DESTINATION CANADA

WELCOMING THE WORLD

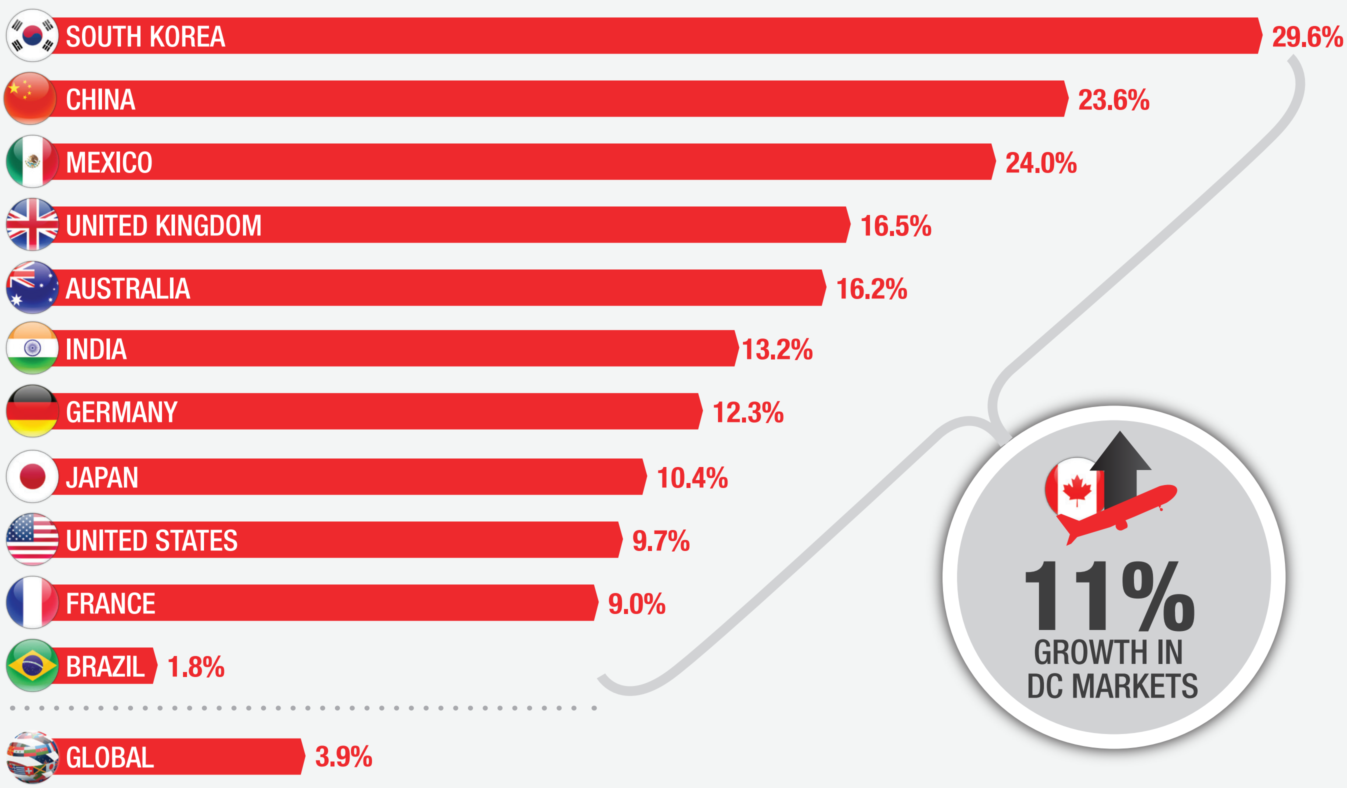
2016 Annual Report

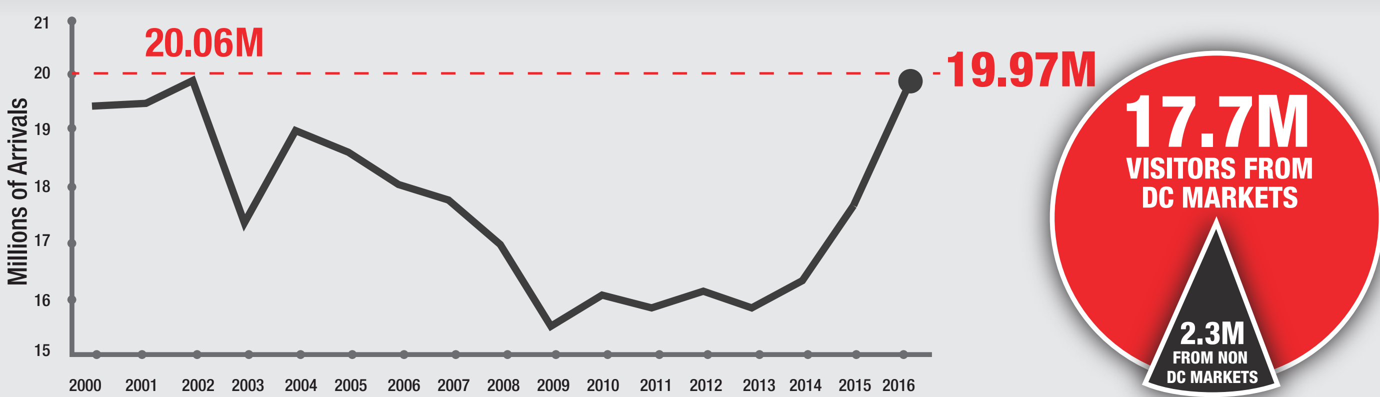
Canada

CONTENTS

STATE OF THE INDUSTRY

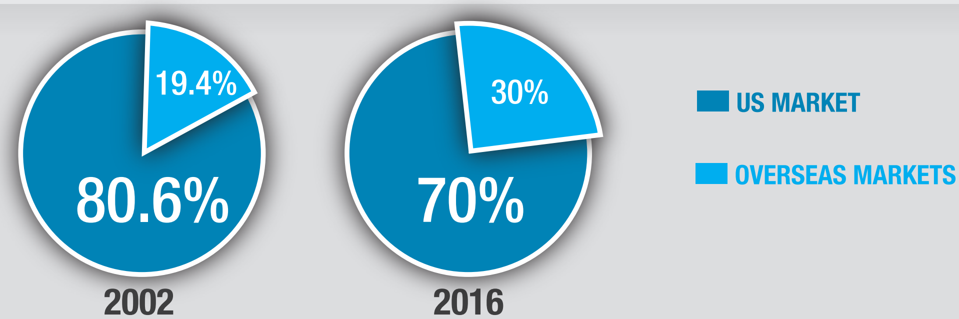
Visitation to Canada





Source: Statistics Canada, Border Counts

Optimizing the Visitor Mix



“These are tremendous successes and are examples of what can be achieved when we all work together.”

MESSAGE FROM THE CHAIR OF THE BOARD OF DIRECTORS

Canada’s near-record visitation levels in 2016 are a testament to its reputation on the international stage as a vibrant, culturally rich and inviting destination.

The country welcomed an estimated 19.97 million visitors, just shy of the peak of 20.1 million from 14 years ago. In the markets that DC operates, international arrivals grew by 11% from 2015, up from the 7.9% growth experienced the previous year.

Across the country, Canada is on a strong footing. Hotel occupancy is on the rise, inbound aviation capacity is up, and tourism businesses are thriving. This momentum is expected to continue into 2017, particularly as this is the year we celebrate Canada’s 150th birthday.

These are tremendous successes and are examples of what can be achieved when we all work together.

At DC, our public and private partners are essential in what we do. In 2016, we renewed key partnerships to advance the promotion of Canadian tourism product, and signed ground-breaking agreements for joint strategic and targeted marketing.

We are grateful for the Government of Canada’s injection of additional funds for international tourism marketing. This is a recognition that effective travel promotion is an economic driver and a support for essential services.

We would also like to thank the Prime Minister for his support of the tourism industry, and the Honourable Bardish Chagger, Minister of Small Business and Tourism, for her leadership in developing Canada’s New Tourism Vision, a whole-of-government approach to growing international visitation to Canada and enhancing the competitiveness of the country’s tourism industry.

I would like to thank everyone at DC – my board colleagues and all the staff – for their commitment and contributions for another successful year. We all have much to celebrate, and still more to look forward to.

Olga Ilich

Sustaining growth over the long term will require a coordinated marketing approach and aligned investments.”

MESSAGE FROM THE PRESIDENT AND CEO

2016 saw positive growth in travel across the globe, and more importantly, Canada outpaced this growth nearly three to one.

At long last, Canada is winning market share.

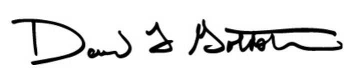
There are countless reasons contributing to this strong performance, including market conditions, public policies, and innovative marketing. The efforts of the numerous players in the tourism industry all impact Canada’s performance internationally, including DC in its capacity as a stimulant of demand.

At DC we spent much of the year employing new ways to reach travellers and encourage them to choose Canada. We re-entered the United States leisure market after years of absence with Connecting America, our innovative digital marketing campaign targeting our neighbours to the south. We also launched our *Millennial Travel Program* designed to inspire the next generation of growing and influential world travellers. Both programs are already demonstrating impressive results.

Tourism in Canada is on an upward trajectory, but sustaining growth over the long term will require a coordinated marketing approach and aligned investments. Going forward, we will continue to work alongside our colleagues in the tourism industry to chart a path forward that will make Canada stand above the competition. Such a strategy, we believe, will be the road towards increasing market share for Canada.

We would like to thank Olga Ilich for her outstanding leadership and service to the Board.

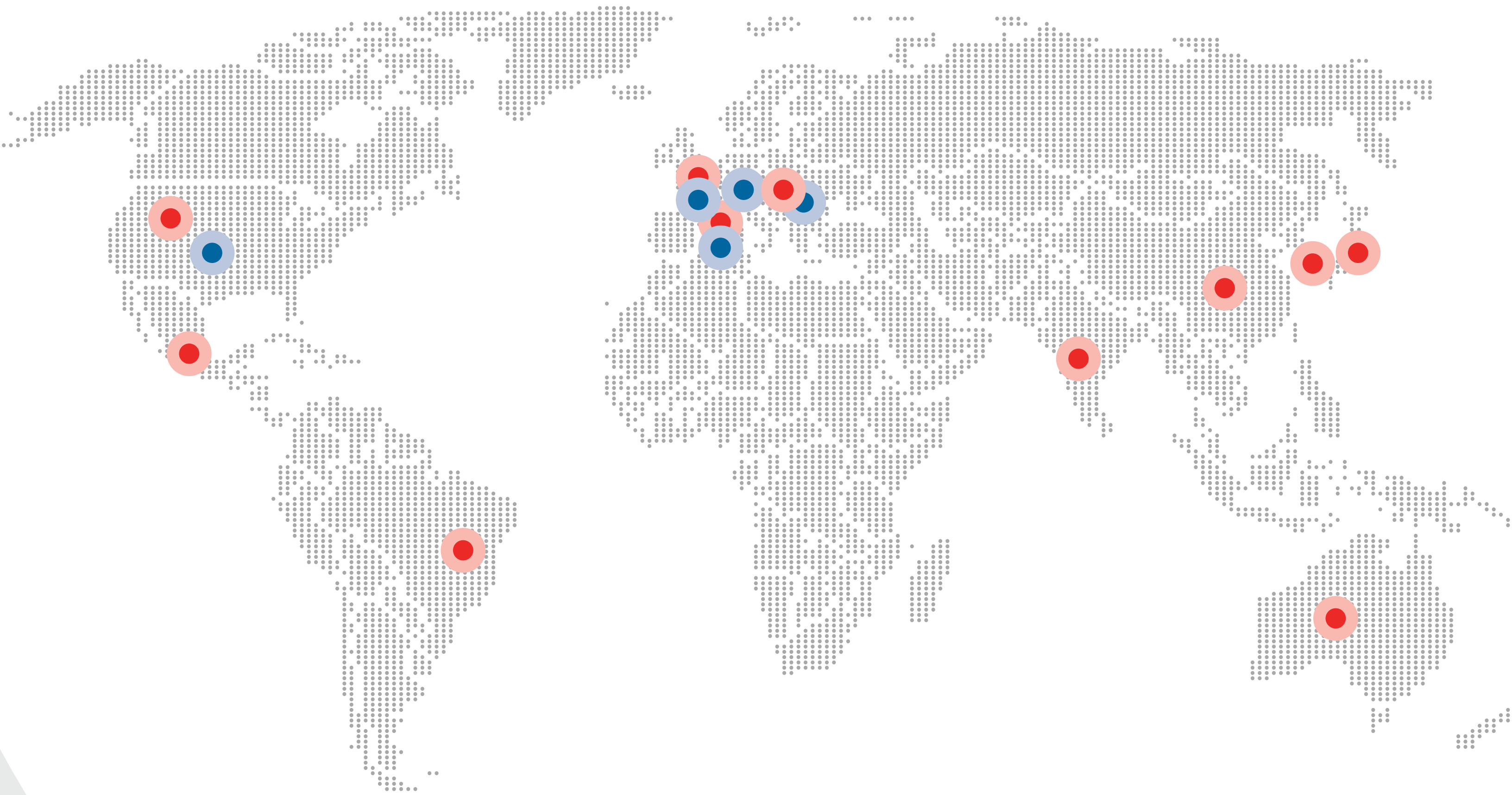
We welcome Ben Cowan-Dewar as our new Chair of the Board of Directors. Ben is a tourism visionary and his entrepreneurial spirit will ensure that we continue driving long-term prosperity for the sector.



David F. Goldstein

ABOUT US

12 GLOBAL MARKETS



LEISURE TRAVELLERS

Australia
Brazil
China
France
Germany
India
Japan
Mexico
South Korea
United Kingdom (UK)
United States (US)

BUSINESS EVENTS

Belgium
Germany
US
France
UK

ROLE

Tourism plays a critical role in Canada's entrepreneurial development and job creation in every region of the country.

As Canada's national tourism marketer, the Canadian Tourism Commission (CTC), operating as Destination Canada (DC), markets Canada abroad to leisure and business travellers to increase arrivals and grow Canada's tourism economy. We work with partners in provincial and territorial governments and in the tourism industry to help Canada's tourism businesses reach international markets.

As a demand accelerant, we provide a strong co-investment platform for public and private partners. We connect Canadian tourism operators, many of which are small- and medium-sized enterprises, with new markets that would be difficult for them to reach on their own. This international access contributes to the livelihood of thousands of tourism businesses across the country, helping the industry as a whole to thrive and prosper.

As part of a whole-of-government approach, we also work closely with the federal family to play an active role in supporting Canada's tourism sector. Our market research helps to support policy direction, and we also collaborate with federal stakeholders to align tourism, trade and diplomatic activities, where feasible.

MANDATE

Our legislative mandate is to promote the interests of the tourism industry and to market Canada as a desirable tourist destination. Specifically, we have a mandate 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 to the governments of Canada, the provinces and the territories.

Assiniboine Park Zoo, Manitoba
BEN JAWORSKYJ

FUNDING SOURCES

We are financed primarily through parliamentary appropriations and operate on a calendar fiscal year. Through our co-investment strategy, we create public-private partnerships to leverage our core appropriations and extend our global marketing reach.

In 2016, we received parliamentary appropriations as follows: $58 million in base funding, $11.5 million for the Connecting America program, and $12 million in additional funding through Budget 2016.

CORPORATE CONTEXT

GLOBAL LANDSCAPE

2016 marked the seventh straight year of sustained growth. According to the United Nations World Tourism Organization, 1.2 billion travellers were on the move – an increase of 46 million from 2015. Such solid and uninterrupted growth has not been seen since the 1960s[1].

Continuing the positive trend from years past, world travel in 2016 grew at a moderate 3.9%, and growth in arrivals to North America was on par with this level. In contrast, Canada expanded at a remarkable rate of 11.1% in 2016, outpacing global growth by more than double.

Looking ahead, projections for 2017 are positive. A similar pace of world tourism growth is expected, and is predicted to be fueled by a growing middle class across the globe, increased air connectivity and more affordable travel.

> “SUMMER 2016 A BANNER SEASON FOR TOURISM IN ALL THREE MARITIME PROVINCES.”
>
> *CTV ATLANTIC* – NOVEMBER 3, 2016

TOURISM IN CANADA

Canada welcomed close to 20 million international overnight visitors in 2016, just shy of the record 20.06 million arrivals in 2002[2]. With world tourism growth at 3.9%, Canada's growth of 11.1% is its strongest in 30 years. Not since Expo 86 has Canada seen such a rise in demand.

Approximately 17.7 million of Canada's visitors arrived from the 11 markets where we operate, representing a combined $15.5 billion[3] in revenue for the nearly 200,000 tourism businesses across Canada[4], and support for over 637,000 jobs in the sector[5].

New peaks were recorded in six of our markets – Australia, Brazil, China, France, India and South Korea – and arrivals from the US reached the highest since 2005. Market conditions across the globe, increased air capacity and innovative marketing have created the conditions to further Canada's share of world arrivals.

Tourism in Canada is booming and promises continued momentum in 2017. Signals of strong visitation growth in excess of the global average are underpinned by a strong country brand, growing aviation capacity and currency advantages. Furthermore, Canada's 150th anniversary in 2017 is already positioning Canada as a must-visit destination.

1 UNWTO World Tourism Barometer, UNWTO, January 2017.
2 Statistics Canada, International Travel Survey, 2016.
3 Destination Canada Research estimates.
4 Destination Canada Research using data from Statistics Canada's Tourism Satellite Account and Business Register, 2015.
5 Statistics Canada, National Tourism Indicators, 3rd Quarter, 2016.

MANAGEMENT DISCUSSION AND ANALYSIS


Banff National Park, Alberta
JOHAN LOLOS

LOOKING AHEAD

Average growth from the markets where DC invests is significantly outpacing the international average, and these markets represent approximately 88% of Canada's visitation. Canada's market share is increasing, and is the highest it's been in over a decade.

As we reflect on our achievements of 2016, it is important to acknowledge that continuation along this trajectory of surpassing global growth and increasing market share for Canada will require a coordinated effort by provincial, territorial and destination marketing organizations across the country. DC is one of many players with the ability to influence change in the sector, but real change in terms of sustainable growth and positioning Canada's tourism sector as investor grade can only be effected through mutual commitment by all.

2016 ORGANIZATIONAL PERFORMANCE

Almost **1.2 MILLION** additional visitors

33% ABOVE TARGET

Spending over **$1.5 BILLION**

36% ABOVE TARGET

Support for nearly **10,500 JOBS** in the tourism sector

Additional federal tax revenue of **$200 MILLION**

Partners co-invested nearly **$90 MILLION** alongside us

10% ABOVE TARGET

dedicated **94%** of our appropriations to marketing and sales

9% ABOVE TARGET

GOAL

Increase arrivals of international visitors to Canada and increase tourism export revenue

Our ability to grow arrivals and ultimately contribute to increasing Canada's market share is premised on being able to translate the effectiveness of our marketing efforts into actual visitation. We employ various methods for attributing our performance in our three main channel areas: consumer direct marketing, travel trade promotions and business events.

PERFORMANCE MEASURE	ORIGINAL 2016 TARGET	REVISED 2016 TARGET *	2016 RESULT
Attributable arrivals	758,000	891,500	1,188,000
Attributable tourism export revenue	$926 Million	$1.1 Billion	$1.5 Billion

* Targets revised to take into account additional funding made available through Budget 2016.

Consumer Direct

To determine the relationship between the effectiveness of our campaigns and the impact on arrivals, we had been executing advertising evaluation studies on a subset of our leisure markets since 2013. While we deployed marketing activities directed at consumers in all our markets, it was cost prohibitive to conduct studies in each market annually, so a sampling methodology served as a directional indicator of the effectiveness of our approach in all our markets.

Over the years we've shifted to modern approaches in marketing, and in order to assess these approaches across all markets, in 2016 we revised our evaluation approach.

For all markets with the exception of the US, we adopted a third-party marketing attribution model. Such a model cost-effectively estimates attributable arrivals from all our leisure markets based on historical data, current performance metrics and external factors.

After years of absence in the US leisure market, historical performance information was not available for use with the marketing attribution model. As such, traditional pre- and post-campaign surveys were used to determine attributable arrivals from this market.

In 2016, our consumer direct marketing efforts attracted close to 785,000 travellers to Canada, resulting in foreign traveller spending of $991 million. These results include attributable results from Connecting America and extended programming made possible through Budget 2016.

“VANCOUVER SETS TOURISM RECORD WITH 10 MILLION VISITORS IN 2016.”

VANCOUVER SUN – FEBRUARY 24, 2017

Vancouver, British Columbia
JOHANN WALL

Travel Trade

In addition to advertising directly to consumers as above, we also reach out to consumers indirectly through promotional activities with the travel trade. We assess the impact on arrivals of our marketing partnerships with the trade, such as tour operators and travel agents, in all our leisure markets. In 2016, close to 57,000 bookings to Canada were secured, equating to over $157 million in visitor spending from all our leisure markets.

Business Events

Our third main channel, business events, tracks the bookings of meetings, conventions and incentive travel as a result of our efforts. Through the international promotion of Canada's diverse destinations, state-of-the-art facilities, high service levels and distinctive product experiences, our business events program positions Canada as an attractive place for international meetings and incentive trips. In 2016, our program confirmed over $373 million in contracted business events and over 347,000 planned delegates.

Collectively, all three channels generated $1.5 billion in tourism revenue, $200 million in federal tax revenue[6], and support for nearly 10,500 tourism related jobs[7] in Canada. A combination of a strong country brand, innovative marketing, global market conditions and expanding aviation capacity helped us to exceed our targets for attributable arrivals and tourism export revenue.

"MASSIVE CRUISE SHIP BRINGS NEW ERA OF ARCTIC TOURISM TO CAMBRIDGE BAY."

CBC NEWS – AUGUST 29, 2016

"2016 GOOD YEAR FOR TOURISM IN SAINT JOHN."

HUDDLE – NOVEMBER 3, 2016

[6] Calculated using data from Statistics Canada, Government Revenue Attributable to Tourism, 2011.

[7] Calculated using data from Statistics Canada, National Tourism Indicators, 3rd Quarter, 2016.

OBJECTIVE 1

Increase demand for Canada with innovative marketing

Our always-on approach to marketing is designed to reach and engage with target travellers at multiple touch points and at multiple times – by providing relevant content at the right time and across multiple channels, we tell a consistent story about Canada's inspirational experiences that truly connect with target audiences, drive interest and encourage action.

Our active consideration measure tracks travellers in our markets who are considering visiting Canada in the next two years. It acts as a proxy for our ability to make Canada top of mind for travellers who are deciding where to take a vacation.

In 2016, we attained a result of 6.9% against our target of 14%. Three primary methodological changes in our survey-based tool may have contributed to this lower than expected result. In 2016, the tool was redesigned to remove some bias in how survey questions had traditionally been asked. Secondly, with our re-entry into the US leisure market, the survey was adjusted to accommodate out-of-state US travellers in addition to long-haul travellers. Lastly, the timing of survey execution was adjusted from the summer to the fall, potentially impacting the timing of future travel being considered when responding (travel in winter/spring vs. travel in summer/fall).

PERFORMANCE MEASURE	2016 TARGET	2016 RESULT
Active consideration*	14%	6.9%
Leads to partners generated**	Benchmark	$1.15 million

* Percentage of long-haul travellers in DC markets who are somewhat or very interested in visiting Canada in the next two years.

** The number of potential customers DC passes on to its marketing partners to convert into actual visitation. DC has identified these potential travellers as having an interest in Canada and looking for destination-specific information which can be found on partner sites.

At Home: Millennial Travel Program

Broadly defined as 18-34 year olds, millennials are the fastest growing travel segment in the world. Our research shows that Canadian millennials spend more and stay longer when travelling, are likely to return for future visits, and are more likely to travel abroad than at home[8].

We also know that celebrations and major events are significant drivers of millennial travel, and that cutting edge technology is pivotal for this influential group when making travel recommendations. That's why, with Canada's 150th anniversary approaching, it was an opportune time to refresh Canada's travel story and inspire young Canadians to travel Canada.

Together with partners, we developed a massive content campaign challenging youth to explore Canada's urban backstreets, communal hubs and rugged trails, and to create their own experiences along the way. Dedicated campaign websites Far & Wide and Infiniment Canada showcase Canadian journeys in real time through the eyes of key social influencers, and feature exclusive time-limited offers to incite travel. The digital content is amplified with advertising on broadcast networks and social media posts.

"YOU'RE MISSING OUT IF YOU'VE NEVER BEEN TO TADOUSSAC."

HUFFINGTON POST CANADA – SEPTEMBER 27, 2016

The campaign launched in April 2016 by Minister Chagger and will run until July 1, 2017. With a target to reach over 4.4 million Canadian millennials and inspire a 5% lift in travel, the campaign had already reached an audience of 6.7 million by the end of 2016.

In addition to the domestic component, the campaign was extended in 2016 to the US, the UK, Germany, Australia, Japan and South Korea, and visitation results for these markets have been integrated with overall international arrivals results.

[8] Destination Canada, Canada Millennial Domestic Travel Summary Report, March 2015.

CAMPAIGN GOALS (April 2016 – July 2017)	2016 RESULT	TARGET COMPLETION
Reach 4.4 million Canadian millennials	6.7 million	Surpassed
Increase travel by 5%	To be assessed in 2017	
Generate 150,000 leads to partners	53,800	On track

Montreal, Quebec
RISHAD DAROOWALA

Next Door: Connecting America

The US is Canada's largest source of foreign visitors. Increased consumer confidence, greater flight capacity between Canada and the US, increased passport ownership and a penchant for international travel means the time was right to re-enter the US leisure market with a bold and innovative marketing campaign.

Connecting America is a three-year program that invites Americans to visit and experience the vibrant, unexpected and unique side of Canada. Borne out of the Government of Canada's $30 million investment over three years and supplemented with incremental funds from Budget 2016, the program is our first national tourism initiative in the US since 2011.

Conception in 2015 paved the way for full campaign launch in April 2016. Using digital advertising, videos, media publisher content and social media activity, travellers are seeing what can be FOUND IN CANADA including vibrant cities, outdoor adventures, natural wonders, a rich culinary scene, and world-class festivals and events.

We've infused innovation through all aspects of the program, including incorporating a fully-digital platform delivering individualized content to potential travellers. We're also providing leads to partners so they can retarget with customized ads and travel offers. In 2016, we surpassed our target of providing 198,000 digital leads to partners by four times.

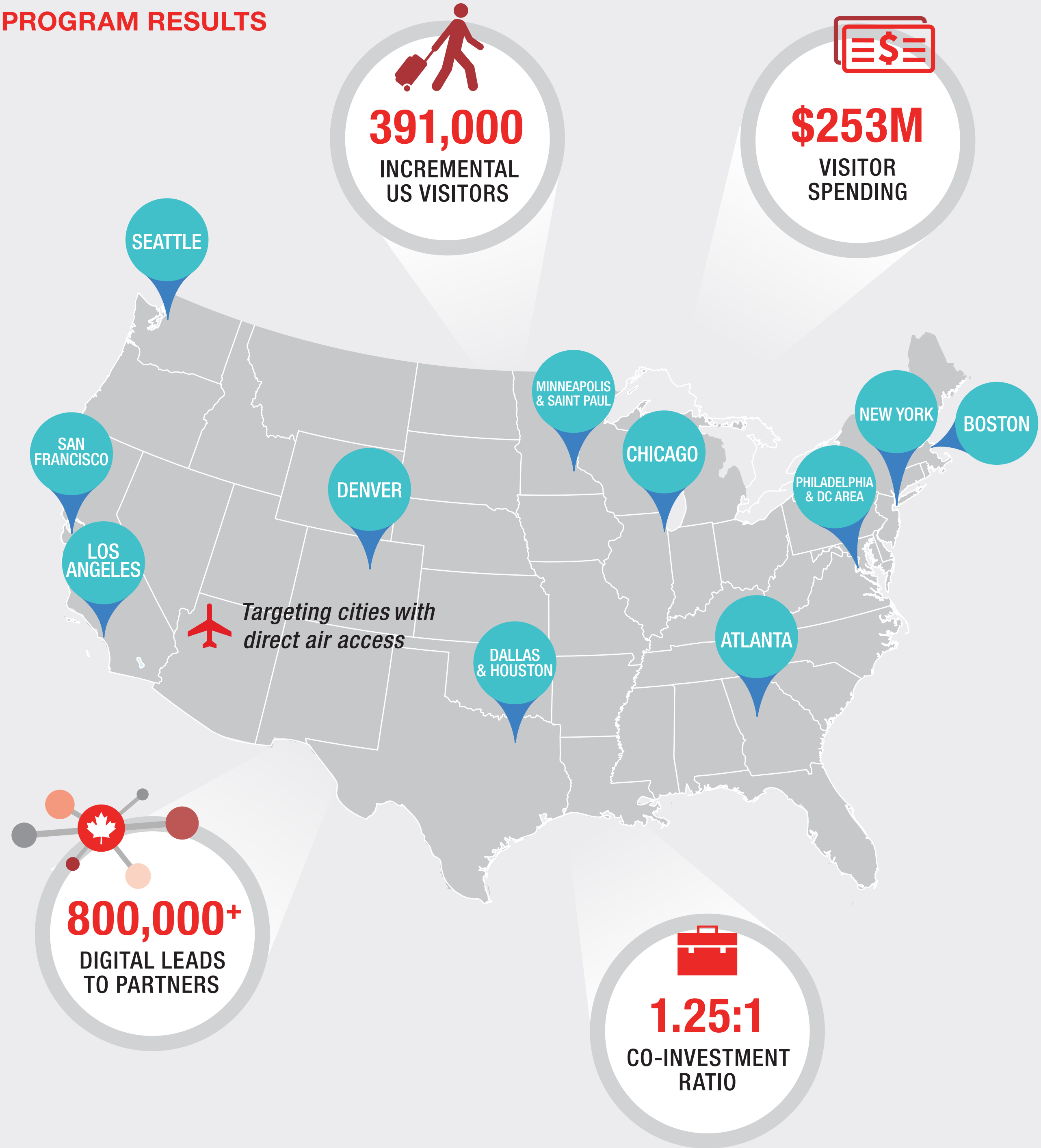
We've also adopted a Team Canada approach whereby all provinces and territories, plus city, resort and commercial partners from across the country, have come together to support a unified campaign. The coordinated effort allows us to better share customer data and pool budgets to create a more effective digital presence, while providing a strong, consistent and targeted invitation to Americans.

Campaign results have been exceptional with an attributable lift in US visitation of 391,000 for 2016 which exceeds our target by 27%. In our target US cities, travel searches for Canada and its destinations increased by 42% in 2016 over 2015.

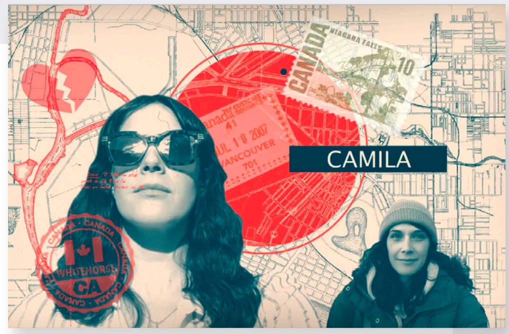
PROGRAM GOALS (2016-2018)	2016 TARGET	2016 RESULT	TARGET COMPLETION
1.035 million US arrivals to Canada	308,000*	391,000	Surpassed
$629 million in tourism revenue	$199 million*	$253 million	Surpassed
Partner co-investment ratio of 1.25:1	1.25:1	1.25:1	Met

* Original targets of 240,000 arrivals and $155 million in tourism revenue revised with the addition of funding from Budget 2016.

PROGRAM RESULTS



Abroad: Innovative Content Marketing



KOREA DRAMA SERIES

Korean drama series explore cultural trends while creatively showcasing destinations around the world. They command large audiences and destinations featured can expect incremental visitation as viewers want to visit where the story unfolds.

That's why we, along with partners, invested in the Korean smash television hit "Dokkaebi" to feature Quebec City in the storyline. The hit drama holds a viewership of 60 million across Asia. The approach capitalizes on the increased air capacity and Korean interest to visit Canada, and creatively introduces a new part of the country to the Korea market. While only released in December 2016, the series is garnering positive interest for Quebec City and Canada.

MEXICO: FRIENDSHIP IS A JOURNEY

With Canada preparing to remove the visa lift on Mexican travellers on December 1, 2016, the time was right to reinforce the message of a never-ending friendship with our Mexican neighbours.

We collaborated with Discovery Networks to create a miniseries about a group of friends travelling all over Canada. Each episode a story on its own, "Friendship is a Journey" was part of a bigger strategy to showcase undying friendship between two countries – a sentiment that strikes a powerful chord with Mexicans.

Fully integrated, the campaign also incorporated trade and social media channels to create a buzz around the visa lift, offer partner deals and motivate Mexicans to visit Canada. The campaign had nearly 3,000,000 views, and early results are showing a noticeable lift in travel from this market.

> "MORE TO SOUTHWESTERN SASKATCHEWAN THAN MEETS THE EYE."
>
> *THE GLOBE AND MAIL* – MAY 2, 2016

Abroad: Innovative Content Marketing

CHINA: CANADA MOTORCYCLE ADVENTURE

Capitalizing on the enormous impact that video can have on the Chinese consumer, we partnered over the summer on a video series to document a 19,000 km journey by two famed motorcyclists across Canada.

The videos showcased an east to west, cross-country motorcycle tour by a Canadian and a Chinese rider trekking through all provinces and territories, and touching the three oceans surrounding Canada.

A total of 22 videos were produced with an average episode view of nearly 3,000,000.

ROYAL TOUR TO CANADA

In the fall of 2016, Canada welcomed the Duke and Duchess of Cambridge for a visit. As part of their royal tour, Prince William and Kate Middleton, together with their children, spent eight days touring Canada's west coast and exploring communities in British Columbia and the Yukon.

Working with Canadian Heritage, we took the opportunity to bring together partners to tell a Canadian destination story and increase awareness in markets of mutual interest.

The Royal Visit provoked phenomenal interest, with web searches for destinations visited spiking tremendously.

> “BUSINESS WAS BOOMING THIS SUMMER IN DAWSON CITY, YUKON.”
>
> *CBC NORTH* – OCTOBER 11, 2016

> “CHARLOTTETOWN AIRPORT BREAKS ALL-TIME PASSENGER RECORD IN 2016.”
>
> *FLYPEI* – JANUARY 12, 2017

"MONTREAL IS EXPERIENCING A SERIOUS TOURISM BOOM."

DAILY HIVE – AUGUST 4, 2016

Business Events

Meetings, conventions and incentive travel has long been a lucrative segment of business travel for Canada and continues to grow as more Canadian destinations solicit this type of business. Expenditures on corporate and incentive programs held in Canada generate over one million travellers and over $1 billion in tourism spending annually.

We bring meeting and incentive planners to Canada and participate at various trade shows to showcase Canada's state-of-the-art event facilities and diversity of travel products. We target key decision makers internationally, and have also aligned with the Government of Canada's export strategy to focus on priority economic sectors where Canada is seen to hold a competitive advantage.

We continue to make positive strides in driving qualified business opportunities for our partners to close the sale. As a result of our work in 2016, we generated over 500 leads for our partners.

Toronto, Ontario
JIRI SAFTAR

Montreal, Quebec
TOURISME MONTRÉAL, ULYSSE LEMERISE

Business Events

INCENTIVE CANADA

This annual signature incentive marketplace, held in Quebec City in 2016, welcomed 45 qualified incentive buyers from the US and Europe to conduct one-on-one meetings with 25 Canadian partners. The event also featured a culturally diversified program to explore the host city.

As a result of the event, 17 leads for future incentive programs have been generated with an estimated value of over $5 million for Canada.

> **“THUNDER BAY AIRPORT SEES MORE U.S. TRAVELLERS IN 2016.”**
>
> *CBC NEWS* – JUNE 7, 2016

IMEX AMERICA

Thousands of professionals from around the world convene at IMEX America, the US’s largest meetings industry trade show.

Canada remains the top choice for meetings originating from the US, so it was no surprise that increased partner demand led to a greater presence under our Canadian pavilion on the trade show floor.

The over 1,000 appointments with Canadian partners have resulted in approximately $35 million in committed business revenue for corporate and incentive programs in Canada, which represent nearly 35,000 future delegates.

> **“CONVENTION SPACE, DIRECT FLIGHTS BOOST NL TRAFFIC STATS.”**
>
> *CBC NEWS*, AUGUST 9, 2016

OBJECTIVE 2

Advance the commercial competitiveness of the tourism sector

Partners are an integral part of the work we do. The success of our marketing campaigns and trade programs are anchored in solid public partnerships and private sector co-investments across all our marketing channels and markets. Forging external relationships that are strategic and commercially beneficial have the power to propel long-term success for Canada's tourism entrepreneurs.

PERFORMANCE MEASURE	2016 TARGET	2016 RESULT
Partner co-investment ratio	1:1	1.1:1
Percentage of partners who indicate DC activities advance their business objectives	83%	81%

"TOURISM NUMBERS SURGING ON ISLAND."

THE GUARDIAN – AUGUST 19, 2016

Tofino, British Columbia
BRIAN CAISSIE

Yellowknife, Northwest Territories
BLACHFORD LAKE LODGE/MARTINA GEBROVSKA

The Power of Partnerships

Working in cooperation with tourism partners helps to advance the relevancy of our programs and platforms, and drives commercial interests that generate economic prosperity across the country.

Over 2016, we've been working jointly with our tourism partners across the country to continually learn and improve what we do. We collaborated on a number of joint initiatives, such as a research project on the US market to acquire and pool customer data. Sharing data provides more detailed analytics than what could have been acquired individually, and gives all partners insights on which content is driving which behaviours.

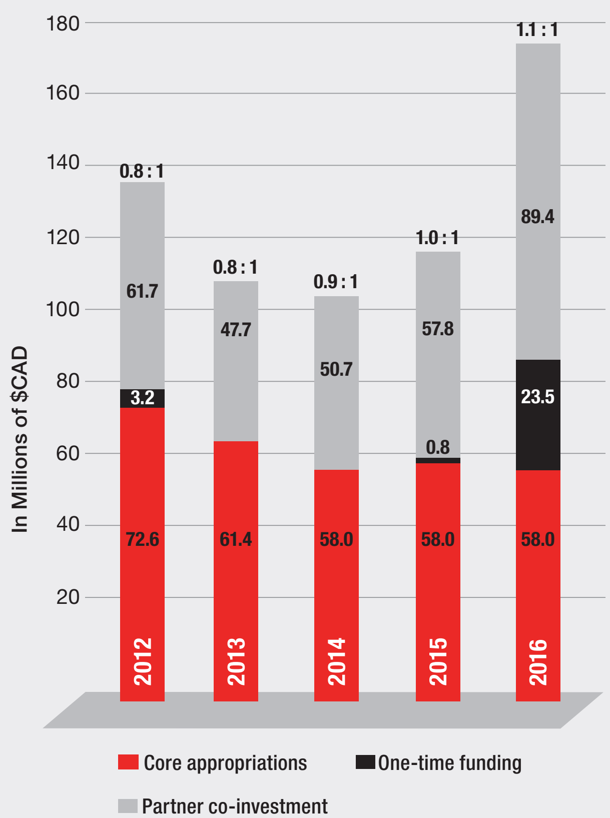
We've also been working together on developing a common system of performance measurement, particularly in the area of digital advertising. A standardized framework assists in better measuring the effectiveness of our digital marketing efforts, and informs decisions on future marketing initiatives.

In addition to these, we entered into the following four strategic agreements in 2016, reaffirming our commitment to work closely with partners to grow the Canadian tourism industry:

- a multi-year partnership with Air Canada for global collaboration on strategic marketing initiatives
- a multi-year agreement with Parks Canada to drive international visitation to Canada's parks and historic sites
- a pilot project with InnVest Hotels for strategic targeted marketing in the direct-to-consumer and travel trade channels
- a renewal of our relationship with Aboriginal Tourism Association of Canada for continued Aboriginal tourism destination and product awareness

These types of strategic partnerships are significantly changing the way we work together and how we collectively strive for success. By bringing together the right partners and aligning industry efforts, we help Canadian tourism businesses extend their reach and assert a greater presence internationally.

PARTNER CO-INVESTMENT LEVELS



2016 was our most successful year since the Winter Olympic Games in 2010. Co-investments increased by 55% since last year, fueled largely by the Connecting America program and partnerships in Asian markets.

While core and one-time appropriations increased by 37% since 2015, co-investment levels went up by 55%, demonstrating the increasing relevancy of our programs and initiatives with commercial partners.

Shows and Events

Tradeshows and media platforms allow businesses in the tourism community to sell their products and experiences by connecting with travel agents, tour operators and media from international markets. Through a number of events in 2016, both at home and abroad, we facilitated global access and expanded market reach for thousands of Canada's tourism businesses.

Rendez-vous Canada, our flagship tourism industry event in Canada, annually brings together Canadian tourism buyers and sellers from all over the world and provides a platform for new tourism products, networking and sharing insights. Our premier marketplace had a record breaking year in 2016 with over 1,800 delegates in attendance at the Montréal event – the most in the event's 40-year history. We also hit a record with over 28,000 appointments and a one-to-one buyer-to-seller ratio.

"INTERNATIONAL TRAVELLERS FLOCK TO KAMLOOPS DESPITE WET SUMMER."

INFO NEWS KAMLOOPS – AUGUST 8, 2016

Our two main media events, GoMedia Canada held in Canada, and Canada Media Marketplace held in the US, connect the best in travel media with Canada's tourism industry to get the inside track on new travel story ideas and the best that Canada has to offer. Combined, these premier travel media events brought together close to 250 media with industry representatives to uncover Canadian stories from coast to coast to coast.

Following every trade show, media show or business event that we host or participate in, we seek the input of our industry participants on how well we deliver programs that help to advance their business objectives. This is done via post event surveys, and the results have been long-standing indicators of the commercial relevancy of our programs.

Although the 2016 result was two percentage points below our target, it is nonetheless a favourable result indicating that our programs are valued and needed by the industry.

Unlocking Opportunities

Increasing the Export Capacity of Aboriginal Tourism

We are committed to supporting the growth of Aboriginal tourism businesses in our markets, most of which are small- and medium-sized. In 2016, we began working with the Aboriginal Tourism Association of Canada to increase the export readiness of Aboriginal tourism experiences.

We've leveraged our signature event – Rendez-vous Canada – to increase the profile of Aboriginal tourism businesses that are eager to reach international markets.

We saw a substantial rise in the number of businesses that participated in the show – from 9 booths in 2015 to twenty in 2016 – and in 2017, we expect this presence to rise.

We're continuing to share market intelligence and industry knowledge, and to profile Aboriginal content on our owned channels. Through a recent renewal of our collaborative agreement, we will continue our partnership to earnestly increase market demand and grow this sector across Canada.

Standing Buffalo First Nation Powwow, Saskatchewan
TOURISM SASKATCHEWAN/GREG HUSZAR PHOTOGRAPHY

Whistler, British Columbia
DANIEL ERNST

Unlocking Opportunities

A Refresh in Japan

To bolster travel from Japan during the winter and shoulder seasons, we worked with Canadian partners on the ground to lead VIP tour operators on a journey of unique Canadian experiences. We targeted decision-makers who would be influential in revitalizing travel product offers and itineraries by introducing experiences we knew would resonate with the Japan market.

The initiative was a resounding success. Trade partners launched a three-year winter promotion in Japan, including the development of the first winter-themed brochures showcasing uniquely Canadian experiences. Early results are revealing an increase in sales for Canada during the winter months.

With a little collaboration and innovation, we mobilized a partnership to build a trade strategy for long-term and sustainable growth for the Japan market.

> "MORE PEOPLE ARE VISITING THE HAT."
>
> *MEDICINE HAT NEWS* – AUGUST 19, 2016

OBJECTIVE 3

Increase corporate efficiency and effectiveness

Advancing excellence and finding more efficient business methods is an ongoing priority for DC. Through a series of measures in 2016, we took steps to support government priorities, optimize our operating model, ensure maximum investment in programs, and ultimately increase our value to Canadians.

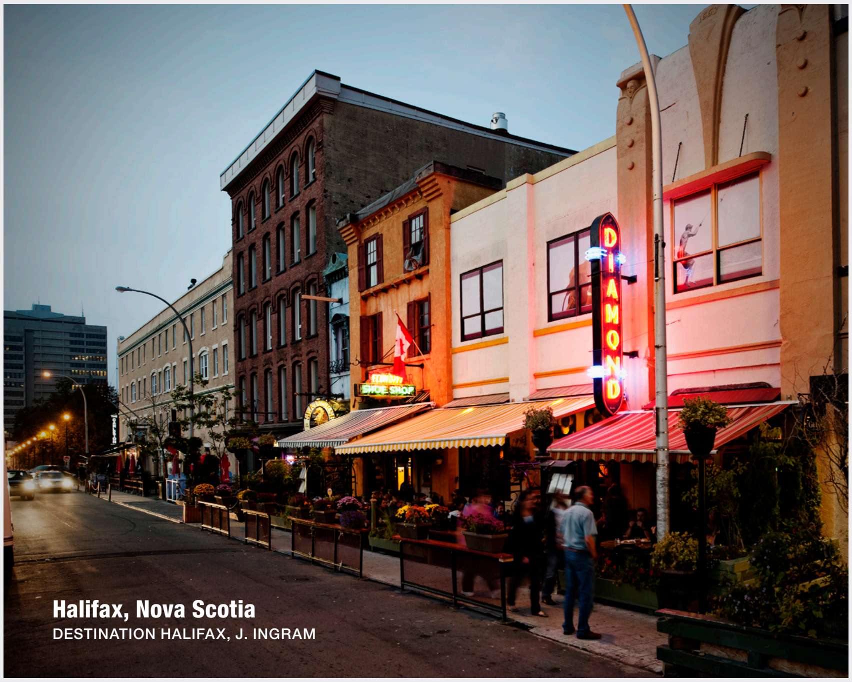
PERFORMANCE MEASURE	2016 TARGET	2016 RESULT
Marketing and sales ratio*	85%	94%
Staff engagement index**	70%	74%

* Percentage of appropriations invested in program activities. 85% is the minimum that has been set by the Government of Canada.

** A summary rating based on select survey questions reflecting multiple dimensions of staff engagement.

"CAPE BRETON HAS GOOD YEAR FOR TOURISM IN 2016."

CAPE BRETON POST – FEBRUARY 25, 2017



Halifax, Nova Scotia
DESTINATION HALIFAX, J. INGRAM

A Motivated, Knowledgeable and Innovative Workforce

Our drive to increase efficiency and minimize administrative overhead depends on the full support of a motivated, knowledgeable and innovative workforce. The people strategies and programs we have in place ensure we have the right people, with the right skills, in the right place at the right time.

In 2016 we took steps to promote an engaged workforce that is also focused on performance. This includes modernizing compensation packages, ensuring that opportunities for professional development are in support of corporate objectives and instituting a program to recognize and reward outstanding employee performance.

We also developed a healthy and respectful workplace strategy with a focus on mental health which is a critical factor in the successful delivery of our organizational priorities.

The work done in 2016 to promote a workplace of engagement, enablement and overall good health is reflected in the results of our employee engagement and enablement survey. In 2016, we attained an index score of 74%, the highest since 2010 and 4% higher than our 2016 target.

Policy Suite Renewal

Utility, clarity, simplicity and relevance are the hallmarks of an effective policy suite. In 2016 we initiated a project to ensure our policy suite fully meets these criteria. We evaluated every policy against current needs, internal audit results and exposure to risk, and identified areas where new policies are needed.

In 2016, we revised policies on travel, hospitality and events and on delegations of authority, and introduced a policy on promotional items. The changes have allowed us to improve value for money, streamline processes, and enhance overall operational effectiveness.

Technological Efficiencies

Nearing the end of its life and in need of a refresh, our headquarters data centre was upgraded in 2016 to a newer generation, in-house data centre. This data centre consumes a reduced physical foot print and less energy while providing highly secure, reliable, and scalable information technology services. It also affords us the capability to leverage new technologies and gain greater corporate efficiencies in the future.

In 2016 we also conducted an assessment of our enterprise resource planning technology in hopes of identifying areas of efficiency and increased capabilities. The assessment has resulted in a number of recommendations and savings opportunities that will be further explored in 2017.

Improving Efficiency

In 2016, we continued to shift more of our operating budget to marketing programs while minimizing spending on corporate overhead. As previously noted, 94% of our appropriations was dedicated to marketing and sales, far exceeding our target of 85%. This was a result of reduced expenditures, both planned and unplanned, related to staffing, travel and hospitality. This substantial shift of resources into programming has strengthened co-investment opportunities and allowed for a greater presence in the international marketplace.

Our careful analysis, planning and implementation continue to deliver operational efficiencies, and the success of our approach was confirmed though an internal audit of corporate efficiency. In 2016, Ernst & Young LLP found that our corporate functions were efficiently resourced and our corporate expenditures were lower in comparison to other Canadian federal Crown corporations.

Pension Plan De-Risking

Defined benefit (DB) pension plans expose employers to significant financial risks. Over the years, we have been proactive in limiting risks associated with this plan for Canadian employees, including transitioning to a defined contribution plan in 2007 and significantly increasing our pension solvency position in 2015.

As part of this comprehensive pension plan de-risking strategy, we undertook measures in 2016 to limit liabilities associated with deferred DB pension benefits for former employees and explored options for the transfer of future DB pension liabilities to industry.

Overall, this strategy is intended to contain costs, provide more planning certainty, and ensure that our future appropriations are directed towards marketing efforts.

As part of our continuing commitment to employees, these corporate risk mitigation measures have no impact on the pension benefits accrued by our DB pension plan members.

KEY FINDINGS OF CORPORATE EFFICIENCY AUDIT

- DC has strong resource efficiency
- DC's corporate spend is 6% lower than the average of other Canadian federal Crown corporations

"OVERSEAS VISITORS TO OTTAWA-GATINEAU UP MORE THAN 8%."

OTTAWA BUSINESS JOURNAL – NOVEMBER 23, 2016

RISKS AND UNCERTAINTIES

As part of our strategic management process, we conduct an enterprise risk assessment and use the results of that assessment in the development of our five-year strategic plan, risk mitigation strategy and internal audit plan.

In the risk assessment exercise conducted in 2016, there were two key changes to our risk profile:

- The risk related to performance measurement was reduced from high to moderate, reflecting our current work in the areas of developing common performance measures with our partners, and utilizing technology to assist in the measurement of digital marketing efforts.
- The risks related to change management and talent management were combined, and the resulting risk was reduced from moderate to low. The increased turnover in 2016 as a result of our shift in strategy to be a media and agency-based organization allowed for a refresh of personnel, thereby mitigating the risks associated with this shift. The move also increased attractiveness for DC as an employer, resulting in a large number of potential candidates for job postings.

KEY RISKS FOR OBJECTIVE 1

INCREASE DEMAND FOR CANADA WITH INNOVATIVE MARKETING

- Very high residual risk
- High residual risk
- Medium residual risk
- Low residual risk

MARKETING EFFECTIVENESS

2016 (Medium residual risk)
2015 (Medium residual risk)

There is a risk that marketing effort is not effective or relevant and has minimal or unknown impact on the tourism industry.

Mitigation activities: We will continue to use a multi-pronged approach to address risks related to marketing effectiveness: maintain strong brand and agency; use Path to Purchase model; recruit, develop and retain the right talent; focus on opportunities for integrating innovation (core value) into our core business and measure against it; perform evaluations on results of conversion studies; use insights to inform decisions; better communicate our value and impact to the tourism industry by explicitly stating this as a strategic objective, measuring its impact in the scorecard and focusing efforts and resources optimally.

PERFORMANCE MEASUREMENT

2016 ● Medium residual risk
2015 ● High residual risk

There is a risk that we will be unable to measure the impact, effectiveness and attributable results of marketing efforts, including the use of new marketing communications technologies in a manner that is meaningful to our various stakeholders. This risk has emerged as travellers move from traditional sources for travel information and inspiration, such as newspapers and billboards, to digital content such as blogs and websites. Since identifying this risk, we have proactively worked to refine our approach to measurement, and are basing our performance on measures we can control and influence.

Mitigation activities: We use a two-pronged approach to mitigate this risk: utilizing the latest technology in order to measure the results of our marketing efforts; and, working with partners to standardize performance measurement approaches. Progress has been made in the last year to align our performance measurement efforts to both service the organization and meet stakeholder needs.

PRIVACY

2016 ● Low residual risk
2015 ● Low residual risk

The deployment of technologies based on identifying and marketing to the interests and passions of travellers requires the collection, assessment and action of travellers' consumer data. There is a risk that our activities will not meet or exceed regulatory requirements or consumer expectations around privacy.

Mitigation activities: We are committed to protecting privacy and use best practices to proactively assess and address privacy risk. We have also conducted a thorough privacy impact assessment of our current and planned activities, taking into account Canadian federal obligations as well as anticipated regulatory changes in the European Union. We will implement all of the recommendations of the assessment, and maintain an ongoing schedule to review, assess and update our privacy processes and policies.

- ● Very high residual risk
- ● High residual risk
- ● Medium residual risk
- ● Low residual risk

CURRENCY

2016 ●
2015 ●

There is a risk that the impact of a lower valuation of the Canadian dollar and the resulting decreased purchasing power will result in diminished reach and reduced impact of our marketing efforts in highly competitive international marketplaces.

Mitigation activities: Contingency plans are established that include stretching budgets across a diverse portfolio of 12 countries to ensure maximum benefit for program implementation with our mandate.

- ● Very high residual risk
- ● High residual risk
- ● Medium residual risk
- ● Low residual risk

KEY RISK FOR OBJECTIVE 2

ADVANCE THE COMMERCIAL COMPETITIVENESS OF THE TOURISM SECTOR

GLOBAL ECONOMIC, GEO-POLITICAL AND SECURITY ISSUES

2016 ●
2015 ●

There is a risk that global economies (where we invest) could experience a significant slowdown in growth, changes in the political landscape or security environment which impact international travel and the Canadian tourism industry.

Mitigation activities: We will maintain a balanced country investment portfolio, and ensure country budgets are flexible to allow reallocations if necessary. In addition, we will offer support, tools, assets and sales opportunities to industry to withstand these issues, facilitate their export readiness and help grow their businesses.

KEY RISK FOR OBJECTIVE 3

INCREASE CORPORATE EFFICIENCY AND EFFECTIVENESS

- Very high residual risk
- High residual risk
- Medium residual risk
- Low residual risk

CHANGE AND TALENT MANAGEMENT

2016
2015

In response to our strategic shift to be a media and agency-based organization, the prior year's corporate plan identified two separate moderate risks related to change management and talent management. These reflected the significance of the change to the organization as well as the people who work here. In 2016 these risks were combined to reflect their complementary nature and the mitigations implemented by management: the turnover experienced to date has enabled us to refresh our workforce and build the skills to support the new strategic direction. In addition, this move to a media and agency-based organization has created tremendous attraction, resulting in very effective recruiting initiatives. Both the change management and talent management risks, being appropriately managed, have resulted in opportunities for the organization.

Mitigation activities: We will continue to communicate and educate all employees, office holders, and stakeholders on the priorities, opportunities, business plans and challenges facing the organization. We will foster an environment where creativity and innovation are encouraged, and support management and employees at all levels with proper tools and resources. We will continually monitor and assess effectiveness of our strategies through surveys and consultation.

Ontario
MAXIME COQUARD

INTERNAL AUDIT

Our annual internal audit program is risk-based and integrated with the enterprise risk assessment to minimize duplication. We engage an external firm to carry out this function and the internal auditor acts independently and reports directly to the Audit and Pension Committee of the Board of Directors.

In 2016, the internal auditor conducted a corporate efficiency audit and assessed risks related to fraud. Accordingly, we will be developing action plans to address the recommendations resulting from this audit.

FINANCIAL OVERVIEW

Our financial statements are prepared in accordance with Canadian public sector accounting standards (PSAS). This section provides readers with context for our 2016 financial statements contained in the subsequent section. Issues and reasons for significant year over year changes are highlighted, and detailed notes to our financial statements are also provided.

Statement of Financial Position

During 2016, our accumulated surplus increased by $2.8 million to $19.8 million. Most of this 16% increase reflects deferred spending in marketing campaigns and lower than expected salary costs from careful management of this budget.

Financial assets increased by $5.2 million, or 16%, driven by an increase in cash as a result of partnership contributions received in 2016 but not yet recognized as revenue. We also received a lease inducement on occupation of the new corporate headquarters which will be amortized over the remaining period of the lease.

Total liabilities increased by $2.8 million, or 16%, from 2015. This increase was driven primarily by a $1.5 million, or 15%, increase in trade accounts payable, which is in line with the increase in revenue and associated spending.

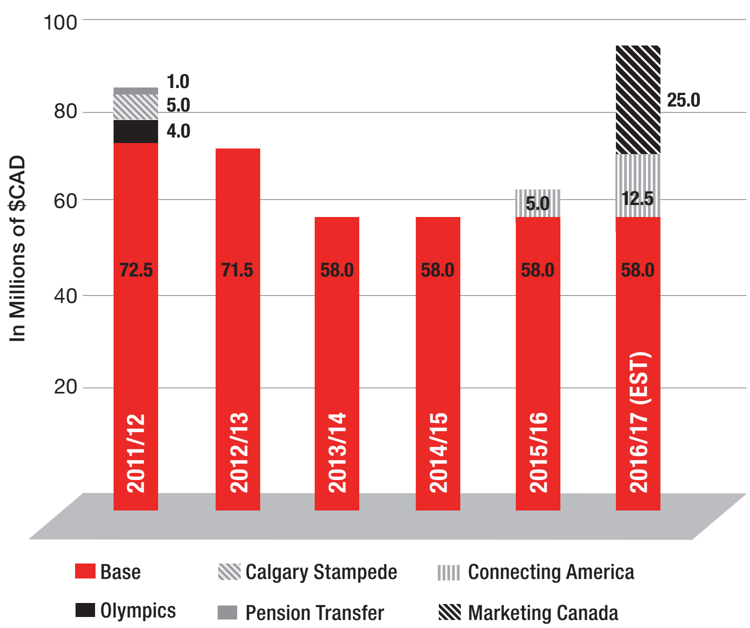
In addition, deferred revenue was $1.1 million above the 2015 amount due to the timing of cash partnership revenues received before year-end.

Non-financial assets increased by $0.4 million, or 15%, over 2015. The increase reflects the upgrade of the headquarters data centre to a newer generation, in-house version. Other increases in 2016 relate to the completion of the headquarters relocation project and the hardware recapitalization in 2016.

Statement of Operations

Our statements report a $3.4 million surplus for the year ended December 31, 2016, which is $3.0 million greater than budgeted. Total revenues exceeded our budget by $6.4 million while expenditures were $4.0 million higher. The excess revenue is primarily the result of higher cash partnership revenues as our team continues to show the tourism industry our value, resulting in a higher level of engagement and co-investment from many different types of partners. These additional revenues were invested directly into marketing programs and campaigns.

PARLIAMENTARY APPROPRIATIONS
BY GOVERNMENT FISCAL YEAR



Parliamentary Appropriations

We are funded primarily by Government of Canada parliamentary appropriations. In 2016, we received three sources of appropriations totalling $81.5 million:

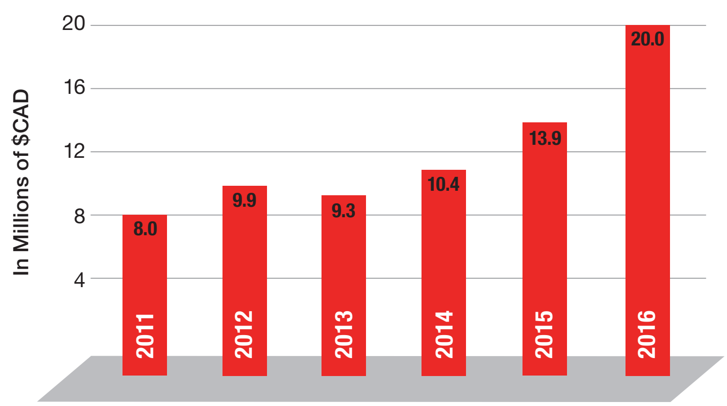
- an ongoing base appropriation of $58.0 million to cover the cost of operations total;
- temporary funding of $11.5 million for Connecting America; and
- temporary funding of $12.0 million from the 2016 Federal Budget for Marketing Canada as a Premier Tourism Destination.

The temporary funding for Connecting America is considered a “restricted appropriation” and is described more fully in Note 2 to the financial statements.

The table above shows the total appropriated funds from the Government of Canada for the past six years, that our base appropriated funding has not increased for the past four years, and that current funding is 19% lower now than in 2012/13. This reduced funding has compelled us to aggressively seek improved operational efficiencies to deliver our mandate.

As our fiscal year ends December 31 and the federal government year-end is March 31, we draw funding from two government fiscal years.

PARTNER CASH REVENUES



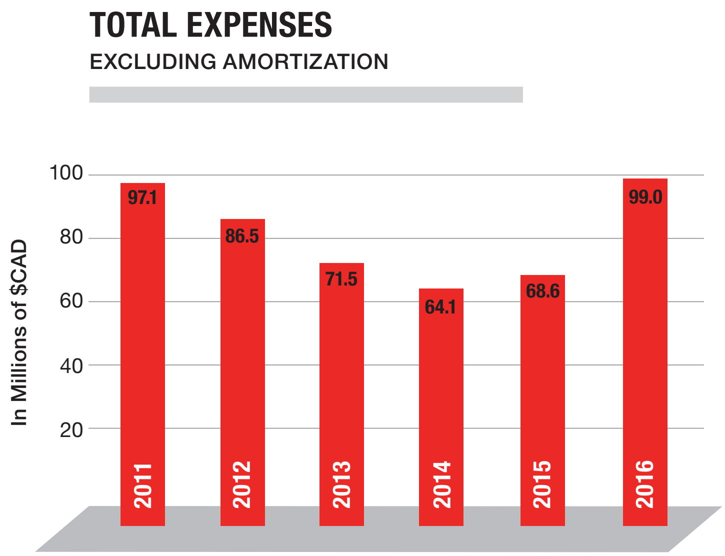
Partner Cash Revenues

We leverage the power of appropriated funding by engaging other organizations to co-invest in DC-led campaigns. Through these agreements, partner organizations join us in funding initiatives, whether through cash or in-kind contributions, to market the Canada brand. In 2016, partner co-investments totaled $89.4 million, a growth of 55% from 2015 levels and representing the most successful year since 2010.

In 2016, the cash portion of these contributions represented approximately $20 million of all partner co-investment levels, and these are recognized as partner revenues in the Statement of Operations. As shown in the accompanying graph, our partner revenues continue to grow. Over the 2016 year, DC continued expanding partnerships with marketing organizations, destination marketers, media, non-traditional partners and tourism associations. The measure of our success is a $6.1 million, or 44%, increase in partner revenues over 2015.

Our most significant increase is in the Connecting America marketing initiative ($5.6 million) which was fully operational for the full fiscal year in 2016. Partnership revenues were also up in other areas, including the China market ($721,000) and the Millennial Travel Program ($1.6 million).


Whitehorse, Yukon
KYLE MULINDER



Expenses

Total expenses (excluding amortization) increased by $30.4 million to $99.0 million in 2016, a 45% increase over 2015. This increase was driven by additional spending in support of two special initiatives: Connecting America and Marketing Canada as a Premier Tourism Destination.


Plaster Rock, New Brunswick
TOURISM NEW BRUNSWICK

Our corporate services costs (excluding amortization) continued falling in 2016, from $7.4 million to $5.2 million. As a percent of overall spending, the cost of corporate services fell from 11% in 2015 to 5% in 2016. This decrease reflects the impact of the temporary increase in appropriations noted above, which are primarily being spent on marketing and sales, as well as increased efficiencies flowing from the success of our corporate efficiency initiative.

In future years the percentage of corporate services costs of overall spending will increase slightly and stabilize around 15% as the temporary funding from Connecting America and Marketing Canada as a Premier Tourism Destination runs out in the first quarter of 2018.

Performance Measures

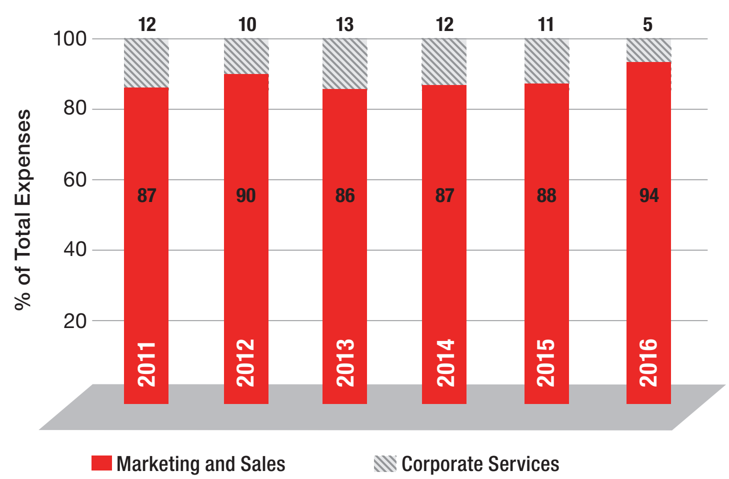
Marketing and Sales as % of Overall Expenses

As a measure of corporate efficiency and effectiveness, we set a demanding target requiring 85% of all expenditures to be made in marketing and sales. In 2016, we exceeded this target with 94% of expenses directed into marketing and sales. This reflects the success of our significant and ongoing efforts to improve efficiency throughout our operations. The accompanying table illustrates the breakdown of our expenses into marketing and sales and corporate services. The remainder of our expenses are incurred as strategy and planning.

Partnership Revenue to Appropriation Ratio

We intend to continue increasing the value of partnership revenues. In 2016, we set a demanding target of 1:1 which is the ratio of partner contributions to every dollar of our funding. In 2016, we exceeded this target with a ratio of 1.1:1.

MARKETING AND SALES
AS % OF OVERALL EXPENSES



Pond Inlet, Nunavut
MICHELLEVALBERG

Employee Pension Plans

We offer highly competitive pension and benefit plans to our employees. Details regarding employee future benefit plans are provided in Note 8 of the financial statements. Our Canadian pension plan includes both defined contribution and defined benefit (DB) components.

Government of Canada Pension Directive

Ensuring that public sector pension plans are affordable, sustainable and more in line with private sector benefits is an initiative of the Government of Canada. In 2014, Crown corporations, including DC, were issued a directive to reform employee pension plans by the end of 2017, including adjusting the cost sharing ratio and the age of retirement.

We have completed pension plan amendments as required and notified all pension plan members following consultation with the Union. By the end of 2017, we will be in full compliance with this directive and are working with members for a smooth transition.

Defined Benefit Pension

At one time all DC employees were enrolled in a DB pension plan. Beginning in August 2005, all new Canadian employees were enrolled in a defined contribution pension plan. As of December 31, 2016, there were only three active members remaining in the DB component. These members will be transferred to the defined contribution pension plan effective December 31, 2017.

Defined Contribution Pension Plan for Canadian Employees

The defined contribution component was established in 2007 for Canadian employees hired on or after August 1, 2005. Our contributions under the defined contribution component are equal to a percentage of the employee's contributions to a group registered retirement savings plan. The employer matching percentage varies based on age plus service of the employee.

Supplemental Retirement Plan

The supplemental retirement plan (SRP) provides pension benefits in excess of statutory limits for certain Canadian staff. Prior to 2013, we utilized a letter of credit to secure the value of the unfunded benefit (the difference between the projected liabilities and the value of the assets). The SRP is fully funded. Based on an actuarial valuation completed in September 2016, the SRP continues to be fully funded and no contributions were required to be remitted in 2016.

Financial Risks

Defined Benefit Pension Plan

DB pension plan management involves significant risks related to market volatility, quantifying liabilities and changing regulations. Under our DB pension plan, all risks rest with DC and have no impact on the pension benefits accrued by our DB pension plan members. We are required to fund our total pension benefit obligation on an annual basis, calculated as the present value of all future pension liabilities. This calculation has many variables subject to risk, not the least of which are the return on investment and longevity of our annuitants.

We are currently implementing proactive measures to limit, and potentially eliminate, corporate risk associated with this legacy DB pension plan. We are one of the first federal Crown corporations to implement a comprehensive pension plan de-risking strategy which entails transfer of the liability to the insurance industry.

In 2016, the DC Board of Directors approved an amendment to the DB pension plan to offer former employees entitled to a deferred pension benefit under the DB pension plan with an option to transfer out the value of their pension benefits. For former employees electing the transfer, their liabilities will be eliminated from the DB pension plan once the transfers take place. This project commenced in 2016 and is expected to be completed in the first quarter of 2017.

Once the above project is complete, and with authority through the 2017-2021 Corporate Plan, we will transfer out all remaining corporate DB pension liabilities under the registered plan by purchasing annuities from an insurance company licensed in Canada to cover the pension benefits. The Board has approved senior management to purchase annuities within an established financial threshold. We will begin monitoring the annuity purchase market in the second quarter of 2017 for an appropriate time to purchase these annuities.

Additionally, all remaining DB pension plan members will be transferred to the defined contribution pension plan effective December 31, 2017. The affected members received official notification in July 2016 (18 months prior to the effective date).

This strategy is intended to strategically position the organization for the potential transfer of future pension liabilities to industry. It will also help to contain costs, provide more planning certainty, and ensure that our future appropriations are directed towards marketing efforts.

Rising Fixed Costs

As an appropriation-dependent Crown corporation, we must manage our costs within a fixed operating budget. As noted previously, we have taken many measures and plan more in the future to ensure we can identify cost savings wherever possible. Due to inflation and other pressures, however, many operating costs continue to increase.

The 2016 Federal Budget did not maintain the operating budget freeze imposed in 2013. We will now receive partial funding in our appropriation to cover our largest fixed cost – salaries – which we estimate will be $14.6 million in 2017. Although this incremental funding will offset only one-third of the incremental salary costs, the relief is welcome.

Foreign Exchange

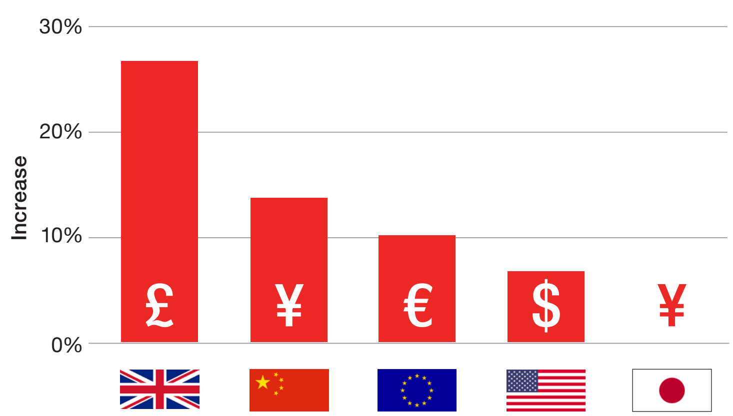
We regularly experience gains and losses in foreign currency transactions as part of our international operations. Realized gains and losses are considered operating expenses and are included in the Statement of Operations as corporate service expenses. Unrealized gains and losses are reported on the Statement of Remeasurement Gains and Losses.

In 2016, foreign currencies experienced significant volatility, notably falling against the Canadian dollar throughout the year. During the year we had significant transactions in British Pounds, the Chinese Yuan, Euros, the Japanese Yen, and US dollars resulting in a realized foreign exchange gain.

The graph shows the percentage increase in the value of the Canadian dollar against these currencies in which we have the highest volume of transactions.

INCREASE IN VALUE OF CANADIAN DOLLAR

DECEMBER 2015 TO DECEMBER 2016



FINANCIAL STATEMENTS

The following financial statements and notes reflect our legal name, "Canadian Tourism Commission".

MANAGEMENT RESPONSIBILITY STATEMENT

The management of the CTC is responsible for the performance of the duties delegated to it by the Board of Directors. These include the preparation of an Annual Report together with audited financial statements. These statements, approved by the Board of Directors, were prepared in accordance with Canadian public sector accounting standards appropriate in the circumstances. Other financial and operational information appearing elsewhere in the Annual Report is consistent with that contained in the financial statements.

Management maintains internal accounting control systems designed to provide reasonable assurance that relevant and reliable financial information is produced and that transactions comply with the relevant authorities.

Management also maintains financial and management control systems and practices designed to ensure the transactions are in accordance with Part X of the *Financial Administration Act* and regulations, the *Canadian Tourism Commission Act*, and by-laws of the CTC. These systems and practices are also designed to ensure that assets are safeguarded and controlled, and that the operations of the CTC are carried out effectively. In addition, the Audit and Pension Committee, appointed by the Board of Directors, oversees the internal audit activities of the CTC and performs other such functions as are assigned to it.

The CTC's external auditor, the Auditor General of Canada, is responsible for auditing the financial statements and for issuing his report thereon.

David Goldstein
President and Chief Executive Officer

André Joannette
Vice President, Finance and
Operations and Chief Financial Officer

March 2, 2017

INDEPENDENT AUDITOR'S REPORT

Bureau du vérificateur général du Canada | Office of the Auditor General of Canada

To the Minister of Small Business and Tourism

Report on the Financial Statements
I have audited the accompanying financial statements of the Canadian Tourism Commission, which comprise the statement of financial position as at 31 December 2016, and the statement of operations, statement of remeasurement gains and losses, statement of change in net financial assets and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Canadian Tourism Commission as at 31 December 2016, and the results of its operations, its remeasurement gains and losses, changes in its net financial assets, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Report on Other Legal and Regulatory Requirements

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

Further, in my opinion, the transactions of the Canadian Tourism Commission that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canadian Tourism Commission Act*, the by-laws of the Canadian Tourism Commission, and the directives issued pursuant to section 89 of the *Financial Administration Act*.

Michael Robichaud, CPA, CA
Principal
for the Auditor General of Canada

2 March 2017
Vancouver, Canada

CANADIAN TOURISM COMMISSION

Statement of Financial Position

AS AT DECEMBER 31, 2016

(in thousands)	December 31, 2016	December 31, 2015
Financial assets		
Cash and cash equivalents (Note 4)	$ 21,288	$ 16,616
Accounts receivable		
Partnership contributions	1,353	2,369
Government of Canada	1,034	238
Other	26	12
Accrued benefit asset (Note 8)	13,051	12,288
Portfolio investments (Note 5)	463	504
	37,215	32,027
Liabilities		
Accounts payable and accrued liabilities		
Trade	11,049	9,593
Employee compensation	1,215	1,310
Government of Canada	81	601
Accrued benefit liability (Note 8)	5,919	5,966
Deferred revenue	1,476	362
Deferred lease inducements	931	-
Asset retirement obligation	164	164
	20,835	17,996
Net financial assets	16,380	14,031
Non-financial assets		
Prepaid expenses and other assets	1,402	1,149
Tangible capital assets (Note 7)	1,974	1,788
	3,376	2,937
Accumulated surplus (Note 10)	$ 19,756	$ 16,968

Commitments and Contingencies (Notes 14 and 15)
The accompanying notes form an integral part of these financial statements.

Approved on behalf of the Board of Directors

Scott Allison
Director

Michael Hannan
Director

CANADIAN TOURISM COMMISSION

Statement of Operations

FOR THE YEAR ENDED DECEMBER 31

(in thousands)	Budget 2016	2016	2015
Revenues			
Partner revenues	$ 14,955	$ 20,010	$ 13,927
Other	796	1,232	890
	15,751	21,242	14,817
Expenses			
Marketing and sales (Note 11)	87,340	92,876	60,421
Corporate services	7,027	5,181	7,434
Strategy and planning	576	916	697
Amortization of tangible capital assets	344	311	353
	95,287	99,284	68,905
Net cost of operations before funding from the Government of Canada	(79,536)	(78,042)	(54,088)
Parliamentary appropriations (Note 9)	79,967	81,476	58,779
Surplus for the period	431	3,434	4,691
Accumulated operating surplus, beginning of period	16,375	16,375	11,684
Accumulated operating surplus, end of period	$ 16,806	$ 19,809	$ 16,375

The accompanying notes form an integral part of these financial statements.

CANADIAN TOURISM COMMISSION

Statement of Remeasurement Gains and Losses

FOR THE YEAR ENDED DECEMBER 31

(in thousands)		2016		2015
Accumulated remeasurement gain, beginning of period	$	593	$	238
Unrealized (loss) gain attributable to foreign exchange		(53)		593
Amounts reclassified to the statement of operations		(593)		(238)
Net remeasurement (loss) gain for the period		(646)		355
Accumulated remeasurement (loss) gain, end of period	$	(53)	$	593

The accompanying notes form an integral part of these financial statements.

CANADIAN TOURISM COMMISSION

Statement of Change in Net Financial Assets

FOR THE YEAR ENDED DECEMBER 31

(in thousands)	Budget 2016	2016	2015
Surplus for the period	$ 431	$ 3,434	$ 4,691
Acquisition of tangible capital assets	(410)	(497)	(1,824)
Amortization of tangible capital assets	344	311	353
Net disposition of tangible capital assets	-	-	9
	(66)	(186)	(1,462)
Effect of change in other non-financial assets			
(Increase) decrease in prepaid expenses	-	(253)	640
	-	(253)	640
Net remeasurement (loss) gain	-	(646)	355
Increase in net financial assets	365	2,349	4,224
Net financial assets, beginning of period	14,031	14,031	9,807
Net financial assets, end of period	$ 14,396	$ 16,380	$ 14,031

The accompanying notes form an integral part of these financial statements.

CANADIAN TOURISM COMMISSION

Statement of Cash Flows

FOR THE YEAR ENDED DECEMBER 31

(in thousands)	2016	2015
Operating transactions:		
Cash received from:		
Parliamentary appropriations used to fund operating and capital transactions	$ 81,476	$ 58,779
Partners	22,140	13,072
Other	2,046	711
Interest	151	166
	105,813	72,728
Cash paid for:		
Cash payments to suppliers	(86,723)	(52,620)
Cash payments to and on behalf of employees	(12,898)	(17,382)
Cash provided by operating transactions	6,192	2,726
Capital transactions:		
Acquisition of tangible capital assets	(931)	(1,278)
Disposition of tangible capital assets	-	9
Cash used in capital transactions	(931)	(1,269)
Investing transactions:		
Disposition of portfolio investments	57	56
Cash provided by investment transactions	57	56
Net remeasurement (loss) gain for the period	(646)	355
Net increase in cash during the period	4,672	1,868
Cash and cash equivalents, beginning of period	16,616	14,748
Cash and cash equivalents, end of period	$ 21,288	$ 16,616

The accompanying notes form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2016

1. Authority, Objectives and Directives

The Canadian Tourism Commission (the “CTC”) 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 CTC is for all purposes an agent of her Majesty in right of Canada. As a result, all obligations of the CTC are obligations of Canada. The CTC is not subject to income taxes.

As stated in section 5 of the Act, the CTC’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 CTC was issued directive PC 2014-1378 pursuant to section 89 of the *Financial Administration Act* directing the CTC to implement pension plan reforms. These reforms are intended to ensure that pension plans of Crown corporations provide a 50:50 current service cost-sharing ratio between employee and employer for pension contributions, to be phased in for all members by December 31, 2017. The CTC’s implementation strategy is outlined in its corporate plans until commitments under this directive are fully implemented.

In July 2015, the CTC was issued directive PC 2015-1109 pursuant to section 89 of the *Financial Administration Act* to align its travel, hospitality, conference and event expenditure 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 CTC’s next corporate plan. The CTC implemented its new Travel, Hospitality, Conference, and Event Expenditures Policy on August 21, 2015 which complied with the requirements of the directive.

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 CTC 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, such as Connecting America, Olympics or Stimulus, 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 CTC's year-end date (December 31) being different than the Government of Canada's year end date (March 31), the CTC is funded by portions of appropriations from two Government fiscal years. Refer to Note 9.

The CTC 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 CTC will have a parliamentary appropriations receivable balance when restricted appropriations recognized exceed the restricted funding received.

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

b) Partnership contributions

The CTC conducts marketing activities in partnership with a variety of Canadian and foreign organizations. Where the CTC assumes the financial risks of conducting a marketing activity, contributions received from a partnering organization are recognized in income when the related marketing activity takes place. Partnership contributions 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 CTC does not hedge against the risk of foreign currency fluctuations.

e) Cash and cash equivalents

Cash and cash equivalents include cash in bank and a money market term deposit. These items are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value. Refer to Note 4.

f) Portfolio investments

Portfolio investments are measured at amortized cost. Interest income related to these investments is calculated based on the effective interest method. Refer to Note 5.

g) Prepaid expenses

Prepaid expenses consist of program and operating expenses recognized as an expense based on the term of usage for items such as subscriptions or based on the event date of tradeshows.

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 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 deferred revenues from partnering organizations which are recognized as revenues based on an event's date or a license period.

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 CTC 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. Refer to Note 7.

l) **Employee future benefits**

The CTC 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 will be closed effective December 30, 2017 and benefits and service of plan participants will be frozen as of that date. The CTC 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.

Actuarial gains and losses are amortized over expected average remaining service lifetime ("EARSL") of active employees. For 2016, EARSL has been determined to be 8.6 years (8.9 years - 2015) for the Registered Pension Plan for Employees of the CTC ("RPP"), 0.0 years (0.0 years - 2015) for the Supplementary Retirement Plan for certain employees of the CTC ("SRP"), 12.2 years (12.6 years - 2015) for the Pension Plan for Employees of the CTC in Japan, South Korea and China ("WWP"), 7 years (7 years - 2015) for non-pension post-retirement benefits, 13 years (13 years - 2015) for severance benefits and 13 years (13 years - 2015) for sick leave benefits.

Employees working in the United Kingdom and the United States participate in the Department of Foreign Affairs 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 CTC'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 CTC 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 CTC for these employees and are charged to operations during the year in which the services are rendered.

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 and the fair value of the asset retirement obligation.

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

p) **Services provided without charge and partnership contributions in-kind**
Audit services are provided without charge from the Office of the Auditor General of Canada to the CTC for the annual audit of the financial statements. In the normal course of business, the CTC receives in-kind contributions from its partners including the transfer of various types of goods and services to assist in the delivery of programs. These in-kind contributions received are not recognized in the financial statements.

3. Future Accounting Changes

The following standards will be mandatorily effective for the CTC on January 1, 2018.

- PS 2200 *Related party disclosures*: This new standard defines a related party and establishes disclosures required for related party transactions.
- PS 3210 *Assets*: This section provides guidance for applying the definition of assets set out in PS 1000 Financial Statement Concepts and establishes general disclosure for assets.
- PS 3320 *Contingent assets*: This section defines and establishes disclosure standards on contingent assets.
- PS 3380 *Contractual rights*: This section defines and establishes disclosure standards on contractual rights.
- PS 3420 *Inter-entity transactions*: This section establishes standards on how to account for and report transactions between public sector entities that comprise a government's reporting entity from both a provider and recipient perspective.

The following standard will be mandatorily effective for CTC on January 1, 2019.

- PS 3430 *Restructuring transactions*: This section defines a restructuring transaction and establishes standards for recognizing assets and liabilities transferred in a restructuring transaction.

The CTC has not determined the impact of the future accounting changes at the present time.

4. Cash and Cash Equivalents

(in thousands)		2016		2015
Cash in bank	$	20,878	$	16,265
Money market term deposit		410		351
Total cash and cash equivalents	$	21,288	$	16,616

5. Portfolio Investments

The CTC holds portfolio investments consisting of Canadian Provincial Governmental bonds with maturity dates staggered between 2017 and 2031.

Issuer (in thousands)	Maturity Date		Cost		Interest Accrued to Date		Carrying Value		Market Value		Maturity
Province of Quebec	01-Dec-17	$	93	$	11	$	104	$	105	$	106
Province of Quebec	01-Dec-19		76		12		87		90		94
Province of Nova Scotia	02-Dec-21		60		11		71		74		82
Province of Ontario	02-Dec-23		47		9		57		59		70
Province of Ontario	02-Dec-25		51		11		63		65		84
Province of BC	18-Dec-28		32		8		39		40		59
Province of Ontario	02-Dec-31		33		9		42		42		70
		$	392	$	71	$	463	$	475	$	565

6. Foreign Currency Translation

The CTC is exposed to currency risk as a significant portion of its revenues and expenses are earned or incurred, and subsequently received or paid in currencies other than Canadian dollars. Currency risk arises due to fluctuations in foreign exchange rates, which could affect the CTC's financial results. The CTC does not hedge against fluctuations in foreign exchange rates and accepts the operational and financial risks associated with any such fluctuations.

The undernoted accounts excluding Canadian-denominated balances comprise the following currencies as at December 31, 2016:

Currency (in thousands)	Cash		Accounts Receivable		Accounts payable and accrued liabilities	
	Currency units	Canadian equivalent	Currency units	Canadian equivalent	Currency units	Canadian equivalent
Australian Dollars	738	$ 719	-	$ -	170	$ 166
Chinese Yuan	547	106	-	-	4,937	960
Euros	1,014	1,435	15	21	399	565
Great Britain Pounds	485	804	-	-	246	408
Hong Kong Dollars	-	-	-	-	-	-
Japanese Yen	11,793	137	-	-	57,478	667
Mexican Pesos	458	30	-	-	-	-
South Korean Won	38,281	43	-	-	-	-
United States Dollars	1,104	1,494	37	49	1,124	1,521
Total Canadian equivalent		$ 4,768		$ 70		$ 4,287

At December 31, 2016, if the above foreign currencies had strengthened by 10 percent against the Canadian dollar, with all other variables held constant, the unrealized foreign exchange gain would have increased by approximately $57,000 (decreased by $278,000 - 2015). If the above foreign currencies had weakened by 10 percent against the Canadian dollar, with all other variables held constant, the unrealized foreign exchange gain would have decreased by approximately $57,000 (increased by $278,000 - 2015). The amount of realized foreign exchange gains recorded under "Corporate services" on the statement of operations in 2016 is $208,129 (losses of $553,756 - 2015).

7. Tangible Capital Assets

(in thousands)	Computer Hardware	Computer Software	Leasehold Improvements	Office Furniture	Asset Retirement Cost	2016 Total
Cost of tangible capital assets, opening	$ 327	$ 19	$ 1,594	$ 275	$ 112	$ 2,327
Acquisitions	223		274			497
Disposals						-
Cost of tangible capital assets, closing	550	19	1,868	275	112	2,824
Accumulated amortization, opening	265	15	187	71	1	539
Amortization expense	65	1	187	47	11	311
Disposals						-
Accumulated amortization, closing	330	16	374	118	12	850
Net book value	$ 220	$ 3	$ 1,494	$ 157	$ 100	$ 1,974

(in thousands)	Computer Hardware	Computer Software	Leasehold Improvements	Office Furniture	Asset Retirement Cost	2015 Total
Cost of tangible capital assets, opening	$ 283	$ 13	$ 2,516	$ 531	$ 515	$ 3,858
Acquisitions	67	6	1,416	223	112	1,824
Disposals	(23)	-	(2,338)	(479)	(515)	(3,355)
Cost of tangible capital assets, closing	327	19	1,594	275	112	2,327
Accumulated amortization, opening	258	13	2,274	516	471	3,532
Amortization expense	27	2	251	30	43	353
Disposals	(20)	-	(2,338)	(475)	(513)	(3,346)
Accumulated amortization, closing	265	15	187	71	1	539
Net book value	$ 62	$ 4	$ 1,407	$ 204	$ 111	$ 1,788

Substantially all of the CTC's tangible capital assets are located in Canada. There are no assets legally restricted for the purpose of settling asset retirement obligations.

8. Accrued Benefit Asset/Liability

The CTC offers a number of employee future benefit plans covering its employees in Canada and abroad. The following table summarizes these plans and the benefits they provide:

Employees Covered	Name of the Plan	Nature of the Plan	Contributors	Accounting Treatment
Canada	Registered Pension Plan for the Employees of the CTC – Defined Benefit component	Funded, Defined Benefit Plan	CTC and plan members	Defined Benefit Plan
	Registered Pension Plan for the Employees of the CTC – Defined Contribution component	Combination of Defined Contribution Plan and Group RRSP	CTC and plan members	Defined Contribution Plan
	Supplementary Retirement Plan for Certain Employees of the CTC – Defined Benefit component	Partly funded, Defined Benefit Plan	CTC and plan members	Defined Benefit Plan
	Supplementary Retirement Plan for Certain Employees of the CTC – Defined Contribution component	Defined Contribution Plan	CTC	Defined Contribution Plan
	Non-Pension Post-Retirement Benefit Plan for Canadian Employees	Unfunded, Defined Benefit Plan	CTC and plan members	Defined Benefit Plan
China, Japan and South Korea	Pension Plan for Employees of the CTC in China, Japan and South Korea	Unfunded, Defined Benefit Plan	CTC	Defined Benefit Plan
US	Qualified Pension Plan for US Citizen Employees Working in the US	Funded Multi-employer Defined Benefit Plan	CTC	Defined Contribution Plan
	Registered Pension Plan for Canadian Citizen Employees Working in the US	Funded Multi-employer Defined Benefit Plan	CTC	Defined Contribution Plan
	Non-Pension Post-Retirement Benefit Plan for Certain US Employees	Unfunded, Defined Benefit Plan	CTC and plan members	Defined Benefit Plan
UK	Canadian High Commission Locally Engaged Staff Pension Scheme	Funded Multi-employer Defined Benefit Plan	CTC and plan members	Defined Contribution Plan
Canada, China, Japan, US, UK	Severance Benefits for certain Canadian and Locally Engaged Employees	Unfunded, Defined Benefit Plan	CTC	Defined Benefit Plan

Defined Contribution Plans

Canada

The CTC established a defined contribution pension plan for non-unionized employees in Canada, hired on or after August 1, 2005. On January 30, 2007, the Canadian unionized employees of the CTC agreed to participate in the defined contribution plan effective March 8, 2007. This decision impacted unionized employees hired on or after August 1, 2005.

The total cost for the CTC's defined contribution pension plans was $423,975 in 2016 ($414,957 - 2015).

In addition, the CTC provides a defined contribution supplemental plan to cover senior employees whose contributions under the defined contribution plan is impacted by the Income Tax Act. The benefits accrued will be paid out each year and deemed immaterial for the CTC's financial statements.

US and UK

The CTC also participates in multi-employer defined benefit plans providing pension benefits to employees working in the US and in the UK. These plans, to which total cost was $226,529 in 2016 ($221,621 - 2015), are accounted for as defined contribution plans.

Defined Benefit Plans

Canada

The CTC has a number of defined benefit plans in Canada, which provide post-retirement and post-employment benefits to its employees.

Effective January 2, 2004, pension arrangements include a registered pension plan as well as a supplemental arrangement, which provides pension benefits in excess of statutory limits. The CTC provides pension benefits based on employees' years of service and average earnings at the time of retirement. The registered pension plan is funded by contributions from the CTC and from the members. In accordance with pension legislation, the CTC contributes amounts determined on an actuarial basis and has the ultimate responsibility for ensuring that the liabilities of the plan are adequately funded over time. The supplemental retirement plan liabilities arising on and after January 2, 2004 are funded annually on a hypothetical plan termination basis according to the valuation report prepared by the actuary.

In 2016, the CTC offered former members of the defined benefit component of the registered plan who were entitled to a deferred pension the option to transfer the value of the pension benefits out of the registered plan. Consequently, four members opted to transfer their accrued pension benefits to a third party pension plan. This triggered a settlement of these pension obligations which resulted in a loss of $295,000.

The defined benefit components of the registered plan and the supplemental agreement are being closed effective December 30, 2017 and benefits for participants will be frozen as of that date.

China, Japan and South Korea

The CTC has a defined benefit pension plan for certain locally engaged staff in China, Japan and South Korea. The Pension Scheme for Employees of the Government of Canada Locally Engaged Outside Canada, 1996 (known as the World Wide Plan, "WWP"), provides retirement benefits based on employees' years of service and average earnings at the time of retirement. These liabilities are funded on a pay-as-you-go basis.

In March 2012, the CTC received $1,000,000 from Treasury Board Secretariat ("TBS") relating to locally engaged staff pension benefits under the WWP for service prior to January 2, 2001. Prior to this, TBS had been reimbursing the CTC for amounts related to the past service period. The funds are held by the CTC in bonds and a money market term deposit and are recorded as portfolio investments (Note 5) and cash and cash equivalents (Note 4). The CTC continues to be responsible for the service accruing on and after January 2, 2001.

Severance and post-retirement benefits

Severance benefits are provided for certain current employees in Canada, China, Japan, US and UK. The cost of the benefits is fully paid by the CTC. The severance benefit plans are unfunded.

Post-retirement benefits which may include health, dental and life insurance are provided for certain retired employees in Canada and the US. The cost of these benefits is shared by the CTC and the retirees. The post-retirement benefit plans are unfunded.

Measurement date and date of actuarial valuation:

The most recent actuarial valuation of the Canadian registered defined benefit pension plan for funding purposes was as at December 31, 2015 and was filed with the Office of Superintendent of Financial Institutions ("OSFI") by the due date of June 30, 2016.

The going concern financial position based on the most recent actuarial valuation showed a funding surplus of $2,763,800 (surplus of $5,743,500 - 2015). The valuation also identified an average solvency ratio of 86.1% (78.3% - 2015).

The CTC made solvency special payments of $700,540 in 2015 until it was determined in August 2015 to accelerate the future special solvency payments resulting in a payment of $3,000,000 in September 2015 and $1,000,000 in

December 2015 for a total of $4,700,540 in 2015. The special payment made in 2016 was $700,000. Future special solvency payments cannot be reasonably estimated until a new funding valuation is completed.

The CTC measures its accrued benefit obligations and the market value of plan assets of its pension plans and post-retirement non-pension benefits for accounting purposes at September 30th of each year.

CHANGE IN ACCRUED BENEFIT OBLIGATION

(in thousands)	Pension		Other Benefit Plans	
	2016	2015	2016	2015
Accrued benefit obligation, beginning of year	$ 24,008	$ 22,198	$ 4,399	$ 5,811
Current period benefit cost (employer portion)	78	80	104	127
Interest cost on average accrued benefit obligation	1,130	1,229	87	145
Employees' contributions	13	34	-	-
Benefits paid	(3,566)	(1,170)	(123)	(292)
Actuarial loss (gain)	12,822	1,637	387	(1,392)
Decrease in obligation due to curtailment	(32)	-	-	-
Decrease in accrued benefit obligation due to settlement	(417)	-	-	-
Accrued benefit obligation, end of year	$ 34,036	$ 24,008	$ 4,854	$ 4,399

CHANGE IN PLAN ASSETS

(in thousands)	Pension		Other Benefit Plans	
	2016	2015	2016	2015
Market value of plan assets, beginning of year	$ 35,475	$ 29,184	$ -	$ -
Actual return on plan assets net of actual investment expenses	3,566	2,308	-	-
Employer contributions	1,793	5,119	123	291
Employees' contributions	13	34	-	-
Benefits paid	(3,566)	(1,170)	(123)	(291)
Market value of plan assets, end of year	$ 37,281	$ 35,475	$ -	$ -

RECONCILIATION OF FUNDED STATUS

Detailed Pension Plan information (in thousands)		2016		2015
Defined benefit component of Pension Plan for Employees of the CTC				
Accrued benefit obligation	$	(30,267)	$	(20,458)
Plan assets		33,362		31,735
Surplus	$	3,095	$	11,277
Supplementary Retirement Plan for Certain Employees of the CTC				
Accrued benefit obligation	$	(2,559)	$	(2,543)
Plan assets		3,919		3,741
Surplus	$	1,360	$	1,198
Pension Plan for Employees of the CTC in China, Japan and South Korea				
Accrued benefit obligation	$	(1,210)	$	(1,006)
Plan assets		-		-
Deficit	$	(1,210)	$	(1,006)

The accrued benefit obligation and market value of assets at year-end are the following amounts in respect of plans that are unfunded or partially funded:

Funded Status (in thousands)	Pension				Other Benefit Plans			
		2016		2015		2016		2015
Accrued benefit obligation	$	(1,210)	$	(1,006)	$	(4,854)	$	(4,399)
Plan assets		-		-		-		-
Funded status – deficit at end of year	$	(1,210)	$	(1,006)	$	(4,854)	$	(4,399)

RECONCILIATION OF FUNDED STATUS TO ACCRUED BENEFIT ASSET / (LIABILITY)

(in thousands)	Pension 2016	Pension 2015	Other Benefit Plans 2016	Other Benefit Plans 2015
Funded status – surplus (deficit), end of year	$ 3,245	$ 11,469	$ (4,854)	$ (4,399)
Employer contributions during period from measurement date to fiscal year end	9	1,008	-	-
Unamortized actuarial (gains) losses	8,793	(119)	(61)	(530)
Valuation allowance	-	(1,100)	-	-
Accrued benefit asset (liability)	$ 12,047	$ 11,258	$ (4,915)	$ (4,929)

The cumulative excess of pension contributions on the Registered Pension Plan and Supplementary Retirement Plan over pension benefit cost is reported as an accrued benefit asset. The Pension Plan for Employees of CTC in China, Japan, and South Korea, the post-retirement, post-employment benefits and sick leave are reported as an accrued benefit liability.

Accrued Benefit Asset / (Liability) (in thousands)	2016	2015
Registered Pension Plan for the Employees of the CTC	$ 11,820	$ 10,170
Defined benefit component of the Supplementary Retirement Plan for Certain Employees of the CTC	1,231	2,118
Total accrued benefit asset	13,051	12,288
Pension Plan for the Employees of the CTC in China, Japan and South Korea	(1,004)	(1,030)
Non-pension Post Retirement Benefit Plan	(4,182)	(4,246)
Post Employment Severance Plan	(576)	(541)
Non-Vested Sick Leave Plan	(157)	(149)
Total accrued benefit liability	(5,919)	(5,966)
Total net accrued benefit asset	$ 7,132	$ 6,322

The weighted-average asset allocation by asset category of the CTC's defined benefit pension plans is as follows:

Asset Allocation	2016	2015
Equity securities	28%	55%
Debt securities	67%	32%
Cash	0%	8%
Receivable from Government of Canada	5%	5%
Total	100%	100%

NET BENEFIT COST RECOGNIZED IN THE PERIOD

(in thousands)	Pension		Other Benefit Plans	
	2016	2015	2016	2015
Current period benefit cost	$ 91	$ 114	$ 104	$ 127
Interest cost	-	-	87	145
Amortization of net actuarial loss (gain)	1,273	(590)	(81)	126
Curtailment gain	(33)	-	-	-
Settlement loss	295	-	-	-
Total	1,626	(476)	110	398
Less: employee contributions	(13)	(34)	-	-
Retirement benefits expense (income)	1,613	(510)	110	398
Interest cost on average accrued benefit obligation	1,130	1,229	-	-
Expected return on average pension plan assets	(1,638)	(1,738)	-	-
Retirement benefits interest income	$ (508)	$ (509)	$ -	$ -
(Decrease) Increase in valuation allowance provided against accrued benefit asset	(1,100)	1,100	-	-
Total pension expense	$ 5	$ 81	$ 110	$ 398

SIGNIFICANT ACTUARIAL ASSUMPTIONS USED ARE AS FOLLOWS (WEIGHTED AVERAGE)

	Pension		Other Benefit Plans	
	2016	2015	2016	2015
Accrued benefit obligation				
Discount rate				
· Registered Pension Plan for the Employees of the CTC	2.40%	5.75%		
· Defined benefit component of the Supplementary Retirement Plan for Certain Employees of the CTC	2.80%	2.78%		
· Pension Plan for the Employees of the CTC in China, Japan and South Korea	0.83%	1.22%		
· Non-pension post retirement			1.55%	2.09%
· Post employment severance			0.83%	1.22%
· Non-Vested Sick Leave Plan			0.83%	1.22%
Rate of compensation increase				
· Canadian	1.50%	1.50%	2.50%	2.50%
· Locally engaged	2.75%	2.75%	2.75%	2.75%
Pension expense				
Discount rate				
· Registered Pension Plan for the Employees of the CTC	5.75%	6.15%		
· Defined benefit component of the Supplementary Retirement Plan for Certain Employees of the CTC	2.78%	2.56%		
· Pension Plan for the Employees of the CTC in China, Japan and South Korea	1.22%	1.93%		
· Non-pension post retirement			2.09%	2.56%
· Post employment severance			1.22%	1.93%
· Non-Vested Sick Leave Plan			1.22%	1.93%
Expected long-term rate of return on plan assets				
· Registered Pension Plan for the Employees of the CTC	5.75%	6.15%		
· Defined benefit component of the Supplementary Retirement Plan for Certain Employees of the CTC	2.78%	3.08%		
Rate of compensation increase:				
· Canadian	1.50%	1.50%	2.50%	2.50%
· Locally engaged	2.75%	2.75%	2.75%	2.75%

ASSUMED HEALTH CARE COST TREND RATE FOR OTHER BENEFIT PLANS

Net benefit cost	Other Benefit Plans			
	2016		2015	
	CDN	US	CDN	US
Initial health care trend rate	6.23%	8.33%	6.40%	8.50%
Ultimate health care trend rate	4.50%	4.50%	4.50%	4.50%
Year ultimate rate reached	2030	2033	2030	2033

Accrued benefit oblication	Other Benefit Plans			
	2016		2015	
	CDN	US	CDN	US
Initial health care trend rate	6.15%	8.10%	6.23%	8.33%
Ultimate health care trend rate	4.50%	4.50%	4.50%	4.50%
Year ultimate rate reached	2030	2033	2030	2033

Total cash amounts

Total cash amounts for employee future benefits, consisting of cash contributed in the normal course of business by the CTC to its funded and unfunded defined benefit pension plans, cash payments directly to beneficiaries for its unfunded other benefit plans, cash contributed to its defined contribution plans and cash contributed to its multi-employer defined benefit plan is $1,712,122 ($6,510,391 - 2015). The total cash amount in 2016 includes solvency special payments totaling $700,000 ($4,700,540 – 2015).

9. Parliamentary Appropriations

The schedule below reconciles the amount of funding available to the CTC during the year with the amount actually used in operations:

(in thousands)	2016	2015
Amounts provided for operating and capital expenditures		
Amounts voted:		
Main estimates 2015/16 (2014/15)	$ 57,976	$ 57,973
Supplementary estimates B	-	3
Supplementary estimates C	5,000	-
	62,976	57,976
Less portion recognized in prior year	(45,892)	(45,089)
Amounts recognized in current year	17,084	12,887
Amounts voted:		
Main estimates 2016/17 (2015/16)	70,474	57,976
Supplementary estimates A	25,000	-
Supplementary estimates C	-	5,000
	95,474	62,976
Less portion to be recognized in following year	(31,082)	(17,084)
Amounts recognized in the current year	64,392	45,892
Parliamentary appropriations used for operations and capital in the year	$ 81,476	$ 58,779

10. Accumulated Surplus

The accumulated surplus is comprised of:

(in thousands)	2016	2015
Accumulated operating surplus	$ 19,809	$ 16,375
Accumulated remeasurement (loss) gain	(53)	593
Accumulated surplus	$ 19,756	$ 16,968

11. Marketing and Sales Expenses

The CTC carries out its activities in a variety of countries. These countries are supported by the CTC's Corporate Marketing and Sales units, located at headquarters including E-Marketing, Brand Experiences, Research, and Global Communications. Geographical information is as follows:

(in thousands)	2016	2015
Core Markets (UK, France, Germany and Australia)	$ 19,969	$ 17,096
Corporate Marketing	42,383	17,711
Emerging Markets (India, Brazil, Mexico, Japan, South Korea and China)	23,279	17,515
US (Business Events Canada)	7,245	8,099
	$ 92,876	$ 60,421

12. Expenditure by Object

The following is a summary of expenditures by object:

(in thousands)	2016	2015
Program		
Advertising	$ 7,834	$ 6,254
Public and media relations	7,278	5,127
Consumer development	46,675	18,407
Trade development	17,793	18,227
Research	2,500	2,657
Travel and Hospitality	1,159	-
Total Program Expenses	83,239	50,672
Salaries and Benefits	11,992	12,021
Operating Expense		
Information Technology	677	658
Office	601	901
Rent	1,189	1,393
Professional Services	1,244	1,421
Other	31	1,485
Total Operating Expenses	3,742	5,859
Expenses before amortization	98,973	68,552
Amortization	311	353
Total Expenses	$ 99,284	$ 68,905

Comparative figures (which include Travel and Hospitality and Other) have been reclassified to conform to the current financial statement presentation.

13. Financial Instruments

Credit risk

The CTC is exposed to credit risk resulting from the possibility that parties may default on their financial obligations and from concentrations of third party financial obligations that have similar economic characteristics such that they could be similarly affected by changes in economic conditions. There is no concentration of credit risk with any one customer. Financial instruments that potentially expose the CTC to credit risk consist of cash and cash equivalents, portfolio investments and accounts receivable.

The CTC holds the majority of its cash and cash equivalents in bank accounts with federally regulated chartered banks who are insured by the Canadian Deposit Insurance Corporation. In March 2012, the CTC received $1,000,000 from Treasury Board Secretariat relating to locally engaged staff pension benefits under the WWP (Note 8). The CTC's policy is to invest these funds with well-established financial institutions in investments composed of low risk assets. Currently the CTC has invested these funds in Canadian Provincial Governmental bonds as well as a money market term deposit (Note 4 and Note 5). All investments are monitored by management on a monthly basis.

At December 31, 2016, the exposure to credit risk for cash and cash equivalents is $21,288,000 ($16,616,000 – 2015) (Note 4) and for portfolio investments is $463,000 ($504,000 – 2015) (Note 5).

Accounts receivable credit risk is minimized by the fact that many of the partners that work with the CTC are federally, provincially or municipally funded. The CTC measures its exposure to credit risk based on how long the amounts have been outstanding. An impairment allowance is set up based on the CTC's historical experience regarding collections. At December 31, 2016 the impairment allowance is $4,377 ($0 – 2015). The amounts outstanding at year end are as follows:

Accounts Receivable (in thousands)	Total	Current	1 to 30 days	31 to 60 days	61 to 90 days	91 to 120 days	> 120 days
Partnership contributions	$ 1,353	$ 515	$ 302	$ 316	$ 106	$ 114	$ -
Government of Canada	1,034	301	184	5	-	-	544
Other	26	26	-	-	-	-	-
Total	$ 2,413	$ 842	$ 486	$ 321	$ 106	$ 114	$ 544

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the credit risk.

Liquidity risk

Liquidity risk is the risk that the CTC will not be able to meet all cash outflow obligations as they come due. To mitigate this risk, the CTC monitors cash activities and expected outflows through monthly and quarterly budget and forecast analysis. In addition, investments are maintained in assets that may be converted to cash in the near term if unexpected cash outflows arise. The maturities of the financial liabilities at year end are as follows:

Accounts Payable (in thousands)	Total	Current	1 to 30 days	31 to 60 days	61 to 90 days	91 to 120 days	> 120 days
Trade	$ 11,049	$ 3,336	$ 7,293	$ 360	$ -	$ -	$ 60
Employee compensation	1,215	1,215	-	-	-	-	-
Government of Canada	81	72	8	1	-	-	-
Total	$ 12,345	$ 4,623	$ 7,301	$ 361	$ -	$ -	$ 60

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the liquidity risk.

Currency risk

Currency risk arises due to the fact that the CTC operates in several different currencies and translates non-Canadian revenue and expenses to Canadian dollars at different points in time. The CTC does not hedge against fluctuations in foreign exchange rates and accepts the operational and financial risks associated with any such fluctuations. At December 31, 2016, the exposure to currency risk based on the year-end monetary balances denominated in a foreign currency for financial assets is $4,838,000 ($1,856,000 – 2015) and for financial liabilities is $4,287,000 ($4,650,000 – 2015) (Note 6). The impact of a 10% change in foreign exchange rates would not have a material impact on net operations.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the currency risk.

Interest rate risk

Interest rate risk is the potential for financial loss caused by fluctuations in fair value or future cash flows of financial instruments because of changes in market interest rates. The CTC is exposed to this risk through its interest bearing portfolio investment balances. The CTC does not hedge against fluctuations in market interest rates and accepts the operational and financial risks associated with any such fluctuations. A variation of 1% in the interest rate would not have a material impact on the financial statements. At December 31, 2016, the exposure to interest rate risk for portfolio investments is $463,000 ($504,000 – 2015).

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the interest rate risk.

14. Commitments

The CTC has entered into various agreements for marketing and consulting services and leases for office premises and equipment in Canada and abroad. The CTC's commitments, as at December 31, 2016, are shown in the table below. Commitments are recorded based on the minimum contractual commitment made by the CTC. Also included in the commitment amount are purchase orders issued for which the CTC has not yet been invoiced. The total commitments of the CTC as at December 31, 2016 are $4.3 million ($8.6 million - 2015).

(in thousands)	2017	2018	2019	2020	2021	Total
	2,294	961	437	329	324	4,345

15. Contingencies

In the normal course of business, various claims and lawsuits have been brought against the CTC. Where in the opinion of management, losses, which may result from the settlement of the matters, are determinable within a reasonable range and such losses are considered by management as likely to be incurred, they are charged to expenses. In the event management concludes that potential losses are indeterminable, no provision is recognized in the accounts of the CTC. There are no significant claims against the CTC.

GOVERNANCE

LEGISLATIVE FRAMEWORK

DC is a federal Crown corporation wholly owned by the Government of Canada, and is provided with overarching public policy priorities, broad strategic goals and expectations. The Canadian Tourism Commission Act and various regulations provide the legislative basis for the establishment of DC and its activities. Through the Minister of Small Business and Tourism, DC is accountable to Canada's Parliament and submits an Annual Report, a 5-year Corporate Plan and an Operating Budget annually to Parliament.

BOARD OF DIRECTORS

The Board consists of up to 12 members who oversee the management of DC, and provide strategic guidance and effective oversight. The Board ensures that appropriate systems of governance, leadership and stewardship are in place while at the same time empowering management to lead the organization. The Board comprises the Chair and the President and CEO of DC which are Governor-in-Council appointments, and the Deputy Minister of ISED (ex officio). Further, up to nine additional directors, appointed by the Minister with Governor-in- Council approval, make up the remainder of the Board. Directors are appointed based on the full range of skills, experience and competencies required to add value to DC's decisions on strategic opportunities and risks.

Two vacancies remained at the end of 2016. The Board met seven times in the year and average attendance at meetings was 79%.

BOARD MEMBERSHIP

AS AT DECEMBER 31, 2016

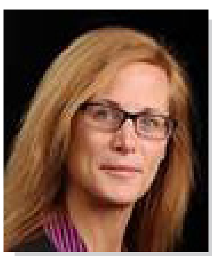
OLGA ILICH
Chair of the Board of Directors

SCOTT ALLISON
Vice Chair of the Board of Directors

DAVID GOLDSTEIN
President and CEO, Destination Canada

NORA DUKE
EVP, Corporate Services and Chief Human Resource Officer, Fortis Inc.

MICHAEL HANNAN
President, H2 Hotels and Resorts



KELLY GILLIS
Associate Deputy Minister, Innovation, Science and Economic Development

Exercises the role of ex officio member on behalf of the Deputy Minister of Innovation, Science and Economic Development

DRAGAN MATOVIC
Chairman and CEO, Halex Capital Inc.

ROBERT JACQUES MERCURE
General Manager, Fairmont Château Frontenac

DANIELLE POUDRETTE
Executive Advisor, DMVP Solutions

RITA TSANG
Owner, Chair and CEO, Tour East Group

Committees of the Board

Three Board committees support the Board in its execution of duties. These committees ensure that appropriate systems of governance and stewardship are in place while at the same time empowering management to deliver on its mandate.

The Governance and Nominating Committee advises and supports directors in applying DC's corporate governance principles and develops best governance practices. The Committee also assists the Board in evaluating potential board candidates and developing recommendations to the Minister on board appointments (excluding the Chair, the President and CEO and the ex officio director).

In addition to the duties and functions mandated by the FAA, the Audit and Pension Committee reviews and recommends to the Board processes for identifying and managing risk, internal control systems and processes for complying with related laws and regulations. The Committee also oversees the administration, investment activities and financial reporting of DC's pension plans.

The Human Resources Committee reviews the President and CEO's annual objectives and DC's human resources policies, plans and processes, including succession, compensation and benefits plans, and makes recommendations to the Board as appropriate.

Advisory Committees

From time to time, the Board creates advisory committees to advise it on how best to deliver DC's programs and services. The committees take their direction from the Board and report to both the Board and the President and CEO. Composed primarily of members from private sector tourism entities, these committees play an important role in linking DC to the tourism industry.

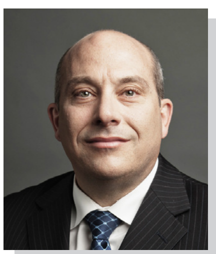
DC has the following four advisory committees: International Advisory Committee, US Advisory Committee, Business Events Canada Advisory Committee and Research Advisory Committee.

EXECUTIVE TEAM

The President and CEO is accountable to the Board, and has responsibility for the day-to-day operations of DC. Senior Management plays a vital role in strategic leadership, working closely with the Board to set objectives, develop strategies, implement actions and manage performance. Executive management also recommends to the Board sweeping changes, identifies business risks and manages the complex intellectual, capital and technical resources of DC.

EXECUTIVE TEAM

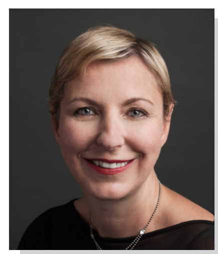
AS AT DECEMBER 31, 2016



ANDRÉ JOANNETTE
Chief Financial Officer and Vice President, Finance and Operations

JON MAMELA
Chief Marketing Officer

SARAH SIDHU
General Counsel and Corporate Secretary



EMMANUELLE LEGAULT
Vice President, International

DAVID ROBINSON
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