Canadian Tourism Commission
Narrative Discussion
September 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 leisure travellers and those travelling for business events.

Narrative Discussion

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

Quarterly Results
(in thousands)

	Three months ended September 30, 2013	Three months ended September 30, 2012	Variance
Partner revenues	**$ 1,617**	**$ 2,257**	**$ (640)**

Revenues for the third quarter are $640K lower versus prior year: $250K lower revenues were recognized from the Canada for the Fun of it program, $300K lower revenues due to timing of the UK winter campaign to Q4 and $250K lower revenues due to CTC ceding investment in US Leisure after 2012 offset by $190K higher revenues for ASAE Atlanta for Business Events Canada.

Other revenue	**203**	**235**	**(32)**

Commodity tax recoveries of German VAT to-date are lower than prior year.

Marketing and sales expenses	**13,517**	**15,421**	**(1,904)**

Marketing and Sales expenses are significantly lower than prior year due to the following:
• Consumer channel activity was reduced by $937K in the UK and Australia in order to focus efforts on the summer/fall campaigns which yield higher volumes;
• 35 Million Directors project of $1.5M that was held in 2012;
• CTC ceded investment in US Leisure after 2012 resulting in reduced spend of $751K;
• Offset by the timing of spend of $1.3M from China's Canada - You Can Be a Star program which took place in third quater versus second quarter in the prior year.

Corporate services	**2,151**	**2,073**	**78**

Variance not significant.

Strategy and planning	**117**	**202**	**(85)**

Variance not significant.

<u>Year to Date Results</u>
(in thousands)

		Nine months ended September 30, 2013		Nine months ended September 30, 2012		Variance
Partner revenues	$	6,376	$	7,557	$	(1,181)

Revenues through the third quarter are $1.2M lower versus prior year: $300K lower revenues were recognized from the Canada for the Fun of it program and National Geographic, $300K lower revenues due to timing of the UK winter campaign to Q4 and $270K lower revenues due to CTC ceding investment in US Leisure after 2012. 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

Other revenue		592		692		(100)

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		42,216		51,391		(9,175)

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;
• $2.2M lower consumer channel spend in the UK, Germany and Australia due to lower budget with efforts focused on the summer/fall campaigns which yield higher volumes;
• CTC ceded investment in US Leisure after 2012 resulting in reduced spend of $1.4M; and
• Website hosting costs have been reduced by $682K due to efficiencies.

Corporate services		6,495		6,460		35

Variance not significant.

Strategy and planning		415		438		(23)

Variance not significant.

Risks and uncertainties

The CTC conducts an enterprise risk management assessment on an annual basis. The primary objectives are to identify risks, to assess the impact, likelihood of occurrence of those risks (to determine inherent risk) and to assess the effectiveness of risk mitigation responses currently in place (to determine residual risk). From this, management prepares a risk mitigation action plan which is monitored and updated on a regular basis. The latest assessment was completed in the summer of 2013. The resulting risk register, framed in theoretical terms are presented below. Only those risks that fall under the direct control of the CTC management to mitigate have been included below.

- **Strategic Talent Management Development and Retention**
  Lack of talent management and retention strategy may result in managers lacking the skills to be effective at their jobs and/or loss of key talent

  Mitigation activities: Develop behavioral interviewing tools to address "fit"; implement individual action plans developed from previous 360s; continue succession program; focus on retention of high performing staff and successors; improve discipline around conducting exit interviews; refine and implement HR strategy; continue development programs to improve leadership skills and competencies.

- **Disaster recover planning / business continuity planning**
  Inability to continue critical operations in the event of an emergency or disaster

  Mitigation activities: Maintain current crisis communication plan; review and update the current disaster recovery plan and business continuity plan.

- **Marketing effectiveness**
  Marketing effort is not effective / relevant and has no impact on the tourism industry

  Mitigation activities: Maintain strong brand and agency; use advance path to purchase model; use key balanced scorecard metrics (campaign return on investment, partner brand alignment and partner satisfaction); 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 and focus efforts and resources optimally.

- **New contracting process in new financial system**
  Staff may not fully understand the new process in the system which could result in poor financial management

  Mitigation activities: Procurement to provide further training; ensure that budget owners are running and reviewing the relevant reports on a monthly basis.

- **Special Exam readiness**
  That the Office of the Auditor General (OAG) concludes that the CTC has not corrected its previous significant deficiencies, or that new significant deficiencies are identified

  Mitigation activities: Complete Internal Audit Special Exam Preparedness; ensure any deficiencies are remedied prior to OAG Special Exam.

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
November 26, 2013

Lena Bullock
Vice-President, Finance
and Chief Financial Officer
Vancouver, Canada
November 26, 2013

Canadian Tourism Commission
Statement of Financial Position
As at September 30

(in thousands)	September 30 2013	December 31 2012
Financial assets		
Cash and cash equivalents	$ 11,767	$ 11,675
Accounts receivable		
Government of Canada	96	918
Partnership contributions	1,046	1,565
Other	305	315
Portfolio investments	651	636
Accrued benefit asset	4,991	4,991
	18,856	20,100
Liabilities		
Accounts payable and accrued liabilities		
Trade	$ 1,314	$ 6,902
Employee compensation	1,546	1,683
Government of Canada	-	33
Accrued benefit liability	6,621	6,644
Deferred parliamentary appropriations	-	1,609
Deferred revenue	1,672	598
Asset retirement obligation	521	521
	11,673	17,990
Net financial assets	7,183	2,110
Non-financial assets		
Prepaid expenses and other assets	2,413	2,122
Tangible capital assets	792	1,115
	3,206	3,237
Accumulated surplus	**$ 10,389**	**$ 5,347**

Accumulated surplus is comprised of:	
Accumulated operating surplus	$ 10,602
Accumulated remeasurement loss	(213)
	$ 10,389

Canadian Tourism Commission
Statement of Operations and Accumulated Surplus
For the three and nine months ended September 30

(in thousands)	Three months ended September 30		Nine months ended September 30	
	2013	**2012**	**2013**	**2012**
Revenues				
Partner revenues	$ 1,617	$ 2,257	$ 6,376	$ 7,557
Other	203	235	592	692
	1,820	2,492	6,968	8,249
Expenses				
Marketing and sales	13,517	15,421	42,216	51,391
Corporate services	2,151	2,073	6,495	6,460
Strategy and planning	117	202	415	438
Amortization of tangible capital assets	104	123	332	510
	15,889	17,819	49,458	58,799
Net cost of operations before funding from the Government of Canada	(14,069)	(15,327)	(42,490)	(50,550)
Parliamentary appropriations	15,200	17,758	47,532	58,365
Surplus / (deficit) for the period	1,131	2,431	5,042	7,815
Accumulated surplus, beginning of period	9,258	11,577	5,347	6,193
Accumulated surplus, end of period	**$ 10,389**	**$ 14,008**	**$ 10,389**	**$ 14,008**

Canadian Tourism Commission
Statement of Remeasurement Gains and Losses
For the three and nine months ended September 30

(in thousands)	**Three months ended September 30 2013**	**Nine months ended September 30 2013**
Accumulated remeasurement gains and (losses) at beginning of year	$ -	$ -
Unrealized gains attributable to foreign exchange	3	109
Amounts reclassified to the statement of operations	(144)	(322)
Accumulated remeasurement loss at end of period	$ **(141)**	$ **(213)**

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

(in thousands)	Three months ended September 30		Nine months ended September 30	
	2013	**2012**	**2013**	**2012**
Surplus for the period	$ 1,131	$ 2,431	$ 5,042	$ 7,815
Acquisition of tangible capital assets	(1)	(26)	(9)	(46)
Amortization of tangible capital assets	104	123	332	510
Net disposition of tangible capital assets	-	-	-	-
	103	97	323	464
Effect of change in other non-financial assets				
Increase in prepaid expenses	(163)	(660)	(292)	(968)
	(163)	(660)	(292)	(968)
Increase in net assets	1,071	1,868	5,073	7,311
Net financial assets, beginning of period	6,112	8,043	2,110	2,600
Net financial assets, end of period	$ **7,183**	$ **9,911**	$ **7,183**	$ **9,911**

Canadian Tourism Commission
Statement of Cash Flows
For the three and nine months ended September 30

(in thousands)	Three months ended September 30		Nine months ended September 30	
	2013	**2012**	**2013**	**2012**
Operating transactions:				
Cash received from:				
Parliamentary appropriations used to fund operating and capital transactions	$ 15,200	$ 22,000	$ 45,923	$ 60,627
Partners	2,230	2,113	8,058	7,059
Other income	203	235	592	692
	17,633	24,348	54,573	68,378
Cash paid for:				
Cash payments to suppliers	(12,527)	(17,606)	(44,363)	(54,990)
Cash payments to and on behalf of employees	(3,959)	(3,448)	(10,203)	(10,300)
Cash applied to operating transactions	1,147	3,294	7	3,088
Capital transactions:				
Acquisition of tangible capital assets	(1)	(26)	(9)	(46)
Disposition of tangible capital assets	-	-	-	-
Cash used in capital transactions	(1)	(26)	(9)	(46)
Investing transactions:				
Increase in portfolio investments	(5)	(4)	(15)	(631)
Cash used in investment transactions	(5)	(4)	(15)	(631)
Foreign exchange gain on cash held in foreign currency	3	92	109	139
Net increase in cash during the period	1,144	3,356	92	2,550
Cash and cash equivalents, beginning of period	10,623	16,249	11,675	17,055
Cash and cash equivalents, end of period	**$ 11,767**	**$ 19,605**	**$ 11,767**	**$ 19,605**

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.

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 tradeshows.

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

4. Parliamentary appropriations

Below is a reconciliation of the parliamentary appropriation receivable / (deferred) during the period:

(in thousands)		Sep 30, 2013		Dec 31, 2012
Parliamentary appropration receivable / (deferred), January 1	$	(1,609)	$	(2,948)
Parliamentary appropriations received		(47,532)		(75,850)
Parliamentary appropriations recognized in net income for operations		49,141		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 $57.8M (April 1, 2012 to March 31, 2013 $71.5M). The Commission does not have the authority to exceed approved appropriations.

Parliamentary appropriations of $49.1M, recognized in net income for operations for the nine month period ending September 30, 2013, were unrestricted. Of the $77.2M recognized for the year ended December 31, 2012, $4.6M were restricted and $72.6M were unrestricted. The balance of $1.6M which was deferred at December 31, 2012 was recognized as revenue in the current year upon adoption of PS 3410 (note 2l), as it related to unrestricted parliamentary appropriations.

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

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
Acquistions	4	-	5	-	-	9
Disposals	-	-	-	-	(318)	(318)
Cost of tangible capital assets, closing	314	157	3,631	529	515	5,146
Accumulated amortization, opening	161	151	2,853	479	695	4,339
Amortization expense	73	2	203	19	35	332
Disposals	-	-	-	-	(318)	(318)
Accumulated amortization, closing	234	153	3,056	498	412	4,354
Net book value	**$ 80**	**$ 4**	**$ 575**	**$ 31**	**$ 103**	**$ 792**

(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
Acquistions	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**