Canadian Tourism Commission

Quarterly Financial Report for the quarter ending June 30, 2022

Canadian Tourism Commission
Narrative Discussion
June 30, 2022

Introduction

The Canadian Tourism Commission (the “CTC”) – doing business as Destination Canada – is Canada’s national tourism marketing organization. A Crown corporation wholly owned by the Government of Canada, we lead the Canadian tourism industry in marketing and developing Canada as a premier four-season tourism destination. We provide market intelligence and industry data for decision making by governments, partners and tourism businesses. Reporting to Parliament through the Minister of Tourism and Associate Minister of Finance, our legislation requirements are outlined in the Canadian Tourism Commission Act.

The CTC runs marketing campaigns domestically and in international markets such as the U.K., Germany, France, Mexico, Japan, South Korea, Australia, China and the U.S., targeting leisure travellers and those travelling for business events. The CTC works collaboratively with industry, communities and government partners to elevate the appeal of Canada’s tourism destinations to visitors and to enhance the quality of life of Canadian residents across the nation.

Narrative Discussion

The Narrative Discussion contained herein applies to the quarter.

Canadian Tourism Commission
Narrative Discussion
June 30, 2022

Quarterly and Year to Date Results

(in thousands)

	Three months ended June 30, 2022	Three months ended June 30, 2021	Variance
Partner revenues	$ 280	$ 255	$ 25

Partnerships with provincial and territorial marketing organizations, national, regional, and local companies have increased compared to the same quarter of the prior year. In Q2 2022 the CTC was able to resume marketing activities that had been paused in 2021. The markets with increased revenue include: China $160K, Japan $31K, United Kingdom $40K, and Germany $42K. This increase was offset by a decrease in Business Events revenue ($213K) and Insights & Analytics ($32K).

Other revenue	267	282	(15)

Other revenue includes operational recoveries within the China office, interest revenues and recoveries of commodity taxes. The variance in Q2 of 2022 relates to a $60K increase in interest earned on bank deposits and the timing difference ($75K) in recoveries within the China office due to co-location agreement renewal.

Marketing and sales expenses	40,753	20,756	19,997

In response to the easing of travel restrictions in Q2 2022, the CTC has increased marketing to the international travel markets while continuing to invest in the domestic travel markets. Spend has also increased due to incremental funding for Helping Visitors Discover Canada program. The total spend increased $19M for the following markets: US $18M, Global Programs $3.8M, Europe $2.4M, Business Events $2M, and Asia Pacific $500K. This increase was offset by a decrease in spending in the domestic market ($6.7M).

Corporate services	1,672	2,042	(370)

The CTC is dedicated to delivering efficient operations to maximize investment in our programs. The Corporate Services spend for Q2 2022 is lower when compared to Q2 of last year mainly due to a decrease in IT costs as well as consulting and legal fees in Q2 2022.

Strategy, Analytics and Destination Stewardship	2,203	1,448	755

The CTC prioritizes investment in strategy, research, and destination development. Spend includes consulting fees, office rent, and travel expenses. The increase mainly relates to Insights & Analytics.

Parliamentary appropriations	39,041	24,040	15,001

Parliamentary appropriations for Q2 2022 increased when compared to the prior year due to incremental funding received for the Helping Visitors Discover Canada program.

	Six months ended June 30, 2022	Six months ended June 30, 2021	Variance
Partner revenues	$ 693	$ 446	$ 247

Partnerships with provincial and territorial marketing organizations, national, regional, and local companies have increased compared to the same period of the prior year. In 2022 CTC was able to resume marketing activities that had been paused in 2021. The markets with increased revenue include: China $174K, Mexico $76K, Japan $144K, United Kingdom $59K, Germany $123, Australia $87K. This increase was offset by a decrease in Business Events revenue ($326K) and Insights & Analytics ($77K).

Other revenue	468	600	(132)

Other revenue includes operational recoveries within the China office, interest revenues and recoveries of commodity taxes. The variance in Q2 of 2022 relates to a $66K increase in interest earned on bank deposits and the timing difference ($198K) in recoveries within the China office due to co-location agreement renewal.

Marketing and sales expenses	62,332	35,775	26,557

In response to the easing of travel restrictions in Q2 2022, the CTC has increased marketing to the international travel markets while continuing to invest in the domestic travel markets. Spend has also increased due to incremental funding for Helping Visitors Discover Canada program. The total spend increased $26.5M for the following markets: US $23.4M, Global Programs $6.7M, Europe $4.1M, Business Events $3.2M, Asia Pacific $800K, and Mexico 265K. This increase was offset by a decrease in spending in the domestic market ($12.4M).

Corporate services	3,856	3,977	(121)

The CTC is dedicated to delivering efficient operations to maximize investment in our programs. The Corporate Services spend for 2022 is lower when compared to last year mainly due to a decrease in professional and legal fees in 2021.

Strategy, Analytics and Destination Stewardship	3,839	2,797	1,042

The CTC prioritizes investment in strategy, research, and destination development. Spend includes consulting fees, office rent, and travel expenses. The increase mainly relates to Insights & Analytics.

Parliamentary appropriations	73,622	47,956	25,666

The $25.7M variance in parliamentary appropriations for 2022 compared to 2021 is due to incremental funding received for the Helping Visitors Discover Canada program.

The CTC's 2022-2026 Corporate Plan, which was approved by the Treasury Board Secretariat in July 2022, includes the following risks.

Background

We manage risk through formal risk review processes with staff and our Board of Directors, and by using the expert advice and support of an independent consultant. In addition, the Office of the Auditor General of Canada annually audits our financial statements and notes, and monitors us through periodic special examinations as required by the *Financial Administration Act*. By identifying strategic risks that impact our organizational objectives, we can address them proactively so that they are effectively managed.

Our independent consultant facilitates the enterprise risk management (ERM) process for the organization. While our staff manage the identification of the risks and mitigations, our independent consultant supports by facilitating:

- Workshops with staff to identify risks and potential mitigating activities;
- Workshops with senior management to evaluate key risks (i.e. identifying the impact and likelihood of each risk); and
- Discussions with senior management on the results of the risk ranking workshop to agree on final risk rankings, mitigating actions and risk categories (strategic vs. operational).

The strategic risks are presented to the Audit and Pension Committee for review and discussion. Additional updates are made to the risks following the committee's input and recommendations.

Approach and Criteria

Our approach to evaluating risks follows leading practice ERM frameworks that allow us to follow a set of coordinated activities enabling risks to be identified and managed in a consistent, systematic, credible and timely way.

- We assess our **risk appetite** in terms of the amount and type of risk we are willing to accept in pursuit of our business objectives. Although we have not produced a statement on risk appetite, management has a moderate risk appetite when it comes to the fulfilment of our mandate.
- We determine our **risk tolerance** which reflects our risk appetite at the specific risk level. This has not been defined due to the maturity of the ERM program, the COVID-19 environment and the changing operating business model. That said, we have a low tolerance for financial operations risk given the extensive internal financial controls that we employ.
- We have developed a 5-point scale to **evaluate the impact and likelihood of our strategic risks**. The risk rating descriptions and rating criteria are provided in the following table. Consistent with best practices identified by our external consultant, we evaluate and report risks on a "residual risk" basis, i.e. after considering mitigating activities. Reporting residual risk is considered appropriate, given the level of understanding of our risks required by our internal and external stakeholders in the development of our strategic objectives, the maturity of our ERM process, and the size of our organization. Inherent risk is considered in the development of our risk-based internal audit plan.

Risk Monitoring

The formal risk assessment process is conducted annually; however, management plans to review changes to risks and assess progress on mitigation action plans periodically throughout the year.

Risk Rating Description and Scoring Criteria

When performing our formal risk evaluation, we use the following 5-point scale (High/Medium High/Medium/Medium Low/Low) to evaluate the impact and likelihood of risks occurring on a residual basis, after taking into consideration our mitigation activities. The following risk rating descriptions and rating criteria are used:

IMPACT RATING	DESCRIPTION	LIKELIHOOD RATING	DESCRIPTION
High	The risk would have a significant negative impact with material consequences to Destination Canada (e.g. complete inability to function) and our customers, shareholder / stakeholder relations, budget and financial operations, internal operations and learning and growth.	High	There is an almost certain likelihood the risk would occur (80% or greater). There is potential for the risk to occur frequently.
Medium High	The risk would have a negative impact on Destination Canada. Consequences would limit our ability to function effectively and efficiently.	Medium High	It is somewhat likely the risk would occur (60-80%). It is possible the risk could occur more than once.
Medium	The risk would have a negative impact on Destination Canada. Consequences would impact our ability to function effectively and efficiently.	Medium	There is a possible likelihood the risk would occur (40-60%). It is unlikely the risk would occur more than once.
Medium Low	The risk would have a minimal impact on Destination Canada. Consequences would be minor or restorable.	Medium Low	There is a possible likelihood the risk would occur (20-40%). It is unlikely the risk would occur more than once.
Low	The risk would have an insignificant impact on Destination Canada.	Low	There is a rare likelihood the risk would occur (20% or less). It is very unlikely the risk would occur at all.

Risks and Risk Responses

The significant impacts of the pandemic on tourism and our own operating environment necessitated a fresh look at the top risks impacting the tourism sector and our own organization. We identified major issues in the tourism product supply chain due to permanent business closures, the reduction of airline routes, the systematic exclusion or underrepresentation of certain people and communities, and environmental impacts. The new risk framework goes beyond standard business and financial risks to categorize strategic risks under the following four lenses:

- Economic – This includes changes in macroeconomic conditions, such as supply chain disruptions, geo-politics and major global events, which could negatively impact business strategies, operations and investments. For Destination Canada, there is a risk that our activities do not result in increased tourism results due to aggressive competition from other countries and due to other sectors in Canada competing for the same limited pool of investment dollars and labour.
- Environmental – This includes monitoring impacts to climate change, reducing emissions and supply chain sustainability. For Destination Canada, there is a risk that destination activities that we promote could have a negative impact on the tourism assets that are being promoted.
- Social – This examines how the business manages labour relations, diversity and inclusion. For Destination Canada, there is a risk that our operations and tourism promotion activities do not consider all stakeholders and are not equitable towards all affected peoples and local communities, and/or that we do not attract a diverse workforce.
- Governance – This assesses leadership, internal controls and ethics to promote greater accountability and transparency. For Destination Canada, there is a risk that our corporate governance activities do not respond to the rapidly changing global business environment, leading to lower overall organizational effectiveness and efficiency.

The revised strategic risks identified below are intended to better match our new reality and more closely align with our refreshed strategy. As these are new risks in a post-COVID world, there are no rating comparators for previous years.

High residual risk Medium-high residual risk Medium residual risk Low-medium residual risk Low residual risk

ECONOMIC – PANDEMIC **2022:**

The COVID-19 pandemic negatively affected all aspects of the tourism industry, driving many organizations out of business and having lasting negative impacts on the organizations that do survive. As the world shifts its focus to recovery, leisure travel demand is forecasted to increase. However, the reduction in tourism supply may require a longer time horizon to return to pre-pandemic levels. There is a risk that Destination Canada's activities do not result in increased tourism results due to aggressive competition from other countries, as well as other sectors in Canada competing for the same limited pool of investment dollars and labour.

Mitigation activities: We operate in a resource constrained environment, and recognize that we compete with other sectors which may decide to invest more, based on their own economic realities. We mitigate this risk through careful financial management, through a unique ability to collaborate nationwide with our provincial, territorial and destination marketing partners, and by adopting a continuous improvement mentality which ensures that we operate as efficiently as possible with the resources that we have at our disposal. We continuously monitor the competitive environment on behalf of our stakeholders in the tourism industry and pivot quickly, where required, to ensure that Canada is equipped and able to gain its fair share of post-pandemic tourism.

High residual risk | Medium-high residual risk | Medium residual risk | Low-medium residual risk | Low residual risk

ECONOMIC – RUSSIA/UKRAINE CONFLICT	2022:
Russia's invasion of Ukraine is a significant geopolitical crisis that has immediate consequences both in the region and beyond. Supply- and demand-side impacts will be felt worldwide as consumer confidence retracts and reduced transport connectivity takes hold. There is a risk that safety fears could weaken demand and be a deterrent for international long-haul travel, with guests favouring locations with greater familiarity and/or in close proximity to their home. **Mitigation activities:** We will follow traveller sentiment closely and adjust our market forecasts, and marketing investments, plans and content as conditions warrant. This includes working with business event partners to prepare for and/or accommodate last-minute event changes. We will also keep up to date with air route changes and cancellations, and work with domestic and major international airlines on joint marketing.	
SOCIAL	**2022:**
Focus on social issues impacting indigenous communities and other minority groups has progressively increased in importance in recent years. The tourism sector relies on managing relationships with geographically and ethnically diverse groups all across the world. Destination Canada also relies on having a diverse workforce that enables us to optimize our own performance. There is a risk that our operations and tourism promotion activities are not considerate of all stakeholders, nor are equitable towards all affected peoples and local communities. There is also a risk that we do not optimize our performance by attracting a diverse workforce. **Mitigation activities:** We are working across multiple initiatives to ensure that our activities reflect the diversity of Canada. This includes: working with our agency partners to showcase all elements of diversity in our global marketing; refining our processes in human resource recruitment, procurement and other practices; training our staff to be aware of biases; working to support Indigenous reconciliation through tourism; and following a community economic empowerment strategy. We are deploying our internal justice, equity, diversity, and inclusion strategy to ensure that we embrace diversity in our operations and reflect the communities we serve.	
GOVERNANCE	**2022:**
In the current environment, stakeholder, employee, and customer expectations are constantly transforming. Economic, social and environmental conditions have shifted quickly and significantly within two years. Organizations in the tourism industry strive to represent their country and their communities on a regional and global level. There is a risk that our corporate governance activities are not responsive to the rapidly-changing global business environment, leading to lower overall organizational effectiveness and efficiency. **Mitigation activities:** We have conducted an extensive environmental scan exploring the big shifts in the tourism industry and aligned our governance activities in the changing environment. This starts with engaging with a Board of Directors made up of seasoned industry and business professionals who ensure that our strategic direction is aligned with the rapidly changing conditions. We have consulted broadly with the industry to develop a strong business strategy, implemented a full policy suite to address day-to-day operations, provided more robust enterprise risk management, and introduced an internal audit function serving as the final line of defense. We measure our performance against our own targets and our stakeholders' objectives, we are benchmarking some areas of market performance against key competitors, and we have implemented appropriate information technology controls to protect against the cyber risks of doing business in today's environment.	

Statement of Management Responsibility by Senior Officials

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 is 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.

Marsha Walden

President and CEO
Vancouver, Canada
August 17, 2022

Anwar Chaudhry

SVP, Finance and Risk Management, and CFO
Vancouver, Canada
August 17, 2022

Canadian Tourism Commission

Statement of Financial Position

As at June 30, 2022
(in thousands)

	June 30, 2022	December 31, 2021
Financial assets		
Cash and cash equivalents	$ 26,211	$ 11,118
Accounts receivable		
Partner	158	535
Government of Canada	734	16,376
Other	10	14
Accrued benefit asset	1,934	1,934
Portfolio investments	548	541
	29,595	30,518
Liabilities		
Accounts payable and accrued liabilities		
Trade	14,371	16,698
Employee compensation	771	2,246
Government of Canada	0	0
Accrued benefit liability	3,748	3,783
Deferred revenue	42	569
Deferred lease inducements	335	384
Asset retirement obligation	112	164
	19,379	23,844
Net financial liabilities / assets	10,216	6,674
Non-financial assets		
Prepaid expenses	5,665	4,573
Tangible capital assets	862	959
	6,527	5,532
Accumulated surplus	$ 16,743	$ 12,206

Canadian Tourism Commission

Statement of Operations

For the six months ended June 30
(in thousands)

	Three months ended June 30		Six months ended June 30	
	2022	2021	2022	2021
Revenues				
Partner revenues	$ 280	$ 255	$ 693	$ 446
Other	267	282	468	600
	547	537	1,161	1,046
Expenses				
Marketing and sales	40,753	20,756	62,332	35,775
Corporate services	1,672	2,042	3,856	3,977
Strategy, Analytics and Destination Stewardship	2,203	1,448	3,839	2,797
Amortization of tangible capital assets	83	80	164	158
	44,711	24,326	70,191	42,707
Net cost of operations before funding from the Government of Canada	(44,164)	(23,789)	(69,029)	(41,661)
Parliamentary appropriations	39,041	24,040	73,622	47,956
(Deficit) Surplus for the period	(5,123)	251	4,593	6,295
Accumulated operating surplus, beginning of period	21,958	42,574	12,242	36,530
Accumulated operating surplus, end of period	$ 16,835	$ 42,825	$ 16,835	$ 42,825

Canadian Tourism Commission

Statement of Remeasurement Gains and Losses

For the six months ended June 30
(in thousands)

	2022	2021
Accumulated remeasurement (loss)/gain, beginning of period	$ (36)	$ 51
Unrealized loss attributable to foreign exchange	(92)	(57)
Amounts reclassified to the statement of operations	36	(51)
Net remeasurement loss for the period	(56)	(108)
Accumulated remeasurement loss, end of period	$ (92)	$ (57)

Canadian Tourism Commission

Statement of Change in Net Financial Assets

For the six months ended June 30

(in thousands)

	2022	2021
Surplus for the period	$ 4,593	$ 6,295
Acquisition of tangible capital assets	(67)	(101)
Amortization of tangible capital assets	164	158
Net disposition of tangible capital assets	1	-
	98	57
Effect of change in other non-financial assets		
Increase in prepaid expenses	(1,093)	(5,695)
	(1,093)	(5,695)
Net remeasurement loss	(56)	(108)
Increase in net financial assets	3,542	549
Net financial assets, beginning of period	6,674	29,748
Net financial assets, end of period	$ 10,216	$ 30,297

Canadian Tourism Commission

Statement of Cash Flows

For the six months ended June 30

(in thousands)

	2022	2021
Operating transactions:		
Cash received from:		
Parliamentary appropriations used to fund operating and capital transactions	$ 87,956	$ 47,956
Partners	543	2,458
Other	251	447
Interest	170	105
	88,920	50,966
Cash paid for:		
Cash payments to suppliers	(64,571)	(41,669)
Cash payments to and on behalf of employees	(9,125)	(8,100)
Cash (used in) operating transactions	15,224	1,197
Capital transactions:		
Acquisition of tangible capital assets	(67)	(101)
Cash used in capital transactions	(67)	(101)
Investing transactions:		
Acquisition of portfolio investments	(8)	(10)
Cash used in investment transactions	(8)	(10)
Net remeasurement loss for the period	(56)	(108)
Net increase in cash during the period	15,093	978
Cash and cash equivalents, beginning of period	11,118	37,784
Cash and cash equivalents, end of period	$ 26,211	$ 38,762

Canadian Tourism Commission
Notes to the Quarterly Financial Statements
June 30, 2022

1. AUTHORITY, OBJECTIVES AND DIRECTIVES

The Canadian Tourism Commission (the "Commission") was established on January 2, 2001 under the Canadian Tourism Commission Act (the "Act") and is a Crown corporation named in Part I of Schedule III to the Financial Administration Act. The Commission is for all purposes an agent of her Majesty in right of Canada. As a result, all obligations of the Commission are obligations of Canada. The Commission is not subject to income taxes.

As stated in section 5 of the Act, the Commission's mandate is to:

- sustain a vibrant and profitable Canadian tourism industry;
- market Canada as a desirable tourist destination;
- support a cooperative relationship between the private sector and the governments of Canada, the provinces and the territories with respect to Canadian tourism; and
- provide information about Canadian tourism to the private sector and the governments of Canada, the provinces and the territories.

In December 2014, the Commission was issued directive PC 2014-1378 pursuant to section 89 of the *Financial Administration Act* directing the Commission to implement pension plan reforms. These reforms are to ensure that pension plans of Crown corporations provide a 50:50 current service cost-sharing ratio between employee and employer for pension contributions by December 31, 2017. The 50:50 cost- sharing ratio was fully implemented as of December 31, 2017.

In July 2015, the Commission was issued directive PC 2015-1109 pursuant to section 89 of the *Financial Administration Act* to align its travel, hospitality, conference and event expenditures policies, guidelines and practices with Treasury Board policies, directives and related instruments on travel, hospitality, conference and event expenditures in a manner that is consistent with its legal obligations, and to report on the implementation of this directive in the Commission's next corporate plan. The Commission implemented its new Travel, Hospitality, Conference, and Event Expenditures Policy on August 21, 2015 which complied with the requirements of the directive. The Treasury Board issued revised directives and guidelines in 2017. On November 29, 2018, the Commission approved an updated policy to align with the new requirements.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian public sector accounting standards ("PSAS"). Significant accounting policies are as follows:

a) Parliamentary appropriations

The Commission is mainly financed by the Government of Canada through parliamentary appropriations. Parliamentary appropriations used to fund core operations and capital expenditures are considered unrestricted and recognized as revenues when the appropriations are authorized and any eligibility criteria are met. Parliamentary appropriations used to fund one-time activities are considered restricted. Restricted appropriations have eligibility criteria and stipulations that give rise to an obligation that meets the definition of a liability. Restricted appropriations are recognized as deferred revenue when the stipulation gives rise to a liability. Restricted appropriation revenue is recognized as the stipulation liabilities are settled.

As a result of the Commission's year-end date (December 31) being different than the Government of Canada's year-end date (March 31), the Commission is funded by portions of appropriations from two Government fiscal years.

The Commission will have a deferred parliamentary appropriations balance at year-end when the restricted funding received for the period exceeds the restricted appropriations recognized for the related fiscal period. The Commission will have a parliamentary appropriations receivable balance when restricted appropriations recognized exceed the restricted funding received.

The Commission does not have the authority to exceed approved appropriations.

b) Partner revenues
The Commission conducts marketing activities in partnership with a variety of Canadian and foreign organizations. Where the Commission assumes the financial risks of conducting a marketing activity, contributions received from a partnering organization are recognized in income over the effective life of the contract or when the event has taken place. Partner revenues received for which the related marketing activity has not yet taken place are recognized as deferred revenue.

c) Other revenues
Other revenues consist of cost recoveries from co-location partners, interest revenues, capital asset sales and other miscellaneous revenues. These items are recognized as revenue in the period in which the transaction or event occurred that gives rise to the revenue.

d) Foreign currency translation
Monetary assets and monetary liabilities denominated in foreign currencies are translated into Canadian dollars at the applicable year-end exchange rate. Non-monetary assets and non-monetary liabilities denominated in foreign currencies are translated into Canadian dollars at historical exchange rates. Revenue and expense items are translated during the year at the exchange rate in effect on the date of the transaction. Amortization expenses of tangible capital assets are translated at historical rates to which the assets relate. Realized gains and losses are considered Operating Expenses and are included in the Statement of Operations as Corporate Services. Unrealized gains and losses are reported on the Statement of Remeasurement Gains and Losses and in the Statement of Change in Net Financial Assets. The Commission does not hedge against the risk of foreign currency fluctuations.

e) Cash and cash equivalents
Cash and cash equivalents include cash in bank and mutual funds. These items are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value.

f) Portfolio investments
Portfolio investments are measured at amortized cost. Interest income related to these investments is calculated based on the effective interest method.

g) Prepaid expenses
Payments made prior to the related services being rendered are recorded as a prepaid expense. Prepaid expenses are recognized as an expense as the related services are rendered. Prepaid expenses consist of program and operating expenses such as subscriptions, marketing activities with Provincial and Territorial Marketing organizations and tradeshow expenditure.

h) Tangible capital assets
Tangible capital assets are recorded at cost less accumulated amortization and the amount of any write-downs or disposals. Tangible capital assets are written down when conditions indicate they no

longer contribute to the ability to provide services and are accounted for as expenses in the Statement of Operations.

Tangible capital assets are amortized on a straight-line basis over the estimated useful life of the assets as follows:

Leasehold improvements	remaining term of lease
Office furniture	5 years
Computer hardware	3 years
Computer software	5 years

Intangible assets are not recognized in these financial statements.

i) Deferred revenue
Deferred revenue consists of revenue from partnering organizations and restricted appropriations received from the Government of Canada. When revenues are received from partnering organizations, they are recognized as deferred revenue until the event has taken place or recognized as partner revenue over the effective life of the contract. When restricted appropriations are received from the Government of Canada, it is recognized as deferred revenue until the criteria and stipulations are met that gave rise to the liability. As at June 30, 2022, and December 31, 2021, the deferred revenue balance is solely made up of deferred revenue from partnering organizations.

j) Deferred lease inducements
Deferred lease inducements consist of various office lease inducements including reimbursement of leasehold improvement costs and free rent periods. These inducements are deferred and recognized as a straight-line reduction to office lease expenses over the term of the lease.

k) Asset retirement obligation
Asset retirement obligation consists of decommissioning costs for various office leases. The Commission recognizes asset retirement obligations as a result of legal obligations to restore leased office spaces back to their original states at the end of the lease term. Asset retirement obligations are measured initially at fair value, based on management's best estimates, with the resulting amount capitalized into the carrying amount of the related asset. The capitalized asset retirement cost is amortized on a straight-line basis over the term of the lease. The amortization expense is included in corporate services in determining the net cost of operations.

l) Employee future benefits
The Commission offers a number of funded, partly funded and unfunded defined benefit pension plans, other unfunded defined benefit plans (which include post-employment benefits, post-retirement benefits and non-vested sick leave), as well as defined contribution pension plans. The pension plans include a statutory plan, a supplemental plan and a plan to cover certain employees working outside of Canada. Other benefit plans include post-employment severance benefits and post-retirement health, dental and life insurance benefits and non-vested sick leave. The defined benefit pension plans provide benefits based on years of service and average pensionable earnings at retirement. The defined benefit component of the statutory plan and the supplemental plan has been closed effective December 30, 2017 and benefits and service of plan participants were frozen as of that date. The Commission funds certain pension plans annually based on actuarially determined amounts needed to satisfy employee future benefit entitlements under current benefit regulations. Cost of living adjustments are automatically provided for retirees in accordance with Consumer Price Index increases.

The costs and obligations of the defined benefit plans are actuarially determined using the projected benefit method prorated on service that incorporates management's best estimates of the rate of employee turnover, the average retirement age, the average cost of claims per person, future salary and benefit levels, expected return on plan assets, future medical costs, and other actuarial factors. For the purposes of calculating the expected return on plan assets, those plan assets are based on the market value of plan assets.

Past service costs arising from plan amendments are recognized in the years of which the plan amendment occurred.

The unamortized actuarial gains and losses incurred prior to the plan settlement that relate to the obligation settled are recognized in the period of settlement. This amount is included as part of the gain or loss arising on settlement. Gains and losses determined upon a plan settlement are accounted for in the Statement of Operations in the period of settlement.

Actuarial gains and losses are amortized over expected average remaining service lifetime (“EARSL”) of active employees. If no active employees are remaining, actuarial gains and losses are amortized fully in the next fiscal year. For 2021, EARSL has been determined to be 0.0 years (0.0 years - 2020) for the Supplementary Retirement Plan for certain employees of the Commission (“SRP”), 13 years (14 years - 2020) for the Pension Plan for Employees of the Commission in Japan, South Korea and China (“WWP”), N/A (21 years - 2020) for non-pension post-retirement benefits, 14 years (14 years – 2020) for severance benefits and 14 years (14 years - 2020) for sick leave benefits.

Employees working in the United Kingdom participate in the Global Affairs Canada defined benefit pension plans administered by the Government of Canada. The assets of these plans cannot be allocated among participating employers, and as such, these plans are deemed “multi-employer” plans and accounted for as defined contribution plans. The Commission’s contributions to these plans reflect the full benefit cost of the employer. These amounts vary depending upon the plan and are based on a percentage of the employee’s gross earnings.
Contributions may change over time depending on the experience of the plans since the Commission is required under present legislation to make adjustments for the rate of contributions to cover any actuarial deficiencies of these plans.
Contributions represent the total pension obligations of the Commission for these employees and are charged to operations during the year in which the services are rendered.

Gains and losses determined upon a plan curtailment are accounted for in the period of curtailment.

m) Financial instruments

Financial assets consist of cash and cash equivalents, accounts receivable, and portfolio investments, while financial liabilities consist of accounts payable and accrued liabilities. Financial assets and financial liabilities are measured at amortized cost, which approximates their fair value.

n) 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 date of the financial statements and the amounts of income and expense during the reporting periods. Actual results could differ significantly from those estimates. The most significant estimates involve the determination of the employee future benefits liability and related accrued benefit asset, the useful lives for amortization of tangible capital assets, the fair value of the asset retirement obligation, contingencies, partner revenues, prepaid expenses and accrued liabilities.

o) Related party transactions

Through common ownership, the Commission is related to all Government of Canada created departments, agencies and Crown corporations. The Commission's transactions with these entities are in the normal course of operations and are measured at the exchange amount.

Related parties also include key management personnel (KMP) having authority for planning, controlling, and directing the activities of the Commission, as well as their close family members. The Commission has defined its KMP to be members of the Board of Directors and management employees at the Senior Vice-President level and above.

p) Partnership contributions in-kind

In the normal course of business, the Commission receives in-kind contributions from its partners including the transfer of various types of goods and services to assist in the delivery of programs. The audit services and the in-kind contributions from partners are not recognized in the financial statements.

q) Inter-entity transactions

Inter-entity transactions are transactions between commonly controlled entities. The Commission records inter-entity transactions at the exchange amount except the following:

- Audit services received without charge between commonly controlled entities.
- In-kind contributions received from commonly controlled entities.

The value of the audit services is considered insignificant in the context of the financial statements as a whole and inter-entity in-kind contributions are not recognized in the financial statements.

3. FINANCIAL STATEMENT PRESENTATION

a) These unaudited interim financial statements should be read in conjunction with the annual financial statements of the Canadian Tourism Commission (the "Commission") as at and for the year ended December 31, 2021 and the narrative discussion included in the quarterly financial report. Amounts in these interim financial statements as at June 30, 2022 are unaudited and are presented in Canadian dollars.

b) The Commission changed the allocation of its Research unit expenses from Marketing and Sales to Strategy, Analytics and Destination Stewardship. The prior year's comparatives have been restated to reflect the current year presentation. Refer to the Statement of Operations.

4. PARLIAMENTARY APPROPRIATIONS

Parliamentary appropriations approved for the Government fiscal period April 1, 2022 to March 31, 2023 are $156.2M which includes $96.2M base funding and $60.0M relating to the 2022 Federal Budget - incremental funding for the purpose of Helping Visitors Discover Canada (April 1, 2021 to June 30, 2022 $96.2M and $25.0M). The Commission does not have the authority to exceed approved appropriations.

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5. ACCUMULATED SURPLUS (000S)

The accumulated surplus is comprised of:

	June 30, 2022	December 31, 2021
Accumulated operating surplus	$ 16,835	$ 12,242
Accumulated remeasurement gain / (loss)	(92)	(36)
Accumulated surplus	$ 16,743	$ 12,206

6. TANGIBLE CAPITAL ASSETS (000S)

(in thousands)	Computer Hardware	Computer Software	Leasehold Improvements	Office Furniture	June 30, 2022
Cost of tangible capital assets, opening	$ 757	$ -	$ 1,948	$ 340	$ 3,045
Acquisitions	67				67
Disposals	(16)		(124)	(3)	(143)
Cost of tangible capital assets, closing	809	-	1,824	337	2,970
Accumulated amortization, opening	591	-	1,204	291	2,087
Amortization expense	59		95	10	164
Disposals	(16)		(124)	(3)	(142)
Accumulated amortization, closing	634	-	1,176	298	2,108
Net book value	$ 175	$ -	$ 648	$ 38	$ 861

(in thousands)	Computer Hardware	Computer Software	Leasehold Improvements	Office Furniture	2021 Total
Cost of tangible capital assets, opening	$ 671	$ -	$ 1,948	$ 340	$ 2,959
Acquisitions	136				136
Disposals	(53)				(53)
Cost of tangible capital assets, closing	754	-	1,948	340	3,042
Accumulated amortization, opening	538	-	1,013	272	1,823
Amortization expense	102		192	19	313
Disposals	(53)				(53)
Accumulated amortization, closing	587	-	1,205	291	2,083
Net book value	$ 167	$ -	$ 743	$ 49	$ 959