Canadian Tourism Commission

Commission canadienne du tourisme

Annual Report 2005

Explorations

Canada

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Page 2:

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Table of Contents

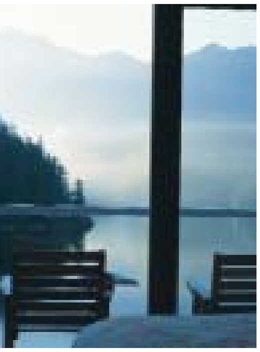
NB. All 2005 revenue figures are CTC preliminary estimates. All 2005 volume accounts are Statistics Canada preliminary estimates.

Explorations

In 2005, the Canadian Tourism Commission (CTC) unveiled a refreshed tourism brand for Canada. The spirit of that brand was captured in a simple phrase:

Canada. Keep Exploring.

These words extend an invitation to travellers to satisfy their curiosity and pursue new experiences by visiting Canada. They also describe the Commission's unceasing determination to seek out new ways of promoting and strengthening Canada's tourism industry in a fast-growing and opportunity-rich global marketplace.



Finally, Canada. Keep Exploring. urges all members of Canada's multi-faceted tourism community to search for and discover new ways of delighting visitors and converting them into zealous ambassadors.

This annual report recounts the CTC's activities over the course of 2005: the explorations made, and the directions set for 2006 and beyond.

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The Canadian Tourism Commission

Through expert research, industry collaboration and innovative partnerships, the Canadian Tourism Commission (CTC) develops and implements marketing programs to attract international visitors to Canada and encourage Canadians to travel within the country.

The Commission is a Crown corporation committed to conducting its business accountably, responsibly and transparently. Its client-focused services are guided by the values of integrity, respect, quality, professionalism and teamwork.

In parallel with the launch of Canada's new tourism brand in 2005, the CTC rearticulated its vision and mission statements, aligning them with the brand and the strategy behind it.

Vision

Compel the world to explore Canada

Mission

Harness Canada's collective voice to grow export revenues*

Mandate

In four parts:

- Sustain a vibrant and profitable Canadian tourism industry;
- Market Canada as a desirable tourism destination;
- Support a cooperative relationship between the private sector and the government of Canada, the provinces and territories, with respect to Canadian tourism;
- Provide information about Canadian tourism to the private sector and to the governments of Canada, the provinces and territories.

In 2005, the Commission moved its headquarters from Ottawa to Vancouver, becoming the first federally funded Crown corporation to be established on Canada's Pacific Coast.

The CTC employs 161 full-time staff, 95 of whom are located in Vancouver; two are in Ottawa; and 64 in nine offices around the globe. In 2005 the CTC managed a program budget of $78 million, supplemented in cash and in kind by an additional $86.5 million raised from marketing partners.

**Tourism is considered an export revenue as it provides new dollars, tax and GST revenue for governments.*

Message from the Chairman

At first glance, 2005 was a good year for tourism in Canada. Revenues were up over the previous year, reaching a new record level of $61.3[1] billion in 2005 and amounting to some two percent of the country's gross national product—a significant contribution.

The CTC did its part to foster this success: by working over the course of the year to attract travellers through targeted, research-based marketing campaigns; and by responding to areas of concern, such as declining traffic from our country's largest international market, the United States.

Yet celebrations of the country's success would be short-lived if we looked beyond our own borders to the international environment in which we compete. In fact, I would label Canada's competitive performance over the last two-and-a-half decades as poor. For the past 25 years, destinations around the world watched as global outbound travel skyrocketed. Many of our competitors, new and old, seized the opportunity and were rewarded. Others, like Canada, were forced to watch from the sidelines and merely content themselves with protecting the traditional market share they had built.

Canada has excellent potential to grow its tourism revenues with the right resources. The first of these is a compelling national brand. As this report explains, the CTC officially launched that brand in 2005. The other resource needed to seize upon the opportunities of a growing global tourist market is, of course, money.

A study released in 2005 by Grant Thornton entitled *The Business Case for Long-term Funding for the Canadian Tourism Commission*, determined that raising the CTC's annual budget to $180 million would potentially boost incremental tourism demand from $2.2 to $4.2 billion, create up to 45,500 new jobs, and yield incremental federal tax revenues of as much as $620 million. Clearly, tourism should not be seen as a cost to government, but rather as an investment in creating wealth for Canadians. This is a position that my fellow members on the Commission's Board of Directors and I will continue to advance in 2006.

Last year was an active one for the CTC Board. Members worked individually to assist with the headquarters move from Ottawa to Vancouver; the Audit Committee was involved intensively in a special examination of the commission carried out by the Office of the Auditor General of Canada. I am pleased with the way the CTC responded to the requirements of that audit, especially at such a busy time, and I look forward to the release of the final report.

In closing, I would like to commend the staff and executives of the Commission for their ongoing effort and dedication, and in particular, for their expert handling of the move to Vancouver. A base in British Columbia presents an ideal opportunity for the CTC to work closely with the future hosts of the 2010 Winter Olympic Games and ensure that the publicity associated with this event benefits the entire tourism community across Canada in the years to come.

Without a doubt, exciting times lie ahead.

Charles Lapointe

Honourable Charles Lapointe, P.C.
Chairman

[1] CTC preliminary estimate

Message from the President & CEO

The achievements of the CTC in 2005 were literally momentous: significant both in themselves and also in their future implications. Among them, of course, was the much-anticipated launch of Canada's refreshed tourism brand, which was the outcome of an extensive, exhaustive and essential process.

The brand exercise strengthened further the ties between the CTC and Canada's tourism industry. We were the initiators, but the end result — Canada. Keep Exploring. — is truly the product of collective thinking. The brand belongs to Canada's entire tourism industry, not just to the CTC alone. I sincerely thank everyone who had a part in its creation.

It is important for all to understand that the refreshed brand is not merely a slogan or marketing hook. It's one deceptively simple phrase, that encapsulates an entire strategic direction for the CTC in support of Canada's tourism industry. That strategy inspired a rewriting of the Commission's mission and vision statements: respectively to harness Canada's collective voice to grow export revenues; and to compel the world to explore Canada.

The second major achievement of the year was the successful relocation of the Commission's headquarters from Ottawa to Vancouver in December. It was a task that demanded careful and extensive planning, and it is testament to the dedication of all staff that we were able to carry on with business as usual throughout the preparations.

There is a vital and vibrant tourism sector here on Canada's West Coast. While I look forward to exploring new opportunities with the members of that sector, my staff and I are committed to efforts benefiting the entire tourism sector throughout all of Canada.

Any time an organization moves, there are challenges to be addressed. These are understandably intensified when the relocation is literally cross-country. I want to make a special point of thanking those staff who chose to make the journey with us; I applaud their spirit of exploration. It was their determination that allowed the CTC to remain focused on its core task of promoting Canada as a tourist destination, which at the end of the day is the most important consideration for our many stakeholders.

There were, of course, staff who could not join us in our new home. I recognize the difficulty of the choice they had to make, and I thank them for all they contributed during their time at the CTC.

In replenishing our executive team and Commission staff, we took care to recruit professionals with the experience and ability to help us carry out our new brand-driven marketing strategy. I am very pleased with the talent we have been able to attract, and I am energized by the new dynamic we have created as a result.

A significant part of the new brand strategy relates to focusing on direct communication with consumers using electronic means. This marks a shift away from dependence on traditional advertising media—within which, quite simply, Canada cannot compete. This new emphasis has prompted us to reorganize certain functions within the CTC: creating, for example, a new executive portfolio entitled 'Strategy', which amalgamates the functions of planning and macroeconomic research. We have also doubled the size of our e-Marketing team.

Geographically, the CTC continued in 2005 to focus on a small group of key markets in order to achieve the strongest returns on its investment dollars. One of these, of course, is the United States leisure market, which continued to decline last year. In response, the Commission launched its largest-ever qualitative and quantitative study. The U.S. remains Canada's most important international market and the results of the study, due out early in 2006, will direct our actions in reigniting it.

At the same time, it is important to emphasize that the U.S. is not Canada's *only* travel market. In terms of international visits, the country performed well last year, seeing gains in almost every case. The opening up of the Chinese market to Canadian tourism operators remains an area of great promise. At the outset of 2005, the Chinese government gave Canada permission to officially open negotiations for Approved Destination Status, a lengthy process that all are confident will conclude positively for Canada.

While last year was one of great accomplishment, it was also one of profound sadness for me, personally, and for most of us at the CTC. On October 16, just as his brand-building efforts were coming to fruition, our Senior Vice-president of Marketing and Sales, Jean B. Chrétien, passed away. There is a great void in the lives of those who knew the man and his work. We miss him and his inspiration, and express our condolences to his family and friends.

I know, however, that Jean was a terrific optimist. And it is in such a spirit that I look ahead to the year to come. A year in which we will roll the brand out to Canada's tourism industry and begin to see its effects. A year in which our new executive team and staff will work together from our new headquarters to create new opportunities for Canadian tourism businesses.

As always, there will be challenges. The U.S. *Western Hemisphere Travel Initiative*, for example, is scheduled to take effect in 2008. Even before that date, its requirement that all U.S., Canadian, Bermudan and Mexican citizens carry a passport or other accepted secure document to enter or reenter the U.S. could reduce inbound trips to Canada.

Yet I am confident that we have never been better equipped or better prepared to deal with the obstacles in our way—and to overcome them for the betterment of Canada's entire tourism industry.

Sincerely,

Michele McKenzie
President & CEO

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1. Great Northern Arts Festival
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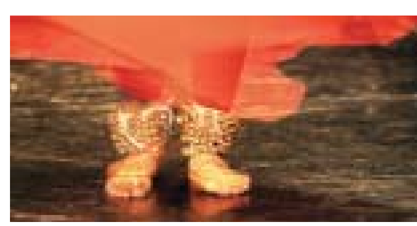


A Glance at 2005

Throughout 2005, Canada's tourism sector continued to experience the winds of change brought about by converging economic, demographic, social and geopolitical forces. Unlike Canada's overseas markets, the business and leisure travel markets out of the neighbouring United States failed to recover real ground. Many Americans chose to vacation domestically, while others ventured further afield to overseas destinations deemed more exotic and authentic — fierce competitors that outspend Canada in promoting tourism. In contrast, visitor spending in Canada from key markets, such as the United Kingdom, France, Mexico and South Korea, showed double-digit growth. Visits from China, South Korea, Australia and Mexico reached record levels. Thanks to a rapidly expanding Canadian economy, domestic travel for both business and leisure also took a strong upturn in 2005, with inter-provincial trips increasing by as much as ten percent.

Global Tourism

According to the World Tourism Organization, global tourism achieved a 20-year high in 2004, with international arrivals reaching an all-time record 760 million. This is a clear

Table 1. International Tourism Receipts and Market Share 2004 vs. 2003

RANK		INTERNATIONAL TOURISM RECEIPTS (US$B)		2004/2003 CHANGE	MARKET SHARE	
		2003	2004	%	2003	2004
World		524.0	623.0	18.9	100.0	100.0
1	United States	64.3	74.5	15.9	12.5	12.0
2	Spain	39.6	45.2	14.1	8.0	7.3
3	France	36.6	40.8	11.5	7.0	6.5
4	Italy	31.2	35.7	14.4	6.0	5.7
5	Germany	23.1	27.7	19.9	4.4	4.4
6	United Kingdom	22.7	27.3	20.3	3.8	4.4
7	China	17.4	25.7	47.7	3.4	4.1
8	Turkey	13.2	15.9	20.5	2.5	2.6
9	Austria	14.0	15.4	10.0	2.6	2.5
10	Australia	10.3	13.0	26.2	1.9	2.1
11	Greece	10.7	12.9	20.6	2.0	2.1
12	Canada	10.5	12.8	21.9	1.8	2.1
13	Japan	8.8	11.2	27.3	1.7	1.8
14	Mexico	9.4	10.8	14.9	1.8	1.7
15	Switzerland	9.2	10.4	13.0	1.8	1.7

Source: World Tourism Organization

indication of the vitality of the tourism sector and of the opportunities it holds.

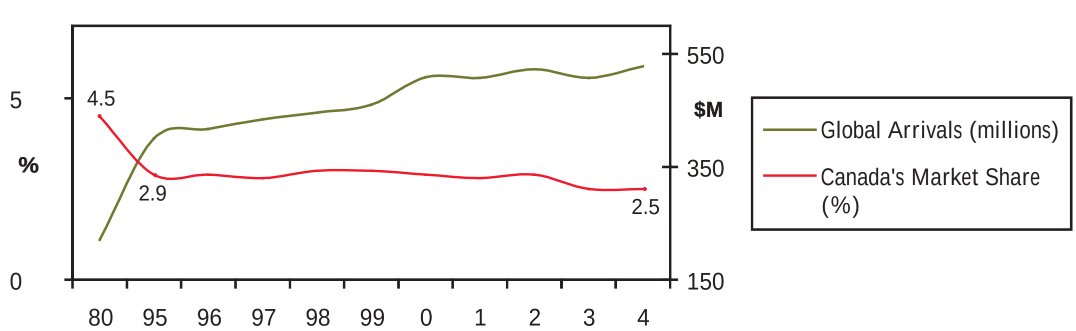
Global receipts from international tourism grew by 19 percent in 2004, demonstrating the sector's resilient ability to bounce back from the negative effects of terrorism, SARS and natural disasters. Canada retained its 12th place position in terms of revenues, and managed to slightly up its share of an increasingly fragmented global market from 1.8 percent to 2.1 percent in 2004 (see Table 1).

Since 1980, Canada's position on the global scene has eroded dropping from a 4.5 percent share of total international arrivals to 2.5 percent in 2004. Canada is not alone in experiencing this decline in share or ranking. The world's top ten tourism destinations as of 1980 effectively experienced a drop in market share from 58.4 percent to 47.8 percent between 1980 and 2004. During that same period, emerging destinations improved their rankings significantly: China moved from 16th place to 4th; Hong Kong from 21st to 7th; Malaysia from 23rd to 13th; and Thailand from 24th to 16th.

Tourism to and within Canada

Tourism is Canada's 16th largest industrial sector. It supports approximately 160,000 businesses and directly employs more than

Table 2. Canada's Market Share of Global Tourist Arrivals vs. Year Over Year Total Number of Global Arrivals



Source: World Tourism Organization

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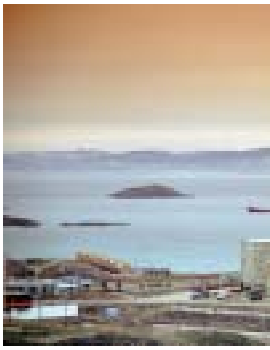


600,000 people. Overall, tourism generated an estimated $61.3 billion in economic activity in 2005, contributing roughly $18.4 billion in taxes to governments at all levels throughout the country. These figures represent all tourism-related expenditures, including same-day trips to and within Canada, international air fares paid to Canadian air carriers, pre- and post-trip spending by Canadians taking domestic trips, and the in-Canada expenditures made by Canadians travelling abroad.

The Canadian Tourism Commission (CTC) focuses on a smaller sub-set of this total called 'tourist revenue', which comprises overnight trips made by international visitors to Canada and overnight trips made by Canadians within their own country.

While both trips and revenue from the United States declined (4.6 percent and 7.9 percent respectively), substantial increases in both domestic travel spending (i.e. by Canadians traveling in Canada) and spending by overseas visitors made up for the decline. In 2005, total tourist revenues reached nearly $39 billion.

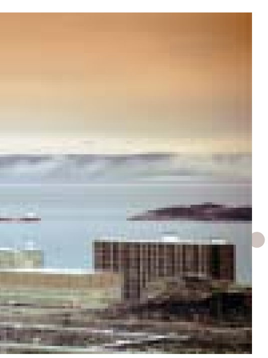
The CTC focused on those markets shown to yield the greatest potential return on marketing investments: Canada (inter-provincial), U.S. Leisure, U.S. Meetings, Conventions and Incentive Travel (MC & IT), Europe/Latin America (France, U.K., Germany and Mexico), and Asia-Pacific (Japan, South Korea,

Table 3. Total Tourist Revenue ($B) and Tourist Trips (Overnight) 2003-2005

	REVENUE $B			CHANGE %		TRIP VOLUME MILLIONS			CHANGE %	
	2003	2004	2005*	04/03	05/04*	2003	2004	2005**	04/03	05/04**
Canada	22.5	23.5	25.6	4.4	8.9	86.3	88.7	95.3	2.8	7.4
United States	7.3	8.2	7.5	15.1	-7.9	14.2	15.1	14.4	6.3	-4.6
Overseas	4.4	5.4	5.7	22.7	5.6	3.2	3.9	4.2	21.9	7.7
Total	34.2	37.1	38.8	9.1	4.5	103.7	107.7	113.9	3.9	5.8

*Source: Canadian Tourism Commission, preliminary estimates

**Source: Statistics Canada, preliminary estimates



Australia and China). These core markets generated $22.9 billion in visitor spending in 2005. This represents an increase of six percent overall since 2004.

Challenges, Issues and Trends

The resilience of the international tourist industry in 2005 both reflects and masks a number of structural changes occurring in the global travel marketplace—changes that the CTC must take into account when planning for the remainder of this decade. In 2005, four main trends continue to prevail:

1. **Globalization**: The rapid increase in global electronic connectivity via the Internet, mobile telephony, satellite phone and radio, combined with reductions in airfares in real terms, is increasing the frequency with which individuals, companies and governments interact beyond national borders. In other words, the world is shrinking. As citizens discover and 'meet' each other in virtual worlds, they increasingly desire to meet, exchange and trade in person. Thus tourism has become the analog equivalent to digital connectivity, and can be expected to play an increasingly important role in global economic development over the next century. Given that less than eight percent of the world's population was engaged in international travel in 2004, there remains enormous potential for further growth. In reality, globalization brings both opportunities and threats to Canada's tourism industry. While it opens up the market to a much larger pool of increasingly affluent and curious consumers, it also attracts more vigorous competition—especially from developing nations such as Mexico, China and India, countries that need sources of foreign exchange to fuel their own internal growth. The battle to differentiate and to be heard will intensify.
2. **Consumer Choice and Sources of Influence**: Electronic connectivity has enabled consumers to access virtually infinite sources of information about products, places and destinations in an instant—and to swiftly compare, evaluate, select or reject. Increasingly, consumers are becoming suspicious of carefully crafted corporate messages and traditional push advertising. They are relying more on peer referrals, becoming less dependent on intermediaries such as retail travel agents and tour operators, and are influenced more easily by celebrities and popular culture. Travel destinations must, in turn, adjust to a new set of marketing rules and approaches that involve non-traditional partnerships demanding more creativity and dialogue with customers. Innovation is occurring with such increasing speed that destinations must also become more experimental, willing to take greater risks, and learn by doing.
3. **Volatility and Uncertainty**: Thanks, again, to unparalleled levels of global connectivity, places and industrial sectors are becoming increasingly inter-dependent. The lines separating them are blurring. Small events

Photo credit:
1. Tourism New Brunswick — Grande Anse Fiddler

in one corner of the world make disproportionately large impacts on economies and communities located miles away. Tourism's vulnerability to external shocks (whether political events, outbreaks of disease, natural disasters or fluctuating currency rates and resource prices, to name but a few) requires developing a greater capacity to anticipate, adapt, think and act differently from established past practices.

4. **Resource Pressures**: Tourism depends on the consumption of natural resources to move, feed and entertain travellers. The rising cost of oil, combined with growing international concern about carbon dioxide emissions are factors that must be monitored and incorporated into all future planning activities. Companies and destinations will be increasingly evaluated according to their ability to demonstrate sound environmental stewardship.

Table 4. Overnight Tourist Revenues by CTC Program Area 2004-2005 ($B)

KEY MARKETS	2004	SHARE	2005*	SHARE
U.S. Leisure	$6.6	27.5%	$6	26.3%
U.S. MC&IT	$1.6	7.4%	$1.6	7.0%
Canada (interprovincial)	$10.4	48.1%	$11.7	51.2%
United Kingdom	$1.1	5.1%	$1.3	5.7%
France	$0.3	1.4%	$0.5	2.0%
Germany	$0.4	1.9%	$0.4	1.8%
Mexico	$0.2	0.9%	$0.3	1.3%
Japan	$0.6	2.8%	$0.6	2.6%
South Korea	$0.2	0.9%	$0.3	1.3%
China	$0.2	0.9%	$0.2	0.9%
Australia	$0.3	1.4%	$0.3	1.3%
Total	$21.6	100.0%	$22.9	100.0%

*Source: Canadian Tourism Commission, preliminary estimates

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2. Nova Scotia Tourism
3. Montréal — C. Parent, P. Lambert

CTC Corporate Performance

In 2005, the Canadian Tourism Commission (CTC) realigned its strategy, adjusting to the changing global environment described above. Under the thematic banner "Year of Focus", the Commission decided to concentrate on 11 key markets. Research identified these as offering the best potential rates of return on marketing investments. The CTC revitalized the destination brand. It began enabling itself to better communicate with customers through a suite of activities and investments in customer relationship management. The CTC also undertook sales force automation and e-marketing, and committed to working with new, non-traditional partners in source markets.

The CTC also introduced a set of summary performance measures for the organization as a whole, continuing to develop operational targets for each of the business units. The CTC performance overview is presented in Table 5.

Launching Canada's Refreshed Tourism Brand

The CTC officially unveiled Canada's refreshed tourism brand in October 2005 at the annual meeting of the Tourism Industry Association of Canada and a month later to an international audience at the World Travel Market. That launch represented the culmination of two years' research, consultation and creative development.

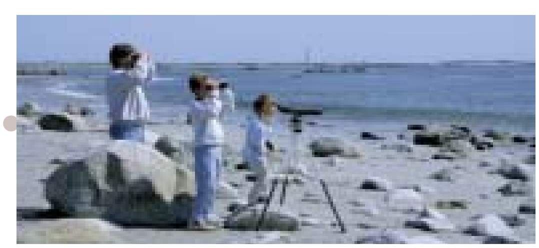
The branding process was initiated in response to the growth of the global tourism market and changes in consumer dynamics. While Canada has always enjoyed a positive image, the country's traditional positioning was proving less compelling in the new millennium's fiercely competitive international arena.

To arrive at a brand position that acknowledged those competitive realities and met the needs of Canada's diverse tourism industry stakeholders, the CTC analyzed ten years of historical tourism data, as well as recent intelligence on key competitors, tourism markets and consumer behaviour. The Commission held waves of consultations with some 450 Canadian travel industry professionals and hosted 24 focus groups in six countries to test its findings.

One of the unique strategic features of the refreshed brand, epitomized by Canada. Keep Exploring., is that it does not attempt to define Canada for travellers. Given the diversity of the country's tourism offerings, this was simply not possible. Instead, the brand invites travellers to project their own expectations and desires onto Canada, suggesting that whatever kinds of experiences they might be seeking, they will find them here. This is a particularly versatile formulation for a marketplace in which consumers using the internet and other tools, enjoy unprecedented buying power and freedom of choice.

Consistent with its mission to "harness Canada's collective voice to grow export revenues," the CTC also developed a three-tiered communications strategy to convey the brand:

1. Create awareness of Canada as a vacation destination via media and messaging that leverage the Canada brand. This is done by inserting the brand into moments of unthinking routine and inspiring customers to exercise their natural curiosity.
2. Create understanding of Canada as a vacation destination by allowing consumers to experience Canada without leaving home, reaching them with some hint of the "Canada experience."
3. Create opportunities for consumers to shop and purchase offers developed by CTC partners (provincial and city marketing organizations and private industry).



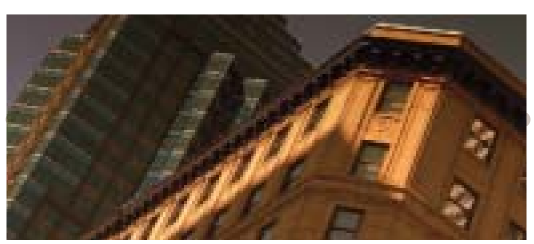


Table 5. CTC Performance Overview

CTC OVERALL				PERFORMANCE TARGETS
OBJECTIVE	**STRATEGY**	**MEASURE**	**TARGET**	**2005 ACTUAL**
Market Canada as a desirable tourism destination	Engage in a comprehensive branding exercise	Launching a refreshed Brand Canada in March 2005	Completed March 2005	Completed October 2005
	Create effective messaging through the use of the travel Canada Web sites	N/A	Build centralized Web and Customer Relationship Management (CRM) infrastructure	On track for consumer and MC&IT Web sites launch for April 2006
	Focus on markets generating highest rate of return on investment (ROI)	Market Portfolio Analysis (MPA): the selection of key markets that will generate highest ROI	Place marketing focus on 11 key markets generated by MPA: U.S. MC&IT, U.S. Leisure Canada, Japan, China, U.K., Germany, France, Mexico, Australia, South Korea	Marketing staff maintained in all key markets (ongoing)
				Marketing strategies implemented in Canada, U.S. and overseas key markets (ongoing)
	Leverage marketing funds	Building partnerships with industry that meet or exceed the partnership goal of 1:1	Minimum 1:1	1:1
	Ensure satisfaction amongst all of CTC partners	Stakeholder survey	Minimum 60% satisfied	76% satisfied
Identify new products and services that satisfy international demand	Undertake a comprehensive market study of U.S. and Canadian spa travellers	Provide market research data for stakeholders to use in making informed decisions on product and/or marketing investmentss	Completion February 2006	Completed February 2006
	2005 Call for Proposals on Tourism Innovation Partnership Program	Identified 2 new TIPP projects for support	2 new TIPPs to be launched in 2006	Completion dates scheduled for 2008
Create a productive and healthy work environment	Conduct an annual employee survey	Employee Satisfaction	Minimum 55% satisfied	2005 employee survey delayed due to 80% staff turnover from relocation of CTC headquarters
	Launch a retention and recruitment drive	N/A	Relocate staff to Vancouver	19 staff relocated to Vancouver
			Recruit staff	Recruiting 70% complete
Provide information to Canadian tourism organizations	Lead development of research tracking and evaluating tourism performance, and identifying market opportunities and conditions	Studies conducted and published; funds invested; evidence that research guides decision-making	$1.6 million invested in market research and evaluation	Projects realized and study goals achieved
			$2.3 million invested in macro-économic research: core surveys and Tourism Satellite Account	
	Publish tourism information in print and digital formats	Maitenance of www.canadatourism.com	100% completed	100% completed
		Publication of 6 print editions of *Tourism Magazine* and 12 electronic editions of *Tourism Online*		

Photo credit
Tourism Vancouver — Al Harvey

The overall goal is for Canada to generate a robust and flexible platform from which to present the Brand in a consistent and powerful way, while at the same time responding to regional variations in each of the CTC's key markets. It must also enable CTC partners to position their unique value propositions under a consistent and compelling theme: Canada. Keep Exploring.

Exploring New Ways of Reaching Out

To implement Canada's refreshed tourism brand and achieve the greatest possible return on each marketing dollar it invests, the CTC continued its shift away from traditional advertising and promotion in 2005. The Commission placed particular emphasis on electronic marketing, public and media relations, and partnerships — each an important facilitator of "content distribution."

Last year, for example, the CTC facilitated the inclusion of Canadian locations on the popular television show, The Amazing Race. The Commission approached the program producers, invited them to tape segments in Canada, and offered to assist with the logistics of the visit. For a minimal investment compared to the astronomical cost of purchasing a traditional 30-second prime-time advertising slot, the CTC exposed Canada to an audience of roughly 14 million viewers.

As part of its branding process last year, the CTC developed a new mechanism for defining customer groups: the 'Explorer Quotient' (EQ). Via multiple marketing activities funneled through the CTC website, travellers are encouraged to identify their 'explorer type.' This will yield richly detailed profiles of potential travellers and will create opportunities for the CTC to push content of interest such as electronic newsletters or special offers, to receptive consumers.

All of this is essential, given the changing nature of the tourism consumer. Today's travellers are more knowledgeable than ever; they have greater access to information and more choices, making their behavior less predictable. To implement the EQ concept in Canada, the CTC initiated partnerships with Parks Canada, Rogers, Alliance-Atlantis and Société Radio-Canada over the course of 2005. Those collaborations will come to fruition in 2006.

Exploring New Channels

The CTC also began working on a comprehensive new Web strategy in 2005. The aim of this strategy is to consolidate and globalize the Commission's presence on the Web, presenting a consistent face to all visitors in all regions.

As a result of global Internet connectivity and the multiplicity of electronic information sources about travel destinations, products and special offers that can be searched, examined and compared in an instant, power has shifted from suppliers to consumers. By 2007, close to two-thirds of all leisure and self-booked business travel generated by U.S. travellers will be booked online. Europeans' use of the Internet is equally strong: between 2005 and 2007, the online leisure/self-booked business travel market is expected to double to 57.2 billion Euros.

In response to the Commission's strategic shift away from print to electronic and interactive media, its expanded e-marketing team began upgrading the CTC's technology infrastructure in 2005, implementing management information systems and customer relationship management solutions. These will capitalize on the combined potential of Internet and database technologies to track and respond to individual user's patterns and preferences, ultimately allowing the CTC and its partners to communicate not with a broad and unknown audience, but rather with select and well-defined sub-groups of prospective customers.

Given the ease with which consumers can switch from one destination offer to another, it is strategically vital that there be no impediments to obtaining accurate, relevant and attractive information. Winning destinations make it very easy for their prospective visitors to search, select, compare and buy travel offers that they perceive as valuable and relevant. Late in 2005, the CTC initiated an innovative, aggressive strategy that made it easy for customers to access Canada electronically. It will consolidate all existing

Photo credit
Tourism Vancouver

Web sites into a single portal using the new domain extension developed by Tralliance Corporation exclusively for the travel industry.

From 2006 on, www.canada.travel will become the primary call to action for all of Canada's marketing initiatives. Prospective visitors — whether consumers, partners, meeting planners or the press — will be directed to the sub-site of their choice. This approach will significantly improve Canada's standing in search engine ratings; enable the Commission to better track leads in terms of unique Web site visits, engage those leads in dialogue, and provide relevant opportunities for partners to present their own value propositions.

Exploring Opportunities in Key Markets

Following a 2004 decision to focus its marketing efforts on source countries that generate the highest potential returns on visitor spending, the CTC continued concentrating its marketing and sales activities on the United States (with offices in Washington, D.C. and Chicago) to cover both leisure sales and the meetings, conventions and incentive travel markets. Abroad, the CTC focused on the U.K., Germany, France, Japan, South Korea, Australia, China and Mexico. The CTC is determined to increase revenues from these markets through implementation of Canada's refreshed tourism brand and sophisticated e-marketing strategies. Highlights from each of these markets follow.

North America

United States Leisure Market

Immediately following the terrorist attack on New York in September, 2001, Canada experienced a temporary and substantial increase in U.S. visitation. That has since dissipated. In 2005, Canada hosted 14.4 million overnight person-trips by U.S. residents generating $6.0 billion, a 9.4 percent decrease over 2004. At first glance, global instability and high fuel prices may seem the main culprits causing the declines. In reality, they have not been acting alone.

Deeper trends are also responsible for the downward flux of the U.S. market, trends like the shift from high-volume levels of visitation from border states to higher-yield visits originating in long-haul markets. Between 1998 and 2002, visitor volume from the U.S. grew by 13 percent while revenues increased 38 percent. Driving this increase was the growing propensity of Americans to take vacation trips versus short getaways; to fly rather than drive; and to spend more per trip.

In response to these trends, the CTC embarked on a marketing program designed to appeal to high-yield prospects in urban centers: markets that enjoy good air access to Canada whose residents are likely to travel outside their own country to Canada (e.g. New York, Boston and Los Angeles). The CTC launched an $11 million program in spring 2005 with four components: building awareness, tactical stimulation, niche markets and travel trade. The 2005 campaign also invested in niche markets that research had shown provide Canada with a competitive advantage, including high-end fishing, high-yield 'soft adventure', the ski market, and the gay market.

United States Meetings, Conventions & Incentive Travel Market

The meetings industry is a global economic engine that contributes more than $122.3 billion a year to the U.S. economy alone[1]. In 2005, the slowly recovering U.S. component of the business travel segment infused $1.6 billion into the Canadian economy. Meeting and convention travel reached strong levels in the

[1] Convention Industry Council and Futurewatch 2006

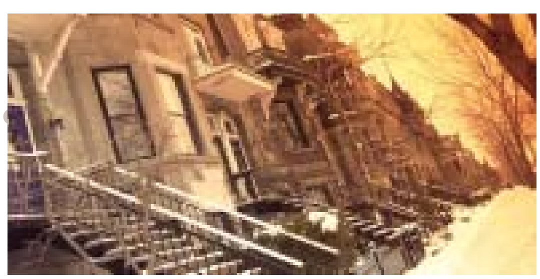


Photo credit:
1. Montréal — C.Parent, P.Hurteau
2. OTMPC — Ben Flock

United States, driving notable increases in both hotel occupancies and revenues. The major challenges to further expansion of this segment to Canada include lack of competitive airfares, expansion of U.S. convention facilities in primary, secondary and tertiary U.S. destinations, the Western Hemisphere Travel Initiative (WHTI), and the rise in the Canadian dollar against the U.S. dollar.

In 2005, the CTC invested $4.6 million in the MC&IT market.

Canada

Domestic travellers continue to account for a large portion of tourism revenues in Canada. In 2005, Canadians spent $25.6 billion at home during their 95.3 million trips, up 8.9 percent and 7.4 percent respectively over 2004.

Domestic travel is up in Canada due to a buoyant economy, low unemployment and low-cost airfares. Real GDP growth of around three percent is expected in 2006, although consumer expenditures are expected to decline despite rising disposable incomes[2].

The Canada program set a new strategic orientation in 2005 by concentrating on non-traditional partnerships, awareness activities and media relations. The priority was placed on converting United States-bound Canadians in Montreal, Toronto and Vancouver, which alone account for about 50 percent of departures for southern destinations. The CTC invested $3.5 million in the Canada market in 2005.

Asia-Pacific

The CTC marketing program in Asia-Pacific focuses on four countries: Japan, Australia, South Korea and China. In 2005, travel from all these markets achieved record levels.

Japan

With a relatively wealthy and curious population of 127.8 million people on the opposite side of the Pacific, Japan is a significant source of visitors to Canada. In 2005, Japanese residents made some 423,881 trips to Canada, up 2.37 percent over 2004. These visitors spent $600 million in Canada last year, an increase of 8.4 percent over 2004.

The Japanese economy picked up steam in 2005, as evidenced by a rise in corporate operating profits, a further decline in the unemployment rate to 4.3 percent, and a significant reduction in the number of non-performing bank loans. The major impediments to further expansion of the Japanese market to Canada remain air capacity; the rise in the value of the Canadian dollar against the Yen; and overall low levels of awareness. Forecasters are pegging growth at 2.5 percent in 2006.

Within the Asia-Pacific portfolio of countries, CTC program investments are highest in Japan. In 2005, the CTC spent $5.8 million in the Japanese market.

South Korea

With a population of 48.6 million and a 3.8 percent growth rate in 2005, South Korea enjoys a healthy outbound market of 10 million trips, which grew 14.2 percent last year. Summer travel surged to more than one million Koreans travelling abroad in July and August. Korean visitation to Canada closed the year off at 180,000 visitors, up 6.1 percent over 2004. Spending in Canada in 2005 was $267 million—up 15.1 percent over 2004.

Major tour operators are seeing their Internet online travel business increase steadily with the anticipation of registering the highest year-over-year growth rate in 2005. Tour operators, whose mainstay is group travel, are now, at the request of consumers, actively developing new individualized tour products. With a new five-day working system adapted to

[2] TD Bank Financial Group, December, 2005.

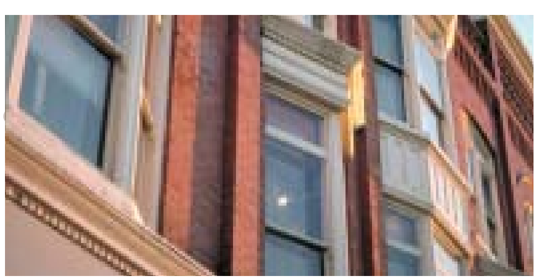


Photo credit:
1. OTMPC — Belpaire
2. Tourism PEI — John Sylvester

all workplaces in South Korea and with economic growth forecast at five percent for 2006, the CTC expects further increases in overseas travel for the next several years. Program investments in the Korea market amounted to $670,000 in 2005.

China

As the globe's most populous country (1.3 billion), China is quickly becoming the world's most sought-after source of international visitors. In 2005, approximately 120,000 Chinese visited Canada and spent $186 million, up 15 percent over the previous year.

China has agreed to grant approved destination status (ADS) to Canada, subject to detailed negotiations, which is the first step to grant approval of group travel to Canada. Completion of these negotiations holds further value for Canadian tourism marketers who will finally be able to openly market products in China. Equally promising is the new air-services agreement China and Canada signed in April, 2005, allowing 26 flights per week between the two countries.

The CTC opened a permanent office in Beijing in January, 2005, with a staff of three. The objective is to promote awareness of Canada as a preferred overseas tourist destination using a number of PR, press and trade show activities. Total CTC program spending in the China market in 2005 was $564,000.

China continues to hold the Crown title of fastest growing travel market in the world. Economic indicators show GDP is expected to increase 9.2 percent in 2006.

Australia

Australians are avid international travellers. For a population of 20 million, the total outbound market exceeded 4.4 million trips, a 29.4 percent increase over the previous year. The Australian market for travel to Canada exceeded all expectations in 2005, growing by 12.3 percent to approximately 202,000 trips. This represents the largest number of Australian tourists to Canada ever recorded in a single year. Tourist revenues from Australia exceeded $292 million in 2005.

Australia's economy continues to remain positive and relatively stable. Greatest interest in travel is coming from the Baby Boomer segment, many of whom are increasing their length of stay in Canada and combining a visit to Canada with the United States. This market segment seeks value for its money and is prepared to travel in the shoulder seasons.

The growth forecast is moderate for the Australian economy as GDP is expected to inch up to three percent in 2006. Although unemployment is at a 30-year low, higher prices are expected to shake consumer confidence.

Program investment in the Australian market amounted to $830,000 in 2005.

Europe & Latin America

The CTC marketing program in Europe and Latin America focuses on the United Kingdom (U.K.), Germany, France and Mexico.

United Kingdom

Just over 900,000 British travellers visited Canada in 2005, spending $1.3 billion — a 14.7 percent increase over the previous year. Although it remains one of the strongest economies in Europe and a solid performer for Canadian tourism products, the U.K.'s steady unemployment rate of 4.8 percent, which is a low number compared to European Union counterparts, could snake higher as GDP growth declined to 1.9 percent in 2005.

Slowing household consumption and reduced consumer confidence among its 60.5 million residents is likely the reaction to rising costs at home. These factors along with a weakening of the Pound against the Canadian dollar could certainly curb this tourism market's performance in the future.

Photo credit:
1. Nunavut Tourism — Tessa Macintosh, Elders in Caribou parkas
2. Montréal — C.Parent, P.Hurteau

Major impediments to the U.K. market remain stiff competition from long — and medium — haul countries such as New Zealand, Australia, the United States and Dubai, and continuing concerns about world events.

The CTC made marketing investments of some $2.2 million in the U.K. last year. Canada has succeeded in attracting British winter travellers away from nearer European snow destinations. Winter ski promotions proved effective, especially coupled with reduced long-haul air fares.

A key trend that continued throughout 2005 was the inclination of British travellers to conduct travel research online, and to make bookings themselves, creating customized itineraries rather than signing up for pre-arranged tour packages. These trends are expected to persist in 2006, reinforcing the soundness of the CTC's online strategy.

Germany

With a population of approximately 82.4 million, Germany is the third largest source of international visitors to Canada. In 2005, some 325,000 German visitors spent $411.8 million in Canada. That number represents an increase of 8.2 percent over 2004.

With a new Government in power since November 2005, Germany intends to reclaim its economic strength. Real gross domestic product (GDP) is forecasted to grow by 1.7 percent in 2006 and unemployment (currently ten percent) is expected to fall slightly in the same year. Further recovery of both private and public consumption is forecasted for 2006.

The forecast for outbound travel by German citizens is very positive for 2006: 60 million trips lasting more than five days are expected, with total spending amounting to EUR 58 billion. Travel to Canada is expected to rise by five percent.

Long-haul destinations are gaining market share once more. Air access from Germany to Canada is excellent in summer with many connections all over the country. Ground that was lost in the immediate post-2001 period is being recovered and marketing activities are having an impact. A more recent challenge has been the strength of the Canadian dollar relative to that of the United States.

Total CTC program spending in Germany in 2005 was $1.8 million.

France

Travel is becoming a normal household expense for many of France's 60.7 million residents. Over 356,000 French visitors stayed in Canada at least one night last year, an increase of 7.6 percent from the previous year. Spending increased by 11.2 percent. The CTC hopes this strong performance will continue, as France copes with growing government debt, recent unrest and high unemployment. While the inflation rate did drop and modest economic gains of 1.6 percent were realized, the French, like all their European counterparts, will see their purchasing power in Canada diminished as long as the EU's common currency fails to outperform the Canadian dollar.

Factors impeding further growth in the French market remain the European common currency's ability to facilitate travel within Europe, and a lack of awareness about Canadian tourism products outside Quebec.

In 2005, the CTC invested $2,183,250 in the French market.

Mexico

This southern neighbour of the United States is a promising market for Canada. Over 187,248 Mexican visitors landed somewhere in Canada in 2005, spending more than $255 million, a 10.3 percent increase over 2004. Its 106 million nationals enjoy comparatively low unemployment and increasing access to consumer credit, both of which helped drive GDP growth of 3.3 percent last year. Fortunately for Mexican travellers to Canada,

Table 6: Partnership Funding by Program Area (millions $)

PROGRAM	2004 (ACTUAL)	2005* (ACTUAL)
U. S. Leisure	47.0	36.9
MC&IT	5.7	12.4
Canada	5.9	3.5
Europe/Latin America	16.3	13.4
Asia/Pacific	10.3	11.7
Research	4.6	6.6
Product Innovation & Enhancement	4.9	1.8
Corporate	-	0.2
TOTAL	94.7	86.5

** Includes dollars and in-kind contributions*

Photo credit:
1. Québec — Yves Tessier, Tessima
2. OTMPC — Ben Flock

air fares remained stable in spite of rising gas prices. While lower than the year before, the inflation rate for 2005 was roughly double the rates posted in CTC's European markets. The Peso also weakened against the Canadian dollar.

Summer travel from Mexico to Canada is expected to decrease in 2006 due to the World Cup of Soccer being hosted this June-July in Germany. Most Mexicans will be fixed to television sets, breaking only to vote in their Presidential elections on July 2nd.

The CTC invested $354,000 in marketing programs for the Mexico market in 2005.

Leveraging Marketing Funds

The Commission's ability to attract partner funding from both the private sector and other provincial and regional agencies is important evidence of the relevancy and appeal of CTC programs and activities. These partnerships give Canada a competitive edge and maximize scarce resources. In 2005, the CTC managed to surpass the funding ratio of 1:1, raising $86.5 million in cash and in-kind from partners (see Table 6).

The decline in U.S. leisure partnership funding for 2005 is the result of a shift in how the CTC calculates partnership value. Aside from this, the CTC also decreased funding for U.S. Leisure marketing partnerships from $29 million in 2004 to $20 million in 2005. The dramatic increase in MC&IT partnership funding is largely the result of a greater number of partners and partnerships, and multi-year agreements that will bring three U.S. industry meetings to Canada.

Innovative partnerships by market

Popular culture and association with other non-travel brands increasingly influence a consumers travel behaviours. Unique and novel partnerships and innovative media engagements were hallmarks of the CTC's marketing activities in 2005. Examples include the rollout of a CTC/Air Canada joint campaign featuring Celine Dion in the U.K. and U.S., and the taping of a popular Mexican soap opera in Banff, Alberta.

The following is a sample of 'non-traditional' partnerships taken from the CTC's many 2005 marketing successes inside the 11 markets the CTC focuses on.

U.S. Leisure Market — Partnering with American Express

In 2005 the CTC developed a new alliance with the world's strongest travel brand, American Express (Amex). This three-year global partnership includes both American Express publishing and American Express Consumer Travel Network. The campaign will be launched in April 2006 and includes eight

Photo credit:
1. Nunavut Tourism — Tessa Macintosh, Drumdancers in Cambay
2. Nova Scotia Tourism and culture

partners across Canada: Air Canada, Delta Hotels, Fairmont Hotels & Resorts, Nova Scotia Tourism, Tourisme Québec, Toronto Special Events/City of Toronto, Travel Alberta and VIA Rail Canada. Together, these represent a partner investment of USD$900,000. The primary target market is affluent, well-travelled U.S. customers and luxury niche market segments, with secondary reach into the U.K. and Japan. Elements of the campaign include, advertising spreads in seven Amex magazines (e.g. *Travel & Leisure, Travel & Leisure Family, Departures*, etc…), direct marketing to American Express Card Members, communications with Amex travel agents, retail window displays, Card Member statement messaging, and online and in-book platforms. This collaborative approach brings together the different divisions of American Express, plus provides a platform to leverage the Canada brand and partner investments while still maintaining the creative license of each.

U.S. MC&IT — American Society of Association Executives (ASAE)

The Commission's U.S. MC&IT business unit entered into a national partnership with ASAE for the first time in 2005, reaching out to association CEOs and meeting planners on the executive track through an integrated sales and marketing program. Five partners including Tourisme Montréal, Tourism Vancouver, Tourism Toronto, Travel Alberta and Fairmont Hotels & Resorts took part. Another program in conjunction with ASAE and Center for Association Leadership was the Invitational Forum on Leadership and Management, a cutting-edge educational experience for association executives. This program, along with CTC's National Partnership, was leveraged at ASAE's annual meeting where the CTC and partners gained tremendous exposure and awareness for Brand Canada. During the annual meeting, the CTC co-hosted a leadership breakfast with Travel Alberta, created a 'Leadership Lounge' for Association CEOs, and announced the creation of the 'Explorer Awards', to be given annually to an association executive, an emerging leader and senior meeting planner.

Germany — Clever Women

Recognizing that women make 82 percent of all buying decisions, CTC Germany developed a marketing campaign focusing on the recent decline in German women travelling. The campaign involved several partners, traditional and non-traditional, such as Globetrotter outfitters, Sebamed skin care and Samova lifestyle tea. At the heart of it was a Web-based lifestyle and travel portal (www.cleverwomen.de) that hosted the Blogs of two German celebrities travelling through Alberta. The project aim was to get 50,000 Web visits within a year and secure CDN$300,000 in advertising value. In fact, the site garnered 100,000 visits in just ten months, producing an advertising value of CDN$387,900.

France — Canada Dry

Beginning in May 2005 and running throughout the year, the Canada logo appeared on some eight million Canada Dry ginger ale bottles and cans distributed in France. This non-traditional partnership effort aimed to raise awareness of Canada as a travel destination, in part by offering consumers the chance to win trips to Canada. The campaign prompted 177,000 Web hits — roughly 1,500 per week.

U.K. — Virgin Credit Card

From July to September 2005, the CTC, Travel Alberta and Canadian Affair worked with Virgin Card so its 280,000 U.K. Virgin credit

Photo credit:
1. OTMPC — OBrien
2. Montréal — C.Parent, P.Hurteau

card holders had the chance to win a trip to Alberta. Part of the MasterCard brand, Virgin Card is a leading U.K. credit card provider with a core customer base of 18 to 44-year olds. The promotion was Virgin Card's most successful competition ever. Virgin received a total of 1,384 entries. In addition, all Virgin card holders were offered a 10 percent discount on holidays to Alberta.

China — Developing a Base in China

Working within the parameters imposed by the China National Tourism Administration for non-Approved Destination Status countries, the CTC established basic promotional activities in this market throughout 2005. Staff engaged Chinese travel agents through trade shows, media familiarization tours, a strong Canada presence at the China International Travel Mart (CITM) (which involved 30 Canadian partners), the production of a comprehensive *Canada Travel Guide*, and the rollout of comprehensive training programs for tour operators in Beijing, Shanghai and Guangzhou.

Japan — Mizuno Sports Clothing Catalogues

Partnering with Travel Alberta and Tourism British Columbia, the CTC undertook this non-traditional promotion as an effective way to bring a little piece of Canada into consumers' daily lives. Mizuno, Japan's leading sporting goods company, developed and implemented an integrated consumer promotion for its outdoor clothing and sportswear last year. One aspect of the promotion featured the Canadian Rockies with Mizuno's Berg brand; another created an association between Vancouver and Mizuno's Superstar brand. Promotional elements included the distribution of more than 150,000 product catalogues, displays and promotional videos for sports shops and magazine advertising, generating more than $3.5 million worth in PR value.

Korea — Cass Beer

Cass Beer is one of Korea's top three beer brands. The CTC partnered with Cass Beer in 2005 on a promotion entitled, "Tok! Party in Canada." The promotion developed awareness of Canada as a fully independent travel/family travel destination, and strengthened Canada's positive image in Korea. The campaign tagged 330,000 cases of Cass beer with PIN codes giving consumers a chance to win a trip to Canada. The promotion extended over two months and reached consumers through 250 major discount stores including Wal Mart, Carrefour, CostCo, E-Mart and Lotte Mart nationwide in Korea. Canada travel information was printed on the cover of each package. All beer cases sold out and 317,100 entered the trip contest.

Mexico — "Rebelde"

"Rebelde" is the Nº1-rated Mexican drama series. Last year, for the first time, the show was filmed outside Mexico. Cast and crew travelled for nine days in March through Calgary and the Banff/Lake Louise region. This road trip for the popular show resulted from an ambitious CTC project to create awareness of Canada as an educational and entertaining travel destination. CTC Mexico worked with Travel Alberta, Banff/Lake Louise Tourism, Fairmont Hotels & Resorts, Air Canada and Alberta's industry partners to welcome the 53 Mexican cast, producers, directors, technicians and production staff. The family-oriented program is broadcast around the world in 25 different languages. In Mexico, 10 million viewers tune in each night. Viewership rose four percent during the airing of the Canadian episodes.

Australia — Gloria Jean's Coffees

Gloria Jean's Coffees is Australia's largest-growing café chain with over 290 stores Australia-wide. The CTC, in conjunction with Ski Canada, set up a partnership with Gloria

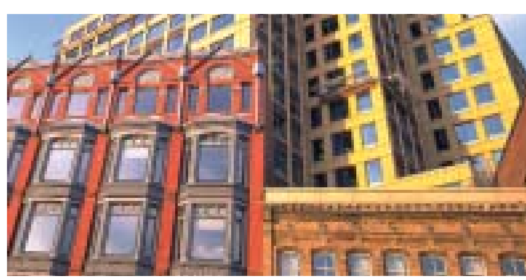


Photo credit:
1. Tourism Vancouver — Al Harvey
2. OTMPC

Jean's Coffees to promote skiing and snowboarding in Canada. The aim was to target a mid- to high-end demographic in a cost-effective manner. The campaign effectively leveraged a well known, non-traditional brand, as well as industry contributions towards a prize giveaway. A full marketing mix was used to launch the partnership, including the distribution of 20,000 copies of the *Ski & Board Canada* guide to Gloria Jean's Coffees 290 stores Australia-wide.

Canada—Toyota Car Company

In 2005, the Canada program explored an unusual 'vehicle' to promote travel within Canada. In partnership with Toyota Canada, an integrated plan was launched to encourage Canadians to experience Canada and see the country in a new way. The program opened the door to Toyota's distribution channels and made it possible to develop new promotional activities, maintain consumer relations and increase awareness of Canada. Among other measures, the initiative involved television and national newspaper advertisements and publication of a guide detailing road tours in various regions of Canada that was designed to get Canadians behind the wheel of a car and on the road to discover their country.

Stakeholder Support for CTC Programs

The CTC is committed to ensuring the satisfaction of those who participate in its marketing programs. In a 2005 study commissioned by the CTC, 76 percent of CTC marketing partners rated the Commission as "good" or "excellent". Seventy-three percent felt that the CTC fulfills its role on behalf of Canada's tourism industry "quite well" or "extremely well". Most importantly, 86 percent said they were "fairly likely" or "definitely" planning to choose the CTC as a partner again in the future.

Product Innovation and Enhancement

Product innovation is an essential part of a thriving tourism industry. It is the lifeblood of Canada's more than 150,000 small- and medium-sized tourism businesses. The CTC's role in leveraging product innovation has been very well received by industry.

The CTC's Product Innovation and Enhancement unit (PIE) works in partnership with Canada's tourism industry to increase the country's critical mass of diverse, demand-driven and market-ready travel experiences. It does this by helping the tourism sector develop products that meet global market demand. Its research and development efforts facilitate and encourage the development of new and refreshed travel products/experiences, so that eventually they can be brought to market and tested for acceptance.

Most product introductions in Canada are unveiled first to Canadians. Hence the reason PIE is aligned with the Canada Marketing Program and the Brand Integration Management unit. This affords an important linkage to the Commission's brand campaigns, and provides a communications platform for products that are ready to be introduced to consumers.

PIE's spa, health and wellness tourism portfolio is a perfect illustration of this integration. In 2005, the CTC initiated a comprehensive market study of U.S. and Canadian spa travellers. In 2006, the CTC and several provincial and trade association partners will undertake an updated Canadian spa-sector profile and a series of foreign competitor profiles. With the results from this important product and consumer research, PIE expects to recommend a Canada brand position for Canadian spa, health and wellness travel experiences. The CTC will then explore partnership opportunities for market and business development initiatives promoting this travel product.

PIE will adopt its new "take-to-market

Photo credit:
1. Nunavut Tourism — Mike Beedel, Dogsledding

strategy" for its other identified product portfolios, including aboriginal tourism, winter tourism, cultural tourism and outdoor adventure. The unit will also conduct market research on promising consumer groups.

Human Resources, Relocation and Reorganization

Last year, the CTC negotiated and signed its first collective agreement with its unionized employees. That completed, the Commission's primary human resources focus was on facilitating the move to British Columbia. The CTC successfully finished the relocation of its headquarters from Ottawa to Vancouver in December, 2005. Of the total number of full-time employees in Ottawa at the time when the decision was announced, 19 moved to Vancouver. As a result, the CTC had to recruit a minimum of 76 new personnel, equivalent to 80 percent of the headquarters workforce. Re-staffing, helping current staff prepare for the move and hiring temporary staff to cover certain functions to ensure continuity were all crucial. By the end of December, the Commission had filled the majority of vacant positions.

With a new strategy based on the refreshed brand, the CTC began the process of reorganizing in 2005. The Commission doubled its e-marketing team to support sophisticated, internet-based customer relationship management activities and hired a Vice-president of Strategy to oversee the previously separate functions of planning and macroeconomic research.

Intelligence-based contingency planning will help minimize disruption of the tourism sector. By combining the functions of planning and macroeconomic research, the new strategy portfolio will allow the CTC to adopt a scenario-based approach to long-term planning. While specific shocks such as 9/11, SARS, BSE cannot be predicted, it is reasonable to expect that unforeseen events of a similar nature may occur in the future.

The coming year will put focus on training, planning and orientation to help integrate new staff into the organization.

Providing Research

The CTC is a research-driven organization, devoted to the production of market intelligence and drawing on that to drive its marketing strategies and inform those of the Canadian tourism industry. The Commission oversees an array of research products that monitor market performance, travel trends, travel motivations and consumer demand. The CTC has three main areas of research: market-based, macro-economic and evaluative.

Market Research

As business environments shift and new opportunities arise, the CTC often commissions specialty research or forms partnerships to gain insight into emerging markets, trends or market threats. In 2005, the CTC commissioned market intelligence in Europe, measured the potential of Chinese visitors, tried to better understand the Japan market, and delved into how to better serve the U.S. consumer.

Now in its second year, the European Tourism Watch provides traveller information for the key markets of France, Germany and the United Kingdom. Residents are surveyed about travel habits and interests, and how Canada ranks against the competition as a destination consideration.

Recognition of China's growing importance in global tourism was evident in a number of studies analyzing this key market. In January 2005, the CTC conducted the China Market Intelligence Profile to better understand China's economy and population, Chinese travel to Canada, CTC targets and forecasts, and airline capacity.

In December 2005, the Canadian Tourism Research Institute prepared the *report on the Potential Impact of Approved Destination Status from China on Canada's Tourism Industry* for the CTC. The study provides an overview of Approved Destination Status and assessed the potential impact of the designation on Canada's tourism industry.

A study of consumer and travel trade research in China was also launched last year to gain insight into how Canada is perceived in the Chinese marketplace. Other goals include identifying opportunities, ideal positioning, and conducting business successfully. While awaiting results from the consumer component of the research, early findings from the travel trade reveals that the major obstacles Canada will face once it is formerly granted ADS, are visa-related issues, fierce competition from existing ADS destinations, and insufficient air capacity, to name a few. Results of this study are expected early in 2006 and will help Canada's tourism industry develop appropriate marketing initiatives.

In 2003, outbound travel from Japan took a big hit, declining by 19.2 percent to 13.4 million trips. Canada's share of the Japanese market was more severely affected, losing numbers and market share. Even though conditions improved in 2004, numbers were still short of the 2000 results. The *Japan Consumer Research* project was initiated to determine the incidence level of long-haul pleasure travel from Japan, demographic and motivation information, consumer perceptions, trip planning and booking patterns, and other related travel information. The study is currently in progress with results expected in early 2006.

Of note, CTC's *Japan Consumer Research* and *China Consumer and Travel Trade Research* mentioned above were carried out in partnership with Tourism British Columbia, Alberta Economic Development and the Ontario Tourism Marketing Partnership.

Pure Canada is the CTC's Canadian-destination travel magazine, targeting sophisticated, savvy American consumers. To interpret the magazine's impact, the CTC commissioned Globescan to conduct a readership survey of current 'subscribers'. The main objectives: test consumer awareness, usage, and overall perceptions of *Pure Canada*. The key finding was that *Pure Canada* "is a proven marketing tool and has the ability to positively influence a key U.S. target segment."

In the fall of 2005, the CTC examined opportunities in the American gay and lesbian travel market. With a higher-than-average median household income (USD$87, 500 versus USD$41, 994 for the general population) and a high propensity to travel, the gay and lesbian market has a strong potential for Canada. The study involved quantitative and qualitative research, and determined that Canada is "on the radar" and valued as a gay and lesbian travel destination.

The fall season also saw the CTC launch its largest-ever research initiative spurred on by the substantial declines in day and overnight visitor traffic from U.S. border states. The *U.S. Leisure Travel Study* would offer comprehensive quantitative and qualitative insight into the attitudes and motivations of U.S. travellers with respect to Canada and other destinations. The final report was scheduled for release early in 2006 and was expected to identify the major behavioural changes occurring in the U.S. leisure market and to recommend strategies that the CTC and its provincial, city and industry partners can pursue to prevent any further revenue declines beyond 2005.

Macro Economic Research

As part of its mandate to provide information about tourism as a whole, the CTC invests over $2 million in a comprehensive program of macro-economic research designed to measure and monitor the overall performance of tourism to and within Canada; to estimate the impact of tourism on the national GDP and its contribution to employment and tax revenues; and to assess the health of tourism in the economy. High partnership ratios are indicative of the CTC's success with macro-economic research efforts. Regular partners include provincial tourism agencies, other federal bodies such as Statistics Canada and the Canadian Tourism Human Resource Council (CTHRC).

In 2005, the CTC maintained its investments in the core surveys undertaken by Statistics Canada, such as the International

Photo credit:
1. OTMPC — Daniel Taub

Travel Survey. The CTC assisted in the re-design and development of the *Travel Survey of Returning Canadians*, which will re-place the *Canadian Travel Survey*. These surveys provide data for the Tourism Satellite Account and the quarterly National Tourism Indicators, which provide baseline accounts of the Canadian tourism industry's ability to keep Canadian's travelling at home and to attract visitors from the global marketplace.

The Commission continued to produce two major communications products last year to help tourism operators make informed decisions about how and where to market themselves. These were the bi-monthly *Tourism Intelligence Bulletin* and quarterly *Domestic and International Travel Business Outlook*.

Rounding out macro-economic research efforts was the CTC's pursuit of a scenario analysis on the impact of the Western Hemisphere Travel Initiative (WHTI) passport requirements on tourism forecasts, particularly on inbound trips from the U.S.

For the period between 2006 and 2008, the WHTI initiative was estimated to yield a loss of nearly 7.7 million inbound trips and an equally devastating loss of $1.7 billion in international tourism receipts.

Evaluative Research

In 2005, the CTC continued to track and evaluate the success of its marketing campaigns through evaluation and conversion studies. Advertising tracking and conversion studies were conducted for the "I CAN" advertising campaign in Canada, the U.S. Leisure 2005 Spring/Summer Campaign, and the "Enrich Your Life" Japan Fall/Winter advertising campaign. In Japan, focus groups were also conducted to help develop creative concepts for the 2006 campaigns. An advertising evaluation was also completed for the U.K. cooperative TV advertising campaign with Air Canada. These evaluative research efforts have allowed the CTC to track the performance of the Canada, U.S. and Japan marketing programs (see table 7).

To ensure a good return on investment, a correct balance must be maintained between investing in short term producing markets and potential growth markets of the future and the Market Portfolio Analysis (MPA) has proven to be effective in that respect. The Commission continues to use the results of the MPA model to monitor the evolution of emerging markets. While the MPA assists in identifying markets of promise, it does not determine appropriate investment levels. As a result, in 2005 a complementary model, the Market Investment Model (MIM) was created. MIM is a tool that would objectively distribute investment by market. While still in development, it is anticipated that this model will assist in the refinement of the Commission's 2007 resource allocation.

Table 7. Return on Investment for CTC Evaluated Marketing Campaigns ($M)

EVALUATED MARKETING CAMPAIGNS	INVESTMENT* ($M)	ECONOMIC IMPACT ($M)	ROI**
Canada 2005 Spring/Summer Campaign	5.5	102.6	19.1
U.S. Leisure 2005 Summer Campaign	7.0	159.4	23.1
Japan 2005 Fall Campaign	0.3	52.4	176.1

**includes CTC and partner investments.*

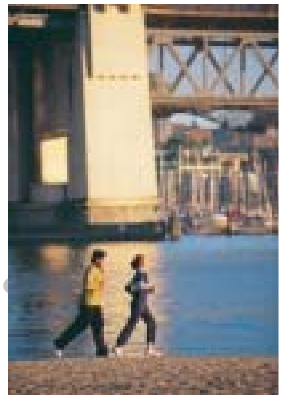
***Return on Investment (ROI): the return achieved for a specified investment in promotion and marketing.*

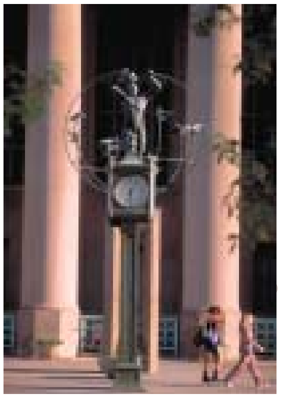
Photo credit:
1. OTMPC — Daniel Taub

Making Headlines

The CTC produces a number of communications products each year to keep industry members and other stakeholders informed of goings on at the CTC and throughout the tourism marketplace: *Tourism* daily (an email circular), *Tourism* online (published monthly) and the print edition of *Tourism* magazine, delivered by mail every two months. Satisfaction with all of these products was high in 2005. A survey of 250 readers found that 88 percent were pleased with the content and quality of the publications and 78 percent were satisfied with the coverage given to industry issues. Impressively, 50 percent of respondents regarded the *Tourism* publications as their main sources of information about CTC and the tourism industry. The survey also gives the CTC valuable ways to better serve the tourism industry. For example, in response to reader suggestions, *Tourism* will continue to provide more content for small- and medium-sized operators.

Photo credit:
1. Tourism Vancouver
2. Nova Scotia Tourism, Culture and Heritage
3. OTMPC





Report on Governance

'Corporate governance' describes the process and structure for overseeing the direction and management of a corporation so that it effectively fulfils its mandate and objectives. Good corporate governance can contribute to the corporation's achievement of both its public policy and commercial objectives.

Since its inception as a Crown corporation in January 2001, the Canadian Tourism Commission has put significant effort into developing and enhancing its governance structure.

Today's boards are not mere figureheads; they have prescribed obligations and responsibilities, many of which are enshrined in enabling legislation. According to the *CTC Act*, the Board is responsible for "the management of the businesses, activities and other affairs of the corporation." The Board is legally responsible for the performance of the corporation and for supervising management although management has the day-to-day presence in the corporation and thus the control of those operations. It, therefore, has the authority and responsibility to control and guide the corporation. To exercise its powers and fulfil its obligations the Board must establish the corporation's strategic direction; monitor performance; identify, address and mitigate principal risks; and report to the Crown.

Strategic Direction

The Board was actively involved in the establishment of the CTC's *strategic direction* for 2006-2010. The CTC's strategic planning cycle began in May 2005 with the annual Board strategic retreat to discuss future direction for the next five years, as well as the corporate plan and budgets. Consultations were held with CTC's senior management and the Chairs of the Working Committees during the development of the Strategic and Corporate plans and budgets.

Monitoring Performance

The development of accurate performance measures and tools for the CTC continues to be refined. The CTC's Corporate Plan 2006-2010 included a "performance dashboard" for all units.

Risk Assessment

The Board completed a comprehensive risk assessment management framework in 2004, and developed a risk assessment management plan. The framework addressed most risks that surfaced in 2005.

Reporting

The Chair of the Board and the President & CEO have the primary responsibility for communicating with the shareholder on behalf of the Board. The President & CEO has the primary responsibility for communicating with stakeholders. The Chair and the President & CEO had several meetings with the Minister of Industry and other government officials to discuss the CTC and the industry's performance, and other related issues.

The primary vehicles for reporting to the Crown are the annual report and the corporate plan.

Board Size and Composition

The Board consists of a maximum of 26 directors, including the Chairperson and the President & CEO.

The Minister with the approval of the Governor in Council and with advice from the Board's Nominating Committee appoints up to 16 private-sector directors (regional and national representation — see after).

Up to seven public-sector regional directors (territorial and provincial representation-see below) are appointed by the Minister, with the approval of the Governor in Council, among persons designated by the Provincial or Territorial Ministers responsible for tourism. Those ministers may designate deputy ministers, persons who are equivalent to deputy ministers or persons who are heads of provincial or territorial agencies responsible for tourism.

The Deputy Minister of Industry is an *ex officio* director.

The President & CEO and the Chairperson are appointed by the Governor in Council.

Private Sector - Regional

A total of up to seven directors are included in this category. They must be tourism operators, defined as an owner or manager of a private-sector tourism business.

Private Sector - National

A total of up to nine directors comprise this category. They must be tourism operators or people with the expertise required to satisfy the Board's needs. The director appointment requirements of the Act can be interpreted as follows:

<table>
<tr><th>Commission</th><th>Public Sector - Regional (Tourism Deputy Ministers or equivalent)</th><th>Private Sector - Regional (Tourism operators)</th><th>Private Sector - National (Tourism operators or persons with expert-ise required to satisfy the Board's needs)</th></tr>
<tr><td>Chairperson</td><td>Federal (ex officio) (DM Industry Canada)</td><td></td><td rowspan="7">9 directors</td></tr>
<tr><td rowspan="6">President & CEO</td><td>Ontario</td><td>Ontario</td></tr>
<tr><td>Quebec</td><td>Quebec</td></tr>
<tr><td>2 from Atlantic: NB/PEI/Nfld./NS</td><td>2 from Atlantic: NB/PEI/Nfld./NS</td></tr>
<tr><td>Manitoba /Saskatchewan</td><td>Manitoba /Saskatchewan</td></tr>
<tr><td>Alberta/NWT/Nunavut</td><td>Alberta/NWT/Nunavut</td></tr>
<tr><td>British Columbia /Yukon</td><td>British Columbia /Yukon</td></tr>
</table>

Photo credit:
1. Montréal — C. Parent, P. Lambert
2. Tourism Vancouver — Tom Ryan

There was one vacancy on the Board at the end of 2005. Six directors joined the Board during the year; three terms were not renewed.

Committees of the Board

There are four standing committees of the Board, established by the CTC Act:

- Executive Committee
- Nominating Committee
- Audit Committee
- Human Resources Committee

One additional committee, the Corporate Governance Committee, has the general responsibility for developing the corporate approach to governance issues. The committee is an arm of the Board, advising and supporting directors in applying the CTC's corporate governance principles.

The Board also created an *ad hoc* Small and Medium-Sized Enterprises (SME) Committee for a two-year term. In 2005, the Board extended the Committee's term for an additional year.

Meetings

In 2005, the Board met three times in person and four times by teleconference. Board meetings were held throughout Canada, giving Board members an opportunity to interact with local tourism industry stakeholders.

The Executive Committee met four times in person and three times by teleconference. All committees report their activities and decisions to the Board of Directors at each Board meeting.

Board Self-Assessment

The CTC continually strives to exceed stakeholder governance expectations by rigorously scrutinizing its performance in comparison to industry best practices.

For the fourth consecutive year, the CTC has conducted its 2004 survey of Board of Directors. As in previous years, the survey's intent was to gain a deeper understanding of Directors' view on overall board governance. To further that understanding, surveys assessing Board committee performance were also administered. All results were analyzed and recommendations developed with the overall goal of improving the Board's governance practices. The peer-to-peer assessment was not conducted. It will be reinstituted for the 2005 survey, which will be conducted in March 2006.

Board Education

The CTC has developed an orientation manual and program for new directors. In 2005, new and current directors were invited to an orientation session that covered their roles and responsibilities and an overview of the business of the corporation. All directors were also encouraged to attend the Treasury Board of Canada's sessions for directors.

Special Examination

During the past fiscal year, the Office of the Auditor General of Canada conducted its five-year Special Examination of CTC. This review is a legislated requirement and is a comprehensive audit to ensure that the CTC maintains financial and management control and information systems and management practices that provide reasonable assurance that: its assets are safeguarded and controlled; its financial, human, and physical resources are managed economically and efficiently; and its operations are carried out efficiently.

The period of review covers June 2005 to November 2005. The Office of the Auditor General of Canada will submit the final report to the Board in March 2006.

Working Committees

According to the CTC Bylaws, the Board may from time-to-time create working committees composed of such persons, as it may deem necessary to advise it on any matters pertaining to the affairs of the Commission. There are seven Working Committees. The large majority of the Working Committees are chaired by and comprised of tourism industry leaders and experts, ensuring that the CTC is truly 'industry-led'.

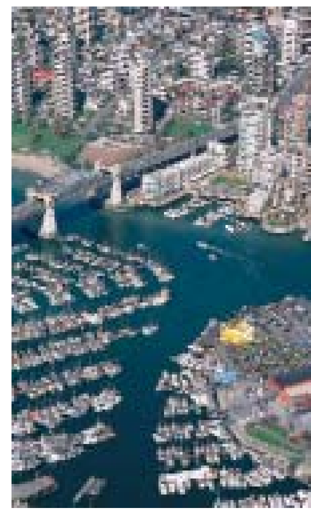


Photo credit:
1. Tourism Vancouver

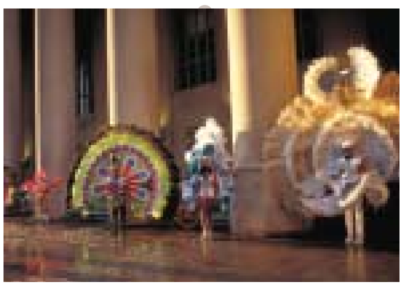


Photo credit:
1. Nova Scotia Tourism and culture
2. OTMPC — Pierre
3. Tourism Vancouver — Tom Ryan

Management Discussion and Analysis

This segment of the report deals with the Commissions' financial performance for the year ended December 31, 2005. The audited financial statements that follow are integral to this analysis, and should be read in conjunction with it.

Funding

The CTC is mainly funded through the receipt of appropriations from the Government of Canada. In 2005 the Commission received $78.8 million in appropriations. Additionally surplus funds carried over from 2004 added another $4.2 million to current year funding. These were appropriations received in 2004 but were deemed to be better invested in 2005 initiatives. Lastly the CTC also collected partnership revenues of $6.8 million.

Partnership Contributions

An underlying objective of the CTC is to match its funding with partnership contributions in order to support marketing initiatives. One way of achieving this is to work closely with the tourism sector, both public and private, to achieve maximum return on investment. This can happen in several ways. In some cases the CTC may lead the marketing or sales campaign and the partner will choose to invest by providing funds to the CTC to contribute to the cost of such campaigns. During 2005, this type of partnering generated $6.8 million in revenues. Equally, the CTC may choose to invest in partners' initiatives in which case the partner takes the lead in managing the campaign. Payments to partners for these types of initiatives totaled $33.2 million in 2005. A third type of partnership is commonly referred to as a parallel partnership. In order to achieve maximum impact the CTC has chosen, in some markets, to run parallel advertising with our partners. Through mutual agreement the CTC will first advertise the Canada brand and the partners will then follow such ads with their own directed campaigns. In these cases monies are therefore not forwarded to the CTC, but campaigns are funded directly by each partner. Parallel partnerships in 2005 totaled $27.2 million. Lastly the Commission also receives contributions in-kind. Such contributions can range from free airfare for media familiarization tours to unpaid advertising in TV programs. In-kind contributions in 2005 had a value of $19.3 million. Total partnership contributions in 2005 were $86.5 million compared to $95 million in 2004.

Expenditures

Given the mandate of the CTC, the majority of expenditures are committed to sales and marketing activities and operational costs. These totaled $72 million in 2005 and are consistent with the prior year's expenditures ($71.5 million).

Expenditures for Information Services and Research totaled $6.2 million in 2005 a slight increase from 2004 ($5.8 million). Included in these costs are expenditures for research, corporate communications, publishing and industry relations.

Costs incurred for Product Development and Planning totaled $2.6 million in 2005 ($3.7 miliion in 2004) and include costs for program evaluation, corporate planning and product development. Costs declined in 2005 due to budget cuts in this program area.

Corporate Services expenditures for 2005 were $17.2 million compared to $11.6 million in 2004. This significant increase can be attributed to costs of the relocation from Ottawa to Vancouver, which were $8.4 million. Corporate Services include costs for those functions that provide support to the operations of the CTC and include human resources, finance, information technology and corporate secretary.

Relocation

During 2005, the CTC was mandated to relocate its head office from Ottawa to Vancouver. The office in Vancouver officially opened on December 5, 2005. The Government approved $25 million in one-time funding to the CTC to both pay for the relocation and to invest monies into marketing programs. It is currently expected that the cost of the move will be in the range of $14 million. Although the majority of costs have been incurred, costs will continue for the next several years. The full staff complement has not yet been achieved and the office renovation will be finalized during 2006. Costs incurred during 2005 included a variety of elements. Costs of $1.3 million resulted from the relocation of staff from Ottawa to Vancouver. Severance payments for staff choosing not to relocate were $2.6 million in 2005. Costs for transition including recruitment costs for new staff and temporary staff totaled $3.6 million. Lastly, the cost of the Vancouver office renovation and move were $905,000.

Although approval of the $25 million was given by Government, funds were not received in 2005 due to the dissolution of Parliament in November, 2005. However these funds will be received in 2006.

Employee Future Benefits

Effective January 2, 2004, the Commission was required to establish pension and benefit plans for its employees. Previous to this, employees participated in the pension and benefit plans of the Government of Canada.

Employee future benefits provided by the Commission include several domestic and foreign-funded and unfunded pension plans as well as various other post-retirement and post-employment benefit plans.

Funded plans are plans for which segregated plan assets are invested in trusts. These plans can be in an over or under-funded position, depending on various factors such as investment returns. The funded plans consist of pension plans mainly located in Canada, the United States and the United Kingdom. It should be noted that for plans in the United States and the United Kingdom the Commission is not the only participant employer and that the assets cannot be allocated among participating employers. As such, these plans are therefore deemed ‘multi-employer’ plans for purposes of CICA Handbook section 3461 and are accounted for as defined benefit plans.

For the funded plans, employer cash contributions are determined in accordance with the regulatory requirements of each local jurisdiction.

Unfunded plans are plans for which there are no segregated plan assets. The employer cash requirement for these plans corresponds to the benefit payment to be made by the plans. The post-retirement and post-employment benefits plans in Canada and abroad, as well as pension plans for employees in Germany, Japan, South Korea and China are unfunded plans.

The Commission uses as a measurement date September 30th preceding the fiscal year end for accounting purposes.

The determination of obligations under our pension and other post retirement and post employment benefit plans, and the related expense, are actuarially determined using the projected-benefit method, and require the use of actuarial valuation methods and assumptions. Assumptions typically used in determining these amounts include, as applicable, mortality rates, rate of employee turnover, retirement age, per capita claims costs, discount rates, future salary and benefit levels, return on plan assets, and future medical costs.

The fair value of plan assets is determined using market values or approximations of market values where market values are not readily available.

Actuarial valuations and the determination of certain market value approximations are based on management’s best-estimate assumptions. As a result, the prepaid benefit

Photo credit — pages 36 and 37:
OTMPC — R. Moreno

asset (obligation) and the pension and other benefit expense may differ significantly if different assumptions were used.

Upon the establishment of certain post-retirement plans as at January 2, 2004 (post retirement health, dental and life insurance benefits), a past service cost arose. The Commission has elected to amortize this amount over the expected average remaining life period of the employee group to the full eligilibility.

In order to reduce year-to-year volatility of the pension and benefit expense, changes in these assumptions result in actuarial gains or losses which in accordance with CICA Handbook Section 3461, the Commission has elected to amortize over the expected average remaining service life of the employee group covered by the plans only to the extent that the unrecognized net actuarial gains and losses are in excess of 10 percent of the greater of the beginning of the year balances of the projected benefit obligations and the market related value of plan assets.

Several changes took place in 2005 that impacted the benefit plans. The registered pension plan for the Canadian employees of the CTC was amended effective August 1, 2005 to add a defined contribution component and to close the existing defined benefit component to new salaried (non-unionized) staff. Currently all non-unionized staff hired after August 1, 2005 are members of this plan. The plan was also amended to incorporate an early retirement incentive program to members who met certain age and service eligibility requirements during the period from May 1, 2005 to December 31, 2005.

As a result of these amendments, an actuarial valuation for funding purposes of the Canadian registered defined benefit pension plan was done as of May 1, 2005. The going concern financial position as at May 1, 2005 shows an unfunded liability of $819,100. Annual payments to fund this liability of $85,200 are required to be made over the next 15 years. The valuation also identified a solvency deficiency of $3.5million. The Commission is required to make special payments of $809,600 annually for the next five years to eliminate this deficiency. The next valuation will be done no later than May 1, 2006.

The Audit Committee, along with one member of the HR committee of the Board, have been tasked with pension plan governance and held two meetings in 2005.

Audit

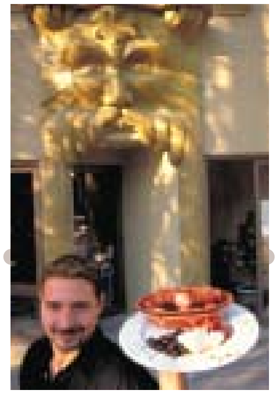
The Commission, with approval from the Audit Committee of the Board, engaged an internal auditor several years ago. The auditor continues work with management in determining potential operational areas of risk which require examination. The auditor reports to the Audit committee and is directed by them in the work he carries out.

During 2005 the Commission underwent a Special Examination by the Office of the Auditor General. This is a requirement of the Financial Administration Act and must be completed once every five years. Hence this is the first such audit for the CTC. The report has been accepted by the Board of Directors and recommendations will be implemented in 2006.

Risk

The CTC has in place an enterprise risk management strategy. A comprehensive process was implemented to identify and assess risks in order to determine the necessary steps to manage and monitor the key risks identified. Although the Audit Committee has ultimate responsibility for ensuring a risk-management strategy is in place, the ongoing strategic planning cycle will ensure the Board of Directors are kept apprised of key risks and that these are considered in the development of the annual strategic plan.

Photo credit:
1. CCVB — Greg Fulmes
2. Tourism Vancouver
3. OTMPC — Speed



Management Responsibility Statement

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

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

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

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

Michele McKenzie
President
and Chief Financial Officer

Karin Zabel
Vice President Finance
and Chief Financial Officer

Auditor General of Canada
Vérificatrice générale du Canada

AUDITOR'S REPORT

To the Minister of Industry

I have audited the balance sheet of the Canadian Tourism Commission as at December 31, 2005 and the statements of operations and accumulated deficit of Canada and cash flows for the year then ended. These financial statements are the responsibility of the Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Commission as at December 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

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

Douglas Timmins

Douglas G. Timmins, CA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada
March 3, 2006

Financial Statements

Canadian Tourism Commission
Balance Sheet
As at December 31
(in thousands)

	2005	2004
Assets		
Current Assets		
Cash	$ 14,041	$ 40,752
Accounts receivable		
Parliamentary appropriations (note 4)	6,772	-
Partnership contributions	1,592	3,058
Government of Canada	1,573	1,594
Other	192	118
Prepaid expenses and other assets	1,760	1,403
	25,930	46,925
Capital assets (note 3)	4,284	4,410
	$ 30,214	**$ 51,335**
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities		
Trade	$ 19,048	$ 15,418
Employee compensation	3,056	2,171
Government of Canada	1,057	834
Deferred parliamentary appropriations (note 4)	-	26,623
Deferred revenue	881	60
	24,042	45,106
Deferred capital funding (note 5)	4,353	4,410
Accrued benefit liability (note 6)	4,552	3,702
	8,905	8,112
Accumulated deficit of Canada (note 7)	(2,733)	(1,883)
	$ 30,214	**$ 51,335**

Commitments and contingencies (notes 9 & 10)
The accompanying notes form an integral part of the financial statements

Approved on behalf of the Board of Directors:

The Honourable Charles Lapointe, PC
Chairman

Daniel Jarvis
Chairman of the Audit Committee

Canadian Tourism Commission
Statement of operations and accumulated deficit of Canada
For the year ended December 31
(in thousands)

	2005	2004
Revenue		
Partnership contributions	$ 6,786	$ 9,319
Other	334	518
	7,120	9,837
Expenses		
Marketing and sales (note 8)	72,019	71,558
Corporate services (note 13)	17,224	11,621
Information services and research	6,252	5,877
Product development and planning	2,642	3,703
Amortization of capital assets	1,698	1,860
	99,835	94,619
Net cost of operations	(92,715)	(84,782)
Parliamentary appropriations (note 4)	90,167	82,206
Amortization of deferred capital funding (note 5)	1,698	1,860
	91,865	84,066
Net results of operations for the year	(850)	(716)
Accumulated deficit of Canada, beginning of year	(1,883)	(1,167)
Accumulated deficit of Canada, end of year	**$ (2,733)**	**$ (1,883)**

The accompanying notes form an integral part of the financial statements

Canadian Tourism Commission
Statement of cash flows
For the year ended December 31
(in thousands)

	2005	2004
Operating activities		
Net results of operations	$ (850)	$ (716)
Items not affecting cash		
Amortization of capital assets	1,698	1,860
Amortization of deferred capital funding (note 5)	(1,698)	(1,860)
Changes in non cash working capital	(26,783)	30,697
Services provided without charge	-	326
Change in accrued benefit liability	850	390
Cash provided by (used in) operations	(26,783)	30,697
Investing activities		
Acquisition of capital assets	(1,642)	(2,315)
Financing activities		
Parliamentary appropriations used for the acquisition of capital assets (note 5)	1,642	2,315
Effect of exchange rate changes on cash and cash equivalents	72	217
Increase (decrease) in cash for the year	(26,711)	30,914
Cash, beginning of year	40,752	9,838
Cash, end of year	**$ 14,041**	**$ 40,752**

The accompanying notes form an integral part of the financial statements

Canadian Tourism Commission
Notes to Financial Statements as at December 31, 2005

1. Authority and objectives

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

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

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

2. Significant accounting policies

These financial statements are prepared in accordance with Canadian generally accepted accounting principles. A summary of significant policies follows:

a) Parliamentary appropriations

The Commission is mainly financed by the Government of Canada through parliamentary appropriations. Parliamentary appropriations used to fund operations are recognized in the year in which the related expenditures are incurred.

Appropriations used for acquiring depreciable capital assets are recorded as deferred capital funding on the balance sheet and amortized on the same basis and over the same periods as the related capital assets. Upon disposition of funded depreciable capital assets, the Commission recognizes in income all remaining deferred capital funding related to these capital assets.

As a result of the Commission's year-end (December 31) being different than the Government's (March 31), the Commission will normally have either a parliamentary appropriations receivable balance or a deferred parliamentary appropriations balance at year-end.

b) Partnership contributions

The Commission conducts marketing activities in partnership with a variety of Canadian and foreign organizations. Where the Commission assumes the financial risks of conducting a marketing activity, partnership contributions are recognized as income when the marketing activity takes place. Partnership contributions received for which the related costs have yet to be incurred are shown as deferred revenue.

c) Other revenues

Other revenues mainly consist of miscellaneous revenue and interest.

d) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the year-end exchange rates. Revenue and expense items are translated during the year at the exchange rate on the date of the transaction. Translation gains and losses are included in income for the year. The Commission does not hedge against foreign currency fluctuations.

e) Capital assets

Capital assets are recorded at cost and amortized on the straight-line basis over the estimated useful life of the assets as follows:

Leasehold improvements	Remaining term of lease
Office furniture	5 years
Computer equipment and software	3 and 5 years

Capital assets transferred to the Commission as at January 2, 2001 are recorded at their historical cost, less accumulated amortization, in accordance with the above rates.

f) Employee future benefits

The Commission offers a number of funded and unfunded defined benefit pension plans, unfunded defined benefit plans (which include post-employment benefits and post-retirement benefits) as well as defined contribution pension plans that provide pension and other benefits to qualified employees. The pension plans include statutory plans and a supplemental plan. Other benefit plans include post-employment severance benefits and post- retirement health, dental and life insurance benefits. The defined benefit pension plans provide benefits based on years of service and average earnings at retirement. The Commission funds certain pension plans annually based on actuarially determined amounts needed to satisfy employee future benefit entitlements under current benefit regulations. Cost of living adjustments are automatically provided for retirees in accordance with the Consumer Price Index increases.

The costs and obligations of the defined benefit plans are actuarially determined using the projected benefit method prorated on service and management's best estimate of mortality rates, rate of employee turnover, retirement age, per capita claims costs, future salary and benefit levels, return on plan assets and future medical costs.

For the purposes of calculating the expected return on plan assets, those assets are valued at fair value.

Past service costs arising from plan amendments are deferred and amortized at the date of plan amendments on a straight-line basis over the expected average remaining service lifetime (EARSL) to full eligibility of active employees, which has been determined to be 15 years (12 in 2004) for the Supplementary Retirement Plan (SRP), 31 years for the Registered Retirement Plan (RPP) and 18 years (13 in 2004) for non-pension post-retirement benefits.

The excess of the net accumulated actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the EARSL of active employees. This EARSL has been determined to be 15 years (18 in 2004) for the RPP, 15 years (12 in 2004) for the SRP and 16 years (15 in 2004) for the Pension Plan for Employees of the Canadian Tourism Commission in Germany, Japan, South Korea and China, 18 years for non-pension post-retirement benefits and 9 years for severance benefits.

In the case where the benefit plans are impacted by both a curtailment and a settlement, the curtailment is taken into consideration first in calculating the accrued benefit obligations of the plans.

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

g) Accounting estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the amounts of income and expense during the reporting periods. Actual results could differ significantly from those estimates. The most significant estimates involve the determination of employee future benefits.

3. Capital assets

	Cost	Accumulated Amortization	December 31, 2005 Net Book Value	December 31, 2004 Net Book Value
	(in thousands)			
Leasehold improvements	$ 2,676	$ 729	$ 1,946	$ 1,285
Office Furniture	1,503	554	949	610
Computer equipment & software	6,645	5,256	1,389	2,515
Total	**$ 10,824**	**$ 6,539**	**$ 4,284**	**$ 4,410**

4. Parliamentary appropriations

As a result of the Commission's year-end (December 31) being different than the Government's (March 31), the Commission will normally have either a parliamentary appropriations receivable balance or a deferred parliamentary appropriations balance at year-end. The schedule below reconciles the amount of funding available to the Commission during the year with the amount actually used in operations.

	2005	2004
	(in thousands)	
Amount provided for operating and Capital Expenditures:		
Amounts voted in 2004-05 (2003-04)		
Main estimates	$ 78,823	$ 83,800
Supplementary estimates A	-	12,500
Supplementary estimates B	-	4,000
	78,823	100,300
Less: Portion recognized in Calendar 2005 (2004)	(52,136)	(67,915)
	26,687	**32,385**
Amounts voted in 2005-06 (2004-05)		
Main estimates	78,823	78,823
Less: Portion to be recognized in Calendar 2006 (2005)	(20,473)	(64)
Parliamentary appropriations receivable (deferred) at year end	6,772	(26,623)
	65,122	**52,136**
	91,809	**84,521**
Amounts used to purchase capital assets	(1,642)	(2,315)
Parliamentary appropriations used for operations and relocation, in the year	**$ 90,167**	**$ 82,206**

5. Deferred capital funding

Deferred capital funding represents the unamortized portion of parliamentary appropriations and other funding received to purchase depreciable capital assets.

Changes in the deferred funding balance are as follows:

	2005	2004
	(in thousands)	
Balance, beginning of year		
Parliamentary appropriations	$ 3,784	$ 3,245
Funding from related party	626	710
	4,410	**3,955**
Funding used in the current year for the acquisition of capital assets		
Parliamentary appropriations	1,642	2,315
Amortization		
Parliamentary appropriations	(1,615)	(1,776)
Funding from related party	(84)	(84)
	(1,698)	**(1,860)**
Balance, end of year		
Parliamentary appropriations	3,811	3,784
Funding from related party	542	626
	$ 4,353	**$ 4,410**

6. Accrued benefit liability

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

Employees Covered	Name of the Plan	Nature of the Plan	Contri-butors	Accounting Treatment
Canada	Registered Pension Plan for the Employees of the Canadian Tourism Commission - Defined Benefit component	Funded, Defined Benefit Plan	CTC and plan members	Defined Benefit Plan
	Registered Pension Plan for the Employees of the Canadian Tourism Commission - 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 Canadian Tourism Commission	Partly funded, Defined Benefit Plan	CTC and plan members	Defined Benefit Plan
	Non-Pension Post-Retirement Benefit Plan for Canadian Employees	Unfunded, Defined Benefit Plan	CTC and plan members	Defined Benefit Plan
Germany, Japan, South Korea, & China	Pension Plan for Employees of the CTC in Germany, Japan, South Korea & China	Unfunded, Defined Benefit Plan	CTC and the Government of Canada	Defined Benefit Plan
United States	Qualified Pension Plan for U.S. Citizen Employees Working in the U.S.	Funded Multi-employer Defined Benefit Plan	CTC	Defined Contribution Plan
	Registered Pension Plan for Canadian Citizen Employees Working in the U.S.	Funded Multi-employer Defined Benefit Plan	CTC	Defined Contribution Plan
United Kingdom	Canadian High Commission Locally Engaged Staff Pension Scheme	Funded Multi-employer Defined Benefit Plan	CTC	Defined Contribution Plan
Australia	Hospitality and Tourism Industry Defined Contribution Pension Arrangement	Defined Contribution Plan	CTC	Defined Contribution Plan
All Employees	Severance Benefits for Canadian and Locally Engaged Employees	Unfunded, Defined Benefit Plan	CTC	Defined Benefit Plan

Defined contribution plans

The Commission has established a defined contribution pension plan for non-unionized employees in Canada, hired on or after August 1, 2005. Employees in Australia participate in the Hospitality and Tourism Industry defined contribution pension arrangement, to which the Commission is required to contribute.

The total cost for the Commission's defined contribution pension plans is $49,621 in 2005 ($28,844 in 2004).

The Commission also participates in multi-employer defined benefit plans providing pension benefits to employees working in the United States and in the United Kingdom. These plans, to which contributions totaled $201,380 in 2005 ($242,738 in 2004) are accounted for as defined contribution plans.

Defined benefit plans

Canada

The Commission 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 Commission 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 Commission and from the members. In accordance with pension legislation, the Commission 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 pension plan liabilities arising on and after January 2, 2004 are funded on a pay as you go basis.

The registered defined benefit pension plan was amended effective May 1, 2005 to incorporate an early retirement incentive program to members who met certain age and service eligibility requirements during a fixed period from May 1, 2005 to December 31, 2005. Effective August 1, 2005, the CTC amended the plan to establish a defined contribution component and to close the existing defined benefit component to new salaried (non-unionized) members.

Post-retirement benefits include health, dental and life insurance benefits. The cost of these benefits is paid for by the Commission and the retirees. These benefits are unfunded.

A severance benefits plan is provided for current employees. This plan is unfunded and the cost of the benefits is fully payable by the Commission.

As a result of the move of the Commission's headquarters to Vancouver, several employees have decided to terminate their employment. The curtailment effect related to these terminations has been reflected in the accrued benefit obligation at the end of the measurement period.

Abroad

The Commission has a number of defined benefit plans for its locally engaged staff outside of Canada, which provide pension and severance benefits. The Commission provides retirement benefits based on employees' years of service and average earnings at the time of retirement. In the United States and in the United Kingdom, the plans are funded by contributions from the Commission. In accordance with pension legislation, the Commission contributes amounts determined on an actuarial basis to the plan and has the ultimate responsibility for ensuring that the liabilities of the plan (as they pertain to its employees) are adequately funded over time. In China, Germany, Japan and South Korea, the plan is unfunded. The Commission is only responsible for the service accruing on and after January 2, 2001.

Severance benefits are provided for current employees living abroad. The cost of the benefits is fully paid by the Commission. These plans are unfunded.

Effective January 1, 2005 the Commission no longer maintains an office in Italy and Taiwan. The curtailment and settlement effects related to these office closures have been reflected in the measurement period.

Measurement date and date of actuarial valuation

The Commission measures its accrued benefit obligations and the fair value of plan assets of its pension plans for accounting purposes as at September 30th of each year. The most recent actuarial valuation of the Canadian registered defined benefit pension plan for funding purposes was as of May 1, 2005, and the next required valuation will be as of the date of the last transfer of assets from the Public Service Pension Plan or no later than May 1, 2006. The going concern financial position as at May 1, 2005 shows an unfunded liability of $819,100. The required payments to fund this unfunded liability are $85,200 annually for the next 15 years. The valuation also identified a solvency deficiency of $3,570,600 and a solvency ratio of 78%. Due to the solvency ratio being less than 100%, the Commission is required to make special payments of $809,600 annually for the next 5 years in order to eliminate this deficiency.

Accrued benefit obligation, plan assets, and funded status:

Change in Accrued Benefit Obligation	Pension		Other Benefit Plans	
	2005	2004	2005	2004
Accrued benefit obligation, beginning of year	$ 15,391,500	$ 401,800	$ 4,100,400	$ 3,200,000
Actuarial loss (gain) due to remeasurement	-	-	(28,200)	-
Remeasured Accrued benefit obligation at beginning of the year	**$ 15,391,500**	**$ 401,800**	**$ 4,072,200**	**$ 3,200,000**
Current service cost	1,036,800	930,300	313,800	314,400
Interest cost	1,054,500	691,300	219,900	215,200
Employees' contributions	308,600	224,400	-	-
Benefits paid	(219,000)	(56,300)	(611,000)	(197,900)
Actuarial loss (gain)	2,506,900	-	(748,600)	39,700
Past service cost	876,300[1]	(600,000)[2]	-	529,000[3]
Increase (decrease) in accrued benefit obligation due to curtailments	(277,800)	-	(790,200)	
Reduction in accrued benefit obligation due to settlement	(40,600)	-	-	
Net transfer in (out)	-	13,800,000	-	-
Accrued benefit obligation, end of year	**$ 20,637,200**	**$15,391,500**	**$ 2,456,100**	**$ 4,100,400**

[1] This past service cost is due to the early retirement incentive program (ERIP) amendment at May 1, 2005.

[2] This negative past service cost is the result of the estimated SRP assets transfer from the Government of Canada being greater than the estimated SRP liabilities to be transferred.

[3] This past service cost is due to plan initiation.

The effect on the accrued benefit obligation at the end of the year of a one-percentage point increase in the assumed health care cost trend rate would be $107,600 ($112,000 in 2004) and a one-percentage point decrease would be $83,200 ($82,900 in 2004).

The accrued benefit obligation at the end of 2005 related to the Registered Pension Plan, the Supplementary Pension Plan and the Pension Plan for Employees of the Canadian Tourism Commission in China, Germany, Japan and South Korea exceeds the plan assets. In 2004 the accrued benefit obligation also exceeded plan assets for all plans, except for the Supplementary Retirement Plan.

The accrued benefit obligation and fair value of assets at year end are the following amounts in respect of plans that are either unfunded or not fully funded:

	Pension		Other Benefit Plans	
	2005	2004	2005	2004
Accrued Benefit Obligation	**$ 20,637,200**	**$ 14,819,700**	**$ 2,456,100**	**$ 4,100,400**
Fair value of plan assets	15,738,200	14,099,300	-	-
Funded status - plan (deficit)	**$ (4,899,000)**	**$ (720,400)**	**$ (2,456,100)**	**$ (4,100,400)**

Change in Plan Assets

	Pension		Other Benefit Plans	
	2005	2004	2005	2004
Fair value of plan assets, beginning of year	**$ 15,226,900**	**$ -**	**$ -**	**$ -**
Actual return on plan assets	(386,900)	653,500	-	-
Employer contributions	849,200	605,300	611,000	(197,900)
Employees' contributions	308,600	224,400	-	-
Benefits paid	(219,000)	(56,300)	(611,000)	197,900
Settlements	(40,600)	-	-	-
Net transfer in (out)	-	13,800,000	-	-
Fair value of plan assets, end of year	**$ 15,738,200**	**$15,226,900**	**$ -**	**$ -**

The Commission was required, by legislation, to exit the pension and benefit plans of the Government of Canada with respect to its Canadian employees as at January 1, 2004. New plans established replicate the plans and benefits previously provided by the Government. On November 16, 2004, the Commission signed a Pension Transfer Agreement with the Government of Canada that provided employees with a one time option of transferring their past service from the Public Service Pension Plan (PSPP) and the Retired Compensation Arrangement (RCA) to the new plans, or to leave them with the Government plans until retirement. With respect to members who elected to transfer past service, a transfer of assets from PSPP and RCA to the new plans will be made. A partial transfer of $5.5 million was made during 2005 and the balance of funds remains receivable. The amount of transfer has been recognized on an estimated basis at September 30, 2005.

Reconciliation of Funded Status to accrued benefit asset (Liability)	**Pension**		**Other Benefit Plans**	
	2005	**2004**	**2005**	**2004**
(Deficit) excess, end of year	**$ (4,890,000)**	**$ (164,600)**	**$ (2,456,100)**	**$ (4,100,400)**
Employer contributions during period from measurement date to fiscal year end	360,600	350,217	-	165,943
Unamortized past service costs	(357,100)	(562,700)	96,800	498,500
Unamortized net actuarial loss (gain)	3,684,600	23,300	(982,000)	88,000
Accrued benefit asset (liability)	**$ (1,210,900)**	**$ (353,783)**	**$ (3,341,300)**	**$ (3,347,957)**

The cumulative excess of pension cost over pension fund contributions is reported as accrued pension benefit cost in Accrued benefit liability. In addition, other post-retirement and post- employment benefits are also reported in *Accrued benefit liability*.

Net benefit cost (income) recognized in the period:

Components of Net Periodic Benefit Cost	Pension		Other Benefit Plans	
	2005	2004	2005	2004
Current service cost, net of employees' contributions	$ 1,036,800	$ 930,300	$ 313,800	$ 314,400
Interest cost	1,054,500	691,300	219,900	215,200
Actual return on plan assets	386,900	(653,500)	-	-
Actuarial loss (gain)	2,506,900	-	(776,800)	39,700
Past service costs	876,300[4]	(600,000)[4]	-	529,000[4]
Curtailment loss (gain)	686,800	-	(136,000)	-
Settlement loss (gain)	(2,900)	-	-	-
Costs arising in the period	**$ 6,545,300**	**$ 368,100**	**$ (379,100)**	**$ 1,098,300**
Differences between costs arising in the period and costs recognized in the period in respect of:				
• Return on plan assets	(1,407,000)	(33,100)	-	-
• Actuarial loss (gain)	(2,506,900)	-	776,800	(39,700)
• Past service costs	(914,500)	562,700	-	-
• Plan amendments	-	-	40,700	(498,500)
Net periodic benefit cost recognized	**$ 1,716,900**	**$ 897,700**	**$ 438,400**	**$ 560,100**

[4] Please see previous footnotes on page 51

Significant actuarial assumptions used are as follows (weighted average):

	Pension		Other Benefit Plans	
	2005	2004	2005	2004
Accrued benefit obligation, end of year:				
Discount rate	5.10%	6.50%		
• Non-pension post retirement			5.25%	6.50%
• Post employment severance			4.75%	5.50%
Rate of compensation increase				
• Canadian	4.50%	4.75%	4.50%	4.75%
• Locally engaged	4.50%	4.50%	4.50%	4.50%
Net benefit cost, beginning of year:				
Discount rate	6.50%	6.50%		
• Non-pension post retirement			6.50%	6.50%
• Post employment Severance				5.50%
Before Curtailment			5.50%	
After Curtailment			5.25%	
Expected long term rate of return on plan assets	6.50%	6.50%	n/a	n/a
Rate of compensation increase				
• Canadian	4.75%	4.75%	4.50%	4.75%
• Locally engaged	4.50%	4.50%	4.50%	4.50%

Assumed health care cost trend rate:

	Pension		Other Benefit Plans	
	2005	2004	2005	2004
Initial health care trend rate	n/a	n/a	8.32%	8.81%
Ultimate health care trend rate	n/a	n/a	4.75%	4.75%
Year ultimate rate reached	n/a	n/a	2013	2013

Total cash payments

Total cash payments for employee future benefits, consisting of cash contributed by the Commission to its funded and unfunded defined benefit pension plans, cash payments directly to beneficiaries for its unfunded other benefit plans, cash contributed to its defined contribution plans and cash contributed to its multi-employer defined benefit plan is $1.5 million ($1.4 million in 2004).

Locations without separate pension plans

The Commission contributes only to a national pension scheme in France and an insured pension plan in Mexico. There is no separate pension plan established by the CTC. Upon retirement, the national pension scheme or the insurer, and not the employer, is liable to pay the benefits. Therefore the only cost of the employer is its contribution, which is recognized as a cost in the year contributions are due.

7. Accumulated deficit of Canada

As indicated in Note 1, on January 2, 2001 the Canadian Tourism Commission became a Crown Corporation and all assets and liabilities of the Commission as a Special Operating Agency of the Department of Industry were transferred to the Commission. The net book value of the elements transferred was then credited to the accumulated deficit of Canada.

The accumulated deficit of Canada represents liabilities incurred by the Commission, net of deferred capital funding, that have not yet been funded through parliamentary appropriations. A significant component of this amount is for employee future benefits that will be funded only at the time the related benefits are paid by the Commission.

8. Marketing and sales expenses

The commission carries out marketing and sales activities in a variety of countries around the world. Expenses have been incurred in these regions as follows:

	2005	2004
	(in thousands)	
U.S.	$ 29,577	$ 28,535
International (Europe, Latin America, Asia-Pacific)	29,891	31,264
Corporate Marketing	8,800	2,834
Canada	3,751	8,925
	$ 72,019	**$ 71,558**

9. Commitments

The Commission has entered into various agreements for services and leases for office premises and equipment in Canada and abroad. The total commitments of the Commission as at December 31, 2005 are $26.6 million ($22.0 million in 2004).

The future minimum lease payments for office premises and equipment pursuant to these agreements are approximately as follows (in thousands):

2006	2007	2008	2009	2010	Sub-total	2011-2015	Total
$ 2,324	$ 2,284	$ 1,970	$ 1,705	$ 1,608	$ 9,891	$ 4,787	**$ 14,678**

10. Contingencies

In the normal course of business, various claims and lawsuits have been brought against the Commission. In the opinion of management, losses, which may result from the settlement of the matters, are not determinable, and accordingly, no provision has been made in the accounts of the Commission. In the event management concludes that such losses were likely to be incurred and the costs were estimable, they would be charged to expenses.

11. Related party transactions

The Commission is related in terms of common ownership to all Government of Canada departments, agencies and Crown corporations and is primarily financed by the Parliament of Canada.

In the normal course of business and on normal trade terms applicable to all individuals and enterprises, the Commission incurred expenses totaling $2.6 million ($6.7 million in 2004) for services purchased and rental of space from other government departments and agencies, and received partnership and other contributions totaling $1.1 million ($1.0 million in 2004) for capital asset acquisitions and services rendered to other departments and agencies.

12. Financial instruments

The Commission's financial instruments consist of cash held in a general bank account, accounts receivable, accounts payable and accrued liabilities, which are incurred in the normal course of business. It is management's opinion that the Commission is not exposed to significant interest, currency or credit risk arising from these financial instruments. The carrying amounts of accounts receivable, accounts payable and accrued liabilities approximate their fair value because of their short-term maturity. There is no concentration of accounts receivable and, therefore, there is no significant credit risk.

13. Head office relocation

As a result of a decision made by the Government of Canada, the Commission relocated its head office from Ottawa to Vancouver effective December 5, 2005. In October 2005, Treasury Board approved the inclusion of an amount of $25 million in the 2005-06 Supplementary Estimates A to pay for the office relocation and to invest any remaining funds in marketing programs. However, due to the dissolution of Parliament on November 29, 2005, these funds will be received in 2006 through Special Warrants and the reprofiling of Main Estimates.

As at December 31, 2005, the Commission incurred costs of $8.4 million related to the move. Costs consisted of $1.3 million for relocation costs of staff moving from Ottawa, $2.6 million in severance payments to staff not relocating, $3.6 million for human resource transition costs, and $905,000 for the office renovation and move.

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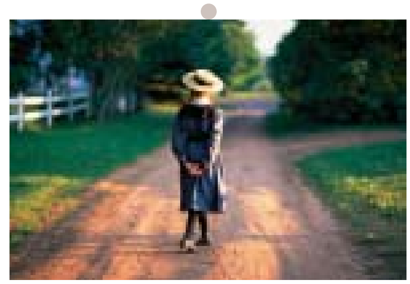

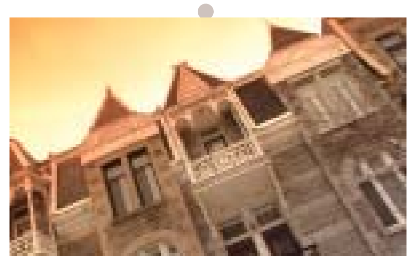

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