

CANADIAN WARPLANE HERITAGE

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS 2014 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, 2014 and 2013, together with the Notes thereto.

BACKGROUND – CANADIAN WARPLANE HERITAGE

Canadian Warplane Heritage (“CWH”) is a not-for-profit corporation, originally incorporated in 1971 under the laws of the Province of Ontario, and is registered as a charitable organization with Canada Revenue Agency. CWH owns and operates the Canadian Warplane Heritage Museum (the “Museum”), based at Hamilton International Airport, in Hamilton, Ontario. The Museum houses a collection of approximately 40 aircraft, principally World War II Vintage, of which approximately 15 are maintained in flying condition. The Basic Mandate of CWH is as follows:

- **To acquire**, document, preserve and maintain, a complete collection of aircraft that were flown by Canadians and the Canadian military services from the beginning of World War II to the present, including other related aviation artifacts and memorabilia of significant historic importance to this period.
- **To instruct**, educate and entertain the general public through the maintenance and rotation of displays, flight demonstration, special events and activities; and encourage Canadians of all ages to become actively involved in the preservation of these aircraft and artifacts.

- **To provide** facilities for the restoration and protection, interpretation and exhibits of the collection. These will be displayed in their natural element - aerial or static, with emphasis on all aspects of safety and legal obligations in relation to both the artifacts and public; and to deliver programs that meet the standards for community museums in Ontario.
- **To maintain** supportive exhibits in tribute to the thousands of men and women who built, serviced and flew these aircraft and in memory of those who did not return.

REVIEW OF FINANCIAL PERFORMANCE – YEAR ENDED SEPTEMBER 30, 2014

The Financial Statements for the year ended September 30, 2014 indicate that the fiscal year was another challenging, but overall successful period for the Museum, and reflect a year in which prudent and essential management decisions were made in support of the long term sustainability of “Canada’s Flying Museum”. Two special highlights of the year were the “Once in a Lanc Time” UK Tour with our Mynarski Memorial Lancaster VR-A, as well as, the first ever and award winning CWH Hamilton Night Airshow last June.

Gross Revenue in fiscal year 2014, at \$6,564,064, was \$1,598,308 (+ 32%) more than the Gross Revenue in 2013 (\$4,965,756). The Gross Expense incurred in the fiscal year at \$5,356,858 was \$363,757 (+7.5%) more than the Gross Expense in 2013 (\$4,993,101). The Net operating revenue in excess of expenses for the fiscal year adjusted for Amortization at \$1,126,721 was \$995,109 more than the Net operating revenue in excess of expenses in 2013 adjusted for Amortization at \$131,612.

The domestic fiscal performance of the Museum this fiscal year was commendable on several fronts; the Food and Catering revenue remained steady, as did volunteer contributions, with an increase in local Retail activities, Support Clubs, Admissions, Education, Memberships, Donations, and Facilities and Aircraft Rentals. Of course the most notable contribution in realizing a significant increase in the Gross Revenue this fiscal year was directly related to the outstanding success of the Lancaster seven week UK Tour and related activities.

Expenses during fiscal year 2014 increased to \$5,356,858 compared to \$4,993,101 in the prior comparative period (+7.5%). The increase in expenses that were attributed to the major operational UK tour was in part offset by the reduced costs incurred in Fund Raising and Special Events, Salaries and Benefits, Volunteer Expenses due to Harmonized Sales Tax credits, Food, Beverage, Catering, Marketing, Insurance, and Building Maintenance costs.

The Museum continues to operate as “Canada’s Flying Museum” and is the largest flying Museum in the country. While the costs associated with keeping about 13-15 of the Museum’s 40 plus vintage aircraft in an airworthy condition can vary from year to year, overall the cost this fiscal year for aircraft maintenance including both scheduled and unscheduled maintenance was actually slightly reduced from the previous year during which two significant and major Merlin engine overhauls were accomplished.

The largest single expenditure in the Museum's annual budget continues to be Salaries and Benefits which were slightly reduced this fiscal year at \$1,602,789 (-4%) as compared to \$1,676,400 for the prior year. Management believes that this cost, whilst significant, represents immense value considering the number of dedicated individuals employed. The Museum operates on a 362 day yearly schedule, conducting a myriad of activities that simply could not be successfully accomplished without the time-tested talents of the Museum employees, augmented by the valuable contribution and support of the many Museum members and volunteers.

From a cash flow perspective the Museum realized a positive cash flow of \$444,620 at the end of the fiscal year as compared to a negative cash flow of (\$20,512) in the previous fiscal year. Included in this result were net investment activities comprised of proceeds from the sale of a capital asset for \$68,000, the dissolution of an investment for \$23,000 and the deferred interest free purchase of another significant aircraft for the Museum collection as a capital asset valued at (\$302,237), as well as, the result of financing activities of (\$185,610) resulting from bank indebtedness, bank loan payments, proceeds from long term debt, and grants received.

As of September 30, 2014 Current Assets have increased to \$1,143,963 compared with \$257,424 on September 30, 2013. A major increase in Cash, Accounts Receivable, and Inventory contributed to the major increase in Current Assets. The Current Liabilities as of September 30, 2014 were reduced to \$1,038,041 (-13%) from \$1,191,771 as of September 30, 2013.

Overall the operating result for the fiscal year was a net operating excess of revenue over expenses of \$1,126,721. While the domestic operations of the Museum were once again successful during the fiscal year, without question the major contribution to this outstanding performance was the result of the overwhelming success of the "2014 Lanc UK Tour". Never before in the 43 year history of the Museum was there such a successful operational flying tour conducted. All those who were involved in this initiative whether they were staff, volunteers, or supporters on the "Tour Team" or on the "Home Team" should be justifiably proud of a demanding and complex undertaking extremely well done.

Management's business model for the Museum operations will continue to focus on continuing to build revenues from memberships, admissions, retail operations, food, beverage, and catering activities, flight operations, education programs, and creative and special fund raising activities and initiatives while remaining cognizant of need for efficient and effective cost controls in the day to day operations.

The following Table 1 sets out selected annual information for the past five fiscal years ended September 30 in each year.

Table 1

	2014	2013	2012	2011	2010
Gross Revenues	6,564,064	4,965,756	4,610,086	4,888,069	4,547,672
Gross Operating Costs	5,356,858	4,993,101	4,767,008	4,653,880	4,296,369
Operating Revenue/Loss	1,207,206	(27,345)	(156,922)	234,189	251,303
Net Result of Operations	1,126,721	131,612	(243,572)	150,503	165,491
Current Assets	1,143,963	257,424	301,402	402,438	353,259
Total Assets	10,411,700	9,363,709	9,451,471	9,514,085	9,405,725
Current Liabilities	1,038,041	1,191,771	1,411,145	1,227,187	1,091,105
Long Term Liabilities	278,753	203,753	203,753	206,753	384,978

MOVING FORWARD

A continuing and constant challenge will be to consistently grow revenue streams in all areas available to CWH in order to accomplish our Mandate and Mission on an ongoing basis. These will include but should not only be limited to membership subscriptions, admissions, retail sales, food, beverage, and catering, fund raising and special events, support clubs, educational programs, flying activities, facilities rentals, as well as formal corporate and private sponsorships. CWH benefits from its registration as a charitable organization, which enables it to issue Charitable Donation Receipts in appropriate circumstances, it does not have the benefit of any general or specific funding arrangements from the Federal or Provincial Government; its annual budget is principally funded by its activities as described above and by donations, great and small. Concomitant with the need to identify and conduct creative and innovative revenue producing activities, the fundamental requirement to pay attention to effective and efficient cost control measures in all we do will remain as cornerstone business function. While CWH is a not-for-profit corporation, it must always seek to apply sound business practices in order to enable it to continue to reach its objectives and accomplish its Mandate.

The continued support and utilization of our talented and highly skilled members and volunteers will be a vital and necessary component/benefit to the Museum and provide an essential resource to our very talented but relatively small full-time staff.

With the ageing of our facilities, now almost 19 years old, the reliance on a multi-year capital asset replacement and repair program will assist Management in establishing proper priorities and capital funding allocations, as will the continued activity and support of the Board's Fund Raising Committee in their efforts to fund the future replacement of the Museum building roof membrane, boiler and chiller systems, as well as other major structural building components such as the hangar doors when required.

By necessity Management will continue to remain focused on the building blocks of any successful business and seek ways to increase revenue and controlling costs, while at the same time identifying and implementing effective strategies to recognize and retain our talented and valuable employees and members. It is also hoped that by cultivating strategic community partnerships whenever possible that the Museum will be able to further expand and introduce new initiatives and activities that will increase our presence and relevance in our community and allow to continue to grow as "Canada's Flying Museum".

For further information on CWH and the Museum's activities, please refer to the CWH website: www.warplane.com.