONS

The deferred revenues from externally restricted contributions consist of accumulated income received which has been deferred until the resources have been used for the purpose or purposes specified by the endowment. The restricted endowment principal of \$37,569,000 is required to be maintained intact and is reported under accumulated surplus from operations (see Note 6).

(in thousands of dollars)	Year-to-date	Year-end
	December 31, 2020	March 31, 2020
Balance, beginning of period	\$ 50,253	\$ 55,736
Transferred (to) from net investment income (Note 7)		
Net Investment income	963	6,908
Use of funds	(1,540)	(2,206)
	(577)	4,702
Unrealized gains (losses) on portfolio investments	18,561	(5,678)
Reclassified to statement of operations - portfolio investments	188	(4,507)
Balance at end of period	\$ 68,425	\$ 50,253

The unrealized gains and losses on portfolio investments are related to the change in fair value of those assets from the previous period.

6. ACCUMULATED SURPLUS

(in thousands of dollars)	Year-to-date	Year-end
	December 31, 2020	March 31, 2020
Accumulated surplus from operations		
Endowment - Original contribution	\$ 50,000	\$ 50,000
Endowment principal - Externally restricted contributions	37,569	37,569
Reserve for excess investment income		
Balance at beginning of period	203,445	190,445
Appropriated from the accumulated surplus during the period	-	13,000
Balance at end of period	203,445	203,445
Surplus		
Balance at beginning of period	32,454	26,376
Appropriated to the reserve for excess investment income during the period	-	(13,000)
Surplus for the period	32,298	19,078
Balance at end of period	64,752	32,454
Total accumulated surplus from operations	355,766	323,468
Accumulated remeasurement gains (losses)		
Balance at beginning of period	(32)	30,731
Change in fair value	63,535	(30,763)
Balance at end of period	63,503	(32)
Balance of accumulated surplus at end of period	\$ 419,269	\$ 323,436

7. NET REALIZED INVESTMENT INCOME

(in thousands of dollars)	Three months ended December 31		Nine months ended December 31	
	2020	2019	2020	2019
Gains (losses) from disposal of portfolio investments	\$ 913	\$ 2,986	\$ (7,128)	\$ 10,500
Transfer from (to) deferred revenues -				
Externally restricted contributions (Note 5)	(859)	(2,945)	577	(5,246)
Net gains on foreign exchange	220	20	252	311
Interest, dividend and other distributed income	13,199	10,188	18,649	15,990
Investment portfolio management costs	(356)	(288)	(1,013)	(1,019)
	\$ 13,117	\$ 9,961	\$ 11,337	\$ 20,536

8. NET ART BANK RESULTS

(in thousands of dollars)	Three months ended December 31		Nine months ended December 31	
	2020	2019	2020	2019
Rental revenue	\$ (389)	\$ (397)	\$ (1,215)	\$ (1,170)
Other income	(36)	(104)	(78)	(189)
Administration expense	433	538	1,231	1,450
Amortization of other capital assets	-	1	-	6
	\$ 8	\$ 38	\$ (62)	\$ 97

9. CANADIAN COMMISSION FOR UNESCO

(in thousands of dollars)	Three months ended December 31		Nine months ended December 31	
	2020	2019	2020	2019
Program - contributions received	\$ -	\$ (75)	\$ (220)	\$ (475)
Program expenses	263	241	709	903
Administration expense	397	385	1,101	1,156
	\$ 660	\$ 551	\$ 1,590	\$ 1,584

10. NET CHANGE IN OTHER NON CASH ITEMS

(in thousands of dollars)	Three months ended December 31		Nine months ended December 31	
	2020	2019	2020	2019
(Increase) decrease in accounts receivable	\$ (1,705)	\$ 230	\$ (1,724)	\$ 656
(Decrease) increase in grants, author payments and prizes payable	(8,868)	(39,434)	50,129	(5,256)
Increase (decrease) in accounts payable and accrued liabilities	352	(511)	(2,896)	(3,198)
Decrease in deferred revenues	(235)	(2,450)	(242)	(267)
Net change	\$ (10,456)	\$ (42,165)	\$ 45,267	\$ (8,065)

11. RELATED PARTY TRANSACTIONS

The Council is related in terms of common ownership to all Government of Canada departments, agencies and Crown corporations. Other related parties of the Council are key management personnel, close family members of key management personnel and entities that are controlled, significantly influenced by, or for which significant voting power is held by key management personnel or their close family members. The Council enters into transactions with related parties in the normal course of business on normal trade terms applicable to all individuals and enterprises, and these transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.