

CANADIAN MUSEUM OF NATURE

QUARTERLY FINANCIAL REPORT

(Unaudited)

For the nine month period
ended December 31, 2012

Canada



CANADIAN MUSEUM OF NATURE
QUARTERLY FINANCIAL REPORT

For the nine month period ended December 31, 2012

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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
January 31, 2013

FINANCIAL STATEMENTS

**Statement of Financial Position
as at December 31, 2012
(Unaudited)**

| <i>(in thousands of dollars)</i> | at December 31 2012 | at December 31 2011 | at March 31 2012 |
|--|------------------------|------------------------|---------------------|
| Assets | | | |
| Current | | | |
| Cash and cash equivalents | 8,285 | 13,446 | 12,267 |
| Accounts receivable | | | |
| Trade | 489 | 228 | 223 |
| Government departments and agencies | 554 | 260 | 358 |
| Prepaid expenses | 465 | 220 | 1,717 |
| | 9,793 | 14,154 | 14,563 |
| Restricted cash, cash equivalents and receivables | 2,012 | 2,071 | 2,076 |
| Collections | 1 | 1 | 1 |
| Capital assets (note 3) | 205,490 | 206,809 | 205,565 |
| | 217,296 | 223,035 | 222,205 |
| Liabilities | | | |
| Current | | | |
| Accounts payable and accrued liabilities | | | |
| Trade | 2,483 | 1,854 | 3,056 |
| Government departments and agencies | 206 | 1 | 114 |
| Current portion - obligation under capital lease (note 4) | 480 | 520 | 532 |
| Deferred revenues, contributions and parliamentary appropriations (note 5) | 6,545 | 8,326 | 8,790 |
| Employee future benefits | 1,239 | 824 | 1,883 |
| | 10,953 | 11,525 | 14,375 |
| Obligation under capital lease (note 4) | 29,248 | 29,728 | 29,590 |
| Deferred capital funding (note 6) | 186,245 | 186,593 | 185,575 |
| Employee future benefits | 3,130 | 3,693 | 3,320 |
| | 229,576 | 231,539 | 232,860 |
| Accumulated Deficit | | | |
| Unrestricted | (2,102) | 1,221 | (828) |
| Endowment (note 7) | 305 | 305 | 305 |
| Investment in capital assets (note 8) | (10,483) | (10,030) | (10,132) |
| | (12,280) | (8,504) | (10,655) |
| | 217,296 | 223,035 | 222,205 |

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

*Statement of Operations
for the nine month period ended December 31, 2012
(Unaudited)*

| <i>(in thousands of dollars)</i> | December 31 2012 | December 31 2011 | March 31 2012 |
|---|---------------------|---------------------|------------------|
| Revenue | | | |
| Commercial operations (note 10) | 3,096 | 2,435 | 3,361 |
| Contributions | 1,322 | 243 | 634 |
| Educational programmes | 144 | 250 | 353 |
| Interest | 110 | 121 | 154 |
| Scientific services | 6 | 99 | 191 |
| Other | 30 | 22 | 30 |
| | 4,708 | 3,170 | 4,723 |
| Expenses (note 12) | | | |
| Public education | 7,333 | 4,704 | 6,713 |
| Collections management | 1,562 | 1,544 | 2,131 |
| Research | 3,219 | 3,089 | 4,421 |
| Internal services | 4,551 | 4,923 | 7,927 |
| Accommodation | 15,299 | 14,511 | 19,475 |
| | 31,964 | 28,771 | 40,667 |
| Net result of operations before government funding | (27,256) | (25,601) | (35,944) |
| Parliamentary appropriations (note 9) | 25,631 | 25,000 | 33,194 |
| Net result of operations | (1,625) | (601) | (2,750) |

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

*Statement of Changes in Accumulated Deficit
for the nine month period ended December 31, 2012
(Unaudited)*

| <i>(in thousands of dollars)</i> | Unrestricted | Endowment | Invested in capital assets | December 31 2012 | December 31 2011 | March 31 2012 |
|---|----------------|------------|-------------------------------|---------------------|---------------------|------------------|
| Accumulated Deficit, beginning of year | (826) | 305 | (10,132) | (10,655) | (7,903) | (7,905) |
| Net result of operations | (1,625) | | | (1,625) | (601) | (2,750) |
| Net change in investment in capital assets (note 8) | 351 | | (351) | - | - | - |
| Accumulated Deficit, end of period | (2,102) | 305 | (10,483) | (12,280) | (8,504) | (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 nine month period ended December 31, 2012
(Unaudited)

| <i>(in thousands of dollars)</i> | December 31 2012 | December 31 2011 | March 31 2012 |
|---|---------------------|---------------------|------------------|
| Operating activities | | | |
| Cash receipts - customers | 3,291 | 3,354 | 6,904 |
| Cash receipts - parliamentary appropriations | 18,877 | 20,249 | 25,114 |
| Cash disbursements - employees | (10,881) | (10,889) | (16,133) |
| Cash disbursements - suppliers | (12,832) | (10,539) | (14,037) |
| Interest received | 123 | 144 | 173 |
| Interest paid | (2,230) | (2,268) | (3,018) |
| Cash provided by (used in) operating activities | (3,652) | 51 | (997) |
| Capital activities | | | |
| Acquisition of capital assets | (6,010) | (1,293) | (1,951) |
| Appropriations used to purchase depreciable capital assets | 6,010 | 1,293 | 1,951 |
| Cash provided by (used in) capital activities | - | - | - |
| Investing activities | | | |
| Decrease (increase) in restricted cash, cash equivalents and receivables | 64 | (267) | (272) |
| Cash provided by (used in) investing activities | 64 | (267) | (272) |
| Financing activities | | | |
| Obligation under capital lease | (394) | (358) | (484) |
| Cash provided by (used in) financing activities | (394) | (358) | (484) |
| Decrease in cash and cash equivalents | (3,982) | (574) | (1,753) |
| Cash and cash equivalents, beginning of year | 12,267 | 14,020 | 14,020 |
| Cash and cash equivalents, end of period | 8,285 | 13,446 | 12,267 |

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

Notes to the Financial Statements
for the nine month period ended December 31, 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

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 December 31, 2012 by applying Section 4200 of the PSAS relating to not-for-profit organizations with restatement of the unaudited quarterly financial statements at December 31, 2011. At March 31, 2011 the organization was classified as a government business-type organization (GBTTO).

Notes to the Financial Statements
for the nine month period ended December 31, 2012
(Unaudited)
(in thousands of dollars)

The December 31, 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 December 31, 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 nine month period ended December 31, 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 recognized 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 nine month period ended December 31, 2012
(Unaudited)
(in thousands of dollars)

endowment is externally restricted for specific purposes and is credited to the accumulated deficit until it is used for specific externally restricted purposes when it is then recognized 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) would be reported in the Statement of Remeasurement Gains and Losses. Any realized gains and losses would be 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 nine month period ended December 31, 2012
(Unaudited)
(in thousands of dollars)*

3. CAPITAL ASSETS

| <i>(in thousands of dollars)</i> | December 31, 2012 | | | December 31, 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 | 27,651 | 177,076 | 204,727 | 22,646 | 182,081 | 180,827 |
| Property under capital lease | 35,040 | 16,609 | 18,431 | 35,040 | 15,617 | 19,423 | 19,174 |
| Collection cabinets and compactors | 3,737 | 1,713 | 2,024 | 3,639 | 1,605 | 2,034 | 2,047 |
| Leasehold improvements | 8,324 | 3,042 | 5,282 | 3,436 | 1,676 | 1,760 | 2,009 |
| Furnishings and office equipment | 1,368 | 951 | 417 | 1,259 | 888 | 371 | 362 |
| Research equipment | 3,404 | 3,180 | 224 | 3,293 | 3,093 | 228 | 236 |
| Computer equipment | 2,876 | 2,757 | 119 | 2,802 | 2,626 | 176 | 140 |
| Building improvements | 1,472 | 304 | 1,168 | 144 | 78 | 66 | 60 |
| General equipment | 465 | 343 | 122 | 395 | 324 | 74 | 83 |
| Motor vehicles | 30 | 30 | - | 42 | 42 | - | - |
| | 262,070 | 56,580 | 205,490 | 255,404 | 48,595 | 206,809 | 205,565 |

The amortization expense for the period amounts to \$6,095 (December 2011: \$5,359).
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:

| <i>(in thousands of dollars)</i> | Obligation under capital lease at December 31, 2012 | Obligation under capital lease at December 31, 2011 |
|---|--|--|
| 2012 | - | 875 |
| 2013 | 875 | 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) 65,625 | 69,125 |
| Deduct: Imputed interest | (35,897) | (38,877) |
| Present value of financing obligations | 29,728 | 30,248 |

(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 nine month period ended December 31, 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> | December 2012 | December 2011 | March 2012 |
|---|------------------|------------------|---------------|
| Deferred contributions from non-government sources | 1,379 | 1,730 | 2,010 |
| Deferred parliamentary appropriations | 5,049 | 6,500 | 6,500 |
| Total deferred contributions and parliamentary appropriations | 6,428 | 8,230 | 8,510 |
| Deferred revenues – goods and services | 117 | 96 | 280 |
| | 6,545 | 8,326 | 8,790 |

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

| <i>(in thousands of dollars)</i> | December 2012 | December 2011 |
|---|------------------|------------------|
| Balance, beginning of year | 8,790 | 8,457 |
| Add : | | |
| Restricted contributions received | 471 | 568 |
| Restricted parliamentary appropriations received | 4,851 | 1,342 |
| Deferred revenue for the provision of goods and services | 247 | 170 |
| | 5,569 | 2,080 |
| Less : | | |
| Deferred revenue of the previous year for the provision of goods and services | (410) | (330) |
| Restricted contributions recognized | (1,103) | (243) |
| Restricted parliamentary appropriations spent | (6,302) | (1,638) |
| | (7,818) | (2,211) |
| Balance, end of period | 6,545 | 8,326 |

*Notes to the Financial Statements
for the nine month period ended December 31, 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> | December 2012 | December 2011 | March 2012 |
|--|------------------|------------------|----------------|
| Balance, beginning of year | 185,575 | 189,881 | 189,881 |
| Appropriations used to purchase capital assets | 6,010 | 1,295 | 1,951 |
| Amortization of deferred contributions related to capital assets | (5,340) | (4,583) | (6,257) |
| Balance, end of period | 186,245 | 186,593 | 185,575 |

7. ENDOWMENT RESTRICTIONS

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

The entire amount 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 credited to 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> | December 2012 | December 2011 | March 2012 |
|---|------------------|------------------|-----------------|
| Capital assets | 205,490 | 206,809 | 205,565 |
| Less amounts financed by capital lease | (29,728) | (30,246) | (30,122) |
| Less amounts financed by deferred contributions related to capital assets | (186,245) | (186,593) | (185,575) |
| | (10,483) | (10,030) | (10,132) |

Notes to the Financial Statements
for the nine month period ended December 31, 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> | December 2012 | December 2011 | March 2012 |
|---|------------------|------------------|---------------|
| Capital asset additions | 6,010 | 1,295 | 1,951 |
| Add: repayment of obligation under capital lease | 404 | 358 | 483 |
| Less: capital assets financed with deferred capital contributions | (6,010) | (1,295) | (1,951) |
| Capital assets purchased with the Corporation's funds | 404 | 358 | 483 |
| Amortization of deferred capital contributions | 5,340 | 4,583 | 6,257 |
| Amortization of capital assets | (6,095) | (5,359) | (7,261) |
| Net change in investment in capital assets | (351) | (418) | (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> | December 2012 | December 2011 | March 2012 |
|---|------------------|------------------|---------------|
| Appropriations approved: | | | |
| Operating and Capital Budgets | 24,850 | 21,416 | 28,555 |
| Supplementary Budgets | | | 37 |
| | 24,850 | 21,416 | 28,592 |
| Portion of parliamentary appropriations received in current year deferred for future capital projects | (4,851) | (1,342) | (1,789) |
| Previous year's appropriations used in current year to complete specific projects | 6,302 | 1,638 | 2,085 |
| Appropriations used to purchase depreciable capital assets | (6,010) | (1,295) | (1,951) |
| Amortization of deferred capital funding | 5,340 | 4,583 | 6,257 |
| Appropriations recognized during the period | 25,631 | 25,000 | 33,194 |

Notes to the Financial Statements
for the nine month period ended December 31, 2012
(Unaudited)
(in thousands of dollars)

10. COMMERCIAL OPERATIONS

Commercial operations revenue is comprised as follows:

| <i>(in thousands of dollars)</i> | December 2012 | December 2011 | March 2012 |
|----------------------------------|------------------|------------------|---------------|
| Admission fees | 1,881 | 1,289 | 1,845 |
| Parking | 497 | 469 | 656 |
| Rental of facilities | 357 | 374 | 403 |
| Boutique and cafeteria leases | 135 | 172 | 204 |
| Memberships | 213 | 115 | 234 |
| Publishing royalties | 4 | 2 | 2 |
| Publishing revenues | 9 | 14 | 17 |
| | 3,096 | 2,435 | 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 \$3,196 (2011 - \$3,016; year ended March 31, 2012 - \$3,174), and earned revenues totalling \$202 (2011 - \$48; year ended March 31, 2012 - \$55). 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> | December 2012 | December 2011 | March 2012 |
|---|------------------|------------------|---------------|
| Personnel costs | 10,881 | 10,889 | 16,133 |
| Amortization of capital assets | 6,095 | 5,359 | 7,261 |
| Operation and maintenance of buildings | 2,820 | 2,980 | 4,021 |
| Interest on capital lease obligation | 2,230 | 2,268 | 3,017 |
| Real property taxes | 2,012 | 1,956 | 2,611 |
| Professional and special services | 2,636 | 1,891 | 2,724 |
| Exhibitions | 2,606 | 1,059 | 1,406 |
| Information management infrastructure and systems | 960 | 892 | 1,388 |
| Repairs and maintenance | 350 | 576 | 694 |
| Marketing and communications | 1,033 | 529 | 891 |
| Travel | 179 | 246 | 342 |
| Freight and cartage | 39 | 44 | 68 |
| Others | 123 | 82 | 111 |
| | 31,964 | 28,771 | 40,667 |

13. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the presentation for the nine month period ended December 31, 2012.

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 nine months of the year amounted to \$4,708,000, an increase of \$1,538,000 or 49%, compared to the \$3,170,000 for the first nine months of the previous year. This is mainly due to an increase of \$1,079,000 in the recognition of contributions as exhibition activity related to the development of phase 2 of the Vale Earth Gallery that opened on November 28, 2012. Revenue from commercial operations increased by \$661,000 or 27% to \$3,096,000 from the \$2,435,000 generated in the first nine 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 nine months of the year amounted to \$25,631,000 compared to the \$25,000,000 for the first nine 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 \$31,964,000 in the first nine months of the year from the \$28,771,000 reported in the first nine months of the previous year. Of the \$3,193,000 or 11% increase, \$1,547,000 is due to exhibitions costs related to the development of phase 2 of the Vale Earth Gallery. Professional and special services increased by \$745,000 due to services primarily related to augmenting public education programmes and enhancing the visitor experience. Marketing and communications increased

MANAGEMENT DISCUSSION AND ANALYSIS

(Unaudited)

by \$504,000 due to costs related to the advertising of major temporary exhibitions. Recent acquisitions of capital assets increased the amortization expense by \$736,000, while real property taxes have increased by \$56,000.

The costs of managing the Museum's two buildings have increased since the completion of the renovated Victoria Memorial Museum Building. Accommodation expenses amounted to \$15,299,000 for the first nine months of the year, which represents 48% 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 nine months of the year was a loss of \$1,625,000 compared to the loss of \$601,000 reported for the first nine months of the previous year. The loss from operations is mainly 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.

The other contributor to the loss from operations in the first nine 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 \$8,285,000 as of December 31, 2012 represents a decrease of \$5,161,000 or 38% from the December 31, 2011 level of \$13,446,000 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 amortization related to the Victoria Memorial Museum Building and other capital assets.

Liabilities

Trade accounts payables and accrued liabilities increased by \$629,000 from the \$1,854,000 reported as at December 31, 2011 to the \$2,483,000 as at December 31, 2012, as a result of work related to capital projects on the Museum's two facilities. Total employee future benefits of \$4,369,000 as at December 31, 2012 compared to the \$4,517,000 as at December 31, 2011 represent a decrease of \$148,000 or 3% 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 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.

RISK ANALYSIS

(Unaudited)

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.