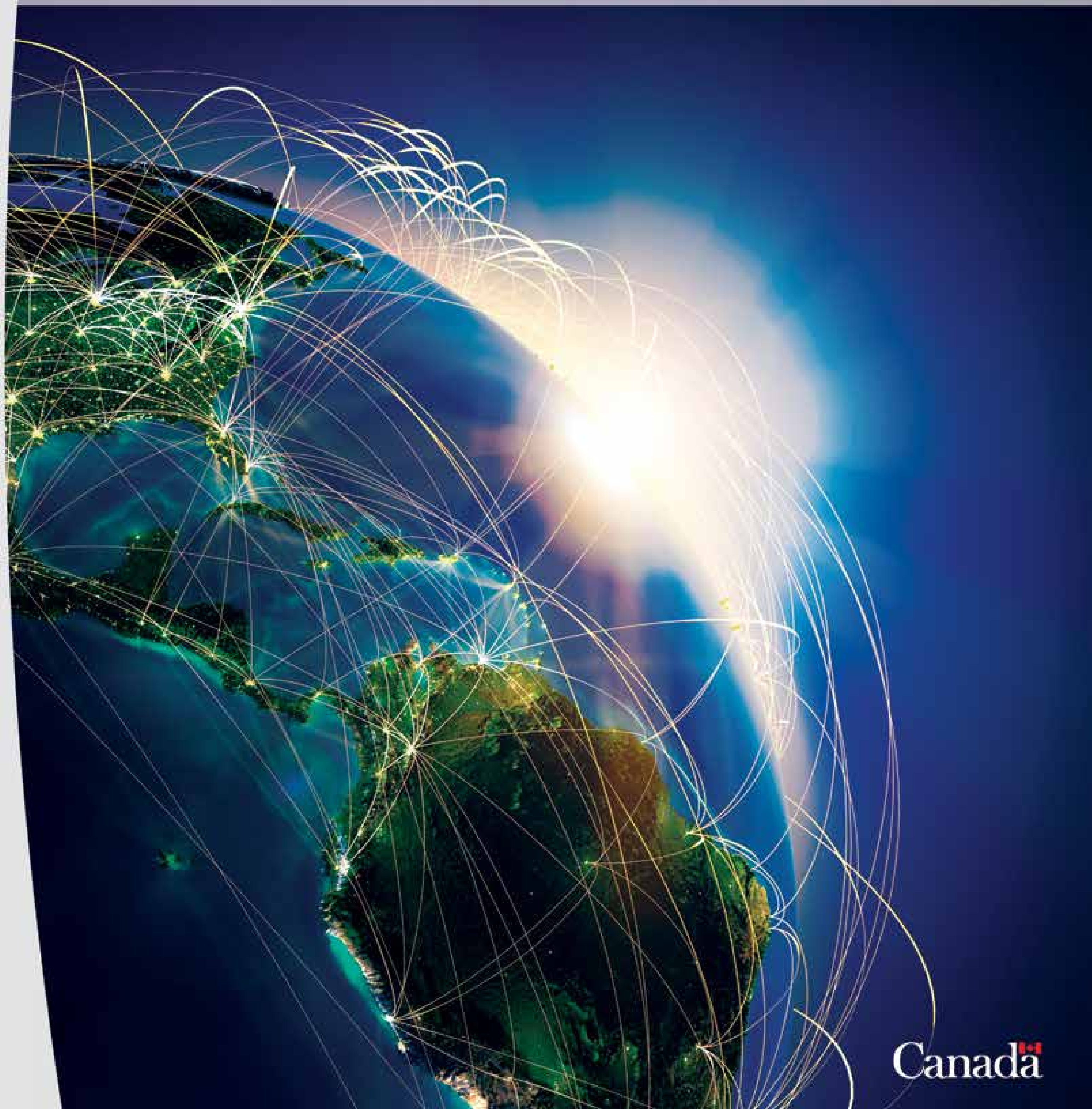
CCC
Canadian Commercial Corporation
Corporation Commerciale Canadienne

# POWERING EXPORT GROWTH

## CCC ANNUAL REPORT 2013-2014



Canada

# CANADA'S INTERNATIONAL CONTRACTING AND PROCUREMENT AGENCY

CCC is a trusted partner with a unique set of trade development services;

### Collaborative
A trusted Government of Canada partner in accessing foreign markets.

### Credible
A trusted Government of Canada partner in transparent contracting and corporate social responsibility.

### Competitive
A trusted Government of Canada partner in mitigating risk.

## MANDATE

To assist in the development of trade by helping Canadian exporters access markets abroad and by helping foreign buyers obtain goods and services from Canada.

## CORPORATE SOCIAL RESPONSIBILITY

At CCC, we are committed to operating in an environmentally, socially, and ethically responsible manner, and to respect Canada's international commitments, while upholding the Corporation's public policy mandate and acting within our resources.

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# PERFORMANCE HIGHLIGHTS

The Canadian Commercial Corporation (CCC) continued its strong performance in 2013-14 despite ongoing global economic uncertainty. This success was reflective of CCC's primary commitment to provide exceptional service to its diverse Canadian supplier base while increasing efficiencies and reducing internal costs. CCC's performance last year culminated in the signing of Canada's largest ever advanced manufacturing export contract with the Kingdom of Saudi Arabia for armoured vehicles to be provided by General Dynamics Land Systems – Canada. It is estimated that this 14-year contract will create and sustain more than 3,000 jobs each year in Canada.

CCC's primary service involves the establishment of government-to-government contracts with foreign government buyers to provide goods and services from Canada. In turn; CCC enters into contracts with Canadian exporters to fulfil the goods and services requirements of government-to-government contracts. With this approach, CCC guarantees performance of the contracts for the foreign governments, hence, mitigating their risks and providing added incentive to procure from Canada. CCC also mitigates risk for Canadian exporters as the Corporation is able to leverage its capacity as a Government of Canada organization to monitor progress and bring prompt resolution to any issues that may arise in fulfilling the contract requirements. CCC's assistance can reduce payment collection risks and business development costs; can aid in gaining more advantageous contract and payment terms for Canada's exporters; and supports ethical business and Corporate Social Responsibility (CSR) practices as Canadian firms seek international sales.

Throughout 2013-14, CCC continued to deploy its five-year business development strategy to grow existing markets and develop new markets, and based its activities on three business lines: sales to the United States Department of Defense (U.S. DoD) and to the National Aeronautics and Space Administration (NASA) under the Defence Production Sharing Agreement (DPSA), Global Defence and Security (GDS) sales, and International Commercial Business (ICB) sales. Additionally, CCC leveraged its procurement expertise and exercised prudent cost management through offering three services to the Government of Canada; these were: Sourcing services to support international government assistance programs; managing Canadian Trade Offices in China for the Department of Foreign Affairs, Trade and Development (DFATD); and providing shared corporate services to Public-Private Partnerships (PPP) Canada Inc.

In 2013-14, Canadian companies continued to face an underperforming and uncertain global economy marked by a negative economic shift in certain key industry sectors. Responding to the decreasing volume of U.S. DoD acquisitions, CCC augmented its efforts to promote Canadian capabilities and build on its close relationships with U.S. buyers to maintain its share of this market for Canadian exporters. At the same time, CCC increased its business development and sales activities to augment Canadian exporters' access to promising markets mostly in defence and security and infrastructure sectors. This strategy was closely aligned with the Government's Global Markets Action Plan, Canada's Strategy for Engagement in the Americas, and the Defence Procurement Strategy.

In 2013-14, CCC's strategy yielded its most significant results to date:

- CCC sustained 18,830 jobs[1] in Canada, largely in the defence and security sector. More than 20% of the domestic defence and security sector jobs are linked to CCC export sales.[2]

[1] Based on an economic analysis, for every $1 billion in new exports generated, approximately 11,000 new jobs are created or maintained.

[2] KPMG; "Economic Impact of the Defence and Security Industry in Canada," May 2012. Accessed on May 2013 at: https://www.defenceandsecurity.ca/UserFiles/File/IE/KPMG.html

- CCC was active in 57 countries with 183 Canadian companies of which 64% were SMEs.
- CCC achieved the highest value of contracts signed to date of $15.76 billion.
- CCC's commercial trading and sourcing services transactions and fees of $1.73 billion contributed to a surplus of $2.23 million, a significant increase from last year's surplus of $1.33 million.

CCC increased access to markets abroad for Canadian exporters by:

- Signing of a historic multi-billion dollar Armoured Brigades Program contract with the Kingdom of Saudi Arabia for the delivery of armoured vehicles and associated equipment, training and support services manufactured and provided by General Dynamics Land Systems – Canada. This 14-year contract will create and sustain more than 3,000 jobs each year in Canada, with southern Ontario accounting for approximately 40% of the supply base.
- Signing $14.93 billion in contracts under the Corporation's GDS business line, a significant increase over last year's result of $138.40 million.
- Signing $199.90 million in contracts under the Corporation's ICB business line.
- Negotiating 31 strategic cooperation agreements[3] with foreign governments to increase access to government procurement markets that Canadian exporters are targeting. Of these agreements, 15 support the acquisition of defence and security solutions in markets such as Argentina, Colombia, Peru, Paraguay, Mexico, United Kingdom, Germany, Oman and the Philippines, and 14 support the acquisition of information technology and social and economic infrastructure solutions in markets such as Costa Rica, Dominican Republic, Barbados, Trinidad and Tobago, Ghana, Uganda, Gambia, India, Mongolia, and Lebanon.

In 2013-14, CCC was funded by a combination of fees for service for its GDS and ICB business lines, and a parliamentary appropriation which supports the sales to the U.S. DoD and to NASA under the DPSA, a key public policy program which provides Canadian companies with access to compete for contracts with the U.S. DoD.

Over the course of 2013-14, CCC transferred all trade financing responsibilities related to the Corporation's activities in Cuba to Export Development Canada (EDC) in order to better leverage EDC's financing expertise and to provide greater focus to CCC's contracting mandate.

The Minister of International Trade directed the Corporation to pay to the Receiver General the amount of $40.00 million by March 31, 2014, an amount considered to be in excess of the amount required by the Corporation for the purposes of the *Canadian Commercial Corporation Act.*

In keeping with the Government of Canada's cost containment measures outlined in Budgets 2010 through 2013, CCC continued to find new and innovative ways to increase operational efficiency and demonstrate cost effectiveness by:

- Reducing administrative expenses to $28.36 million in 2013-14 from $30.48 million in 2012-13, a reduction of $2.12 million or 7%.
- Not incurring any contract remediation expenses, consistent with fiscal year 2012-2013, which reflects the success of risk management practices applied to all of CCC's business, the robust nature of its Enterprise Risk Management (ERM) framework, and the Corporation's continued investments to improve contract due diligence and management practices.

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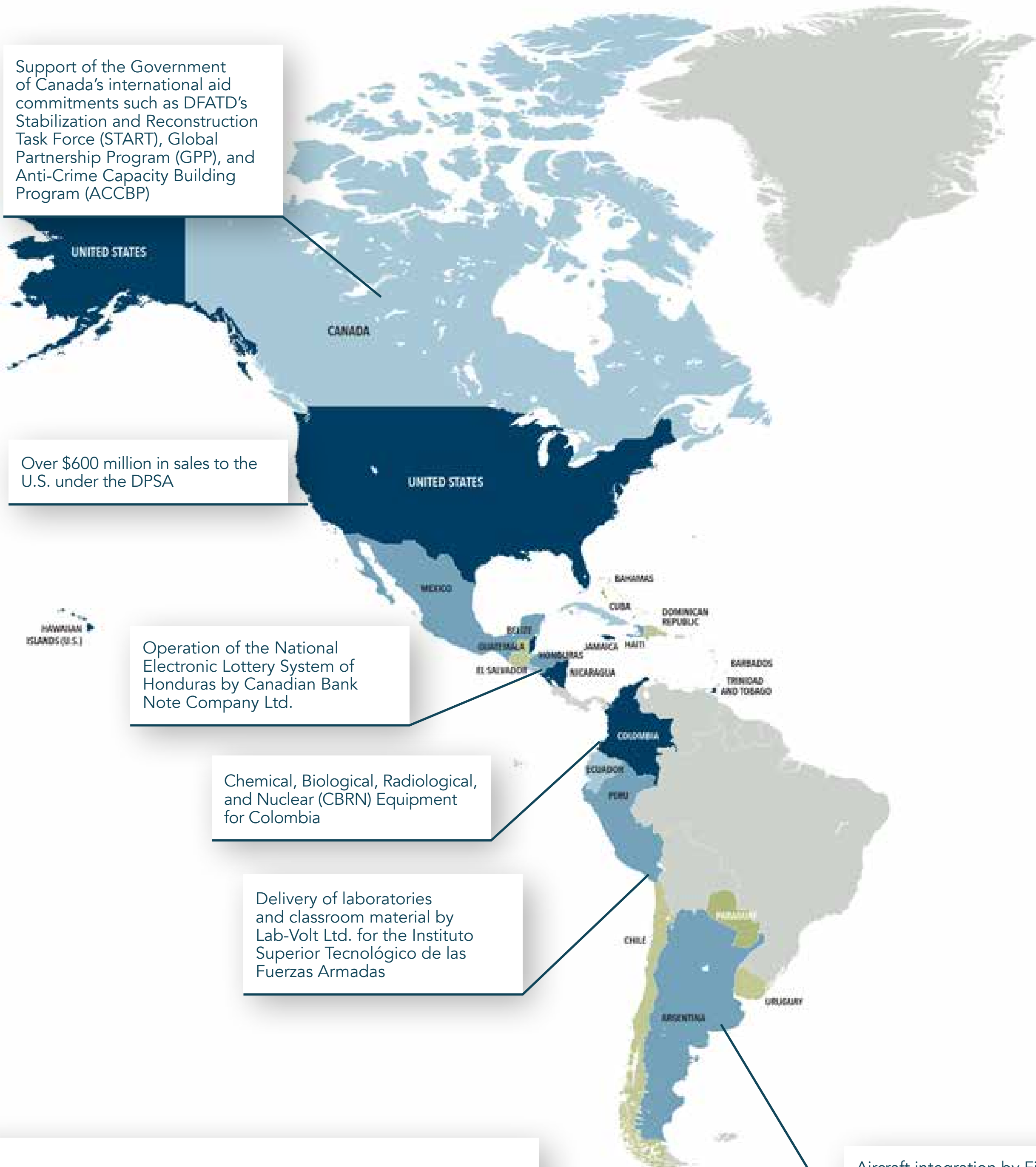
[3] Strategic Cooperation Agreements are defined as MOUs with other countries to facilitate buying from Canada.

*** Please note:**

1. All figures are in Canadian dollars unless otherwise noted.
2. Unless otherwise noted, financial results within the Annual Report are rounded to the nearest million, while related percentages are based on numbers rounded to the nearest thousand as presented in the Financial Statements and Notes.

# AT A GLANCE




Support of the Government of Canada's international aid commitments such as DFATD's Stabilization and Reconstruction Task Force (START), Global Partnership Program (GPP), and Anti-Crime Capacity Building Program (ACCBP)

Over $600 million in sales to the U.S. under the DPSA

Operation of the National Electronic Lottery System of Honduras by Canadian Bank Note Company Ltd.

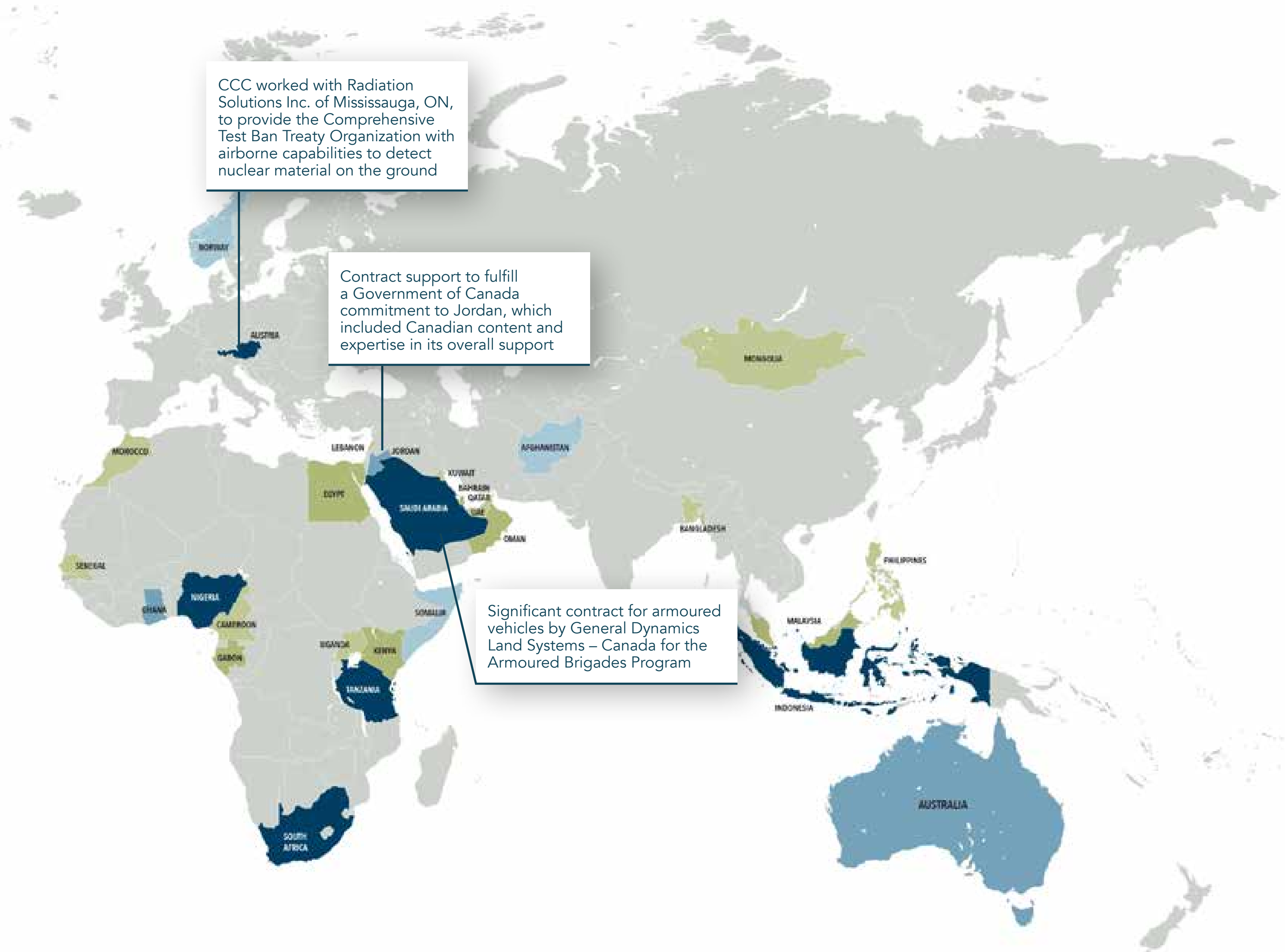
Chemical, Biological, Radiological, and Nuclear (CBRN) Equipment for Colombia

Delivery of laboratories and classroom material by Lab-Volt Ltd. for the Instituto Superior Tecnológico de las Fuerzas Armadas

Aircraft integration by Field Aviation Company Inc. for the Argentina Air Force

**COUNTRIES WITH ACTIVE CONTRACTS AND PURSUITS VIA CCC IN 2013-14**

**COUNTRIES IN WHICH CCC WAS ACTIVELY PURSUING CONTRACTS IN 2013-14**


CCC worked with Radiation Solutions Inc. of Mississauga, ON, to provide the Comprehensive Test Ban Treaty Organization with airborne capabilities to detect nuclear material on the ground
Contract support to fulfill a Government of Canada commitment to Jordan, which included Canadian content and expertise in its overall support
Significant contract for armoured vehicles by General Dynamics Land Systems – Canada for the Armoured Brigades Program
NORWAY
AUSTRIA
MONGOLIA
MOROCCO
LEBANON
JORDAN
AFGHANISTAN
KUWAIT
BAHRAIN
QATAR
UAE
EGYPT
SAUDI ARABIA
OMAN
BANGLADESH
PHILIPPINES
SENEGAL
NIGERIA
GHANA
CAMEROON
SOMALIA
MALAYSIA
UGANDA
KENYA
GABON
TANZANIA
INDONESIA
AUSTRALIA
SOUTH AFRICA

# SOME CCC CLIENTS ACROSS CANADA

### BRITISH COLUMBIA

- MacDonald, Dettwiler and Associates Ltd. provides the U.S. Air Force with specific updates to the Global Procedure Designer system in support of Canada's defence and security sales to the U.S. DoD.

### ALBERTA

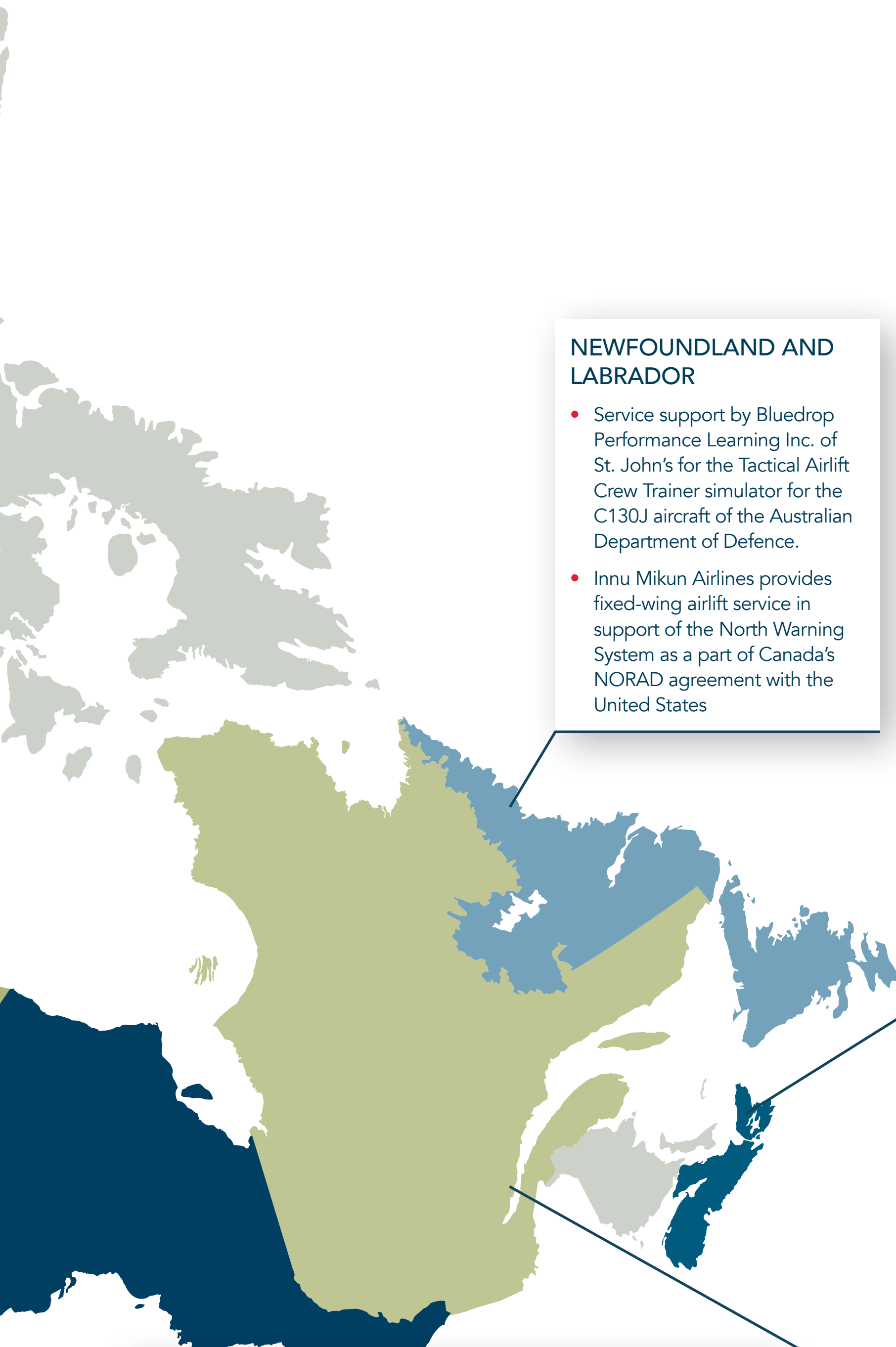
- Kenn Borek Air Ltd. provides fixed-wing airlift service in support of the North Warning System as a part of Canada's North American Aerospace Defense Command (NORAD) agreement with the United States.

### SASKATCHEWAN

- PCS Sales (Canada) Inc. of Saskatchewan supplied and delivered potash to Cuba in support of the sugar industry.

### MANITOBA

- Magellan Aerospace Winnipeg designs, manufactures and delivers a range of products and services to a worldwide customer base, including the Wire Strike Protection System™ (WSPS™) for helicopters. Magellan's Winnipeg operating division is the global expert for this system with more than 20,000 kits delivered.



### NEWFOUNDLAND AND LABRADOR

- Service support by Bluedrop Performance Learning Inc. of St. John's for the Tactical Airlift Crew Trainer simulator for the C130J aircraft of the Australian Department of Defence.
- Innu Mikun Airlines provides fixed-wing airlift service in support of the North Warning System as a part of Canada's NORAD agreement with the United States

### NOVA SCOTIA

- Pivotal Power provides static power conversion products and services to support Canada's defence and security sales to the U.S. DoD.

### QUEBEC

- Bell Textron delivered four Bell 407 helicopters to the Colombia National Police and two Bell 412 helicopters to the Colombia Naval Aviation Group.
- General Dynamics-OTS based in Repentigny is a substantial supplier of munitions for military use to the U.S. DoD.

### ONTARIO

- General Dynamics Land Systems – Canada of London signed a significant contract for the delivery of armoured vehicles and associated equipment, training and support to the Kingdom of Saudi Arabia.
- CCC worked with Ontario suppliers Allen Vanguard Corp. of Ottawa, First Class Trailers of Alfred, ICOR Technology of Ottawa, Patlon Aircraft and Industries Ltd. of Halton Hills, Radiation Measurement Systems of Woodbridge, and Visiontec of Mississauga, to procure chemical, biological, radiological, and nuclear (CBRN) first responder equipment for Colombian police training.
- Motorola Solutions Canada Inc. of Ontario provided communications equipment to Honduras through CCC in support of Canada's contribution to enhancing Central America's law enforcement capacity.

# 2013-14 SUCCESS STORIES

**FOR OVER 65 YEARS, CCC HAS BEEN HELPING CANADIAN COMPANIES ACHIEVE SUCCESS INTERNATIONALLY,** and has done so through the active pursuit of MOUs with foreign governments as a way of expanding Canada's trade footprint. Some of the 2013/14 results from this activity include:

**PHILIPPINES –** Following the signing of an MOU between CCC and the Philippines Department of National Defense (DND) in November 2012, CCC signed a contract with DND for eight helicopters that will be manufactured by Bell Helicopter Textron Canada Ltd. of Mirabel, QC.

**MEXICO –** CCC and the Mexican Ministry of Defense signed an MOU in the fall of 2013. Shortly after the MOU was effective, a contract was awarded to CCC, by the MOD, for the maintenance, repair and overhaul services on two Mexican Air Force C-130K Hercules aircraft. Cascade Aerospace of Abbotsford, BC, has been contracted by CCC to complete this work.

**COLOMBIA –** As per the CCC contract with Ministry of Defense, four Bell 407 helicopters were delivered to the National Police; and two Bell 412 helicopters were delivered to the Naval Aviation Group. The aircraft were manufactured by Bell Helicopter Textron Canada Ltd. of Mirabel, QC.

**ARGENTINA –** In accordance with a contract between CCC and the Ministry of Defense, an upgraded and modified Lear Jet aircraft was delivered to the Air Force. The aircraft upgrade was completed by Field Aviation of Mississauga, ON.

**PERU –** Additional new Twin Otter aircraft were delivered to the Peruvian Air Force during the year. The aircraft were manufactured by Viking Air Ltd of Sidney, BC.

Such contracts demonstrate the effectiveness of CCC in its support of Canadian companies, and also demonstrate the benefit to the Canadian economy through increased sales for Canadian exporters and the creation and sustainment of high-value jobs for Canadians in the aerospace, defence and security sectors.

Photo courtesy of the Department of National Defence

**CCC HAS A LONG HISTORY OF EFFECTIVE CONTRACT MANAGEMENT,** and as a result, the Corporation has grown to be a trusted partner to the U.S. Government and an important instrument of trade for Canadian exporters. CCC works with some of Canada's leading defence and security suppliers, like WESCAM Inc. of Burlington, ON, to deliver stabilized cameras for airborne surveillance and observation to all areas of the U.S. Department of Defense, including the Navy, Air Force and Army.


Photo courtesy of the Department of National Defence

**THE GOVERNMENT OF CANADA NEEDS TO BE ABLE TO RESPOND QUICKLY AND EFFECTIVELY WHEN DELIVERING SOLUTIONS AROUND THE WORLD** for natural disasters complex emergencies, and outbreaks of conflict. With its procurement and contracting expertise, CCC is naturally positioned to assist the Government of Canada with its international commitments. CCC was able to pull together over eight different contracts to fulfill a government commitment to Jordan, which included Canadian content and expertise in its overall support.


**AS A PART OF THE DELIVERY OF THE GOVERNMENT OF CANADA'S GLOBAL PARTNERSHIP PROGRAM,** CCC worked with Radiation Solutions Inc. of Mississauga, ON, to provide the Preparatory Commission for the Comprehensive Test-Ban-Treaty Organization, headquartered in Austria, with an airborne system for aerial radiation detection and measurement. Canadian companies such as Radiation Solutions Inc. participate in the implementation of programming with a tangible, positive impact on Canadian and global security.

**CCC AND CANADIAN COMPANIES CONTINUE TO PLAY AN IMPORTANT ROLE IN CANADIAN DEFENCE AND SECURITY SALES TO THE U.S. DOD.** Héroux-Devtek Inc. supports the U.S. Air Force, U.S. Navy, and the Defence Logistics Agency (DLA), from their Longueuil, QC, facility, by manufacturing new landing gear components and providing repair and overhaul service for existing landing gears. The contracts signed through CCC are numerous and vary in duration and complexity. Héroux-Devtek often supports several contracts in various stages of the contract lifecycle at any given time.

Photo courtesy of the Department of National Defence

**IN COMPLEX SUPPLY SCENARIOS, MAINTAINING A HIGH LEVEL OF EFFICIENCY AND EFFECTIVENESS WHILE SUPPORTING THE GOVERNMENT OF CANADA'S INTERNATIONAL ASSISTANCE PROGRAMS CONTINUES TO BE A PRIORITY FOR CCC.** The Corporation is able to integrate multiple Canadian suppliers to fulfill the Government's assistance requirements in a timely manner, and did so when there was a need for CBRN equipment to enhance the Colombian National Police's CBRN capabilities and to support training activities. CCC worked with Canadian suppliers Allen Vanguard Corp. of Ottawa, ON; First Class Trailers of Alfred, ON; ICOR Technology of Ottawa, ON; Martin & Levesque of Saint-Romuald, QC; Concept Controls of St-Laurent, QC; Patlon Aircraft and Industries Ltd. of Halton Hills, ON; Proparms of Carignan, QC; Radiation Measurement Systems of Woodbridge, ON; SDV Logistique of St. Laurent, QC and Visiontec of Mississauga, ON, to supply the required first responder equipment.

# MESSAGE FROM THE CHAIR

Few would argue that the past year continued to present lingering economic difficulties for corporations throughout the world. With that in mind, and as I review the year's events and take stock, I find myself all the more impressed with the results CCC achieved for its shareholder, the Government of Canada, its clients, and its employees, in what was an exceptional year for the Corporation.

In 2013-14, CCC signed the largest trade deal in Canadian history, accentuating its importance to the Canadian economy and demonstrating its effectiveness in increasing sales for Canadian exporters and creating jobs for Canadians. This was a truly extraordinary event for our country and I could not be more proud of the Corporation in this monumental achievement. With a historic multi-billion dollar Armoured Brigades Program contract with the Kingdom of Saudi Arabia for armoured vehicles and associated equipment, training and support services manufactured and provided by General Dynamics Land Systems – Canada, it is estimated that more than 3,000 jobs will be created or sustained each year in Canada for 14 years, with southern Ontario accounting for approximately 40% of the supply base.

There are a number of ways to measure CCC's contributions to Canada however one of the most important is the role it played in supporting 18,830 Canadian jobs. As the 2013 Speech from the Throne states, harnessing the power of trade and investment represents one of the most effective ways to drive economic growth and prosperity.

*TODAY, WITH ONE IN FIVE CANADIAN JOBS DEPENDENT ON EXPORTS, OUR PROSPERITY HINGES ON OPENING NEW MARKETS FOR CANADIAN GOODS, SERVICES AND INVESTMENT.*

- Speech from the Throne, delivered by His Excellency the Right Honourable David Johnston, Governor General of Canada, to Open the Second Session of the Forty-First Parliament of Canada, October 16, 2013

Slower growth in Canada's traditional trading markets has reduced opportunities for many Canadian companies, especially small and medium-sized enterprises (SMEs). This has gradually led to a smaller pool of exporters and fewer Canadian suppliers for CCC. Nevertheless, CCC worked with more than 180 Canadian exporters, of which 64% are SMEs, in 57 countries including the U.S., Saudi Arabia, Ghana, Kenya, Colombia, Mexico, Peru and the Philippines.

In this challenging environment, CCC's Board has been steadfast in its commitment to maintaining strong governance principles. Over the last year, the Board continued to focus on enhancing the Corporation's governance systems, Board effectiveness and risk management oversight.

In this vein, the Board engaged in efficiency improvements and cost avoidance with the restructuring of its Board Committees and meetings, and will continue to examine other strategies to save costs. We also focused on the Corporation's investment in business development activities and promoting ethical business practices, both internally and amongst CCC's suppliers.

I want to take this opportunity to acknowledge CCC's outgoing President and CEO, Marc Whittingham. Marc joined CCC in October 2006 as Vice-President, Strategy and Organizational Development and was appointed as President of CCC in October 2008. During his tenure at CCC, his vision, focus and determination were invaluable to the Corporation's strategic development, and his contributions have been significant to CCC's past and future successes.

I also extend a warm welcome to CCC's new President and CEO, Martin Zablocki, appointed in April 2014. Martin brings with him a clear focus on business growth, high performance and good governance. Having joined the Corporation in November 2007 as Vice-President, Strategy and Organizational Development, he also served as Vice-President Risk and Finance and CFO from 2010 to 2012, and Executive Vice-President and COO until his appointment as President and CEO. I am confident that his expertise, leadership and commitment to CCC will take the Corporation to a new level of success and achievements to support Canadian exporters.

Finally, I would also like to recognize the hard work and dedication of CCC's Board members who give their time and talent in support of CCC and its work. I want to especially acknowledge three past members who have been on the Board for a number of years and who completed their terms in 2013. Ken Sunquist was initially appointed to the Board in 2004, and Martine Corriveau-Gougeon and Norman Turnbull came to the Board in 2005. We are tremendously grateful for their contribution to the significant growth and development that took place under their oversight and guidance. I would also like to welcome our new Board members, Nicole Verkindt, Daniela Bassan and Dwayne Lucas, whose professional experience will greatly benefit the Corporation.

Through the challenges of continued economic uncertainty and rising global competition, CCC stands out as a successful example of resilience and innovation. On behalf of the entire Board, I would like to thank our Executive Management Team and all the staff for their sustained efforts, commitment and professionalism. Together, we look forward to working with new exporters, deepening our relationship with foreign buyers and government stakeholders, and continuing to bring prosperity and growth for businesses across Canada.

Ray Castelli
Chair, Board of Directors
June 2014

# MESSAGE FROM THE PRESIDENT AND CEO

It is an honour and a privilege to be appointed as the new President and CEO of the Canadian Commercial Corporation. I am very enthusiastic about the bright future ahead for CCC. The Corporation is truly on the cusp of game-changing results, positioned as never before with broad government support for trade and momentum in international markets, leveraging a value proposition that is meaningful to both Canadian exporters and foreign government buyers.

Having served in three senior leadership roles with CCC, I am very proud of the Corporation's many achievements over the past six years. More than ever, CCC is becoming recognized as a world-class, government-to-government contracting organization. Other nations competing with Canadian companies across many markets are taking note of CCC's capabilities and recognizing the meaningful competitive advantage that CCC's business model affords Canadian exporters. Similarly, an increasing number of Canadian companies, large and small, are becoming familiar with CCC and the value proposition CCC provides to assist them in winning contracts in export markets across the globe.

As pleased as I am with the Corporation's recent success, I realize there remains considerable work to maintain CCC's momentum. Fortunately, CCC has a highly professional and dedicated staff, led by an energized leadership team focused on achieving meaningful results and capable of overcoming all challenges. Together, and in partnership with our international trade portfolio partners, the Trade Commissioner Service (TCS) and Export Development Canada (EDC), as well as with key government departments such as the Department of National Defence (DND), Public Works and Government Services Canada (PWGSC), and Industry Canada, CCC will continue to improve its results by deploying a whole-of-government approach to winning government-to-government procurement opportunities with Canadian exporters.

I am humbled at the opportunity to join CCC's Board of Directors and to work closer with a truly committed Board that offers tremendous diversity and experience to help shape and guide the Corporation's future success. CCC will remain aligned with the broader government agenda, focused on increasing its business development capability while making prudent investments and management decisions mindful of creating efficiencies and containing costs in achieving the Corporation's objectives.

In closing, I would like to thank CCC's staff, my management colleagues, the members of the Board of Directors and the Minister of International Trade, Ed Fast, and his staff for the extraordinary efforts they have made in advancing trade for Canada and for their continued support of CCC. I look forward to building upon our recent successes in the years to come.

Martin Zablocki
President and CEO
June 2014

# OPERATING ENVIRONMENT

CCC's operating environment in 2013-14 was challenging. Despite periods of hopeful but temporary global economic surges in 2011 and 2012, growth slowed in 2013, and extended weakness returned, characterized by high unemployment, an uncertain business investment climate, and fiscal retrenchment. Three main drivers shaped its environment over the year, specifically:

- a continuing uncertain global economic environment, particularly in the U.S.;
- a realignment of global governance, power and accountability; and
- a growing global movement for improved CSR and ethical business conduct.

## An uncertain global economic environment, particularly in the U.S.

In 2013-14, the U.S. recalibrated its needs in the face of shifting defence priorities, budgetary reductions and disengagement from major conflict zones. Reduced U.S. DoD emphasis on expensive platforms required American companies to focus on specialized capabilities for existing platforms, thus competing more directly with Canadian firms that have niche capabilities in the U.S. market. As well, interest in new technologies, particularly in cyber warfare and intelligence, has created the emergence of new exporters, thus generating more competition.

According to the February 2013 report by Tom Jenkins entitled "*Canada First: Leveraging Defence Procurement Through Key Industrial Capabilities*", this situation presents both threats and opportunities for Canadian suppliers: "the threat being less potential overall business in the U.S. and other foreign markets, as primes adjust to new business realities; the opportunity being new growth opportunities in the U.S. market in specialized areas complementary to U.S. capabilities."[4]

Beyond the U.S., austerity budget measures continued to prevail in established global defence and security markets, resulting in fewer acquisitions of platform replacements from these allies. However, the need to modernize, repair and overhaul equipment, to invest in unmanned defence, cyber warfare and security technologies continued to result in opportunities. As well, the shifting demand for new equipment from other like-minded nations created additional business potential for Canadian exporters.

Government-to-government sales have become a significant part of the international defence marketplace. U.S. foreign military sales, for instance, "more than doubled from $34 billion in 2011 to a record $69 billion in 2012 in an effort to boost the ability of allies to counter regional and terror threats on their own."[5] Other top defence exporting nations have recognized the value of this marketplace and have established agencies specifically responsible for promoting and in some cases executing defence sales, including the DSCA in the U.S., Rosoboronexport State Corporation in Russia, ODAS in France, the Defence and Security Organization in the United Kingdom, SIBAT in Israel, FXM in Sweden, the Defense Industry Promotion Bureau in South Korea, and the Defence Export Unit in Australia. Thus CCC's ability to compete internationally is increasingly important to Canadian firms.

As countries reassess their defence industries, protectionism and a desire for local content have required CCC to work closely with its trade policy partners to keep government markets and supply chains open to Canadian companies. CCC has entered into arrangements (i.e. MOUs) pertaining

[4] Jenkins, Tom; "Canada First: Leveraging Defence Procurement Through Key Industrial Capabilities Report," February 12, 2013. Accessed on May 24, 2013 at: http://news.gc.ca/web/article-eng.do?mthd=tp&crtr.page=1&nid=719959&crtr.tp1D=1

[5] DoD Buzz. "State Department Supports Military Growth." January 29, 2013. http://www.dodbuzz.com/2013/01/29/state-department-supports-foreign-military-sales-growth/

to the acquisition of defence and security products and services with governments in Argentina, Colombia, Mexico, Peru, the Philippines and the U.S., and the Corporation will continue negotiating arrangements with more markets of interest to Canadian exporters such as Botswana, Ecuador, Saudi Arabia and Trinidad and Tobago.

With the global retreat in international defence and security operations, it is inevitable that the high level of defence and security expenditures over the next decade and the corresponding budget for materiel and equipment will decrease in the coming years thus increasing competition for the remaining business and the importance of the value of government agencies like CCC that promote and support this sector of Canadian industry.

## The realignment of global governance, power and accountability

In 2013-14, global rebalancing continued to be prominently marked by a shift in economic and military weight toward China. For instance, while U.S. military spending was still 4.5 times greater, and its technological superiority remains unquestioned, China continues to increase defence spending and may eventually surpass U.S. defence spending by 2035. According to U.S. DoD estimates, China spent between $135 billion and $215 billion on military-related expenditures in 2012.[6] The year 2012 also marked the first time military spending among Asian nations, in particular China, exceeded that of Europe.[7]

Demographics and urbanization trends are also shifting. In the developing world, an increasing number of people are moving to urban centres to find work, which has begun to put pressure on critical infrastructures. In Southern Asia and Sub-Saharan Africa, for instance, the rate of urban growth exceeds three percent per year compared to an annual rate of five percent in developed nations.[8]

The McKinsey Global Institute estimates that $57 trillion in global infrastructure investment will be required between 2013 and 2030. This figure includes the infrastructure investment required for transport, power, water and telecommunications, and is nearly 60% more than the $36 trillion spent globally on infrastructure over the past 18 years.[9] As well, the shift toward the use of renewable energy and energy conservation in construction processes and facilities management has become more important as climate change affects the environment.

Opportunities for Canadian companies in many emerging and developing markets have continued to require innovative approaches to secure financing, obtain government approvals and align diversified and experienced teams of experts to deliver complex infrastructure projects. A key constraint in increasing private participation in infrastructure in low-income countries lies with the lack of bankable projects. This is due in part to a combination of weak legal and regulatory frameworks and limited public-private partnership expertise, in addition to the insufficient amount of resources available for project preparation.

Given these market dynamics, government-to-government transactions have become more essential to reduce risk for buyers, exporters and the financing community in participating in certain markets. CCC's assistance facilitates expeditious, direct government-to-government contracts; reduces payment collection risks and business development costs; aids in gaining more advantageous contract and payment terms and supports the ethical business practices of Canadian firms as they seek international sales. This enables Canadian exporters to compete in a whole new way.

CCC expects its ICB business line to continue to see long infrastructure project development cycles and may, over time, need to be adjusted with a different capability mix to respond to evolving foreign requirements. Given stakeholder recommendations, CCC will examine how

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[6] Weisgerber, Marcus. DefenseNews, "Annual DoD Report Claims Steady Chinese Military Expansion". May 6, 2013. http://www.defensenews.com/article/20130506/DEFREG02/305060008/Annual-DoD-Report-Claims-Steady-Chinese-Military-Expansion

[7] The New York Times. "Shrinking Europe Military Spending Stirs Concern." April 22, 2013. http://www.nytimes.com/2013/04/23/world/europe/europes-shrinking-military-spending-under-scrutiny.html?_r=0

[8] United Nations Population Fund, "State of the World Population 2011", 20, p. ii.

[9] McKinsey Global Institute, "Infrastructure productivity: How to save $1 trillion a year," p. 1. January 2013.

concessions and PPPs in capital projects could benefit industry. This risk-based assessment will include a review of the government approvals required to support this potential new business line, as CCC's involvement in capital projects is currently limited to the construction and commissioning phases.

## The growing global movement for improved Corporate Social Responsibility (CSR) and sustainability

Global competition continued to increase pressure on multinational corporations to examine not only their own labour practices, but also those of their entire supply chains. In addition, a growing number of companies are now using CSR to differentiate themselves from the competition and to gain public support for their presence in global markets.

In addition to the traditional CSR related principles there has been a global push to address corrupt business practices. Canada's February 2013 amendments to strengthen the *Corruption of Foreign Public Officials Act* (CFPOA), and the investigative and enforcement activities of the Royal Canadian Mounted Police, have demonstrated Canada's commitment to guard against corruption.

Similarly, throughout 2013-14, CCC continued to reinforce its CSR framework based on global best practices and placed a greater focus on ensuring ethical business conduct through the implementation of an Enhanced Managerial Review (EMR) as part of the Corporation' project certification process. CCC develops its policies in consultation with DFATD and EDC thereby ensuring a consistent approach within the Trade portfolio, essential to the safeguard Canada's international trade reputation and credibility abroad.

# 2013-14 PERFORMANCE AGAINST OBJECTIVES

The 2013-14 Annual Report highlights the value CCC delivers as the Government of Canada's international contracting and procurement agency. CCC's mandate is to assist in the development of trade by promoting and facilitating sales from Canadian exporters to foreign governments, primarily in the defence, security and infrastructure sectors. CCC's value stems from its ability to guarantee the performance of a contract for a foreign government, hence, mitigating their risks and providing added incentive to procure from Canada.

The Corporation's business model is founded on a clear mandate to assist Canadian exporters to obtain business through foreign contracting and procurement opportunities. CCC accomplishes this by bolstering the competitive advantage of Canadian exporters, while continually fostering relationships with stakeholders and partners. As a contracting agency of the Government of Canada, CCC strives to ensure that its procurement and contracting policies and procedures are robust and based on internationally accepted standards. As a federal government institution, CCC is also proud that most of its supplier base for projects is comprised of SMEs.

CCC's business is typically characterized by large projects which can take as long as five years or more to develop. Given the uncertain global environment, large defence and infrastructure contracts have required even longer timelines, and this, coupled with the reduction of U.S. DoD spending required CCC to focus more of its efforts in less traditional trading markets, such as Africa, Latin America and the Middle East. This strategy has been developed and improved over the past four years and impressively has led to CCC signing Canada's largest ever advanced manufacturing export contract – a multi-billion dollar contract for the delivery of armoured vehicles and associated equipment, training and support services manufactured and provided by General Dynamics Land Systems – Canada.

**OVER RECENT YEARS, CCC HAS PUT GREATER FOCUS ON DIVERSIFYING ITS MARKETS BEYOND THE U.S** and exploring opportunities in South America, the Middle East, and in Asia. In 2013-14, this strategy led the Corporation to sign significant defence and security contracts in new markets around the world, including the signature of a historic multi-billion dollar contract between CCC and the Kingdom of Saudi Arabia. The contract for armoured vehicles and associated equipment, training and support services will be carried out by General Dynamics Land Systems – Canada of London, ON, which will create and sustain more than 3,000 jobs each year in Canada.

The 2013-14 to 2017-18 Corporate Plan was built on the *Balanced Scorecard* philosophy which links specific initiatives to each of the seven strategic objectives identified in the Corporate Strategy map. These initiatives drive activities that are distributed to the Corporation's business units and to which they are accountable to execute within the five year term of the strategy. The determination of when the business unit executes specific activities is determined through the Corporation's annual business planning process.

The CCC Balanced Scorecard strategy map and results achieved in 2013-14 are summarized in the tables below, while a full description of the activities completed in the execution of the Corporation's strategic objectives is attached as Annex A.

## INCREASE ACCESS TO FOREIGN GOVERNMENT MARKETS FOR CANADIAN EXPORTERS

The Government of Canada expects CCC to be **credible**, effective and efficient in meeting its mandate of assisting in the development of trade by helping Canadian exporters access markets abroad and helping foreign government buyers obtain goods and services from Canada.

Canadian exporters rely on CCC to enhance their competitiveness by helping them access foreign government markets through government-to-government contracting at a **competitive** price.

As a Crown Corporation of the Government of Canada, foreign government buyers rely on CCC to be **collaborative** in developing government-to-government solutions with Canadian exporters.

## OPERATIONAL AND MANAGERIAL EXCELLENCE

### 1. Grow Canadian Export Business

1. Contribute to the development and delivery of Government of Canada International Trade initiatives;
2. Enhance relationships with foreign government buyers and Canadian exporters;
3. Grow Canadian export business in existing markets and develop new markets;
4. Improve trade portfolio collaboration and business intelligence; and
5. Continue to develop business development capacity and systems.

### 2. Be Productive and Efficient

1. Broaden confidence in CCC's value proposition;
2. Ensure transparent and competitive pricing;
3. Deliver timely and strategic project assessment, selection and decision making;
4. Continue to demonstrate organizational discipline – policy adherence, probity and robust risk management; and
5. Ensure CCC's internal capacity and the ratio of expenses to revenue are optimal.

### 3. Deliver Quality Services

1. Work with Canadian exporters to develop innovative solutions that meet foreign government buyer requirements;
2. Apply rigorous risk management and international contracting expertise in structuring and drafting contracts;
3. Provide robust contract management to ensure goods, services and project delivery are in compliance with contractual terms and conditions;
4. Deliver exceptional customer experience; and
5. Expand CCC's Brand

### 4. Effective Enterprise Risk and Opportunity Management

## EXCEPTIONAL WORK EXPERIENCE

### 5. High Performance Culture

1. Align CCC's culture with the Corporation's mandate;
2. Eliminate cultural gaps at CCC; and
3. Integrate top leadership behaviours into CCC's Learning and Development Framework.

### 6. Employee Engagement

1. Create an exceptional employee experience;
2. Better understand our working environment; and
3. Provide employees with the tools required to do their jobs efficiently and effectively.

### 7. Leadership

1. Identify CCC's "Top Leadership Behaviours";
2. Recognize and reward those who model CCC's top leadership behaviours; and
3. Build CCC's internal leadership capacity.

# BALANCED SCORECARD STRATEGIC OBJECTIVES, TARGETS AND RESULTS

| Strategic Objectives | Measure(s) | 2011-12 Results | 2012-13 Results | 2013-14 Targets | 2013-14 Results |
|---|---|---|---|---|---|
| | **OPERATIONAL AND MANAGERIAL EXCELLENCE** | | | | |
| **1. Grow Canadian Export Business** | | | | | |
| | CCC has a long history as a stakeholder in the integrated North American defence industrial base through its role as the Canadian government's manager of the Canada-U.S. DPSA for over 50 years. As a result, CCC has grown to become a trusted partner to the U.S. Government and an important instrument of trade for Canadian exporters. Over recent years, CCC has established additional business lines in global defence and security sales and in international commercial business sales, and has continued to support Government of Canada priorities including sourcing services to support international government assistance programs, managing Canadian Trade Offices in China with DFATD, and providing shared corporate services to Public-Private Partnerships (PPP) Canada Inc. This strategy is yielding positive results despite worldwide economic uncertainties. | | | | |
| Grow Canadian Export Business<br><br>Key Metrics | **1. DPSA Business Line**<br>Sales to the U.S. DoD under the Canada-U.S. DPSA and to NASA | | | | |
| | **a.** Value of Contracts Signed | $1,477.34M | $577.41M | $550.00M | $611.76M |
| | **b.** Value of Commercial Transactions | $2,129.91M | $1,840.59M | $1,167.15M | $1,099.71M |
| | **c.** Number of Canadian exporters with contracts and/or pursuits via CCC | 110 | 109 | 90 | 97 |
| | **2. GDS Business Line**<br>GDS sales to allies and like-minded nations | | | | |
| | **a.** Value of Contracts Signed | $32.74M | $138.40M | $200.17M | $14,933.81M |
| | **b.** Value of Commercial Trading Transactions & Sourcing Services | $66.00M | $77.34M | $211.00M | $387.47M |
| | **c.** Number of Canadian exporters with contracts and/or pursuits via CCC | 10 | 11 | 24 | 43 |
| | **3. ICB Business Line**<br>ICB Sales to government buyers in emerging and developing markets | | | | |
| | **a.** Value of Contracts Signed | $237.70M | $208.21M | $200.80M | $199.90M |
| | **b.** Value of Commercial Trading & Sourcing Services Transactions | $337.32M | $326.82M | $176.10M | $207.82M |
| | **c.** Number of Canadian exporters with contracts and/or pursuits via CCC | 6 | 25 | 23 | 43 |

| Strategic Objectives | Measure(s) | 2011-12 Results | 2012-13 Results | 2013-14 Targets | 2013-14 Results |
|---|---|---|---|---|---|
| | **OPERATIONAL AND MANAGERIAL EXCELLENCE** | | | | |

**2. Be Productive and Efficient**

As a Crown corporation of the Government of Canada, CCC took great care in 2013-14 to ensure its financial and human resources were managed in a fashion that meets modern accounting and human resource management principles. Being more productive and efficient means using fewer labour hours and spending less to produce the quality services expected.

In a challenging global environment marked by heightened risk, changing demographics, and continued economic and political uncertainty, such investments have allowed CCC to significantly improve operations, gain efficiencies and increase the potential to access key markets for Canadian exporters. These investments centre upon best practices in risk management, contract management and performance management.

| Strategic Objectives | Measure(s) | 2011-12 Results | 2012-13 Results | 2013-14 Targets | 2013-14 Results |
|---|---|---|---|---|---|
| Be Productive and Efficient<br><br>Key Metrics | **1.** Operating Results/Surplus (Deficit) | $0.24M | $1.33M | $(1.35)M | $2.23M |
| | **2.** Administrative expenses as a percentage of Commercial Trading Transactions and Sourcing Services | 1.2% | 1.4% | 1.8% | 1.7% |
| | **3.** Administrative expenses as a percentage of net revenues and appropriation | 99.0% | 95.8% | 104.5% | 93.4% |

**3. Deliver Quality Services**

CCC understands the critical importance of building strong relationships with its exporters and buyers, and continues to focus on ensuring Canadian exporters and foreign buyers possess a thorough knowledge of the Corporation's services to assist them in their international business transactions. CCC endeavours to assist its clients in a timely, professional and effective fashion and to remain adaptable to the changing environment of its clients.

| Strategic Objectives | Measure(s) | 2011-12 Results | 2012-13 Results | 2013-14 Targets | 2013-14 Results |
|---|---|---|---|---|---|
| Deliver Quality Services<br><br>Key Metrics | **1.** Client satisfaction (Client Survey results)[10] | 80% | 80% | 80% | 79.24% |
| | **2.** Number of Strategic Partnerships[11] | 28 | 78 | 55 | 86 |
| | **3.** Fees for Service | $12.70M | $15.25M | $11.50M | $13.65M |

**4. Effective Enterprise Risk and Opportunity Management**

CCC will utilize risk and opportunity management in every facet of its work to ensure that all risks are identified, mitigated and managed vis-à-vis the opportunities available to Canadian exporters in foreign government markets. To achieve this, the organization, people, processes and systems will be aligned in order to successfully implement its strategy. With respect to each opportunity, CCC will promote innovation while reducing risk to an acceptable level relative to the achievement of its objectives.

| Strategic Objectives | Measure(s) | 2011-12 Results | 2012-13 Results | 2013-14 Targets | 2013-14 Results |
|---|---|---|---|---|---|
| Effective Enterprise Risk & Opportunity Management<br><br>Key Metrics | **1.** Contract remediation expenses as a percentage of Commercial Trading Transactions | 0.00% | 0.00% | <0.05% | 0% |
| | **2.** Implementation of OAG audit recommendations | 100% | 100% | 100% | 100% |
| | **3.** Adherence to Commercial Contract payment terms | 98% | 98% | 99% | 100% |

[10] There are nine quality service dimensions that make up the Client Satisfaction percentage. It is the average of these nine quality service dimensions where the response is "Strongly Agree" or "Agree" that are included in the outcome.

[11] Strategic Partnerships are defined as signed agreements that express a shared line of action or understanding (i.e. signed MOUs, cooperation agreements and service level agreements).

## EXCEPTIONAL WORK EXPERIENCE

**5. High Performance Culture**

CCC's corporate culture determines "why, and how, it does the things it does" and as such has the greatest potential to either assist or inhibit its ability to realize its true potential. A high performance culture promotes the alignment of activities in an atmosphere of mutual respect, innovation and collaboration. Understanding that a high performance culture is heavily influenced by leadership behaviours, CCC sought to identify and promote the behaviours which will eliminate gaps in the Corporation's current culture.

**6. Employee Engagement**

The ability of CCC to achieve its goals is directly proportional to the way CCC's employees feel about their employment experience. CCC will continue to create a working environment that instils a high level of pride in its employees through ensuring a safe and healthy environment where everyone is respected and valued, excellence is celebrated, diversity is embraced and harassment is not tolerated. The Corporation will also ensure that all of CCC's managers understand the importance of, and engage in, two-way communication, providing learning and development opportunities and providing timely and meaningful feedback.

**7. Leadership**

Leadership is the culmination of behaviours and characteristics that engage and inspire employees toward a common vision and the achievement of objectives in a manner that respects the values of the Corporation, the importance of its people and adheres to highly ethical standards. At CCC these behaviours and characteristics foster pride in the achievement of results.

| Strategic Objectives | Measure(s) | 2011-12 Results | 2012-13 Results | 2013-14 Targets | 2013-14 Results |
|---|---|---|---|---|---|
| Exceptional Work Experience | 1. Percentage of employees who have signed the Code of Conduct and Code of Business Ethics | 100% | 100% | 100% | 100% |
| Key Metrics | 2. Employee retention rate | 94.4% | 91.1% | ≤95% | 97.88% |
| | 3. Percentage of employees with learning plans | 71% | 95% | 75% | 99% |
| | 4. Average sick days/year | 3.7 days per employee | 6.25 days | <5 days | 6.98 days |

SEE ANNEX A FOR MORE INFORMATION ON CCC'S PERFORMANCE AGAINST THE 2013-14 STRATEGIC OBJECTIVES AND INITIATIVES.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## OVERVIEW

CCC was established in 1946 under the *Canadian Commercial Corporation Act*. The Act outlines CCC's broad mandate, which is to assist in the development of trade by helping Canadian exporters to access markets abroad and by helping foreign buyers obtain goods from Canada. The legislation also provides the Corporation with a range of powers, including the ability to export goods from Canada either as principal or as agent in such a manner and to such an extent as it deems appropriate. As a result, CCC negotiates and executes bilateral government-to-government procurement arrangements, facilitating export transactions on behalf of Canadian exporters.

## BUSINESS LINES

As Canada's international contracting agency, CCC supports Canadian business targeting public sector procurement markets as a prime contractor for government-to-government contracts or as a procurement agent for foreign governments importing Canadian goods and services.

CCC's core business is delivered under the 1956 Canada-U.S. DPSA, which governs procurement of Canadian products and services by the U.S. DoD. CCC administers U.S. defence purchases above $150,000 USD and has a similar agreement with NASA. These agreements provide special access for Canadian companies to U.S. aerospace and defence markets. Under the DPSA, Canadian exporters are treated as domestic suppliers by the U.S. DoD including under the Buy America provisions. The Corporation received $15.66 million of parliamentary appropriations in 2013-2014 to facilitate sales of goods and services from Canadian exporters to the U.S. DoD in support of the North American defence industrial base.

In addition to sales to the U.S. DoD under the DPSA business line, CCC's contracting activities are focused on two additional business lines: GDS sales through which CCC assists Canadian exporters in accessing government defence and security markets, specifically those of Canadian allies and like-minded nations; and ICB sales through which CCC assists Canadian companies to access government-to-government markets, primarily via infrastructure projects in emerging and developing countries. CCC charges fees for service for both of these business lines.

CCC also offers three services that are aligned with Government of Canada priorities. These are sourcing services for support of international assistance programs, managing Canadian Trade Offices in China with DFATD, and providing shared corporate services to PPP Canada.

## OPERATING ENVIRONMENT

Canadian companies have been facing a period of dramatic economic shift in certain key industry sectors. For CCC, this shift is manifested in the decreasing volume of DPSA related business with the U.S. DoD. Traditionally, 70-75% of the Corporation's overall annual business activity was attributed to the DPSA business line, which reached a peak of 86% in 2011-2012 as a result of the U.S. and other international forces being active in the Iraq and Afghanistan theatres of operation over the last decade.

The Corporation also plays an important role in promoting Canadian capabilities and increasing exports beyond the U.S. and DPSA markets. CCC works with its base of exporters in global defence and security markets to leverage Canadian and U.S. military and security related procurements that are export-ready in order to open new markets with allied nations. In emerging and developing markets, CCC supports Canadian exporters in infrastructure and commercial products and services, effectively increasing access to complex and difficult markets by offering a more fulsome solution, contract structuring, contract management, quality assurance and operational knowledge transfer. However, in addition to sales cycles being complex and lengthy, the uncertain nature of the global economic environment has proven to be highly challenging and competitive for Canadian exporters when striving to secure contracts for military procurements, infrastructure projects and commercial products and services. Many nations are utilizing government export sales organizations and positioning their government services to provide competitive advantages to their respective domestic industries in competing for international contracts.

Under the DPSA business line, CCC's sales related to business with the U.S. DoD for 2013-14 of $611.76 million is 11% higher than budgeted and 6% higher than the prior year's sales of $577.41 million despite the effects of the U.S Government's continuing resolution, sequestration and budget crises during the last fiscal year. Sales in support of the U.S. military have been $700.00 million or more annually for the last several years, augmented significantly in 2009-2010 as a result of a sale under the U.S. Foreign Military Sales (FMS) of $2.2 billion for the supply of Light Armoured Vehicles (LAV). However, CCC anticipates sales to the U.S. DoD to decrease to amounts which are well below traditional levels in the range of $550.00 million per year, given the significant decline in U.S. DoD spending and sales through U.S. FMS are expected to decrease substantially as the U.S. DoD focuses on supporting American exporters. The Corporation continues to manage contract deliveries and progress work at above average levels of $700.00 million due to its backlog of undelivered commitments from large contracts carried forward from prior years.

Similarly, global austerity measures continue to prevail resulting in protracted negotiations and the deferral of non-U.S. military procurement awards and global infrastructure project starts. Despite this, however, with strategic focus on key geographies and Canadian capabilities, CCC and Canadian exporters enjoyed significant success in 2013-2014, culminating with the signing of the historic multi-billion dollar Armoured Brigades Program contract in the Middle East for the supply of LAV and associated equipment, training and support services manufactured and provided by General Dynamics Land Systems – Canada, which contributed to the GDS value of contracts signed significantly exceeding budget. It is estimated that this 14-year contract will create and sustain more than 3,000 jobs each year in Canada.

The ICB value of contracts signed of $199.90 million in 2013-2014 is consistent with budget and is 4% lower compared to the ICB value of contracts signed result in 2012-2013 of $208.21 million. Generally, ICB projects take several years to secure from the time the requirement is identified. CCC continues to identify and pursue opportunities under the ICB business line to further expand its pipeline and is hopeful that the quality leads that have been developed recently can be converted to contracts under management in the near future.

Commercial trading transactions (CTT) reflect the deliveries and work performed by CCC's suppliers, Canadian exporters, across each of CCC's business lines and is the primary driver for the Corporation's earned fees related to the operation of the GDS and ICB business lines, complementing the parliamentary appropriation received for the operation of the DPSA business line. Factors such as the size and duration of the contract, the number of specific deliverables or milestones, and the time of the year the contract is signed and effective can materially impact the Corporation's financial statements and often cause significant variations in certain year-over-year amounts on the Statement of Financial Position and Statement of Comprehensive Income as well as its retained earnings. Financial highlights on the 2013-2014 year follow.

## FINANCIAL HIGHLIGHTS

CCC's 2013-2014 net results of operations was a surplus of $2.23 million, compared to a surplus of $1.33 million reported for 2012-2013. The increase of $0.90 million, or 69%, was due primarily to Management's efforts to hold expenses levels in check with anticipated revenue levels. Through effective cost management and controlled expenditures, Management decreased the Corporation's administrative expenses to

$28.36 million in 2013-2014 from $30.48 million in 2012-2013, a reduction of $2.12 million or 7%. Also contributing to the increase in the surplus net results from operations was a $0.17 million increase in the parliamentary appropriation.

CCC did not incur any contract remediation expenses in fiscal year 2013-2014, consistent with fiscal year 2012-2013. This outcome reflects the success of risk management practices applied to all of CCC's business and is achieved given CCC's current portfolio of active and potential projects, the robust nature of its Enterprise Risk Management (ERM) framework, and the Corporation's continued investments to improve contract due diligence and management practices.

The Minister of International Trade directed the Corporation to pay to the Receiver General the amount of $40.00 million by March 31, 2014, an amount considered to be in excess of the amount required by the Corporation for the purposes of the *Canadian Commercial Corporation Act*.

A more detailed discussion of CCC's 2013-2014 financial highlights follows:

## STATEMENT OF COMPREHENSIVE INCOME DISCUSSION

### SUMMARY RESULTS

| | 2013-14 ($ Millions) | 2012-13 ($ Millions) | % Increase (Decrease) |
|---|---|---|---|
| **REVENUES** | | | |
| Commercial trading transactions - prime contracts | $ 1,665.17 | $ 2,225.19 | (25%) |
| Cost of commercial trading transactions - prime contracts | (1,665.17) | (2,225.19) | (25%) |
| Fees for service | 13.65 | 15.26 | (10%) |
| Other revenues | 1.07 | 1.07 | - |
| Total Revenues | 14.72 | 16.33 | (10%) |
| **EXPENSES** | | | |
| Administrative expenses: | | | |
| Ongoing operations | 28.36 | 28.74 | - |
| One-time investment for DPSA BPII | - | 1.07 | - |
| One-time investment for severance elimination | - | 0.67 | - |
| Total administrative expenses | 28.36 | 30.48 | ( 7%) |
| Contract remediation expenses | (0.22) | - | (100%) |
| Total Expenses | 28.14 | 30.48 | ( 8%) |
| Sourcing services for support of international assistance programs | 47.00 | 30.17 | 56% |
| Cost of sourcing services for support of international assistance programs | (47.00) | (30.17) | 56% |
| Parliamentary appropriations | 15.65 | 15.48 | 1% |
| Net results of operations | $ 2.23 | $ 1.33 | 69% |

## Revenues: General

Revenues consist of commercial trading transactions on prime contracts, fees for service, other income, net interest income, and gains (losses) on foreign exchange. It is important to note that revenues from commercial trading transactions on prime contracts are fully offset by the cost of commercial trading transactions on prime contracts. After offsetting the cost of commercial trading transactions, total revenues were $14.72 million for 2013-2014 compared to $16.33 million for 2012-2013, a decrease of $1.61 million or 10%.

## Revenues: Commercial Trading Transactions

Commercial trading transactions measure the value of delivery of a good or service or progress work once a contract is signed and becomes effective. Commercial trading transactions were $1,665.17 million for 2013-2014, compared to the $2,225.19 million for 2012-2013, a decrease of $560.02 million or 25%. DPSA commercial trading transactions of $1,099.71 million, represent 66% of the Corporation's total commercial trading transactions, is $740.88 million or 40% lower compared to 2012-2013.

Of the total DPSA commercial trading transactions, $508.82 million were recorded on DPSA LAV related projects compared to $1,204.66 million recorded on DPSA LAV related projects in 2012-2013. DPSA commercial trading transactions are anticipated to trend downward through the remaining delivery period of the $2.2 billion LAV contract signed with the U.S. FMS in 2009. This LAV contract was the largest contract signed by the Corporation prior to 2013-2014 and has contributed to significantly higher levels of commercial trading transactions for the last several years.

GDS commercial trading transactions of $357.64 million, represent 21% of the Corporation's total commercial trading transactions, is $299.87 million or 519% higher compared to 2012-2013. The Corporation is beginning to benefit from the consistent and increasing number of GDS contracts that have been signed over the last several years that contribute a regular and increasing number of delivery transactions per year. Of significance, $163.33 million or 46% of the total GDS commercial trading transactions were recorded for initial progress work related to the Armoured Brigades Program.

ICB commercial trading transactions of $207.82 million, represent 13% of the Corporation's total commercial trading transactions, is $119.01 million or 36% lower compared to 2012-2013. ICB commercial trading transactions are lower than the previous year due to a large contract being signed and delivered in full during 2012-2013, and the completion of a couple of large infrastructure projects.

## Revenues: Fees for Service

CCC does not charge fees for its DPSA business line transactions as these are fully funded through parliamentary appropriations in 2013-2014. For its GDS and ICB business lines and its services, the Corporation charges fees, generally as a percentage of the contract value and on negotiated rates for its services. Fees are recognized as revenue when services are rendered. Fees for service were $13.65 million for 2013-2014 compared to $15.25 million for 2012-2013, a decrease of $1.60 million or 10%.

GDS fees for services of $6.60 million, account for 49% of the total fees for services, are $3.86 million or 141% higher compared 2012-2013 fees of $2.74 million. The fee increase is commensurate with the increased level of GDS commercial trading transactions discussed previously.

ICB fees for services of $3.46 million, account for 25% of the total fees for services, are $5.16 million or 60% lower compared to 2012-2013 fees of $8.62 million. The decrease in ICB fees compared to 2012-2013 is primarily due to a large contract that was signed in Kenya during 2012-2013. Generally, ICB projects take two to three years to complete, contributing CTT and fees over an extended period of time. The contract signed in Kenya was unique by ICB standards as it was delivered in full during 2012-2013 therefore earning fees of $3.42 million in an abbreviated and accelerated manner in 2012-2013. Cuba

Contracting Program fees were also lower by $1.30 million in 2013-2014 compared to 2012-2013 as a result of the transfer of financing components of the Cuba Contracting Program to EDC.

Fees for service from sourcing and other Government of Canada priorities of $3.59 million accounting for 26% of the total fees for services, is $0.30 million or 8% lower compared to 2012-2013 fees of 3.89 million. The large proportion of the service provided (and as a result fees earned on the service provided) by CCC entirely occurs at the discretion of DFATD and the availability of budget funding to satisfy requirements of their programs.

## Revenues: Other

Other revenues include: (1) Foreign exchange gains or losses due to the weakening or strengthening of the Canadian dollar compared to its U.S. dollar counterpart on exposed U.S. cash balances; (2) Finance income earned on the Corporation's cash balances; and (3) Other income comprised of fees earned for providing early payment discounts and payment wiring to Canadian exporters, and other miscellaneous amounts. For 2013-2014: (1) The foreign exchange gain of $0.48 million, due to the weakening of the Canadian dollar compared to its U.S. dollar counterpart was $0.39 million  or 407% higher compared to the foreign exchange gain of $95 thousand for 2012-2013; (2) Finance income of $0.27 million was $0.06 million or 17% lower compared to the result of $0.32 million for 2012-2013; and (3) Other income of $0.32 million was $0.34 million or 51% lower compared to the result of $0.66 million for 2012-2013.

## Expenses

For 2013-2014, total expenses were $28.14 million, a decrease of $2.34 million or 8% lower than 2012-2013 total expenses of $30.48 million. For 2013-2014 the Corporation reversed the provision for contract remediation expenses which resulted in a $0.22 million contract remediation expense recovery.

For 2013-2014, administrative expenses were $28.36 million, a decrease of $2.12 million or 7% lower than 2012-2013 administrative expenses of $30.48 million. Administrative expenses are paid primarily in Canadian dollars and are not impacted by foreign exchange fluctuations. Administrative expenses include the following:

- Workforce compensation and related expenses of $18.89 million for 2013-2014 were $21 thousand or less than 1% higher than 2012-2013 expenses of $18.87 million. The increase is due to regular collective bargaining and annual salary band increment increases. Workforce compensation and related expenses accounts for approximately 67% of CCC's administrative expenditures.
- Public Works Government and Services Canada (PWGSC) is paid for certain core contract management services under the DPSA. Over the last couple of years, CCC has as part an initiative to streamline processes in the delivery of the DPSA, has brought certain contract management services previously performed by PWGSC in-house. As a result, total PWGSC expenses of $3.19 million for 2013-2014 were $0.48 million or 14% lower than 2012-2013 expenses of $3.67 million.
- Rent and related expenses of $2.24 million for 2013-2014 were $0.06 million or 2% lower than 2012-2013 expenses of $2.30 million. Annual increases in accommodation rent were offset by savings achieved on the rental and use of copier equipment.
- Travel and hospitality expenses of $1.53 million for 2013-2014 were $0.18 million or 11% lower than 2012-2013 expenses of $1.71 million. Travel and hospitality expenses are incurred due primarily to business development activity in support of Canadian exporters in pursuit of and to secure projects in Latin America, Africa and the Middle East and the management of the projects once they are secured and effective. As a result of the completion of a couple of large infrastructure projects, contract management related travel was reduced and contributed to the overall decrease.

- Consultant expenses of $0.97 million for 2013-2014 were $0.16 million or 14% lower than 2012-2013 expenses of $1.13 million. The decrease was primarily the result of a the completion of consultation engagements in 2013-2014 related to the delivery of contract management services on the Business Process Improvement Initiative (BPII) which was a strategic relationship with PWGSC to optimize the expenditure of the Corporation's financial resources in support of DPSA responsibilities. In addition, the Corporation was able to negotiate savings on in-country consultation services related to the delivery of export promotion undertaken in China. Consultant expenses complement CCC's workforce and perform assignments requiring a specific expertise.
- The amortization of intangible assets and depreciation of property and equipment and leasehold improvement costs of $0.17 million for 2013-2014 were $0.67 million or 80% lower compared to 2012-13 costs of $0.84 million. The Enterprise Resource Planning (ERP) system that was implemented during 2008, along with related upgrades, was fully amortized by the end of fiscal year 2012-2013.
- Computer software, hardware and support costs of $0.44 million, over and above the information management personnel included in workforce compensation or consultants, for 2013-2014 were $0.15 million or 25% lower compared 2012-2013 costs of $0.59 million. The decrease resulted from a one-time investment in 2012-2013 that was required to replace or enhance aging computer equipment, furniture and fixtures.
- Other expenses of $0.93 million were $0.45 million or 33% lower for 2013-2014 compared to 2012-2013 expenses of $ 1.38 million. Other expenses include Corporate communication costs (e.g. marketing, advertising, and the design and printing of corporate promotional material), telecommunications, bank charges and other miscellaneous amounts. In 2012-2013, several long outstanding system legacy receivable balances amounting to $0.29 million were written off to expenses as they were deemed to be uncollectible and remaining $0.08 million was the result of expenditures made to modernize, update and make a more accessible website for the Corporation, and enhance marketing and communication efforts as part of an investment towards aiding business development. These expenditures were not replicated in 2013-2014.

For 2013-2014, the Corporation did not incur any contract remediation expenses. During 2013-2014, the Corporation reversed the provision for contract remediation expenses which resulted in a $0.22 million contract remediation expense recovery. This outcome reflects the Corporation's robust risk management practices, including its ERM framework and improved contract management practices.

## Parliamentary Appropriations

The Corporation received parliamentary appropriations of $15.65 million in fiscal year 2013-2014, $0.17 million higher than the amount as in fiscal year 2012-2013 of $15.48 million. The increase reflects the amount calculated and distributed by the Treasury Board Secretariat (TBS) for collective agreements signed or other compensation adjustments made between August 1, 2012 and July 31, 2013. The appropriation was drawn down in equal monthly instalments throughout the year.

# STATEMENT OF FINANCIAL POSITION DISCUSSION

### SUMMARY OF FINANCIAL POSITION

| | 2013-14 ($ Millions) | 2012-13 ($ Millions) | % Increase (Decrease) |
|---|---|---|---|
| Total assets | $ 1,039.87 | $ 1,172.61 | (11%) |
| Total liabilities | $ 1,027.36 | $ 1,122.24 | (8%) |
| Shareholder's Equity | $ 12.51 | $ 50.37 | (75%) |

CCC's total assets were $1,039.87 million as at March 31, 2014, $132.73 million, or 11%, lower than at March 31, 2013. The decrease from March 31, 2013 is due to a decrease in the amount of progress payments to Canadian exporters of $247.59 million or 29%, offset by a net increase from March 31, 2013 across all other asset statement line items combined of $114.86 million or 35%.

CCC's total liabilities were $1,027.36 million as at March 31, 2014, $94.87 million, or 8%, lower than at March 31, 2013. The decrease from March 31, 2013 is due to a decrease in the amount of progress payments from foreign customers of $247.59 million or 29%, offset by a net increase from March 31, 2013 across all other liability statement line items combined of $152.72 million or 54%.

As an international trade intermediary, CCC offsets its trade-related assets with matching liabilities. Therefore, trade receivables from foreign customers and progress payments to Canadian exporters are normally offset by trade payables and accrued liabilities to Canadian exporters, and progress payments from foreign customers, respectively.

Trade receivables of $302.90 million were $155.99 million or 106% higher than the balance at March 31, 2013 and represents 29% of the total assets of $1,039.87 million. Trade payables and accrued liabilities of $327.40 million were $206.44 million or 171% higher than the balance at March 31, 2013 and represent 32% of the total liability of $1,027.36 million.

Progress payments to Canadian exporters of $592.56 million represent 57% of the total assets of $1,039.87 million. Progress payments from foreign customers of $592.56 million represent 58% of the total liabilities of $1,027.36 million. Contractually, progress payments occur mainly on the DPSA business line contracts and are required to flow through in their entirety to the Canadian exporter. Of the total progress payments to Canadian exporters and from foreign customers, $294.23 million or 50% relate to the significant $2.2 billion U.S. DoD FMS LAV contract and $163.33 million or 28% relate to the significant multi-billion dollar newly signed Armoured Brigades Program LAV contract.

Advances from foreign customers of $105.40 million, decreased by $52.02 million or 33% compared to the balance at March 31, 2013. Advances to Canadian exporters of $54.00 million, decreased by $69.44 million or 56% compared to the balance at March 31, 2013. Of the $105.40 million in advances from foreign customers, $86.54 million or 82%, were related to projects for Colombia, Ghana, Mexico, Norway, and Peru. Of these advances from foreign customers, $53.06 million were passed on to Canadian exporters, accounting for 98% of advances to Canadian exporters. Contractually, advances are not offered on the DPSA business line. For all other business lines, CCC's risk mitigation practices require that for most projects CCC holds back advance payments made by foreign customers and releases them to Canadian exporters as delivery obligations are fulfilled. This explains the period-over-period variations that occur.

As at March 31, 2014, CCC's equity, fully ascribed to the Government of Canada, was $12.51 million, a decrease of $37.86 million from March 31, 2013. The decrease is due to the $40.00 million payment made to the Government of Canada on March 31, 2014 offset by the $2.14 million surplus in total comprehensive income. As CCC's equity backstops the commercial risks inherent in its portfolio of undelivered contracts and operational risks, it was assessed and determined that the remaining equity was sufficient to cover all risks. A detailed discussion of commercial and operational risks follows in CCC's Commitment to Performance and Risk Management section.

# STATEMENT OF CASH FLOWS DISCUSSION

## SUMMARY OF CASH FLOW

| | 2013-14 ($ Millions) | 2012-13 ($ Millions) | % Increase (Decrease) |
|---|---|---|---|
| Operating activities | $ 67.99 | $ 2.57 | 2,546% |
| Investing activities | - | $ (0.09) | (100%) |
| Financing activities | $ (40.00) | - | 100% |
| Effect of exchange rate changes on cash and cash equivalents | $ 0.48 | $ 0.10 | 407% |

### Operating activities

Under the DPSA program, the Corporation generally pays its Canadian exporters within 30 days of receipt of an invoice and substantiating documentation according to the terms and conditions of the contract. Consequently the Corporation may use its own cash to pay Canadian exporters on the 30th day funding its trade receivables in instances where there are collection delays and payment is not received from the DPSA customer until beyond the 30 days. On certain contracts (generally outside of the DPSA program), the Corporation only pays its Canadian exporters, within business five days, after CCC receives payment from the foreign customer. Depending on the timing of receipts compared to payments, the actual execution of these transactions often cross reporting periods and can cause variations in cash flows from one period to the next. In this instance, cash is momentarily provided to the operation at the end of one period until the payment is made to the Canadian exporter, as stipulated in the contract, early in the next period.

During 2013-2014, CCC provided $67.99 million in cash from its operating activities, as compared to the $2.57 million provided during 2012-2013, an increase of $65.42 million. Details are as follows:

- Receipts from foreign customers include cash received for deliveries, progress payments and advances as stipulated under the foreign customer contract. Receipts from foreign customers were $1.5 billion for 2013-2014, $993.84 million or 40% lower than the amount reported for 2012-2013. The decrease is due to fewer payments received from the U.S. Government for progress work performed and deliveries made related to a couple of large LAV contracts signed with the U.S. DoD and U.S. DoD FMS during the Corporation's fiscal years ended March 31, 2010 and March 31, 2011 which are nearing completion.
- Payments to Canadian exporters include cash paid for deliveries, progress payments and advances as stipulated under the domestic contract. Payments to Canadian exporters were $1.4 billion for 2013-2014, $1,058.53 million or 42% lower than the amount reported in 2012-2013. The decrease is due to fewer payments made to the supplier related to progress work performed and deliveries made under the large LAV contracts with the U.S. DoD and U.S. DoD FMS.
- For 2013-2014 compared to 2012-2013, the decrease in receipts from foreign customers was less than the decrease in payments to Canadian suppliers by $67.55 million, therefore providing $67.55 million to cash. In addition to the $67.55 million cash provided by export transactions, another $1.99 million decrease in cash was used from finance income, fees for services and other income received. The combined total of $65.56 million provided was offset by an increase of $0.14 million in use of cash for administrative payments net of parliamentary appropriations.

### Investing activities

For 2013-2014, the Corporation did not capitalize any amounts related to property, equipment or intangible assets compared to $0.10 million capitalized for 2012-2013.

### Financing activities

The Minister of International Trade directed the Corporation to pay to the Receiver General the amount of $40.00 million by March 31, 2014, an amount considered to be in excess of the amount required by the Corporation for the purposes of the *Canadian Commercial Corporation Act*.

### Effect of exchange rate changes on cash and cash equivalents

For 2013-2014, CCC recorded a foreign exchange translation gain of $0.48 million as a result of the Canadian dollar's weakening compared to its U.S. dollar counterpart, from $0.9843 USD at March 31, 2013 to $0.9046 USD at March 31, 2014.

## COMPARISON OF FINANCIAL RESULTS TO THE BUDGET CONTAINED IN THE 2013-2014 TO 2017-2018 CORPORATE PLAN

CCC's 2013-2014 net results of operations surplus of $2.23 million was $3.58 million or 265% higher than the budgeted deficit of $1.35 million.

For 2013-2014, total commercial trading and sourcing services transactions combined of $1,712.17 million are $123.09 million or 8% higher than budget of $1,589.08 million. The GDS and ICB business lines contributed $173.61 million and $31.72 million favourable variances respectively, offset by unfavourable variances of a combined $85.10 million across the other business and service lines.

Fees for service of $13.65 million were $2.15 million, or 19% higher than the budget of $11.50 million. Fees for service are earned as contract work is delivered or completed. For 2013-2014, fees generated from GDS business line of $6.60 million were $1.33 million or 25% higher than budget of $5.27 million, mainly due to fees earned on the recording of initial progress work related to the Armoured Brigades Program. In addition, fees generated from the ICB business line of $3.45 million were $1.01 million or 41% higher than budget of $ 2.44 million, mainly due to Cuba Contracting Program fees of $2.94 million which are $0.92 million or 46% higher than budget of $2.02 million as the Corporation financed Cuba Contracting Program transactions and earned related financing fees until the financing components of the program were transferred to EDC later in the year. Fees earned on sourcing and other services of $3.59 million were $0.19 million or 5% lower than budget of $3.78 million, as DFATD required fewer services to be provided. CCC provides services entirely at the discretion of DFATD and the availability of budget funding to satisfy requirements of their programs.

Cuba Contracting Program fees are net of $0.12 million which was expensed for Cuba Contracting Program insurance. The amount represents the expense incurred for one month. The total insurance premium of $0.82 million is amortized over 12 months (the duration of the coverage) on an estimated weighted average basis of the loan balances outstanding. The expense was required in order to transfer the risk exposure of CCC's entire Cuba portfolio to EDC as part of the transition of the financial management of the Cuba Contracting Program to EDC.

For 2013-2014, the Corporation recorded a foreign exchange translation gain of $0.48 million resulting from movements in the Canadian dollar relative to the U.S. dollar. The Corporation manages exchange gains and losses through monitoring and maintaining unhedged foreign currency balances at negligible levels. The Corporation's unhedged U.S. currency balance of $0.35 million represents less than 0.1% of its U.S. denominated assets. The Corporation does not budget for gains or losses on foreign exchange.

For 2013-2014, the Corporation reversed the provision for contract remediation expenses which resulted in a $0.22 million contract remediation expense recovery. As a result, contract remediation expenses contributed a favorable budget variance of $0.32 million.

For 2013-2014, administrative expenses of $28.36 million were $0.91 million, or 3%, lower than the budgeted amount of $29.28 million. Direct expenses of $18.64 million were $0.55 million or 3% below budget. Indirect expenses of $9.72 million were $0.36 million or 4% under budget. This result reflects Management's continued control of expenditures relative to revenues earned, respecting the spirit of the Government's Budget 2012 saving measures.

As explained under the Parliamentary Appropriation section of the Statement of Operations, Comprehensive Income Discussion, the Corporation received parliamentary appropriations of $15.66 million in fiscal year 2013-2014, $0.18 million or 1% higher than the budget of $15.48 million.

## 2014-2015 CORPORATE PLAN FORECAST

The planning objectives and assumptions used to forecast the Operating Budget for 2014-2015 and in subsequent years are detailed and discussed in CCC's Corporate Plan 2014-2015 to 2018-2019.

CCC is budgeting for an operating surplus of $4.17 million in 2014-2015 with net revenues of $20.36 million.

In 2014-2015, net revenues (which exclude the parliamentary appropriation) will increase to $20.36 million from $14.72 million in the 2013-2014, an increase of $5.64 million or 38%. This increase is largely attributed to fees for service earned and recognized on the commencement of progress work related to the significant Armoured Brigades Program armoured vehicle contract signed and effective at the end of fiscal 2013-2014.

In addition to the impact of the significant armoured vehicle contract, GDS and ICB fees for service are also expected to grow in the outer years due to increased business resulting from a growth in awareness of CCC's value proposition, made possible through the redeployment of resources in business development.

The appropriation for 2014-2015 has been approved in the Main Estimates at $15.70 million.

In 2014-2015, contract remediation expenses are budgeted at $0.53 million significantly lower than the average contract remediation expenses incurred over the past ten years of $1.90 million per year. The amount represents approximately 0.025% of commercial trading transactions. Although the Corporation does not expect to incur these expenses, it provides for them for budgeting and planning purposes.

Administrative expenses will increase to $31.31 million in 2014-2015 from $28.36 million in 2013-2014, an increase of $2.95 million or 10%. The increase is due entirely to the sizeable effort required to manage the significant armoured vehicle contract signed and effective in 2013-2014, along with direct expenses related to the start-up and operation of additional offices in China. Otherwise, CCC core headquarter total administrative expenses will be slightly reduced as part of Management's continued efforts to align the Corporation's resources with future activities. CCC has put into effect spending reductions of its core administrative expenses of 14% over three fiscal years: 7% in 2013-2014, 2% in 2014-2015 and an additional 5% in 2015-2016 through prudent management and rationalization of costs including staffing actions, discretionary and non-reimbursable travel and hospitality and certain out-sourced services.

# CCC'S COMMITMENT TO PERFORMANCE AND RISK MANAGEMENT

## RISK MANAGEMENT

Consistent with the Treasury Board Secretariat's Framework for the Management of Risk and the Financial Risk Management Guidelines For Crown Corporations set out by the Minister of Finance, CCC's ERM framework manages a wide variety of risks and assists the Corporation in fulfilling its mandate to facilitate international trade on behalf of Canadian exporters. The framework segments key risks facing CCC within three risk categories: Strategic, Operational and Transactional. It identifies robust risk management processes, procedures, and practices which include: risk identification, analysis, assessment, response, control, monitoring, reporting and communication/training.

Balancing risk and opportunities is a key feature of the ERM framework. CCC's capital allocation model is combined with strong governance oversight from the Risk and Opportunities Committee to ensure that risk and opportunities are appropriately managed. This helps with the achievement of the Corporation's strategic objectives and long-term financial viability. CCC strives to optimally mitigate the risks related to its strategic, operational and transactional objectives.

### Risk Governance

Risk management is a shared process within the Corporation. Ensuring that the Corporation's risk management program is current and effective is a key role of the Board of Directors. The structures, policies and procedures related to risk management are developed by Senior Management and reviewed by the Risk and Opportunities Committee. Subsequent to the review, Senior Management makes recommendations to the President for approval. On an annual basis, the Audit Committee reviews the ERM program and recommends proposed changes to the Board of Directors for approval.

CCC's risk management culture encourages a collaborative effort. Each employee plays an important role in the management of enterprise risks and is part of the extended risk management team.

## CATEGORIES OF RISKS:

### Strategic Risks

This is one of the three risk categories managed by CCC. Strategic risks are those that may interfere with the Corporation's ability to meet its overall objectives. These include:

#### MANDATE RISK:

This risk relates to ensuring the Corporation a) engages only in activities that are consistent with its mandated corporate activity and that it does not operate in activities beyond its mandate, and b) fulfils its mandate through the services provided. The Corporate Plan identifies all business lines and activities undertaken by the Corporation in support of its mandate. The transfer of financing activity under the Corporation's Cuba Contracting Program to Export Development Corporation during the fiscal year further refined and focused the activities within the Corporation's mandate.

#### ORGANIZATIONAL RISK:

This risk relates to the Corporation operating consistent with the breadth and complexity of its mandated corporate activity and having the proper corporate structure in place to achieve its objectives. While no significant structural changes occurred during the year, significant turnover within the Board of Directors did occur. Director orientation sessions as well as stability within the executive level mitigated succession risks.

### REPUTATIONAL RISK:

This risk relates to ensuring that the Corporation's fulfillment of its corporate mandated activities follows prudent risk management policies and practices and prohibits actions or inactions that may result in the tarnishing of its brand image with its shareholder, stakeholders and the general public. Strong transactional due diligence and a focus on corporate social responsibility/business integrity combined to be thee backbone of the Corporation's risk mitigation approach in this area. The Corporation provides regular and open communication with all of its stakeholders, which is essential to managing reputational risk.

### BUSINESS ENVIRONMENT RISK:

This risk relates to changing economic, social, legal or environmental conditions that could result in decreased usage of CCC's services. The Corporation monitors environmental changes to manage this risk and adapts process changes as necessary.

Uncertainty in the economic recovery is CCC's main business environment risk. U.S. budgetary pressures and decreased military spending will continue to have an impact on the Corporation's value of contracts signed in that market. Similar impacts are faced in other markets. Protectionism by the US DoD remains a concern to the Corporation. The largest exposure in this regard relates to the changes in purchasing behaviour of the U.S. DoD. CCC mitigates this risk through closely maintaining its U.S. DoD relationships and political ties as well as independent monitoring of developments within the U.S. legislature.

### FINANCIAL RISK:

This risk relates to Corporation's financial capacity (as measured through its capital) to undertake its mandate and manage its financial obligations. The Corporation's Capital Allocation Model tracks exposures across Operational, Performance and Credit risks and ensures there is an appropriate level of available capital to backstop risks. Results are reported to the Board of Directors on a quarterly basis. Upon direction of its Minister, the Corporation returned $40M of its capital to its shareholder reflecting lower capital requirements for credit risk exposures. The current level of capitalization adequately backstops the Corporation's risks.

## Operational Risks

This is the second major risk category managed by CCC. It refers to those risks directly related to the Corporation's information management, information systems, people, policies/procedures and business continuity planning. Operational risks are managed at the business and functional unit level and are the responsibility of the Vice-Presidents. These include:

### INFORMATION MANAGEMENT RISK:

This risk encompasses the Corporation's need to acquire timely and appropriate information for the purposes of business decision making. During the year, Management completed the review and update of policies related to information management to ensure security and retention requirements remain current.

### INFORMATION SYSTEM RISK:

This risk relates to the Corporation's information system being able to generate relevant data in an efficient and effective manner. During the year, issues related to the Corporation's Enterprise Resource Planning system surfaced which affected the efficiency of the system. At this time, the supplier has identified a possible solution and implementation may be as early as the fall of 2014. While the ERP system is operating more slowly than expected, no significant operation impact has been felt.

### PEOPLE RISK:

People risk reflects the importance of having sufficient human resources in place to meet both client expectations and achieve overall corporate objectives. Staffing levels are appropriate to meet current workload levels across the Corporation.

CCC monitors its employee satisfaction level through annual employee surveys. These assist in the development of human resource strategies to ensure employee needs are met and that turnover remains low. Succession plans are in place at the executive level to mitigate any potential impacts when an executive position becomes vacant.

### POLICIES AND PROCESSES RISK:

This risk relates to the possibility of financial losses or inefficient use of resources that may develop as a result of not having appropriate policies, systems and processes in place. The Internal Audit function reviews key areas of the Corporation to ensure that controls and practices are being followed as per approved policies and procedures. During the year, committees were formed to update the policies related to Security, Information Management and Corporate Social Responsibility and Business Integrity.

### BUSINESS CONTINUITY PLANNING RISK:

This risk relates to the possibility of a negative event that could impact CCC's assets, work environment and staff to the point of interrupting CCC's ability to carry on its business. Examples of situations that may lead to interruptions include CCC's facilities being unavailable for a period of time or a significant portion of CCC's staff being unable to work due to illness.

Annual testing of the Business Continuity Plan (BCP) focused on a) staff ability to work from home and b) Management's ability to communicate with staff in the event that the Corporation's facilities were unavailable. As a result of the test risks have been identified and plans are in place to mitigate these risks.

## Transactional Risks

This is the third major category of risk managed by CCC and reflects those risks that deal with export transactions. The Corporation is sensitive of the need to protect the shareholder by effectively and prudently managing these risks. Prior to entering into export contracts, the following transactional risks are evaluated:

### SUPPLIER PERFORMANCE RISK:

This risk relates to the timely delivery of contracted goods and services and to ensure a supplier's failure to perform is mitigated. The Corporation's due diligence process reviews the financial, managerial and technical capabilities of the firms that are seeking the Corporation's support. Once under contract, CCC undertakes quarterly supplier reviews to monitor the financial condition of its portfolio of suppliers. The results are communicated to the Board of Directors.

### FOREIGN ENVIRONMENT RISK:

This risk relates to the possibility of a foreign buyer defaulting on its contractual obligations with the Corporation and the intricacies of operating in a foreign environment.

The major subset of this risk relates to buyer credit. The Corporation accepts unsecured credit from AAA rated foreign governments and commercial parties, thereby minimizing buyer credit risk. CCC may accept securities to back up payment obligations of customers where the credit rating is below that of AAA. In all other cases, the Corporation passes the credit risk to the exporter. This is achieved through a back-to-back payment mechanism that only allows the exporter to be paid once CCC has received the relevant payment from the foreign buyer. Often, the exporter will use the services of Export Development Canada to mitigate foreign buyer credit risk.

### CONTRACT RISK:

This risk relates to the terms and conditions reflected within CCC's foreign and domestic contracts. Each foreign buyer and domestic supplier contract must be carefully negotiated and drafted to establish appropriate terms and conditions to mitigate the Corporation's risk. CCC has an experienced workforce comprised of contract professionals and legal counsellors who adeptly manage contract risks.

As a result of a changing legal environment, prime contractors are increasingly being held responsible for its sub-contractors actions. Management has therefore identified an increased need to focus on the business ethics of its contracting parties. Appropriate clauses are being strengthened in the Corporation's domestic and foreign contracts.

### EXPORT FOREIGN EXCHANGE RISK:

This risk relates to changes in the exchange rate of the Canadian dollar and the potential impacts from an export transaction viewpoint. The period of high Canadian dollar rates forced the Corporation's suppliers to become more competitive and to look for foreign investment opportunities to help increase profits. With the recent decline in the Canadian dollar, this competitiveness has been enhanced.

Similar to foreign buyer credit risk, CCC passes the exchange rate risk through to the exporter. This is accomplished by paying exporters under the domestic contract in the same currency as is received under CCC's foreign contract with the buyer. The Corporation also manages foreign exchange risk related to its internal holdings of foreign currencies. This risk is mainly comprised of the fluctuation in value of the Corporation's U.S. dollar working capital. The Corporation minimizes the balance in its foreign currency account to mitigate foreign exchange risk. To a lesser degree, the value of CCC's fees denominated in foreign currency also represents a foreign exchange risk.

### FRAUD RISK:

This risk relates to the possibility that the Corporation is the subject of an internal or external fraud. Policies and procedures have been established along with internal controls to ensure that this risk is minimized. CCC's Internal Audit function reviews these practices and recommends improvements where warranted. During the year, management began a fraud assessment across CCC's various business lines. At year-end, this assessment was still underway.

### CORPORATE SOCIAL RESPONSIBILITY RISK:

Corporate Social Responsibility (CSR) refers to the way a company balances it's economic, environmental, and social objectives while addressing stakeholder expectations and enhancing shareholder value. To address CSR issues related to the business integrity of the Corporation's existing and potential supplier base, a senior level integrity compliance committee has developed enhanced managerial due diligence requirements. This has resulted in the revision of several of the Corporation's policies and instructions relating to due diligence practices.

# MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The financial statements of the Canadian Commercial Corporation and all information presented in this annual report are the responsibility of management. The financial statements have been prepared in accordance with International Financial Reporting Standards, using management's best estimates and judgments, where appropriate. Financial information presented elsewhere in the annual report is consistent with the financial statements.

In support of its responsibility, management has developed and maintains books of account, records, financial and management controls, information systems and management practices. These are designed to provide reasonable assurance as to the integrity and reliability of financial information, that assets are safeguarded and controlled, and that transactions of the Corporation are in accordance with the *Financial Administration Act* (FAA) and regulations and, as appropriate, the *Canadian Commercial Corporation Act*, the by-laws of the Corporation, and the directive issued pursuant to Section 89 of the *FAA*.

The Audit Committee oversees management's responsibilities for maintaining adequate control systems and the quality of financial reporting. The Audit Committee meets with management and the internal and external auditors to review the manner in which these groups are performing their responsibilities and to discuss auditing, internal controls and other relevant financial matters. The Audit Committee has reviewed the financial statements with the external auditor and has submitted its report to the Board of Directors. The Board of Directors has reviewed and, on recommendation by the Audit Committee, has approved the financial statements.

The Corporation's external auditor, the Auditor General of Canada, audits the financial statements in accordance with Canadian generally accepted auditing standards, and expresses an opinion on the financial statements.

| | |
|---|---|
| Martin Zablocki<br>President and CEO | Anthony Carty<br>Vice-President, Risk and Finance and CFO |

Ottawa, Canada
May 27, 2014

Auditor General of Canada
Vérificateur général du Canada

# INDEPENDENT AUDITOR'S REPORT

To the Minister of International Trade

**Report on the Financial Statements**

I have audited the accompanying financial statements of the Canadian Commercial Corporation, which comprise the statement of financial position as at 31 March 2014, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

*Opinion*

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Canadian Commercial Corporation as at 31 March 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

**Report on Other Legal and Regulatory Requirements**

As required by the *Financial Administration Act*, I report that, in my opinion, the accounting principles in International Financial Reporting Standards have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Canadian Commercial Corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canadian Commercial Corporation Act* and the by-laws of the Canadian Commercial Corporation, and the directive issued pursuant to Section 89 of the *Financial Administration Act.*

Nancy Y. Cheng, FCPA, FCA
Assistant Auditor General
for the Auditor General of Canada

27 May 2014
Ottawa, Canada

# FINANCIAL STATEMENTS AND NOTES

## STATEMENT OF FINANCIAL POSITION

| As at March 31, 2014 *(in thousands of Canadian dollars)* | 2014 | 2013 |
|---|---|---|
| **ASSETS** | | |
| Current assets | | |
| Cash and cash equivalents (note 4) | $ 89,538 | $ 61,068 |
| Trade receivables (notes 5 and 12) | 302,901 | 146,907 |
| Advances to Canadian exporters | 53,999 | 123,436 |
| Progress payments to Canadian exporters | 592,559 | 840,148 |
| | 1,038,997 | 1,171,559 |
| Non-current assets | | |
| Property and equipment (note 6) | 877 | 1,046 |
| Intangible assets (note 7) | - | - |
| | 877 | 1,046 |
| | $ 1,039,874 | $ 1,172,605 |
| **LIABILITIES** | | |
| Current liabilities | | |
| Trade payables and accrued liabilities (notes 5 and 12) | $ 327,398 | $ 120,961 |
| Advances from foreign customers | 105,399 | 157,420 |
| Progress payments from foreign customers | 592,559 | 840,148 |
| Employee benefits (note 8) | 209 | 1,984 |
| | 1,025,565 | 1,120,513 |
| Non-current liabilities | | |
| Employee benefits (note 8) | 1,800 | 1,428 |
| Provision for contract remediation expenses (notes 9 and 10) | - | 296 |
| | 1,800 | 1,724 |
| | 1,027,365 | 1,122,237 |
| **SHAREHOLDER'S EQUITY** | | |
| Contributed surplus | 10,000 | 10,000 |
| Retained earnings (notes 8 and 10) | 2,509 | 40,368 |
| | 12,509 | 50,368 |
| | $ 1,039,874 | $ 1,172,605 |

Commitments, contingencies and guarantees (notes 17 and 18)

*The accompanying notes are an integral part of the financial statements.*

Authorized for issue by the Board of Directors on May 27, 2014:

Ray Castelli

Raymond Renato Castelli
Chair, Board of Directors

Scott Player
Chair, Audit Committe

## STATEMENT OF COMPREHENSIVE INCOME

| For the year ended March 31 (in thousands of Canadian dollars) | 2014 | 2013 |
|---|---|---|
| **REVENUES** | | |
| Commercial trading transactions - prime contracts (note 11) | $ 1,665,172 | $ 2,225,193 |
| Less: cost of commercial trading transactions - prime contracts | (1,665,172) | (2,225,193) |
| Fees for service (note 11) | 13,653 | 15,254 |
| Other income (note 11) | 318 | 655 |
| Finance income, net (note 14) | 267 | 323 |
| Gain on foreign exchange | 482 | 95 |
| | 14,720 | 16,327 |
| **EXPENSES** | | |
| Administrative expenses (note 13) | 28,363 | 30,484 |
| Contract remediation expenses | (220) | - |
| | 28,143 | 30,484 |
| **SOURCING SERVICES FOR SUPPORT OF INTERNATIONAL GOVERNMENT ASSISTANCE PROGRAMS** | | |
| Sourcing services transactions (note 11) | 46,998 | 30,170 |
| Less: cost of sourcing services transactions | (46,998) | (30,170) |
| | - | - |
| Net results of operations before Parliamentary appropriations | (13,423) | (14,157) |
| Parliamentary appropriations (note 15) | 15,656 | 15,482 |
| **NET RESULTS OF OPERATIONS** | $ 2,233 | $ 1,325 |
| **OTHER COMPREHENSIVE LOSS** | | |
| **ITEMS THAT WILL NOT BE RECLASSIFIED TO NET RESULTS OF OPERATIONS** | | |
| Actuarial loss on employee benefits obligation (note 8) | (92) | (148) |
| **TOTAL COMPREHENSIVE INCOME** | $ 2,141 | $ 1,177 |

*The accompanying notes are an integral part of the financial statements.*

FINANCIAL STATEMENTS AS AT MARCH 31, 2014
*(in thousands of Canadian dollars, unless otherwise indicated)*

## STATEMENT OF CHANGES IN EQUITY

| For the year ended March 31, 2014 (in thousands of Canadian dollars) | Contributed Surplus | Retained Earnings | Total |
|---|---|---|---|
| **BALANCE - MARCH 31, 2013** | $ 10,000 | $ 40,368 | $ 50,368 |
| Net results of operations | - | 2,233 | 2,233 |
| Actuarial loss on employee benefits obligation (note 8) | - | (92) | (92) |
| Total comprehensive income | - | 2,141 | 2,141 |
| Transfer to Receiver General for Canada | - | (40,000) | (40,000) |
| **BALANCE - MARCH 31, 2014** | $ 10,000 | $ 2,509 | $ 12,509 |

| For the year ended March 31, 2013 (in thousands of Canadian dollars) | Contributed Surplus | Retained Earnings | Total |
|---|---|---|---|
| **BALANCE - MARCH 31, 2012** | $ 10,000 | $ 39,191 | $ 49,191 |
| Net results of operations | - | 1,325 | 1,325 |
| Actuarial loss on employee benefits obligation (note 8) | - | (148) | (148) |
| Total comprehensive income | - | 1,177 | 1,177 |
| **BALANCE - MARCH 31, 2013** | $ 10,000 | $ 40,368 | $ 50,368 |

*The accompanying notes are an integral part of the financial statements.*

FINANCIAL STATEMENTS AS AT MARCH 31, 2014
*(in thousands of Canadian dollars, unless otherwise indicated)*

## STATEMENT OF CASH FLOWS

| For the year ended March 31 (in thousands of Canadian dollars) | 2014 | 2013 Restated (note 3) |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Receipts from foreign customers | $ 1,504,156 | $ 2,495,134 |
| Finance income, net | 267 | 323 |
| Fees for service and other income received | 13,971 | 15,909 |
| Payments to Canadian exporters | (1,436,372) | (2,494,901) |
| Administrative payments | (29,690) | (29,373) |
| Parliamentary appropriations | 15,656 | 15,482 |
| Cash provided by operating activities | 67,988 | 2,574 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Acquisition of property and equipment | - | (79) |
| Acquisition of intangible assets | - | (7) |
| Cash used in investing activities | - | (86) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Transfer to Receiver General for Canada | (40,000) | - |
| Cash used in financing activities | (40,000) | - |
| Effect of exchange rate changes on cash and cash equivalents | 482 | 95 |
| Increase in cash and cash equivalents | 28,470 | 2,583 |
| Cash and cash equivalents at the beginning of period | 61,068 | 58,485 |
| Cash and cash equivalents at the end of period | $ 89,538 | $ 61,068 |

*The accompanying notes are an integral part of the financial statements.*

# NOTES TO FINANCIAL STATEMENTS

**March 31, 2014**

## 1. NATURE, ORGANIZATION AND FUNDING

The Canadian Commercial Corporation (the "Corporation") was established in 1946 by the *Canadian Commercial Corporation Act* (the "Act"), is wholly owned by the Government of Canada and an agent Crown corporation listed in Part I of Schedule III of the *Financial Administration Act*. The Corporation is a company domiciled in Canada with a head office located at 50 O'Connor Street, Ottawa, Ontario. The Corporation operates primarily in Canada with representative offices in Asia and representation in the Caribbean.

The Corporation generally acts as the prime contracting agency when foreign governments, international organizations, or foreign private sector buyers wish to purchase products and services from Canada through the Canadian Government. The Corporation enters into contracts with these foreign customers and into corresponding supply contracts with Canadian exporters. Additionally, the Corporation enters into sourcing services agreements to procure goods and services for international end use on behalf of Canadian and foreign governments.

The Corporation's operations are funded primarily by a parliamentary appropriation, and fees for service.

In September 2008, the Corporation, together with a number of other Crown corporations, was issued a directive (P.C. 2008-1598) pursuant to Section 89 of the *Financial Administration Act*, entitled *Order giving a direction to parent Crown corporations involved in commercial lending to give due consideration to the personal integrity of those they lend to or provide benefits to in accordance with Government's policy to improve the accountability and integrity of federal institutions.* The Corporation has since implemented the directive effective January 1, 2010.

The Corporation is not subject to the provisions of the *Income Tax Act.*

## 2. BASIS OF PREPARATION

### Compliance with International Financial Reporting Standards (IFRS)

These financial statements have been prepared in accordance with IFRS accounting policies as at and for the year ended March 31, 2014.

## Basis of measurement

The financial statements have been prepared on the historical cost basis except for, as permitted by IFRS and to the extent material, the following items in the Statement of Financial Position:

- derivative financial instruments are measured at fair value
- financial instruments at fair value through profit or loss are measured at fair value
- accrued employee benefit liabilities for post-employment benefit plans are recognized at the present value of the defined benefit obligations
- provision for contract remediation expense measured at the present value of future expected cash flows

## Use of estimates and judgments

The preparation of financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ significantly from estimates resulting in significant differences in the related financial statement balances.

Estimates and underlying assumptions are reviewed on an ongoing basis and in detail as at the date of the financial statements. Any changes in estimates are reflected in the financial statements in the period in which they become known and in any future periods affected. Management has used estimates in determining the useful lives of property and equipment, intangible assets, in accounting for the employee benefits liabilities, the provision for contract remediation expenses, lease commitments and contingencies and used judgment in determining whether a provision for contract remediation expenses should be recognized or disclosed.

Information about areas where management has exercised judgment and made significant use of estimates and assumptions are included in the following notes:

Note 6 – property and equipment
Note 7 – intangible assets
Note 8 – pension and employee benefits
Note 9 – provision for contract remediation expenses
Note 17 – commitments
Note 18 – contingencies and guarantees

## Functional and presentation currency

The Corporation's functional and presentation currency is the Canadian dollar.

# 3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies of the Corporation are summarized below. These policies have been consistently applied to all periods presented, unless otherwise stated.

## (a) Changes in accounting policies

### IFRS 13 – FAIR VALUE MEASUREMENT

In May 2011, the International Accounting Standards Board (IASB) issued a new standard *IFRS 13 – Fair Value Measurement* (IFRS 13), applicable for fiscal years beginning on or after January 1, 2013. IFRS 13 defines 'fair value' and sets out in a single standard a framework for measuring fair value and requires disclosures about fair value measurements. The new standard reduces complexity and improves consistency by clarifying the definition of fair value and provides measurement and disclosure requirements for all fair value measurements. The standard is to be applied prospectively and the disclosure requirements need not be applied in comparative information provided for periods before initial application.

Effective April 1, 2013, the Corporation adopted the new standard and amended certain disclosures regarding the fair value measurement of its financial and non-financial assets and liabilities as shown in significant accounting policies note 3(d) and (e). The adoption of IFRS 13 had no impact on the Corporation's financial position or results of operations and comprehensive income.

### RESTATEMENT

The Corporation has changed its accounting policy with respect to the presentation of progress payments in the Statement of Financial Position and Statement of Cash Flows and reclassified certain comparative figures to conform to the current presentation which provides more relevant information about the Corporation's cash flows.

The difference between progress payments from foreign customers and progress payments to Canadian exporters is the result of overpayments from foreign customers due to temporary timing differences in their liquidation methods and accounting for work performed. The Corporation has reclassified these overpayments from progress payments from foreign customers to advances from foreign customers.

The cash flow effect of progress payments which is derived solely from overpayments are now reflected in advances from foreign customers and included in receipts from foreign customers on the Statement of Cash Flows. As a result, the Corporation modified the presentation of operating activities with respect to receipts from foreign customers and payments to Canadian exporters in the Statement of Cash flows to exclude progress payments from foreign customers and progress payments to Canadian exporters.

The Corporation decided to retrospectively apply the change in accounting policy and the resulting change has no impact on the Statement of Comprehensive Income, the Statement of Changes in Equity and the cash provided by (used in) operating, investing or financing activities in the Statement of Cash Flows, or a material effect on the Statement of Financial Position at the beginning of the preceding period. As a result the Corporation has not presented a third Statement of Financial Position as at April 1, 2012 and only provided reclassified amounts of the comparative financial statements as at March 31, 2013.

The following table summarizes the impact of the retrospective application of this change in accounting policy on the Statement of Financial Position and the Statement of Cash Flows for the year ended March 31, 2013:

| (in thousands of Canadian dollars) | March 31, 2013 | Impact of change | Adjusted March 31, 2013 |
|---|---|---|---|
| **RECLASSIFICATION IN STATEMENT OF FINANCIAL POSITION** | | | |
| **CURRENT LIABILITIES** | | | |
| Advances from foreign customers | $ 154,799 | $ 2,621 | $ 157,420 |
| Progress payments from foreign customers | $ 842,769 | $ (2,621) | $ 840,148 |
| **RESTATEMENT OF STATEMENT OF CASH FLOWS** | | | |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Receipts from foreign customers | $ 2,843,380 | $ (348,246) | $ 2,495,134 |
| Payments to Canadian exporters | $ (2,843,147) | $ 348,246 | $ (2,494,901) |

## (b) Contracts

**Commercial trading transactions and sourcing services transactions**, and their offsetting costs, are recorded when a delivery has taken place: title to the purchased goods has been transferred to the foreign customer or a service has been rendered, in accordance with the contractual terms. However, in the case where the contract provides for progress payments, commercial trading transactions and sourcing services transactions are recorded upon acceptance by the Corporation of the work performed. Commercial trading transactions related to prime contracts are included in **revenues**, and sourcing services transactions, whereby the Corporation acts as an agent for another government or government department, are shown under **sourcing services for support of international government assistance programs**.

**Fees for service** from commercial trading transactions related to prime contracts and international sourcing services agreements, and fees from other international and domestic activities are recognized in revenues when services are rendered.

**Progress payments from foreign customers** and **progress payments to Canadian exporters**, when required, represent the obligations to make and right to receive payments on a percentage-of-completion basis associated with the work performed on a contract leading up to delivery. Usually these payments are restricted to 75% of costs incurred. The Corporation recognizes these progress payments to Canadian exporters as an asset and the progress payments from foreign customers as a liability. Progress payment assets and liabilities are reduced upon completion of delivery and acceptance by the foreign customer.

**Advances from foreign customers** and **advances to Canadian exporters** represent a down payment made at the outset of the contract before any work has been performed. The Corporation recognizes the advances made to Canadian exporters as an asset and the advances received from foreign customers as a liability. Advances made and received are reduced upon completion of delivery and acceptance by the foreign customer. Advances from foreign customers also include overpayments from customers due to temporary timing differences in their liquidation methods and accounting for work performed.

**Other income** is comprised mostly of income from discounts the Corporation receives, in certain circumstances, related to early payment on amounts owing to Canadian exporters. Discounts are determined by applying a set percentage ranging from 0.03%, for one day of advance payment, to 1.32%, for 40 days of advance payment. Discounting revenues are recognized as other income when the early payment services are provided to the Canadian exporters.

**Contract remediation expenses** may be incurred for commercial trading transactions related to prime contracts if the Canadian exporter fails to fulfill its domestic contract obligations to the Corporation. The Corporation is responsible for ensuring that the terms of the contract with the foreign customer are fulfilled regardless of the quality of performance by the Canadian exporter. Contract remediation expenses and the associated provision are determined on a contract-by-contract basis, and include completion, re-procurement, associated legal and other costs that are based on quotes or reliable estimates. These costs are recorded in the Statement of Comprehensive Income in the period in which the non-performance is identified by the Corporation as probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the amount of the obligation can be reliably estimated.

## (c) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the period-end exchange rates. Revenues and expenses are translated at the average monthly exchange rate. Any gains or losses on foreign currencies are recorded as a gain or loss on foreign exchange in the Statement of Comprehensive Income.

## (d) Fair value measurement

All financial and non-financial assets and liabilities are initially recognized on the Statement of Financial Position at fair value. The fair value of a financial asset or liability is the price that would be received to sell an asset or paid to transfer a liability between market participants at the measurement date. Subsequent to initial recognition, fair value is determined by using observable market data based on a three level hierarchy as follows:

- **Level 1** - Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the Corporation has the ability to access at the measurement date.
- **Level 2** - Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active.
- **Level 3** - Inputs that are unobservable as a result of little if any market activity. Inputs into the determination of fair value that require significant management judgment or estimation.

Fair value of a non-financial asset is determined by taking into account the highest and best use of the asset, considering what is physically possible, legally permissible and financially feasible.

The carrying amount of trade receivables and trade payables and accrued liabilities, advances and progress payments from foreign customers and to Canadian exporters approximates fair value due to the relatively short-term nature of these financial instruments.

## (e) Financial instruments

The term "financial instrument" is defined as any contract that gives rise to a financial asset of one party and a financial liability or equity instrument of another party.

The Corporation initially recognizes loans and receivables and deposits when the Corporation becomes a party to the contractual provisions of the instrument. All other financial assets (including assets designated at fair value through profit or loss) are recognized initially on the date at which the Corporation becomes a party to the contractual provisions of the instrument.

The Corporation derecognizes a financial asset when the contractual rights to receive the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows from the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Corporation is recognized as a separate asset or liability.

The Corporation initially recognizes other financial liabilities (including liabilities designated at fair value through profit or loss) initially on the date at which the Corporation becomes a party to the contractual provisions of the instrument.

The Corporation derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

Financial assets and liabilities are offset and the net amount is presented in the Statement of Financial Position only when the Corporation has a legal right to offset the amounts and intends to settle on a net basis or to realize the asset and settle the liability simultaneously.

### NON-DERIVATIVE FINANCIAL INSTRUMENTS

**i) Cash and cash equivalents**

Cash and cash equivalents include cash, demand deposits and temporary investments, maturing in less than three months from acquisition date and are recorded at fair value. All interest income, gains and losses are recognized in net finance income in the period in which they arise. The Corporation has designated its cash and cash equivalents as a financial asset at fair value through profit or loss since they are held for trading principally to manage cash flow requirements while maximizing return on investment and can be reliably measured at fair value, based on Level 1 inputs, due to their short-term to maturity. The changes in fair value of cash and cash equivalents are recognized in the period incurred as a gain or loss on foreign exchange in the Statement of Comprehensive Income.

**ii) Trade receivables, advances and progress payments to Canadian exporters**

Trade receivables, advances and progress payments to Canadian exporters are classified as loans and receivables and are initially recognized at fair value. Subsequent to initial recognition the carrying value of trade receivables, advances and progress payments to Canadian exporters are measured at amortized cost using the effective interest method, less any impairment losses. The Corporation does not establish an allowance for doubtful accounts since it has contractual recourse, in all material respects, whereby the Canadian exporter assumes the risk of non-payment from the foreign buyer.

**iii) Trade payables and accrued liabilities, advances and progress payments from foreign customers**

Trade payables and accrued liabilities, and advances and progress payments from foreign customers are classified as other financial liabilities and are initially recognized at fair value. Subsequent to initial recognition the carrying value of trade payables and accrued liabilities, and advances and progress payments from foreign customers are measured at amortized cost using the effective interest method.

### DERIVATIVE FINANCIAL INSTRUMENTS

The Corporation may enter into forward contracts to reduce its exposure to fluctuations in foreign exchange rates. The Corporation does not use derivative financial instruments for speculative purposes. As the Corporation does not account for these forward contracts using hedge accounting, these instruments are classified as financial assets or financial liabilities at fair value through profit or loss, and measured at fair value using quoted forward prices with changes recognized in net results of operations in the period in which they occur as a gain or loss on foreign exchange on the Statement of Comprehensive Income. Derivatives are recognized as either an asset in trade receivables, or as a liability in trade payables and accrued liabilities on the Statement of Financial Position.

The Corporation enters into certain non-financial instrument contracts which contain embedded foreign currency derivatives. An embedded derivative is separated from the host contract and accounted for as a derivative only if (a) the economic characteristics and the risks of the embedded derivative are not closely related to those of the host contract, (b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative and (c) the hybrid (combined) contract is not measured at fair value with changes in fair value recognized in net results of operations. Where these contracts are not leveraged, do not contain an option feature, and are denominated in a currency in which any substantial party to that contract measures the items in its financial statements, or in a currency that is commonly used in the economic environment where the transaction takes place, the embedded derivatives are not separated from the host contract.

The Corporation has no significant derivatives or embedded derivatives that require recognition as an asset or liability on the Statement of Financial Position.

## (f) Property and equipment

Property and equipment are recorded at cost less accumulated depreciation and accumulated impairment losses. When components of an item of property and equipment have different useful lives, they are accounted for as separate items of property and equipment.

Property and equipment includes costs associated with information systems hardware and operating systems, and leasehold improvements. These amounts include any costs directly attributable to bringing the asset to the Corporation and in the condition necessary for it to be capable of operating in the manner intended by management.

Depreciation is calculated on the depreciable amount, which is the cost of an asset less its residual amount. Information systems hardware and operating systems are depreciated, once available for use, on a straight-line basis over the estimated useful life of five years. Leasehold improvements are depreciated on a straight-line basis over the lesser of the useful life and the remaining term of the lease agreement.

Gains and losses on the disposal of an item of property and equipment are determined by comparing the proceeds with the carrying amount and are recognized in net results of operations for the period.

The useful life and depreciation method of an asset is reviewed at each financial year-end and, if expectations differ from previous estimates, the change(s) shall be accounted for as a change in an accounting estimate.

## (g) Intangible assets

Intangible assets include costs associated with information systems software and related initial set-up and configuration costs. Intangible assets are recognized if it is probable that the expected future economic benefits that are attributable to the asset will flow to the Corporation and the cost of the asset can be measured reliably. These assets have finite useful lives and are amortized, once available for use, on a straight-line basis over an estimated useful life of five years.

Intangible assets are recorded at cost less accumulated amortization and accumulated impairment losses.

The useful life and amortization method of an intangible asset is reviewed at each financial year-end and, if expectations differ from previous estimates, the change(s) shall be accounted for as a change in an accounting estimate.

## (h) Parliamentary appropriations

Parliamentary appropriations that are not in the nature of contributed surplus are recorded as funding in the year for which they are appropriated, except for appropriations restricted by legislation and related to expenses of future periods which are deferred and recognized as funding in the period in which the related expenses are incurred. Appropriations used for the purchase of property and equipment are deferred and amortized into net results of operations on the same basis as the related asset.

## (i) Finance income, net

Finance income is recorded on an accrual basis and represents interest earned on cash balances and investments held throughout the year, and interest charged to customers related to late payments. Finance costs are incurred as a result of payments of the interest earned on cash balances held from customers or suppliers as per the terms and conditions of the underlying contract with the Corporation, interest charges related to the Corporation's revolving credit facility or charged by suppliers for late payments.

## (j) Pension and employee benefits

**i) Pension benefits**

Substantially all of the employees of the Corporation are covered by the public service pension plan (the "Plan"), a contributory defined benefit plan established through legislation and sponsored by the Government of Canada. Contributions are required by both the employees and the Corporation to cover current service cost. Pursuant to legislation currently in place, the Corporation has no legal or constructive obligation to pay further contributions with respect to any past service or funding deficiencies of the Plan. Consequently, contributions are recognized as an administrative expense in the Statement of Comprehensive Income in the year when employees have rendered service and represent the total pension obligation of the Corporation.

**ii) Employee severance benefits**

The Corporation signed a new Collective Agreement on December 17, 2012 whereby employees no longer accrue severance benefits. The new agreement entitles employees who had less than ten years of continuous service as of December 17, 2012, an immediate lump-sum payment of the previously accrued severance benefits, and employees who had ten or more years of continuous service, the option of taking a single payment of all or part of the previously accrued severance benefits, or leaving it to be paid out upon retirement or resignation, in accordance with corporate policy.

Similarly, the Board of Directors approved a resolution on January 15, 2013, whereby executives no longer accrue severance benefits. The new agreement entitles all current executives, the option of taking a single payment of all or part of their previously accrued severance benefits, or leaving it to be paid out upon retirement or resignation, in accordance with corporate policy.

The cost of the benefits earned by employees is actuarially determined using the projected unit credit method prorated on services. The valuation of the liability is based on a discount rate determined by reference to market yields at the end of the reporting period on high quality corporate bonds. Actuarial gains (losses) on employee severance benefits are recognized through Other Comprehensive Income (OCI).

The outstanding benefits obligations are actuarially valued annually by performing a full valuation on even years and an update to the valuation on odd years. A full actuarial valuation was completed for March 31, 2014.

**iii) Employee sick leave benefits**

Employees are entitled to non-vested sick leave benefits, as provided for under labour contracts and conditions of employment. The cost of these other long-term employee benefits is accrued as employees render the services necessary to earn them. The valuation of the liability is based on a discount rate determined by reference to market yields at the end of the reporting period on high quality corporate bonds. Actuarial gains or losses are considered workforce compensation and related expenses and are recognized as incurred in administrative expenses in the Statement of Comprehensive Income.

The outstanding benefits obligations are actuarially valued annually by performing a full valuation on even years and an update to the valuation on odd years. A full actuarial valuation was completed for March 31, 2014.

**iv) Other employee benefits**

The federal government sponsors a variety of other future benefit plans from which employees and former employees may benefit during employment or upon retirement. The Public Service Health Care Plan and the Corporation's Dental Plan are the two principle plans available to employees and retirees of the Corporation. The Corporation's responsibility with regard to these two plans is limited to its contributions, which are considered workforce compensation and related expenses and are recorded as administrative expenses in the Statement of Comprehensive Income.

## (k) Provision for contract remediation expense

A provision for contract remediation expenses is analyzed as at the date of the Statement of Financial Position and recognized when the Corporation has a present obligation (legal or constructive) as a result of a past event, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and when a reliable estimate can be made of the amount of the obligation. Management's estimate of the provision is subject to many uncertainties, including the timing and the actual amount of the payout. To the extent material, provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and the risks specific to the liability. If it is determined that an outflow of resources is no longer probable to settle the obligation, then the provision will be reversed.

### i) Contract re-procurement

The Corporation may incur contract re-procurement expenses should Canadian exporters fail to fulfill the terms and conditions of their contracts. The provision represents the Corporation's best estimate of the incremental costs to fulfill the outstanding contractual obligations under the contract.

### ii) Legal claims and expenses

The Corporation may be subject to legal claims and expenses as a result of lawsuits arising from its contracting activities. The amount recognized in the provision represents the Corporation's best estimate of the expenditure to settle the present obligation. The risks and uncertainties that surround the underlying event are considered in determining the provision.

### iii) Onerous contracts

A provision is recognized if the expected economic benefits to be received by the Corporation under a contract are lower than the unavoidable costs of meeting the obligations of the contract. The provision is measured as the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Corporation will recognize any impairment loss on the assets associated with that contract.

## (l) Impairment

### i) Impairment of financial assets

For financial assets that are not classified as fair value through profit or loss, the Corporation assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of assets is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be reliably estimated. Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Corporation on terms that the Corporation would not consider otherwise, or indications that a debtor or issuer will enter bankruptcy. Once impaired, financial assets not classified as fair value through profit or loss are re-valued and the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate with the amount of the impairment recognized in net results of operations.

**ii) Impairment of non-financial assets**

Non-financial assets, including property and equipment and intangible assets with finite useful lives are reviewed for impairment at each reporting date to determine if there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated and an impairment loss is recognized to the extent the carrying amount of the asset exceeds the estimated recoverable amount. The recoverable amount is calculated as the higher of an asset's fair value less costs to sell and its value in use. Impairment losses recognized in prior periods are assessed at the end of each reporting period to determine if there is any indication that the impairment no longer exists or has decreased. If there is indication that it decreased or is eliminated then the Corporation will estimate the new recoverable amount and an impairment reversal will be recognized. The increased carrying amount attributable to a reversal of an impairment loss shall not exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the asset(s) in prior years. This reversal amount will be recognized in total comprehensive income immediately.

## (m) Leases

Leases in which substantially all of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Those leases in which the risks and rewards of ownership are not retained by the lessor are classified as finance leases. The Corporation classifies all of its leases as operating since the risks and rewards incidental to ownership remains with the lessor. The expenses incurred under its operating leases are recognized in net results of operations for the reporting period on a straight line basis over the term of the lease. Lease incentives received would be recognized as an integral part of the lease expense, over the term of the lease.

## (n) Future accounting changes

### INTERNATIONAL FINANCIAL REPORTING STANDARDS

The following new standards and amendments issued by the International Accounting Standards Board (IASB) have been assessed as having a possible effect on the Corporation in the future. The Corporation is currently determining the impact, if any, of these standards and amendments on its financial statements.

In November 2009, the IASB issued *IFRS 9*, introducing new requirements for classifying and measuring financial assets. This was the IASB's first step in its project to replace *IAS 39 – Financial Instruments: Recognition and Measurement* (IAS 39). In October 2010, the IASB reissued IFRS 9, incorporating new requirements on accounting for financial liabilities, and carrying over from IAS 39 the requirements for derecognition of financial assets and financial liabilities. IFRS 9 must be applied retrospectively for annual periods beginning on or after January 1, 2018, with early adoption permitted.

# 4. CASH AND CASH EQUIVALENTS

As at March 31 cash and cash equivalents included:

| | 2014 | | 2013 | |
|---|---|---|---|---|
| (in thousands) | Original Currency | Canadian Dollars | Original Currency | Canadian Dollars |
| U.S. dollars | **63,231** | **$ 69,901** | 21,515 | $ 21,859 |
| Canadian dollars | **19,094** | **19,094** | 38,975 | 38,975 |
| Chinese renminbi | **2,290** | **407** | 568 | 93 |
| Australian dollars | **133** | **136** | 133 | 141 |
| | | **$ 89,538** | | $ 61,068 |

The Corporation invests in short-term deposits in Canadian banks. At March 31, 2014, the average term to maturity of short-term deposits was one day (2013 - five days) and the portfolio yield to maturity was 0.03% as at March 31, 2014 (2013 - 0.08%).

Of the cash and cash equivalents, $58,275 (2013 - $43,364) represents advances and holdbacks received from foreign customers which will be remitted to Canadian exporters at later dates in accordance with contracts. Where contracted, these funds may accrue interest to the credit of the Canadian exporter or foreign customer.

# 5. TRADE RECEIVABLES AND TRADE PAYABLES AND ACCRUED LIABILITIES

Trade receivables are based on normal international trade terms and are generally non-interest bearing. The currency profile of the Corporation's trade receivables as at March 31 was as follows:

| | 2014 | | 2013 | |
|---|---|---|---|---|
| (in thousands) | Original Currency | Canadian Dollars | Original Currency | Canadian Dollars |
| U.S. dollars | **235,780** | **$ 260,655** | 100,167 | $ 101,770 |
| Canadian dollars | **42,243** | **42,243** | 45,127 | 45,127 |
| Chinese renminbi | **18** | **3** | 29 | 5 |
| Australian dollars | **-** | **-** | 5 | 5 |
| | | **$ 302,901** | | $ 146,907 |

Trade payables and accrued liabilities are due on normal trade terms. The currency profile of the Corporation's trade payables and accrued liabilities as at March 31 was as follows:

| (in thousands) | 2014 Original Currency | 2014 Canadian Dollars | 2013 Original Currency | 2013 Canadian Dollars |
|---|---|---|---|---|
| U.S. dollars | **261,277** | **$ 288,845** | 105,601 | $ 107,291 |
| Canadian dollars | **38,411** | **38,411** | 13,480 | 13,480 |
| Australian dollars | **133** | **137** | 138 | 146 |
| Chinese renminbi | **31** | **5** | 208 | 34 |
| British pounds | **-** | **-** | 6 | 10 |
| | | **$ 327,398** | | $ 120,961 |

## 6. PROPERTY AND EQUIPMENT

| For the year ended March 31, 2014 (in thousands of Canadian dollars) | Leasehold Improvements | Information Systems-Hardware | Total |
|---|---|---|---|
| **COST** | | | |
| Balance, March 31, 2013 | $ 1,792 | $ 254 | $ 2,046 |
| Additions | - | - | - |
| **BALANCE, MARCH 31, 2014** | **$ 1,792** | **$ 254** | **$ 2,046** |
| **ACCUMULATED DEPRECIATION** | | | |
| Balance, March 31, 2013 | $ 806 | $ 194 | $ 1,000 |
| Depreciation | 154 | 15 | 169 |
| **BALANCE, MARCH 31, 2014** | **$ 960** | **$ 209** | **$ 1,169** |
| **CARRYING AMOUNTS** | | | |
| As at March 31, 2013 | $ 986 | $ 60 | $ 1,046 |
| **As at March 31, 2014** | **$ 832** | **$ 45** | **$ 877** |

FINANCIAL STATEMENTS AS AT MARCH 31, 2014
*(in thousands of Canadian dollars, unless otherwise indicated)*

| For the year ended March 31, 2013 (in thousands of Canadian dollars) | Leasehold Improvements | Information Systems-Hardware | Total |
|---|---|---|---|
| **COST** | | | |
| Balance, March 31, 2012 | $ 1,787 | $ 180 | $ 1,967 |
| Additions | 5 | 74 | 79 |
| **BALANCE, MARCH 31, 2013** | $ 1,792 | $ 254 | $ 2,046 |
| **ACCUMULATED DEPRECIATION** | | | |
| Balance, March 31, 2012 | $ 653 | $ 144 | $ 797 |
| Depreciation | 153 | 50 | 203 |
| **BALANCE, MARCH 31, 2013** | $ 806 | $ 194 | $ 1,000 |
| **CARRYING AMOUNTS** | | | |
| As at March 31, 2012 | $ 1,134 | $ 36 | $ 1,170 |
| As at March 31, 2013 | $ 986 | $ 60 | $ 1,046 |

Included in administrative expenses was $169 (2013 - $203) of depreciation related to the Corporation's property and equipment.

## 7. INTANGIBLE ASSETS

| For the year ended March 31, 2014 (in thousands of Canadian dollars) | Information Systems-Software |
|---|---|
| **COST** | |
| Balance, March 31, 2013 | $ 2,861 |
| Additions | - |
| **BALANCE, MARCH 31, 2014** | $ 2,861 |
| **ACCUMULATED AMORTIZATION** | |
| Balance, March 31, 2013 | $ 2,861 |
| Amortization | - |
| **BALANCE, MARCH 31, 2014** | $ 2,861 |
| **CARRYING AMOUNTS** | |
| As at March 31, 2013 | $ - |
| **As at March 31, 2014** | **$ -** |

| For the year ended March 31, 2013 (in thousands of Canadian dollars) | | Information Systems-Software |
|---|---|---|
| **COST** | | |
| Balance, March 31, 2012 | $ | 2,854 |
| Additions | | 7 |
| **BALANCE, MARCH 31, 2013** | $ | 2,861 |
| **ACCUMULATED AMORTIZATION** | | |
| Balance, March 31, 2012 | $ | 2,230 |
| Amortization | | 631 |
| **BALANCE, MARCH 31, 2013** | $ | 2,861 |
| **CARRYING AMOUNTS** | | |
| As at March 31, 2012 | $ | 624 |
| As at March 31, 2013 | $ | - |

Included in administrative expenses was nil (2013 - $631) related to the amortization of intangible assets.

# 8. PENSION AND EMPLOYEE BENEFITS

## (a) Pension benefits

Substantially all of the employees of the Corporation are covered by the public service pension plan (the "Plan"), a contributory defined benefit plan established through legislation and sponsored by the Government of Canada. Contributions are required by both the employees and the Corporation. The President of the Treasury Board of Canada sets the required employer contributions based on a multiple of the employees' required contribution. The Corporation's current contribution rates effective at year end were 1.45 times the employees' contribution to the Plan for plan members who were participating in the plan prior to January 1, 2013 (2013 – 1.64 times) and 1.43 times for plan members who were participating in the plan on or after January 1, 2013 (2013 – 1.57 times). The Corporation's total contributions of $2,032 (2013 – $1,921) were recognized as workforce compensation and related expenses under administrative expenses in the Statement of Comprehensive Income in the year when employees have rendered service.

The Government of Canada holds a statutory obligation for the payment of benefits relating to the Plan. Pension benefits generally accrue up to a maximum period of 35 years at an annual rate of 2% of pensionable service times the average of the best five consecutive years of earnings. The benefits are coordinated with Canada/Québec Pension Plan benefits and they are indexed to inflation.

## (b) Employee benefits

The Corporation provides non-vested sick leave benefits to its employees, as provided for under labour contracts and conditions of employment. Certain employees are entitled to severance benefits based on years of service and final salary. These benefit plans are unfunded and thus have no assets, resulting in a plan deficit equal to the accrued benefit obligation.

The sick leave and severance employee benefits have a current and non-current portion and are presented on the Statement of Financial Position as follows as at March 31:

| | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|
| (in thousands of Canadian dollars) | Sick Leave | Severance | Total Benefits | Sick Leave | Severance | Total Benefits |
| Total employee benefits | **$ 1,350** | **$ 659** | **$ 2,009** | $ 1,083 | $ 2,329 | $ 3,412 |
| Less: current portion | **(105)** | **(104)** | **(209)** | (69) | (1,915) | (1,984) |
| Non-current portion | **$ 1,245** | **$ 555** | **$ 1,800** | $ 1,014 | $ 414 | $ 1,428 |

The Corporation eliminated the accrual of its employee severance benefits upon resignation or retirement and consequently, employees no longer accrue severance benefits.

Information about the sick leave long-term benefit plan and severance post-employment defined benefit plan, as at March 31 is as follows:

| | Sick Leave Benefits | | Severance Benefits | |
|---|---|---|---|---|
| (in thousands of Canadian dollars) | 2014 | 2013 | 2014 | 2013 |
| **ACCRUED BENEFIT OBLIGATION** | | | | |
| Balance at beginning of year | **$ 1,083** | $ 909 | **$ 2,329** | $ 2,079 |
| Current service cost | **119** | 106 | **11** | 188 |
| Interest cost | **40** | 36 | **48** | 84 |
| Benefits paid | **(179)** | (113) | **(1,821)** | (170) |
| Actuarial loss | **288** | 145 | **92** | 148 |
| Total accrued benefits at end of year | **$ 1,350** | $ 1,083 | **$ 659** | $ 2,329 |
| **ECONOMIC ASSUMPTIONS** | | | | |
| Accrued benefit obligation as of March 31 | | | | |
| Discount rate | **4.34%** | 3.76% | **3.76%** | 3.40% |
| Rate of economic salary increase | **2.00%** | 2.00% | **2.00%** | 2.00% |
| Benefit costs for year ended March 31 | | | | |
| Discount rate | **3.76%** | 4.01% | **3.40%** | 3.98% |
| Rate of economic salary increase | **2.00%** | 1.50% | **2.00%** | 1.50% |

Demographic assumptions including seniority and promotional salary increases, withdrawal rates, rates of retirement, pensionable disability, mortality and longevity improvement factors, taken from the actuarial report on the pension plan for the Public Service of Canada, are also considered in the actuarial valuation of accrued employee sick leave benefits. The underlying assumptions adopted in measuring the Corporation's sick leave and severance benefits are reviewed annually by management and have been consistently applied. Changes in these assumptions can have a significant impact on the related financial statement balances.

Included in administrative expenses as workforce compensation and related expenses was a charge of $267 (2013 –$174) for sick leave benefits and an expense recovery of $213 (2013 – expense recovery of $521) for severance benefits related to the change in liability of these benefits in the reporting period and changes in management estimates.

At March 31, 2014, the cumulative actuarial loss on employee severance benefits obligation recognized immediately in retained earnings as OCI was $494 (2013 – $402).

## 9. PROVISION FOR CONTRACT REMEDIATION EXPENSES

The Corporation may incur contract re-procurement expenses should Canadian exporters fail to fulfill the terms and conditions of their contracts. The Corporation is the defendant in certain pending claims and lawsuits. While the damages being claimed by the plaintiffs can be significant, management, based on advice from legal counsel, records in the period a liability when damages are considered more likely than not and the associated costs can be reliably estimated.

| (in thousands of Canadian dollars) | Contract Re-procurement | Legal | Total |
|---|---|---|---|
| **BALANCE, MARCH 31, 2013** | $ - | $ 296 | $ 296 |
| Provision reversed during the year | - | (296) | (296) |
| **BALANCE, MARCH 31, 2014** | $ - | $ - | $ - |

Management used judgment in determining whether a provision should be recognized or disclosed considering the probability that a payment will be required to settle the obligation and that a reliable estimate of the amount can be made. Management's estimate of the provision is subject to many uncertainties, including the timing and the actual amount of the payout.

No onerous contracts have been identified as at March 31, 2014 and March 31, 2013.

# 10. CAPITAL MANAGEMENT

The Corporation's objective with respect to capital is to preserve and strengthen its capital base through prudent risk management. This, coupled with the implementation of strategies to optimize operating surpluses ensures that capital is available to facilitate investments in people and processes and to mitigate any potential losses related to operational, performance and credit risk.

The Corporation defines capital as its contributed surplus, provisions for contract remediation expenses and retained earnings, and utilizes a capital allocation model to manage its capital. The capital allocation model takes a conservative approach and does not recognize provisions for contract remediation expenses as available capital for risk management purposes.

The capital allocation model determines the capital required by the Corporation across three risk areas: operational risk; performance risk; and credit risk. The model is consistent with that of the prior fiscal year and operates as follows:

Operational risk:

- 15% of average revenues for the past three years

Performance risk:

- Contract liability times the ten-year average contract remediation expense ratio

Credit risk:

- Residual credit risk which is calculated using total credit risk net of insurance, holdbacks and other acceptable securities

The Corporation is not subject to externally imposed capital requirements and has not changed its approach to capital management during the year.

Key strategies used by the Corporation to manage its capital base include: minimizing contract remediation expenses; balancing smart growth with operating expenses; minimizing foreign exchange exposure; optimizing interest income. The Corporation may be required to return to the Government of Canada any part of capital deemed to be in excess of the amount required for the purposes for which the Corporation was constituted.

The Minister of International Trade directed the Corporation to pay to the Receiver General the amount of $40.00 million by March 31, 2014 (2013 - nil), an amount considered to be in excess of the amount required by the Corporation for the purposes of the *Canadian Commercial Corporation Act*.

The Corporation's breakdown of supply of capital as at March 31 is as follows:

| (in thousands of Canadian dollars) | **2014** | **2013** |
|---|---|---|
| Contributed surplus | **$ 10,000** | $ 10,000 |
| Retained earnings | **2,509** | 40,368 |
| Provision for contract remediation expenses | **-** | 296 |
| | **$ 12,509** | $ 50,664 |

# 11. COMMERCIAL TRADING TRANSACTIONS, FEES FOR SERVICE, OTHER INCOME AND SOURCING SERVICES TRANSACTIONS

The Corporation facilitates sales of Canadian goods to foreign customers including governments, international agencies and other buyers and receives revenues from commercial trading transactions related to prime contracts, fees for service and other income. The Corporation also engages in transactions related to sourcing services for support of international programs.

For the year ended March 31, the profile by geographic region is as follows:

| | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|
| (in thousands of Canadian dollars) | Revenues* | Sourcing Services Transactions | Total | Revenues* | Sourcing Services Transactions | Total |
| United States | **$ 1,100,356** | **$ -** | **$ 1,100,356** | $ 1,841,992 | $ 2 | $ 1,841,994 |
| Central America & Caribbean | **198,991** | **6,609** | **205,600** | 189,908 | 6,214 | 196,122 |
| South America | **190,732** | **525** | **191,257** | 87,148 | 30 | 87,178 |
| Asia | **174,064** | **1,128** | **175,192** | 19,946 | 1,129 | 21,075 |
| Europe | **2,016** | **30,161** | **32,177** | 387 | 19,074 | 19,461 |
| Africa | **10,096** | **4,375** | **14,471** | 98,898 | 554 | 99,452 |
| Canada | **2,507** | **4,200** | **6,707** | 1,882 | 3,167 | 5,049 |
| Other | **381** | **-** | **381** | 941 | - | 941 |
| | **$ 1,679,143** | **$ 46,998** | **$ 1,726,141** | $ 2,241,102 | $ 30,170 | $ 2,271,272 |

* Revenues include revenue related to Commercial Trading Transactions, Fees for Service and Other Income.

Revenues for the year ended March 31, 2014 include $164,633 (2013 - nil) of unbilled revenues. Value of contracts signed is distinct from revenues. During the year ended March 31, 2014, the value of contracts and amendments which were signed and became effective amounted to $15.8 billion (2013 - $1.0 billion).

# 12. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

The Corporation is exposed to credit risk, market risk and liquidity risk as a result of holding financial instruments. The Board of Directors has responsibility for the oversight of the Corporation's risk management framework and the review, approval and monitoring the Corporation's risk management policies including the development of an Enterprise Risk Management program which involves establishing corporate risk tolerance, identifying and measuring the impact of various risks and developing risk management action plans to mitigate risks that exceed corporate risk tolerance.

The Audit Committee of the Board of Directors provides oversight of management's compliance with the Corporation's risk management policies and procedures, and periodically reviews the adequacy of the risk management framework in relation to the risk exposure of the Corporation. The Audit Committee is assisted in its oversight role by the Internal Audit function of the Corporation. Internal audits of the Corporation are performed as both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

The following is a description of risks associated with financial instruments and how the Corporation manages its risk exposure:

## (a) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation and arises principally from the Corporation's cash and cash equivalents and trade receivables from customers. The carrying amount of financial assets recorded in the financial statements represents the maximum exposure to credit risk.

### CASH AND CASH EQUIVALENTS

The Corporation invests surplus funds to earn investment income with the objective of maintaining safety of principal and providing adequate liquidity to meet cash flow requirements. The Corporation's exposure to credit risk from investing cash and cash equivalents is minimized through compliance with the Corporation's Board of Directors approved investment policy which includes approved investment instruments and portfolio limits. The Corporation invests cash and cash equivalents in highly liquid temporary deposits with a Canadian chartered bank. Investments must maintain credit ratings at or above thresholds identified from at least two of the agencies listed below:

Moody's rating of P1
Standard and Poor's (S&P) rating of A1
Dominion Bond Rating Service (DBRS) rating of R1 (low)

## TRADE RECEIVABLES

The Corporation's exposure to credit risk associated with trade receivables are influenced mainly by the demographics of the Corporation's customer base. The Corporation generally manages foreign customer credit risk by extending open account terms to parties with a Moody's credit rating of at least AAA, and seeks security where the rating falls below this threshold. During the year ended March 31, 2014, 66% (2013 - 82%) of the Corporation's revenues were from AAA customers.

As at March 31, the maximum exposure to credit risk for trade receivables by geographic region was as follows:

| (in thousands of Canadian dollars) | | 2014 | | 2013 |
|---|---|---|---|---|
| Asia | **$** | **164,750** | $ | 3,136 |
| United States | | **86,424** | | 96,867 |
| Central America and Caribbean | | **29,855** | | 37,746 |
| South America | | **12,381** | | 4,436 |
| Europe | | **6,630** | | 1,769 |
| Canada | | **2,861** | | 2,813 |
| Africa | | **-** | | 132 |
| Other | | **-** | | 8 |
| | **$** | **302,901** | $ | 146,907 |

Trade receivables are based on normal international trade terms and are generally non-interest bearing. The maturity profile of the Corporation's trade receivables as at March 31 was as follows:

| (in thousands of Canadian dollars) | | 2014 | | 2013 |
|---|---|---|---|---|
| < 1 year | **$** | **302,390** | $ | 146,019 |
| > 1 and < 3 years | | **511** | | 888 |
| | **$** | **302,901** | $ | 146,907 |

Trade receivables are considered past due when the payor has failed to make the payment by the contractual due date. The aging profile of the Corporation's past due trade receivables as at March 31 was as follows:

| (in thousands of Canadian dollars) | | 2014 | | 2013 |
|---|---|---|---|---|
| < 30 days | **$** | **2,402** | $ | 19,146 |
| > 30 days and < 180 days | | **5,384** | | 15,273 |
| > 180 days | | **3,329** | | 4,496 |
| | **$** | **11,115** | $ | 38,915 |

### ADVANCES AND PROGRESS PAYMENTS TO CANADIAN EXPORTERS

Credit risk exposure related to advances and progress payments to Canadian exporters is mitigated by the back to back nature of the Corporation's contractual obligations and supplemented by collateral held.

### COLLATERAL

With respect to managing credit risk related to its outstanding contractual obligations, the Corporation has contractual recourse that consists, in all material respects, of corresponding contractual obligations against Canadian exporters in the same amount. In addition, in order to further mitigate its overall credit risk exposure, depending upon the results of its due diligence, the Corporation may supplement this recourse by requiring commercial securities including holdbacks, bank guarantees, surety bonds, parent guarantees, insurance assignments, property liens, personal guarantees and shareholder cash held in trust with the Corporation.

The profile of the Corporation's total collateral held with respect to its contractual obligations in the unlikely event of contractual non-performance by Canadian companies, as at March 31 was as follows:

| (in thousands of Canadian dollars) | | **2014** | | **2013** |
|---|---|---|---|---|
| Holdbacks | **$** | **6,875** | $ | 9,381 |
| Bank guarantees | **$** | **47,149** | $ | 39,146 |
| Surety bonds | **$** | **91,524** | $ | 84,064 |
| Parent guarantees | **$** | **15,077,368** | $ | 346,125 |
| Other | **$** | **11,156** | $ | 12,897 |

The above amounts approximate the fair values of collateral held.

## (b) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market rates. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk. The Corporation is not exposed to significant other price risk.

**i) Currency risk**

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. To address foreign exchange risks, contracts with foreign customers and corresponding contracts with Canadian exporters are generally transacted in the same currency. In some cases where payment between parties is made in a different currency the Corporation may enter into forward contracts. The Corporation uses these strategies to effectively transfer the currency risk to the Canadian exporter resulting in minimal net exposure.

**ii) Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Corporation's exposure to fair-value interest rate risk arises from investing cash and cash equivalents. The risks associated with fluctuations in interest rates are minimized by investing in highly liquid temporary deposits with a Canadian chartered bank.

As directed by the Minister of International Trade, the Corporation has developed an approach to transfer its Cuba trade financing activities to a related Crown Corporation which eliminates related risks to the Corporation while continuing to ensure support to the Canadian exporters.

Under a specific series of financing contracts, included in trade payables and accrued liabilities, the Corporation owed $24,275 as at March 31, 2014 (2013 - nil) which bears interest at the cost of funds plus 0.25% (2013 – 0.20%).

The figures below illustrate the effect as at March 31 of an increase/decrease of 25 basis points in interest rates:

| | 2014 | | | | 2013 | | | |
|---|---|---|---|---|---|---|---|---|
| | +25bps | | -25bps | | +25bps | | -25bps | |
| (in thousands of Canadian dollars) | Income | Equity | Income | Equity | Income | Equity | Income | Equity |
| Financial assets | | | | | | | | |
| Cash and cash equivalents | **$ 222** | **$ 222** | **$ (222)** | **$ (222)** | $ 152 | $ 152 | $ (152) | $ (152) |
| Financial liabilities | | | | | | | | |
| Payables and other liabilities | **$ (61)** | **$ (61)** | **$ 61** | **$ 61** | $ - | $ - | $ - | $ - |

## (c) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Liquidity risk related to cash and cash equivalents is minimized through compliance with the Corporation's investment policy whereby cash and cash equivalents are invested in highly liquid temporary deposits with a Canadian chartered bank.

With respect to outstanding contractual obligations to foreign customers, the Corporation has contractual recourse that consists of, in all material respects, back to back contractual obligations against Canadian exporters in the same amount. In addition, in order to further mitigate its overall liquidity risk exposure, depending upon the results of its due diligence, the Corporation may supplement this recourse by requiring commercial securities including holdbacks, bank guarantees, surety bonds, parent guarantees, insurance assignments, property liens and shareholder cash held in trust with the Corporation.

The *Canadian Commercial Corporation Act* permits the Corporation to borrow from the Consolidated Revenue Fund or enter into other credit arrangements or indemnities from other sources for an amount not to exceed $90.00 million:

The Corporation has a revolving credit facility providing access to funds in the amount of $40.00 million Canadian or its U.S. dollar equivalent. Indebtedness under this agreement is unsecured and this credit facility has no expiry date. As at March 31, 2014, there were no draws on this line of credit (2013 – nil).

In addition, the Corporation enters into credit arrangements up to a maximum of $35.00 million (2013 – $25.00 million) where transactions are fully insured by a related Crown Corporation with a Moody's credit rating of AAA, thereby mitigating all liquidity risk related to the Cuba contracting program. The Corporation incurred an expense of $116 (2013 – expense recovery of $16) related to the Cuba contracting program.

## TRADE PAYABLES AND ACCRUED LIABILITIES

Trade payables are due on normal trade terms. The maturity profile of the Corporation's trade payables as at March 31 was as follows:

| (in thousands of Canadian dollars) | 2014 | 2013 |
|---|---|---|
| < 1 year | $ 327,398 | $ 120,961 |
| | $ 327,398 | $ 120,961 |

Under a specific series of financing contracts, related to the Cuba contracting program included in trade payables and accrued liabilities the Corporation owed $24,275 as at March 31, 2014 (2013 – nil) which bears interest at the cost of funds plus 0.25% (2013 - 0.20%) and the Corporation has offered as security certain foreign trade receivables under certain conditions. The amount of outstanding trade receivables fully insured by a related Crown corporation under these arrangements was $29,043 as at March 31, 2014 (2013 – $36,706) and was profiled as follows:

| (in thousands of Canadian dollars) | 2014 | 2013 |
|---|---|---|
| < 1 year | $ 28,532 | $ 35,818 |
| > 1 and < 3 years | 511 | 888 |
| | $ 29,043 | $ 36,706 |

# 13. ADMINISTRATIVE EXPENSES

Administrative expenses for the year ended March 31 included the following:

| (in thousands of Canadian dollars) | 2014 | 2013 |
|---|---|---|
| Workforce compensation and related expenses | **$ 18,892** | $ 18,871 |
| Contract management services | **3,193** | 3,668 |
| Rent and related expenses | **2,245** | 2,301 |
| Travel and hospitality | **1,526** | 1,711 |
| Consultants | **967** | 1,127 |
| Software, hardware and support | **445** | 596 |
| Corporate communications | **212** | 286 |
| Amortization and depreciation | **168** | 836 |
| Other expenses | **715** | 1,088 |
| | **$ 28,363** | $ 30,484 |

# 14. FINANCE INCOME, NET

For the year ended March 31, the Corporation has recorded finance income and cost in relation to the following financial instruments:

| (in thousands of Canadian dollars) | 2014 | 2013 |
|---|---|---|
| Financial assets<br>- Finance income earned on cash and cash equivalents | **$ 422** | $ 511 |
| Financial liabilities<br>- Finance cost on payables and other liabilities | **(155)** | (188) |
| | **$ 267** | **$ 323** |

# 15. PARLIAMENTARY APPROPRIATIONS

Appropriations authorized by the Parliament of Canada are included in the net results of operations for the year in the amount of $15,656 as of March 31, 2014 (2013 - $15,482).

# 16. RELATED PARTY TRANSACTIONS

The Corporation is related in terms of common ownership to all Government of Canada departments, agencies and Crown corporations.  The Corporation enters into transactions with these entities in the normal course of business, under the same terms and conditions that apply to unrelated parties, and as such the transactions approximate fair value.

The amounts due from and to these parties included in trade receivables and trade payables and accrued liabilities respectively as at March 31 were as follows:

| (in thousands of Canadian dollars) | | 2014 | | 2013 |
|---|---|---|---|---|
| Trade receivables | **$** | **831** | $ | 891 |
| Trade payables | **$** | **144** | $ | 477 |

Individually significant transactions and transactions that are collectively significant are listed below.

## (a) Public Works and Government Services Canada

Public Works and Government Services Canada provides contract management and other administrative services to the Corporation at negotiated rates which reflect fair value.

For the year ended March 31, 2014, the cost of these services amounted to $3,193 `(2013 - $3,668) and is included in administrative expenses.

## (b) PPP Canada Inc.

The Corporation has a Memorandum of Understanding with PPP Canada Inc. for the provision of shared services primarily in the areas of information technology, human resource management, finance and procurement, legal services, research and communications, governance and facilities management. This arrangement generates savings through economies of scale for both organizations.

For the year ended March 31, 2014, revenues related to the provision of these services amounted to $750 (2013 - $750) and are included in fees for service.

## (c) Other Government of Canada departments, agencies and Crown corporations

Commercial trading transactions, fees for service, and sourcing services transactions, arising from the Corporation's facilitation of sales of Canadian goods to foreign customers, and other international activities include the following transactions with related party entities for the year ended March 31:

| (in thousands of Canadian dollars) | | 2014 | | 2013 |
|---|---|---|---|---|
| Department of Foreign Affairs, Trade and Development | **$** | **20,015** | $ | 13,743 |
| Department of National Defence | **$** | **368** | $ | 500 |
| Environment Canada | **$** | **-** | $ | 8 |

The Corporation also participates in employee interchange programs with the following departments or agencies: Department of Foreign Affairs, Trade and Development and Public Works and Government Services Canada.

## (d) Transactions with Canadian exporters solely or jointly governed by key management personnel

The Corporation may enter into supply contracts with Canadian exporters whose financial and operating policies are solely or jointly governed by key management personnel of the Corporation. The Corporation enters into transactions with these Canadian exporters in the normal course of business, under the same terms and conditions that apply to unrelated parties, and as such the transactions approximate fair value. The supply contract transactions with related Canadian exporters for the year ended March 31 were as follows:

| (in thousands of Canadian dollars) | 2014 | 2013 |
|---|---|---|
| Cascade Aerospace Inc. | **$ 5,835** | $ - |
| Blue Drop Performance Learning Inc. | **$ 340** | $ - |

No amounts were due from and to these related Canadian exporters as at March 31, 2014 (2013 – nil).

## (e) Key management personnel compensation

IFRS requires disclosure of key management personnel compensation in total and by component. Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Corporation, directly or indirectly. The key management personnel of the Corporation are members of the Board of Directors and the Corporate Officers (President and Vice-Presidents).

Components of compensation are defined as short-term benefits, post-employment benefits, other long-term benefits and termination benefits. Short-term benefits include retainers, per diems, salaries, social security contributions, paid annual leave, paid sick leave and bonuses (if payable within twelve months of the end of the reporting period). Post-employment benefits include employer contributions relating to pensions, and premiums paid for post-employment life insurance and medical care. Other long-term benefits include long-service leave or sabbatical leave, long-term disability benefits and any bonuses or deferred compensation that are not payable within twelve months after the end of the reporting period.  No termination benefits were incurred for key management personnel.

Key management personnel remuneration for the year ended March 31 was as follows:

| (in thousands of Canadian dollars) | 2014 | 2013 |
|---|---|---|
| **BOARD OF DIRECTORS** | | |
| Short-term benefits | **$ 187** | $ 169 |
| | **$ 187** | $ 169 |
| **CORPORATE OFFICERS** | | |
| Short-term benefits | **$ 1,743** | $ 1,664 |
| Post-employment benefits | **401** | 415 |
| Other long-term benefits | **22** | 43 |
| | **$ 2,166** | $ 2,122 |
| | **$ 2,353** | $ 2,291 |

## 17. COMMITMENTS

In October 2005, the Corporation entered into a fifteen-year lease agreement for office space scheduled to expire at the end of September 2020. In October 2011, the Corporation entered into a four-year renewable lease agreement for additional office space scheduled to expire at the end of September 2015.

Management has applied their best estimates in accounting for future lease commitments subject to inflation per the lease agreement. Management uses the Consumer Pricing Index (CPI) as an estimation of the inflationary rate.

As at March 31 future minimum payments by fiscal year on the operating leases for premises are as follows:

| (in thousands of Canadian dollars) | 2014 | 2013 |
|---|---|---|
| < 1 year | **$ 1,961** | $ 1,933 |
| > 1 and < 5 years | **$ 7,745** | $ 7,659 |
| > 5 years | **$ 2,952** | $ 4,799 |

# 18. CONTINGENCIES AND GUARANTEES

## (a) Contingencies

In the normal course of business, the Corporation has entered into indemnity agreements with each of its directors and officers to indemnify them, subject to the terms and conditions of these agreements, against claims and expenses incurred by them as a result of serving as a director or officer of the Corporation.

The nature of the indemnification prevents the Corporation from making a reasonable estimate of the maximum amount that it could be required to pay to counterparties. To offset any potential future payments, the Corporation has purchased director's and officer's liability insurance.

No amount has been accrued in the accompanying financial statements with respect to the contingent aspect of this indemnity.

## (b) Guarantees

As prime contractor, the Corporation is contractually obligated to complete numerous contracts with foreign customers ensuring that the terms of the contract are fulfilled regardless of the quality of performance by the Canadian exporter. The Corporation also engages in the fulfilment of contractual obligations related to sourcing services for support of international assistance programs.

The total prime and sourcing services contract portfolio value remaining to be fulfilled as at March 31 was as follows:

| (in thousands of Canadian dollars) | 2014 | 2013 |
|---|---|---|
| < 1 year | **$ 999,286** | $ 1,980,641 |
| > 1 and < 3 years | **453,860** | 250,933 |
| > 3 and < 5 years | **5,275,989** | 7,265 |
| > 5 years | **9,400,925** | - |
| **TOTAL CONTRACT PORTFOLIO** | **$ 16,130,060** | $ 2,238,839 |

# 19. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's presentation. The reclassification was immaterial and did not have a significant impact on the Statement of Financial Position or any impact on the Statement of Comprehensive Income. As a result, a third Statement of Financial Position, as at April 1, 2012, and the related note disclosures, have not been provided.

# ANNEX A – STRATEGIC OBJECTIVES AND INITIATIVES

## OPERATIONAL AND MANAGERIAL EXCELLENCE

### 1. Grow Canadian Export Business

CCC has a long history as a stakeholder in the integrated North American defence industrial base through its role as the Canadian government's custodian of the Canada-U.S. DPSA for over 50 years. As a result, CCC has grown to become a trusted partner to the U.S. Government and an important instrument of trade for Canadian exporters. Over recent years, CCC has established additional business lines in global defence and security sales and in international commercial business sales, and has continued to support Government of Canada priorities including sourcing services to support international government assistance programs, managing Canadian Trade Offices in China with DFATD, and providing shared corporate services to Public-Private Partnerships (PPP) Canada Inc. This strategy is yielding positive results despite worldwide economic uncertainties.

#### KEY INITIATIVES:

1. Contribute to the development and delivery of Government of Canada International Trade initiatives

CCC remained committed in 2013-14 to supporting the priorities of the Government of Canada by fulfilling its mandate of increasing access to foreign government markets for Canadian exporters and promoting job growth in Canada. The Corporation made a real contribution last year by creating or maintaining 18,830 jobs for Canadians, demonstrating CCC's ability to generate results during challenging economic times.

In particular, 2013-14 was marked by significant new Government policy initiatives that focused on the importance of Canada's export sector and prioritized a whole-of-government approach to support Canadian industry in operating internationally. CCC contributed directly to the Global Markets Action Plan and the Defence Procurement Strategy, seeking alignment with target markets and greater collaboration in business promotion as well as leveraging its international contracting role to advance Canadian exporter capabilities. CCC also continued to support other government initiatives such as DND's Global Engagement Strategy and Canada First Defence Strategy, consistent with CCC's whole-of-government approach to assist exporters.

The Government's robust trade agenda and commitment to seeking free trade agreements (FTAs) around the world was presented as an important tool in Canada's Global Markets Action Plan. In 2013-14, CCC was particularly active in providing input into this Plan, highlighting how its activities in increasing access to foreign markets for Canadian exporters directly support the Government's pro-trade agenda. Although CCC conducts significant business in markets with which the Government of Canada has signed a FTA, CCC also acts as a complementary instrument in the execution of these trade-related agreements as it facilitates market access within sectors that are typically excluded from trade agreements, such as defence and security, and in markets with which Canada has not yet signed an FTA, as is often the case for infrastructure projects in emerging and developing nations.

CCC was also involved in government-wide consultations related to the Defence Procurement Strategy. In support of the export component of the Strategy, CCC, through managing the

DPSA, is pursuing a whole-of-government approach to business development, including the establishment of multi-organizational pursuit teams, a focused approach to collaborating more closely with Government of Canada trade partners including DFATD, PWGSC, DND, EDC, and IC to achieve quicker contract signing in targeted markets.

In September 2013 the Minister of International Trade directed CCC and EDC to work together to transfer all trade financing responsibilities for new contracts to EDC. In response, CCC and EDC have transferred all credit risk to EDC and both parties are continuing to work towards adopting a two-contract model by September 2014. The Minister of International Trade directed the Corporation to pay to the Receiver General the amount of $40.00 million by March 31, 2014, an amount considered to be in excess of the amount required by the Corporation for the purposes of the *Canadian Commercial Corporation Act*.

CCC continued to support DFATD in the implementation of the Government of Canada's international aid programs by assisting with the sourcing of goods and services destined for foreign recipients. For example, CCC engaged closely with DFATD's Security and Emergency Preparedness division in order to ensure as many Canadian companies as possible could participate in Canada's international emergency response to natural disasters or reconstruction efforts. In 2013-14, under its sourcing services, CCC signed 109 contracts and amendments for a total value of $15.75million.

In 2013-14, CCC also supported government priorities through its administration of six Canadian Trade Offices in China. Since 2009, the Corporation has been managing offices in Shenzhen, Chengdu, Qingdao, Wuhan, Nanjing and Shenyang with operational support from the Embassy in Beijing. DFATD is now looking to CCC to continue in this role and further expand the network with additional offices in more cities.

**2.** Enhance relationships with foreign government buyers and Canadian exporters

In support of all its services offerings, CCC continued throughout the year to build on the Canada brand efforts inherent in the Global Markets Action Plan, to expand its brand as a trusted government of Canada partner that is credible, competitive and collaborative.

Recent business development efforts have positioned CCC to effectively increase awareness of the Corporation's services with both foreign government buyers as well as with Canadian exporters. CCC continued to work closely with industry associations such as the Canadian Association of Defense and Security Industries (CADSI), the Aerospace Industry Association of Canada (AIAC), and the National Defence Industrial Association (NDIA) in the U.S., to deepen its understanding of Canadian capabilities, trends, opportunities and challenges.

In this vein, CCC continued its advocacy for Canadian solutions and provided leadership in ensuring an integrated government presence at major international industry exhibitions, including a renewed Canadian presence at the 2013 Defence Security and Equipment International (DSEI) in London, England. CCC led a first time whole-of-government approach at this event and, pulling together funding partners and federal participants, was able to deliver a Government of Canada package that offered meaningful business networking opportunities for Canadian exporters.

As the Government of Canada's custodian of the Canada-U.S. DPSA, CCC played a strategic role in increasing awareness of Canada's defence and security capabilities. Last year, CCC led the first ever Government of Canada effort to attract foreign buying delegations to CANSEC, Canada's premiere defence and security tradeshow. To this end, and with the support of the Department of National Defence (DND) and DFATD, CCC organized marketing and outreach opportunities for Canadian exporters with visiting defence delegations from Bahrain, Peru, Kuwait, the United Arab Emirates, South Korea and Sweden, fostering greater visibility of Canadian capabilities and the development of closer networks between foreign buyers and exporters.

**3.** Grow Canadian export business in existing markets and develop new markets

In 2013-14, CCC continued to prove its effectiveness through increased sales for Canadian exporters and a greater number of jobs for Canadians, despite a backdrop of market uncertainty, slowing global economic growth and increased competition in priority markets. For Canadian companies, the challenging environment meant that exports grew at a slower pace than anticipated. This is reflective of what has happened in the broader global economy, leading to a more competitive marketplace and reduced opportunities for Canadian exporters, particularly SMEs. In this context, CCC's results are even more impressive with the Corporation signing the largest trade deal in Canadian history, exceeding its targets by working with 183 Canadian exporters, of which more than 60% are SMEs, in 57 countries including Argentina, Australia, Colombia, Mexico, Norway, Peru, the Kingdom of Saudi Arabia and the United States.

For CCC, the domestic fiscal policy issues that constrained growth in the U.S. in 2012 and 2013 led to a decrease in business volume related to CCC's DPSA business line. With a value of contract signed of $0.6 billion, representing 111% of the budgeted figure for 2013-14, the Corporation executed over 1,698 contracts and amendments in the DPSA business line, supporting over 97 Canadian companies and sustaining over 12,100 jobs in Canada. Over the course of the year, CCC played a leadership role in furthering the interests of Canadian exporters operating in the U.S. by increasing communications efforts with major U.S. Military Buying Commands to ensure they remain current with respect to Canada's defence and security industrial capabilities.

Canadian exporters continued to diversify their offerings and target new markets to leverage new opportunities in less-traditional markets. In response, CCC began to redirect internal resources to provide greater support to Canadian exporters interested in competing beyond the U.S. defence markets. Investments were made to reinforce the Corporation's business development capacity through internal capability building supported by a strong business development policy suite and an enhanced value proposition for each business line (see Annex B). CCC also intensified its market efforts and enhanced Canada's presence at important trade events. Within its GDS and ICB business lines, CCC implemented its country and supplier strategies and ensured alignment with priority markets contained within the Global Markets Action Plan and Canada's Strategy for Engagement in the Americas. The Corporation also worked to promote a whole-of-government approach with a variety of departments and agencies, including DFATD's Trade Commissioner Service and EDC, to harmonize market access initiatives.

Through these activities the Corporation was able to generate incredibly impressive results. In the GDS business line, CCC signed 37 contracts and amendments for a total value of $14.9 billion in 2013-14, exceeding the Corporate Plan target of $200.17 million, particularly in light of signing a multi-billion contract with the Kingdom of Saudi Arabia. Contracts signed in Argentina, Australia, Colombia, Mexico, Norway, Peru, the Kingdom of Saudi Arabia and the United States are the result of the success of CCC's GDS business strategy, and pave the way for CCC to align itself with Canada's Defence Procurement Strategy to deliver greater results for Canadian exporters. As well, the signing of a multi-billion dollar contract with the Kingdom of Saudi Arabia for the delivery of armoured vehicles and associated equipment, training and support services in 2014 will no doubt enhance the recognition of Canada's impressive defence and secutrity capabilities worldwide. This 14-year contract will create and sustain more than 3,000 jobs each year in Canada, with southern Ontario accounting for approximately 40% of the supply base.

In the ICB business line, CCC's business is characterized by large projects which can take as long as five years or more to develop. Given the uncertain global environment, infrastructure contracts have proven difficult to attract financing, resulting in longer pursuit times. While a strong and robust pipeline of opportunities has been developed, no contracts were signed in this business line in 2013-14.

In 2014-15 and beyond, CCC will continue to focus its efforts on increasing business development activities in all business lines.

Through a whole-of-government approach, CCC looks forward to enhancing its trade promotion and contract-closing strategies with a whole-of-government approach, partnering with DFATD, DND, Industry Canada, and other government departments in support of the Global Markets Action Plan, Canada's Strategy for Engagement in the Americas and the key Canadian industrial capabilities noted in the DPS.

**4.** Improve trade portfolio collaboration and business intelligence

Aligned to the previous initiative, CCC engaged with DFATD and EDC in 2013-14 to develop protocols for collaboration to amplify the impact of each organization in meeting its respective objectives. These protocols will help position portfolio partners with the tools to better identify opportunities where each organization can assist Canadian exporters to win international contracts.

For example, in 2013-14 CCC expanded its relationship with DFATD with the development of an MOU with the Trade Commissioner Service (TCS). This MOU, signed in May 2014, will enhance the alignment of marketing and business development activities by strengthening and formalizing the working relationship between the TCS and CCC's business development officers in priority markets and sectors that fall within the Government of Canada's Global Markets Action Plan, and which are open to government-to-government procurement. Greater collaboration will provide Canadian exporters with a clearer suite of services and support tools strengthening their ability to compete internationally.

**5.** Continue to develop business development capacity and systems

Over the course of 2013-14, CCC pursued the implementation of systems which better support the delivery of services to Canadian exporters, such as a customer relations management (CRM) system and improvements in its financial and project enterprise resource management system. To date, a CRM Working Group has been instituted, with the mandate to build the architecture and data plan for a CRM system. Training and implementation of this system will occur in 2014-15. As well, CCC continued to invest in learning and development activities for managers and employees, with a focus on leadership and client relationship management.

## 2. Be Productive and Efficient

As a Crown corporation of the Government of Canada, CCC took great care in 2013-14 to ensure its financial and human resources were managed in a fashion that meets modern accounting and human resource management principles. Being more productive and efficient means using fewer labour hours and spending less to produce the quality services expected.

In a challenging global environment marked by heightened risk, changing demographics, and continued economic and political uncertainty, such investments have allowed CCC to significantly improve operations, gain efficiencies and increase the potential to access key markets for Canadian exporters. These investments centre upon best practices in risk management, contract management and performance management.

### KEY INITIATIVES:

**1.** Broaden confidence in CCC's Value Proposition

CCC continued to develop its approach to market its capabilities to Canadian exporters as well as to other government departments that are also mandated to assist Canadian companies in creating international business. In particular, CCC continued to focus on supporting SMEs, a segment of industry which already represents over 60% of CCC's exporter base.

For example, over the course of 2013-14, CCC completed the delivery of new marketing brochures and whitepapers in four languages to support the sales to foreign government buyers. In addition, two projects to improve CRM and digital marketing management were initiated and will be fully implemented in 2014-15.

**2.** Ensure transparent, consistent and competitive pricing

CCC has developed and implemented a transparent Pricing Policy. The Policy and its application are integral to CCC's sound risk management approach. Each pursuit and project proposal is submitted for approval to the CCC Risk and Opportunities Committee (ROC), which is responsible for ensuring adherence to the Pricing Policy.

CCC's Pricing Policy is available on its website to inform exporters and foreign government buyers of the risk based, project specific, balanced approach that CCC has adopted in its fee structure.

**3.** Deliver timely and strategic project assessment, selection and decision-making

CCC continued to use business intelligence and internal assessment tools to ensure it places the greatest level of assistance on the projects with the greatest potential for success. CCC ensured its pipeline of pursuits and projects were rigorously managed throughout the year through regular monitoring by the ROC and Senior Management Committee.

CCC uses the ROC as the governing body to discuss and assess the opportunities present in a given market as well as the risks facing the Corporation in pursuing specific opportunities, and recommends the fee for each contract. The ROC is chaired by the Vice-President, Risk and Finance and CFO and includes all the Vice-Presidents of the Corporation. Key advisors to the ROC include senior personnel from the Risk and Finance, and Policy and Quality Management units.

**4.** Continue to demonstrate organizational discipline through policy adherence, probity and robust risk management

CCC has invested a significant level of effort in the development of a comprehensive Policy Suite that governs all areas of its activities, and ensures its internal policies are maintained through cyclical review, and adhered to through active compliance monitoring.

Throughout 2013-14, CCC was particularly focused on reviewing its CSR suite of policies, instructions and supporting tools. In concert with DFATD and other government departments and agencies, CCC invested a significant amount of effort in developing a proactive approach to identify whether the Corporation and its clients are compliant with pertinent legislation, including the CFPOA and international best practices. In this vein, CCC implemented a new Enhanced Managerial Review as part of the project certification process.

CCC adheres to high standards of financial accounting and management, and reports against the International Financial Reporting Standards (IFRS). Over the course of last year, CCC continued to ensure financial best practices were applied to all its operations, to maintain prudence and probity in the management of its financial resources.

Over the years CCC has developed a strong ERM framework which has been viewed very favourably by the OAG during its annual reviews. This framework is a collaborative document which is reviewed and updated annually in discussion with the Board of Directors, CCC's senior management and experts in the field of risk management.

**5.** Ensure CCC's internal capacity and the ratio of expenses to revenues are optimal

As a Crown corporation of the Government of Canada, CCC took great care in 2013-14 to ensure its financial and human resources were managed in a fashion that met modern accounting and human resource management principles.

The Corporation continued to implement and report against its Cost Efficiency Plan. This Plan, which was implemented in response to the cost containment measures of Budget 2010, and updated in the spirit and intent of Budgets 2011 through 2013, focuses on achieving efficiencies in operations, as well as reviewing business processes and service platforms. In line with the Plan, CCC continued to prudently manage expenditures and investments in line with revenues and cash flows. CCC efforts reduced spending on administrative expenses by 7% in 2013-14 as compared to 2012-13.

CCC also continued to insource certain services historically provided by PWGSC. This not only had the effect of reducing PWGSC costs from $3.67 million in 2012-13 to approximately $3.19 million in 2013-14, but CCC's DPSA Business Process Improvement Initiative generated significant cost avoidance or savings over future years from PWGSC's prescribed levels in which annual charges were to increase to approximately $6.20 million per year commencing back in 2011-12.

In keeping with the cost containment measures of Budget 2010, and the spirit and intent of Budgets 2011 through 2013, the Corporation has continued with its shared services arrangement with PPP Canada to generate economies of scale in providing a variety of corporate services to both organizations. This arrangement includes the provision of shared expertise in human resources services, information technology services and legal services. CCC recovers $750,000 annually to cover related direct and indirect costs.

CCC's Board of Directors has also engaged in efficiency improvement and cost avoidance with the restructuring of the scheduling of its Board Committees and meetings, and will continue to examine other strategies to save costs. Savings in 2013-14 were estimated to be $100,000 based on then having nine active Board members.

For its broader administrative expenses, CCC converted to a new payroll system in January 2012 using ADP Canada as its HR and Payroll solution provider to improve on the reporting capacity and limit the growing cost of the centralized system operated by PWGSC. This has continued to generate annual savings of $100,000. In addition, the ADP application and functionality provides efficient and timely reports improving the management of CCC's HR and Payroll processes.

Consistent with Budget 2012 savings measures and Treasury Board Secretariat (TBS) expectations of Crown corporations, CCC has maintained, and will continue to maintain, a clear alignment of its compensation and benefits packages, including pension provisions, for both its unionized employees and its executive cadre. In addition, CCC has absorbed all salary and benefit increases through the reallocation of internal resources. The elimination of the voluntary severance benefit also generated savings of approximately $150,000 per year.

## 3. Deliver Quality Services

CCC understands the critical importance of building strong relationships with its exporters and buyers, and continues to focus on ensuring Canadian exporters and foreign buyers possess a thorough knowledge of the Corporation's services to assist them in their international business transactions. CCC endeavours to assist its clients in a timely, professional and effective fashion and remains adaptable to the changing environment of its clients.

### KEY INITIATIVES:

1. Work with Canadian exporters to develop innovative solutions that meet foreign government buyer requirements

For more than 50 years CCC has been the policy instrument of the Government of Canada to ensure access to the U.S. Government defence and security markets for Canadian exporters through contracting under the DPSA. In doing so, the Government of Canada has also continued the building of a strong integrated North American Defence Industrial Base.

CCC's second Industry Executive Council Day, a meeting to which Canadian defence and security industry executives are invited to attend to raise the level of engagement and communication on key issues relating to the DPSA. The Industry Executive Council Day allowed Canadian companies to provide feedback, which led to the development of a "Washington Strategy" that will provide augmented intelligence related to U.S. DoD acquisition plans and developments.

CCC took a leadership role in supporting Canadian exporters facing with obstacles in the U.S. DoD acquisition system. Specifically, CCC led an intergovernmental effort to allow a major Canadian firm that otherwise would have been mistakenly overlooked to bid for a large contract in the maintenance, repair and overhaul (MRO) sector. Going forward CCC will continue to adapt its services to respond to challenges and opportunities in the U.S. and to search for efficiencies to better support Canadian exporters.

For its GDS and ICB business lines, the Corporation worked closely with Canadian exporters to customize contracting solutions that enhanced their competitiveness. This involved collaboration with DFATD and EDC regional offices in order to help target Canadian suppliers for international government-to-government procurement opportunities, in addition to providing market intelligence.

To this end, Master Service Agreements were signed with several key Canadian suppliers, representing a strong commitment by both CCC and these Canadian exporters to develop international markets together, and recognising the value that a government-to-government approach can bring to international sales.

2. Apply rigorous risk management and international contracting expertise in structuring and drafting contracts

Over the course of the year, CCC continued to ensure the delivery of goods and services in compliance with governing legislation as well as contractual terms and conditions. In this vein, CCC took take steps in 2013-14 to reinforce its CSR framework, based on best practices in ethical business conduct, through the implementation of a new Enhanced Managerial Review as part of the project certification process.

Instituted in 2013, the Enhanced Managerial Review process is conducted when a CCC supplier, or one of its employees, has been under investigation for, charged with, or convicted of, an offence relating to unethical or illegal business practices. This Review is a thorough assessment of a company's governance and integrity compliance program and alignment with global best practices, including compliance instruments published by the Organization for Economic Co-operation and Development (OECD), the World Bank, Transparency International and Trace, to ensure ethical business practices and prevent occurrence of corruption and bribery.

3. Provide robust contract management to ensure goods, services and project delivery are in compliance with contractual terms and conditions

CCC's reputation and viability is dependent upon the efficient and timely delivery of contracts and services. CCC continued throughout the year to emphasize strong contract and project management and compliance monitoring to prevent damage control activities from occurring.

In 2013-14, CCC did not incur any contract remediation expenses, thus, reflecting the continued success and robustness of its risk management practices. Building on its DPSA Business Process Improvement Initiative, CCC continued to work with all stakeholders to identify further improvements and efficiencies in the DPSA contracting process. Throughout the year, CCC worked closely with the U.S. Defense Contract Management Agency (DCMA) to mitigate risks and prepare audit plans and close out processes. The achievement of Commercial Trading Transactions in excess of $1 billion in this business line last year, with no contract remediation expenses, is a testament to CCC's contract management excellence and strong risk management practices.

4. Exceptional Customer Experience

Since 2010 CCC has implemented annual client surveys to continually improve services to its clients. In 2013-14, the client survey results were impressive, with an overall quality rating of 79.24%. The Corporation will continue with this best practice and will continue to focus efforts on areas that warrant improvement.

Over the course of 2013-14, CCC increased its outreach to Canadian suppliers seeking contracts in the Middle East. The result was the signing of Canada's largest ever export contract. The Corporation also continued to work collaboratively with the U.S. procurement and contracting community to ensure that its services met their expectations.

**5.** Expand CCC's Brand

In 2013-14, CCC increased the number of domestic and international tradeshows in which it participated, thus increasing its exposure to Canadian exporters across the country and to foreign government buyers in key regions. Such initiatives have helped CCC to better position itself as a trusted Government of Canada partner for accessing government procurement markets internationally.

CCC also unveiled new marketing materials with clear messaging on the Corporation's value proposition. Such tools will benefit CCC clients by providing information Canadian exporters can leverage through their own marketing and outreach.

## 4. Effective Enterprise Risk and Opportunity Management

CCC utilizes a robust ERM framework, solid risk practices and governance to manage risks. All staff are trained in accordance with CCC's contracting policies and a senior-level Risk and Opportunities Committee vets all project requests as well as CCC's operational strategic risk policies.

### KEY INITIATIVES:

**1.** Continuous improvement of CCC's ERM

CCC committed to continuing to review annually and maintain a robust ERM framework and associated policies that address the strategic, operational and transactional risks associated with the operations of the Corporation as well as the contractual risks associated with specific projects being delivered abroad.

During the year, the Board of Directors undertook a review of the ERM framework and approved improvements. Associated risk policies supporting the ERM framework were also subject to a significant overhaul, which included a review of CCC's entire policy suite spanning strategic, operational and transactional risks. CSR was a key focus of this review.

**2.** Training Sessions on Risk Management for Employees

In order to promote knowledge of and adherence to CCC's ERM framework, the Corporation committed to training all new employees and to providing refresher training offered on an on-going basis. Training sessions began in March 2014, and included the communication of policy developments with respect to CSR and issues related to bribery and corruption.

**3.** Detailed monthly presentations at the ROC on project pursuits (opportunities) setting out risks involved (strategic, operational and transactional) and how they are proposed to be mitigated/managed

Throughout the year, systematic in-depth analyses and presentations at the ROC demonstrated that employees have acquired a high level of understanding of ERM practices, and their application to business and contract development activities.

**4.** Detailed monthly presentations of contracts under management detailing progress against contract, any issues and how they are being addressed

This new practice focused on the activities that are required to ensure contracts are completed on time and on budget in accordance with contractual obligations. It has become part of regular developmental activities to maintain the high level of expertise in international procurement and contracting that is necessary to adequately support Canadian exporters.

**5.** ERM framework requirements are met

CCC maintained a strong adherence to the ERM framework hitting 96% of its requirements.

# EXCEPTIONAL WORK EXPERIENCE

## 5. High Performance Culture

CCC's corporate culture determines "why, and how, it does the things it does" and as such has the greatest potential to either assist or inhibit its ability to realize its true potential. A high performance culture promotes the alignment of activities in an atmosphere of mutual respect, innovation and collaboration. Understanding that a high performance culture is heavily influenced by leadership behaviours, CCC sought to identify and promote the behaviours which will eliminate gaps in the Corporation's current culture.

### KEY INITIATIVES:

1. Align CCC's culture with the Corporation's mandate

CCC has made significant investments in its people, processes and systems, including the development of a Learning and Development Framework and the renewal of its human resource policies. With a clear focus to strive towards a high performance culture over the planning period, CCC ensured that all employees had set learning plans, thus providing a strong base for further improvements over the next planning years.

2. Eliminate cultural gaps at CCC

In April 2013, CCC conducted its annual Pulse survey wherein it surveyed staff to gain insight into morale and staff sentiment regarding CCC as a workplace, and will continue to draw from the annual survey to inform decisions related to programs, issues and comments identified by employees.

3. Integrate top leadership behaviours into CCC's Learning and Development Strategy

Over the past year, the Corporation has promoted top leadership behaviours to staff by widely sharing articles and published material on leadership, raising awareness of how leadership is exercised in various contexts and work environments.

## 6. Employee Engagement

The ability of CCC to achieve its goals is directly proportional to the way CCC's employees feel about their employment experience. CCC continued to create a working environment that instilled a high level of pride in its employees through ensuring a safe and healthy environment where everyone is respected and valued, excellence is celebrated, diversity is embraced and harassment is not tolerated. The Corporation also continues to encourage two-way staff/manager communication, the provision of learning and development opportunities and the provision of timely and meaningful feedback for staff.

### KEY INITIATIVES:

1. Create an Exceptional Employee Experience

CCC understands that an engaged workforce is a healthy and productive workforce. As such, in 2013-14 CCC continued to recognize employee contributions on an ongoing basis though its Rewards and Recognition program. This included an annual Rewards and Recognition event for employees. CCC also continued to keep up-to-date with best practices to recognize and value employee contributions.

In 2013-14, CCC's Employment Equity Working Group undertook a number of initiatives to continue to increase awareness of diversity and inclusion of all employees. Some of these activities included an employee survey, a self-identification questionnaire, and an update of CCC's Employment Equity policies. CCC also furthered its knowledge of mental health in the workplace through seminars, workshops and courses for staff and management in order to implement best practices in this area.

The results of CCC's annual Pulse Survey for 2013-14 indicated that the Corporation achieved record scores in several areas, and experienced only minor decreases in other areas, including 82% with respect to the percentage of staff that feel they have the tools required for their work, and 79% with respect to the percentage of staff that feel supported in their development. Moreover, 97% of employees have responded that they understand the role of CCC in assisting in the development of trade for Canada, and 97% are committed to doing quality work.

**2.** Better understand CCC's working environment

CCC supported the exploration of setting up a Women's Network within the Corporation, including identifying the unique social and professional needs of women within CCC.

**3.** Provide employees with the tools required to do their jobs efficiently and effectively

Over the past five years CCC has made significant investments in its processes and systems to improve service delivery and provide access to state of the art tools that enable employees to optimally perform.

In 2013-14, CCC implemented an upgrade of its ERP system to improve functionality, including the automated leave management capabilities of the Human Resources module. The ERP leave management module is currently in use on a pilot basis, with full implementation to occur in 2014-15.

## 7. Leadership

Leadership is the culmination of behaviours and characteristics that engage and inspire employees toward a common vision and the achievement of objectives in a manner that respects the values of the Corporation, the importance of its people and adheres to highly ethical standards. At CCC these behaviours and characteristics are encouraged at all levels through training and education as well as mentoring practices.

### KEY INITIATIVES:

**1.** Identify CCC's "Top Leadership Behaviours"

Building on the results achieved in recent years, CCC continued to improve its Learning and Development Framework. Over the course of 2013-14, CCC began to identify top leadership behaviours. These activities will continue to evolve in 2014-15. Some initial aspects of the strategy involved bringing greater information and awareness to leaders within CCC on topics related to Employment equity, bribery and corruption, and leadership.

**2.** Recognize and Reward those who model CCC's top leadership behaviours

In 2013-14, CCC continued to recognize employee contributions on an ongoing basis though its Rewards and Recognition program. This included an annual Rewards and Recognition event for employees.

**3.** Build CCC's internal leadership capacity

CCC has a Learning and Development Strategy and encourages training for all employees. Through the investment in employee development, CCC continued to build its internal leadership capacity.

# ANNEX B – BUSINESS LINES AND VALUE PROPOSITIONS

## GOVERNMENT-TO-GOVERNMENT CONTRACTING BUSINESS LINES

| DPSA | Global Defence and Security | International Commercial Business |
|---|---|---|
| **CCC VALUE PROPOSITION FOR CANADIAN EXPORTERS** | | |
| • Access to U.S. DoD acquisitions – Canadian suppliers working though CCC are exempt from most "Buy America" provisions by U.S. regulations<br>• Contract administration and payment through CCC is less complex<br>• No cost service<br>• As a sub-contractor to the CCC, the Canadian exporter is represented by the Government of Canada | • Government of Canada partner enhances credibility, mitigates risk and removes onerous foreign government buyer conditions<br>• Frequently allows the foreign government buyer to award a directed contract<br>• Enhances access to opportunities with foreign government buyers<br>• Enhances access to support from Canadian Government, including Embassies | • Government of Canada partner enhances credibility, mitigates risk and removes onerous foreign government buyer conditions<br>• Frequently allows the foreign government buyer to award a directed contract<br>• Enhances access to opportunities with foreign government buyers<br>• Enhances access to support from Canadian Government, including Embassies |
| **CCC VALUE PROPOSITION FOR FOREIGN GOVERNMENT BUYERS** | | |
| • Assurance that the Canadian exporter has passed CCC's technical, financial and managerial review<br>• Certification of fair and reasonable price in accordance with the Government of Canada cost and pricing regulations<br>• Guarantee of contract performance – enshrined in the Defense Federal Acquisition Regulation Supplement (DFARS)<br>• Contract management – issues management, quality assurance and risk mitigation<br>• Contract management services for the U.S. DoD | • Direct contracting government-to-government mechanism<br>• Government of Canada assurance that contractual terms and conditions will be satisfied<br>• Robust risk mitigation process ensures that only competent Canadian exporters are backed by CCC<br>• Credible, transparent and ethical business processes<br>• Active project monitoring and quality assurance<br>• Any product or service from a Canadian exporter can be supplied and tailored to meet the foreign government buyer's requirements<br>• Faster and less costly than U.S. FMS | • Direct contracting government-to-government mechanism<br>• Government of Canada assurance that contractual terms and conditions will be satisfied<br>• Robust risk mitigation process ensures that only competent Canadian exporters are backed by CCC<br>• Credible, transparent and ethical business processes<br>• Active project monitoring and quality assurance |

## CCC SERVICES ALIGNED WITH GOVERNMENT OF CANADA PRIORITIES

| Sourcing Services to Support International Government Assistance Programs | China Trade Offices with DFATD | Shared Corporate Services with PPP Canada |
|---|---|---|

# ANNEX C – CORPORATE PROFILE

As the Government of Canada's international contracting and procurement agency, the role of CCC is to assist Canadian companies' access international markets by facilitating sales to foreign governments through government-to-government contracts, primarily in the defence and security and infrastructure.

CCC's mandate is described in the CCC Act as follows:

> *The Corporation is established for the following purposes:*
>
> a. *to assist in the development of trade between Canada and other nations;*
>
> b. *to assist persons in Canada*
>
> > i. *to obtain goods and commodities from outside Canada, and*
> >
> > ii. *to dispose of goods and commodities that are available for export from Canada;*
>
> c. *to exercise or perform, on behalf and under the direction of the Minister, any powers or functions vested in the Minister by any other Act that authorizes the Minister to employ the Corporation to exercise or perform them; and*
>
> d. *to exercise or perform any other powers or functions conferred on it by any other Act or for the exercise or performance of which it may be employed under any other Act.*

CCC was established in 1946 to support reconstruction efforts undertaken following the Second World War to help the Government of Canada channel aid to European countries and facilitate access to products and services from Canada. CCC's broad mandate led to the Corporation being designated as the Government of Canada's custodian of the Canada-U.S. DPSA. In 1956, CCC was given responsibility, on behalf of the Government of Canada, for administering the DPSA. The DPSA stipulates that defence purchases from Canada by the U.S. DoD must be contracted through CCC when their value exceeds $150,000 (USD). Since 1960 a similar approach has been in place for the supply of goods and services to NASA, however, unlike the DPSA program, while not mandatory for NASA to use CCC, it has chosen to place 90% of their Canadian purchases through the Corporation.

## THE INTERNATIONAL TRADE PORTFOLIO

The International Trade Portfolio offers services to meet the needs of Canadian companies seeking to do business abroad, including the provision of market advice, business contact information, and advocacy through DFATD's TCS; financing, guarantees, and insurance through EDC; arrangements with foreign governments that enable contract structuring, negotiations, government-to-government contracting, and procurement from Canada through CCC.

CCC, DFATD and EDC have furthered their collaboration through the development of MOUs which will be regularly reviewed, increasing the collective impact of these organizations. The Government of Canada has an ambitious trade agenda and is deeply committed to increasing the number of free trade agreements (FTAs) with foreign countries. The 2013 Speech from the Throne noted the clear direction to "expand trade with emerging markets in Asia and the Americas through the Trans-Pacific Partnership." The November 2013 Global Markets Action Plan targets markets that matter to Canadian businesses and ensures that Canada's interests are advanced in those markets by giving priority to trade activities and harnessing all of Government of Canada trade tools to achieve commercial success. CCC acts as a complementary trade organization in the execution of these policies as it maintains or creates market access in areas that are typically excluded from trade agreements, such as defence and security, as well as in new markets with which Canada does not yet have an FTA.

CCC supports the priorities of the Government of Canada by fulfilling its mandate of assisting in the development of trade by increasing access to foreign government markets for Canadian exporters through government-to-government contracting. As a Crown corporation, CCC is in a unique position to simultaneously inform the development of, and execute on, public policies of the Government of Canada. As a result of the Corporation's extensive work with Canadian companies in public sector markets, CCC has developed a deep knowledge of the opportunities and challenges these companies face and is able to bring this insight directly to Canadian government policymakers.

CCC's contracting and procurement expertise complements the trade promotion and financial services provided by DFATD and EDC respectively, and concretely supports trade through the execution of government-to-government contracts in priority markets. CCC, working collaboratively with partners and stakeholders, enhances the competitive edge of Canadian exporters and maximizes success in opening new markets with high potential.

## CORPORATE GOVERNANCE

CCC is a parent Crown Corporation under Schedule III Part I of the FAA, and reports to Parliament through the Minister of International Trade. It has two main funding sources: appropriations voted by the Parliament of Canada and fees generated by service offerings.

CCC is headquartered in Ottawa, Ontario, and employs approximately 140 people. The Corporation strengthens Canada's international trade results by pursuing real business transactions with foreign governments and Canadian exporters to generate economic activity and jobs in Canada. The Corporation does this through its prime contracting service wherein CCC enters into a contract with a foreign government for the purchase of products and services from Canada and, in turn, enters into a contract with a Canadian supplier to fulfil the obligations of the foreign government contract. CCC also offers sourcing services to foreign governments to acquire products and services from Canada.

CCC is governed by its enacting legislation, the CCC Act. The legislation also provides CCC with a range of powers, including the ability to export goods from Canada either as principal or as agent. As a result, CCC negotiates and executes bilateral government-to-government contracting arrangements, facilitating export transactions for Canadian exporters. The Minister of International Trade annually provides direction to CCC in a Statement of Priorities and Accountabilities, directing CCC to play an integral role to support the enhancement of Canada's trade objectives.

In addition to the CCC Act, the Corporation also adheres to the following federal legislation and any new legislation, regulation, or policy which is extended to corporations under Schedule III Part I of the FAA:

1) *Financial Administration Act*
2) *Corruption of Foreign Public Officials Act*
3) *Public Servant Disclosure Protection Act*
4) *Canadian Environmental Assessment Act*
5) *Privacy Act*
6) *Access to Information Act*
7) *Federal Accountability Act*
8) *Official Languages Act*

CCC maintains a high standard of corporate governance in order to ensure prudent management of resources entrusted to it by the Government of Canada. As a Crown corporation, CCC is wholly owned by the Government of Canada and is governed by an independent Board of Directors. In addition, the Corporation strives to continually enhance transparency and improve shareholder and stakeholder involvement. As such, CCC abides by the Government of Canada's best practices by holding annual public meetings to provide an opportunity for the public to learn more about the Corporation. On March 25, 2014, CCC held its sixth annual public meeting in Winnipeg, Manitoba.

## Board of Directors

The Board of Directors exercises its responsibilities in keeping with the general provisions of the CCC Act and Part X of the FAA. It is accountable for the affairs of the Corporation and ensures the proper delivery of public policy on behalf of the Government of Canada through the provision of leadership and guidance to the Corporation's Management team, and by setting the Corporation's long-term strategic direction, in alignment with the Minister of International Trade's direction as expressed in its annual Statement of Priorities and Accountabilities.

The Board reviews the five-year Corporate Plan and the Annual Report, both of which are approved by the Minister of International Trade and tabled in Parliament. The Board also meets quarterly to review the Corporation's overall operations, receive Committee reports and discuss CCC's performance against objectives.

CCC's Board of Directors is composed of a Chairperson and the President and Chief Executive Officer (CEO), who are appointed by the Governor in Council to hold office for such term as the Governor in Council deems appropriate and nine Directors who are appointed by the Minister of International Trade with the approval of the Governor in Council. Directors hold office for a term not exceeding four years. The Minister of International Trade appoints Board members who represent the Canadian business community and the federal government, striving to balance sector, gender, linguistic and geographical representation.

In 2013, the Board of Directors responded to the government's engagement towards deficit reduction by reviewing its governance to identify efficiency opportunities. As a result the Board of Directors eliminated one of its committees (the Priority Committee), integrated the work of the Governance and Human Resources committees, and moved to hold its committee meetings and full Board meeting in one single session thereby reducing travel and related expenditures. As well the Board of Directors reviewed its outreach program to further leverage participation at key international events that promote Canadian capabilities and the Corporation's trade support services.

CCC's Board of Directors conducts its oversight functions through the following Board Committees:

**Operations Committee:** oversees the Corporation's procurement and international contracting business. All capital projects, all projects valued in excess of $100 million or significant amendments to such projects and any other projects that are referred by Management to the Committee for consideration must be reviewed by the Committee which makes its recommendation to the Board of Directors for approval. It also reviews ongoing risk analyses of projects, approves proposed new business lines and products and, in conjunction with the Audit Committee, monitors operating processes.

**Governance and Human Resources Committee:** develops and implements practices and procedures to ensure that the Board of Directors and the Corporation operate effectively and in accordance with a high standard of corporate governance. The Committee oversees the governance strategy and processes for the development of significant corporate priorities including the communications strategy, CCC's approach to corporate social responsibility and corporate performance management. As well, the Committee conducts an annual Board self-assessment, which helps to strengthen the Board of Director's governance and effectiveness. The Committee also identifies and recommends, as may be requested, profiles and candidates for appointment to the Board of Directors, including Chairperson of the Board and President and CEO, for consideration by the Minister of International Trade. The Committee reviews and makes recommendations on corporate officer appointments and compensation. The Chairperson, with the support of the Committee, reviews the performance of the President and CEO and makes recommendations to the Minister of International Trade on compensation. Finally, the Committee examines and makes recommendations on human resources policies to ensure the well-being of the Corporation and its employees.

**Audit Committee:** deals primarily with matters related to sound financial and risk management practices, audit functions, accurate reporting, and ethical conduct of the Corporation. With respect to its audit activities, the Committee oversees the annual financial audit, the internal audit function and the requirements of the Office of the Auditor General (OAG). The Director of Internal Audit and representatives from the OAG attend all Audit Committee meetings.

The Board undertakes regular assessments of its own effectiveness and the contributions of each Director by means of an annual peer-review exercise designed to improve individual and collective performance. In addition, CCC's Internal Audit Group reports to the Audit Committee of the Board of Directors.

In monitoring and auditing the financial management, reporting and operation of the Corporation, CCC's performance, governance and accountability structures are reinforced.

In addition to the governance practices above, CCC also establishes policies and processes to guide the work of its employees and to aid in achieving continued high-grade performance. As such, CCC abides by the Government of Canada's best practices by holding annual public meetings to provide another avenue for the public to learn more about, and interact with, the Corporation.

## Board of Directors meeting attendance:

As of March 31, 2014

| Board Member | April 2013 | June 2013 | September 2013 | January 2014 | March 2014 |
|---|---|---|---|---|---|
| Ray Castelli (Chair) | X | X | X | X | X |
| Martine Corriveau-Gougeon[1] | X | X | X | Observer | N/A |
| Martin Gagné | X | X | X | X | X |
| Sherry Helwer | X | X | X | X | X |
| Scott Player | X | X | X | X | X |
| Derrick Rowe | X | X | X | X | X |
| Andrew Saxton | X | X | X | X | X |
| Stephen Sorocky | X | X | X | X | X |
| Norman Turnbull[1] | X | X | X | Observer | N/A |
| Ken Sunquist[2] | X | X | N/A | N/A | N/A |
| Dwayne Lucas[3] | N/A | N/A | X | X | X |
| Daniela Bassan[4] | N/A | N/A | N/A | X | X |
| Nicole Verkindt[4] | N/A | N/A | N/A | X | X |
| Marc Whittingham (President and CEO)[5] | X | X | X | X | X |

[1]Ms. Corriveau-Gougeon and Mr. Turnbull ceased being members of the Board on December 17, 2013.

[2]Mr. Sunquist ceased being a member of the Board on August 6, 2013.

[3]Mr. Lucas was appointed to the Board, effective August 6, 2013.

[4]Ms. Bassan and Ms. Verkindt were appointed to the Board on December 17, 2013.

[5]Mr. Whittingham ceased being President and CEO on April 4, 2014.

## Committee membership:

As of March 31, 2014

| Board Member | Audit | Operations | Governance and Human Resources |
|---|---|---|---|
| Ray Castelli (Chair) | *(ex officio)* | *(ex officio)* | *(ex officio)* |
| Dwayne Lucas | | | X |
| Martin Gagné | | Chair | |
| Sherry Helwer | X | | Chair |
| Scott Player | Chair | | |
| Derrick Rowe | | X | |
| Andrew Saxton | X | | X |
| Stephen Sorocky | | | X |
| Daniela Bassan | | X | |
| Nicole Verkindt | X | | |
| Marc Whittingham (President and CEO)[1] | X | *(ex officio)* | *(ex officio)* |

[1]Mr. Whittingham ceased being President and CEO on April 4, 2014.

## Mandate, Activities and Membership of the Senior Management Committee

The President is the CEO and, on behalf of the Board of Directors, is accountable for the direction and management of the business of the Corporation. With the approval of the Board of Directors, the Senior Management Committee comprised of the President and Vice-Presidents, sets corporate priorities to achieve strategic objectives consistent with the corporate mandate. The CCC Act and FAA serve to guide decision-making and business activities. Bound by CCC's *Code of Conduct* and *Code of Business Ethics*, the Senior Management Committee adheres to the highest ethical standards of professional conduct.

All Senior Management, with the exception of the CEO, are paid within the salary ranges and compensation policies approved by the Board of Directors. CEO compensation is determined by the Governor in Council.

The Corporation has three operational business units: Business Development and Sales, Defence and Contract Management and Legal Services. These business units position the Corporation to more proactively assist Canadian exporters in generating sales, and enhance the provision of its core contract management and procurement services. The Corporation also has two corporate business units: Strategy and Organizational Development and Risk and Finance. Each business unit is led by a Vice-President accountable for corporate performance and results.

**PRESIDENT & CEO**
Martin Zablocki

| VICE-PRESIDENT RISK AND FINANCE & CFO | VICE-PRESIDENT BUSINESS DEVELOPMENT & SALES | VICE-PRESIDENT DEFENCE & CONTRACT MANAGEMENT | VICE-PRESIDENT LEGAL SERVICES, GENERAL COUNSEL, & CORPORATE SECRETARY | VICE-PRESIDENT STRATEGY & ORGANIZATIONAL DEVELOPMENT |
|---|---|---|---|---|
| Anthony Carty | Pierre Alarie | Jacques Greffe | Tamara Parschin-Rybkin Q.C. | Mariette Fyfe-Fortin |

*Martin Zablocki was appointed as President and CEO of CCC by the Governor in Council on April 28, 2014.

## Risk and Opportunities Committee

This committee was established to address issues/matters impacting on the overall management and direction of the Corporation through a horizontal/vertical consultative process. The ROC reviews issues at Strategic, Operational and Transactional levels. The committee has the following roles and responsibilities:

- Promote the Risk and Opportunities Management organizational culture at CCC.
- Review business proposals at select stages, analyze results and assess the levels of both risk and opportunity.
- Make recommendations regarding business proposals including price recommendations and ensuring appropriate allocation of resources is aligned with approved strategies.
- Assess and ensure alignment of corporate business objectives with risk strategy.
- Make recommendations regarding external communication.

## Corporate Social Responsibility

The Corporation's services support high-value, knowledge and technology driven sectors that create quality employment for Canadians and ensures the development of sustainable trade activities in the long-term that contribute to economic prosperity. CSR and good corporate citizenship are important to CCC. Representing the interests of the Government of Canada and Canadian exporters requires CCC to carefully consider all implications of its business activities at home and abroad. CCC is committed to instilling CSR in all of its business practices, and is proud of the CSR policies and practices that have been implemented to date. This focus is exemplified by CCC's ethical business practices, its commitment to environmental sustainability, healthy and safe operations, and through exceptional participation in the Government of Canada's Workplace Charitable Campaign.

CCC's corporate vision for CSR sets the groundwork for the Corporation's CSR Strategy and Framework:

***CCC COMMITS TO OPERATING IN AN ENVIRONMENTALLY, SOCIALLY, AND ETHICALLY RESPONSIBLE MANNER, AND TO RESPECT CANADA'S INTERNATIONAL COMMITMENTS, WHILE UPHOLDING THE CORPORATION'S PUBLIC POLICY MANDATE AND ACTING WITHIN ITS RESOURCES.***

CCC's CSR framework guides staff in all of the Corporation's work and business practices. In fact, the tenets of CSR are embedded within all of CCC's business practices and serve as an element of the Corporation's value proposition to foreign governments interested in ensuring they are working with an organization that will give proper regard to the environment and to ethical business practices. The Corporation has the following policies in place:

- Code of Conduct Policy
- Code of Business Ethics Policy
- Greening CCC Operations Policy
- Internal Disclosure of Wrongdoing in the Workplace Policy
- Occupational Safety and Health Policy
- Policy for a Harassment-Free Workplace

Before entering into a contract with a foreign government or Canadian company, CCC executes a thorough review of the Canadian company in terms of their financial, managerial and technical capabilities, as well as their commitment to CSR. In 2013, CCC instituted an Enhanced Managerial Review process to be conducted when a CCC supplier, or one of its employees, has been under investigation for, charged with, or convicted of, an offence relating to unethical or illegal business practices.

The Enhanced Managerial Review is a thorough assessment of a company's governance and integrity compliance program and alignment with global best practices, including official guidance and other compliance instruments published by the Organisation for Economic Co-operation and Development (OECD), the World Bank, and Transparency International, to ensure ethical business practices and prevent occurrence of corruption and bribery. The Enhanced Managerial Review focusses on the following elements, which have been identified as clear indicators of a company's commitment to ethical business practices:

1. Leadership or "Tone from the Top" – The approach taken by executives in a corporation to emphasize the critical importance of ethical business conduct and practices in all activities of the corporation and behaviour of its employees.
2. Policies – Corporate policies that promote ethical business conduct and practices such as a Code of Ethics, a Code of Business Conduct, a policy for the protection of whistle-blowers, etc.
3. Internal controls – The ensemble of corporate systems that would ensure that there are sufficient controls pertaining to high-risk areas of the corporation, such as the financial system controls, the relationship with and system of payment of agents, and the contractors' management system.
4. Training programs on CSR – A comprehensive program of training and awareness on CSR practices in terms of business conduct and ethics for management and employees.
5. The company's history of responses and corrective measures implemented in cases of breaches of ethical standards.

# ANNEX D – CCC'S BOARD OF DIRECTORS

## RAY CASTELLI

CHIEF EXECUTIVE OFFICER
WEATHERHAVEN

Burnaby, British Columbia

Mr. Ray Castelli is Chief Executive Officer of Weatherhaven, a leading provider of redeployable shelter systems. Prior to joining Weatherhaven, Mr. Castelli was President and CEO of Naikun Wind Development Inc., a Vancouver-based wind energy company. He spent 12 years in the international business development area focused on the natural resource industry. During that time, he was co-founder and Senior VP of Quadrem, a procurement services company formed by 19 of the world's largest mining and metals companies, as well as Director of Corporate Development for Alcan Aluminum Ltd. Mr. Castelli's diverse business experience has led him to serve as key advisor to the British Columbia Business Council, the Canadian Association of Defence and Security Industries (CADSI), and on ministerial taskforces at the federal level, including the Minister of Trade Advisory Committee and the Minister of public Works and Governments Services Panel on Military Procurement Reform. Mr. Castelli was appointed to CCC's Board of Directors on December 14, 2012.

## DWAYNE LUCAS

Abbotsford, British Columbia

Mr. Dwayne Lucas, OMM, CD2, BGen (ret), now retired, is a former Executive Vice-President and Chief Operating Officer of Cascade Aerospace, a specialty aerospace and defence contractor focused on providing long-term integrated aircraft support programs for original equipment manufacturers, military, government and commercial customers. Mr. Lucas joined Cascade in 2006 as the Vice-President and General Manager of the Engineering and Products Group and was promoted to Senior Vice-President, Government and Military Programs and Strategic Business Development in 2009. Mr. Lucas has been instrumental in the development of Cascade's military, government and business development programs, recently leading the winning bid for the C130 Hercules Avionics Program and the Mexican Air Force C130 Hercules aircraft upgrade program contributing to Cascade's long-term growth and profitability. Prior to joining Cascade, Mr. Lucas was a Brigadier General in the Canadian Armed Forces, serving as a distinguished 36-year career in various roles, such as the Director General, Aerospace Equipment Program Management, where he led and implemented the new optimized weapon system support program, which is now one of the foundational initiatives for the government's in-service support acquisition programs. Mr. Lucas has been highly involved in international sport and was Vice-President, Americas, for the International Military Sports Council. Mr. Lucas was appointed to CCC's Board of Directors effective August 6, 2013.

## MARTIN GAGNÉ

SENIOR CONSULTANT FOR STRATEGY AND BUSINESS DEVELOPMENT
CAE

Blainville, Quebec

Mr. Martin Gagné is a senior consultant for Strategy and Business Development at CAE, a global leader in modelling, simulation and training for civil aviation and defence. Mr. Gagné spent 16 years at CAE in various roles such as: Vice-President of Visual Systems, where he led the development of a new visual system based on Commercial "Off the Shelf" technology; Vice-President of Military Marketing and Sales, where he led a comprehensive strategic plan for growth which included a new business pursuit model; and Executive Vice-President of Civil Simulation and Training, where he was responsible for the business development, strategic planning, sales and marketing functions for the civil business segment of CAE. In 2009, Mr. Gagné was promoted to Group President for Military Simulation and Training, with full responsibility for profit and loss of CAE's worldwide military division, retiring from that role in 2012. Prior to joining CAE, he was a Major in the Canadian Armed Forces, serving as a senior aerospace engineering officer and in the CF-18 weapon software engineering unit. Mr. Gagné serves on the Board of Directors for the Canadian Association of Defence and Security Industries (CADSI) and is a member of the Advisory Panel to the Assistant Deputy Minister, Materiel, of the Department of National Defence. Mr. Gagné was appointed to CCC's Board of Directors on February 7, 2013.

## SHERRY HELWER

VICE-PRESIDENT
SHUR-GRO & MUNRO FARM SERVICES LTD.

Brandon, Manitoba

Ms. Sherry Helwer is Vice-President of Shur-Gro & Munro Farm Services Ltd., where she is responsible for finances, including cash flow, credit, capital projects funding, and financial statements of the company. Previously, she worked as a consultant for Vision Research, working on projects in the Bay area of California, and as a consultant for Angus Reid Group, where she completed market research studies for a wide range of financial institutions, utilities, newspapers, and agricultural clients. Ms. Helwer has worked as a Eurodollar and futures trader for the Bank of Montreal, where she was also a product development manager to develop the credit/debit card for commercial markets. Ms. Helwer has served as Vice-Chair of the Board of Governors of Brandon University. In the academic community, she has also been an instructor for the Marketing Department of Brandon University, and has written and published several academic articles. Ms. Helwer was appointed to CCC's Board of Directors on December 7, 2012.

## SCOTT PLAYER

London, Ontario

Mr. Scott Player, now retired, is a former financial executive with Chief Financial Officer experience from 1997-2006, prior to which he acted in an international capacity as a European based Managing Director within the Molson Group. His corporate career spanned over 30 years with major international organizations, including Enbridge from 1999 to 2007, and previously with Unilever in the United States, The Molson Companies Limited, the Canadian arm of British based Rio Tinto Zinc, and the Bank of Montreal. He is a Certified Director (McMaster), with diverse Board experience of over 20 years, including both profit and not-for-profit organizations, representing multiple industries, as well as domestic and international geographies. Mr. Player was appointed to CCC's Board of Directors on February 7, 2013.

## DERRICK ROWE

CHAIRMAN AND CHIEF EXECUTIVE OFFICER NAME 3 CAPITAL INC.

St. John's, Newfoundland

Mr. Derrick Rowe is Chairman and CEO of Name 3 Capital Inc., a private investment firm he owns. He also serves as a Director of Marport Deep Sea Technologies Inc., Canada's largest sonar company with operations in five countries, and as Chairman of the Board of Bluedrop Performance Learning Inc., an award-winning e-learning company and one of Canada's top 50 defence companies. Mr. Rowe was named Chairman of FPI Limited in 2001 and served as CEO from 2002-2005. He served as Chairman and CEO of Stratos Global Corporation until 1999, building the company from its startup to a successful public corporation. Mr. Rowe has also served on a number of economic and social organizations, including the Northwest Atlantic Fisheries Organization (NAFO), the Premier's Advisory Council on the Economy and Technology at a provincial level, and various International Trade Advisory Committees for the Government of Canada. He was also a founding member of the Board of Directors for Canada's Communication Research Centre. In the business community, Mr. Rowe has been honoured with significant recognition for his leadership, including Canada's original "Top 40 Under 40" by the Globe and Mail's Report of Business Magazine, "Entrepreneur of the Year" by Ernst & Young, and a Newfoundland and Labrador Export Award. Mr. Rowe was appointed to CCC's Board of Directors on December 7, 2012.

## ANDREW SAXTON

CHAIRMAN
KING GEORGE FINANCIAL CORPORATION

Vancouver, British Columbia

Mr. Andrew Saxton has served as Executive Vice-President and Director of Laurentide Financial Corporation Ltd., President of Elite Insurance Company, Chairman of Grouse Mountain Resorts Ltd., Director of BC Television Broadcasting System Ltd., President of the Granville Island Hotel and Marina Ltd. and Chairman of King George Development Corporation. It is notable that he was a founding member of all these companies. His extensive private sector experience and business accomplishments have led to several appointments to the boards of federal and provincial Crown corporations and agencies including the Canadian Forces Liaison Council and the Insurance Corporation of BC, where he was a Director and Chairman of the Investment Committee. His current corporate appointments include chairmanship of King George Financial Corporation and membership of the Canadian Advisory Board Impark. Mr. Saxton was most recently appointed to CCC's Board of Directors on December 14, 2007 and re-appointed December 14, 2010.

## STEPHEN J. SOROCKY

PRESIDENT
EXIGENT INNOVATIONS INC.

Toronto, Ontario

Mr. Stephen Sorocky is the President and Founder of Exigent Innovations Inc., a technology company development consultancy serving venture capital and private equity clients. He served previously as President & CEO of LxData Inc., President & CEO of Virtek Vision International Inc., CEO and Director of Dynacon Inc., Vice-President and General Manager, Space Robotics Division, Spar Aerospace Ltd., and Vice-President, Manufacturing Industry Division of Electronic Data Systems of Canada. Mr. Sorocky is an accomplished senior technology executive with broad experience in venture-capital backed and public company environments. He also serves on the Board of the Ontario Telemedicine Network and has served on various public and private Boards in the past. He has extensive senior management and business development experience in the technology and aerospace industry. Mr. Sorocky was appointed to the Board of Directors of CCC on December 14, 2007 and reappointed December 14, 2010.

## NICOLE VERKINDT

DIRECTOR AND PRESIDENT
OMX

Toronto, Ontario

Ms. Nicole Verkindt is President of OMX (theomx.com), a software platform for government contractors to manage offset commitments in the defence, aerospace and security industries, a company she founded in 2011. Prior to OMX, Ms. Verkindt held several positions at GMA Corp., including Vice-President of Sales and Marketing, Vice President of Business Development, and as President and CEO responsible for all operations, sales and finance of the company. Ms. Verkindt was the Founder, Director and President of Tiburon, in Santo Domingo, Dominican Republic, a manufacturing business that serviced the U.S. DoD. She has also worked as a project manager for Big Media Group of Overpelt, Belgium, where she met with public and private sector leaders to produce economic reports for numerous international media agencies, and advised on attracting foreign direct investment through PR campaigns. Ms. Verkindt is the Founder and President of the Southern Ontario Defence Association and an active member of the CADSI SME committee, Global Offset and Countertrade Association, the Canadian Space Commerce Association and the Ontario Aerospace Council. Ms. Verkindt was appointed to CCC's Board of Directors on December 17, 2013.

## DANIELA BASSAN

PARTNER AND TRADE-MARK AGENT, STEWART MCKELVEY, BARRISTERS & SOLICITORS

Halifax, Nova Scotia

Ms. Daniela Bassan is a litigation partner and trade-mark agent (Canada) at Stewart McKelvey, Barristers & Solicitors, a full-service law firm with offices throughout Atlantic Canada. Ms. Bassan works with clients in a variety of business disputes, including intellectual property disputes, cross-border proceedings, construction claims, and technology-based actions. Prior to joining Stewart McKelvey, Ms. Bassan worked as a litigation associate at a large firm in Toronto, Ontario, where she practiced corporate commercial litigation at trial and appellate levels. During her training, she was a law clerk at the Supreme Court of Canada and research assistant at both Osgoode Hall Law School and Harvard Law School. During her career, she has been invited to sit on legal advisory boards for organizations in Canada and the United States. Ms. Bassan was appointed to CCC's Board of Directors on December 17, 2013.

# ANNEX E – CCC'S SENIOR MANAGEMENT COMMITTEE

## Martin Zablocki

President and CEO

Mr. Martin Zablocki joined CCC in November 2007 as Vice-President, Strategy and Organizational Development, was appointed CFO and Vice-President, Risk and Finance in January 2010, Executive Vice-President and COO in April 2012, and President and CEO in April 2014. Prior to joining CCC, he was the Director General, Sector Strategies and Infrastructure Programs Branch at Industry Canada. Mr. Zablocki has over 20 years of experience within a variety of federal organizations including the Canada Revenue Agency and Fisheries and Oceans Canada, and has led programs and corporate management regimes at the local, regional and national levels. In addition, as a Chartered Business Valuator, he has many years of experience working in the valuation field, wherein he gained exposure to a broad spectrum of domestic and international businesses.

## Anthony Carty

Vice-President Risk and Finance and CFO

Mr. Anthony Carty joined CCC in April 2012 as Vice-President of Risk and Finance and CFO. Mr. Carty was previously Senior Vice-President and CFO for i2 Holdings, an IBM Company, where he led a team focused on financial and operational roles, including finance and accounting, information technology and business system functions. i2 Holdings was acquired in 2011 by IBM from Silver Lake Sumeru, a leading private equity investor in technology and related growth industries. Mr. Carty has over 18 years of experience in finance and accounting roles in public accounting, operating, and private equity environments with a focus on software and high technology manufacturing companies. Mr. Carty was an Audit Manager with PricewaterhouseCoopers' High Technology Practice in Boston, Massachusetts, where he became a Certified Public Accountant.

## Pierre Alarie

Vice-President Business Development and Sales

Mr. Pierre Alarie joined CCC in November 2009 as Vice-President, Business Development and Sales. With almost 30 years of international business development experience, Mr. Alarie spent 17 years as an expatriate promoting and supporting Canadian exporters abroad. As a Trade Commissioner, he was posted in Lagos, Nigeria and Santiago, Chile. His 20 years in the private sector were spent mostly overseas contributing to the international successes of several Canadian companies such as Bombardier, SNC-Lavalin and Scotiabank. Mr. Alarie is fully trilingual in French, English and Spanish.

## Mariette Fyfe-Fortin

Vice-President Strategy and Organizational Development

Mrs. Mariette Fyfe-Fortin joined CCC in November 2009 as Vice-President, Strategy and Organizational Development. Prior to joining CCC, she was Director General Procurement Services, Materiel Group at DND. Mrs. Fyfe-Fortin has 20 years of executive experience in procurement and acquisitions, policy and strategic planning, real property management, corporate services, and project management in the federal government. She has successfully led a number of complex and significant transformation and change management initiatives both at DND and PWGSC. She has been the PWGSC Departmental Representative leading all departmental activities for a number of international events from APEC 1997 to the Kananaskis G8 of 2002. She has advised cabinet ministers and senior civil servants on critical inter-departmental and governmental issues. Mrs. Fyfe-Fortin recently completed two years as a member of the Clerk of the Privy Council ADM Learning Advisory Committee. Mrs. Fyfe-Fortin is a Professional Landscape Architect, member of the Québec Association of Landscape Architects and of the Canadian Society of Landscape Architects.

## Jacques Greffe

Vice-President Defence Procurement and Contract Management

Mr. Jacques Greffe joined CCC in November 2009 as Vice-President, Defence Contract Management and Procurement. Prior to his appointment at CCC, he was the Director General, Commercial Acquisitions and Supply Management Sector at PWGSC. Mr. Greffe has over 27 years procurement and contracting experience with the Canadian federal government, largely with DND and PWGSC, and has been a special advisor on a number of departmental and inter-departmental procurement initiatives due to his extensive experience in procurement.

## Tamara Parschin-Rybkin

Vice-President Legal Services, General Counsel and Corporate Secretary

Ms. Tamara Parschin-Rybkin was appointed Vice-President, Legal Services, General Counsel and Corporate Secretary in September 2006. Prior to this appointment, Ms. Parschin-Rybkin was a Senior Counsel with the Department of Justice, where her numerous responsibilities included being lead counsel for CCC for the last 10 years and prior to that for the Department of Transport during the commercialization of the Canadian civil air navigation system to Nav Canada, General Counsel to the Internal Trade Negotiating Team at Industry Canada and at Natural Resources Canada, lead counsel on the Hibernia Development Project and on the negotiations of the Newfoundland and Nova Scotia Offshore Petroleum Accords.

# GLOSSARY

| | |
|---|---|
| **AIAC** | Aerospace Industries Association of Canada |
| **ACCBP** | Anti-Crime Capacity Building Program |
| **AUSA** | Association of the U.S. Army |
| **BCP** | Business Continuity Plan |
| **BPII** | Business Process Improvement Initiative |
| **CCC** | Canadian Commercial Corporation |
| **CADSI** | Canadian Association of Defence and Security Industries |
| **CBRN** | Chemical, Biological, Radiological, and Nuclear |
| **CEO** | Chief Executive Officer |
| **CFPOA** | *Corruption of Foreign Public Officials Act* |
| **CRM** | Customer Relationship Management |
| **CSR** | Corporate Social Responsibility |
| **DBRS** | Dominion Bond Rating Service |
| **DFATD** | Foreign Affairs and Trade and Development Canada |
| **DND** | Department of National Defence |
| **DPSA** | Defence Production Sharing Agreement |
| **DSEI** | Defence Security and Equipment International |
| **EDC** | Export Development Canada |
| **ERM** | Enterprise Risk Management |
| **ERP** | Enterprise Resource Planning |
| **FAA** | *Financial Administration Act* |
| **FMS** | Foreign Military Sales |
| **FTAs** | Free trade agreements |
| **GDP** | Gross domestic product |
| **GDS** | Global Defence and Security |
| **GPP** | General Partnership Program |
| **IASB** | International Accounting Standards Board |
| **ICB** | International Commercial Business |
| **IFRS** | International Financial Reporting Standards |
| **LAV** | Light Armored Vehicle |
| **MOU** | Memorandum of Understanding |
| **NASA** | National Aeronautics and Space Administration |
| **NDIA** | National Defense Industrial Association |
| **NORAD** | North American Aerospace Defense Command |
| **OAG** | Office of the Auditor General of Canada |
| **OCI** | Other Comprehensive Income |
| **OECD** | Organisation for Economic Co-operation and Development |
| **PPP** | Public-Private Partnerships |
| **PWGSC** | Public Works and Government Services Canada |
| **ROC** | Risk and Opportunities Committee |
| **S&P** | Standard and Poor's |
| **SME** | Small and Medium-sized Enterprises |
| **START** | Stabilization and Reconstruction Task Force |
| **TBS** | Treasury Board Secretariat |
| **TCS** | Trade Commissioner Service |
| **USD** | United States' dollars |
| **U.S. DoD** | United States Department of Defense |