

Canadian Tourism Commission
Narrative Discussion
June 30, 2013

Introduction

The CTC is Canada's national tourism marketing organization, leading the Canadian tourism industry in marketing Canada as a premier four-season tourism destination. A Crown corporation wholly owned by the Government of Canada, we lead the Canadian tourism industry in marketing Canada as a premiere four-season tourism destination. Reporting to Parliament through the Minister of Industry, our legislation requirements are outlined in the Canadian Tourism Commission Act.

The CTC runs marketing campaigns in international markets such as the U.K., Germany, France, Mexico, Japan, Australia, South Korea, China, India, Brazil and the U.S., targeting both leisure travellers and those travelling for meetings and conventions.

Narrative Discussion

Information discussed in the Management Discussion and Analysis applies to the quarter.

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Narrative Discussion
June 30, 2013**

Quarterly Results

(in thousands)

	Three months ended June 30, 2013	Three months ended June 30, 2012	Variance
Partner revenues	\$ 1,372	\$ 1,384	\$ (12)

Variance not significant.

Other revenue	178	169	9
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Variance not significant.

Marketing and sales expenses	14,819	18,912	(4,093)
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Marketing and Sales expenses are significantly lower than prior year due to the following:

- The timing of spend for \$2.0M from China's Canada - You Can Be a Star program is later compared to prior year;
- Consumer channel activity was reduced by \$1.2M in the UK in order to focus efforts on the summer/fall campaigns which yield higher volumes;
- CTC ceded investment in US Leisure after 2012 resulting in reduced spend of \$431K; and
- Website hosting costs have been reduced by \$360K due to efficiencies.

Corporate services	1,943	2,060	(117)
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Lower spending in 2013 is related to timing of training shifting towards the end of year in 2013 and reduced travel and meeting costs in 2013.

Strategy and planning	153	139	14
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Variance not significant.

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Year to Date Results

(in thousands)

	Six months ended June 30, 2013		Six months ended June 30, 2012		Variance
Partner revenues	\$ 4,759		\$ 5,300		\$ (541)

Revenues through the second quarter are \$541K lower versus prior year: \$160K lower revenues were recognized from the American Society Association Executive conference and \$150K lower revenues were recovered for media monitoring. Prior year figures also include revenues from one-time funded initiatives which concluded in March 2012: \$75K from the Olympic program and \$150K from the Calgary Stampede program.

Other revenue	389		457		(68)
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Other revenues consist mainly of interest, commodity tax recoveries and co-location recoveries. Commodity tax recoveries of German VAT to-date are lower than prior year.

Marketing and sales expenses	28,699		35,970		(7,271)
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Marketing and Sales expenses are significantly lower than prior year due to the following:

- \$2.1M for Olympic program spend which concluded in March 2012;
- \$2.7M for Stampede program spend which concluded in March 2012;
- \$2.0M timing of the China Canada - You Can Be a Star program offset by higher consumer development spend of \$800K;
- CTC ceded investment in US Leisure after 2012 resulting in reduced spend of \$600K; and
- Website hosting costs have been reduced by \$517K due to efficiencies.

Corporate services	4,344		4,387		(43)
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Variance not significant.

Strategy and planning	298		236		62
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Variance not significant

Risks and uncertainties

No significant new risks or uncertainties identified that have not been discussed in the prior Annual Report or Corporate Plan.

Significant changes to programs, personnel and operations

There are no significant changes to programs, personnel or operations that have not been discussed in the prior Annual Report or Corporate Plan.

Statement of Management Responsibility by Senior Officials

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

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



Michele McKenzie
President and Chief Executive Officer
Vancouver, Canada
August 22, 2013



Lena Bullock
Vice-President, Finance
and Chief Financial Officer
Vancouver, Canada
August 22, 2013

**Canadian Tourism Commission
Statement of Financial Position
As at June 30**

(in thousands)

	June 30 2013	December 31 2012
Financial assets		
Cash and cash equivalents	\$ 10,623	\$ 11,675
Accounts receivable		
Government of Canada	84	918
Partnership contributions	1,496	1,565
Other	309	315
Portfolio investments	646	636
Accrued benefit asset	4,991	4,991
	<u>18,149</u>	<u>20,100</u>
Liabilities		
Accounts payable and accrued liabilities		
Trade	\$ 2,087	\$ 6,902
Employee compensation	1,292	1,683
Government of Canada	-	33
Accrued benefit liability	6,599	6,644
Deferred parliamentary appropriations	-	1,609
Deferred revenue	1,537	598
Asset retirement obligation	521	521
	<u>12,037</u>	<u>17,990</u>
Net financial assets	<u>6,112</u>	<u>2,110</u>
Non-financial assets		
Prepaid expenses and other assets	2,250	2,122
Tangible capital assets	895	1,115
	<u>3,146</u>	<u>3,237</u>
Accumulated surplus	<u><u>\$ 9,258</u></u>	<u><u>\$ 5,347</u></u>
Accumulated surplus is comprised of:		
Accumulated operating surplus	\$ 9,330	
Accumulated remeasurement loss	(72)	
	<u><u>\$ 9,258</u></u>	

Canadian Tourism Commission
Statement of Operations and Accumulated Surplus
For the three and six months ended June 30

<i>(in thousands)</i>	Three months ended June 30		Six months ended June 30	
	2013	2012	2013	2012
Revenues				
Partner revenues	\$ 1,372	\$ 1,384	\$ 4,759	\$ 5,300
Other	178	169	389	457
	<u>1,550</u>	<u>1,553</u>	<u>5,148</u>	<u>5,757</u>
Expenses				
Marketing and sales	14,819	18,912	28,699	35,970
Corporate services	1,943	2,060	4,344	4,387
Strategy and planning	153	139	298	236
Amortization of tangible capital assets	115	180	228	387
	<u>17,030</u>	<u>21,291</u>	<u>33,569</u>	<u>40,980</u>
Net cost of operations before funding from the Government of Canada	(15,480)	(19,738)	(28,421)	(35,223)
Parliamentary appropriations	14,458	18,046	32,332	40,607
Surplus / (deficit) for the period	<u>(1,022)</u>	<u>(1,692)</u>	<u>3,911</u>	<u>5,384</u>
Accumulated surplus, beginning of period	10,280	13,269	5,347	6,193
Accumulated surplus, end of period	<u>\$ 9,258</u>	<u>\$ 11,577</u>	<u>\$ 9,258</u>	<u>\$ 11,577</u>

Canadian Tourism Commission
Statement of Remeasurement Gains and Losses
For the three and six months ended June 30

<i>(in thousands)</i>	Three months ended June 30	Six months ended June 30
	2013	2013
Accumulated remeasurement gains and (losses) at beginning of year	\$ -	\$ -
Unrealized gains attributable to foreign exchange	56	106
Amounts reclassified to the statement of operations	(95)	(178)
Accumulated remeasurement loss at end of period	<u>\$ (39)</u>	<u>\$ (72)</u>

Canadian Tourism Commission
Statement of Change in Net Assets
For the three and six months ended June 30

<i>(in thousands)</i>	Three months ended June 30		Six months ended June 30	
	2013	2012	2013	2012
Surplus / (deficit) for the period	<u>\$ (1,022)</u>	<u>\$ (1,692)</u>	<u>\$ 3,911</u>	<u>\$ 5,384</u>
Acquisition of tangible capital assets	(8)	(9)	(8)	(20)
Amortization of tangible capital assets	115	180	228	387
Net disposition of tangible capital assets	-	-	-	-
	<u>107</u>	<u>171</u>	<u>220</u>	<u>367</u>
Effect of change in other non-financial assets				
(Increase) / decrease in prepaid expenses	244	(403)	(129)	(308)
	<u>244</u>	<u>(403)</u>	<u>(129)</u>	<u>(308)</u>
Increase / (decrease) in net assets	(671)	(1,924)	4,002	5,443
Net financial assets, beginning of period	6,783	9,967	2,110	2,600
Net financial assets, end of period	<u>\$ 6,112</u>	<u>\$ 8,043</u>	<u>\$ 6,112</u>	<u>\$ 8,043</u>

Canadian Tourism Commission
Statement of Cash Flows
For the three and six months ended June 30

<i>(in thousands)</i>	Three months ended June 30		Six months ended June 30	
	2013	2012	2013	2012
Operating transactions:				
Cash received from:				
Parliamentary appropriations used to fund operating and capital transactions	\$ 14,458	\$ 19,009	\$ 30,723	\$ 38,627
Partners	3,727	1,852	5,828	4,946
Other income	178	169	389	457
	<u>18,363</u>	<u>21,030</u>	<u>36,940</u>	<u>44,030</u>
Cash paid for:				
Cash payments to suppliers	(14,773)	(16,338)	(31,836)	(37,386)
Cash payments to and on behalf of employees	(2,434)	(3,337)	(6,244)	(6,852)
Cash applied to operating transactions	<u>1,156</u>	<u>1,355</u>	<u>(1,140)</u>	<u>(208)</u>
Capital transactions:				
Acquisition of tangible capital assets	(8)	(9)	(8)	(20)
Disposition of tangible capital assets	-	-	-	-
Cash used in capital transactions	<u>(8)</u>	<u>(9)</u>	<u>(8)</u>	<u>(20)</u>
Investing transactions:				
Increase in portfolio investments	(5)	(627)	(10)	(627)
Cash used in investment transactions	<u>(5)</u>	<u>(627)</u>	<u>(10)</u>	<u>(627)</u>
Foreign exchange loss on cash held in foreign currency	56	2	106	49
Net increase / (decrease) in cash during the period	<u>1,199</u>	<u>721</u>	<u>(1,052)</u>	<u>(806)</u>
Cash and cash equivalents, beginning of period	9,424	15,528	11,675	17,055
Cash and cash equivalents, end of period	<u>\$ 10,623</u>	<u>\$ 16,249</u>	<u>\$ 10,623</u>	<u>\$ 16,249</u>

Canadian Tourism Commission
Notes to the Unaudited Financial Statements
June 30, 2013

1. Authority and objectives

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

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

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

2. Significant accounting policies

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

a) Parliamentary appropriations

The Commission is mainly financed by the Government of Canada through parliamentary appropriations. Parliamentary appropriations used to fund core operations and capital expenditures are considered unrestricted and recognized as income as the appropriations are authorized and received. Parliamentary appropriations used to fund one-time activities, such as Olympics or Stimulus, are considered restricted. Restricted appropriations have eligibility criteria and stipulations that must be met as conditions to receive or keep the funding. Restricted appropriations are recognized as the eligible expenditures are incurred.

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

b) Partnership contributions

The Commission conducts marketing activities in partnership with a variety of Canadian and foreign organizations. Where the Commission assumes the financial risks of conducting a marketing activity, contributions received from a partnering organization are recognized in income 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 interest 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.

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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. Translation gains and losses are reported in the Statement of Remeasurement Gains and Losses. The Commission does not hedge against the risk of foreign currency fluctuations.

e) Portfolio investments

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

f) Prepaid expenses

Prepaid expenses consists 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 tradeshow.

g) 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.

h) Deferred revenue

Deferred revenue consists of deferred revenues from partnering organizations and deferred leasehold inducements. The deferred revenues relating to partnering organizations are recognized as revenues based on the event's date or over the license period. The deferred revenues relating to leasehold inducements are recognized as revenue over the term of the lease.

i) Asset retirement obligation

Asset retirement obligation consists of decommissioning costs for various office leases. The Commission recognized 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 included in leasehold improvements and amortized on the same basis as the related asset. The amortization expense is included in determining the net cost of operations.

j) Employee future benefits

The Commission offers a number of funded and unfunded defined benefit pension plans, other unfunded defined benefit plans (which include post-employment benefits, post-retirement benefits

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and non-vested sick leave), as well as defined contribution pension plans. The pension plans include statutory plans and a supplemental plan. 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 Commission funds certain pension plans annually based on actuarially determined amounts needed to satisfy employee future benefit entitlements under current benefit regulations. Cost of living adjustments are automatically provided for retirees in accordance with Consumer Price Index increases.

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

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

k) Measurement uncertainty

The preparation of financial statements in accordance with Canadian public sector accounting standards 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 employee future benefits, the useful lives for amortization of tangible capital assets and the fair value asset retirement obligation.

l) Accounting changes

The accounting changes adopted by the Commission as of January 1, 2013 and the financial impact upon adoption are detailed below:

- PS 3410 Government Transfers: deferral of unrestricted parliamentary appropriations is no longer allowed under this standard. The Commission recognizes unrestricted parliamentary appropriations as they are authorized and received.
- PS 1201 Financial Statement Presentation, PS 2601 Foreign Currency Translation, PS 3450 Financial Instruments: the financial statement impact of adoption of these three sections is limited to the disclosure of remeasurement gains and losses for any realized and unrealized foreign exchange gains and losses on the new Statement of Remeasurement Gains and Losses.
- PS 3041 Portfolio Investments: under current operations, no financial statement impact upon adoption.

The above standards have been applied on a prospective basis and therefore, prior period financial statements, including comparatives, have not been restated.

3. Financial statement presentation

These unaudited interim financial statements should be read in conjunction with the annual financial statements of the Canadian Tourism Commission (the "Commission") as at and for the year ended December 31, 2012 and the narrative discussion included in the quarterly financial report. Amounts in

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these interim financial statements as at June 30, 2013 are unaudited and are presented in Canadian dollars.

4. Parliamentary appropriations

The Parliamentary Appropriations provided to the CTC are unrestricted and a balance of \$1.6 M that was deferred at December 31, 2012 was recognized as revenue in the period. Below is a reconciliation of the parliamentary appropriation receivable/(deferred) during the period:

(in thousands)	Jun 30, 2013	Dec 31, 2012
Parliamentary appropriation receivable / (deferred), January 1	\$ (1,609)	\$ (2,948)
Parliamentary appropriations received	(30,723)	(75,850)
Parliamentary appropriations recognized in net income for operations	32,332	77,189
Parliamentary appropriations receivable / (deferred), December 31	\$ -	\$ (1,609)

Parliamentary appropriations approved for the Government fiscal period April 1, 2013 to March 31, 2014 are \$57.8 M (April 1, 2012 to March 31, 2013 \$71.5 M).

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

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5. Tangible capital assets

(in thousands)	Computer Hardware	Computer Software	Leasehold Improvements	Office Furniture	Decom- Leaseholds	2013 Total
Cost of tangible capital assets, opening	\$ 310	\$ 157	\$ 3,626	\$ 529	\$ 833	\$ 5,455
Acquisitions	4	-	4	-	-	8
Disposals	-	-	-	-	(318)	(318)
Cost of tangible capital assets, closing	314	157	3,630	529	515	5,145
Accumulated amortization, opening	161	151	2,853	479	695	4,339
Amortization expense	53	1	135	15	24	228
Disposals	-	-	-	-	(318)	(318)
Accumulated amortization, closing	214	152	2,988	494	401	4,250
Net book value	\$ 100	\$ 5	\$ 642	\$ 35	\$ 114	\$ 895

(in thousands)	Computer Hardware	Computer Software	Leasehold Improvements	Office Furniture	Decom- Leaseholds	2012 Total
Cost of tangible capital assets, opening	\$ 972	\$ 416	\$ 3,634	\$ 544	\$ 833	\$ 6,399
Acquisitions	65	-	14	2	-	81
Disposals	(727)	(259)	(22)	(17)	-	(1,025)
Cost of tangible capital assets, closing	310	157	3,626	529	833	5,455
Accumulated amortization, opening	738	328	2,526	459	637	4,688
Amortization expense	150	56	341	35	58	640
Disposals	(727)	(233)	(14)	(15)	-	(989)
Accumulated amortization, closing	161	151	2,853	479	695	4,339
Net book value	\$ 149	\$ 6	\$ 773	\$ 50	\$ 138	\$ 1,115