

CANADIAN MUSEUM OF NATURE

QUARTERLY FINANCIAL REPORT

(Unaudited)

For the three month period
ended June 30, 2012

Canada



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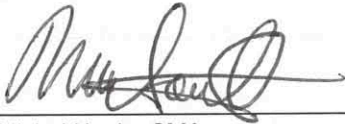
STATEMENT OF MANAGEMENT RESPONSIBILITY BY SENIOR OFFICIALS

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

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



Margaret Beckel
President and Chief Executive Officer



Michel Houle, CMA
Vice President, Corporate Services
and Chief Financial Officer

Ottawa, Canada
August 08, 2012

FINANCIAL STATEMENTS

**Statement of Financial Position
as at June 30, 2012
(Unaudited)**

<i>(in thousands of dollars)</i>	at June 30 2012	at June 30 2011	at March 31 2012
Assets			
Current			
Cash and cash equivalents	11,568	14,195	12,267
Accounts receivable			
Trade	382	209	223
Government departments and agencies	556	176	356
Prepaid expenses	914	501	1,717
	13,420	15,081	14,563
Restricted cash, cash equivalents and receivables	2,082	1,756	2,076
Collections	1	1	1
Capital assets (note 3)	204,445	209,178	205,565
	219,948	226,016	222,205
Liabilities			
Current			
Accounts payable and accrued liabilities			
Trade	1,766	1,991	3,056
Government departments and agencies	411	455	114
Current portion - obligation under capital lease (note 4)	546	495	532
Deferred revenues, contributions and parliamentary appropriations (note 5)	9,238	8,791	8,790
Employee future benefits	2,073	710	1,883
	14,034	12,442	14,375
Obligation under capital lease (note 4)	29,448	29,994	29,590
Deferred capital funding (note 6)	184,706	188,435	185,575
Employee future benefits	3,129	3,752	3,320
	231,317	234,623	232,860
Accumulated Deficit			
Unrestricted	(1,419)	834	(828)
Endowment (note 7)	305	305	305
Investment in capital assets (note 8)	(10,255)	(9,746)	(10,132)
	(11,369)	(8,607)	(10,655)
	219,948	226,016	222,205

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

**Statement of Operations
for the period ended June 30, 2012
(Unaudited)**

<i>(in thousands of dollars)</i>	June 2012	June 2011	March 2012
Revenue			
Commercial operations (note 10)	974	703	3,361
Contributions	401	81	634
Educational programmes	68	52	353
Interest	36	41	154
Scientific services	12	12	191
Other	14	22	30
	1,493	911	4,723
Expenses (note 12)			
Public education programmes	2,467	1,935	6,713
Collection management	480	502	2,131
Research	974	941	4,421
Internal services	1,944	1,723	7,927
Accommodation	4,731	4,725	19,475
	10,596	9,826	40,667
Net result of operations before government funding	(9,103)	(8,915)	(35,944)
Parliamentary appropriations (note 9)	8,389	8,211	33,194
Net result of operations	(714)	(704)	(2,750)

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

**Statement of Changes in Accumulated Deficit
for the period ended June 30, 2012
(Unaudited)**

<i>(in thousands of dollars)</i>	Unrestricted	Endowment	Invested in capital assets	June 2012	June 2011	March 2012
Accumulated Deficit, beginning of year	(828)	305	(10,132)	(10,655)	(7,903)	(7,905)
Net result of operations	(714)			(714)	(704)	(2,750)
Net change in investment in capital assets (note 8)	123		(123)			
Accumulated Deficit, end of period	(1 419)	305	(10,255)	(11,369)	(8,607)	(10,655)

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

A statement of remeasurement gains and losses has been excluded as there have been no remeasurement gains or losses.

FINANCIAL STATEMENTS

Statement of Cash Flows for the period ended June 30, 2012 (Unaudited)

<i>(in thousands of dollars)</i>	June 2012	June 2011	March 2012
Operating activities			
Cash receipts - customers	750	1,081	6,904
Cash receipts - parliamentary appropriations	7,671	7,245	25,114
Cash disbursements - employees	(3,740)	(3,668)	(16,133)
Cash disbursements - suppliers	(4,531)	(3,712)	(14,037)
Interest received	32	57	173
Interest paid	(747)	(759)	(3,018)
Cash provided by (used in) operating activities	(565)	244	(997)
Capital activities			
Acquisition of capital assets	(650)	(21)	(1,951)
Appropriations used to purchase depreciable capital assets	650	21	1,951
Cash provided by (used in) capital activities			
Investing activities			
Decrease (increase) in restricted cash, cash equivalents and receivables	(6)	48	(272)
Cash provided by (used in) investing activities	(6)	48	(272)
Financing activities			
Obligation under capital lease	(128)	(117)	(484)
Cash provided by (used in) financing activities	(128)	(117)	(484)
Decrease in cash and cash equivalents	(699)	175	(1,753)
Cash and cash equivalents, beginning of year	12,267	14,020	14,020
Cash and cash equivalents, end of period	11,568	14,195	12,267

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

Notes to the Financial Statements for the period ended June 30, 2012

(Unaudited)

(in thousands of dollars)

1. AUTHORITY AND MISSION

The Canadian Museum of Nature (the "Corporation") was established by the *Museums Act* on July 1st, 1990, and is an agent Crown corporation named in Part I of Schedule III of the *Financial Administration Act* and is not subject to the provisions of the *Income Tax Act*.

The Corporation's mission is to increase, throughout Canada and internationally, interest in, knowledge of and appreciation and respect for the natural world by establishing, maintaining and developing for research and posterity a collection of natural history objects, with special but not exclusive reference to Canada, and by demonstrating the natural world, the knowledge derived from it and the understanding it represents.

Brief descriptions of the Corporation's activities are as follows:

Public Education Programme

The Corporation develops and maintains exhibitions, programmes, the **nature.ca** website, electronic and print publications, and activities to foster an understanding of, and respect for, nature.

Collections Management

The Corporation develops, preserves and makes accessible collections of natural history specimens, objects and information to meet the growing needs of the public and private sectors for research, education and informed decision-making about the natural world.

Research

The Corporation studies the past and helps Canadians prepare for the future by conducting systematics and applied research, and by developing and maintaining networks and linkages with Canadian and international science communities.

Internal Services

The Corporation develops and implements the policies, processes and an accountability structure and processes to oversee the fulfilment of its mandate, including governance, strategic direction, corporate services, monitoring of corporate performance, reporting to Parliament and revenue generating activities.

Accommodation

The Corporation provides secure and functional facilities that meet all safety and building code requirements. Among these facilities is the renovated Victoria Memorial Museum Building that furthers the vision and mandate of the Corporation.

2. SIGNIFICANT ACCOUNTING POLICIES

Effective April 1st, 2011, the Corporation adopted Canadian public sector accounting standards (PSAS) for public sector not-for-profit organizations. The financial statements have been prepared in accordance with PSAS and reflect the following accounting policies.

A) Basis of Presentation

The Corporation has prepared its financial statements as at June 30, 2012 by applying Section 4200 of the PSAS relating to not-for-profit organizations with restatement of the unaudited quarterly financial statements at June 30, 2011. At March 31, 2011 the organization was classified as a government business-type organization (GBT0).

Notes to the Financial Statements for the period ended June 30, 2012

(Unaudited)

(in thousands of dollars)

The June 30, 2011 comparative figures were restated as a consequence of adopting in the previous year, PSAS applicable for public sector not-for-profit organizations including the 4200 series of accounting standards applicable for GNPO's. The Corporation was required to recognize a liability for compensated absences including sick leave benefits. Based on an actuarial report the Corporation recognized a liability of \$1,753 in the fourth quarter of the previous year. As a result the June 30, 2011 comparative figures were restated to account for an increase of \$1,753 in liabilities related to employee future benefits with a corresponding increase in unrestricted accumulated deficit.

The Corporation applies the deferral method to recognize contributions for not-for-profit organizations.

B) Use of Estimates

The preparation of financial statements in accordance with PSAS for government not-for-profit organizations 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 reported amounts of revenue and expenses for the year. Employee future benefits and the estimated useful lives of capital assets are the most significant items for which estimates are used. Actual results could differ significantly from those estimated. These estimates are reviewed annually and as adjustments become necessary, they are recorded in the financial statements in the fiscal year which they become known.

C) Collections

The Corporation holds and preserves invaluable collections of natural history specimens for the benefit of Canadians, present and future. The collections are shown as an asset on the Statement of Financial Position at a nominal value of \$1 due to practical difficulties in determining a meaningful value for these assets. Objects purchased for the collections are recorded as an expense in the year of acquisition. Objects donated to the Corporation are recorded as assets at the nominal value.

D) Capital Assets

Capital assets are recorded at cost. Assets recorded as capital leases are initially recorded at the present value of the minimum lease payments at the inception of the lease. Land and building owned by the Government of Canada and that are under the control of the Corporation are recorded at their estimated cost. Amortization is calculated on the straight-line method using rates based on the estimated useful life of the assets.

Material and equipment acquired for the purpose of the design, development and maintenance of exhibits are charged to operations in the year of acquisition.

40 years	Victoria Memorial Museum Building
35 years	Property under capital lease Collection cabinets and compactors
10 years	Research equipment General equipment Furnishings and office equipment
5 to 25 years	Building improvements
5 years	Motor vehicles
3 to 5 years	Leasehold improvements
3 years	Computer equipment

E) Employee Future Benefits

i) Pension benefits

Substantially all of the employees of the Corporation are covered by the Public Service Pension Plan (the "Plan"), a contributory defined benefit plan established through legislation and sponsored by the Government of Canada. Contributions are required by both the employees and the Corporation to cover current service cost. Pursuant to legislation currently in place, the Corporation has no legal or constructive obligation to pay further contributions with respect to any past service or funding deficiencies of the Plan. Consequently, contributions are recognized as an expense in the year when employees have rendered service and represent the total pension obligation of the Corporation.

Notes to the Financial Statements for the period ended June 30, 2012

(Unaudited)

(in thousands of dollars)

ii) Severance benefits and sick leave benefits

Employees are entitled to severance benefits and sick leave benefits, as provided for under labor contracts and conditions of employment. The cost of these benefits is accrued to operations as the employees render the services necessary to earn them. Management determined the accrued severance benefit obligation by using a method based upon assumptions and its best estimates while an actuarial method is used to determine the value of the sick leave obligation. The actuarial gains and losses are amortized over the expected average remaining service life of the related employee group. The severance benefits represent the only obligation of the Corporation that entails settlement by future payment.

F) Revenue Recognition

Revenues from commercial operations, educational programmes, scientific services and other revenues are recognized when persuasive evidence of an arrangement exists between the two parties, goods have been delivered or services have been provided to the customers, price is fixed and determinable and collection is reasonably assured. The Corporation also records deferred revenue when amounts are received in advance of providing goods and services.

G) Parliamentary Appropriations

The Government of Canada provides financing to the Corporation through parliamentary appropriations.

- The parliamentary appropriations for operating expenditures are recognized as revenue in the fiscal years for which they are approved.
- The parliamentary appropriations allocated to the purchase of depreciable capital assets are recorded as deferred revenue, contributions and parliamentary appropriations on the Statement of Financial Position. When depreciable capital assets are purchased, the portion of the parliamentary appropriations used for the acquisition of these capital assets is then reclassified as deferred capital funding on the Statement of Financial Position and recognised as revenue on the Statement of Operations on the same basis as the amortization of the corresponding capital assets.
- Parliamentary appropriations allocated to specific expenses are deferred in the Statement of Financial Position and recognized as revenue in the Statement of Operations in the fiscal year in which the related expenses are incurred.

The Corporation is required to report on the spending of appropriations in its annual report.

H) Donations

Donations are comprised of contributions received from individuals, foundations and corporations.

Unrestricted contributions are recognized as revenue in the Statement of Operations when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Contributions externally restricted for specific projects or expenses are deferred in the Statement of Financial Position and recognized as revenue in the Statement of Operations in the fiscal year in which the related expenditures are incurred. Investment income related to restricted contributions is first recorded in the Statement of Financial Position and then recognized as revenue in the Statement of Operations in the fiscal year in which the related expenses are incurred.

Externally restricted endowment stipulating that the principal of the endowment fund be maintained permanently is recorded as direct decreases to accumulated deficit during the period in which they are received. Investment income on the

Notes to the Financial Statements for the period ended June 30, 2012

(Unaudited)

(in thousands of dollars)

endowment is externally restricted for specific purposes and is included in the accumulated deficit until it is used for specific externally restricted purposes when it is then recognised as revenue in the Statement of Operations.

I) Volunteer Services

Volunteers contribute a significant number of hours every year. Due to the difficulty of determining their fair value, contributed services are not recognized in the financial statements.

J) Financial Instruments

After initial recognition at fair value, the measurement of financial instruments depends on their classification. The Corporation's financial assets and financial liabilities are classified and measured as follows:

Asset / Liability	Classification	Measurement
Cash and cash equivalents	Held for trading	Fair value
Restricted cash and cash equivalents	Held for trading	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Restricted receivables	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost

Any unrealized fluctuations in the fair value of cash and cash equivalents (unrestricted and restricted) are reported in the Statement of Remeasurement Gains and Losses. Any realized gains and losses are reclassified in the Statement of Operations. Financial instruments are tested annually for impairment at the financial statements date, and any permanent impairment would be reported in the Statement of Operations. Transaction costs are recorded as expenses in the Statement of Operations in the year incurred.

All financial instruments measured at fair value must be classified in fair value hierarchy levels prioritizing the valuation techniques used to determine the fair value of a financial instrument based on whether the inputs to these techniques are observable or unobservable:

- **Level 1** – Financial instruments are considered Level 1 when valuation can be based on quoted prices in active markets for identical assets and liabilities.
- **Level 2** – Financial instruments are considered Level 2 when they are valued using quoted prices for similar assets and liabilities, quoted prices in markets that are not active, or models using inputs that are observable.
- **Level 3** – Financial instruments are considered Level 3 when their values are determined using pricing models, discounted cash flow methodologies or similar techniques and at least one significant model assumption or input is unobservable.

The Corporation's cash and cash equivalents (unrestricted and restricted) corresponds to the Level 1 fair value hierarchy classification.

Notes to the Financial Statements for the period ended June 30, 2012

(Unaudited)

(in thousands of dollars)

3. CAPITAL ASSETS

(in thousands of dollars)	June 30, 2012			June 30, 2011			March 31, 2012
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value	Net book value
Land	627		627	627	-	627	627
Victoria Memorial Museum Building	204,727	25,150	179,577	204,727	20,139	184,588	180,827
Property under capital lease	35,040	16,114	18,926	35,040	15,121	19,919	19,174
Collection cabinets and compactors	3,678	1,659	2,019	3,639	1,552	2,087	2,047
Leasehold improvements	4,456	2,102	2,354	2,304	1,325	979	2,009
Furnishings and office equipment	1,265	916	349	1,259	861	398	362
Research equipment	3,364	3,144	220	3,293	3,036	257	236
Computer equipment	2,864	2,711	153	2,662	2,497	165	140
Building improvements	216	95	121	144	64	80	60
General equipment	432	333	99	395	317	78	83
Motor vehicles	42	42		42	42	-	-
	256,711	52,266	204,445	254,132	44,954	209,178	205,565

The amortization expense for the period amounts to \$ 1,770 (June 2011: \$ 1,718).

During the period, the Corporation did not dispose of, or write off any assets.

4. OBLIGATION UNDER CAPITAL LEASE

The Natural Heritage Building houses the Corporation's natural history collections and administrative functions, on the Corporation's site in Gatineau, Quebec. The Corporation is acquiring the building through a lease purchase agreement with a term of 35 years. It is committed to pay rent under all circumstances and in the event of termination of the lease, at the Corporation's option or otherwise, pay sufficient rent to repay all financing on the building. Management intends to completely discharge its obligation under the lease and obtain free title to the building in 2031, after the Corporation uses its right to purchase the building for ten dollars.

Future minimum lease payments, by year and in aggregate, under the financing obligation are as follows:

(in thousands of dollars)	Obligation under capital lease at June 30, 2012	Obligation under capital lease at June 30, 2011
2012		2,625
2013	2,625	3,500
2014	3,500	3,500
2015	3,500	3,500
2016	3,500	3,500
2017	3,500	3,500
Thereafter	50,750	50,750
Total minimum future payments	(1) 67,375	70,875
Deduct: Imputed interest	(37,381)	(40,386)
Present value of financing obligations	(2) 29,994	30,489

(1) The amounts payable under the capital lease are based on the fixed interest rate of 9.88%, for a period of 35 years, established at the time of signing the lease.

Notes to the Financial Statements for the period ended June 30, 2012

(Unaudited)

(in thousands of dollars)

5. DEFERRED REVENUES, CONTRIBUTIONS AND PARLIAMENTARY APPROPRIATIONS

Contributions received and appropriations that are restricted for a specified purpose are deferred, and recognized as revenue in the fiscal year that the related expenses are incurred.

Funds received by the Corporation for Museum operations, educational programs, or scientific services that are not yet earned through the provision of goods or services, are deferred by the Corporation, and recognized as revenue in the fiscal year that the earnings process is culminated.

Deferred revenues, contributions and appropriations during the period were as follows:

<i>(in thousands of dollars)</i>	June 2012	June 2011	March 2012
Deferred contributions from non-government sources	1,843	1,446	2,010
Deferred parliamentary appropriations	7,264	7,169	6,500
Total deferred contributions and parliamentary appropriations	9,107	8,615	8,510
Deferred revenues – goods and services	131	176	280
	9,238	8,791	8,790

Changes in the deferred revenues, contributions and parliamentary appropriations during the period were as follows:

<i>(in thousands of dollars)</i>	June 2012	June 2011
Balance, beginning of year	8,790	8,457
Add :		
Restricted contributions received	230	299
Restricted parliamentary appropriations received	1,617	448
Deferred revenue for the provision of goods and services	87	88
	1,934	835
Less :		
Deferred revenue of the previous year for the provision of goods and services	(236)	(195)
Restricted contributions recognized	(397)	(232)
Restricted parliamentary appropriations spent	(853)	(74)
	(1,486)	(501)
Balance, end of period	9,238	8,791

Notes to the Financial Statements for the period ended June 30, 2012

(Unaudited)

(in thousands of dollars)

6. DEFERRED CAPITAL FUNDING

Deferred capital funding represents the portion of the parliamentary appropriations used to purchase depreciable capital assets.

Changes in the deferred capital funding balance are as follows:

<i>(in thousands of dollars)</i>	June 2012	June 2011	March 2012
Balance, beginning of year	185,575	189,881	189,881
Appropriations used to purchase capital assets	650	21	1,951
Amortization of deferred contributions related to capital assets	(1,519)	(1,467)	(6,257)
Balance, end of period	184,706	188,435	185,575

7. ENDOWMENT RESTRICTIONS

An endowment fund received from Anne and Henry Howden in the principal amount of \$305 as well as a significant entomological collection. The endowment was established to enable professional studies and research of entomological collections for the Corporation.

The entire amount of accumulated deficit restricted for endowment purposes is subject to externally imposed restrictions stipulating that the resources be maintained permanently in the principal of the endowment fund. Investment income on the endowment is externally restricted for specified purposes and is included in the accumulated deficit until it is used for specific purposes of the externally imposed restrictions, at which time it is recorded as revenue in the Statement of Operations. In the event that the Corporation decides not to maintain entomological collections, the Systematic Entomology Endowment Fund shall be transferred, along with any entomological collections, to the Royal Ontario Museum.

8. INVESTMENT IN CAPITAL ASSETS

A. The investment in capital assets consists of the following:

<i>(in thousands of dollars)</i>	June 2012	June 2011	March 2012
Capital assets	204,445	209,178	205,565
Less amounts financed by capital lease	(29,994)	(30,489)	(30,122)
Less amounts financed by deferred contributions related to capital assets	(184,706)	(188,435)	(185,575)
	(10,255)	(9,746)	(10,132)

Notes to the Financial Statements for the period ended June 30, 2012

(Unaudited)

(in thousands of dollars)

B. The net change in investment in capital assets is calculated as follows:

<i>(in thousands of dollars)</i>	June 2012	June 2011	March 2012
Capital asset additions	650	21	1,951
Add: repayment of obligation under capital lease	128	117	483
Less: capital assets financed with deferred capital contributions	(650)	(21)	(1,951)
Capital assets purchased with the Corporation's funds	128	117	483
Amortization of deferred capital contributions	1,519	1,467	6,257
Amortization of capital assets	(1,770)	(1,718)	(7,261)
Net change in investment in capital assets	(123)	(134)	(521)

9. PARLIAMENTARY APPROPRIATIONS

To achieve its mission, the Corporation relies on government funding. This government funding is comprised as follows:

<i>(in thousands of dollars)</i>	June 2012	June 2011	March 2012
Appropriations approved:			
Operating and Capital Budgets	8,284	7,139	28,555
Supplementary Budgets			37
	8,284	7,139	28,592
Portion of parliamentary appropriations received in current year deferred for future capital projects	(1,617)	(448)	(1,789)
Previous year's appropriations used in current year to complete specific projects	853	74	2,085
Appropriations used to purchase depreciable capital assets	(650)	(21)	(1,951)
Amortization of deferred capital funding	1,519	1,467	6,257
Appropriations recognized during the period	8,389	8,211	33,194

Notes to the Financial Statements for the period ended June 30, 2012

(Unaudited)

(in thousands of dollars)

10. COMMERCIAL OPERATIONS

Commercial operations revenue is comprised as follows:

<i>(in thousands of dollars)</i>	June 2012	June 2011	March 2012
Admission fees	584	370	1,845
Parking	152	127	656
Rental of facilities	121	124	403
Boutique and cafeteria leases	48	39	204
Memberships	64	40	234
Publishing royalties	2		2
Publishing revenues	3	3	17
	974	703	3,361

11. RELATED PARTY TRANSACTIONS

The Corporation is related to all Government of Canada departments, agencies and Crown corporations.

In addition to those related party transactions disclosed elsewhere in these financial statements, the Corporation incurred expenses for the work and services provided by other government departments, agencies, and Crown corporations totalling \$620 (\$499 in June 2011 and 3,174 in March 2012), and earned revenues totalling \$1 (\$5 in June 2011 and \$55 in March 2012). These transactions were conducted in the normal course of operations, under the same terms and conditions that applied to outside parties and recorded at the exchange amount.

12. SUMMARY OF EXPENSES BY OBJECT

<i>(in thousands of dollars)</i>	June 2012	June 2011	March 2012
Personnel costs	3,740	3,668	16,133
Amortization of capital assets	1,770	1,718	7,261
Operation and maintenance of buildings	961	907	4,021
Interest on capital lease obligation	747	759	3,017
Real property taxes	654	691	2,611
Professional and special services	789	657	2,724
Exhibitions	1,012	767	1,406
Information management infrastructure and systems	263	237	1,388
Repairs and maintenance	106	175	694
Marketing and communications	460	112	891
Travel	41	58	342
Freight and cartage	15	12	68
Others	38	65	111
	10,596	9,826	40,667

MANAGEMENT DISCUSSION AND ANALYSIS

(Unaudited)

Overview

These quarterly financial statements must be read in conjunction with the Canadian Museum of Nature's most recent audited annual financial statements for the year ended March 31, 2012 and with the narrative discussion included in this quarterly financial report.

The Canadian Museum of Nature's primary objective is to fulfill its national mandate as described in the *Museums Act*, within the context of the governance and accountability regime established in Part X of the *Financial Administration Act*. To this end, the Museum's Board of Trustees and Management are committed to managing the public and private funds invested in the Museum in a transparent, accountable manner and to optimizing the value of the contribution the Museum makes to Canadians and to Canadian society.

The strategic directions for the Museum acknowledge the intent to be a leading source of natural history knowledge and scientific inquiry for scientists and the public, thus contributing a distinctly Canadian perspective to the global body of knowledge. The Museum will disseminate the results of this scientific inquiry, thus helping inspire Canadians to act conscientiously about the natural environment. As a public institution, the Museum also wishes to continue to demonstrate accountability, value and fiscal effectiveness through achieving measurable, meaningful results.

Achieving financial sustainability has been, and will continue to be, one of the main priorities of the Museum. The Museum has in place a number of strategies designed to manage both known and anticipated pressures. An enterprise risk management approach is being used to manage these strategies and pressures in support of the vision to be a national institution providing maximum value and service to the public.

Significant Changes

On June 27th the Museum abolished 10 positions, the majority affecting the internal services area in order to address its structural deficit (operating funding gap). While this initiative may result in the reduction of some service levels, it will not impact on the ability of the Museum to fulfill its mandate. This initiative is expected to contribute significantly in ensuring the long term financial sustainability of the Museum.

Revenue

Revenue for the first three months of the year amounted to \$1,493,000 an increase of \$582,000 or 64%, compared to the \$911,000 for the first three months of the previous year. This is mainly due to an increase of \$320,000 in the recognition of contributions as exhibition activity related to the development of phase 2 of the Vale Earth Gallery scheduled to open in the fall of 2012. Revenue from commercial operations increased by \$271,000 or 39% to \$974,000 from the \$703,000 generated in the first three months of the previous year. The increase in commercial operations is mainly due to the introduction of a new pricing structure for admissions at the Victoria Memorial Museum Building which includes a surcharge for major temporary exhibitions. Another contributor to the increase in commercial operations is the introduction of new programming such as the 3D Theatre.

On an accrual basis, parliamentary appropriations for the first three months of the year amounted to \$8,389,000 compared to the \$8,211,000 for the first three months of the previous year. The year over year increase is mainly due to the utilization of deferred parliamentary appropriations related to capital assets.

Expenses

Expenses increased to \$10,596,000 in the first three months of the year from the \$9,826,000 reported in the first three months of the previous year. Of the \$770,000 or 8% increase, \$418,000 is due to costs related to the advertising of major temporary exhibitions and \$353,000 is due to exhibitions costs related to the development of phase 2 of the Vale Earth Gallery scheduled to open in the fall of 2012.

MANAGEMENT DISCUSSION AND ANALYSIS

(Unaudited)

The costs of managing the Museum's two buildings have increased since the completion of the renovated Victoria Memorial Museum Building. Accommodation expenses of \$4,731,000 reported for the first three months of the year are almost identical to the expenses of \$4,725,000 reported for the first three months of the previous year. Expenses related to accommodation represent 45% of total expenses. The new museum-standard environmental control systems and additional space that must now be maintained at the renovated Victoria Memorial Museum Building have placed an additional severe pressure on the Museum's operating budget. The Museum continues to explore additional facilities cost reduction and control measures in order to minimize the financial impact on its programmes.

Net Result of Operations

The net result of operations for the first three months of the year was a loss of \$714,000 compared to the loss of \$704,000 reported for the first three months of the previous year. The loss from operations is partly attributable to a timing difference between the recognition of parliamentary appropriations for operating expenditures that are recognized in the fiscal year for which they are approved and expenses that are recognized in the fiscal year they are incurred. Specifically, previous year funding was used to commit and prepay for major temporary exhibitions scheduled for this fiscal year.

The other contributor to the loss from operations in the first three months of the year is the accounting treatment related to the depreciation charges for the Natural Heritage Building facility located in Gatineau which is shown on the Museum's statement of financial position as a capital lease. This accounting treatment will keep the Museum's net assets in a deficit position for many years. The situation will begin to reverse near the mid-point of the lease term and will completely reverse itself over the full term of the lease. This does not impact the Corporation's cash flow or financial stability in any way.

Statement of Financial Position

Assets

The level of cash and cash equivalents of \$11,568,000 as of June 30, 2012 represents a decrease of \$2,627,000 or 19% from the June 30, 2011 level of \$14,195,000 mainly as a result of acquisitions of capital assets consistent with the Museum's long term capital plan.

The decrease in capital assets reflects the depreciation related to the Victoria Memorial Museum Building and other capital assets.

Liabilities

Total employee future benefits of \$5,202,000 as at June 30, 2012 compared to the \$4,462,000 as a June 30, 2011 represent an increase of \$740,000 or 17% due to a provision recorded for the elimination and the pay-out of accumulated severance to employees for voluntary separation. As a result of collective bargaining and consistent with the Government of Canada's approach, effective April 1, 2012, employees will no longer accumulate severance pay upon resignation or retirement. The accumulated severance pay will be calculated at the rate of one week of pay for each year of service.

MANAGEMENT DISCUSSION AND ANALYSIS

(Unaudited)

RISK ANALYSIS

The Museum has in place an enterprise risk management framework designed to effectively and proactively manage the risks that could prevent the Museum from achieving its objectives. The Museum identifies four risks and their related mitigation strategies:

1. The risk that marketing, communications and positioning mechanisms will not sufficiently promote and demonstrate the strengths and value of the Museum to Canadians and key stakeholders. The Museum will address this risk by ensuring that adequate resources are allocated to the marketing of revenue-generation activities and to the communication of research, collections and public education services to clients.
2. The risk that the total operating funds will not meet the Museum's resource requirements. This may result in insufficient resources to develop adequate programmes. The Museum will address this risk by continuing to collaborate with central agencies and by reviewing and monitoring its budget looking for opportunities for efficiencies and/or reallocations.
3. The risk that the revenue generation targets will not be achieved due to increasing competition for visitors, rental of facilities and contributions or other factors. This may result in insufficient resources to develop programmes. The Museum will address this risk by developing divisional work plans in order to achieve targets related to commercial operations and development and partnerships, and by monitoring and revising the divisional work plans when appropriate.
4. The risk that there will be insufficient and/or inadequately skilled human resources (e.g. number, capability, skills, training and career development, recruiting, retaining, succession planning) to achieve the Museum's objectives and current and future needs. The Museum will address this risk by maintaining detailed succession plans; developing annual training and development plans; and, by providing competitive salaries and working conditions.