Canadian Commercial Corporation
Corporation Commerciale Canadienne

Canadian Commercial Corporation

Quarterly Financial Report (Unaudited)

For the three and six-month period ended September 30, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview

Canadian Commercial Corporation (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 access markets abroad and by helping foreign customers 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.

Nature of Business and Operating Environment

Overall, although there exists a consensus that the deep recession of 2008 is over and while there are signs of growth, some weaknesses remain and global economic recovery is viewed as fragile. World trade is expected to grow at a modest pace to about 5 percent annually over the next few years following years of recession and there is a global economic shift from developed to emerging countries.

Most developed nations are expected to continue the trend to reduce their defence expenditures and seek to shift the terms of engagement towards limited interventions and burden-sharing through participation in alliances, conflict prevention and contracting out security. Emerging countries will move toward expanding their military capacities. Countries are expected to continue to purchase defence equipment in efforts to contain illegal activities and terrorism within their borders. Military spending in the U.S. is expected to have continued pressure to decrease given constrained budgets and the reduction of resources in Iraq and Afghanistan.

For the CCC, this shift is manifested in the decreasing volume of the Defence Production Sharing Agreement (DPSA) related business in the U.S.; nevertheless, the Corporation plays an important role in promoting Canadian capabilities and increasing exports beyond the U.S. 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. The DPSA, Global Defense and Security (GDS) and International Commercial Business (ICB) business line strategy that CCC has developed continues to prove its effectiveness through increased sales for Canadian exporters and a greater number of jobs for Canadians. These accomplishments are being achieved while managing the Corporation in a cost efficient manner.

Financial Highlights

Historically, large contracts have materially impacted the Corporation's financial statements and can often cause significant variations in certain year-over-year amounts on the Statement of Financial Position and the Statement of Comprehensive Income. In late 2009-2010, a $2.2 billion multi-year contract was signed with the U.S. DoD Foreign Military Sales (FMS) organization for the supply of Light Armoured Vehicles (LAVs) manufactured by General Dynamics Land Systems Canada (GDLS). This contract signing was followed by the signing in late 2013-2014 of the historic multi-billion dollar Armoured Brigades Program (ABP) contract in the Middle East for the supply of LAVs and associated equipment, training and support services manufactured and provided by GDLS. This activity will result in advances and progress payments to Canadian exporters and from foreign customers, commercial trading transactions, cost of commercial trading transactions and fees for service showing significant increases from last year to the current year.

For the six-month period ended September 30, 2014, the net result of operations was a surplus of $4.6 million, compared to a deficit of $48 thousand reported for the six-month period ended September 30, 2013. The increase of $4.6 million was due to a significant increase in fees for service earned on the initial progress work related to the ABP contract during the six-month period.

A more detailed discussion of CCC's three-month and six-month period ended September 30, 2014 financial highlights follows:

Statement of Comprehensive Income Discussion

Summary results

	FOR THE THREE MONTHS ENDED				FOR THE SIX MONTHS ENDED		
	September 30 2014 ($ Millions)	**September 30 2013 ($ Millions)**	**% Increase (Decrease)**		**September 30 2014 ($ Millions)**	**September 30 2013 ($ Millions)**	**% Increase (Decrease)**
Revenues:							
Commercial trading transactions - prime contracts	**$ 639.1**	$ 348.1	84%		**$ 1,176.2**	$ 721.9	63%
Cost of commercial trading transactions - prime contracts	**(639.1)**	(348.1)	(84%)		**(1,176.2)**	(721.85)	(63%)
Fees for service	**6.1**	3.4	76%		**10.5**	6.1	72%
Other revenues	**0.3**	0.1	440%		**0.4**	0.3	21%
Total Revenues	**6.4**	3.5	81%		**10.9**	6.4	70%
Expenses:							
Administrative expenses	**6.9**	6.9	-		**14.1**	14.2	(1%)
Contract remediation expenses	**-**	-	-		**-**	-	-
Total Expenses	**6.9**	6.9	-		**14.1**	14.2	(1%)
Sourcing services transactions	**17.4**	20.4	(15%)		**25.9**	30.6	(16%)
Cost of sourcing services transactions	**(17.4)**	(20.4)	15%		**(25.9)**	(30.6)	16%
Parliamentary appropriations	**3.9**	3.9	-		**7.8**	7.7	1%
Net results of operations	**$ 3.4**	$ 0.4	724%		**$ 4.6**	$ (0.1)	9240%

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 as an international trade intermediary, 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 $10.9 million for the six-month period ended September 30, 2014 compared to $6.4 million for the six-month period ended September 30, 2013, an increase of $4.5 million or 70%.

After offsetting the cost of commercial trading transactions, total revenues were $6.3 million for the three-month period ended September 30, 2014 compared to

$3.5 million for the three-month period ended September 30, 2013, an increase of $2.8 million or 81%.

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 $1,176.2 million for the six-month period ended September 30, 2014, compared to $721.9 million for the six-month period ended September 30, 2013, an increase of $454.3 million or 63%. Commercial trading transactions were $639.1 million for the three-month period ended September 30, 2014, compared to $348.1 million for the three-month period ended September 30, 2013, an increase of $291.0 million or 84%.

DPSA commercial trading transactions of $277.5 million, representing 24% of the Corporation's total commercial trading transactions were $281.7 million or 50% lower compared to the six-month period ended September 30, 2013. Of the total DPSA commercial trading transactions, $61.8 million were recorded on DPSA LAV related projects compared to $263.9 million recorded on DPSA LAV related projects for the six-month period ended September 30, 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 $763.4 million, representing 65% of the Corporation's total commercial trading transactions were $696.9 million or 1048% higher compared to the six-month period ended September 30, 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, $705.7 million or 92% of the total GDS commercial trading transactions were recorded for initial progress work related to the ABP contract.

ICB commercial trading transactions of $135.3 million, representing 11% of the Corporation's total commercial trading transactions were $39.1 million or 41% higher compared to the six-month period ended September 30, 2013. ICB commercial trading transactions were higher than the previous year due to increased activity related to projects under the Corporation's lottery program in Central America and the signing of a $40.5 million contract with Bangladesh for the supply of potash.

Revenues: Fees for Service

CCC does not charge fees for its DPSA business line transactions as these are fully funded through a parliamentary appropriation for the six-month period ended September 30, 2014. For GDS and ICB business lines and services, the Corporation charges fees, generally as a percentage of the contract value and on negotiated rates for services provided. Fees are recognized as revenue when services are rendered. Fees for service were $10.5 million for the six-month period ended September 30, 2014 compared to $6.1 million for the six-month period ended September 30, 2013, an increase of $4.4 million or 72%. Fees for service were $6.1 million for the three-month period ended September 30, 2014 compared to $3.4 million for the three-month period ended September 30, 2013, an increase of $2.7 million or 76%.

GDS fees for service of $6.9 million, which account for 66% of the total fees for service, were $4.5 million or 185% higher compared to fees of $2.4 million for the six-month period ended September 30, 2013. The fee increase was commensurate with the increased level of GDS commercial trading transactions discussed previously. Of the $6.9 million total GDS fees, $5.4 million or 77% of the total GDS fees were earned based on the initial progress work related to the ABP contract.

ICB fees for service of $1.7 million, which account for 17% of the total fees for service, were $0.1 million or 7% lower compared to fees of $1.8 million for the six-month period ended September 30, 2013. The decrease in ICB fees compared to the six-month period ended September 30, 2013 was primarily due to the transfer of risk components of the Cuba Contracting Program to Export Development Canada.

Fees for service from sourcing and other Government of Canada priorities of $1.8 million, accounting for 17% of the total fees for service, were consistent with those for the six-month period ended September 30, 2013. Of the $1.8 million, $1.0 million or 54% relate to the maintenance and administration of the trade development offices in China on behalf of Department of Foreign Affairs, Trade and Development (DFATD). Another $0.5 million or 25% of the $1.8 million fees earned were for services provided by CCC, specifically related to sourcing transactions which occur 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 the U.S. dollar 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 discounted early payment and payment wiring to Canadian exporters, and other miscellaneous amounts.

For the six-month period ended September 30, 2014: (1) the foreign exchange gain of $64 thousand, due to the weakening of the Canadian dollar compared to the U.S. dollar was $40 thousand or 38% lower compared to the foreign exchange gain of

$104 thousand for the six-month period ended September 30, 2013; (2) finance income of $129 thousand was $6 thousand or 5% higher compared to the result of $123 thousand for the six-month period ended September 30, 2013; and (3) other income of $223 thousand was $102 thousand or 84% higher compared to the result of $121 thousand for the six-month period ended September 30, 2013.

For the three-month period ended September 30, 2014: (1) the foreign exchange gain of $92 thousand, due to the weakening of the Canadian dollar compared to the U.S. dollar was $190 thousand or 194% higher compared to the foreign exchange loss of $98 thousand for the three-month period ended September 30, 2013; (2) finance income of $80 thousand was $19 thousand or 31% higher compared to the result of $61 thousand for the three-month period ended September 30, 2013; and (3) other income of $100 thousand was $18 thousand or 22% higher compared to the result of $82 thousand for the three-month period ended September 30, 2013.

Expenses

For the six-month period ended September 30, 2014, administrative expenses of $14.1 million were $0.1 million or 1% lower than the expenses for the six-month period ended September 30, 2013. For the three-month period ended September 30, 2014, administrative expenses of $6.9 million were consistent with expenses for the three-month period ended September 30, 2013. 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 $9.1 million for the six-month period ended September 30, 2014 were $144 thousand or 2% lower than expenses of $9.3 million for the six-month period ended September 30, 2013. Workforce compensation and related expenses of $4.7 million for the three-month period ended September 30, 2014 were consistent with the expenses for the three-month period ended September 30, 2013. The favourable result was due to a slight decrease in staff levels. Workforce compensation and related expenses accounts for approximately 65% of CCC's administrative expenditures.

- Public Works Government and Services Canada (PWGSC) is paid for certain core contract management services under the DPSA. In recent years, as part of an initiative to streamline processes in the delivery of the DPSA, CCC has brought in-house certain contract management services previously performed by PWGSC. As a result, total PWGSC expenses of $1.7 million for the six-month period ended September 30, 2014 were $338 thousand or 16% lower than expenses of $2.1 million for the six-month period ended September 30, 2013. Total PWGSC expenses of $0.9 million for the three-month period ended September 30, 2014 were $168 thousand or 16% lower than expenses of $1.0 million for the three-month period ended September 30, 2013.

- Rent and related expenses of $1.1 million for the six-month period ended September 30, 2014 were consistent with expenses for the six-month period ended September 30, 2013. Rent and related expenses of $0.5 million for the three-month period ended September 30, 2014 were consistent with expenses for the three-month period ended September 30, 2013. On September 26, 2014, Management exercised its right to terminate the fifteen-year lease agreement for office space effective September 30, 2015. A new lease is under negotiation for office space to achieve future cost reduction goals.

- Travel and hospitality expenses of $0.8 million for the six-month period ended September 30, 2014 were $197 thousand or 33% higher than expenses of $0.6 million for the six-month period ended September 30, 2013. Travel and hospitality expenses of $0.3 million for the three-month period ended September 30, 2014 were consistent with expenses for the three-month period ended September 30, 2013. The increase was mostly due to a greater level of activity as travel and hospitality expenses are incurred primarily for 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 signed and effective.

- Consultant expenses of $0.4 million for the six-month period ended September 30, 2014 were consistent with expenses for the six-month period ended September 30, 2013. Consultant expenses of $0.2 million for the three-month period ended September 30, 2014 were consistent with expenses for the three-month period ended September 30, 2013. 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 $84 thousand for the six-month period ended September 30, 2014 were consistent with expenses for the six-month period ended September 30, 2013. The amortization of intangible assets and depreciation of property and equipment and leasehold improvement costs of $42 thousand for the three-month period ended September 30, 2014 were consistent with expenses for the three-month period ended September 30, 2013.

- Computer software, hardware and support costs of $0.3 million, over and above the information management personnel included in workforce compensation or consultants, for the six-month period ended September 30, 2014 were consistent with expenses for the six-month period ended September 30, 2013. There were no expenditures made related to computer software, hardware and support for the three-month period ended September 30, 2014, consistent with the three-month period ended September 30, 2013.

- Other expenses of $0.5 million were $127 thousand or 33% higher for the six-month period ended September 30, 2014 compared to expenses of $0.4 million for the six-month period ended September 30, 2013. Other expenses of $0.2 million for the three-month period ended September 30, 2014 were consistent with the three-month period ended September 30, 2013. 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.

For the six-month period ended September 30, 2014, the Corporation recorded $21 thousand in contract remediation expenses which are recorded as actual amounts are incurred or can be determined. For the three-month period ended September 30, 2014, the Corporation recorded $10 thousand in contract remediation expenses which are recorded as actual amounts are incurred or can be determined. The Corporation has robust risk management practices, including the Enterprise Risk Management (ERM) framework and contract management practices, which contribute to containing these expenses.

Parliamentary Appropriation

The Corporation received a parliamentary appropriation of $7.8 million for the six-month period ended September 30, 2014, which was $0.1 million or 1% higher than the amount received for the six-month period ended September 30, 2013. The Corporation received a parliamentary appropriation of $3.9 million for the three-month period ended September 30, 2014, consistent with the amount received for the three-month period ended September 30, 2013.

The Corporation's approved annual parliamentary appropriation as tabled in the 2014-2015 Main Estimates of $15.7 million will be limited to $14.2 million consistent with the recently approved 2014-2015 to 2018-2019 Corporate Plan.

Statement of Financial Position Discussion

Summary of financial position

	September 30 2014 ($ Millions)	March 31 2014 ($ Millions)	% Increase (Decrease)
Total assets	**$ 3,420.4**	$ 1,039.9	229%
Total liabilities	**$ 3,403.3**	$ 1,027.4	231%
Shareholder's equity	**$ 17.1**	$ 12.5	37%

CCC's total assets were $3,420.4 million as at September 30, 2014, $2,380.5 million, or 229%, higher than at March 31, 2014. The increase from March 31, 2014 was primarily due to an increase in the amount of advances to Canadian exporters of $1,868.5 million or 3460%. All other assets increased by a combined $512.0 million or 52%. The increases were directly the result of the initial progress work related to the ABP contract.

CCC's total liabilities were $3,403.3 million as at September 30, 2014, $2,376.0 million, or 231%, higher than at March 31, 2014. The increase from March 31, 2014 was primarily due to an increase in the amount of advances from foreign customers of $1,858.0 million or 1763%. All other liabilities increased by a combined $518.0 million or 56%. The increases were the result of the initial progress work related to the ABP contract.

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 $160.0 million were $142.9 million or 47% lower than the balance at March 31, 2014 and represents 5% of the total assets of $3,420.4 million. Trade payables and accrued liabilities of $191.5 million were $135.9 million or 42% lower than the balance at March 31, 2014 and represent 6% of the total liability of $3,403.3 million.

Progress payments to Canadian exporters of $1,246.3 million represent 36% of the total assets of $3,420.4 million. Progress payments from foreign customers of $1,246.3 million represent 37% of the total liabilities of $3,403.3 million. Contractually, progress payments occur most frequently 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, $278.8 million or 9% related to the significant $2.3 billion U.S. DoD FMS LAV contract and $807.8 million or 65% related to progress work associated with the ABP contract.

Advances from foreign customers of $1,963.4 million, increased by $1,858.0 million or 1763% compared to the balance at March 31, 2014. Advances to Canadian exporters of $1,922.6 million, increased by $1,868.6 million or 3460% compared to the balance at March 31, 2014. Of the $1,963.4 million in advances from foreign customers and the $1,922.6 million in advances to Canadian exporters, $1,843.0 million was related to the ABP contract. Another $100.3 million was related to projects in Argentina, Ghana, Mexico, Norway, Peru and Philippines. Of these advances from foreign customers, $76.6 million were passed on 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 hold back some advance payments made by foreign customers and release them to Canadian exporters as delivery obligations are fulfilled. This explains the period-over-period variations that occur.

As at September 30, 2014, CCC's equity, fully ascribed to the Government of Canada, was $17.1 million, an increase of $4.6 million from March 31, 2014. A 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 flows

	FOR THE THREE MONTHS ENDED			FOR THE SIX MONTHS ENDED		
	September 30 2014 ($ Millions)	**September 30 2013 ($ Millions)**	**% Increase (Decrease)**	**September 30 2014 ($ Millions)**	**September 30 2013 ($ Millions)**	**% Increase (Decrease)**
Operating activities	**$ (21.1)**	$ (17.5)	21%	**$ 1.1**	$ (1.8)	163%
Effect of exchange rate changes on cash and cash equivalents	**$ 0.1**	$ (0.1)	190%	**$ 0.1**	$ 0.1	(40%)
Increase (decrease) in cash and cash equivalents	**$ (21.0)**	$ (17.6)	20%	**$ 1.2**	$ (1.7)	171%

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 five business 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 the six-month period ended September 30, 2014, $1.1 million in cash was provided by operating activities, as compared to $1.8 million used in operating activities during the six-month period ended September 30, 2013, an increase of $2.9 million or 161%. 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 $3,204.8 million for the six-month period ended September 30, 2014, $2,442.4 million or 320% higher than the amount reported for the six-month period ended September 30, 2013. The increase was due to the receipt of $2,663.7 million from the foreign customer related to the ABP contract in order to commence progress work. The increase related to the ABP contract was offset by $221.3 million fewer payments received for progress work performed and deliveries made related to the 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 $3,206.6 million for the six-month period ended September 30, 2014, $2,443.8 million or 320% higher than the amount reported for the six-month period ended September 30, 2013. The increase was due to the payment of $2,663.7 million related to the ABP contract in order to commence progress work on multi-billion dollar project. The increase related to the ABP contract was offset by $219.9 million fewer payments related to progress work performed and deliveries made under the large LAV contracts with the U.S. DoD and U.S. DoD FMS.

- For the six-month period ended September 30, 2014 compared to the six-month period ended September 30, 2013, the increase in receipts from foreign customers was less than the increase in payments to Canadian exporters by $1.5 million, therefore $1.5 million of cash was used in operating activities. In addition to the $1.5 million cash used by export transactions, $4.5 million in cash was provided by finance income, fees for service and other income received, $0.2 million in cash was used as there was a net increase in payments made for administrative expenses. The net increase was due to a decrease of $1.6 million in payments made for administrative expenses offset by a one-time payment of $1.8 million due to the Corporation exercising its right to terminate its current office space lease. A new lease for office space is under negotiation to achieve future cost reduction goals. An amount of $0.1 million was provided by an increase in the amount of parliamentary appropriation drawn down during the six-month period ended September 30, 2014 compared to the six-month period ended September 30, 2013.

During the three-month period ended September 30, 2014, CCC used $21.1 million cash in its operating activities, as compared to the $17.5 million used in its operating activities the three-month period ended September 30, 2013, an increase of $3.6 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 $2,913.5 million for the three-month period ended September 30, 2014, $2,557.7 million or 719% higher than the amount reported for the three-month period ended September 30, 2013. The increase was due to the receipt of $2,663.7 million from the foreign customer related to the ABP contract in order to commence progress work. The increase related to the ABP contract was offset by $106.0 million fewer payments received for progress work performed and deliveries made related to the 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 $2,936.2 million for the three-month period ended September 30, 2014, $2,562.3 million or 685% higher than the amount reported for the three-month period ended September 30, 2013. The increase was due to the payment of $2,663.7 million related to the ABP contract in order to commence progress work. The increase related to the ABP contract was offset by $101.4 million fewer payments related to progress work performed and deliveries made under the large LAV contracts with the U.S. DoD and U.S. DoD FMS.

- For the three-month period ended September 30, 2014 compared to the three-month period ended September 30, 2013, the increase in receipts from foreign customers was less than the increase in payments to Canadian exporters by $4.6 million, therefore $4.6 million of cash was used in operating activities. In addition to the $4.6 million cash used by export transactions, $2.7 million in cash was provided from finance income, fees for service and other income received and another $1.7 million in cash was used as there was an increase in payments made for administrative expenses during the three-month period ended September 30, 2014 compared to the three-month period ended September 30, 2013. The increase in payments made for administrative expenses was due to the Corporation exercising its right to terminate its current lease requiring a one-time payment of $1.8 million.

Investing activities

For the six-month and three-month periods ended September 30, 2014, the Corporation did not capitalize any amounts related to property, equipment or intangible assets, the same as compared to the six-month and three-month periods ended September 30, 2013.

Effect of exchange rate changes on cash and cash equivalents

For the six-month period ended September 30, 2014, CCC recorded a foreign exchange translation gain of $64 thousand as a result of the Canadian dollar's weakening compared to the U.S. dollar, from $0.9046 USD at March 31, 2014 to $0.8929 USD at September 30, 2014. For the six-month period ended September 30, 2013, the Corporation had recorded a foreign exchange translation gain of $104 thousand.

Comparison of Financial Results to the Budget contained in the 2014-2015 to 2018-2019 Corporate Plan

For the six-month period ended September 30, 2014, the net results of operations was a surplus of $4.6 million, $4.4 million or 2395% higher than the budgeted surplus of $0.2 million.

For the six-month period ended September 30, 2014, total commercial trading and sourcing services transactions combined of $1,202.1 million were $228.9 million or 24% higher than budget of $973.1 million. The GDS business line contributed a favourable variance of $230.3 million, offset by unfavourable variances of a combined $1.4 million across the other business and service lines. The favourable result contributed by the GDS business line was due to the initial progress work related to the ABP contract.

Fees for service of $10.5 million were $1.8 million or 20% higher than the budget of $8.7 million. Fees for service are earned as contract work is delivered or completed. For the six-month period ended September 30, 2014, fees generated from GDS business line of $6.9 million were $1.4 million or 25% higher than budget of $5.5 million, mainly due to fees earned on the recording of initial progress work related to the ABP contract. In addition, fees generated from the ICB business line of $1.7 million were $0.8 million or 77% higher than budget of $1.0 million, mainly due to Cuba Contracting Program fees of $1.4 million which were $1.2 million or 829% higher than budget of $0.2 million. Fees earned on sourcing and other services of $1.8 million were $0.4 million or 17% lower than budget of $2.2 million, primarily as expenses and recovery of expenses related to the expansion of the China Offices service program that were delayed. CCC also provides sourcing services at the discretion of DFATD and the availability of budget funding to satisfy requirements of their programs. DFATD required fewer services to be provided during the six-month period ended September 30, 2014.

For the six-month period ended September 30, 2014, the Corporation recorded a foreign exchange translation gain of $64 thousand resulting from the strengthening of the Canadian dollar relative to the U.S. dollar. The Corporation manages exchange gains and losses through monitoring and maintaining of its unhedged foreign currency balances. The Corporation's unhedged U.S. currency balance of $2.1 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 the six-month period ended September 30, 2014, the Corporation recorded $21 thousand in contract remediation expenses. As a result, contract remediation expenses contributed a favorable budget variance of $243 thousand.

For the six-month period ended September 30, 2014, administrative expenses of $14.1 million were $1.6 million, or 10%, lower than the budgeted amount of $15.7 million. Direct expenses of $9.2 million were $1.4 million or 13% below budget. Indirect expenses of $4.9 million were $0.1 million or 3% under budget.

As explained under the Parliamentary Appropriation section of the Statement of Comprehensive Income Discussion, the Corporation received a parliamentary appropriation of $7.8 million for the six-month period ended September 30, 2014, consistent with budgeted amounts.

2014-2015 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 forecasting an operating surplus of $7.8 million in 2014-2015, an increase of $5.7 million or 281% from the operating surplus of $2.1 million in 2013-2014.

In 2014-2015, commercial trading and sourcing transactions are forecasted to increase to $2.6 billion, from $1.7 billion in 2013-2014, an increase of $0.8 billion or 49%. The ABP contract is expected to contribute $1.4 billion or 54% of the total $2.6 billion in 2014-2015.

In 2014-2015, net revenues (which exclude the parliamentary appropriation) are forecasted to increase to $24.5 million from $14.7 million in 2013-2014, an increase of $9.7 million or 66%. This increase is largely attributed to fees for service earned and recognized on the commencement of progress work related to the ABP contract which was signed and became effective at the end of fiscal 2013-2014.

The Corporation's approved annual parliamentary appropriation as tabled in the 2014-2015 Main Estimates of $15.7 million will be limited to $14.2 million consistent with the recently approved 2014-2015 to 2018-2019 Corporate Plan.

The Corporation expects to incur contract remediation expenses at reduced levels and provides for them for budgeting and planning purposes. In 2014-2015, contract remediation expenses are budgeted at $0.5 million, significantly lower than the average contract remediation expenses incurred over the past ten years, representing approximately 0.025% of budgeted commercial trading transactions.

Administrative expenses are forecasted to increase to $30.5 million in 2014-2015 from $28.4 million in 2013-2014, an increase of $2.2 million or 8%. The increase is due primarily to the effort required to manage the ABP contract along with direct expenses related to the start-up and operation of additional representative offices in China and amortized expenses related to the Corporation exercising its right to terminate its current lease in order to negotiate a new lease for office space to achieve future cost reduction goals.

CCC's Commitment to Performance and Risk Management

CCC manages a wide range of risks as it undertakes to fulfill its mandate of promoting and facilitating international trade on behalf of Canadian exporters. The strategy for managing these risks is discussed in detail in the Corporation's fiscal 2013-2014 Annual Report and 2014-2015 Corporate Plan Summary.

Most major ratings agencies have maintained an AAA rating for the Government of the United States. These ratings remain within the requirements of CCC's credit policy.

There are no other significant changes, new risks or uncertainties identified during the six-month period ended September 30, 2014 as compared to those previously reported or discussed.

Management Representation

Management is responsible for the preparation and fair presentation of these quarterly financial statements in accordance with the Treasury Board of Canada Standard on Quarterly Financial Reports for Crown Corporations and for such internal controls as Management determines is necessary to enable the preparation of quarterly financial statements that are free from material misstatement. Management is also responsible for ensuring all other information in this quarterly financial report is consistent, where appropriate, with the quarterly financial statements. These quarterly financial statements have not been audited or reviewed by an external auditor.

Based on our knowledge, these unaudited quarterly financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of the corporation, as at the date of and for the periods presented in the quarterly financial statements.

Martin Zablocki	Anthony Carty
President and CEO	Vice-President, Risk and Finance and CFO

Ottawa, Canada
November 7, 2014

Statement of Financial Position (Unaudited)

As at (in thousands of Canadian dollars)	September 30 2014	March 31 2014
Assets		
Current assets		
Cash and cash equivalents (note 4)	**$ 90,733**	$ 89,538
Trade receivables (notes 5 and 10)	**159,980**	302,901
Advances to Canadian exporters	**1,922,593**	53,999
Progress payments to Canadian exporters	**1,246,316**	592,559
	3,419,622	1,038,997
Non-current assets		
Property and equipment	**793**	877
	$ 3,420,415	$ 1,039,874
Liabilities		
Current liabilities		
Trade payables and accrued liabilities (notes 5 and 10)	**$ 191,493**	$ 327,398
Advances from foreign customers	**1,963,421**	105,399
Progress payments from foreign customers	**1,246,316**	592,559
Employee benefits (note 6)	**217**	209
	3,401,447	1,025,565
Non-current liabilities		
Employee benefits (note 6)	**1,892**	1,800
	3,403,339	1,027,365
Shareholder's equity		
Contributed surplus	**10,000**	10,000
Retained earnings	**7,076**	2,509
	17,076	12,509
	$ 3,420,415	$ 1,039,874

Guarantees (note 15)

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

Authorized for issue on November 7, 2014:

Martin Zablocki
President and CEO

Anthony Carty
Vice-President, Risk and Finance, and CFO

Statement of Comprehensive Income (Unaudited)

(in thousands of Canadian dollars)	For the three months ended September 30 2014	For the three months ended September 30 2013	For the six months ended September 30 2014	For the six months ended September 30 2013
Revenues				
Commercial trading transactions - prime contracts (note 9)	**$ 639,073**	$ 348,113	**$ 1,176,207**	$ 721,851
Less: cost of commercial trading transactions - prime contracts	**(639,073)**	(348,113)	**(1,176,207)**	(721,851)
Fees for service (note 9)	**6,059**	3,436	**10,471**	6,069
Other income	**100**	82	**223**	121
Finance income, net (note 12)	**80**	61	**129**	123
Gain (loss) on foreign exchange	**92**	(98)	**64**	104
	6,331	3,481	**10,887**	6,417
Expenses				
Administrative expenses (note 11)	**6,856**	6,943	**14,126**	14,206
Contract remediation expenses	**10**	-	**21**	-
	6,866	6,943	**14,147**	14,206
Sourcing services for support of international government assistance programs				
Sourcing services transactions (note 9)	**17,408**	20,416	**25,852**	30,613
Less: cost of sourcing services transactions	**(17,408)**	(20,416)	**(25,852)**	(30,613)
	-	-	**-**	-
Net results of operations before Parliamentary appropriation	**(535)**	(3,462)	**(3,260)**	(7,789)
Parliamentary appropriation (note 13)	**3,914**	3,870	**7,827**	7,741
Net results of operations	**$ 3,379**	$ 408	**$ 4,567**	$ (48)
Other comprehensive income (loss)				
Items that will not be reclassified to net results of operations				
Total Comprehensive income (loss)	**$ 3,379**	$ 408	**$ 4,567**	$ (48)

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

Statement of Changes in Equity (Unaudited)

For the three and six months ended September 30, 2014 **(in thousands of Canadian dollars)**	**Contributed Surplus**	**Retained Earnings**	**Total**
Balance June 30, 2014	**$ 10,000**	**$ 3,697**	**$ 13,697**
Net results of operations	**-**	**3,379**	**3,379**
Balance September 30, 2014	**$ 10,000**	**$ 7,076**	**$ 17,076**
Balance March 31, 2014	**$ 10,000**	**$ 2,509**	**$ 12,509**
Net results of operations	**-**	**4,567**	**4,567**
Balance September 30, 2014	**$ 10,000**	**$ 7,076**	**$ 17,076**

For the three and six months ended September 30, 2013 **(in thousands of Canadian dollars)**	**Contributed Surplus**	**Retained Earnings**	**Total**
Balance June 30, 2013	$ 10,000	$ 39,912	$ 49,912
Net results of operations	-	408	408
Balance September 30, 2013	$ 10,000	$ 40,320	$ 50,320
Balance March 31, 2013	$ 10,000	$ 40,368	$ 50,368
Net results of operations	-	(48)	(48)
Balance September 30, 2013	$ 10,000	$ 40,320	$ 50,320

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

Statement of Cash Flows (Unaudited)

(in thousands of Canadian dollars)	For the three months ended September 30 2014	2013 Restated (note 3)	For the six months ended September 30 2014	2013 Restated (note 3)
Cash flows from operating activities				
Receipts from foreign customers	**$ 2,913,521**	$ 355,864	**$ 3,204,835**	$ 762,472
Finance income, net	**80**	61	**129**	123
Fees for service and other income received	**6,159**	3,518	**10,694**	6,190
Payments to Canadian exporters	**(2,936,186)**	(373,842)	**(3,206,579)**	(762,744)
Administrative payments	**(8,597)**	(6,944)	**(15,775)**	(15,586)
Parliamentary appropriation	**3,914**	3,870	**7,827**	7,741
Cash provided by (used in) operating activities	**(21,109)**	(17,473)	**1,131**	(1,804)
Effect of exchange rate changes on cash and cash equivalents	**92**	(98)	**64**	104
Increase (decrease) in cash and cash equivalents	**(21,017)**	(17,571)	**1,195**	(1,700)
Cash and cash equivalents at the beginning of period	**111,750**	76,939	**89,538**	61,068
Cash and cash equivalents at the end of period	**$ 90,733**	$ 59,368	**$ 90,733**	$ 59,368

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

Notes to Financial Statements

September 30, 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 customers 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 condensed interim financial statements have been prepared in accordance with the Treasury Board of Canada *Standard on Quarterly Financial Reports for Crown Corporations* using the International Financial Reporting Standards ("IFRS") accounting policies adopted in the Corporation's audited annual financial statements as at and for the year ended March 31, 2014. These condensed interim financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the Corporation's annual report and audited financial statements 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 – pension and employee benefits
Note 7 – provision for contract remediation expenses
Note 15 – guarantees

Functional and presentation currency

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

3. Significant accounting policies

The accounting policies applied in the preparation of these condensed interim financial statements are consistent with those disclosed in the Corporation's audited annual financial statements for the year ended March 31, 2014.

Changes in accounting policies - *Restatement*

As of the year-ended March 31, 2014, the Corporation 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, 2013 and only provided reclassified amounts of the comparative financial statements as at September 30, 2013.

The following tables summarize the impact of the retrospective application of this change in accounting policy on the Statement of Financial Position as at September 30, 2013 and the Statement of Cash Flows for the three and six months ended September 30, 2013:

(in thousands of Canadian dollars, unless otherwise indicated)

Statement of Financial Position as at September 30, 2013:

	September 30, 2013	Impact of change	Adjusted September 30, 2013
Reclassification in Statement of Financial Position			
Current liabilities			
Advances from foreign customers	$ 128,999	$ 2,263	$ 131,262
Progress payments from foreign customers	$ 911,851	$ (2,263)	$ 909,588

Statement of Cash Flows for the three and six months ended September 30, 2013:

For the three months ended	September 30, 2013	Impact of change	Adjusted September 30, 2013
Restatement of Statement of Cash Flows			
Cash flows from operating activities			
Receipts from foreign customers	$ 378,539	$ (22,675)	$ 355,864
Payments to Canadian exporters	$ (396,517)	$ 22,675	$ (373,842)

For the six months ended	September 30, 2013	Impact of change	Adjusted September 30, 2013
Restatement of Statement of Cash Flows			
Cash flows from operating activities			
Receipts from foreign customers	$ 831,911	$ (69,439)	$ 762,472
Payments to Canadian exporters	$ (832,183)	$ 69,439	$ (762,744)

4. Cash and cash equivalents

Cash and cash equivalents included:

	September 30, 2014		March 31, 2014	
	Original currency	**Canadian dollars**	**Original currency**	**Canadian dollars**
U.S. dollars	**51,900**	**$ 58,128**	63,231	$ 69,901
Canadian dollars	**32,248**	**32,248**	19,094	19,094
Chinese renminbi	**1,957**	**357**	2,290	407
Australian dollars	**-**	**-**	133	136
		$ 90,733		$ 89,538

The Corporation invests in short-term deposits in Canadian banks. At September 30, 2014, the average term to maturity of short-term deposits was one day

(in thousands of Canadian dollars, unless otherwise indicated)

(March 31, 2014 - one day) and the portfolio yield to maturity was 0.03% as at September 30, 2014 (March 31, 2014 - 0.03%).

Of the cash and cash equivalents, $47,654 (March 31, 2014 - $58,275) 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 was as follows:

	September 30, 2014		March 31, 2014	
	Original currency	Canadian dollars	Original currency	Canadian dollars
U.S. dollars	**80,454**	**$ 90,108**	235,780	$ 260,655
Canadian dollars	**69,765**	**69,765**	42,243	42,243
Chinese renminbi	**588**	**107**	18	3
		$ 159,980		$ 302,901

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

	September 30, 2014		March 31, 2014	
	Original currency	Canadian dollars	Original currency	Canadian dollars
U.S. dollars	**102,274**	**$ 114,548**	261,277	$ 288,845
Canadian dollars	**76,938**	**76,938**	38,411	38,411
Chinese renminbi	**41**	**7**	31	5
Australian dollars	**-**	**-**	133	137
		$ 191,493		$ 327,398

6. 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.

(in thousands of Canadian dollars, unless otherwise indicated)

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:

	September 30, 2014			**March 31, 2014**		
	Sick Leave	**Severance**	**Total Benefits**	**Sick Leave**	**Severance**	**Total Benefits**
Total employee benefits	**$ 1,450**	**$ 659**	**$ 2,109**	$ 1,350	$ 659	$ 2,009
Less: current portion	**(113)**	**(104)**	**(217)**	(105)	(104)	(209)
Non-current portion	**$ 1,337**	**$ 555**	**$ 1,892**	$ 1,245	$ 555	$ 1,800

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

	Sick leave benefits		**Severance benefits**	
	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 of 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 for the three months ended September 30, 2014 was a charge of $50 (September 30, 2013 – $25) and $100 for the six months ended September 30, 2014 (September 30, 2013 – $50), for sick leave benefits.

7. 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.

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 provision for contract remediation expenses has been identified as required for the three and six months ended September 30, 2014 and March 31, 2014.

No onerous contracts have been identified as at September 30, 2014 and March 31, 2014.

8. 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 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.

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 and optimizing interest income. From time to time 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 $40.0 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 thousands of Canadian dollars, unless otherwise indicated)

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

	September 30, 2014	March 31, 2014
Contributed surplus	**$ 10,000**	$ 10,000
Retained earnings	**7,076**	2,509
	$ 17,076	$ 12,509

9. 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 customers 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.

The profile by geographic regions is as follows:

For the three months ended September 30	2014			2013		
	Revenues*	Sourcing services transactions	Total	Revenues*	Sourcing services transactions	Total
Asia	**$ 403,499**	**$ 379**	**$ 403,878**	$ 3,026	$ 114	$ 3,140
United States	**147,848**	**-**	**147,848**	259,090	-	259,090
Central America & Caribbean	**66,924**	**-**	**66,924**	45,138	2,536	47,674
South America	**25,667**	**-**	**25,667**	42,389	271	42,660
Europe	**863**	**16,907**	**17,770**	1,288	15,597	16,885
Africa	**362**	**17**	**379**	140	486	626
Canada	**33**	**105**	**138**	483	1,412	1,895
Other	**37**	**-**	**37**	77	-	77
	$ 645,233	**$ 17,408**	**$ 662,641**	$ 351,631	$ 20,416	$ 372,047

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

(in thousands of Canadian dollars, unless otherwise indicated)

For the six months ended September 30	2014			2013		
	Revenues*	Sourcing services transactions	Total	Revenues*	Sourcing services transactions	Total
Asia	**$ 722,654**	**$ 1,610**	**$ 724,264**	$ 8,466	$ 931	$ 9,397
United States	**278,327**	**-**	**278,327**	559,652	-	559,652
Central America & Caribbean	**133,922**	**1,214**	**135,136**	93,476	5,227	98,703
South America	**50,258**	**-**	**50,258**	61,773	525	62,298
Europe	**927**	**20,118**	**21,045**	1,800	19,889	21,689
Canada	**49**	**2,080**	**2,129**	869	3,320	4,189
Africa	**702**	**830**	**1,532**	1,628	721	2,349
Other	**62**	**-**	**62**	377	-	377
	$1,186,901	**$ 25,852**	**$1,212,753**	$ 728,041	$ 30,613	$ 758,654

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

Revenues for the three months ended September 30, 2014 include $392,315 (September 30, 2013 - nil), $711,045 for the six months ended September 30, 2014 (September 30, 2013 - nil), of unbilled revenues. Value of contracts signed is distinct from revenues. During the six months ended September 30, 2014, the value of contracts and amendments which were signed and became effective amounted to $709.6 million (September 30, 2013 - $456.9 million).

10. 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 six months ended September 30, 2014, 25% (September 31, 2013 - 77%) of the Corporation's revenues were from AAA customers.

(in thousands of Canadian dollars, unless otherwise indicated)

The maximum exposure to credit risk for trade receivables by geographic region was as follows:

	September 30, 2014	March 31, 2014
Central America and Caribbean	**$ 55,548**	$ 29,855
United States	**55,373**	86,424
Asia	**24,721**	164,750
South America	**17,709**	12,381
Canada	**5,195**	2,861
Europe	**1,434**	6,630
Africa	**-**	-
	$ 159,980	$ 302,901

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

	September 30, 2014	March 31, 2014
< 1 year	**$ 159,956**	$ 302,390
> 1 and < 3 years	**24**	511
	$ 159,980	$ 302,901

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 was as follows:

	September 30, 2014	March 31, 2014
< 30 days	**$ 1,772**	$ 2,402
> 30 days and < 180 days	**1,448**	5,384
> 180 days	**2,490**	3,329
	$ 5,710	$ 11,115

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.

(in thousands of Canadian dollars, unless otherwise indicated)

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, was as follows:

	September 30, 2014	**March 31, 2014**
Holdbacks	**$ 6,827**	$ 6,875
Bank guarantees	**$ 38,238**	$ 47,149
Surety bonds	**$ 92,725**	$ 91,524
Parent guarantees	**$ 15,235,198**	$ 15,077,368
Other	**$ 7,157**	$ 11,156

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 $52,831 as at September 30, 2014 (March 31, 2014 – $24,275) which bears interest at the cost of funds plus 0.25% (March 31, 2014 – 0.25%).

(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 $90.0 million.

The Corporation has a revolving credit facility providing access to funds in the amount of $20.0 million Canadian or its U.S. dollar equivalent. Indebtedness under this agreement is unsecured and this credit facility has no expiry date. As at September 30, 2014, there were no draws on this line of credit (March 31, 2014 – nil).

In addition, the Corporation enters into credit arrangements up to a maximum of $70.0 million (March 31, 2014 – $35.0 million) whereby 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 $765 for the three months ended September 30, 2014

(in thousands of Canadian dollars, unless otherwise indicated)

(September 30, 2013 – nil) and expense of $1,049 for the six months ended September 30, 2014 (September 30, 2013 – nil) 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 was as follows:

	September 30, 2014	March 31, 2014
< 1 year	**$ 191,493**	$ 327,398
	$ 191,493	$ 327,398

Under a specific series of financing contracts, related to the Cuba contracting program included in trade payables and accrued liabilities the Corporation owed $52,831 as at September 30, 2014 (March 31, 2014 – $24,275) which bears interest at the cost of funds plus 0.25% (March 31, 2014 - 0.25%) 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 $54,069 as at September 30, 2014 (March 31, 2014 – $29,043) and was profiled as follows:

	September 30, 2014	March 31, 2014
< 1 year	**$ 54,044**	$ 28,532
> 1 and < 3 years	**25**	511
	$ 54,069	$ 29,043

(in thousands of Canadian dollars, unless otherwise indicated)

11. Administrative expenses

Administrative expenses included the following:

	For the three months ended September 30		For the six months ended September 30	
	2014	**2013**	**2014**	**2013**
Workforce compensation and related expenses	**$ 4,698**	$ 4,691	**$ 9,146**	$ 9,290
Contract management services	**869**	1,037	**1,737**	2,075
Rent and related expenses	**549**	547	**1,125**	1,106
Travel and hospitality	**324**	274	**801**	604
Consultants	**147**	195	**408**	362
Software, hardware and support	**(3)**	(21)	**317**	304
Corporate communications	**47**	29	**178**	68
Amortization and depreciation	**42**	42	**84**	84
Other expenses	**183**	149	**330**	313
	$ 6,856	$ 6,943	**$ 14,126**	$ 14,206

12. Finance income, net

The Corporation has recorded finance income and cost in relation to the following financial instruments:

	For the three months ended September 30		For the six months ended September 30	
	2014	**2013**	**2014**	**2013**
Financial assets				
- Finance income earned on cash and cash equivalents	**$ 101**	$ 61	**$ 175**	$ 123
Financial liabilities				
- Finance cost on payables and other liabilities	**(22)**	-	**(46)**	-
	$ 79	$ 61	**$ 129**	$ 123

13. Parliamentary appropriation

The appropriation authorized by the Parliament of Canada is included in the net results of operations for the three months ended September 30, 2014 in the amount of $3,914 (September 30, 2013 - $3,870) and for the six months ended September 30, 2014 in the amount of $7,827 (September 30, 2013 - $7,741).

14. 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.

(in thousands of Canadian dollars, unless otherwise indicated)

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

	September 30, 2014		March 31, 2014	
Trade receivables	**$**	**1,022**	$	831
Trade payables	**$**	**389**	$	144

Transactions that are individually or 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 three months ended September 30, 2014, the cost of these services amounted to $868 (September 30, 2013 - $1,046) and $1,737 for the six months ended September 30, 2014 (September 30, 2013 - $2,093) 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 three months ended September 30, 2014, revenues related to the provision of these services amounted to $188 (September 30, 2013 - $188) and $375 for the six months ended September 30, 2014 (September 30, 2013 - $375) 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 three months ended September 30				For the six months ended September 30			
	2014		2013		2014		2013	
Department of Foreign Affairs, Trade and Development	**$**	**1,346**	$	1,254	**$**	**7,175**	$	8,810
Department of National Defence	**$**	**-**	$	-	**$**	**-**	$	6

The Corporation also participates in employee interchange programs with the Department of Foreign Affairs, Trade and Development.

(in thousands of Canadian dollars, unless otherwise indicated)

(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 were as follows:

	For the three months ended September 30		For the six months ended September 30	
	2014	**2013**	**2014**	**2013**
Cascade Aerospace Inc.	**$ 5,780**	$ -	**$ 8,683**	$ -
Blue Drop Performance Learning Inc.	**$ 37**	$ -	**$ 37**	$ -

The amounts due from and to these related Canadian exporters included in trade receivables and trade payables and accrued liabilities respectively were as follows:

	September 30, 2014	**March 31, 2014**
Trade receivables	**$ 1**	$ -
Trade payable	**$ 2,837**	$ -

15. 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 was as follows:

	September 30, 2014	**March 31, 2014**
< 1 year	**$ 1,108,383**	$ 999,286
> 1 and < 3 years	**795,197**	453,860
> 3 and < 5 years	**7,993,121**	5,275,989
> 5 years	**6,610,156**	9,400,925
Total contract portfolio	**$ 16,506,857**	$16,130,060

(in thousands of Canadian dollars, unless otherwise indicated)

16. 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.

On September 26, 2014, Management exercised its right to terminate the fifteen-year lease agreement for office space effective September 30, 2015. A new lease is under negotiation for office space to achieve future cost reduction goals.

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 September 30, 2014 future minimum payments by fiscal year for the operating leases for premises are as follows:

	September 30, 2014	**March 30, 2014**
< 1 year	**$ 1,949**	$ 1,961
> 1 and < 5 years	**$ -**	$ 7,745
> 5 years	**$ -**	$ 2,952