



# **Canadian Commercial Corporation**

## **Quarterly Financial Report (Unaudited)**

**For the three and nine-month period ended  
December 31, 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 nine-month period ended December 31, 2014, the net result of operations was a surplus of \$8.5 million, compared to a deficit of \$234 thousand reported for the nine-month period ended December 31, 2013. The increase of \$8.7 million was due to a significant increase in fees for service earned on the initial progress work related to the ABP contract during the nine-month period.

A more detailed discussion of CCC's financial highlights for the three-month and nine-month period ended December 31, 2014 follows:

## Statement of Comprehensive Income Discussion

### Summary results

	FOR THE THREE MONTHS ENDED			FOR THE NINE MONTHS ENDED		
	December 31 2014 (\$ Millions)	December 31 2013 (\$ Millions)	% Increase (Decrease)	December 31 2014 (\$ Millions)	December 31 2013 (\$ Millions)	% Increase (Decrease)
<b>Revenues:</b>						
Commercial trading transactions - prime contracts	\$ 794.3	\$ 412.9	92%	\$ 1,970.5	\$ 1,134.7	74%
Cost of commercial trading transactions - prime contracts	(794.3)	(412.9)	(92%)	(1,970.5)	(1,134.7)	(74%)
Fees for service	8.0	2.8	186%	18.5	8.9	108%
Other revenues	0.4	0.3	33%	0.8	0.6	33%
Total Revenues	8.4	3.1	171%	19.3	9.5	103%
<b>Expenses:</b>						
Administrative expenses	7.6	7.2	6%	21.8	21.4	2%
Contract remediation expenses	0.1	-	- %	0.1	-	- %
Total Expenses	7.7	7.2	6%	21.9	21.4	2%
Sourcing services transactions	9.0	5.9	53%	34.9	36.5	(4%)
Cost of sourcing services transactions	(9.0)	(5.9)	(53%)	(34.9)	(36.5)	4%
Parliamentary appropriation	3.2	3.9	(18%)	11.0	11.6	(5%)
Net results of operations	\$ 3.9	\$ (0.2)	2,050%	\$ 8.5	\$ (0.2)	4,350%

### 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 \$19.3 million for the nine-month period ended December 31, 2014 compared to \$9.5 million for the nine-month period ended December 31, 2013, an increase of \$9.8 million or 103%.

After offsetting the cost of commercial trading transactions, total revenues were \$8.4 million for the three-month period ended December 31, 2014 compared to

\$3.1 million for the three-month period ended December 31, 2013, an increase of \$5.3 million or 171%.

***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 \$1,970.5 million for the nine-month period ended December 31, 2014, compared to \$1,134.7 million for the nine-month period ended December 31, 2013, an increase of \$835.8 million or 74%. Commercial trading transactions were \$794.3 million for the three-month period ended December 31, 2014, compared to \$412.9 million for the three-month period ended December 31, 2013, an increase of \$381.4 million or 92%.

DPSA commercial trading transactions of \$452.5 million, representing 23% of the Corporation's total commercial trading transactions were \$407.9 million or 47% lower compared to the nine-month period ended December 31, 2013. Of the total DPSA commercial trading transactions, \$103.9 million were recorded on DPSA LAV related projects compared to \$400.5 million recorded on DPSA LAV related projects for the nine-month period ended December 31, 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 \$1,313.3 million, representing 67% of the Corporation's total commercial trading transactions were \$1,191.8 million or 981% higher compared to the nine-month period ended December 31, 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, \$1,130.1 million or 86% of the total GDS commercial trading transactions were recorded for initial progress work related to the ABP contract.

ICB commercial trading transactions of \$204.7 million, representing 10% of the Corporation's total commercial trading transactions were \$51.9 million or 34% higher compared to the nine-month period ended December 31, 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 \$41.3 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 nine-month period ended December 31, 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 \$18.5 million for the nine-month period ended December 31, 2014 compared to \$8.9 million for the nine-month period ended December 31, 2013, an increase of \$9.6 million or 109%. Fees for service were \$8.0 million for the three-month period ended December 31, 2014 compared to \$2.8 million for the three-month period ended December 31, 2013, an increase of \$5.2 million or 187%.

GDS fees for service of \$13.1 million, which account for 71% of the total fees for service, were \$9.7 million or 283% higher compared to fees of \$3.4 million for the nine-month period ended December 31, 2013. The fee increase was commensurate with the increased level of GDS commercial trading transactions discussed previously. Of the \$13.1 million total GDS fees, \$8.8 million or 67% of the total GDS fees were earned based on the initial progress work related to the ABP contract.

ICB fees for service of \$2.5 million, which account for 13% of the total fees for service, were \$0.3 million or 11% lower compared to fees of \$2.8 million for the nine-month period ended December 31, 2013. The decrease in ICB fees compared to the nine-month period ended December 31, 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 \$2.9 million, accounting for 16% of the total fees for service, were \$0.3 million or 10% higher compared to fees of \$2.6 million for the nine-month period ended December 31, 2013. Of the \$2.9 million, \$1.6 million or 56% relate to the maintenance and administration of the trade development offices in China on behalf of the Department of Foreign Affairs, Trade and Development (DFATD). Another \$0.7 million or 25% of the \$2.9 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 nine-month period ended December 31, 2014: (1) the foreign exchange gain of \$164 thousand, due to the weakening of the Canadian dollar compared to the U.S. dollar was \$141 thousand or 46% lower compared to the foreign exchange gain of \$305 thousand for the nine-month period ended December 31, 2013; (2) finance income of \$226 thousand was \$50 thousand or 28% higher compared to the result of \$176 thousand for the nine-month period ended December 31, 2013; and (3) other income of \$450 thousand was \$280 thousand or 165% higher compared to the result of \$170 thousand for the nine-month period ended December 31, 2013.

For the three-month period ended December 31, 2014: (1) the foreign exchange gain of \$100 thousand, due to the weakening of the Canadian dollar compared to the U.S. dollar was \$101 thousand or 50% lower compared to the foreign exchange gain of \$201 thousand for the three-month period ended December 31, 2013; (2) finance income of \$97 thousand was \$44 thousand or 83% higher compared to the result of \$53 thousand for the three-month period ended December 31, 2013; and (3) other income of \$227 thousand was \$178 thousand or 363% higher compared to the result of \$49 thousand for the three-month period ended December 31, 2013.

### *Expenses*

For the nine-month period ended December 31, 2014, administrative expenses of \$21.9 million were \$0.5 million or 2% higher than the expenses for the nine-month period ended December 31, 2013. For the three-month period ended December 31, 2014, administrative expenses of \$7.7 million were \$0.5 million or 6% higher than the expenses for the three-month period ended December 31, 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 \$14.0 million for the nine-month period ended December 31, 2014 were consistent with expenses for the nine-month period ended December 31, 2013. Workforce compensation and related expenses of \$4.8 million for the three-month period ended December 31, 2014 were \$77 thousand or 2% higher than the expenses of \$4.7 million for the three-month period ended December 31, 2013. Workforce compensation and related expenses accounts for approximately 64% 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 \$2.4 million for the nine-month period ended December 31, 2014 were \$479 thousand or 17% lower than expenses of \$2.8 million for the nine-month period ended December 31, 2013. Total PWGSC expenses of \$0.6 million for the three-month period ended December 31, 2014 were \$141 thousand or 19% lower than expenses of \$0.8 million for the three-month period ended December 31, 2013.
- Rent and related expenses of \$2.1 million for the nine-month period ended December 31, 2014 were \$376 thousand or 22% higher than the expenses of \$1.7 million for the nine-month period ended December 31, 2013. Rent and related expenses of \$0.9 million for the three-month period ended December 31, 2014 were \$357 thousand or 61% higher than the expenses of \$0.5 million for the three-month period ended December 31, 2013. The increase

was due to a one-time payment of \$1.8 million as Management exercised its right, on September 26, 2014, to terminate its current lease agreement for office space effective September 30, 2015. In November 2014, the Corporation entered into a fifteen-year lease agreement for office space in a new location, which expires at the end of November 2031, in order to achieve future cost reduction goals.

- Travel and hospitality expenses of \$1.2 million for the nine-month period ended December 31, 2014 were \$130 thousand or 12% higher than expenses of \$1.1 million for the nine-month period ended December 31, 2013. Travel and hospitality expenses of \$0.4 million for the three-month period ended December 31, 2014 were \$67 thousand or 14% lower than expenses of \$0.5 million for the three-month period ended December 31, 2013. The overall 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 \$0.6 million for the nine-month period ended December 31, 2014 were consistent with expenses for the nine-month period ended December 31, 2013. Consultant expenses of \$0.2 million for the three-month period ended December 31, 2014 were \$44 thousand or 16% lower than expenses of \$0.3 million for the three-month period ended December 31, 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 \$427 thousand for the nine-month period ended December 31, 2014 were \$301 thousand or 239% higher than expenses of \$126 thousand for the nine-month period ended December 31, 2013. The amortization of intangible assets and depreciation of property and equipment and leasehold improvement costs of \$343 thousand for the three-month period ended December 31, 2014 were \$301 thousand or 717% higher than expenses of \$42 thousand for the three-month period ended December 31, 2013. The increase resulted from the amortization of the one-time payment of \$1.8M starting October 2014 and the accelerated amortization of the remaining net book value on existing leasehold improvements at its current location over an abbreviated period of time which corresponds with the current lease termination date of September 30, 2015.
- Computer software, hardware and support costs of \$0.4 million, over and above the information management personnel included in workforce compensation or consultants, for the nine-month period ended December 31, 2014 were \$45 thousand or 14% higher than expenses of \$0.3 million for the nine-month period ended December 31, 2013. Computer software, hardware and support costs of \$55 thousand for the three-month period ended December 31, 2014 were \$32 thousand or 139% higher than expenses of \$23 thousand for the three-month period ended December 31, 2013.



- Other expenses of \$0.8 million were \$130 thousand or 21% higher for the nine-month period ended December 31, 2014 compared to expenses of \$0.6 million for the nine-month period ended December 31, 2013. Other expenses of \$0.2 million for the three-month period ended December 31, 2014 were consistent with the three-month period ended December 31, 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 nine-month period ended December 31, 2014, the Corporation recorded \$73 thousand in contract remediation expenses which are recorded as actual amounts are incurred or can be determined. For the three-month period ended December 31, 2014, the Corporation recorded \$52 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 \$11.0 million for the nine-month period ended December 31, 2014, which was \$577 thousand or 5% lower than the amount received for the nine-month period ended December 31, 2013. The Corporation received a parliamentary appropriation of \$3.2 million for the three-month period ended December 31, 2014, which was \$664 thousand or 17% lower than the amount received for the three-month period ended December 31, 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*

	<b>December 31 2014 (\$ Millions)</b>	<b>March 31 2014 (\$ Millions)</b>	<b>% Increase (Decrease)</b>
Total assets	\$ 3,512.1	\$ 1,039.9	238%
Total liabilities	\$ 3,491.1	\$ 1,027.4	240%
Shareholder's Equity	\$ 21.0	\$ 12.5	68%

CCC's total assets were \$3,512.1 million as at December 31, 2014, \$2,472.3 million, or 238%, 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 \$1,509.0 million or 2794% and progress payments to Canadian exporters of 1,123.3 million or 190%, offset by a decrease of \$160.0 million or 41% from all other assets combined. The increases were directly the result of the initial progress work related to the ABP contract.

CCC's total liabilities were \$3,491.1 million as at December 31, 2014, \$2,463.9 million, or 240%, 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 \$1,496.2 million or 1420% and progress payments from foreign customers of \$1,123.3 million or 190%, offset by a decrease of \$155.6 million or 47% from all other liabilities combined. 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 \$167.6 million were \$135.3 million or 45% lower than the balance at March 31, 2014 and represents 5% of the total assets of \$3,512.1 million. Trade payables and accrued liabilities of \$171.9 million were \$155.5 million or 48% lower than the balance at March 31, 2014 and represent 5% of the total liabilities of \$3,491.1 million.

Progress payments to Canadian exporters of \$1,715.9 million represent 49% of the total assets of \$3,512.1 million. Progress payments from foreign customers of \$1,715.9 million represent 49% of the total liabilities of \$3,491.1 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, \$298.7 million or 18% related to the significant \$2.2 billion U.S. DoD FMS LAV contract and \$1,232.2 million or 72% related to progress work associated with the ABP contract.

Advances from foreign customers of \$1,601.6 million, increased by \$1,496.2 million or 1420% compared to the balance at March 31, 2014. Advances to Canadian exporters of \$1,563.0 million, increased by \$1,509.0 million or 2794% compared to the balance at March 31, 2014. Of the \$1,602.6 million in advances from foreign customers and the \$1,563.0 million in advances to Canadian exporters, \$1,513.6 million or 95% and 97% respectively was related to the ABP contract. Another \$69.8 million was related to projects in Ghana, Mexico, Norway, Peru and Philippines. Of these advances from foreign customers, \$46.1 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 December 31, 2014, CCC's equity, fully ascribed to the Government of Canada, was \$21.0 million, an increase of \$8.5 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 NINE MONTHS ENDED		
	December 31 2014 (\$ Millions)	December 31 2013 (\$ Millions)	% Increase (Decrease)	December 31 2014 (\$ Millions)	December 31 2013 (\$ Millions)	% Increase (Decrease)
Operating activities	\$ (25.6)	\$ (4.6)	457%	\$ (24.4)	\$ (6.4)	281%
Effect of exchange rate changes on cash and cash equivalents	\$ 0.1	\$ 0.2	(50%)	\$ 0.2	\$ 0.3	(33%)
Decrease in cash and cash equivalents	\$ (25.5)	\$ (4.4)	(480%)	\$ (24.3)	\$ (6.1)	(298%)

#### *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 30<sup>th</sup> 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 nine-month period ended December 31, 2014, \$24.4 million in cash was used by operating activities, as compared to \$6.4 million used in operating activities during the nine-month period ended December 31, 2013, a decrease of \$18.0 million or 281%. 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 \$3,638.7 million for the nine-month period ended December 31, 2014, \$2,495.0 million or 218% higher than the amount reported for the nine-month period ended December 31, 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 \$168.7 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 \$3,669.9 million for the nine-month period ended December 31, 2014, \$2,521.7 million or 220% higher than the amount reported for the nine-month period ended December 31, 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 \$142.0 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 nine-month period ended December 31, 2014 compared to the nine-month period ended December 31, 2013, the increase in receipts from foreign customers was less than the increase in payments to Canadian exporters by \$26.7 million, therefore \$26.7 million of cash was used in operating activities. In addition to the \$26.7 million cash used by export transactions, \$9.9 million in cash was provided by finance income, fees for service and other income received and \$0.7 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 \$1.1 million in payments made for administrative expenses partially offset by a one-time payment of \$1.8 million due to the Corporation exercising its right to terminate its current office space lease. In November 2014, the Corporation entered into a fifteen-year lease agreement for office space in a new location, which expires at the end of November 2031, in order to achieve future cost reduction goals. In addition, \$0.5 million less parliamentary appropriation was drawn down during the nine-month period ended December 31, 2014 compared to the nine-month period ended December 31, 2013 resulting from the

direction to reduce the appropriation as described under the Parliamentary Appropriation section.

During the three-month period ended December 31, 2014, CCC used \$25.6 million cash in its operating activities, as compared to the \$4.6 million used in its operating activities the three-month period ended December 31, 2013, a decrease of \$21.0 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 \$433.9 million for the three-month period ended December 31, 2014, \$52.6 million or 14% higher than the amount reported for the three-month period ended December 31, 2013. The increase was due to receipts from foreign customers which vary from period to period under agreed contract terms.
- Payments to Canadian exporters include cash paid for deliveries, progress payments and advances as stipulated under the domestic contract. Payments to Canadian exporters were \$463.4 million for the three-month period ended December 31, 2014, \$77.9 million or 20% higher than the amount reported for the three-month period ended December 31, 2013. The increase was due to payments to Canadian exporters which vary from period to period under agreed contract terms.
- For the three-month period ended December 31, 2014 compared to the three-month period ended December 31, 2013, the increase in receipts from foreign customers was less than the increase in payments to Canadian exporters by \$25.3 million, therefore \$25.3 million of cash was used in operating activities. In addition to the \$25.3 million cash used by export transactions, \$5.4 million in cash was provided from finance income, fees for service and other income received and another \$0.5 million in cash was used as there was an increase in payments made for administrative expenses during the three-month period ended December 31, 2014 compared to the three-month period ended December 31, 2013. In addition, \$0.6 million less parliamentary appropriation was drawn down during the three-month period ended December 31, 2014 compared to the three-month period ended December 31, 2013 resulting from the direction to reduce the appropriation as described under the Parliamentary Appropriation section.

### ***Investing activities***

For the nine-month and three-month periods ended December 31, 2014, the Corporation did not capitalize any amounts related to property, equipment or intangible assets, the same as compared to the nine-month and three-month periods ended December 31, 2013.

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

For the nine-month period ended December 31, 2014, CCC recorded a foreign exchange translation gain of \$164 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 \$0.8620 USD at December 31, 2014. For the nine-month period ended December 31, 2013, the Corporation had recorded a foreign exchange translation gain of \$305 thousand.

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

For the nine-month period ended December 31, 2014, the net results of operations was a surplus of \$8.5 million, \$6.8 million or 405% higher than the budgeted surplus of \$1.7 million.

For the nine-month period ended December 31, 2014, total commercial trading and sourcing services transactions combined of \$2,005.4 million were \$427.5 million or 27% higher than budget of \$1,577.9 million. The GDS business line contributed a favourable variance of \$394.0 million or 92% of the total \$427.5 favourable variance. 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 \$18.5 million were \$4.1 million or 28% higher than the budget of \$14.4 million. Fees for service are earned as contract work is delivered or completed. For the nine-month period ended December 31, 2014, fees generated from GDS business line of \$13.1 million were \$3.6 million or 38% higher than budget of \$9.4 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 \$2.5 million were \$1.0 million or 72% higher than budget of \$1.5 million, mainly due to Cuba Contracting Program fees of \$1.6 million which were \$1.4 million or 696% higher than budget of \$0.2 million. Cuba Program Contracting fees were substantially higher due to a higher level of deliveries than originally expected. Fees earned on sourcing and other services of \$2.9 million were \$0.6 million or 17% lower than budget of \$3.5 million, primarily as expenses and recovery of expenses related to the expansion of the China representative 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 nine-month period ended December 31, 2014.

For the nine-month period ended December 31, 2014, the Corporation recorded a foreign exchange translation gain of \$164 thousand resulting from the weakening 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 \$1.2 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 nine-month period ended December 31, 2014, the Corporation recorded \$73 thousand in contract remediation expenses. As a result, contract remediation expenses contributed a favorable budget variance of \$322 thousand.

For the nine-month period ended December 31, 2014, administrative expenses of \$21.8 million were \$1.7 million, or 7%, lower than the budgeted amount of \$23.5 million. Direct expenses of \$14.1 million were \$2.0 million or 12% below budget primarily the result of delays experienced with the expansion of the China representative offices Program coordinated with DFATD and incremental expenses anticipated to manage the ABP contract that have not been incurred to date. Indirect expenses of \$7.7 million were \$0.3 million or 4% over budget primarily the result of the one-time payment that was required in order to terminate the current lease for office space.

As explained under the Parliamentary Appropriation section of the Statement of Comprehensive Income Discussion, the Corporation received a parliamentary appropriation of \$11.0 million for the nine-month period ended December 31, 2014, \$0.4 million or 3% higher than budget. Effective October 2014, the Corporation reduced the draw of its appropriation based on the recently approved 2014-2015 to 2018-2019 Corporate Plan. The appropriation amount received will be on budget by the end of the fiscal year.

### **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 \$9.4 million in 2014-2015, an increase of \$7.4 million or 360% from the operating surplus of \$2.0 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 \$0.9 billion or 54%. The ABP contract is expected to contribute \$1.5 billion or 57% of the total \$2.6 billion in 2014-2015.

In 2014-2015, net revenues (which exclude the parliamentary appropriation) are forecasted to increase to \$25.4 million from \$14.7 million in 2013-2014, an increase of \$10.7 million or 72%. 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 approved 2014-2015 to 2018-2019 Corporate Plan.

The Corporation expects to incur contract remediation expenses of \$148 thousand and provides for them for budgeting and planning purposes. In 2014-2015, contract remediation expenses are budgeted at \$527 thousand, 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 \$30.0 million in 2014-2015 from \$28.4 million in 2013-2014, an increase of \$1.6 million or 6%. 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 amortization 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. All administrative expenses related to the ABP contract and China representative offices are offset by revenues received from these programs. Although the forecasted administrative expenses of \$30.0 million in 2014-2015 will exceed the 2013-2014 results, they will be \$1.3 million or 4% lower than the budget of \$31.3 million which anticipated higher expenses due to the ABP contract and China representative offices.

### **CCC's Commitment to Performance and Risk Management**

CCC manages various 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 nine-month period ended December 31, 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  
President and CEO



Anthony Carty  
Vice-President, Corporate Services and  
Chief Financial Officer

Ottawa, Canada  
February 6, 2015

## Statement of Financial Position (Unaudited)

As at (in thousands of Canadian dollars)	December 31 2014	March 31 2014
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents (note 4)	\$ 65,268	\$ 89,538
Trade receivables (notes 5 and 10)	167,595	302,901
Advances to Canadian exporters	1,562,967	53,999
Progress payments to Canadian exporters	1,715,852	592,559
	<b>3,511,682</b>	<b>1,038,997</b>
<b>Non-current assets</b>		
Property and equipment	450	877
	<b>\$ 3,512,132</b>	<b>\$ 1,039,874</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Trade payables and accrued liabilities (notes 5 and 10)	\$ 171,857	\$ 327,398
Advances from foreign customers	1,601,615	105,399
Progress payments from foreign customers	1,715,852	592,559
Employee benefits (note 8)	117	209
	<b>3,489,441</b>	<b>1,025,565</b>
<b>Non-current liabilities</b>		
Employee benefits (note 8)	1,699	1,800
	<b>3,491,140</b>	<b>1,027,365</b>
<b>Shareholder's Equity</b>		
Contributed surplus	10,000	10,000
Retained earnings	10,992	2,509
	<b>20,992</b>	<b>12,509</b>
	<b>\$ 3,512,132</b>	<b>\$ 1,039,874</b>

Guarantees (note 15)

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

Authorized for issue on February 6, 2014



**Martin Zablocki**  
President and CEO



**Anthony Carty**  
Vice-President, Corporate Services and Chief Financial Officer

## Statement of Comprehensive Income (Unaudited)

<b>(in thousands of Canadian dollars)</b>	<b>For the three months ended December 31</b>		<b>For the nine months ended December 31</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
<b>Revenues</b>				
Commercial trading transactions - prime contracts (note 9)	\$ 794,258	\$ 412,874	\$ 1,970,465	\$ 1,134,725
Less: cost of commercial trading transactions - prime contracts	(794,258)	(412,874)	(1,970,465)	(1,134,725)
Fees for service (note 9)	8,007	2,793	18,478	8,862
Other income	227	49	450	170
Finance income, net (note 12)	97	53	226	176
Gain on foreign exchange	100	201	164	305
	<b>8,431</b>	<b>3,096</b>	<b>19,318</b>	<b>9,513</b>
<b>Expenses</b>				
Administrative expenses (note 11)	7,670	7,152	21,796	21,358
Contract remediation expenses	52	-	73	-
	<b>7,722</b>	<b>7,152</b>	<b>21,869</b>	<b>21,358</b>
<b>Sourcing services for support of international government assistance programs</b>				
Sourcing services transactions (note 9)	9,041	5,894	34,893	36,507
Less: cost of sourcing services transactions	(9,041)	(5,894)	(34,893)	(36,507)
	-	-	-	-
Net results of operations before Parliamentary appropriation	709	(4,056)	(2,551)	(11,845)
Parliamentary appropriation (note 13)	3,206	3,870	11,034	11,611
<b>Net results of operations</b>	<b>\$ 3,915</b>	<b>\$ (186)</b>	<b>\$ 8,483</b>	<b>\$ (234)</b>
<b>Other comprehensive income (loss)</b>				
<b>Items that will not be reclassified to net results of operations</b>				
Actuarial loss on employee benefits obligation	-	-	-	-
<b>Total Comprehensive income (loss)</b>	<b>\$ 3,915</b>	<b>\$ (186)</b>	<b>\$ 8,483</b>	<b>\$ (234)</b>

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

## Statement of Changes in Equity (Unaudited)

### For the three and nine months ended

December 31, 2014 (in thousands of Canadian dollars)	Contributed Surplus	Retained Earnings	Total
<b>Balance September 30, 2014</b>	\$ 10,000	\$ 7,077	\$ 17,077
Net results of operations	-	3,915	3,915
<b>Balance December 31, 2014</b>	\$ 10,000	\$ 10,992	\$ 20,992
<b>Balance March 31, 2014</b>	\$ 10,000	\$ 2,509	\$ 12,509
Net results of operations	-	8,483	8,483
<b>Balance December 31, 2014</b>	\$ 10,000	\$ 10,992	\$ 20,992

### For the three and nine months ended

December 31, 2013 (in thousands of Canadian dollars)	Contributed Surplus	Retained Earnings	Total
<b>Balance September 30, 2013</b>	\$ 10,000	\$ 40,320	\$ 50,320
Net results of operations	-	(186)	(186)
<b>Balance December 31, 2013</b>	\$ 10,000	\$ 40,134	\$ 50,134
<b>Balance March 31, 2013</b>	\$ 10,000	\$ 40,368	\$ 50,368
Net results of operations	-	(234)	(234)
<b>Balance December 31, 2013</b>	\$ 10,000	\$ 40,134	\$ 50,134

*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 December 31		For the nine months ended December 31	
	2014	2013 Restated (Note 3)	2014	2013 Restated (Note 3)
<b>Cash flows from operating activities</b>				
Receipts from foreign customers	\$ 433,878	\$ 381,258	\$ 3,638,713	\$ 1,143,729
Finance income, net	97	53	226	176
Fees for service and other income received	8,234	2,842	18,928	9,032
Payments to Canadian exporters	(463,360)	(385,484)	(3,669,940)	(1,148,228)
Administrative payments	(7,620)	(7,119)	(23,395)	(22,706)
Parliamentary appropriation	3,206	3,870	11,034	11,611
Cash used in operating activities	(25,565)	(4,580)	(24,434)	(6,386)
<b>Cash flows from investing activities</b>				
Acquisition of property and equipment	-	-	-	1
Cash provided by investing activities	-	-	-	1
Effect of exchange rate changes on cash and cash equivalents	100	201	164	305
Decrease in cash and cash equivalents	(25,465)	(4,379)	(24,270)	(6,080)
Cash and cash equivalents at the beginning of period	90,733	59,367	89,538	61,068
Cash and cash equivalents at the end of period	\$ 65,268	\$ 54,988	\$ 65,268	\$ 54,988

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

## Notes to Financial Statements

December 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 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

Note 16 – commitments

### ***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 December 31, 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 December 31, 2013 and the Statement of Cash Flows for the three and six months ended December 31, 2013:



## Statement of Financial Position as at December 31, 2013:

	<b>December 31, 2013</b>	<b>Impact of change</b>	<b>Adjusted December 31, 2013</b>
<b>Reclassification in Statement of Financial Position</b>			
<b>Current liabilities</b>			
Advances from foreign customers	\$ 95,360	\$ 2,221	\$ 97,581
Progress payments from foreign customers	\$ 500,254	\$ (2,221)	\$ 498,033

## Statement of Cash Flows for the three and nine months ended December 31, 2013:

<b>For the three months ended</b>	<b>December 31, 2013</b>	<b>Impact of change</b>	<b>Adjusted December 31, 2013</b>
<b>Restatement of Statement of Cash Flows</b>			
<b>Cash flows from operating activities</b>			
Receipts from foreign customers	\$ 381,301	\$ (43)	\$ 381,258
Progress payments received (made)	\$ (43)	\$ 43	\$ -

<b>For the six months ended</b>	<b>December 31, 2013</b>	<b>Impact of change</b>	<b>Adjusted December 31, 2013</b>
<b>Restatement of Statement of Cash Flows</b>			
<b>Cash flows from operating activities</b>			
Receipts from foreign customers	\$ 1,144,130	\$ (401)	\$ 1,143,729
Progress payments received (made)	\$ (401)	\$ 401	\$ -

#### 4. Cash and cash equivalents

Cash and cash equivalents included:

	December 31, 2014		March 31, 2014	
	Original currency	Canadian dollars	Original currency	Canadian dollars
Canadian dollars	38,615	\$ 38,615	19,094	\$ 19,094
U.S. dollars	22,714	26,350	63,231	69,901
Chinese renminbi	1,618	303	2,290	407
Australian dollars	-	-	133	136
		<b>\$ 65,268</b>		<b>\$ 89,538</b>

The Corporation invests in short-term deposits in Canadian banks. At December 31, 2014, the average term to maturity of short-term deposits was six days (March 31, 2014 - one day) and the portfolio yield to maturity was 0.10% as at December 31, 2014 (March 31, 2014 - 0.03%).

Of the cash and cash equivalents, \$45,718 (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:

	December 31, 2014		March 31, 2014	
	Original currency	Canadian dollars	Original currency	Canadian dollars
U.S. dollars	84,671	\$ 98,226	235,780	\$ 260,655
Canadian dollars	69,277	69,277	42,243	42,243
Chinese renminbi	492	92	18	3
		<b>\$ 167,595</b>		<b>\$ 302,901</b>

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:

	December 31, 2014		March 31, 2014	
	Original currency	Canadian dollars	Original currency	Canadian dollars
U.S. dollars	81,433	\$ 94,472	261,277	\$ 288,845
Canadian dollars	77,369	77,369	38,411	38,411
Chinese renminbi	87	16	31	5
Australian dollars	-	-	133	137
		\$ 171,857		\$ 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.

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:

	December 31, 2014			March 31, 2014		
	Sick Leave	Severance	Total Benefits	Sick Leave	Severance	Total Benefits
Total employee benefits	\$ 1,501	\$ 315	\$ 1,816	\$ 1,350	\$ 659	\$ 2,009
Less: current portion	(117)	-	(117)	(105)	(104)	(209)
Non-current portion	\$ 1,384	\$ 315	\$ 1,699	\$ 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
<b>Accrued benefit obligation</b>				
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
<b>Total accrued benefits at end of year</b>	<b>\$ 1,350</b>	<b>\$ 1,083</b>	<b>\$ 659</b>	<b>\$ 2,329</b>

**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 December 31, 2014 was a charge of \$50 (December 31, 2013 – \$25) and \$150 for the nine months ended December 31, 2014 (December 31, 2013 – \$75), 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 nine months ended December 31, 2014.

No onerous contracts have been identified as at December 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 Corporation's breakdown of supply of capital is as follows:

	<b>December 31,</b>	<b>March 31,</b>
	<b>2014</b>	<b>2014</b>
Contributed surplus	\$ 10,000	\$ 10,000
Retained earnings	10,992	2,509
	<b>\$ 20,992</b>	<b>\$ 12,509</b>

## 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 December 31**

	2014			2013		
	Revenues*	Sourcing transactions	Total	Revenues*	Sourcing transactions	Total
Asia	\$ 451,060	\$ 1,005	\$ 452,065	\$ 439	\$ 45	\$ 484
United States	175,659	-	175,659	301,219	-	301,219
Central America & Caribbean	112,238	590	112,828	44,582	942	45,524
South America	63,009	-	63,009	60,537	-	60,537
Europe	75	3,791	3,866	63	3,116	3,179
Africa	101	3,323	3,424	8,466	1,263	9,729
Canada	350	332	682	404	528	932
Other	-	-	-	6	-	6
	<b>\$ 802,492</b>	<b>\$ 9,041</b>	<b>\$ 811,533</b>	<b>\$ 415,716</b>	<b>\$ 5,894</b>	<b>\$ 421,610</b>

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

**For the nine months  
 ended December 31**

	2014			2013		
	Revenues*	Sourcing transactions	Total	Revenues*	Sourcing transactions	Total
Asia	\$1,173,714	\$ 2,614	\$1,176,328	\$ 8,905	\$ 976	\$ 9,881
United States	453,988	-	453,988	860,870	-	860,870
Central America & Caribbean	246,160	1,804	247,964	138,060	6,168	144,228
South America	113,267	-	113,267	122,310	525	122,835
Europe	1,001	23,909	24,910	1,863	23,006	24,869
Canada	149	5,404	5,553	1,273	3,848	5,121
Africa	1,052	1,162	2,214	10,094	1,984	12,078
Other	62	-	62	382	-	382
	<b>\$1,989,393</b>	<b>\$ 34,893</b>	<b>\$2,024,286</b>	<b>\$1,143,757</b>	<b>\$ 36,507</b>	<b>\$1,180,264</b>

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

Revenues for the three months ended December 31, 2014 include \$427,839 (December 31, 2013 - nil), of unbilled revenues, \$1,138,884 for the nine months ended December 31, 2014 (December 31, 2013 - nil). Value of contracts signed is distinct from revenues. During the nine months ended December 31, 2014, the value of contracts and amendments which were signed and became effective amounted to \$1,083.0 million (December 31, 2013 - \$794.3 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 nine months ended December 31, 2014, 24% (December 31, 2013 - 76%) of the Corporation's revenues were from AAA customers.

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

	<b>December 31, 2014</b>	<b>March 31, 2014</b>
United States	\$ 64,920	\$ 86,424
Central America and Caribbean	61,003	29,855
South America	20,167	12,381
Asia	14,630	164,750
Canada	5,401	2,861
Europe	1,055	6,630
Africa	419	-
	<b>\$ 167,595</b>	<b>\$ 302,901</b>

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:

	<b>December 31, 2014</b>	<b>March 31, 2014</b>
< 1 year	\$ 167,594	\$ 302,390
> 1 and < 3 years	1	511
	<b>\$ 167,595</b>	<b>\$ 302,901</b>



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:

	<b>December 31, 2014</b>	<b>March 31, 2014</b>
< 30 days	\$ 291	\$ 2,402
> 30 days and < 180 days	2,559	5,384
> 180 days	2,934	3,329
	<b>\$ 5,784</b>	<b>\$ 11,115</b>

#### *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, was as follows:

	<b>December 31, 2014</b>	<b>March 31, 2014</b>
Holdbacks	\$ 7,071	\$ 6,875
Bank guarantees	\$ 33,042	\$ 47,149
Surety bonds	\$ 95,987	\$ 91,524
Parent guarantees	\$ 15,721,072	\$ 15,077,368
Other	\$ 1,886	\$ 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 \$58,713 as at December 31, 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 December 31, 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 \$712 for the three months ended December 31, 2014 (December 31, 2013 – nil) and expense of \$1,760 for the nine months ended December 31, 2014 (December 31, 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:

	<b>December 31, 2014</b>	<b>March 31, 2014</b>
< 1 year	\$ 171,857	\$ 327,398
	<b>\$ 171,857</b>	<b>\$ 327,398</b>

Under a specific series of financing contracts, related to the Cuba contracting program included in trade payables and accrued liabilities the Corporation owed \$58,713 as at December 31, 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 \$58,707 as at December 31, 2014 (March 31, 2014 – \$29,043) and was profiled as follows:

	<b>December 31, 2014</b>	<b>March 31, 2014</b>
< 1 year	\$ 58,706	\$ 28,532
> 1 and < 3 years	1	511
	<b>\$ 58,707</b>	<b>\$ 29,043</b>

## 11. Administrative expenses

Administrative expenses included the following:

	<b>For the three months ended December 31</b>		<b>For the nine months ended December 31</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Workforce compensation and related expenses	\$ 4,810	\$ 4,733	\$ 13,956	\$ 14,023
Contract management services	615	756	2,352	2,831
Rent and related expenses	943	586	2,068	1,692
Travel and hospitality	423	490	1,224	1,094
Consultants	236	280	644	642
Amortization and depreciation	343	42	427	126
Software, hardware and support	55	23	372	327
Corporate communications	61	76	239	144
Other expenses	184	166	514	479
	<b>\$ 7,670</b>	<b>\$ 7,152</b>	<b>\$ 21,796</b>	<b>\$ 21,358</b>

**12. Finance income, net**

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

	For the three months ended December 31		For the nine months ended December 31	
	2014	2013	2014	2013
Financial assets				
- Finance income earned on cash and cash equivalents	\$ 120	\$ 185	\$ 295	\$ 307
Financial liabilities				
- Finance cost on payables and other liabilities	(23)	(130)	(69)	(130)
	\$ 97	\$ 55	\$ 226	\$ 177

**13. Parliamentary appropriation**

The appropriation authorized by the Parliament of Canada is included in the net results of operations for the three months ended December 31, 2014 in the amount of \$3,206 (December 31, 2013 - \$3,870) and for the nine months ended December 31, 2014 in the amount of \$11,034 (December 31, 2013 - \$11,611).

**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.

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

	December 31, 2014	March 31, 2014
Trade receivables	\$ 888	\$ 831
Trade payables	\$ 382	\$ 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 December 31, 2014, the cost of these services amounted to \$616 (December 31, 2013 - \$765) and \$2,352 for the nine months ended December 31, 2014 (December 31, 2013 - \$2,858) 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 December 31, 2014, revenues related to the provision of these services amounted to \$188 (December 31, 2013 - \$188) and \$563 for the nine months ended December 31, 2014 (December 31, 2013 - \$563) 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:

	<b>For the three months ended December 31</b>		<b>For the nine months ended December 31</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Department of Foreign Affairs, Trade and Development	\$ 6,064	\$ 5,895	\$ 13,237	\$ 15,928
Department of National Defence	\$ -	\$ 363	\$ -	\$ 369

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

**(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 December 31		For the nine months ended December 31	
	2014	2013	2014	2013
Cascade Aerospace Inc.	\$ 2,899	\$ -	\$ 11,582	\$ -
Blue Drop Performance Learning Inc.	\$ -	\$ -	\$ 37	\$ -
Weatherhaven Global Resources Ltd	\$ 11	\$ -	\$ 11	\$ -

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

	December 31, 2014	March 31, 2014
Trade receivables	\$ 3	\$ -

**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:

	December 31, 2014	March 31, 2014
< 1 year	\$ 1,039,072	\$ 999,286
> 1 and < 3 years	1,063,966	453,860
> 3 and < 5 years	8,985,742	5,275,989
> 5 years	6,035,055	9,400,925
<b>Total contract portfolio</b>	<b>\$ 17,123,835</b>	<b>\$16,130,060</b>

**16. Commitments**

On September 26, 2014, Management exercised its right to terminate the current fifteen-year lease agreement for office space effective September 30, 2015.

In November 2014, the Corporation entered into a fifteen-year lease agreement for office space in a new location, which expires at the end of November 2031, in order 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 December 31, 2014 future minimum payments by fiscal year for the operating leases for premises are as follows:

	<b>December 31, 2014</b>	<b>March 31, 2014</b>
< 1 year	\$ 1,702	\$ 1,961
> 1 and < 5 years	\$ 4,704	\$ 7,745
> 5 years	\$ 18,807	\$ 2,952