



Competing beyond price

Why Canada's tourism industry
must innovate to survive

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Dear reader,

There was a time, not so long ago, when Canada attracted travellers' dollars because of its proximity to the United States and favourable exchange rates.

Those days are done. We now face more stringent passport requirements and border delays making it harder to enter the country. More compelling tourism product draws travellers to other destinations around the world. Fear of pandemics and security concerns may deter many vacationers from travelling at all. Most significantly, the appreciation of Canada's dollar relative to the U.S. dollar has vastly eroded the country's cost competitiveness. Canada is no longer perceived as a bargain, and the only way to re-engage both domestic and international travellers is through industry revitalization.

To help Canada's tourist organizations and destinations address these challenges, Deloitte and the Tourism Industry Association of Canada (TIAC) continue to conduct ongoing research initiatives. In this third annual report, we review a range of cost and price structures across the tourism industry and outline several critical response strategies Canada's operators can adopt to enhance their competitive stance. To do this, Deloitte and TIAC: 1) benchmarked the pricing of much of Canada's national tourism product to that in other destinations; and 2) engaged in discussions with many senior leaders across the industry to better appreciate the extent of the issues facing the sector, as well as the range of available response options. Throughout this report, you will find informative statistics about the current state of the tourism, hospitality and leisure industry, and have the opportunity to read how leading organizations are positioning themselves for the future.

A special thanks to all the members of the Deloitte and TIAC teams who helped with this initiative, and especially to the members of the organizations who spent time with us discussing both the issues and opportunities moving forward.

We hope you enjoy this report and we look forward to bringing you future industry research and insights.

Sincerely yours,

A handwritten signature in black ink, appearing to read 'Ryan Brain', with a stylized flourish at the end.

Ryan Brain

Partner and National Practice Leader
Tourism, Hospitality & Leisure
Deloitte

Are Canada's travel costs too high?

While the global financial crisis has taken a toll on businesses around the world, few industries have been as hard hit as tourism, hospitality and leisure. Lower consumer confidence, a weaker U.S. dollar and uncertainty about the timing for a recovery have all contributed to higher price sensitivity among travellers. This trend has been particularly acute for Canadian operators due to a pervasive perception that Canada's travel costs are already too high.

But are they? To find out, we compared Canada's cost structure for items such as airline tickets, ground transportation, hotels, meals and attractions with its international counterparts. The results paint an interesting picture about Canada's price competitiveness as a tourist destination.

Flying to and from Toronto

As both a Canadian and global travel hub, Toronto's Pearson International Airport (YYZ) is a high-traffic location that is often more expensive than other proximate airports (see Figure 1). For example, flying from Los Angeles (LAX), New York (JFK), Cancun (CUN) and Sydney (SYD) into Buffalo, NY (BUF) is less expensive than flying into YYZ (which is a short drive from Buffalo). Even when you take ground transportation costs to and from Toronto into account, Buffalo remains the more cost-effective option for short-, mid- and long-haul flights.

This is a major challenge, as airline tickets are among the most price sensitive of products that consumers purchase. Recent research conducted by HotSpex, a Toronto-based market research company, shows that airline ticket purchases are influenced much more by price than brand, especially compared to other purchasing decisions such as banking, soap, toothpaste and coffee shops.

Other modes of transportation – e.g. passenger trains – are also more costly within Canada than other global destinations.

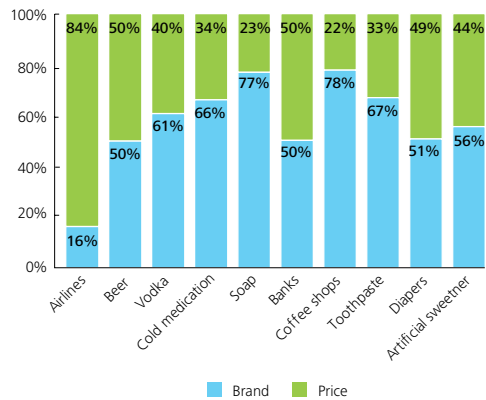
As a result, travellers to the Toronto area generally must choose to either pay higher prices or suffer the inconvenience of flying into an alternate airport and arranging ground transportation to their final destination – choices that don't bode well for Canada's tourism industry.

Figure 1: Flying into Toronto vs flying into Buffalo (round trip)



NOTE: Sample of flights during the first week of November: LAX 1 stop, JFK non stop, CUN one stop, SYD 2 stops; US bus ticket prices translated to CAD at an exchange rate of \$1.0832 as at September 14, 2009
SOURCES: Expedia.ca; Kayak.com; Megabus.com; Canadian Airports Council

Figure 2: Brand vs. price in the buying decision



SOURCE: HotSpex

While air travel is often more expensive, other travel costs are generally in line. For instance, ground transportation costs in Toronto, Montreal and Vancouver are comparable to other major global cities (see Figures 3&4). Canada's hotel rates are moderately priced compared to international destinations (see Figure 5).

Canadian meals are priced comparably to those in the United States and Europe. Even theatre tickets and museum admissions are on par with similar attractions in other cities.

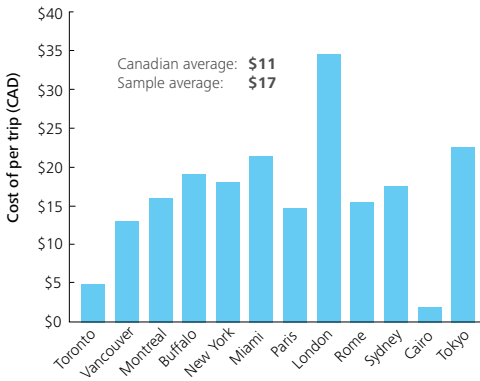
So if the costs of Canada's tourism services and products are comparable to other destinations, why aren't more people visiting?



“Travellers have become incredibly price conscious and offering meaningful value is the ongoing challenge across the industry.”

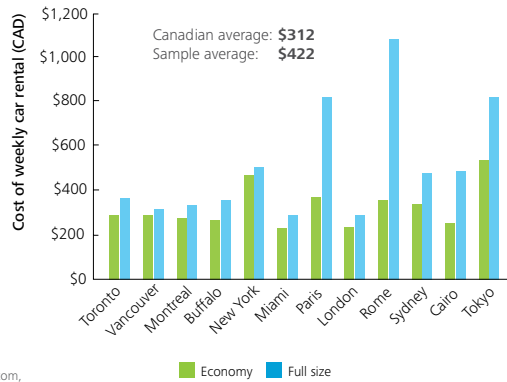
Denis Vandal, Director, Marketing Communications, Air Canada

Figure 3: Cost of a taxi trip across major cities



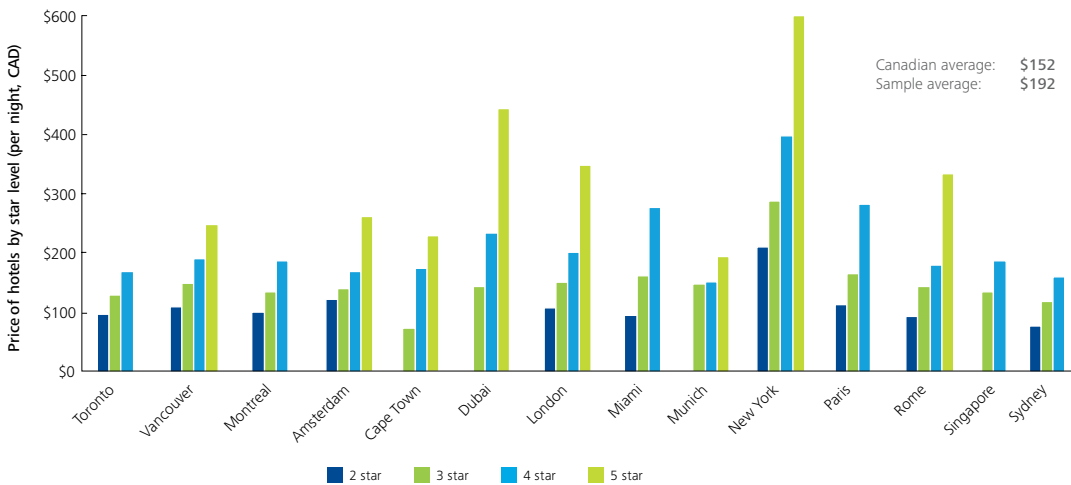
NOTE: Prices reflect an 8km trip; exchange rates as at September 14, 2009
SOURCES: Xe.com, Royaltaxi.ca, Yellowcabonline.com, Ville.montreal.qc.ca, Taxifarefinder.com, Libertycab.com, Taxi-paris.net, TfI.gov.uk, Romeinformation.info, Transport.nsw.gov.au

Figure 4: Rental car rates across major cities



NOTE: Prices reflect a week-long rental from October 14-21, 2009, booked a month ahead of time
SOURCES: Expedia.ca

Figure 5: Comparison of hotel rooms across major cities



NOTE: Data translated from GBP to CAD as at September 14, 2009, 1 GBP = 1.6625 CAD; data unavailable for certain country star ratings
SOURCE: Hotels.com 2009 Hotel Price Index

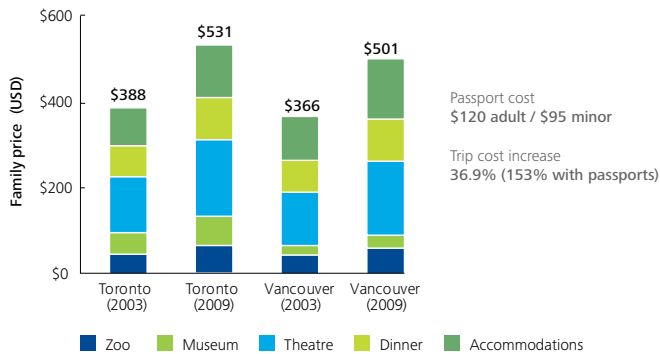
Charting the value gap

Many of Canada's current challenges in attracting visitors can be traced to the ongoing depreciation of the U.S. dollar.

Over the past six years, Canada's dollar rose from \$0.65 U.S. to just under par. As a result of this change, the real cost of visiting Canada has skyrocketed.

In 2003, an American family of four could enjoy a day of activities, meals and accommodations in Canada for under \$400 U.S. Today, that same experience would cost over \$500 U.S. (see Figure 6), with passport fees pushing one-time costs up by another \$95 to \$120 U.S. per person. And this doesn't take into account additional access barriers such as border delays and the inconvenience of flying into an alternate airport to try to reduce some travel costs.

Figure 6: Cost for a family to travel to Canada, 2003 vs 2009 adjusted for inflation



NOTE: Comparison assumes a family of four; two adults, two children. Family rates applied where applicable. Theatre prices are for a family premium show (Broadway type) weekday; the price represents the average across seat ranges. Dining costs for children was assumed to be half that of an adult. As meal data was unavailable for Vancouver, it has been considered comparable to Toronto for dining.

SOURCES: Royal Ontario Museum; Toronto Zoo; CyclePath Toronto; The Princess of Wales Theatre; Canada's Wonderland; Museum of Vancouver; Greater Vancouver Zoo; Spoke's bicycle rental; Playland Vancouver; ThomsonReuters; Inflation Calculator; United States Department of State










Why visit?

Price barriers alone don't tell the whole story. The real challenge is not simply high costs. It is that Canada's prices are not perceived as competitive for the calibre of tourism products offered. It's not that travellers around the world aren't aware of our country; they are. In fact, Canada ranked number two (behind Australia) as the most successful brand in 2008. It's just that awareness of the national brand is not translating into visitation – largely because Canada is not seen as a good-value tourism destination.

Many international travellers give Canada lacklustre rankings in terms of the value received for specific product and their overall travel experience.

Simply stated, too many travellers need a more compelling reason to visit Canada (see Figure 7). It is becoming increasingly clear that change is needed to revitalize the country's tourism, hospitality and leisure industry.

Figure 7: Reasons preventing travellers from visiting Canada

										Average
Other places I want to see more	80%	77%	83%	81%	88%	74%	80%	79%	86%	81%
Too expensive/can't afford it	70%	78%	80%	77%	80%	89%	83%	75%	61%	78%
No real reason to go	57%	56%	56%	66%	84%	77%	55%	55%	72%	64%
Destinations and attractions too far apart	45%	53%	50%	64%	82%	68%	43%	55%	54%	58%
Too far/flight too long	44%	55%	44%	74%	82%	82%	55%	49%	40%	57%
Don't know enough about it	43%	46%	43%	69%	85%	79%	42%	56%	49%	57%
Poor weather	39%	51%	62%	52%	80%	60%	43%	61%	55%	56%
Nothing to do there	37%	44%	49%	61%	80%	68%	33%	53%	52%	53%
Too boring/not exciting	35%	46%	50%	54%	74%	58%	36%	49%	59%	51%
No unique history/culture	33%	49%	45%	56%	78%	64%	33%	55%	45%	51%
Delays/hassles at airports and borders	28%	36%	42%	50%	79%	58%	31%	49%	59%	51%
Unfavorable exchange rate	26%	39%	49%	53%	78%	63%	43%	52%	48%	50%
Passport or entry visa requirements	20%	35%	40%	47%	82%	61%	24%	46%	31%	43%
Safety concerns	16%	30%	37%	48%	69%	48%	24%	33%	23%	36%
Health risks	14%	33%	34%	47%	78%	42%	22%	35%	22%	36%
Language barrier	N/A	35%	34%	61%	80%	71%	N/A	38%	N/A	35%

SOURCE: Canadian Tourism Commission Global Tourism Watch 2008 for various countries

It's not as simple as dropping prices

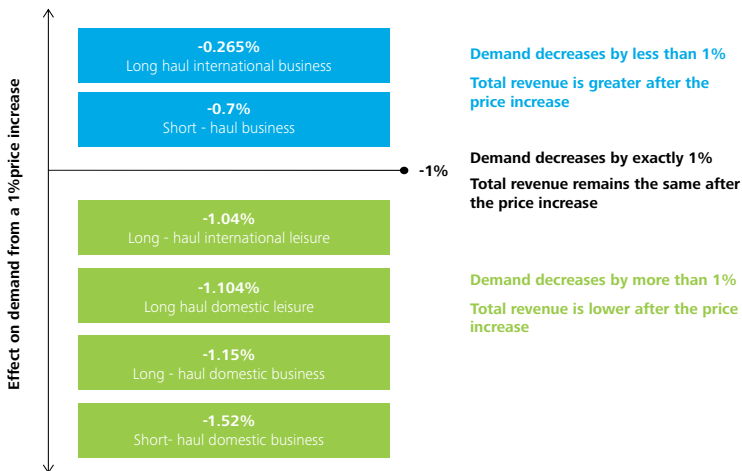
If a value gap exists, one of the obvious ways for Canada's tourism industry to narrow the chasm is by dropping prices. In fact, this has been the typical response across much of the industry in an attempt to offset declining traveller arrivals and receipts.

In some ways, this is borne out by research. Using the economic theory of price elasticity, which measures the change in demand resulting from a change in price, we can now evaluate how various tourism sectors can influence demand.

If airlines raise their long-haul domestic business fares by just 1%, this causes a corresponding decrease in demand of 1.15%. If airlines currently sell 1,000 tickets at \$200 each (for a revenue of \$200,000), this model indicates that raising ticket prices by 1%, to \$202, would cause demand to fall to 985 tickets – which yields revenue of only \$198,970 (see Figure 8). This assessment alone makes a strong case for reducing airfare prices (whether actual ticket prices or ticket taxes/fees) in an attempt to both attract additional visitors and bolster industry revenues, given the importance of air travel across the broader industry. Canada's air travel prices are relatively high, and lower overall ticket prices would certainly be welcomed by travellers and many operators.

The problem is that this model only holds true when applied to leisure airfare and long-haul domestic business flights. When you apply a similar model to price declines in other areas of the tourism industry, it becomes abundantly clear that price cuts are simply not sustainable. In fact, with the exception of certain segments of air travel, the tourism industry can actually increase its revenues by charging higher prices.

Figure 8: Canadian airline industry price elasticities of demand, 2008



NOTE: Canadian airline elasticities represent the median of a range.

SOURCES: Government of Canada Department of Finance; Air Travel Demand Elasticities: Concepts, Issues and Measurement (2008); Canadian Tourism Commission Tourism Snapshot, 2008 Facts & Figures

“It’s all about value. As an industry we need to give travellers what they want and expect for a fair price.”

Vito Culmone, Executive Vice President, Finance, CFO, WestJet

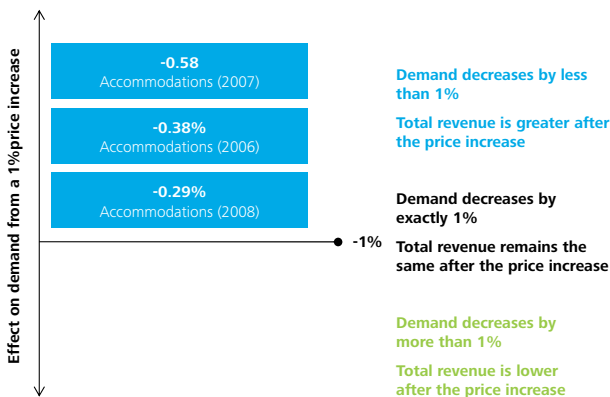
The problem with price cuts

Consider this example: for every percentage increase in hotel room rates, demand drops by less than 1% (see Figure 9). In practice, this means that a hotel selling 1,000 rooms at \$100 per night can realize total revenue of \$100,000. By increasing the cost 1%, to \$101 per night, demand would drop to 997 rooms. Yet revenue would rise to \$100,707.

Canada's hotel operators lowered average daily room rates (ADRs) by 6.8% between 2008 and 2009. While lower rates have been driven by economic conditions, the resulting impact is decreasing profitability across an already challenged sector.

The conclusion seems evident. Dropping leisure air fares will benefit the industry. However, beyond leisure air travel, price drops will require strong volume to deliver sustained results, even if they appeal to the masses. Price drops are also difficult to reverse as economic conditions change. More significantly, they can seriously hamper an organization's long-term viability. To close the value gap, Canada's tourism, hospitality and leisure industry must do more than pursue short-term returns. Instead, it must enhance traveller perceptions about the value of Canada's offerings by investing in innovation and improving product quality.

Figure 9: Accommodations industry price elasticities of demand, 2006-2008



SOURCES: New York University International Hospitality Industry Investment Conference

Investing in innovation: the way forward

In response to weak economic conditions, businesses have tightened their cost structures and cut back on new investments. For Canada's tourism, hospitality and leisure industry, however, this type of retrenchment can be a mistake.

That's because lower levels of investment will do nothing to attract new visitors to the country, and will ultimately force tourism organizations to stand idly by as revenues continue to plummet. To break this vicious cycle, both public and private tourism stakeholders must change course to push the industry towards revitalization and innovation.

While there are no hard and fast rules to achieve these goals, industry participants can enhance their chances for success by focusing on three key revitalization strategies. In a nutshell, they must innovate, cooperate and concentrate on their strengths.



“We’re responding to the current market by offering unparalleled speed, convenience, and service. We still see strong demand in many new markets, in both Canada and the United States.”

Robert Deluce, President and CEO, Porter Airlines

1 Innovate

Albert Einstein once said that the definition of insanity is doing the same thing over and over and expecting different results. Tourism operators should heed this warning. Experience shows that price drops limit an organization's ability to achieve sustainable growth. And while the need for many operators to adjust pricing up or down to match demand is a reality across many parts of the industry (namely hotels and airlines), the key is to be strategic about such adjustments and avoid 'blanket' price reductions as a knee-jerk reaction. Rather than walking the worn path of blanket price reductions, it is now essential for industry players to make the investments necessary to enhance the country's tourism products and strengthen our product brand. This is the only way to attract global travellers interested in new, innovative and authentic experiences.

“Marineland continues to offer guests free parking – a very unusual innovation for an amusement park, but we want to provide an opportunity for our guests to offset other increasing costs.”

Tracy Stewart, Director of Administration, Marineland

“One of the greatest things we can do is continue to invest in the brand that we have, as brand is the enemy of commodity and price. Brand is also the one way you can distract attention away from price.”

Greg Klassen, Senior Vice-President, Marketing Strategy and Communications, Canadian Tourism Commission

“We've had to become much better and flexible with pricing. We've invested heavily in databases and customer contact systems which allow us to be very pointed with discounts, price adjustments, and other strategic incentives aimed at increasing attendance. Pricing decisions must be consistent with our brand.”

Anita Gaffney, Stratford Festival

2 Cooperate

Another way for Canada's tourism, hospitality and leisure industry to extend its appeal is by fostering greater cooperation – both between the public and private sectors and among tourism operators. Currently, Canada's government is slated to spend an estimated \$800 million on the tourism industry, creating ample opportunity for tourism stakeholders to make use of government assistance. Additionally, Canada's 'access' challenge will require significant government involvement if Canada is to offer travellers more competitively-priced airfares or other modes of transportation.

At the same time, operators will need to cooperate with each other on a more granular level to create unique travel experiences that can compete on the global stage. For example, the Stratford Festival has sharpened its focus on creating a better traveller experience by enabling its call centre to book hotel rooms in real time.

Cooperation in action

To reinvigorate national travel offerings, many countries already engage in creative public-private partnerships.

Ireland

Fáilte Ireland, the country's tourism marketing body, created a National Development Plan for 2007 – 2013 which designates £137 million for tourism product development. Funds have been set aside to upgrade 20 of the country's visitor attractions to international-class standards, create up to three new visitor attractions, renew Ireland's historical and other major ornamental gardens and develop a series of activity/adventure products. Funding is available to the private and public sectors as well as voluntary organizations, with priority funding going to small and medium enterprises and priority development regions.

“Given the intense global competition for tourism dollars, it is more important than ever for the Canadian provinces and the Federal Government to be aligned in our tourism strategy. While Canada does have a lot to offer, we also have a large geographic area for tourists to consider. We need to learn from other large markets, like Europe, on how to better segment and package our country, in essence make Canada easy to sell.”

Mike Thompson, Vice President, Leisure Travel –North America, Carlson Wagonlit Travel

Mexico

FONATUR, Mexico's central tourism planning body, creates "one-stop" product clusters by funnelling investment toward designated tourism regions. In developing and managing these centrally-planned tourism centres, the agency focuses on attracting private investment to help fund infrastructure development. To date, FONATUR has already developed successful tourism clusters in Cancun, the Mayan Riviera, Ixtapa and Los Cabos, with additional areas slated for development over time.

New Zealand

New Zealand's national and regional tourism organizations take a unique approach to fostering innovation. Rather than funding new product development, they identify world-class products post-development and showcase them in international advertising free of charge. In addition to incenting tourism operators to develop new and exciting products, this structure allows the country's tourism organizations to allocate budgets wisely by promoting products that have already proven successful.



3 Concentrate on our strengths

Yet another strategy for revitalizing Canada's tourism, hospitality and leisure industry revolves around a proven business precept: organizations are most likely to realize long-term success by carving out a niche that leverages their unique strengths. While competition for the travel dollar is increasing, the country is known worldwide as an exceptional destination for experiencing nature and the outdoors. In addition, Tourisme Montreal's Vice President Public Relations, Research & Product Development, Pierre Bellerose states that Canada has two distinctive advantages which it should draw on. First, Canadian cities offer a unique blend of urban vitality and animation. Second, Canadians themselves can act as a draw.

“Canada has impressive natural beauty. It also has so much more, including innovation and business development opportunities. The Olympics is an unequivocal opportunity to capitalize on the Games where they become a catalyst to improve tourism before, during and, more importantly, after the Games.”

Andrea Shaw, Vice-President of Sponsorship Sales & Marketing,
Vancouver Olympic Committee (VANOC)

Based on surveys conducted by the Canadian Tourism Commission in seven countries (Germany, China, Japan, South Korea, Mexico, the United Kingdom and the United States), Canada is seen as a world leader in a number of outdoor tourism products, including:

- Observing wildlife in their natural habitats
- Kayaking, canoeing, sailing or cruising
- Visiting parks, protected areas or heritage sites
- Viewing beautiful landscapes
- Spa and wellness experiences
- Skiing or snowboarding
- Touring on your own by car, train, bike or boat
- Fishing or hunting
- Seeing rivers, waterfalls, glaciers or coastal scenery
- Hiking/trekking in a nature area

In fact, hundreds of millions of travellers in Canada's target markets have indicated an interest in participating in these listed tourism activities (see Figure 10). Similarly, Canadians themselves have been cited as a positive differentiating factor for the country. Converting just a small number of the interested tourists into actual visitors can vastly and irrevocably alter the dynamics of Canada's tourism industry.

Figure 10: Travellers interested in core Canadian tourism offerings

Activity								Total
Viewing beautiful landscapes	10.4M	3.6M	9.7M	5.7M	2.3M	14.1M	60.5M	106.3M
Seeing historical and cultural attractions	9.8M	3.5M	9.9M	5.4M	2.3M	12.8M	58.6M	102.3M
Visiting parks, protected areas, or heritage sites	10.0M	3.5M	9.9M	5.5M	2.2M	13.0M	54.6M	98.7M
Exploring vibrant cities that are in close proximity to nature	9.8M	3.6M	8.8M	5.6M	2.1M	12.3M	52.4M	94.6M
Observing wildlife in their natural habitats	7.4M	3.0M	5.2M	4.7M	2.0M	10.5M	48.3M	81.1M
Experiencing aboriginal culture and attractions	10.5M	3.4M	5.0M	5.2M	1.9M	9.2M	42.8M	78.0M
Spa and wellness experiences	5.1M	2.7M	8.7M	4.8M	1.4M	4.2M	24.8M	51.7M
Kayaking, canoeing, sailing, or cruising	2.9M	2.3M	2.1M	4.3M	1.3M	2.8M	23.5M	39.2M

NOTE: Numbers reflect the total number of travellers in each country that are (1) interested in the given activity, and (2) interested in visiting Canada in the next two years (may include travellers that have visited Canada previously, and thus this 'potential' is already included in Canada's tourism arrival statistics). **SOURCE:** Canadian Tourism Commission Global Tourism Watch 2008 for various countries

“There is no silver bullet or we would have found it.
Working together across the industry is critical to achieving
better and more innovative experiences for travellers.”

Bill Knowlton, Vice President, Marketing and Sales, Jonview Canada Inc.

“Global competition is fierce. We need to play
up our strengths to become better noticed on the
world stage.”

Robin Garrett, President and CEO, Ontario Tourism Marketing Partnership Corporation

“The rising cost of transportation does have some positive effects on local tourism for us. More Canadians are looking to local attractions, but are shopping for value – quality and price are top of mind for them.”

Mark Bingeman, President, Bingemans

Concentration in action

To see how simple strategies for leveraging our strengths can translate into higher tourism receipts and improved levels of repeat visitation, consider these real-world case studies.

Bear Paw Lodge

Bear Paw Lodge is located in northwestern Ontario, in the heart of moose and bear habitats and close to 4,400 km of ample fishing shoreline. It capitalizes on these strengths by offering tourists an authentic experience – a week in the Canadian wilderness fishing and hunting for bear or moose on a guided tour. To attract visitors, Bear Paw’s owner seeks out tourists at trade shows in Asia, signing up families to

spend a week at his resort. Following that week, many of these tourists continue their travel experiences by visiting Toronto or the Niagara region. The Lodge also hires international students to assist in seasonal operations, and many of these staff members have become some of the destination’s best promoters through word of mouth recommendations. These are just some of the elements that have made the Lodge a successful destination in recent years.

Livingstone’s Adventure Company

Livingstone is considered the tourist and adventure capital of Zambia. Travellers come from around the world to experience a wide range of authentic activities that leverage the city’s strengths, including rafting, flying on a microlight aircraft over the waterfalls or jet boating. Livingstone’s Adventure Company caters to tourists interested in these activities, at both the high- and value-end of the tourism market. With a unique value proposition, access to products in a range of price points and the ability to offer one-of-a-kind experiences that centre around Zambia’s beauty, the organization has realized sustained success in attracting both new and repeat visitors.

“The increasing cost of transportation has definitely affected the extent of the visitors to our festival from the United States. We have altered our marketing strategy to reduce the amount of advertising in the United States and concentrate more of our advertising spending in Ontario markets. We are also experimenting with different partner relationships to further the effectiveness of our advertising spending.”

Larry Blundell, Executive Director, Oktoberfest

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Designed and produced by National Design Studio, Canada 09-1926