Annual Report 2009-2010

Canada

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CANADA ACCOUNT ANNUAL REPORT

FOR THE GOVERNMENT OF CANADA YEAR ENDING MARCH 31, 2010

Canada

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Overview

Under Canada Account, the Government of Canada (the "Government" or the "Crown") is able to authorize support for transactions which, on the basis of Export Development Canada's ("EDC" or the "Corporation") risk management practices, would not be supported under EDC's Corporate Account but are in the national interest. Canada Account transactions are assessed, entered into and managed by EDC, and the Government effectively assumes the associated financial risks by providing all monies required for any transaction from the Consolidated Revenue Fund ("CRF"). Canada Account consists of transactions or classes of transactions undertaken by EDC pursuant to Section 23 of the *Export Development Act* ("the Act"). Such transactions can include business in all of EDC's product categories (financing, accounts receivable insurance, contract insurance and bonding, and political risk insurance) except equity. Such transactions cannot include any business that cannot be undertaken by EDC pursuant to Section 10 of the Act. Interest and fees on loans (which are fully repayable), insurance premiums and fees, as the case may be, also apply to Canada Account transactions. In 2010, the Government of Canada amended Section 23 of the Act to clarify EDC's authority to undertake debt restructurings on behalf of the Government for Canada Account transactions, in the same manner that it operates its Corporate Account.

Authority

Pursuant to Section 23 of the Act, the Minister for International Trade ("the Minister"), with the concurrence of the Minister of Finance may authorize EDC to undertake certain financial and contingent liability transactions. Transactions exceeding $50 million or those of a sensitive nature are first referred to Cabinet for an approval-in-principle.

Section 24(1) of the Act allows Canada Account to have outstanding commitments to borrowers, the principal amount of obligations owed to the Corporation and contingent liabilities under contracts of insurance and other arrangements up to an aggregate of $20 billion. (See Management's Discussion and Analysis, Position against Statutory Limit). All monies required by the Corporation to discharge its obligations under Canada Account are paid to the Corporation by the Minister of Finance, out of the CRF. Such monies are accounted for separately and do not impinge on the Corporation's borrowing limits.

Risk Management

EDC provides financial services that allow Canadian exporters and investors to manage the risks they face while doing business internationally. In doing so, EDC does assume risks and must prudently manage these risks to ensure its long-term financial viability. In a transaction in which one or more of these risks (including country risk, credit risk, interest rate risk or the size of the transaction) are considered beyond the risk capacity of the Corporation and inconsistent with ensuring its long-term financial viability, the Government may authorize EDC to undertake the transaction and effectively assume those risks itself provided that the transaction is in the national interest of Canada. In considering its authorization, the Government relies on EDC's risk assessment of the transaction. Funds for Canada Account transactions come from the CRF. For each transaction, the Government sets aside an allowance for potential losses in the fiscal framework. Allowances are adjusted by the Government for all financial exposures based on the risks associated with the transaction (country, credit rating, value of collateral, etc.). In accordance with the Government's accounting policies, the value of loans, investments and advances made under Canada Account are adjusted in its financial statements by means of a valuation allowance to approximate their net realizable value.

Management

The Corporation is responsible for the assessment, negotiation, documentation, management and administration of Canada Account transactions.

At the initial stages of a transaction that is eligible for Canada Account support, EDC seeks Ministers' approval in principle. Such approval allows the Corporation to indicate possible support to a company conditional on final approval of the Government. In the late stage, when the funding and the parameters of a transaction have been established, EDC seeks Ministerial Authorization to make a firm offer and/or to enter into an agreement.

EDC provides information and advice on Canada Account transactions. Upon receipt of a Ministerial Authorization for a transaction, EDC is responsible for coordinating and administering transactions, which includes the execution of legal documents, requesting and disbursement of funds and management of the repayment flows. EDC is required to maintain separate accounts for all disbursements, receipts and recoveries. All such receipts and recoveries are to be remitted to the CRF. However, under the Act, the Minister of Finance may authorize EDC to retain certain amounts from receipts and recoveries to meet expenses and overhead related to these transactions (see Note 7). The Minister, with the concurrence of the Minister of Finance, may also authorize EDC to take certain actions necessary or desirable for the management of assets and liabilities arising out of transactions.

EDC has entered into a Memorandum of Understanding with the Department of Foreign Affairs and International Trade which provides the mechanism whereby funding requests are made by EDC to the Government and remittances are made by EDC to the Government.

Eligibility

Canada Account transactions must meet EDC's mandate to support and develop, directly or indirectly, Canada's export trade and Canadian capacity to engage in that trade and to respond to international business opportunities. Under Canada Account, the Government of Canada is able to support transactions which would not be supported under EDC's Corporate Account.

In the *Budget Implementation Act, 2009*, EDC was provided with a two-year temporary expansion of its mandate to include the support and development of domestic trade and Canadian capacity to engage in that trade and to respond to domestic business opportunities. Transactions related to this expanded mandate can also be considered under Canada Account.

A transaction will first be considered and rejected by EDC under its Corporate Account prior to it being referred to the Minister for International Trade for consideration under Canada Account. However, the Government can also request that EDC manage a transaction under Canada Account as was the case for the support provided to the automotive sector.

In addition to falling within EDC's mandate, the eligibility considerations applied to transactions considered under Canada Account include:

- EDC's customary lending or insurance criteria (Canadian benefits, financial and technical capability of the exporter, technical and commercial viability of the project, creditworthiness of the borrower);
- The Government's general willingness to consider the country risk in question and the creditworthiness of borrowers; and
- National interest considerations such as:
  - economic benefits and costs to Canada, including the employment and revenues generated or sustained by the transaction;
  - importance of the export market to Canada; and
  - foreign policy implications, including Canada's bilateral relationship with the country in question.

Canada Account services are provided on a user-pay basis. Exporters pay premiums for insurance coverage and there are fees associated with Canada Account financing and guarantees. Loans are extended on terms that are fully repayable with interest, with some exceptions relating to concessional financing.

Policy on Concessional Finance

It is the policy of the Government that concessional financing (interest-free or low-interest rates and/or extended repayment-term financing), which in the past has been provided under Canada Account to match such financing available from other countries, is no longer to be provided. Nevertheless, Canada retains the right to offer matching terms within the parameters agreed upon in the Organization for Economic Co-operation and Development (OECD) "Arrangement on Guidelines for Officially Supported Export Credits", to ensure, where appropriate, that Canadian companies are not competitively disadvantaged by offers of such terms by other countries.

Disclosure

Information on current transactions is posted on EDC's website (www.edc.ca/disclosure) in accordance with the Corporation's Disclosure Policy.

Fiscal Year

All data contained in this report is presented on the basis of the Government's fiscal year which ends on March 31 and will therefore not directly compare to EDC's Annual Report, Corporate Plan and other corporate documents, which are prepared on a calendar-year basis.

Management's Discussion and Analysis

Highlights

The following are highlights of Canada Account activity during the fiscal year 2009/2010:

- There were 13 Ministerial Authorizations this year, compared to six Ministerial Authorizations in the previous year.

- The majority of the transactions under Canada Account were related to the restructuring of the automotive sector. The governments of Canada and Ontario, working closely with the Government of the United States, supported the automotive sector to overcome challenges by jointly supporting the restructuring processes of Chrysler and General Motors through loans and debtor-in-possession financing. One-third of the support to the automotive sector was provided by the province of Ontario and two-thirds by the Government of Canada. The total financing support provided was equivalent to 20 per cent of the overall assistance provided by the United States Government to the two companies.

- All of the $10.8 billion committed to General Motors by Canada and Ontario has been disbursed. General Motors emerged from bankruptcy on July 10, 2009 at which time the Government of Canada reached an agreement with General Motors to exchange loans receivable held by Canada Account, totaling $9.8 billion for 16,101,695 series A preferred shares and 58,368,644 common shares, representing 4.5 percent and 11.7 percent of the outstanding preferred and common shares respectively. At the exchange date, the fair value of the preferred and common shares was estimated to be $3.2 billion. An amount of $6.6 billion representing the difference between the face value of the loans and the fair value of the shares has been recorded as an expense in the Public Accounts in this fiscal year. Since the Canada Account cannot hold equity investments, the shares are held by the Canada Development Investment Corporation. Subsequent to March 31, 2010, General Motors has prepaid their outstanding commitments.

- Of the $3.7 billion committed to Chrysler by Canada and Ontario, $2.9 billion has been disbursed to date. Chrysler emerged from bankruptcy on June 10, 2009.

- In 2008/2009, Canada Account supported transactions for the construction and sale of five vessels for two foreign buyers by Davie Yards. On February 25, 2010 Davie Yards filed for creditor protection under the Companies' Creditors Arrangement Act ("CCAA") with the Quebec Superior Court and an appropriate allowance has been established.

- Remittances in principal, interest, lease revenue, claims recovered and fees, net of expenses, totaling $790 million were made to the CRF by EDC.

- Canada Account year-end exposure increased by $2.1 billion from 2008/2009 due to new commitments totaling $13.2 billion. This was offset by a reduction of the auto loans for $9.8 billion, principal repayments of $0.5 billion and $0.8 billion due to the loss in foreign exchange translation.

Position against Statutory Limit

Section 24 of the Act allows Canada Account to have outstanding loan commitments to borrowers, principal amount of obligations owed to the Corporation and contingent liabilities under contracts of insurance and other arrangements up to an aggregate of $20 billion. The position against this limit at March 31, 2010 was $6,835 million (March 2009 - $4,686 million). Details of this position are as follows:

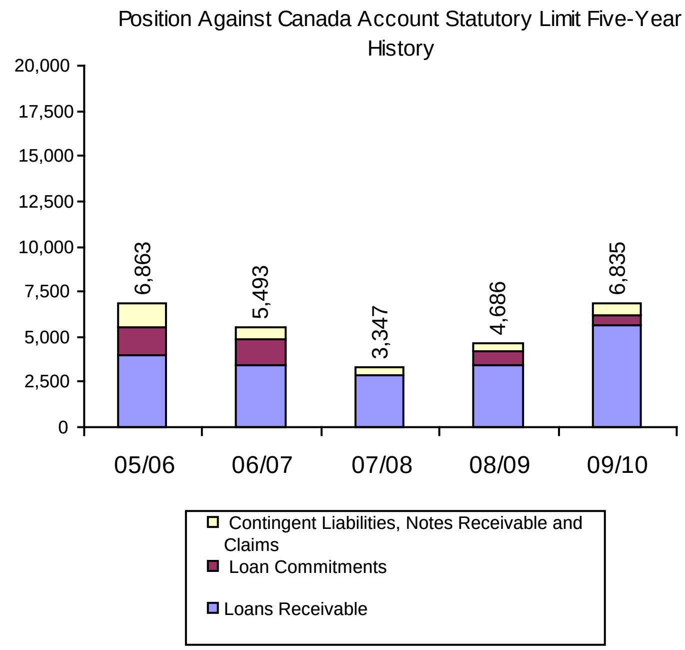
($ in millions)	**March 31, 2010**	March 31, 2009
Loans Receivable		
Concessional	**720**	925
Non-concessional	**4,935**	2,534
	5,655	3,459
Loan Commitments		
Concessional	**1**	1
Non-concessional *	**539**	756
	540	757
Contingent Liabilities, Notes Receivable and Claims		
Loan guarantees	**375**	448
Credit Insurance	**148**	-
Notes Receivable	**104**	-
Outstanding claims	**13**	22
	640	470
Position Against Statutory Limit	**$6,835**	$4,686
Indemnity agreement**	**(44)**	(88)
Equipment available for lease***	**67**	82
Total Commitments and Approvals	**$6,858**	$4,680

**An undisbursed commitment is in place with Chrysler.*
*** Third-party guarantees in favour of the Government.*
****Net book value of aircraft returned because of default under the related obligors' loan agreement.*

Related to the above position against the statutory limit at March 31, 2010, there is one Ministerial Authorization in place for a potential new transaction of $25 million (March 2009 – $3,378 million). In accordance with the Act, transactions related to a Ministerial Authorization will count against the statutory limit once binding commitments are in place and have been accepted.

Five-Year Summary

From 2005/2006 to 2007/2008, the position against the statutory limit was on a downward trend reflecting normal repayments, minimal disbursements and the cancellation of a loan commitment that was no longer required under the related commercial contract. In 2008/2009 and onward, the position increased primarily due to large commitments with Chrysler and General Motors in support of the restructuring and renewal of the Canadian auto industry.



Concentration of Exposure

The following table reflects the major concentrations of commercial and sovereign exposures in the country where the risk resided at March 31, 2010.

($ in millions)	Concessional		Non-Concessional		Contingent Liabilities & Claims					
Country	Loans receivable	Loan commitments	Loans receivable	Loan commitments	Notes receivable	Loan guarantees	Credit Insurance	Outstanding claims	Exposure $	%
United States	-	-	2,449	-	51	100	133	-	2,733	*40*
Canada	-	-	1,900	481	53	2	-	-	2,436	*36*
China	435	1	-	-	-	-	-	-	436	*7*
Romania	-	-	-	-	-	273	-	-	273	*4*
Norway	-	-	203	-	-	-	-	-	203	*3*
Sweden	-	-	128	33	-	-	-	-	161	*2*
Cyprus	-	-	77	25	-	-	-	-	102	*1*
Turkey	90	-	-	-	-	-	-	-	90	*1*
Other *	195	-	178	-	-	-	15	13	401	*6*
Total	$720	$1	$4,935	$539	$104	$375	$148	$13	$6,835	*100%*

** Includes 22 countries with exposures ranging from $0.4 million to $80 million.*

Exposure by Currency

The following table provides a breakdown of the Canada Account exposure by currency at March 31, 2010. The U.S. dollar portion accounts for 57% of the exposure (2008/2009 - 72%). The decrease in the U.S. portion of the total exposure is due to approximately 67% of the auto restructuring loans being disbursed in Canadian funds. Of the $3,831 million of U.S. dollar exposure, $3,676 million (96%) consists of loans receivable and loan commitments.

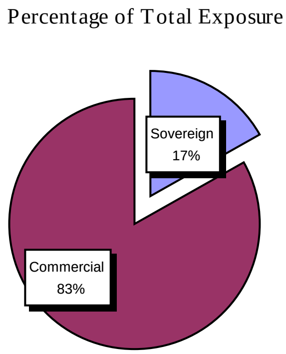
(in millions)	**March 31, 2010**				March 31, 2009			
Currency	**Amount**	**CAD Equiv.**	***Exchange Rate***	***Percentage***	Amount	CAD Equiv.	*Exchange Rate*	*Percentage*
USD	**3,831**	**3,891**	***1.0156***	***56.9%***	2,678	3,375	*1.2602*	*72.0%*
CAD	**2,929**	**2,929**	**-**	***42.9%***	1,293	1,293	-	*27.6%*
EUR	**11**	**15**	***1.3737***	***0.2%***	11	18	*1.6710*	*0.4%*
Total		**$6,835**		***100.0%***		$4,686		*100.0%*

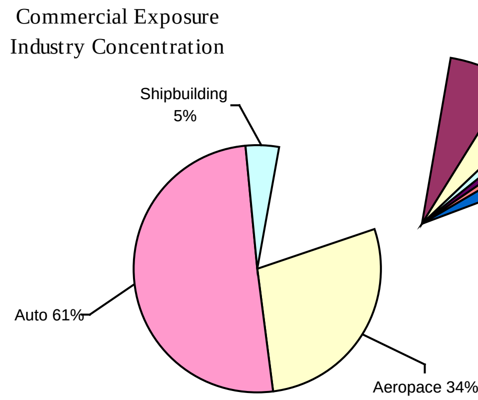
Commercial and Sovereign Exposure

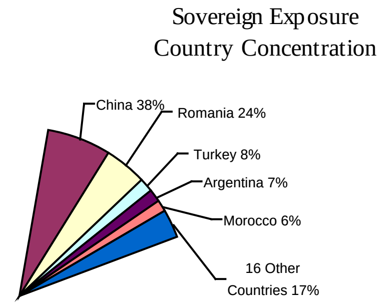
The following table provides a commercial and sovereign breakdown of the Canada Account exposure. The commercial concentration increased from 70% of the overall portfolio in 2008/2009 to 83% in 2009/2010. This increase was primarily due to the financial support provided to the Canadian auto industry. The decrease in the sovereign exposure was mainly due to the impact of foreign exchange translation.

($ in millions)	**March 31, 2010**			March 31, 2009		
	Commercial	**Sovereign**	**Total**	Commercial	Sovereign	Total
Loans Receivable:						
Concessional	**16**	**704**	**720**	21	904	925
Non-concessional	**4,777**	**158**	**4,935**	2,340	194	2,534
Subtotal:	**4,793**	**862**	**5,655**	2,361	1,098	3,459
Loan Commitments:						
Concessional	**-**	**1**	**1**	-	1	1
Non-concessional	**539**	**-**	**539**	756	-	756
Subtotal:	**539**	**1**	**540**	756	1	757
Contingent Liabilities & Claims:						
Loan guarantees	**102**	**273**	**375**	153	295	448
Credit Insurance	**148**	**-**	**148**	-	-	-
Notes Receivable	**104**	**-**	**104**	-	-	-
Outstanding claims	**-**	**13**	**13**	-	22	22
Subtotal:	**354**	**286**	**640**	153	317	470
Total	**$5,686**	**$1,149**	**$6,835**	$3,270	$1,416	$4,686
Percentage	***83%***	***17%***	***100%***	*70%*	*30%*	*100%*

The following charts provide an additional breakdown of the commercial and sovereign exposures at March 31, 2010 by industry and country.







Debt Forgiveness/Debt Relief for Sovereign Loans Receivable

In 1996, the International Monetary Fund and the World Bank proposed that relief be given on the external debt of some of the world's most Heavily Indebted Poor Countries (HIPCs). This initiative was approved by member governments including Canada. At March 31, 2010, Canada Account had loans receivable exposure to three HIPCs totaling $25.2 million (2008/2009 - $31.2 million) or 2.9% (2008/2009 – 2.8%) of the total sovereign loan portfolio, all of which is eligible for debt relief or debt reduction. All of this exposure was taken on prior to 1996.

Loan Portfolio by Interest Type

At the end of fiscal year 2009/2010, floating-rate loans amounted to $3,460 million (2008/2009 - $545 million) or 61% of total loans receivable (2008/2009 - 16%). The increase in the floating-rate portfolio is primarily due to the loans in support of the auto industry. Of this amount, $1,506 million are LIBOR-based U.S. dollar-denominated loans (2008/2009 - $325 million). The remaining floating-rate loans are either LIBOR-based Canadian dollar-denominated loans or prime-rate based Canadian and U.S. dollar-denominated loans. Fixed-rate loans totaled $2,195 million (2008/2009 - $2,914 million) or 39% of the portfolio. The decrease in the value of the fixed-rate loans is due primarily to the impact of foreign exchange translation in addition to regularly scheduled repayments. Almost all of the revenue generated from interest receipts originates from non-concessional loans.

($ in millions)	**March 31, 2010**			March 31, 2009		
	Fixed	**Floating**	**Total**	Fixed	Floating	Total
Concessional	**702**	**18**	**720**	903	22	925
Non-concessional	**1,493**	**3,442**	**4,935**	2,011	523	2,534
Total	**$2,195**	**$3,460**	**$5,655**	$2,914	$545	$3,459
Percentage	***39%***	***61%***	***100%***	*84%*	*16%*	*100%*

Cash Flow Realized on Loans and Notes Receivable

The following table provides a summary of remittances of interest and fees on Canada Account loans and notes receivable broken down between concessional and non-concessional. Concessional loans have either low or zero interest rates and/or extended repayment terms. The cash flows represent interest and fees received by EDC with respect to Canada Account loans and notes that were remitted to the CRF during the fiscal year net of the administration charge and leasing and financing related expenses.

($ in millions)	**March 31, 2010**			March 31, 2009		
	Average annual principal balance	**Interest cash flow**	**%**	Average annual principal balance	Interest cash flow	%
Concessional	**789**	**-**	**.01%**	845	-	.03%
Non-concessional	**5,474**	**229**	**4.18%**	2,212	92	4.16%
Total	**$6,263**	**$229**	**3.66%**	$3,057	$92	3.01%

The decrease in the average annual principal in the concessional loans was mainly due to the impact of foreign exchange translation. The increase in the average principal balance in the non-concessional loans was due primarily to large loan disbursements to Chrysler and General Motors in 2009/2010.

Business Volumes

($ in millions)	**March 31, 2010**			March 31, 2009		
	Commercial	**Sovereign**	**Total**	Commercial	Sovereign	Total
Financing:						
Concessional	**-**	**-**	**-**	-	-	-
Non-concessional	**13,000**	**-**	**13,000**	1,023	-	1,023
Loan guarantees	**3**	**-**	**3**	-	-	-
Total financing:	**13,003**	**-**	**13,003**	1,023	-	1,023
No. of transactions	***20***	**-**	***20***	*2*	-	*2*
Insurance	**148**	**-**	**148**	-	-	-
Total	**$13,151**	**-**	**$13,151**	$1,023	-	$1,023
Percentage	***100%***	***-%***	***100%***	*100%*	*-%*	*100%*

Total Canada Account financing volume increased by $12,128 million from the previous fiscal year. The increase in business volume was mainly due to the support for the Canadian auto industry.

Leasing and Financing Related Expenses

Leasing and financing related expenses for 2009/2010 totaled $21 million (2008/2009 – $7 million). The majority of these costs are related to returned aircraft and include an impairment loss and depreciation. Depreciation is charged on a straight-line basis over the estimated useful life of the aircraft (20 years from the date of build). Also included in these expenses are legal fees related to the support provided to the Canadian auto industry.

The impairment loss on leased assets represents a write-down on the value of the leased aircraft and is further discussed in Note 8.

In September 2007, the Government of Canada entered into a financial guarantee insurance policy to insure USD 600 million of the Canada Account aerospace portfolio exposure to minimize concentration risk. This policy coverage ended on August 12th, 2009.

Components of leasing and financing related expenses:

($ in millions)	**March 31, 2010**	March 31, 2009
Impairment loss on leased assets (Note 8)	**11**	-
Depreciation	**5**	4
Legal fees – auto industry related	**3**	-
Insurance – returned and all aircraft portfolio	**1**	1
Other (financial guarantee insurance policy)	**1**	2
Total leasing and financing related expenses	**$21**	$7

Outstanding Claims on Insurance

There are currently $12.9 million (2008/2009 - $21.7 million) in claims paid and unrecovered under Canada Account. A negotiated resolution was reached on June 4, 2007 pertaining to claims paid to Cuba. All outstanding claims were fully paid over a two-year period with the final two repayments made in June and July 2009 totaling $7.6 million. In addition, $12.4 million in claims were paid in 1995 to Russia under the foreign investment insurance program. These claims continue to be outstanding.

Canada Account Financial Statements

Statement of Receivables, Claims and Equipment Available for Lease

As at March 31 *($ in millions)*	**2010**	2009
Loans receivable (notes 3, 4 and 5)	**5,655**	3,459
Notes Receivable (note 6)	**104**	-
Allowance for losses on loans*	**(1,977)**	(701)
Allowance for interest on loans*	**(285)**	(217)
Portion expensed due to concessionary terms	**(623)**	(650)
Accounts Receivable**	**-**	83
Accrued interest and fees	**240**	193
Equipment available for lease (note 8)	**67**	82
Temporary Investment	**-**	3
Fair value of unsecured claims (note 9)	**2**	2
Outstanding claims	**13**	22
Total	**$3,196**	$2,276

**Allowances for Canada Account exposures are estimated by the Government of Canada's central agencies and recorded by the Department of Foreign Affairs and International Trade. The allowances for loans have increased primarily as a result of new loans made during the year, in particular, loans made to provide financial support to the automotive sector. The increase was partially offset by the effects of the strengthened Canadian dollar and by the normal repayment of loans by counterparties.*
***Pursuant to an agreement with the Ontario Financing Authority (OFA), the OFA contributed one-third ($83,333,333) of the balance of a term loan issued ($250,000,000) to Chrysler in 2009.*

Statement of Loan Commitments, Contractual Obligations and Contingent Liabilities

As at March 31 *($ in millions)*	**2010**	2009
Loan commitments & contractual obligations (note 10)	**691**	762
Loan guarantees (note 11)	**375**	448
Allowance for loan guarantees*	**(67)**	(38)
Subtotal	**999**	1,172
Indemnity agreement**	**(44)**	(88)
Total	**$955**	$1,084

** Allowances for Canada Account exposures are estimated by the Government of Canada's central agencies and recorded by the Department of Foreign Affairs and International Trade.*
*** Third-party guarantees in favour of the Government.*

Canada Account Financial Statements
Statement of Revenue and Expenses

For the year ended March 31 *($ in millions)*	**2010**	2009
Revenue:		
Gain on foreign currency translation – net (note 2)	**-**	604
Loan interest and guarantee fees	**674**	146
Amortization of discount	**27**	26
Insurance premiums	**9**	-
Lease revenue	**7**	8
Total revenue	**717**	784
Expenses:		
Loss on foreign currency translation - net (note 2)	**707**	-
Provision for losses on loans and loan guarantees*	**5,696**	322
Administrative charges (note 7)	**6**	4
Leasing and financing related expenses	**21**	7
Total expenses	**6,430**	333
Net income/(loss)	**$(5,713)**	$451

** The provision for losses on loans and loan guarantees has increased primarily as a result of significant new loans made during the year, in particular, loans made to provide financial assistance to the automotive sector as further detailed in Note 3.*

Statement of Cash Flow to/from the Consolidated Revenue Fund

For the year ended March 31

($ in millions)	**2010**	2009
Remittances to Consolidated Revenue Fund by EDC:		
Principal	**548**	173
Interest, premiums and fees	**239**	99
Lease revenue	**6**	7
Claims recovered	**8**	11
Leasing and financing related expenses	**(5)**	(3)
Administrative charges (Note 7)	**(6)**	(4)
Total remitted	**790**	283
Received from Consolidated Revenue Fund by EDC:		
Principal	**14,674**	270
Total received	**14,674**	270
Net cash (to) from the CRF	**$13,884**	$(13)

Note: All funds received by EDC in respect of Canada Account transactions (loan repayments, interest payments, fees, premium payments, etc.) are remitted by EDC to the CRF net of the expenses and overhead of the Corporation arising out of those transactions.

Notes to the Financial Statements

Note 1: Mandate and Authority

EDC is established for the purposes of supporting and developing, directly or indirectly, Canada's export trade and domestic trade and Canadian capacity to engage in either of these trades and to respond to international business opportunities. Pursuant to Section 23 of the Act, the Minister, with the concurrence of the Minister of Finance, may authorize the Corporation to undertake certain financial and contingent liability transactions where it is considered to be in the national interest. These transactions or classes of transactions and the legislative authorities that underlie them have come to be known collectively as the “Canada Account”. Such transactions can and do include business in all of EDC’s product categories (financing, accounts receivable insurance, contract insurance and bonding, and political risk insurance) except equity. The Corporation is responsible for ensuring that the transactions made by the Corporation under Canada Account are administered appropriately. Accounts for these transactions are maintained separately from the Corporation’s accounts and are consolidated annually as at March 31 with the financial statements of the Government, which are reported upon separately by the Government and audited by the Auditor General of Canada. The assets under Canada Account, mainly loans receivable and accrued interest and fees recorded in accordance with the accounting policies and practices of the Government, amounted to $3,196 million at March 31, 2010 (March 2009 - $2,276 million). Allowances for Canada Account exposures are estimated by the Government of Canada’s central agencies and recorded by the Department of Foreign Affairs and International Trade.

The Act allows Canada Account to have outstanding commitments to borrowers, the principal amount of obligations owed to the Corporation and contingent liabilities under contracts of insurance and other arrangements up to an aggregate of $20 billion. The position against this limit, determined in accordance with the requirements of the Act, was $6,835 million at March 31, 2010 (March 2009 - $4,686 million).

Note 2: Summary of Significant Accounting Policies

Loans Receivable

Loans receivable are carried at historical cost and include capitalized interest and fees.

Loan interest income is recorded on an accrual basis for the purposes of presentation in the Statement of Revenue and Expenses. It includes accrued interest and fee revenue on all loans, including loans in default. It also includes capitalized amounts of interest and fees.

Consolidated information presented in the *Public Accounts of Canada* is prepared in accordance with criteria outlined in the Receiver General Manual (Chapter 15 – Public Accounts Instructions) and excludes amounts of capitalized interest and fees from total loans receivable.

Translation of Foreign Currency

All loans receivable, loan commitments, contingent liabilities and claims denominated in foreign currencies are translated into Canadian dollars at the exchange rates prevailing at the end of the fiscal year. Income and expenses are translated at either daily or monthly average exchange rates in effect during the year. Exchange gains and losses resulting from the translation of foreign currency balances and transactions are recognized in the income statement during the fiscal year.

Note 3: Support in the Canadian Automotive Industry

On December 20, 2008, the Government of Canada and the Government of Ontario announced that they would provide General Motors of Canada and Chrysler Canada with up to $4 billion in short-term repayable loans. According to the Participation Agreement, one-third of the support would be provided by Ontario and two-thirds by Canada, via Canada Account. The total financing support provided was equivalent to 20% of the overall assistance provided by the Government of the United States to the two companies at that time. Subsequent to the initial announcement, additional support was approved to maintain the proportion of the U.S. government's increased support to the companies.

In the current fiscal year, additional loan agreements to General Motors (total $10.8 billion) and Chrysler (total $3.7 billion) were closed and insurance cover was provided to suppliers of the Detroit-3 (General Motors, Chrysler and Ford). Of the $3.7 billion committed to Chrysler, $2.9 billion has been disbursed to date. Chrysler emerged from bankruptcy on June 10, 2009. All of the $10.8 billion committed to General Motors was disbursed. General Motors emerged from bankruptcy on July 10, 2009 and as part of the agreement, shares were provided to the Government of Canada in exchange for a portion of the loans receivable. Since the Canada Account cannot hold equity investments, the shares are held by the Canada Development Investment Corporation. The difference between the face value of the loans and the fair value of the equity at the exchange date was recorded as an expense in the Public Accounts in this fiscal year. Subsequent to March 31, 2010, General Motors prepaid the outstanding loans that were held by Canada Account.

Note 4: Aging of Loans Receivable

The following table shows the aging distribution of loans receivable by concessional and non-concessional loans.

($ in millions)		**March 31, 2010**				March 31, 2009
Fiscal	**Concessional**	**Non-concessional**	**Total**	Concessional	Non-concessional	Total
Past Due	**-**	**872**	**872**	-	124	124
09/10	-	-	-	34	177	211
10/11	**39**	**335**	**374**	49	232	281
11/12	**28**	**205**	**233**	34	358	392
12/13	**28**	**194**	**222**	34	178	212
13/14	**19**	**131**	**150**	34	199	233
14/15	**40**	**239**	**279**	48	217	265
15/16	**26**	**932**	**958**	32	187	219
16/17	**25**	**204**	**229**	31	216	247
17/18 and beyond	**515**	**1,823**	**2,338**	629	646	1,275
Total	**$720**	**$4,935**	**$5,655**	$925	$2,534	$3,459

Note 5: Past Due Receivables

The following table provides a breakdown of principal, interest and fees in arrears at the end of the fiscal year. Of the $1,135 million in arrears (2008/2009 - $272 million), $934 million (2008/2009 - $52 million) is due from commercial borrowers. The increase in commercial past due receivables is due to increases in principal and interest with non-performing loans related to the auto and shipbuilding industries. Of the sovereign amount, $81 million of arrears (2008/2009 - $93 million) pertains to amounts due from HIPCs and may be eligible for debt and/or debt service forgiveness. The balance of sovereign loan arrears are eligible for rescheduling. Arrears from commercial loans, if not recovered, may be subject to restructuring and/or write-off.

($ in millions)	**March 31, 2010**			March 31, 2009		
	Commercial	**Sovereign**	**Total**	Commercial	Sovereign	Total
Concessional:	**-**	**-**	**-**	-	-	-
Non-concessional:						
Past due principal	**782**	**90**	**872**	25	99	124
Past due interest and fees	**152**	**111**	**263**	27	121	148
Subtotal:	**934**	**201**	**1,135**	52	220	272
Total	**$934**	**$201**	**$1,135**	$52	$220	$272

Note 6: Notes Receivable

Notes receivable represent promissory notes issued and due from the borrower, in an aggregate amount equal to 6.67% of each advance with loans in the auto industry. These notes accrue interest which is payable at each interest payment due date or capitalized to the remaining note balance.

Note 7: Canada Account Administrative Charges

Pursuant to Section 23(5) of the Act, the Corporation is authorized by the Minister of Finance to retain from any receipts and recoveries an amount, as the Minister of Finance considers to be required, to meet the expenses and overhead of the Corporation arising out of Canada Account transactions. In 2009/2010, $6 million (2008/2009 – $4 million) was retained to meet the general expenses and overhead of the Corporation arising out of Canada Account transactions.

Note 8: Equipment Available for Lease

Equipment available for lease consists of regional aircraft that were returned due to the restructuring of loan agreements in 2007/2008.

($ in millions)	**March 31, 2010**	March 31, 2009
Equipment available for lease	**89**	89
Cumulative impairment loss	**(11)**	-
Accumulated depreciation	**(11)**	(7)
Net equipment available for lease	**$67**	$82
Number of aircraft	**6**	6

In 2010, due to changing market conditions, a review of impairment was done on all six aircraft, and analyses of future cash flows were performed where necessary. These analyses demonstrated a reduction in the future value of economic benefits associated with these aircraft and the decline in value was considered permanent. As a result, a cumulative impairment loss was recognized reducing the carrying value of the six aircraft by $11 million.

Operating lease revenue for the year was $7 million (2008/2009 - $8 million). At the end of March 2010, all six aircraft were subject to operating leases with one lessee for which revenue is recognized on a straight-line basis over the terms of the underlying leases. The original leases were for 36 months commencing in 2007 and were renewed in 2009/2010 for an additional 24 months commencing at the end of the initial lease's expiry date.

The following table presents minimum future lease payments receivable at the end of March:

($ in millions)	**2010**	**2009**
2009	**-**	**8**
2010	**7**	**8**
2011	**4**	**1**
2012	**4**	**-**
2013	**1**	**-**
Total	**$16**	**$17**

Note 9: Unsecured Claims

In 2007, Canada Account was awarded unsecured claims by the bankruptcy court which represented concessions provided to the obligor to assist them in exiting bankruptcy. Settlement of these claims is made through the issuance of shares from the obligor.

These claims are carried at their fair value based on quoted market prices in the secondary market. The claims are valued at $2 million.

Note 10: Loan Commitments and Contractual Obligations

The nature of these activities can result in obligations whereby Canada Account will be obligated to make future payments. The undisbursed loan commitments are mainly composed of the remaining obligations for the loans related to the auto industry. During the year, EDC was authorized to provide up to $700 million of accounts receivable insurance coverage under Canada Account to suppliers of the Detroit-3 (General Motors, Chrysler and Ford).

Loan commitments and contractual obligations at March 31, are reasonably estimated and listed below:

($ in millions)	**2010**	2009
Undisbursed loan commitments	**540**	757
Insurance contingent liability	**148**	-
Obligation from loan restructuring	**3**	5
Total	**$691**	$762

Note 11: Loan Guarantees

Loan guarantees are issued to cover non-payment of principal, interest and fees due to banks and financial institutions providing loans to buyers. Calls on guarantees result the in the recognition of a loan asset on the balance sheet and become a direct obligation of the buyer.

Note 12: Subsequent Event

Subsequent to the fiscal year end, a principal prepayment of $1.1 billion was made by General Motors of Canada on April 20, 2010 which reduced the amount owing on an outstanding loan to both the Governments of Canada and Ontario to nil. In addition, a loan of $100 million made to Air Canada was fully prepaid on August 3, 2010.

Note 13: Reclassification of Comparative Figures

Comparative figures have been reclassified to conform to the current year’s presentation.

Glossary

The purpose of this glossary is to explain some of the terms in the report. Such explanations are not necessarily for general application.

Accounts Receivable Insurance - An insurance policy that protects insured Canadian businesses from commercial and political risks related to export transactions with credit terms of up to 360 days.

Accrued Interest - Interest earned but not yet paid under a loan or other interest-bearing instrument calculated from the later of the disbursement date or the date of the last interest payment.

Aging Distribution - The forecasted principal amortization of the current outstanding balance of loans receivable.

Allowances - Accumulated provisions against which future loan write-offs would be made.

Average Annual Principal – The average outstanding loans and notes interest-bearing receivable held during the fiscal year. Conversion is done using the average foreign exchange rate for the same period.

Concessional Loans - Loans which are interest free or at below-market interest rates and/or have extended repayment terms. On rare occasions a normal loan can be combined with a concessional loan to achieve an overall concessionality level of at least 35%, a level within the tied aid disciplines of the OECD "Arrangement on Guidelines for Officially Supported Export Credits".

Consolidated Revenue Fund - the aggregate of all public moneys that are on deposit at the credit of the Receiver General.

Contingent Liability - Potential debt which may become an actual financial obligation if certain events occur or fail to occur. Contingent liabilities are created by insurance policies and guarantees outstanding.

Corporate Account - Financing and contingent liability transactions undertaken by EDC for its own account. These transactions are maintained separately from Canada Account.

Debt Forgiveness/Debt Relief - An agreement whereby some or all of a country's sovereign debt obligations are forgiven or deferred for payment at a later date.

Documentary Credits Insurance - An insurance policy that protects insured Canadian financial institutions from commercial and political risks in respect of letters of credit issued by foreign banks in support of Canadian export sales.

Equity - An ownership interest in an entity.

Financing - An arrangement that has the effect of extending credit or providing an undertaking to pay money.

Guarantee - An undertaking that the payment of a debt obligation shall be duly met. A guarantee is a contingent liability for the guarantor.

Interest Rate Risk - The potential impact on revenues earned on interest bearing assets due to changes in interest rates.

Interest Cash Flow – Interest payments earned, received and remitted to the CRF during the fiscal year.

LIBOR - London Interbank Offer Rate - The floating interest rate at which banks in London are prepared to lend to first-class banks.

Loan Commitments - The portion of a loan that has been offered and accepted but not yet disbursed.

OECD "Arrangement on Guidelines for Officially Supported Export Credits" - An agreement between most Organization for Economic Cooperation and Development (OECD) member countries which sets maximum repayment terms, minimum interest rates and other conditions for official export credit support to minimize trade distortions.

Political Risk Insurance - An insurance that protects the insured from specific political risks including: transfer of funds; expropriation; war, revolution or insurrection. It covers investments made in the form of equity, loans, guarantees, assets and services.

Provisions - A charge against current income to establish and maintain a reserve against loan losses.

Public Accounts of Canada - The report of the Government prepared each fiscal year by the Receiver General in which the transactions of all departments and agencies are summarized.

Recourse Agreement - An agreement whereby the holder of a financial asset has recourse to a third party if the debtor defaults.

Sovereign Loans - Loans for which the financial and repayment risk is that of a sovereign government.