POWERING THE VISITOR ECONOMY

2018 ANNUAL REPORT

DESTINATION CANADA

Canada

NEWFOUNDLAND AND LABRADOR | Gros Morne National Park | Finn Beales

ON THE COVER: NOVA SCOTIA | Cape Breton Island | Destination Canada

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QUEBEC | Gatineau | Canadian Museum of History

2018 PERFORMANCE HIGHLIGHTS

1.39 MILLION additional visitors

5% ABOVE TARGET

spending over **$1.76 BILLION**

12% ABOVE TARGET

support for over **13,300 JOBS**

$220 MILLION in federal tax revenue

93% INVESTMENT in marketing & sales

3% ABOVE TARGET

MESSAGE FROM THE CHAIR OF THE BOARD OF DIRECTORS

Canada welcomed 21.1 million international travellers in 2018, setting a second-consecutive record-breaking year.

There are many things working in Canada's favour right now – international excitement about Canada and its brand have never been stronger. Direct air access from many of our key markets has increased and over the past several years, we've seen impressive growth in international arrivals and tourism spending.

Tourism is Canada's largest service export and a big employer that touches all corners of the country – one out of every 10 people works in tourism, from coast to coast to coast. Every day, tourism makes a positive impact in the lives of Canadians, in every region of the country and in communities big and small.

As Canada's national tourism marketer, Destination Canada inspires travellers to choose Canada over the competition, provides international reach to tourism businesses, creates jobs and drives investment into the country. This work is pivotal in driving prosperity of the sector and helping the visitor economy thrive.

Beyond marketing, Destination Canada has been actively working with its public and private sector colleagues at strengthening Canada's competiveness. Work that began last year to assess the global competitiveness of Canada's tourism sector has led to the establishment of the Advisory Council on Jobs and the Visitor Economy under the leadership of the Honourable Mélanie Joly, the Minister of Tourism, Official Languages and La Francophonie. This council, on which I sit, will recommend new ways to increase Canadian tourism opportunities and global competitiveness.

While there is much to do in the years ahead to maximize Canada's growth potential, I am proud of the tremendous work that has occurred throughout 2018. I would like to thank the team at Destination Canada for their hard work and dedication, and to my board colleagues for their exemplary service and continued guidance.

I look forward to a continued path of success to ensure a bright future for all.

BEN COWAN-DEWAR

MESSAGE FROM THE PRESIDENT AND CEO

At Destination Canada, we know that the impact of one visitor to Canada can have a ripple effect that can be felt across the country. This visitor economy is a complex and dynamic ecosystem and understanding our role within it reminds us of our raison d'être.

Over the last year, we've been focused on supporting this thriving economy in three ways: working collaboratively with our Team Canada partners, deploying marketing that is predicated on purposeful data and looking at innovative ways to overcome common barriers.

Firstly, we've been engaging with our partners in new and creative ways. Coming together with our industry co-investors under a unified and multi-year marketing approach has proven effective at driving demand for Canada. This is reflected in the success of our marketing campaigns and trade and media relations activities executed daily in our markets. Team Canada is giving us a competitive edge.

Secondly, the achievements of 2018 reflect the successful data-driven marketing that shapes our strategies. We now have access to information on the spending patterns of target travellers, giving us a better understanding of who the customer is, what they're interested in and how to reach them. This is helping us and our industry co-investors make smarter decisions on where to invest and who to target.

Lastly, we're focused on future proofing our success. We're concentrating on maintaining sell-out seasons while shining a spotlight on shoulder seasons and lesser-known regions.

In this age of acceleration and change, it's important now more than ever to distinguish our strengths and identify opportunities for growth. While we actively anticipate the future, collaboration of Team Canada is pivotal in ensuring long-term sustainability of the sector.

I want to thank our partners for their passion and commitment. Together, we are creating the next era of travel.

DAVID F. GOLDSTEIN

ABOUT US

ALBERTA | Banff National Park | Sean Scott

VISION

Together, we create the next era of travel, inspiring those with glowing hearts to fall in love with Canada.

MISSION

We unite and empower Canada's tourism leaders through compelling research, strategy and storytelling to drive the visitor economy.

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.

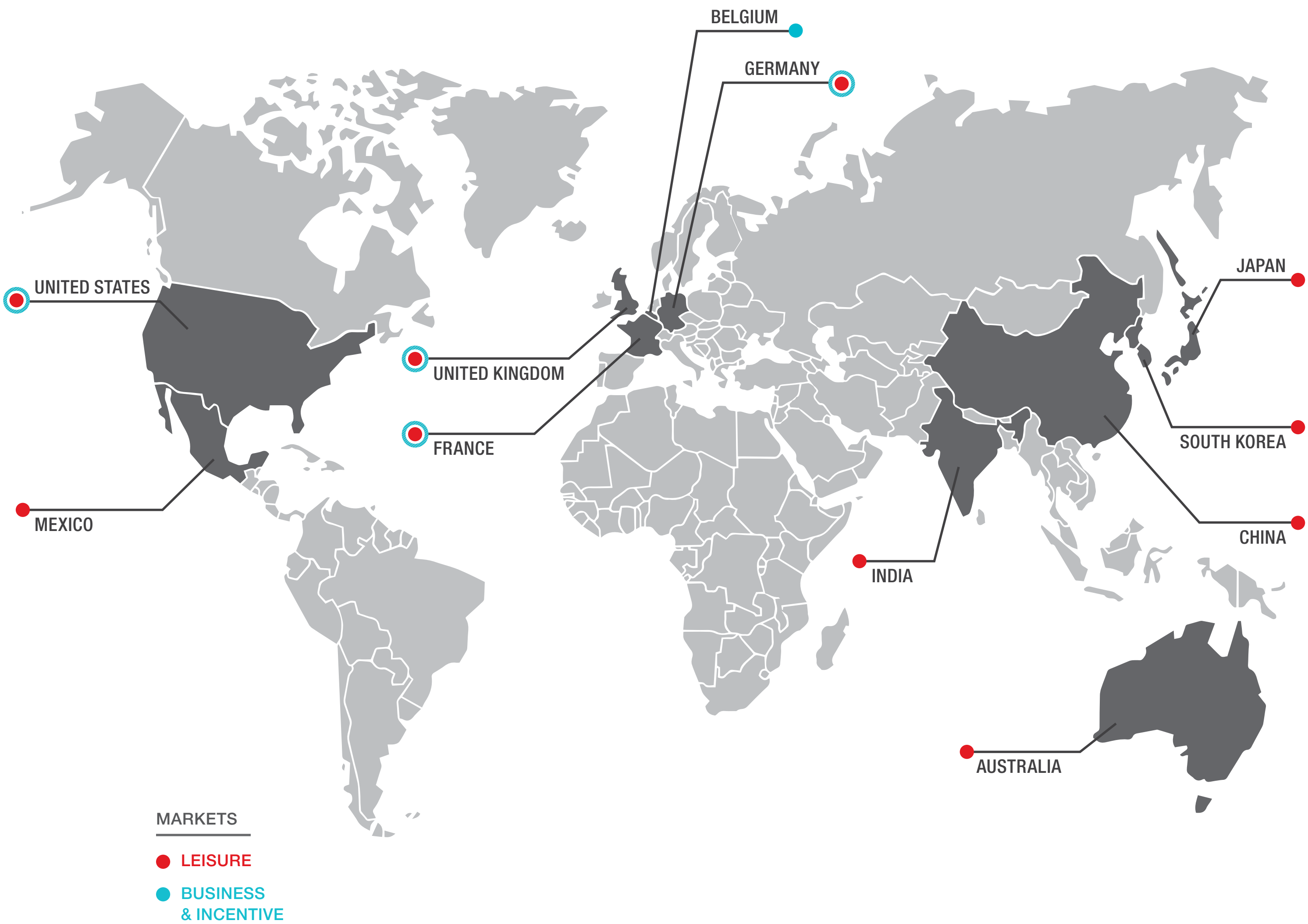
ROLE

As Canada's national tourism marketer, Destination Canada is a catalyst to inspire global travellers to choose Canada. We stimulate economic diversity and opportunity by driving increased tourism export revenue as part of the federal government's priority to strengthen Canada's global competiveness in the leisure and business travel sectors.

We work with partners in provincial and territorial governments and stakeholders in the tourism industry to help Canada's tourism businesses reach international markets. Leveraging our co-investors' alignment in analytics, marketing, communications and trade tactics in key global markets, we develop innovative strategies to support the long-term prosperity of the thousands of small- and medium-sized businesses who, in turn, create employment opportunities across Canada.

BRITISH COLUMBIA | **Tofino** | Jeremy Koreski

AROUND THE WORLD



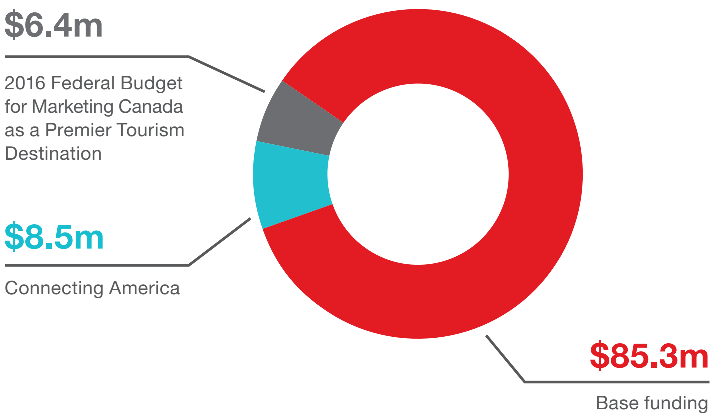

PRINCE EDWARD ISLAND | Springbrook | Paul Baglole

FUNDING SOURCES

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

In 2018, we received parliamentary appropriations totalling $100.2 million as shown.

As of April 2018, our base appropriations were stabilized at a set amount. Beginning in 2019, our funding level will be $95.7 million each fiscal year.



NUNAVUT | Iqaluit | Destination Canada

CORPORATE CONTEXT

NEW BRUNSWICK | Grand Manan | Tourism New Brunswick

GLOBAL LANDSCAPE

The year 2018 marks the second strongest year of growth in international arrivals since 2010. Early reports from the United Nations World Tourism Organization (UNWTO)[1] indicate an increase of 6% in world overnight arrivals, bringing the total to 1.4 billion arrivals in 2018. This figure was previously projected to be hit in 2020, a marker that has been reached two years ahead of forecasts made in 2010.

Contributing to this strong growth were overnight visits to the Middle East (+10%) and Africa (7%). Growth in Asia and the Pacific remained consistent with 2017 levels at 6%. Europe experienced a slight drop in growth from 9% to 6%, as did the Americas with growth declining from 5% in 2017 to 3% in 2018. Strong outbound demand from major source markets coupled with favourable economic conditions helped to maintain momentum for tourism demand.

China held steady as the top spender on outbound tourism, followed by the US. Momentum for travel from these major markets continues to be strong, driven by improved air connectivity and enhanced visa facilitation around the world.

Looking ahead to 2019, tourism growth remains optimistic, albeit at a slower rate. While the increased purchasing power of growing middle classes in emerging markets and affordable air travel are helping to expand the pool of international travellers, projections are that the global economic slowdown, uncertainty related to Brexit and escalating trade and political tensions will keep investors and travellers cautious.

1 — UNWTO World Tourism Barometer, UNWTO, January 2018.

TOURISM IN CANADA

The 2018 year was the best year for Canadian tourism on record, with arrivals breaking the 21 million mark for the first time ever[2].

Canada's tourism industry has benefited tremendously from the boom in global tourism over the last several years. The robust growth in world demand for travel coupled with increased aviation capacity, currency advantages, improved visa access and increased federal marketing investments led to a second consecutive record-breaking year with over 21.1 million travellers to Canada in 2018.

While Canada experienced a second break-through year in terms of visitor volume, it experienced more modest growth than it has in recent years – 1.2% in 2018 versus 4.6% in 2017[3]. According to the Conference Board of Canada, "tourism activity in 2018 was weighed down by a number of factors, including rising travel prices, the weaker economic environment and lack of major events like those that happened in 2017[4]."

In particular, overnight visits from the US grew by 1.4% in 2018 compared to 2.5% the previous year[5]. Possible reasons for this decline in growth are a less favourable exchange rate for American travellers and escalating travel costs due to higher fuel and accommodation prices.

Similarly, while record visitation levels were set for major source markets including China, France and Mexico, growth from overseas markets also contracted in 2018. In particular, double-digit growth seen from China – Canada's third largest source market – in recent years fell from nearly 14% in 2017 to 6% in 2018[6]. In addition, economic uncertainties including global trade have negatively impacted arrivals from Japan and South Korea. However, despite global uncertainty, Canada has continued to resonate as a destination of choice.

Looking ahead, concerns about global trade issues and uncertainty regarding the fallout of Brexit will continue to loom. As economic uncertainty eases and travel price increases return to more modest levels, business and consumer confidence in much of the world is expected to rise. While overall growth for Canada is projected to slow in 2019, these gains will serve as a boost to Canada-bound travel, and growth from the US and overseas markets is anticipated to strengthen and remain positive.

2 — Destination Canada Tourism Highlights, December 2018.

3 — *Ibid*

4 — Travel Markets Outlook, The Conference Board of Canada, Autumn 2018/Winter 2019.

5 — Destination Canada Tourism Highlights, December 2018.

6 — *Ibid*

ONTARIO | Toronto | Alan Brutenic

MANAGEMENT DISCUSSION AND ANALYSIS

NEW BRUNSWICK | Miscou Island | Tourism New Brunswick

GOAL

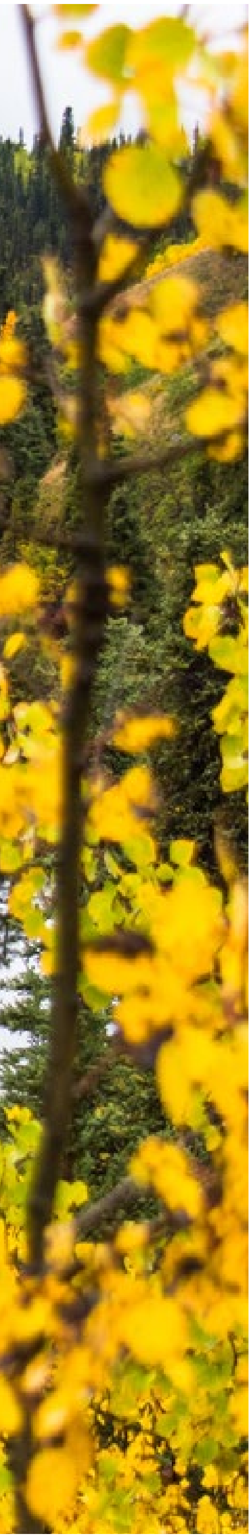
Increase arrivals of international visitors to Canada and increase tourism export revenue

Rapid global tourism growth in recent years has led to capacity constraints in the areas of accommodation, local transport and attractions during peak seasons, particularly in major Canadian cities. While we've continued to drive demand for Canada among high-yield international travellers, we have expanded our focus to diversify this travel to include shoulder seasons and travel beyond known landmark locations.

To measure the effectiveness of our high-yield strategy and the impact on visitation, we employ various methods for attributing our performance in the areas of consumer-direct marketing and business-to-business sales. We also undertake a variety of media relations activities to tell an evocative and compelling story that makes Canada a top-of-mind destination.

PERFORMANCE MEASURE

	TARGET	RESULT
Attributable arrivals	1,320,000	**1,392,070**
Attributable tourism export revenue	$1.57b	**$1.76b**



YUKON | Kluane National Park | Kyle Mulinder

CONSUMER DIRECT

We employ a variety of evaluation methods to assess the impact of our consumer direct marketing efforts in our international markets. A third-party marketing attribution model cost-effectively estimates attributable arrivals from our leisure markets based on historical data, current performance metrics and external factors. This model was developed using the data we have been collecting on attribution since 2007 and has been vetted by independent advisors and experts. In 2018, we applied this model in all our leisure markets except the US.

Given our recent re-entry into the US leisure market and therefore, a lack of available historical performance data, using the marketing attribution model was not feasible. In the US, we used a mix of methodologies to determine attributable arrivals. Using location data tracking technology, we are able to use a third party to correlate exposure to our content against visitation patterns in Canada. This was supplemented with third party surveys to understand the lift in travel due to our content marketing and paid media tactics in the US.

In 2018, our consumer direct marketing efforts attracted over 940,000 travellers to Canada, resulting in visitor spending of $1.2 billion.

BUSINESS-TO-BUSINESS

Travel Trade

In addition to advertising directly to consumers as above, we reach out to consumers indirectly through promotional activities with the travel trade, including airlines, travel agencies and tour operators. We assess actual sales resulting from our marketing partnerships with the trade in all our leisure markets. In 2018, nearly 56,000 bookings to Canada were secured, equating to over $141 million in visitor spending from all our leisure markets.

Business Events

We also track the bookings of meetings, conventions and incentive travel as a result of our efforts. By leveraging Canada's leadership in key economic sectors, vibrant cities and state-of-the-art infrastructure, our business events program positions Canada as an attractive place for hosting international meetings and incentive trips. In 2018, our program confirmed $400 million in international business event bookings to Canada and over 392,000 planned delegates.

Collectively, all three channels generated 1.39 million incremental arrivals, $1.76 billion in tourism revenue, nearly $220 million in federal tax revenue[7], and support for over 13,000 tourism related jobs[8] in Canada.

7 — Calculated using data from Statistics Canada, Government Revenue Attributable to Tourism, 2017.

8 — Calculated using data from Statistics Canada, National Tourism Indicators, 3rd Quarter, 2018.

MEDIA RELATIONS

The year 2018 was an incredibly strong year for media relations. Our always-on approach generated 41 billion impressions across print, broadcast and online channels in our ten leisure markets.

In addition to driving attention to our consumer marketing campaigns, we proactively worked with travel and lifestyle media to inspire our target travellers with Canadian content aligned to their interests.

To complement our own outreach, we supported Canadian tourism industry partners to host media trips across the country to generate authentic and compelling content.

Events we produced in 2018, such as Canada Media Marketplace and GoMedia Canada, created a forum for the Canadian tourism industry to connect directly with top tier media. Coverage resulting from these shows alone reached over 1.5 billion target travellers. For all our events in 2018, coverage was also published in notable outlets including *The New York Times, Lonely Planet, Forbes, CNN, USA Today, The Daily Beast, The Guardian, Independent, The Sunday Times, Rough Guides* and *Die Welt*.

GoMedia Canada

GoMedia Canada 2018 held in Calgary featured the city's bustling music and arts scene and gave media a sneak peak at the new world-class Calgary Central Library. The event helped to secure Calgary a spot on *The New York Times* 52 Places to Go in 2019.

OBJECTIVE 1

Increase demand for Canada with innovative marketing

Given the multitude of ways that travellers can consume content and purchase travel, it is essential that we choose the most relevant channels to engage our target travellers and business events decision-makers. Bold and inspiring content not only distinguishes us from our competitors, but it compels our target travellers and business events decision makers to move from inspiration to consideration, and ultimately, to choose Canada.

Our active consideration measure tracks long-haul 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. Our result of 5.9% represents a decrease from our 2017 result of 7.6% and falls below our 9% target for 2018. This decrease is primarily driven by a sharp decline in consideration by US travellers who were travelling less outside of the US. As the US market accounts for over 50% of the overall score, consideration among American travellers significantly impacts this result.

During the course of the year, we took a closer look at our role in driving leads to partners. Recognizing our role to create interest and demand for Canada, we shifted our approach and focused primarily on creating and distributing content that informs and inspires about Canada, and enabled our partners to remarket to engaged consumers with their own targeted ads. While this shift generated an overall lower result for the leads to partners measure, it drove up the level of consumer engagement with broader Canadian content.

PERFORMANCE MEASURE

	TARGET	RESULT
Active consideration	9%	**5.9%**
Leads to partners *	4.7m	**3.96m**

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

US LEISURE MARKETING

Our re-entry into the US Leisure market in 2016 began with Connecting America, a three-year program that promised a vibrant, unexpected and unique side of Canada to prospective American travellers. Over its life, the unified campaign delivered outstanding results and met or exceeded all its program goals. Co-investment and participation from all provinces and territories, and city, resort and commercial partners from across the country played a critical role in amplifying this program and helping to drive its success.

Although the Connecting America program came to a close in 2018, we continued to maintain a permanent presence in the US leisure market. In addition to our Connecting America program, our leisure marketing program in the US in 2018 included a first-of-its-kind content partnership with Amazon Prime to deliver an original travel series. Entitled *Vacations of the Brave*, the series followed real Americans who made a positive difference at home, broke barriers and redefined bravery in America on a quest north of the US border.

Premised on the theme of transformation, each episode featured a different hero on their unique and transformational journey of adventure and self-discovery in Canada. The series was inspired by insights into what motivates US travellers, including their need to connect with something on a deeper, more emotional level.

Connecting Cultures

The richness and diversity within Quebec's Indigenous contemporary arts community was the focus of a collaboration with National Geographic and the Indigenous Tourism Association of Canada in 2018.

As part of the Connecting America program, the publisher partnership led to the creation of a narrative and video showcasing the transformative power of Indigenous cultures in Canada. With a focus on the history, culture and environments influencing incredible local Indigenous artists, the story centred on people and place to capture how Indigenous artists reveal and sustain their culture. It highlighted the strong connection between urban and natural elements found in Quebec and the Indigenous community's presence in Quebec's art and cultural scene.

The resulting story was featured in print and video and struck a chord with culture-seeking enthusiasts, generating nearly 3.5 million views on National Geographic's consumer platforms.

PROGRAM GOALS	PROGRAM RESULTS
1.035 million US arrivals to Canada	1,058,000
$629 million in tourism revenue	$688m
Partner co-investment ratio of 1.25:1	1.25:1

BRITISH COLUMBIA | Vancouver | Destination Canada

BoyNam

Influencer-supported marketing is tremendously effective at engaging with potential Chinese visitors. In 2018 we partnered with BoyNam, a well-known fashion stylist and blogger and a close friend to many top Chinese celebrities. With over one million followers on the Chinese social media platform, Weibo, BoyNam's interests and involvement in the fashion industry were a perfect match for the exciting shopping and cultural experiences found in Toronto. BoyNam's travel story featuring his favourite experiences in the urban city garnered over 3.5 million video views through social media and was also profiled in popular *GQ China.*

CANADA-CHINA YEAR OF TOURISM

The year 2018 was designated as the Canada-China Year of Tourism and was devoted to strengthening bilateral relations and enhancing tourism flows between the two countries. To support this milestone, we greatly boosted our marketing presence in China in 2018. With our partners, we launched a digital marketing campaign through Weibo and WeChat, which included video content with key Chinese influencers. Our campaigns targeted tier one and tier two cities, featuring packages and incentives for families and business travellers.

Taking a non-traditional approach, we participated in a series of successful pop-up stores featuring Canadian food delicacies, reaching a total of 54 million people through extended influencer engagement. The interactive stores enabled visitors to walk away with a better awareness of Canada as a travel destination while extending a warm invitation to our Chinese friends to visit and explore Canada.

We also participated in several trade missions which resulted in agreements with partners Utour and Ctrip, allowing us to showcase uniquely Canadian tourism experiences to prospective Chinese travellers.

BUSINESS EVENTS

Globally, meetings, conventions and incentive travel is a trillion-dollar industry and Canada is capturing global attention as an attractive destination for hosting international meetings and conventions. In 2018, Vancouver hosted over 100,000 delegates from international conventions relating to life sciences and clean technology. Toronto has been hosting city-wide conventions and enticed a major North American technology giant to relocate their annual conference to the city beginning in 2019. Montréal was named the top destination in the Americas for hosting international conferences in 2018. The most lucrative of all tourism segments, business events are a catalyst for the Canadian visitor economy and are an important tool for economic development.

Our business events program positions Canada as a smart choice for hosting international meetings and incentives. Centred on a two-pronged approach, the team works with meeting planners and influencers to target international association business and has now complemented this approach with its Economic Sector Strategy targeting senior executives in priority economic sectors where Canada holds a competitive advantage. In these centres of excellence – aerospace, advanced manufacturing, agriculture, clean technology, information and communications technology (ICT), life sciences and natural resources – Canada's thought leaders are producing intellectual capital that are a lure for international conferences and delegates.

Leveraging Canada's economic strengths and vibrant destinations has proven effective at connecting key decision makers and executive influencers with Canada's sectors of excellence and with Canadian cities that are excelling in those sectors. This strategy has been gaining industry traction, with partners choosing to align their marketing initiatives to ours and investing additional resources, while maintaining their investments in the traditional aspects of the meetings and association business.

We're elevating Canada's profile on the international conference stage, leading to new opportunities to compete for high-profile events and providing a base of visitation in shoulder and off seasons to our resorts and cities. Continued expansion of the sector-based strategy, while maintaining or growing the traditional aspects of the meetings business, will be key to future-proofing Canada's success.

Innovate Canada

In 2018, we hosted our inaugural Innovate Canada to spotlight our country's technology sector to global C-suite executives. This three-day event allowed attendees to meet with Canada's leading-edge technology giants, global innovators and forward thinking CEOs across the ICT industry.

In partnership with the C2 Conference, we were able to take delegates on a behind-the-scenes tour of Montréal's living labs and the companies that are revolutionizing Canada's technology ecosystem. The site visits centred on the themes of artificial intelligence, visual effects and gaming, life science and health technology and data centre and cybersecurity.

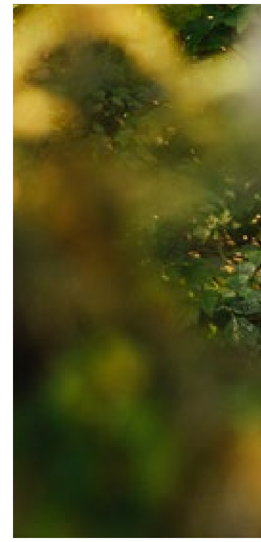
We rounded out the event by setting up one-on-one meetings between attendees and Canadian representatives in the ICT sector.

Canada showcased its leadership in this sector, not only as a host for international business events, but as a country in which to invest, demonstrating that international business events are a gateway for trade and investment in other industries.

MONTREAL | Quebec | Stephan Poulin

OBJECTIVE 2

Advance the commercial competitiveness of the tourism sector



Strategic partnerships shape how we work with our industry to drive collective success. Our marketing campaigns and trade programs are anchored in solid public partnerships and private sector co-investments across all our marketing channels and markets. Partnerships are integral to what we do and by bringing together the right partners and aligning industry efforts, we help Canadian tourism businesses extend their reach and assert a greater presence internationally.

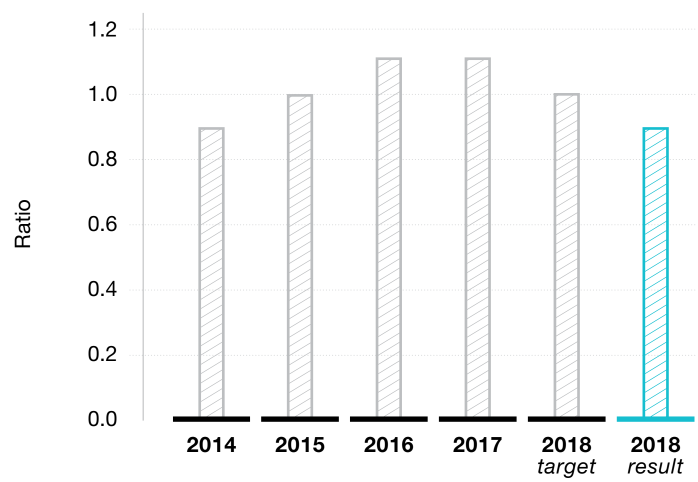
We consider the level of partnership co-investment to be an indicator of the value and relevancy of our programs and campaigns to our co-investors. The partner co-investment ratio calculates the ratio of partner contributions (including cash, in-kind and third party contributions) to every dollar of our government funding. In 2018, we set a target ratio of 1:1 which is higher than the 2017 target and aligned with the target in 2016.

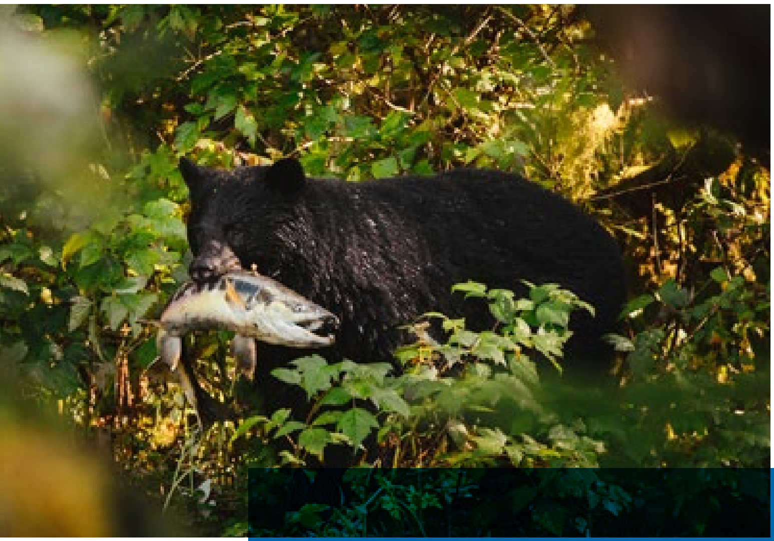
Although we exceeded our cash revenue targets in 2018, we narrowly missed the target with a ratio of 0.9:1. This was the result of our higher parliamentary appropriations and lower in-kind and third party partner co-investment. The multi-year strategy envisioned through NorthStar 22 materialized in 2017, resulting in a large jump in partnership engagement and investment which could not be replicated in 2018.

PERFORMANCE MEASURE

	TARGET	RESULT
Partner co-investment ratio	1:1	**0.9:1**
Percentage of partners who indicate Destination Canada activities advance their business objectives	85%	**80%**

PARTNER RATIO





Visitor Intelligence Platform

Over the last few years, we've been focused on modernizing and streamlining our data and analytics capabilities. In 2018, we collaborated with Statistics Canada to acquire payment processing data on visitor spending that are more credible, accurate and region-specific. This information would tell us specifically what, where and how much international visitors truly spend while in Canada.

Early spend data has been received and shared with Statistics Canada to improve the credibility of their international tourism spend estimates. In addition, we have been analyzing and sharing this data with co-invested partners to identify spending patterns of international travellers in their regions.

Being able to gain a deeper understanding of the spending habits of international visitors in and around the country informs us and the tourism industry on what products and experiences are resonating with our target travellers, and which need to be developed in order to drive optimal returns. This analysis has been useful in informing strategic business and investment decisions, both for ourselves and the tourism industry.

WORKING TOGETHER

Collaborating with partners is key to the long-term success of Canada's tourism industry. We and 27 partners from across the industry have come together in a coordinated and unified fashion to purposefully increase Canada's share of the global travel market. Under this multi-year, sustainable strategy, called NorthStar 22, we're leading an aligned approach to make Team Canada more efficient and effective. Our co-investors from tourism marketing organizations at all levels and the Indigenous Tourism Association of Canada are working together under mutually agreed to and shared objectives, a coordinated marketing and sales strategy and a common measurement framework.

As part of our commitment to this strategy, throughout 2018 we've advanced several initiatives, including:

- Leading the development of the Visitor Intelligence Platform to more accurately determine visitor spending in conjunction with Statistics Canada.

- Co-leading a working group to explore and pilot new forms of collaboration to grow awareness of Canada, while reducing duplication of efforts and realizing substantial cost savings for all. As an example, we led the procurement of a networking tool allowing the over 85 licensed organizations to share user generated content easily and cost effectively, with cumulative savings totaling over $500,000.

- Reviewing how we work in the trade channel, including with travel agencies and tour operators, and when leading and participating in trade shows and sales missions. The travel trade is an important revenue driver for Canada and having a better understanding of the future role of the trade will guide how we allocate resources for maximum impact.

BRITISH COLUMBIA | Great Bear Rainforest | Destination Canada

In addition to NorthStar 22, we entered into the following agreements in 2018 to help drive the visitor economy:

- We signed a marketing partnership agreement with Halifax International Airport Authority. The purpose of this alliance was to promote visitation from France to Atlantic Canada, in light of WestJet's new non-stop service between Halifax and Paris. The agreement incorporates a fully integrated marketing campaign designed to create authentic content rooted in great storytelling that will resonate with target audiences. Recognizing Atlantic Canada's rich Acadian culture and strong ties to France, this agreement to promote tourism from France aligns the strategic priorities of both organizations to strengthen economic growth in Atlantic Canada.

- We entered into a three-year partnership agreement with the Canadian Sport Tourism Alliance to promote Canada as a preferred sport tourism destination to the international sport community. The agreement includes joint sales missions to international sport organizations that control the rights for hundreds of world championship sporting events. Leveraging the expertise of our business events division, the sales missions will provide a platform for Canadian destinations to interact with a variety of international sport federation representatives in a series of promotional activities, hospitality functions and business-to-business opportunities. The missions will be an opportunity to showcase Canada as a premier location to host major international sporting events, helping to further boost tourism across the country.

- We signed a memorandum of understanding with Le Réseau de développement économique et d'employabilité Canada (RDÉE Canada) to bolster the export potential of Francophonie experiences throughout the country. Working with RDÉE Canada enables us to collaborate and inspire international travellers to celebrate the uniquely francophone experiences found only in Canada, and allows us to support Canada's linguistic duality.

A Culinary Journey

As part of our marketing strategy to emotionally connect travellers to Canada, in the fall of 2018 we brought over international influencers to create a series of videos presenting Canada through the lens of their firsthand experiences.

To create awareness of WestJet's new direct flight from Halifax to Paris, we partnered with Halifax International Airport Authority to welcome Victor Mercier – a celebrity chef and Top Chef France finalist – to discover the sustainable food culture of Atlantic Canada. Inspired by producers and chefs from Newfoundland and Labrador and Nova Scotia, Victor's discovery of the local culture and cuisine led him to invent a new dish sourced from local ingredients. Victor's journey culminated in a cooking demonstration video which depicts his Canadian culinary journey and to date has garnered 2.7 million views.

NOVA SCOTIA | Halifax | Destination Canada

Rendez-vous Canada

Rendez-vous Canada (RVC) 2018 was the most successful in its 42-year history. The annual premier tourism marketplace brings together Canadian tourism providers with buyers from around the world and provides a unique platform to launch new tourism products, share market insights, network and increase the range of tourism experiences the industry offers.

Set in Halifax and highlighting the genuine warmth of Maritime hospitality, RVC broke previous records for attendance, welcoming over 1,900 delegates including over 600 buyers from 29 countries. All provinces and territories were represented, along with 32 Indigenous tourism businesses. Over 30,000 business appointments were conducted over the four-day event, helping to drive more international travel to Canada.

TRADESHOWS AND MEDIA 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 2018, both at home and abroad, we facilitated global access and expanded market reach for thousands of Canada's tourism businesses.

The feedback from our industry participants is a leading indicator of the commercial relevancy of our programs. Through post event surveys, we assess our effectiveness at helping our partners advance their business objectives. For all our shows in 2018, our collective result is 80%. While this is slightly below our target of 85%, this is nonetheless a strong indicator of the value and relevancy of our programs to the industry.

UNLOCKING CANADA'S POTENTIAL

Sustaining a vibrant and profitable Canadian tourism industry is a cornerstone of our mandate. Global travel is a significant economic driver and has the potential to be one of the largest in the country. While Canada's tourism economy has been experiencing strong performance in recent years, the country is only beginning to tap into the growth in global travellers and long-term growth is not guaranteed.

In 2018, we partnered with the department of Innovation, Science and Economic Development to conduct a third-party assessment of the global competitiveness of Canada's tourism sector. The study, entitled *Unlocking the potential of Canada's visitor economy*, examines where Canada excels and the opportunities to enhance global competitiveness. It also provides perspective on how to position the Canadian industry for long-term success and is intended to inspire future private and public sector efforts needed for growth.

As part of a whole-of-government approach on tourism, this report and the underlying research is feeding into Minister Joly's Advisory Council on Jobs and the Visitor Economy that, in turn, will advise on the development of a new federal strategy for Canada's tourism sector.

OBJECTIVE 3

Increase corporate efficiency and effectiveness

We continue to take a critical look at our business operations to maximize productivity and improve the efficiency of our corporate services. We also continue our focus on embracing new way of learning and doing as we strive for excellence in pursuit of our mission.

PERFORMANCE MEASURE

	TARGET	RESULT
Marketing and sales ratio*	90%	**93%**

** Percentage of total expenditures, inclusive of partner cash contributions, invested in marketing and sales activities.*

NOVA SCOTIA | Halifax | Celtic Colours International Festival

IMPROVING EFFICIENCY

Over the past three years, we invested the vast majority of our budget into marketing. In 2018, we continued this practice by investing 93% of total expenditures in marketing and sales activities, exceeding our target of 90%. As a part of our employee engagement and enablement plan, we follow a targeted approach to projects to increase efficiencies based on how much impact they are anticipated to have on our staff and the organization overall.

PEOPLE AND CULTURE

Our people are the beating heart of our organization. They balance efficiency and effectiveness while remaining mindful of the responsibility that comes with working for a federal Crown corporation.

In 2018, we embarked on a cross-company project to explore and redefine our vision, mission and organizational values. With shifting traveller needs and an evolving corporate strategy, these foundations needed to be stronger for our team to benefit from the invaluable returns of a shared purpose and culture.

This past year, we also placed a strong emphasis on training and job enrichment opportunities. We challenged ourselves and each other to maximize learning through individual and corporate training sessions, while fostering a culture conducive to individual and organizational success.

Lastly, we continued to support a healthy and respectful workplace, maintaining our focus on mental health awareness and creating an engaging workplace for our employees.

LEVERAGING TECHNOLOGIES

In 2018, we made a concerted effort to increase productivity and minimize administrative burden through existing technology. By better utilizing and increasing the functionality of our existing technologies, particularly our financial and procurement systems, we have been able to streamline processes, enhance governance and simplify reporting requirements.

In addition, we have made investments to enhance operational activities, including the hiring of additional support staff and a realignment of resources to improve regional marketing management.

ONTARIO | Ottawa | Destination Canada

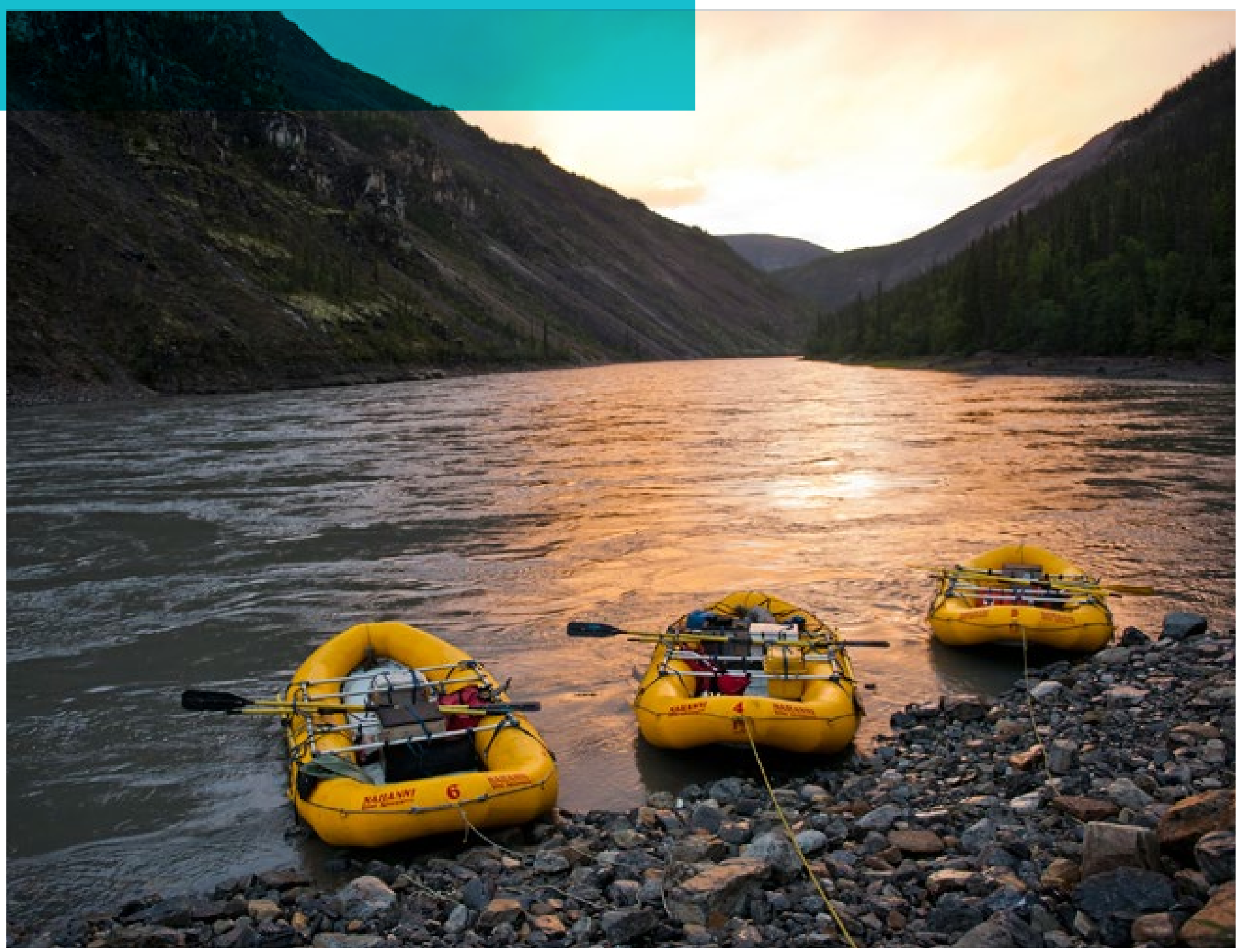

ONTARIO | Niagra Falls | Destination Canada

CREATING THE NEXT ERA OF TRAVEL

As the world moves towards two billion travellers worldwide in the coming years, some destinations around the world are coping with the negative effects of overtourism and are actually suffering a decline in visitation in the absence of a sustainable framework. For Canada, more than half of international travellers arrive within a four-month window. This compression has given rise to capacity constraints and has sparked a concerted look at whether the country is well-positioned to capture its share of the abundant growth in international arrivals being projected by leading experts.

As we continue to work with our tourism colleagues to chart out a road map for success, we will continue to drive the visitor economy through our Team Canada approach premised on data driven-marketing. We will strengthen visitation in shoulder seasons and aim to take travellers further afield, while maintaining the high seasons. Increasing visitation without limiting growth will be imperative to creating the next era of travel.

MANAGEMENT CONTROLS



RISK MANAGEMENT

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.

The following are the key risks to our strategic objectives along with mitigation activities undertaken. In 2018, privacy risk was removed from our risk profile as considerable work was done in this area to manage and mitigate this risk. However, given the sensitivities surrounding personal data, the protection of privacy will always be a focus for us and we will continue to monitor and employ controls to safeguard any personal data we have.

NORTHWEST TERRITORIES | Nahanni National Park Reserve | Destination Canada

RESIDUAL RISK:

High   Medium   Low

KEY RISKS FOR OBJECTIVE 1 Increase demand for Canada with innovative marketing

2018
2017

GLOBAL ECONOMIC AND GEO-POLITICAL

There is a risk that global economies of the markets where we invest could experience a significant slowdown in growth, changes in the political landscape or changes in security which would impact international travel to Canada.

Mitigation activities: We maintained a balanced investment approach across our portfolio of markets, and ensured that country budgets are flexible to allow reallocations if necessary. We continued to offer support, tools, assets and sales opportunities to the industry to help withstand these issues, facilitate their export readiness and help grow their businesses.

2018
2017

MARKETING EFFECTIVENESS

There is a risk that we are not effective at promoting Canada as a premier tourism destination.

Mitigation activities: We continued to leverage the strength of the Canada brand on the global stage. In collaboration with multiple co-investors, we deployed content-centric marketing strategies in our markets that were innovative. We consistently assessed the effectiveness of our paid, owned and earned media investments and used data to generate insights to inform our investment decisions for constant optimization. We communicated results to co-investors and industry to reinforce value and impact to the tourism industry, and we applied human and financial resources optimally.

2018
Removed
2017

PRIVACY

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: In compliance with the General Data Protection Regulation impacting our operations in the European Union, we implemented a consent and transparency tool on all our websites. We also implemented recommendations stemming from privacy impact assessments and updated our privacy policy.

KEY RISK FOR OBJECTIVE 2 Advance the commercial competitiveness of the tourism sector

- 2018
- 2017

PERFORMANCE MEASUREMENT

There is a risk that we will be unable to measure the impact, effectiveness and attributable results of our marketing efforts, including the use of new marketing communications technologies in a manner that is meaningful to our stakeholders.

Mitigation activities: We utilized a series of third party tools, including attribution models and proprietary surveys of target audiences in our markets, to measure the results of our marketing efforts. We continued working with our partners and vendors to innovate and standardize performance measurement approaches where possible.

NEWFOUNDLAND AND LABRADOR | Torngat Montains National Park | Newfoundland and Labrador Tourism

KEY RISK FOR OBJECTIVE 3 Increase corporate efficiency and effectiveness

● 2018 CHANGE AND TALENT MANAGEMENT
● 2017

There is a risk that our dynamic and changing needs for skills and talent to support our business will negatively affect the recruitment of key talent, employee engagement and succession planning, impacting the organization's efficiency and effectiveness.

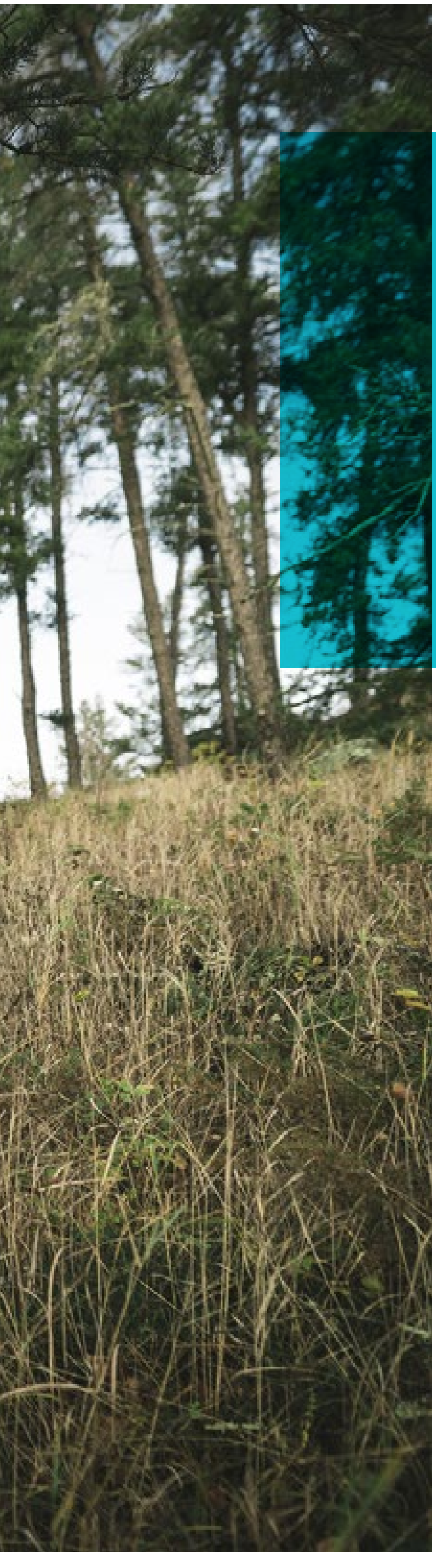
Mitigation activities: We continued to foster an environment where creativity and innovation were encouraged, and supported management and employees at all levels with proper tools and resources. We continued to nurture a culture conducive to individual and organizational success. We redefined our vision, mission and values and emphasized training and job enrichment opportunities through individual and corporate training sessions.

● 2018 CURRENCY
● 2017

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: We continued to employ a balanced portfolio approach where investments are spread across a diversified set of leisure and business markets to balance risk and maximize return. In addition, we have made concerted efforts with vendors to transact in Canadian dollars whenever possible.

MANITOBA | Falcon Trails Resort | Max Muench



INTERNAL AUDIT

While our external audit is performed by the Office of the Auditor General of Canada (OAG), we have a robust internal audit function. Our annual internal audit plan is risk-based and integrated with the enterprise risk assessment to ensure that we focus efforts on mitigating risks carrying the highest likelihood and impact. We engage an external firm to carry out this function and the internal auditor is independent of management and reports directly to the Audit and Pension Committee of the Board of Directors.

In 2018, the internal auditor conducted the following activities:

- An internal audit of partnership management. As partnerships grow in number and value, they have become a more significant part of our overall business plan. This audit assessed our governance, policies and controls with respect to managing partnerships both in Canada and internationally and found that while corporate policies and approval authorities were defined, they were dated. We have since revised our partnerships policy, including developing clear guidance on the valuation of in-kind and third party partnership contributions. Recognizing that partnerships and the controls in place to govern them are imperative, going forward we will invest in central oversight to monitor and ensure compliance.

- A review of performance measurement. The review assessed alignment of our corporate performance metrics to our strategic objectives and also examined the rigor in our methodologies and governance to assess and report performance. Overall the auditor found our principles and operations to be in line with benchmarks and industry standards. Their recommendations included formalizing our quality assurance process for our measures and the governance of data, performing a cost benefit analysis of some manual calculations, exploring automation to improve efficiency in calculating results and improving the documentation standard for determining results.

Led by the Audit and Pension Committee, we have developed action plans to address the recommendations resulting from the above audit and review in order to improve our processes and internal controls.

Also in 2018, we updated our Travel, Hospitality, Conference and Event Expenditures policy to address staff feedback and to better align to the current Treasury Board directive.

FINANCIAL OVERVIEW

The financial overview presents supplemental information as context to the financial statements and notes and compares the organization's current year to past year's performance and budget. Our financial statements are prepared in accordance with Canadian public sector accounting standards (PSAS).

2018 was a strong year for Destination Canada. Our base funding was confirmed at $95.7 million through the 2017 Federal Budget announcement, resulting in 2018's strategic planning as the first year with greater stability and the ability to plan multiple years of sustainable programming with confidence. We look forward to continuing this momentum into 2019, focusing on our three strategic objectives as outlined previously.

STATEMENT OF FINANCIAL POSITION

Financial assets increased by $6.3 million or 14% driven by an increase in cash of $10.8 million based on the timing of our parliamentary appropriation drawdown and payment of certain payables. This increase was partially offset by a decrease in accounts receivable, compared to December 31, 2017 of $3.5 million which was mainly a result of the receipt of a portion of the balance due from the Canada Revenue Agency relating to an ongoing GST/HST audit of net taxes refundable. This is included in Government of Canada accounts receivable (see Note 14 of the financial statements).

Total liabilities increased by $5.8 million or 21% from 2017. This increase was driven primarily by an increase in trade accounts payable which is in line with the increase in expenses.

Non-financial assets increased by $0.2 million or 6% over 2017. The increase reflects a higher level of prepaid expenses which includes prepaid rent and insurance.

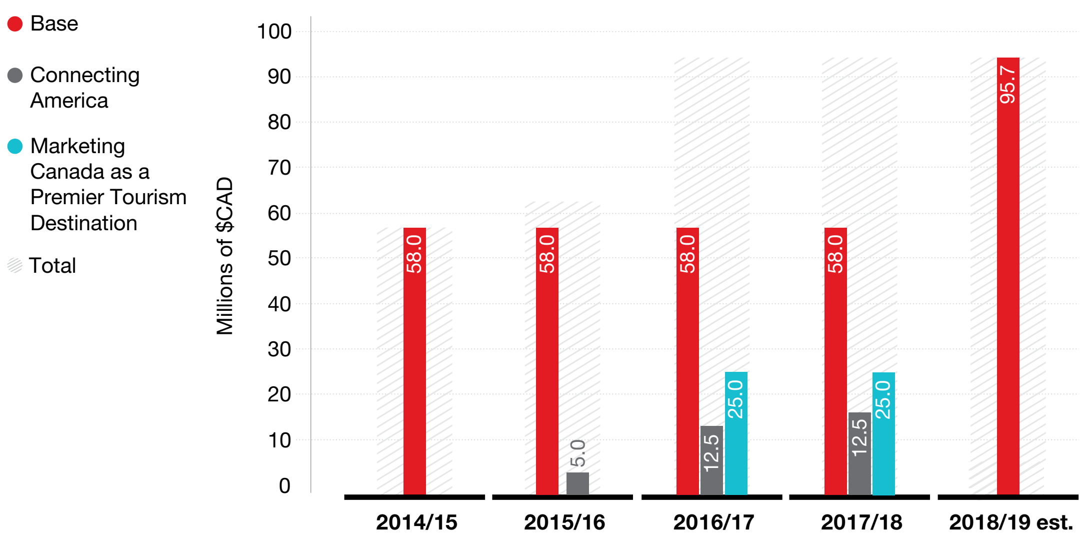
As a result, we report an accumulated surplus of $22.1 million as at December 31, 2018. Approximately half of the accumulated surplus has been earmarked for pension liabilities, another portion relates to tangible capital assets with estimated useful lives over a year, such as leasehold improvements, and the balance is from certain deferred spending in marketing campaigns and lower than budgeted salary and corporate services costs.

STATEMENT OF OPERATIONS

We report a modest $0.5 million surplus for the year ended December 31, 2018. Total revenues exceeded the budget by $7.7 million due primarily to higher partner revenues than expected, resulting in an additional $6.6 million that we were able to invest in marketing and sales expenditures compared to plan. The additional partner revenue is the result of higher cash contributions from partners as we continue to demonstrate value to the tourism industry, resulting in a higher level of engagement and co-investment from many different types of partners. These revenues contribute to the total co-investment from partners, which we track as a performance measure under Objective 2.

NEWFOUNDLAND AND LABRADOR | Battle Harbour | Newfoundand and Labrador Tourism

PARLIAMENTARY APPROPRIATIONS BY GOVERNMENT FISCAL YEAR



Parliamentary Appropriations

We are funded primarily by Government of Canada parliamentary appropriations. In 2018, we received three sources of appropriations for a total of $100.2 million:

- $85.3 million in main estimates from our base appropriation;
- $8.5 million for Connecting America; and
- $6.4 million from the 2016 Federal Budget for Marketing Canada as a Premier Tourism Destination.

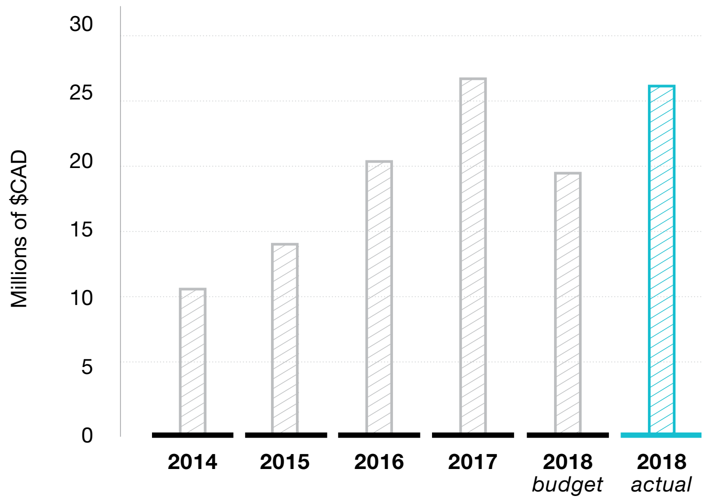
As our fiscal year-end is December 31 and the federal government year-end is March 31, we draw funding from two government fiscal years.

The 2017 Federal Budget announced that the temporary, special one-time funding for Connecting America and Marketing Canada as a Premier Tourism Destination were confirmed as permanent funding for the next government fiscal year ending March 31, 2019.

The 2018 Connecting America funding is still classified as 'restricted appropriation' and described more fully in Note 2 to the financial statements. In 2019 and future years all appropriations will be included in the base appropriation, and we will no longer require separate disclosures for restricted appropriations.

The table above shows the total funds from the Government of Canada for the past five years. Starting in 2018/19, our entire appropriation will be base funding, which will allow for better multi-year planning, strategies and partnership agreements. With this funding, we continue to seek improved operational efficiencies to deliver our mandate in a scalable, effective and adaptable way.

PARTNER CASH REVENUES



Partner Cash Revenues

We leverage the power of appropriated funding by engaging other organizations driving the visitor economy to co-invest in Destination Canada-led campaigns. Our partners include provincial, territorial and destination marketing organizations, media publishers, non-traditional partners and tourism associations.

Through these agreements, partners join us in funding initiatives, whether through cash or in-kind contributions, to market the Canada brand. Only the cash partnership contributions are recognized as revenues in our statement of operations as per our accounting policy in Note 2 of the financial statements. In 2018, total partner co-investment including cash, in-kind and third party was $94.9 million. This represents a decrease of 13% from 2017, which was a record year for us due to the agreement of NorthStar 22 partners for aligned marketing support and investment.

In 2018, the cash portion of these contributions represented approximately $25.4 million of partner co-investment. As shown in the accompanying graph, our partner revenues are well above budgeted levels. The measure of our success is $6.4 million, or 34% higher, partner revenues compared to budget.

Our partner cash revenues have decreased slightly from 2017 by $0.7 million. The most significant decrease was $2.5 million for the Millennial Travel Program which was a one-time campaign planned to coincide with Canada's 150th anniversary celebrations in 2017. In addition, Connecting America's cash revenues decreased by $1.3 million to $6.5 million, and we exited Brazil as a target market in 2017 which had $0.2 million in cash revenues. Offsetting this decrease, we saw many other markets earn additional cash investment compared to last year: Mexico and the UK with $0.9 million each, $0.5 million from China, $0.4 million each from France and Germany and $0.2 million from Australia.

Expenses

Total expenses excluding amortization increased by $1.8 million to $127.4 million in 2018, a small 1% increase over last year.

Our corporate services costs excluding amortization increased by $0.3 million compared to 2017. The 2018 expenses of $8.0 million represent 6% of total expenditures excluding amortization, instead of the 7% budgeted.
We consistently spend the vast majority of our funding in marketing and sales (93%) and continue to leverage new corporate efficiencies.

FINANCIAL STATEMENTS

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

SASKATCHEWAN | Saskatoon | Tourism Saskatoon

MANAGEMENT RESPONSIBILITY STATEMENT

March 5, 2019

The management of the Canadian Tourism Commission (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. Management is responsible for preparation of these financial statements in accordance with Canadian public sector accounting standards. Other financial and operational information appearing elsewhere in the Annual Report is consistent with that contained in the financial statements.

Management is responsible for maintaining 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 is also responsible for maintaining 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 F. GOLDSTEIN
President and Chief Executive Officer

ANWAR CHAUDHRY
Senior Vice-President,
Finance and Risk Management,
and Chief Financial Officer


AQUA - TAXI

INDEPENDENT AUDITOR'S REPORT

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

TO THE MINISTER OF TOURISM, OFFICIAL LANGUAGES AND LA FRANCOPHONIE

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Canadian Tourism Commission (the Commission), which comprise the statement of financial position as at 31 December 2018, 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 notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Commission as at 31 December 2018, 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.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Commission in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

OTTAWA | Parliament Hill | Alan Brutenic

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the Commission's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Commission or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Commission's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Commission's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Commission's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Commission to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Compliance with Specified Authorities

Opinion

In conjunction with the audit of the financial statements, we have audited transactions of the Canadian Tourism Commission coming to our notice for compliance with specified authorities. The specified authorities against which compliance was audited are 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*.

In our opinion, the transactions of the Canadian Tourism Commission that came to our notice during the audit of the financial statements have complied, in all material respects, with the specified authorities referred to above. Further, as required by the *Financial Administration Act*, we report that, in our opinion, the accounting principles in Canadian public sector accounting standards have been applied on a basis consistent with that of the preceding year.

Responsibilities of Management for Compliance with Specified Authorities

Management is responsible for the Canadian Tourism Commission's compliance with the specified authorities named above, and for such internal control as management determines is necessary to enable the Canadian Tourism Commission to comply with the specified authorities.

Auditor's Responsibilities for the Audit of Compliance with Specified Authorities

Our audit responsibilities include planning and performing procedures to provide an audit opinion and reporting on whether the transactions coming to our notice during the audit of the financial statements are in compliance with the specified authorities referred to above.

Lana Dar

LANA DAR, CPA, CA
Principal
for the Auditor General of Canada

Vancouver, Canada
5 March 2019

Statement of Financial Position

As at December 31, 2018

(in thousands of Canadian dollars)

	Note	Dec. 31, 2018	Dec. 31, 2017
Financial assets			
Cash and cash equivalents	3	33,624	22,830
Accounts receivable			
Partnership contributions		4,121	5,603
Government of Canada		2,017	4,007
Other		19	23
Accrued benefit asset	7	11,070	12,114
Portfolio investments	4	384	372
		51,235	44,949
Liabilities			
Accounts payable and accrued liabilities			
Trade		24,945	18,766
Employee compensation		1,462	1,394
Government of Canada		71	188
Accrued benefit liability	7	5,517	5,978
Deferred revenue		386	122
Deferred lease inducements		682	807
Asset retirement obligation		164	164
		33,227	27,419
Net financial assets		18,008	17,530
Non-financial assets			
Prepaid expenses and other assets		2,715	2,163
Tangible capital assets	6	1,382	1,687
		4,097	3,850
Accumulated surplus	9	22,105	21,380

Contractual Obligations, Contingencies, Contractual Rights (Notes 13, 14 and 17)
The accompanying notes form an integral part of these financial statements.

Approved on behalf of the Board of Directors,

BEN COWAN-DEWAR
Director

PAT MACDONALD
Director

Statement of Operations

For the year ended December 31

(in thousands of Canadian dollars)

	Note	Budget 2018	2018	2017
Revenues				
Partner revenues		19,000	25,359	26,057
Other		1,002	2,331	1,538
		20,002	27,690	27,595
Expenses	11			
Marketing and sales	10	111,395	118,003	116,308
Corporate services		8,655	7,997	7,730
Strategy and planning		686	977	1,156
Amortization of tangible capital assets		386	376	365
		121,122	127,353	125,559
Net cost of operations before funding from the Government of Canada		(101,120)	(99,663)	(97,964)
Parliamentary appropriations	8	100,199	100,199	99,570
Surplus / (Deficit) for the year		(921)	536	1,606
Accumulated operating surplus, beginning of year		21,415	21,415	19,809
Accumulated operating surplus, end of year		20,494	21,951	21,415

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

Statement of Remeasurement Gains and Losses

For the year ended December 31

(in thousands of Canadian dollars)

	2018	2017
Accumulated remeasurement loss, beginning of year	(35)	(53)
Unrealized loss attributable to foreign exchange	154	(35)
Amounts reclassified to the statement of operations	35	53
Net remeasurement gain for the year	189	18
Accumulated remeasurement gain / (loss), end of year	154	(35)

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

Statement of Change in Net Financial Assets

For the year ended December 31

(in thousands of Canadian dollars)

	Note	Budget 2018	2018	2017
Surplus / (Deficit) for the year		(921)	536	1,606
Acquisition of tangible capital assets	6	(344)	(71)	(78)
Amortization of tangible capital assets	6	387	376	365
		43	305	287
Effect of change in other non-financial assets				
Increase in prepaid expenses		—	(552)	(761)
		—	(552)	(761)
Net remeasurement gain		—	189	18
Increase / (Decrease) in net financial assets		(878)	478	1,150
Net financial assets, beginning of year		17,530	17,530	16,380
Net financial assets, end of year		16,652	18,008	17,530

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

Statement of Cash Flows

For the year ended December 31

(in thousands of Canadian dollars)

	Note	2018	2017
Operating transactions:			
Cash received from:			
Parliamentary appropriations used to fund operating and capital transactions	8	100,199	99,570
Partners		27,105	20,453
Other		1,771	1,275
Interest		448	278
		129,523	121,576
Cash paid for:			
Cash payments to suppliers		(104,224)	(107,008)
Cash payments to and on behalf of employees		(14,598)	(13,042)
Cash provided by operating transactions		10,701	1,526
Capital transactions:			
Acquisition of tangible capital assets		(71)	(78)
Cash used in capital transactions		(71)	(78)
Investing transactions:			
(Acquisition) / Disposition of portfolio investments		(25)	76
Cash provided by investment transactions		(25)	76
Net remeasurement gain for the year		189	18
Net increase in cash during the year		10,794	1,542
Cash and cash equivalents, beginning of year		22,830	21,288
Cash and cash equivalents, end of year		33,624	22,830

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

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2018

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 to ensure that pension plans of Crown corporations provide a 50:50 current service cost-sharing ratio between employee and employer for pension contributions by December 31, 2017. The 50:50 cost-sharing ratio was fully implemented as of December 31, 2017.

In July 2015, the CTC was issued directive PC 2015-1109 pursuant to section 89 of the *Financial Administration Act* to align its travel, hospitality, conference and event expenditures policies, guidelines and practices with Treasury Board policies, directives and related instruments on travel, hospitality, conference and event expenditures in a manner that is consistent with its legal obligations, and to report on the implementation of this directive in the 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. The Treasury Board issued revised directives and guidelines in 2017. On November 29, 2018, the CTC approved an updated policy to align with the new requirements.

2. Significant Accounting Policies

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

a) Parliamentary appropriations

The 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, 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 8.

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 3.

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 4.

g) Prepaid expenses

Payments made prior to the related services being rendered are recorded as a prepaid expense. Prepaid expenses are recognized as an expense as the related services are rendered. Prepaid expenses consist of program and operating expenses such as subscriptions and tradeshow expenditure.

h) Tangible capital assets

Tangible capital assets are recorded at cost less accumulated amortization and the amount of any write-downs or disposals. Tangible capital assets are written down when conditions indicate they no longer contribute to the ability to provide services and are accounted for as expenses in the Statement of Operations.

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

Leasehold Improvements	Remaining term of lease
Office furniture	5 years
Computer hardware	3 years
Computer software	5 years

Intangible assets are not recognized in these financial statements.

i) Deferred revenue

Deferred revenue consists of contributions from partnering organizations and restricted appropriations received from the Government of Canada. When contributions are received from partnering organizations, they are recognized as deferred revenue until the related marketing activity or event has taken place. When restricted appropriations are received from the Government of Canada, they are recognized as deferred revenue until the criteria and stipulations are met that gave rise to the liability. As at December 31, 2018 and 2017, the deferred revenue balance is solely made up of deferred contributions from partnering organizations.

j) Deferred lease inducements

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

k) Asset retirement obligation

Asset retirement obligation consists of decommissioning costs for various office leases. The 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 6.

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 has been closed effective December 30, 2017 and benefits and service of plan participants were 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. If no active employees are remaining, actuarial gains and losses are amortized fully in the next fiscal year. For 2018, EARSL has been determined to be 6.6 years (7.6 years – 2017) for the Registered Pension Plan for Employees of the CTC ("RPP"), 0.0 years (0.0 years – 2017) for the Supplementary Retirement Plan for certain employees of the CTC ("SRP"), 15.4 years (11.2 years – 2017) for the Pension Plan for Employees of the CTC in Japan, South Korea and China ("WWP"), 21 years (7 years – 2017) for non-pension post-retirement benefits, 12 years (13 years – 2017) for severance benefits and 14 years (13 years – 2017) for sick leave benefits.

Employees working in the UK and the US 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, the fair value of the asset retirement obligation and contingencies.

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.

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

p) Partnership contributions in-kind

In the normal course of business, the 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. The in-kind contributions from partners are not recognized in the financial statements.

q) Inter-entity transactions

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

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

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

3. Cash and Cash Equivalents

(in thousands of Canadian dollars)	**2018**	**2017**
Cash in bank	33,103	22,312
Money market term deposit	521	518
Total cash and cash equivalents	33,624	22,830

4. Portfolio Investments

The CTC holds portfolio investments consisting of Canadian provincial governmental bonds with maturity dates staggered between 2019 and 2031:

(in thousands of Canadian dollars)

Provincial Issuer	**Maturity Date**	**Cost**	**Interest Accrued to Date**	**Carrying Value**	**Market Value**	**Maturity**
Quebec	01-Dec-19	76	16	92	93	94
Nova Scotia	02-Dec-21	60	15	75	77	82
Ontario	02-Dec-23	47	14	61	62	70
Ontario	02-Dec-25	51	16	67	69	84
British Columbia	18-Dec-28	32	11	43	43	59
Ontario	02-Dec-31	33	13	46	46	70
		299	85	384	390	459

5. 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, 2018:

Currency *(in thousands of Canadian dollars)*	**Cash**		**Accounts receivable**		**Accounts payable and accrued liabilities**	
	Currency units	**Canadian equivalent**	**Currency units**	**Canadian equivalent**	**Currency units**	**Canadian equivalent**
Australian Dollars	236	227	—	—	84	80
Chinese Yuan	384	76	—	—	3,651	724
Euros	459	717	20	31	396	618
Great Britain Pounds	299	518	2	3	128	221
Hong Kong Dollars	—	—	—	—	586	102
Japanese Yen	11,787	146	—	—	20,072	248
Mexican Pesos	458	32	—	—	—	—
South Korean Won	38,345	47	—	—	—	—
United States Dollars	1,132	1,545	62	85	223	304
Total Canadian equivalent		3,308		119		2,297

At December 31, 2018, if the above foreign currencies had strengthened by 10% against the Canadian dollar, with all other variables held constant, the unrealized foreign exchange gain would have increased by approximately $111,000 (increased by $128,000 – 2017). If the above foreign currencies had weakened by 10% against the Canadian dollar, with all other variables held constant, the unrealized foreign exchange gain would have decreased by approximately $111,000 (decreased by $128,000 – 2017). The amount of realized foreign exchange losses recorded under "Corporate services" on the statement of operations in 2018 is $77,000 ($211,000 – 2017).

6. Tangible Capital Assets

(in thousands of Canadian dollars)	**Computer Hardware**	**Computer Software**	**Leasehold Improve-ments***	**Office Furniture**	**2018 Total**
Cost of tangible capital assets, opening	619	19	1,989	275	2,902
Acquisitions	71	—	—	—	71
Cost of tangible capital assets, closing	690	19	1,989	275	2,973
Accumulated amortization, opening	440	17	595	163	1,215
Amortization expense	120	1	210	45	376
Accumulated amortization, closing	560	18	805	208	1,591
Net book value	130	1	1,184	67	1,382

* *Asset retirement costs are included in the cost of tangible capital assets and accumulated amortization.*

(in thousands of Canadian dollars)	**Computer Hardware**	**Computer Software**	**Leasehold Improve-ments***	**Office Furniture**	**2017 Total**
Cost of tangible capital assets, opening	550	19	1,980	275	2,824
Acquisitions	69	—	9	—	78
Cost of tangible capital assets, closing	619	19	1,989	275	2,902
Accumulated amortization, opening	330	16	386	118	850
Amortization expense	110	1	209	45	365
Accumulated amortization, closing	440	17	595	163	1,215
Net book value	179	2	1,394	112	1,687

* *Asset retirement costs are included in the cost of tangible capital assets and accumulated amortization.*

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.

7. 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:

- ● CTC
- ● CTC AND PLAN MEMBERS
- ● DEFINED BENEFIT PLAN
- ● DEFINED CONTRIBUTION PLAN

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
	Non-Vested Sick Leave 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 $493,000 in 2018 ($467,000 – 2017).

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 are 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 $226,000 in 2018 ($238,000 – 2017), 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. In 2018, none of the members opted to transfer their accrued pension benefits out of the pension plan (three members – 2017). This meant that there were no related settlements in 2018 (loss $21,000 – 2017).

The defined benefit component of the registered plan and the supplemental agreement has been closed effective December 30, 2017 and benefits for participants were 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 4) and cash and cash equivalents (Note 3). 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, the US and the 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, 2017 and was filed with the Office of Superintendent of Financial Institutions ("OSFI") by the due date of June 30, 2018.

The going concern financial position based on the most recent actuarial valuation showed a funding surplus of $2,525,000 (surplus of $3,306,000 – 2017). The valuation also identified an average solvency ratio of 90.1% (88.9% – 2017).

The CTC made solvency special payments of $701,000 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 $4,701,000 in 2015. The special payment made in 2016 was $700,000. There were no special solvency payments made in 2017 or 2018. 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 of Canadian dollars)	Pension		Other Benefit Plans	
	2018	**2017**	**2018**	**2017**
Accrued benefit obligation, beginning of year	30,906	34,036	4,402	4,854
Current period benefit cost (employer portion)	44	110	115	117
Interest cost on average accrued benefit obligation	920	797	101	70
Employees' contributions	4	13	—	—
Benefits paid	(1,476)	(1,248)	(232)	(103)
Actuarial loss / (gain)	630	(2,784)	369	(536)
Decrease in accrued benefit obligation due to settlement	—	(18)	—	—
Accrued benefit obligation, end of year	31,028	30,906	4,755	4,402

CHANGE IN PLAN ASSETS

(in thousands of Canadian dollars)	Pension		Other Benefit Plans	
	2018	**2017**	**2018**	**2017**
Market value of plan assets, beginning of year	34,266	37,281	—	—
Actual return on plan assets net of actual investment expenses	1,406	(1,865)	—	—
Employer contributions	445	85	232	103
Employees' contributions	4	13	—	—
Benefits paid	(1,476)	(1,248)	(232)	(103)
Market value of plan assets, end of year	34,645	34,266	—	—

RECONCILIATION OF FUNDED STATUS

Detailed Pension Plan Information *(in thousands of Canadian dollars)*	**2018**	**2017**
Defined benefit component of Pension Plan for Employees of the CTC		
Accrued benefit obligation	(27,451)	(27,143)
Plan assets	30,377	30,153
Surplus	2,926	3,010
Supplementary Retirement Plan for Certain Employees of the CTC		
Accrued benefit obligation	(2,873)	(2,715)
Plan assets	4,268	4,113
Surplus	1,395	1,398
Pension Plan for Employees of the CTC in China, Japan and South Korea		
Accrued benefit obligation	(704)	(1,048)
Plan assets	—	—
Deficit	(704)	(1,048)

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

Funded Status *(in thousands of Canadian dollars)*	**Pension**		**Other Benefit Plans**	
	2018	**2017**	**2018**	**2017**
Accrued benefit obligation	(704)	(1,048)	(4,755)	(4,402)
Plan assets	—	—	—	—
Funded status – deficit at end of year	(704)	(1,048)	(4,755)	(4,402)

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

(in thousands of Canadian dollars)	**Pension**		**Other Benefit Plans**	
	2018	**2017**	**2018**	**2017**
Funded status – surplus / (deficit), end of year	3,617	3,360	(4,755)	(4,402)
Employer contributions during period from measurement date to fiscal year end	—	51	—	—
Unamortized actuarial losses / (gains)	6,791	7,698	(100)	(571)
Accrued benefit asset / (liability)	10,408	11,109	(4,855)	(4,973)

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 the 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 of Canadian dollars)*	**2018**	**2017**
Registered Pension Plan for the Employees of the CTC	9,634	10,716
Defined benefit component of the Supplementary Retirement Plan for Certain Employees of the CTC	1,436	1,398
Total accrued benefit asset	11,070	12,114
Pension Plan for the Employees of the CTC in China, Japan and South Korea	(662)	(1,005)
Non-pension Post Retirement Benefit Plan	(4,127)	(4,183)
Post Employment Severance Plan	(554)	(623)
Non-Vested Sick Leave Plan	(174)	(167)
Total accrued benefit liability	(5,517)	(5,978)
Total net accrued benefit asset	5,553	6,136

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

Asset Allocation	**2018**	**2017**
Equity securities	16%	14%
Debt securities	79%	81%
Receivable from Government of Canada	5%	5%
Total	100%	100%

NET BENEFIT COST RECOGNIZED IN THE PERIOD

(in thousands of Canadian dollars)	Pension		Other Benefit Plans	
	2018	**2017**	**2018**	**2017**
Current period benefit cost	48	123	115	117
Interest cost	—	—	101	70
Amortization of net actuarial loss / (gain)	1,163	1,035	(100)	(27)
Settlement loss	—	21	—	—
Total	1,211	1,179	116	160
Less: employee contributions	(4)	(13)	—	—
Retirement benefits expense	1,207	1,166	116	160
Interest cost on average accrued benefit obligation	920	797	—	—
Expected return on average pension plan assets	(1,031)	(899)	—	—
Retirement benefits interest income	(111)	(102)	—	—
Total pension expense	1,096	1,064	116	160

SIGNIFICANT ACTUARIAL ASSUMPTIONS USED ARE AS FOLLOWS (WEIGHTED AVERAGE)

	Pension		Other Benefit Plans	
	2018	**2017**	**2018**	**2017**
Accrued benefit obligation				
Discount rate				
• Registered Pension Plan for the Employees of the CTC	3.00%	3.10%		
• Defined benefit component of the Supplementary Retirement Plan for Certain Employees of the CTC	2.65%	2.70%		
• Pension Plan for the Employees of the CTC in China, Japan and South Korea	2.40%	1.98%		
• Non-pension post retirement			2.43%	2.40%
• Post employment severance			2.40%	1.98%
• Non-Vested Sick Leave Plan			2.40%	1.98%
Rate of compensation increase				
• Canadian	N/A	1.50%	2.50%	2.50%
• Locally engaged	2.75%	2.75%	3.40%	3.40%
Pension expense				
Discount rate				
• Registered Pension Plan for the Employees of the CTC	3.10%	2.40%		
• Defined benefit component of the Supplementary Retirement Plan for Certain Employees of the CTC	2.70%	2.80%		
• Pension Plan for the Employees of the CTC in China, Japan and South Korea	1.98%	0.83%		
• Non-pension post retirement			2.40%	1.55%
• Post employment severance			1.98%	0.83%
• Non-Vested Sick Leave Plan			1.98%	0.83%
Expected long-term rate of return on plan assets				
• Registered Pension Plan for the Employees of the CTC	3.10%	2.40%		
• Defined benefit component of the Supplementary Retirement Plan for Certain Employees of the CTC	2.70%	2.80%		
Rate of compensation increase:				
• Canadian	1.50%	1.50%	2.50%	2.50%
• Locally engaged	2.75%	2.75%	3.40%	2.75%

ASSUMED HEALTH CARE COST TREND RATE FOR OTHER BENEFIT PLANS

Net benefit cost	Other Benefit Plans			
	2018		2017	
	CDN	US	CDN	US
Initial health care trend rate	6.09%	7.88%	6.15%	8.10%
Ultimate health care trend rate	4.50%	4.50%	4.50%	4.50%
Year ultimate rate reached	2030	2033	2030	2033

Accrued benefit obligation	Other Benefit Plans			
	2018		2017	
	CDN	US	CDN	US
Initial health care trend rate	5.79%	7.65%	6.09%	7.88%
Ultimate health care trend rate	4.00%	4.50%	4.50%	4.50%
Year ultimate rate reached	2040	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, are $1,486,000 ($993,000 – 2017).

8. 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 of Canadian dollars)	**2018**	**2017**
Amounts provided for operating and capital expenditures		
Amounts voted:		
Main estimates 2017/18 (2016/17)	95,475	70,474
Supplementary estimates A	—	25,000
	95,475	95,474
Less: portion recognized in prior year	(68,488)	(64,392)
Amounts recognized in current year	26,987	31,082
Amounts voted:		
Main estimates 2018/19 (2017/18)	95,656	95,475
Supplementary estimates B	—	269
	95,656	95,744
Less: portion to be recognized in following year	(22,444)	(27,256)
Amounts recognized in the current year	73,212	68,488
Parliamentary appropriations used for operations and capital in the year	100,199	99,570

9. Accumulated Surplus

The accumulated surplus comprises:

(in thousands of Canadian dollars)	**2018**	**2017**
Accumulated operating surplus	21,951	21,415
Accumulated remeasurement gain / (loss)	154	(35)
Accumulated surplus	22,105	21,380

10. 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 Global Marketing, Global Communications and Research. Geographical information is as follows:

(in thousands of Canadian dollars)	**2018**	**2017**
Corporate Marketing	53,106	55,631
Emerging Markets (India, Brazil, Mexico, Japan, South Korea and China)	28,808	27,260
Core Markets & Other (UK, France, Germany, Australia and other)	27,661	25,138
Business Events Canada	8,428	8,279
	118,003	116,308

11. Expenditure by Object

The following is a summary of expenditures by object:

(in thousands of Canadian dollars)	**2018**	**2017**
Program		
Consumer development	72,090	64,656
Trade development	22,451	20,387
Public and media relations	6,896	8,789
Research	4,015	2,774
Travel and hospitality	1,289	1,765
Advertising	94	7,534
Total program expenses	106,835	105,905
Salaries and benefits	15,249	14,218
Operating expense		
Rent	1,207	1,192
Professional services	1,168	1,416
Travel and hospitality	774	672
Information technology	674	627
Office	589	618
Other	404	335
Realized foreign exchange loss	77	211
Total operating expenses	4,893	5,071
Expenses before amortization	126,977	125,194
Amortization	376	365
Total expenses	127,353	125,559

12. 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.

At December 31, 2018, the exposure to credit risk for cash and cash equivalents is $33,624,000 ($22,830,000 – 2017) (Note 3) and for portfolio investments is $384,000 ($372,000 – 2017) (Note 4).

The CTC minimizes credit risk on cash and cash equivalents and portfolio investments by dealing only with reputable and credit worthy financial institutions. At December 31, 2018, the CTC held $31,242,000 in cash and cash equivalents and portfolio investments with federally regulated chartered banks and $2,762,000 in cash at foreign institutions. The federally regulated chartered banks and foreign institutions which the CTC holds cash and cash equivalents and portfolio investments with have the following long-term bank deposit credit and financial strength ratings:

Credit Ratings

Moody's	A1	A2	Aa3
Standard & Poor's	A+	A	A+

In March 2012, the CTC received $1,000,000 from Treasury Board Secretariat relating to locally engaged staff pension benefits under the WWP (Note 7). 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 3 and Note 4). All investments are monitored by management on a monthly basis.

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, 2018 the impairment allowance is $4,000 ($11,000 – 2017).

The amounts past due at year-end are as follows:

Accounts Receivable *(in thousands of Canadian dollars)*	**Total**	**Current**	**1 to 30 days**	**31 to 60 days**	**61 to 90 days**	**91 to 120 days**	**>120 days**
Partnership contributions	4,121	3,026	831	151	81	32	—
Government of Canada	2,017	764	—	49	—	—	1,204
Other	19	19	—	—	—	—	—
Total	6,157	3,809	831	200	81	32	1,204

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 amounts of financial liabilities past due at year-end are as follows:

Accounts Payable *(in thousands of Canadian dollars)*	**Total**	**Current**	**1 to 30 days**	**31 to 60 days**	**61 to 90 days**	**91 to 120 days**	**>120 days**
Trade	24,945	16,635	8,075	212	—	—	23
Employee compensation	1,462	1,462	—	—	—	—	—
Government of Canada	71	71	—	—	—	—	—
Total	26,478	18,168	8,075	212	—	—	23

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, 2018, the exposure to currency risk based on the year-end monetary balances denominated in a foreign currency for financial assets is $3,427,000 ($6,772,000 – 2017) and for financial liabilities is $2,297,000 ($5,478,000 – 2017) (Note 5). 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, 2018, the exposure to interest rate risk for portfolio investments was $384,000 ($372,000 – 2017).

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.

13. Contractual Obligations

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 contractual obligations, as at December 31, 2018, are shown in the table below. Contractual obligations are recorded based on the minimum contractual obligation made by the CTC; however, future payments could be higher if the terms of those agreements are met. Also included in the contractual obligation amount are purchase orders issued for which the CTC has not yet received the goods or services. The total contractual obligations of the CTC as at December 31, 2018 are $6,736,000 ($4,128,000 – 2017).

(in thousands of Canadian dollars)

2019	4,505
2020	829
2021	681
2022	385
2023	336
Total	6,736

14. Contingencies

In the normal course of business, various legal 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 legal claims against the CTC.

15. Subsequent Events

The CTC was subject to an examination by the Canada Revenue Agency ("CRA") in 2017 in relation to GST/HST collected on behalf of the Government of Canada between November 1, 2013 and March 31, 2017. Based on the CRA's initial examination, a letter was issued to the CTC proposing an adjustment of approximately $3,700,000 in taxes payable. In consultation with external commodity tax experts, the CTC management responded to the proposal letter outlining concerns with the examination process and methodology and suggested next steps with respect to the completion of the examination.

Subsequent to year-end, the CRA completed the examination and will not be proceeding with the proposed adjustment of $3,700,000 in taxes payable. However, the CRA has assessed that revenue collected from industry partners by the CTC is subject to GST/HST, which is being applied on a prospective basis. When the CRA issues an official notice of reassessment, the CTC management will consult with external commodity tax experts and external legal counsel to determine how the CTC management wishes to respond. The CTC will have 90 days to appeal the official assessment if that is the desired course of action. The ultimate resolution of this matter is not known as of the date of this report, and as a result an estimate of the financial effect cannot be made.

16. Related Party Transactions

The CTC enters into transactions with all Government of Canada created departments, agencies, and Crown corporations in the normal course of business. Details of these transactions are provided in Note 8 and Note 12.

There were no significant transactions with KMP and their close family members, nor were there any transactions that have occurred at a value different from which would have been arrived at if the parties were unrelated.

17. Contractual Rights

The nature of the CTC's activities can result in some multi-year contracts and agreements that result in the CTC having rights to both assets and revenue in the future. These arrangements typically relate to marketing services. Where the terms of contracts and agreements allow for reasonable estimates, the major contractual rights are summarized in the table presented below.

CONTRACTUAL RIGHTS

(in thousands of Canadian dollars)	**2019**	**2020**	**2021**	**Total**
Marketing Revenue	2,795	1,093	600	4,488
Other Revenue	171	—	—	171
	2,966	1,093	600	4,659

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GOVERNANCE

NUNAVUT | Iqaluit | Destination Canada

LEGISLATIVE FRAMEWORK

As an agent of the Crown, we are a federal Crown corporation wholly owned by the Government of Canada. We are provided with overarching public policy priorities, broad strategic goals and expectations.The *Canadian Tourism Commission Act* and various regulations provide the legislative basis for our establishment and our activities. Through the Minister of Tourism, Official Languages and La Francophonie, we are accountable to Canada's Parliament through the submissions of an Annual Report, a 5-year Corporate Plan and an Operating and Capital Budget annually to Parliament.

BOARD OF DIRECTORS

Our Board of Directors consists of up to 12 members who oversee the management of the organization, and provide strategic guidance and oversight. The Board ensures that appropriate systems of governance, leadership and stewardship are in place while at the same time empowering management to deliver on its mandate.

Board membership comprises the Chair and the President and CEO of Destination Canada which are Governor-in-Council appointments, and the Deputy Minister of Innovation, Science and Economic Development Canada (ex officio). The Deputy Minister of Tourism, Official Languages and La Francophonie exercises this role on behalf of the Deputy Minister of Innovation, Science and Economic Development. 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 our decisions on strategic opportunities and risks.

In 2018, the Board welcomed two new members and saw the departure of one member, leaving one vacancy at the end of the year.

Over the course of the year, the Board met six times and average attendance at meetings was 86%.

MEMBERSHIP

As at December 31, 2018

BEN COWAN-DEWAR
Chair of the Board of Directors

DAVID F. GOLDSTEIN
President and CEO,
Destination Canada

GUYLAINE ROY (EX OFFICIO)
Deputy Minister, Tourism, Official Languages and La Francophonie

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

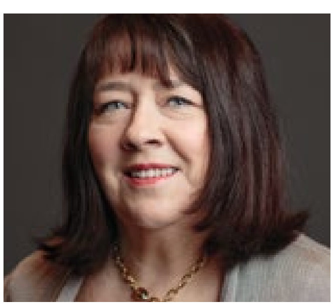
PATTI BALSILLIE
Specialist, Tourism and Northern Development

JULIE CANNING
Cowgirl and Operating Partner, Banff Trail Riders

STAN COOK
Former Owner and President, Stan Cook Sea Kayak Adventures

RANDY GARFIELD
Former President,
Walt Disney Travel

MONIQUE GOMEL
Vice-President, Global Marketing & Communications, Rocky Mountaineer



PATRICIA MACDONALD
Co-founder & CEO,
Old Tomorrow Ltd.

DRAGAN MATOVIC
Chairman and CEO,
Halex Capital Inc.

DANIELLE POUDRETTE
Executive Advisor,
DMVP Solutions

COMMITTEES OF THE BOARD

The Human Resources, Governance and Nominating Committee advises and supports directors in applying our corporate governance principles, assists in evaluating potential board candidates and develops recommendations to the Minister on board appointments (excluding the Chair, the President and CEO and the ex officio director). Additionally, the committee reviews and advises on the President and CEO's annual objectives and our human resources policies, plans and processes, including succession, compensation and benefits plans.

In addition to the duties and functions mandated by the *Financial Administration Act*, 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 our pension plans.

ADVISORY COMMITTEES

From time to time, the Board creates advisory committees to advise it on how best to deliver our 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 Destination Canada to the tourism industry.

In 2018, the number of advisory committees was reduced from four to three. The US Advisory Committee and the International Advisory Committee were combined into a newly formed Leisure Markets Advisory Committee. This committee complements the existing two committees: Business Events Canada Advisory Committee and Research Advisory Committee.

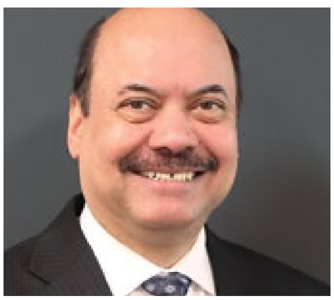
BRITISH COLUMBIA | Great Bear Rainforest | Destination Canada

EXECUTIVE TEAM

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

EXECUTIVE TEAM

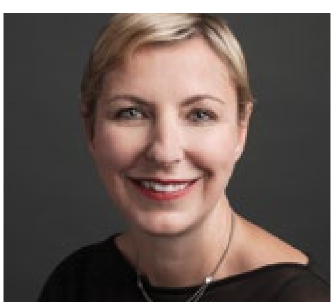
As at December 31, 2018



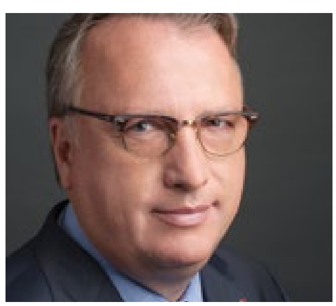
ANWAR CHAUDHRY, CPA, CA
Senior Vice President, Finance and Risk Management and Chief Financial Officer

JON MAMELA
Chief Marketing Officer

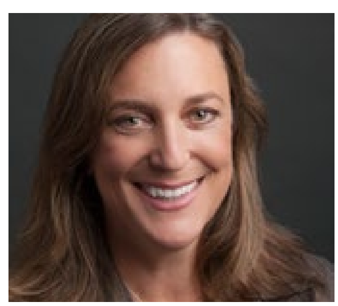
SARAH SIDHU
General Counsel and Corporate Secretary



EMMANUELLE LEGAULT
Vice President, International



DAVID ROBINSON
Vice President, Strategy and Stakeholder Relations



GLORIA LOREE
Vice President, Global Marketing

BRITISH COLUMBIA | Cathedral Grove | Brian Caissie

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