

CANADIAN WARPLANE HERITAGE

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS 2007 AT A GLANCE

COMMENTARY

This memorandum should be read in conjunction with the audited financial statements of Canadian Warplane Heritage for the years ended September 30, 2007 and 2006, together with the Notes thereto.

The Financial Statements for the year ended September 30, 2007 indicate that this fiscal year was another challenging period for the museum overall, and reflect a year in which many positive and essential management decisions were made in support of sustaining the long term viability of "Canada's Flying Museum" operations. In making some of these business decisions, Management was cognizant that there would be significant one time costs incurred in 2007 that were considered necessary in order to achieve the corporate posture, position and organization required to foster continued future growth in key museum operations.

Gross Revenue in fiscal 2007, at \$3,137,798, was \$114,672 (3.5%) less than the Gross Revenue in 2006 (\$3,252,470). The major factor contributing to this reduction was the reduced income from the rental of our aircraft for use in major film productions, and professional aerial photo shoots, at \$18,309 compared to \$100,485 in the prior year – a reduction of \$82,176 (81.77%). These are lucrative activities that have been negatively impacted by a higher Canadian dollar - a situation that can be expected to continue in the medium term.

Positive highlights of fiscal 2007 Revenues were: an increase in Memberships, at \$188,526 compared to \$151,652 in the prior period (+24.3%); an increase in Volunteer donations to \$475,671 compared to \$456,664 (+4.1%); an increase in Admissions to \$294,278 from \$271,633 in the prior period (+8.3%); an increase in Retail sales to \$435,644 from \$418,842 in the prior period (+4%); and an increase in Food, Beverage and Catering to \$651,830 from \$574,993 in the prior period (+13.4%). All of these increases demonstrate that the Museum is on the right track in terms of building its business model, and also speak volumes for the efforts of our staff and volunteers.

Expenses during fiscal 2007 increased to \$3,305,946 compared to \$3,052,568 in the prior comparative period (+8.3%). As a result of Management's decision to address and rectify several deficiencies within the retail operation, a complete and detailed inventory was completed during fiscal 2007 and resulted in a significant one time write off and elimination of old and dated retail inventories at a cost of about \$106,000. This one time charge in the retail operation, combined with several other new initiatives in current and new marketing strategies, as well as, the introduction of many new types of goods has provided a solid foundation for enhanced future retail operations and profitability, including a new and expanded internet sales component, while addressing long standing deficiencies in the prior oversight and general accounting procedures previously used within the retail operation.

Associated with the continuing flight operation of a selection of the Museum's significant aircraft collection, including the Lancaster, a major and compulsory expenditure of about \$114,500 dollars was expensed in 2007 to overhaul and replace Merlin engine heads and banks, cores, and pistons. Total Aircraft Maintenance costs incurred in fiscal 2007 were \$200,757, compared to \$136,231 in fiscal 2006, an increase of \$64,526 (+47.3%). These major Lancaster Merlin

expenses are by nature recurring charges that can be expected to occur on a 4 to 8 year cycle in order to meet mandatory airworthiness requirements and safety standards necessary to operate the Lancaster. Consequently Management has now implemented a major and minor capital multi-year plan at the museum to identify, prioritize, and budget for these significant capital costs associated with the Museum's overall continued operations. The increasing price of aviation gasoline which resulted in about a 20 percent net increase in fuel costs in 2007 was fortunately offset by the corporate sponsorship of our fuel supplier, although increasing energy costs will continue to be a challenge for the entire Museum operation going forward.

The current Museum complex is now about 12 years old and as such a number of items required funding expenditures during fiscal 2007 to maintain the facility, including major repairs to the chiller unit, replacement of the carpet in the office area, and the sealing and painting of the main parking lot. Additionally a one time expense was incurred to remove the farm ruins and collateral debris from the adjacent parcel of Museum property; an expenditure which was considered necessary in order to limit the potential liability of the Museum, as well as, prepare the site for any future development. The overall cost of these initiatives in fiscal 2007 was about \$100,000 dollars.

The largest single expenditure item in the Museum's annual budget is Salaries and benefits which were \$1,077,423 during fiscal 2007 compared to \$1,057,106 in the prior comparative period, representing an increase of \$20,317 (+1.9%). Management believes that this cost, whilst significant, represents immense value considering the number of individuals employed. The Museum operates throughout the year on a very full timetable, and is required to maintain its Collection, in particular its flying aircraft, to very high standards as regulated by Transport Canada. Without the contributions made by its full time employees and its numerous volunteers the Museum would be unable to operate.

The overall operating result for fiscal 2007 was a loss of \$168,148 compared to a profit of \$199,902 in the prior period. The overall "bottom line" result for fiscal 2007, after taking into account losses on capital disposals and amortization, was a loss of \$277,765, compared to a profit during the prior fiscal period of \$71,623. The key contributors to this loss were the heavy capital maintenance expenses incurred in engine overhauls and replacements and inventory write-downs described above.

From a cash flow perspective many of the initiatives accomplished by Management in fiscal 2007 were made possible in part due to receipt of proceeds of the sale of some FedEx 727 aircraft components and other minor and non essential inventory component liquidations. In accordance with Generally Accepted Accounting Principles (GAAP), these proceeds are not recorded as Revenue but as capital receipts and accordingly are not shown as an offset to Expenses in the 2007 Financial Statements.

At September 30, 2007, Current Assets had reduced to \$175,086 compared with \$408,224 on September 30, 2006 (-57%); this reduction is accounted for principally by the effect of the cash outflow described above in respect of operations during fiscal 2007. The value of the Museum's Collection of aircraft was reduced to \$4,986,146 from \$5,102,909 at the prior year end (-2.2%); this was a result principally of amortization. The Collection is valued at its original acquisition cost, which is then amortized and is also affected by acquisitions and disposals during each year no reflection is made on the Balance Sheet for any potential increase in value of any aircraft in the Collection. Current Liabilities as at September 30, 2007 were almost unchanged at \$970,086, compared to \$969,572 at the prior year-end. Long Term Debt at September 30, 2007 at \$266,376 was reduced by \$68,276 (-20.4%) from the prior year end.

Management's business model for the Museum operations focuses on continuing to build revenues from memberships, admissions, retail operations, food, beverage and catering operations. The overall results of fiscal 2007 demonstrate that these areas are building and are likely to continue to contribute to positive and sustainable growth in the Museum's revenues, with the overall objective of establishing a balanced budget. Additional growth in revenues from expansion of the education program at the Museum is also a key activity that is planned for 2008/09. In addition to operational activities and initiatives, the Museum is building on its not-for-profit status in order to establish fund-raising initiatives designed not only to finance individual projects but also to build a capital endowment base capable of providing ongoing support to operations in future years.

The following Table sets out selected annual information for the past five fiscal years ended September 30 in each year.

TABLE

	2007	2006	2005	2004	2003
Gross Revenues	3,137,798	3,252,470	3,059,762	3,010,820	2,854,496
Gross Operating costs	3,305,946	3,052,568	3,270,819	3,059,643	2,902,351
Operating revenue/(loss)	(168,148)	199,902	(211,057)	(48,823)	(47,855)
Net result of operations	(277,765)	71,623	(301,377)	(118,458)	(61,183)
Current Assets	175,086	408,224	299,097	302,512	427,743
Total Assets	8,696,725	9,042,252	8,909,295	8,115,556	7,420,432
Current Liabilities	970,086	969,572	945,259	615,673	693,605
Long Term Liabilities	266,376	334,652	277,928	321,204	364,480

MOVING FORWARD

In order to achieve a balanced budget in 2008, it will be imperative to continue to grow the revenue streams in all areas available to the Museum. These include admissions, retail sales, food, beverage and catering, donations, fund raising/special events and activities, membership dues, support clubs, flying activities, education programs, canteen operations and facilities rental, while maintaining prudent cost control measures in place. Fortunately the major portion of the significant charges and costs incurred in 2007 will not be repeated in 2008; however, there will always be pressure on the Museum to keep the cost structure in check, especially as the facilities and aircraft collection age in a probable inflationary economy. The continued support and utilization of our talented and highly skilled volunteers and members will continue to be a tremendous benefit to the Museum and provide key assistance to the Museum staff in this effort. Additionally, the introduction of a multi-year capital asset replacement plan will assist Management in identifying, prioritizing and budgeting for all competing capital funding requirements and projects, as well as assist the Board of Directors' Fund Raising Committee to support this ongoing business activity.

Another important initiative which is vital to the Museum in expanding its relevance and importance in our local and surrounding communities, is the continued cultivation and realization of effective strategic partnerships with corporate, aviation, educational, curatorial, historical, and governmental entities and other partners in our region. These strategic partnerships and alliances must be in concert with our mission, and offer us the opportunity to expand the relevance and financial stability of the Museum by allowing us to access sources of funding which have not traditionally been available to us in the past.

At the present time preliminary discussions with Mohawk College and the Air Cadet League of Canada are two examples of possible strategic partnerships that have the potential to be mutually beneficial to both parties. While these discussions are only preliminary in nature at this time, the potential benefit to the involved parties through the realization of possible synergies, will continue to be pursued by Management as we move forward.

Of necessity your management team will continue to remain focused on activities that promote revenue growth while controlling and containing costs. This approach will allow the Museum to continue to reduce long term debt obligations, while enhancing our day to day financial stability. In addition it is hoped that by identifying and cultivating strategic partnerships available to us in our own community, the Museum will be able to expand and introduce new important activities that are consistent with our mission statement and values that will enhance our continued relevance and viability for the foreseeable future.
