Canadian Commercial Corporation

2023–2024 Third Quarter
Financial Report (Unaudited)

For the period ended
December 31, 2023

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MANAGEMENT'S DISCUSSION AND ANALYSIS

EXECUTIVE SUMMARY

CCC's financial results for the third quarter of 2023–2024 are grounded in the three-pillar strategy articulated in the 2023–2024 Corporate Plan (Plan). The strategy positions CCC to continue providing Canadian exporters with services that support the expansion of their international revenue streams, aligning business deals with the Government of Canada's international priorities, and operating while adhering to the highest standards of ethical business conduct.

Overall, CCC achieved favourable operational and financial results for the nine-month period ended in the third quarter of 2023–2024, as compared to the targets of the Plan and to comparative prior period results. These favourable results are due to increased activity across CCC's three business lines: International Prime Contracting (including ABP program), Defence Production Sharing Agreement (DPSA), and Sourcing for other government departments (Sourcing).

Pillar 1: Growing Canadian exports through inclusive trade

CCC achieved growth in the Value of Contracts Signed (VCS)[1] and Commercial Trading Transactions (CTT)[2] , as compared to the same period in the prior year.

For the nine-month period ended December 31, 2023, CCC:

- signed $3.0 billion of new business contracts across the three business lines (primarily in the Infrastructure, Defence and Agricultural sectors). This exceeds the comparative period results of $1.7 billion by $1.3 billion and the full-year Plan target of $2.4 billion.
- delivered $3.1 billion in CTT, reflecting goods and services exported through CCC contracts. This exceeds the comparative period results of $2.4 billion by $0.7 billion and tracks favourably towards the Plan target of $3.2 billion.

Pillar 2: Delivering value to Canadians through operational effectiveness

The sales cycle for international government contracting, which is impacted by foreign political, economic and geopolitical events, is often measured in years. CCC monitors and manages the resulting financial impact to ensure financial sustainability and strives for operational effectiveness by optimizing its workforce, processes and systems. CCC's income and expenditures are not experienced on a monthly straight-line basis, which is reflected in this quarterly report.

[1] VCS is a non-GAAP measure that represents the value of contracts and amendments signed during a reporting period. It measures the total value of goods or services to be delivered over the entire duration of a contract, and hence represents the full contract value when the contract is signed.

[2] CTT is a non-GAAP measure of economic activity that represents the value of goods and services delivered under contract during the reporting period.

For the nine-month period ended December 31, 2023, CCC:

- achieved net profit of $21.3 million. This exceeds the Plan net profit of $6.4 million (higher by $15.0 million) and exceeds the comparative period net profit of $14.5 million (increase of $6.8 million). This increase is attributable to:
    - Fees for Service Revenue of $24.2 million, exceeded the Plan's target of $19.4 million. This exceeded the comparative 2022–2023 fees of $19.1 million (increase of $5.2 million), due to higher CTT.
    - Finance and Other income of $9.0 million, earned on cash balances, exceeded the Plan's target of $2.3 million and the comparative 2022–2023 figure of $4.0 million (increase of $5.0 million).
    - Government Funding of $11.1 million is greater than Plan target of $9.8 million and exceeds the comparative period results of $10.1 million due to higher than anticipated DPSA expenditures and appropriation of $347 thousand related to 2022-2023 which was retroactively awarded during 2023-2024.

    - Operating and Administrative Expenses of $22.4 million are lower than the Plan's target of $25.1 million due to the timing of staffing and innovation-related expenditures. They exceeded the comparative period results of $19.3 million (increase of $3.1 million) due to staffing vacancies in the prior year.
- increased its retained earnings balance by $17.3 million (from $34.6 million as at March 31, 2023 to $51.9 million as at December 31, 2023). This reflects a year-to-date net profit of $21.3 million, offset by a dividend of $4.0 million, which was declared by the Board of Directors and subsequently paid to the shareholder.

As planned, subsequent to December 31, 2023, the Corporation executed a termination lease agreement for its existing office space concurrently with entering into a lease agreement for new office premises. The signing of the termination lease agreement constitutes a non-adjusting subsequent event; therefore, its impacts have not been incorporated into the financial results for the year ended December 31, 2023.

Pillar 3: Enhancing CCC's impact through Environmental, Social and Governance (ESG)

ESG considerations and initiatives underscore all aspects of CCC's business. CCC continues to implement and execute best practices in risk management, responsible business conduct including human rights due diligence, and internal governance.

For the nine-month period ended December 31, 2023:

- CCC influenced thirteen exporters in implementing or making improvements to existing integrity policies, procedures, or training programs for employees. The Corporation has a target to influence fifteen exporters in the 2023–2024 fiscal year. The intention is to expand this target to include human rights in future years.

- CCC launched its first Code for Exporters in March 2023. As of December 31, more than 80 exporters acknowledged the Code, which forms an important part of CCC's objective to build awareness across the exporter community regarding the importance of responsible business conduct.

BASIS OF PREPARATION AND DISCLOSURE

The following management's discussion and analysis (MD&A) was prepared in accordance with the Treasury Board of Canada's Directive on Accounting Standards: GC 5200 Crown Corporations Quarterly Financial Reports. It is not intended to be a full MD&A. It should be read in conjunction with the Corporation's audited annual financial statements and accompanying notes for the year ended March 31, 2023. All amounts presented are in Canadian dollars unless otherwise specified.

Forward-looking statements

This document contains projections and other forward-looking statements regarding future events. Such statements require management to make assumptions that are subject to risk and uncertainty. Consequently, actual results may differ materially from expectations expressed in forward-looking statements. These risks and uncertainties are discussed in the risk section following the financial analysis.

International financial reporting standards

The financial statements have been prepared in accordance with International Financial Reporting standards (IFRS) as issued by the International Accounting Standards Board (IASB), as reference for Generally Accepted Accounting Principles (GAAP). Under IFRS, the Canadian Commercial Corporation's (CCC or the Corporation) financial results are presented on an agent basis. However, as a prime contractor, CCC remains contractually obligated to ensure completeness of contracts with foreign government buyers, ensuring that the terms of the contract are fulfilled regardless of performance by the Canadian exporter.

Non-GAAP measures

In the following discussion, the Corporation also uses certain non-GAAP financial measures to evaluate its performance. Non-GAAP measures are defined and qualified when presented.

Large material contracts

Historically, large contracts have materially affected the Corporation's financial statements, causing significant variations in certain year-over-year amounts presented on the Statement of Financial Position and the Statement of Comprehensive Income (Loss). The most significant of these contracts is the multi-billion-dollar multi-year Armoured Brigade Program (ABP) contract. Due to the magnitude of this contract, the ABP is presented separately in certain sections of the MD&A.

Foreign exchange

The Corporation's contracts with foreign government buyers are currency matched to offset contracts with Canadian exporters. This matching of currency for contractual receipts and payments limits CCC's foreign exchange risk. In cases where payment between parties is made in different currencies, the Corporation may enter forward contracts. The majority of CCC's transactions are conducted in U.S. dollars (USD). Since CCC's reporting currency is the Canadian dollar, reported results may be impacted due to fluctuations in foreign exchange rates.

BUSINESS LINE REPORTING STRUCTURE

CCC operates three main lines of business and works with exporters from across Canada's industrial sectors.

Defence Production Sharing Agreement (DPSA)

CCC supports significant Canadian export activity under the Defence Production Sharing Agreement (DPSA). The DPSA enables Canadian exporters to compete for contracts as part of the United States Department of Defense (DoD) domestic supply base. Enabling access in this manner provides Canadian exporters with business opportunities that drive exports and jobs in Canada, while generating economic benefits in both Canada and the United States.

The DPSA continues to help underpin the collective security of Canada and the United States by leveraging each country's industrial and technological strengths in meeting respective defence procurement needs. Cross-border trade linked to the DPSA also offers important opportunities for firms in some of Canada's most innovative sectors.

CCC does not charge fees for services provided under the DPSA business line. Federal Budget 2021 reinstated an annual appropriation of $13.0 million to administer the DPSA. As result of compensation adjustments, this appropriation was increased to $13.6 million per the Supplementary Estimates (C) for 2023-24 and an additional $0.3 million related to 2022-2023 was retroactively awarded during 2023-24.

International Prime Contracting (IPC)

The Corporation's International Prime Contracting (IPC) business line is a fee-based service that establishes government-to-government (G2G) contracts with foreign government buyers and concurrent contracts with Canadian exporters. The Corporation works with Canadian exporters of all sizes and across diverse Canadian industrial sectors. The goal of these business activities is to increase the volume of exports and the number of exporters that CCC serves, while supporting Government of Canada priorities**.** Every contract is unique, and CCC's guarantee of contract performance provides added incentive for foreign governments to procure Canadian expertise for priority strategic projects (e.g., food security, transportation, infrastructure, national security, and others).

Concessions contracts provide electronic lotteries by a Canadian exporter to various countries.

Sourcing services for other Government of Canada Departments (Sourcing)

CCC assists Government of Canada departments and agencies in fulfilling urgent and complex procurement needs. This involves sourcing goods and services to meet a variety of international commitments or programming needs. CCC charges a fee to cover its costs to manage these programs.

Additionally, CCC manages 10 Canadian Trade Offices in China on behalf of Global Affairs Canada (GAC). These offices provide support to Canadian companies seeking to enter the Chinese market and are a cost-effective trade representation solution for GAC. CCC recovers all its costs from this program and charges a fee to GAC for its services.

Canadian industrial sectors

CCC disaggregates its contracts with Canadian exporters into the following industrial sectors: Advanced Manufactured Goods and Services, Aerospace, Agriculture, Cleantech, Construction/Infrastructure, Defence, Information Communications Technology (ICT), and Other.

VALUE OF CONTRACTS SIGNED (VCS)

VCS is a non-GAAP measure used by the Corporation that represents the value of contracts and amendments signed during a reporting period. It measures the total value of goods or services to be delivered over the entire duration of a contract, and hence represents the full contract value when the contract is signed.

The sales cycle for international government contracting is often measured in years and is impacted by foreign political and economic events. This results in a business cycle that is difficult to predict and consistently repeat.

Year-over-year comparison

Significant variations in VCS are normal when comparing period-over-period results given the normal variation in the timing of signing contracts.

The VCS for all three business lines for the nine-month period ended December 31, 2023, is $3.0 billion. This is an increase of $1.3 billion (81%) when compared to $1.7 billion for the same period in the prior year.

The $3.0 billion VCS is due to:

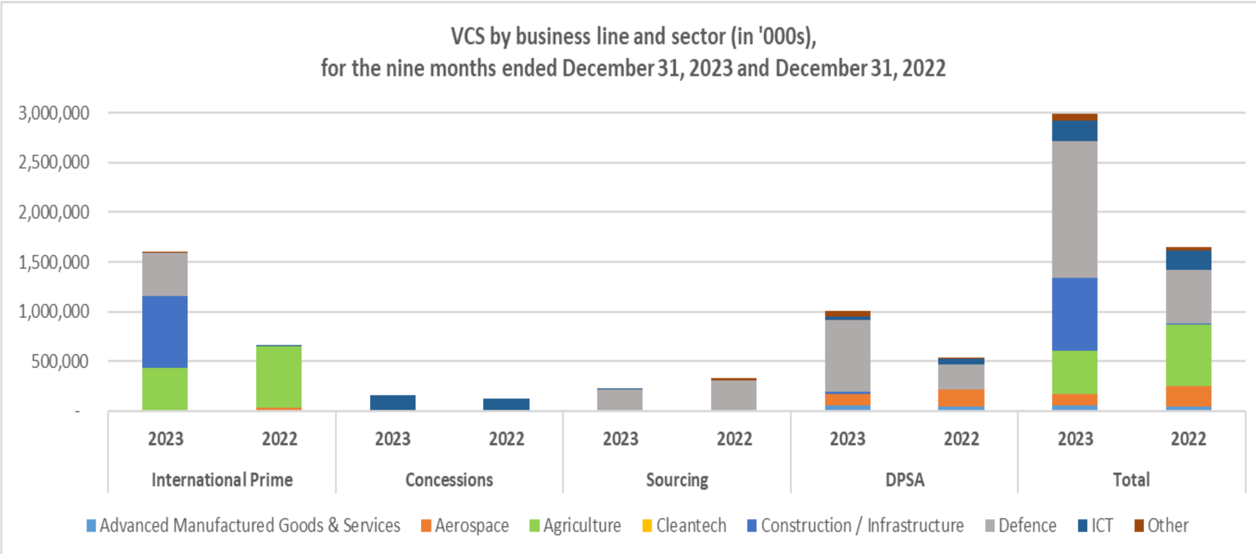
- IPC VCS of $1.6 billion million (an increase of $948.1 million from comparative period results in 2022–2023 of $654.1 million). The net increase is attributable to:
    - Aerospace sector VCS of $1.5 million (a decrease of $25.0 million from comparative period results in 2022-2023 of $26.6 million);
    - Agricultural sector commodities VCS of $435.6 million (a decrease of $192.3 million from comparative period results in 2022–2023 of $628.0 million). Deliveries of this contract are expected to occur in the current fiscal year;
    - ICT VCS of $698.7 thousand (a decrease of $16.9 thousand from comparative period results in 2022–2023 of $715.6 thousand); and
    - Construction/Infrastructure VCS of $718.0 million (an increase of $720.1 million from comparative period results in 2022–2023 of $2.1 million of descoping of contractual obligations);

    - Defence sector equipment VCS of $431.6 million (an increase of $431.5 million from comparative period results in 2022–2023, which were $113.5 thousand). The equipment is expected to be delivered within two to five years;
    - Descoping of contractual obligations in the Advanced Manufactured Goods & Services sector, and Other sector, of $2.2 million (an increase of $889.2 million descoped from comparative period results in 2022–2023 of $1.3 million descoped);
- Concessions VCS of $155.5 million (an increase of $26.0 million from comparative period results in 2022–2023 of $129.5 million). This is attributable to higher gross ticket sales from electronic lotteries.
- Sourcing VCS of $227.7 million (a decrease of $101.5 million from comparative period results in 2022–2023 of $329.2 million). This is attributable to CCC's support for the Government of Canada's international assistance to Ukraine from the Defence sector, which is expected to be delivered within twelve months.
- DPSA VCS of $1.0 billion (an increase of $469.6 million from comparative period results in 2022–2023 of $542.2 million). The net increase is attributable to:
    - Defence sector VCS of $729.5 million (an increase of $486.7 million from comparative period results in 2022–2023 to $242.8 million);
    - Aerospace sector VCS of $121.3 million (a decrease of $48.8 million from comparative period results in 2022-2023 of $170.1 million);
    - Other sector VCS of $58.5 million (an increase of $36.3 million from comparative period results in 2022–2023 of $22.2 million);
    - Advanced Manufactured Goods & Services sector VCS of $54.1 million (an increase of $14.2 million from comparative period results in 2022–2023 of $40.0 million);
    - ICT VCS of $36.6 million (a decrease of $19.7 million from comparative period results in 2022–2023 of $56.3 million); and
    - Construction/Infrastructure VCS of $11.8 million (an increase of $6.9 million from comparative period results in 2022–2023 of $5.0 million);

The table below presents the VCS by business line for the nine-month period ended December 31, 2023, and December 31, 2022.

	For the three months ended December 31,				For the nine months ended December 31,					
									% of Total	
VCS by business line ($000's)	**2023**	2022	$ Change	% Change	**2023**	2022	$ Change	% Change	**2023**	2022
International Prime	**$ 791,159**	$ 175,878	$ 615,281	>100%	**$ 1,602,216**	$ 654,111	$ 948,105	>100%	**53%**	40%
Concessions	**52,207**	46,605	5,602	12%	**155,486**	129,467	26,019	20%	**5%**	8%
Sourcing	**95,523**	39,393	56,130	> 100%	**227,746**	329,204	(101,458)	(31%)	**8%**	20%
DPSA	**433,259**	163,170	270,089	>100%	**1,011,793**	542,229	469,564	87%	**34%**	33%
Total	**$ 1,372,148**	$ 425,046	$ 947,102	>100%	**$ 2,997,241**	$ 1,655,011	$ 1,342,230	81%	**100%**	100%

The chart below presents VCS by business line and sector for the nine-month period ended December 31, 2023, and December 31, 2022.



COMMERCIAL TRADING TRANSACTIONS (CTT)

CTT is a non-GAAP measure of economic activity used by the Corporation that represents the value of goods and services delivered under contract during the reporting period. Given the Corporation's status as an agent for reporting under International Financial Reporting Standards (IFRS), CTT is not recognized as revenue. The Corporation continues to capture CTT data as a measure of the Corporation's impact on the Canadian economy and as a main driver of Fees for service revenues. CCC's Fees for service revenues are generally commensurate with CTT, and the variance explanations detailed in the section below also apply to the Fees variance discussion.

Year-over-year comparison

Significant variations in CTT are expected when comparing period-over-period results given the timing of specific contract requirements and associated delivery schedules.

CTT for the nine-month period ended December 31, 2023, is $3.1 billion, an increase of $652.9 million (>27%) when compared to $2.4 billion for the same period in the prior year.

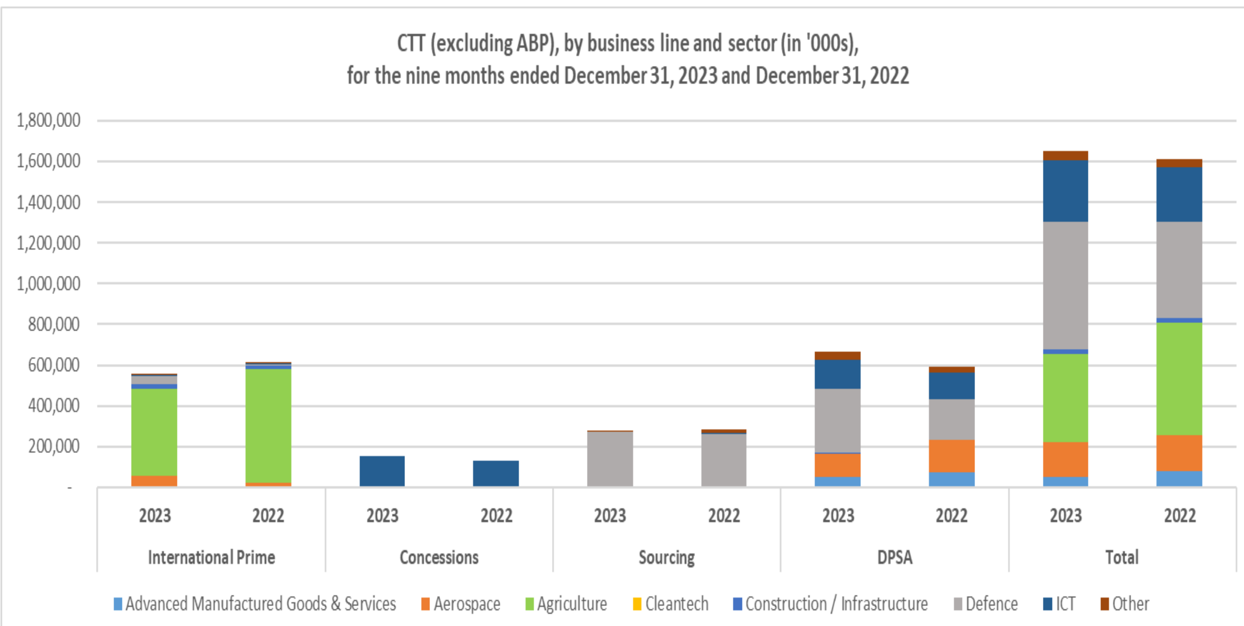
The CTT of $3.1 billion are due to:

- IPC CTT of $555.1 million (an decrease of $53.4 million from comparative period results in 2022–2023 of $608.5 million). The decrease is primarily attributable to:
    - Agriculture sector CTT of $428.5 million (a decrease of $124.8 million from comparative period results in 2022–2023 of $553.3 million);
    - Aerospace sector CTT of $57.0 million (an increase of $34.3 million from comparative period results in 2022–2023 of $22.7 million);
    - Defence sector CTT of $43.4 million (an increase of $32.1 million from comparative period results in 2022–2023 of $11.3 million);
    - Construction/Infrastructure sector CTT of $18.5 million (an increase of $1.5 million from comparative period results in 2022–2023 of $17.0 million);
    - Other sector CTT of $5.3 million (an increase of $4.9 million from comparative period results in 2022–2023 of $319.7 thousand).
    - ICT sector CTT of $2.3 million (unchanged from comparative period results in 2022–2023); and
    - Advanced Manufactured Goods and Services sector CTT of nil (a decrease of $1.6 million from comparative period results in 2022–2023 of $1.6 million);
- Concessions CTT of $155.5 million (an increase of $26.0 million from comparative period results in 2022–2023 of $129.5 million). This is attributable to higher gross ticket sales from electronic lotteries.
- Sourcing CTT of $276.1 million (an decrease of $5.6 million from comparative period results in 2022–2023 of $281.8 million). This decrease is primarily attributable to ICT sector CTT of $1.8 million (a decrease of $5.0 million from comparative period results in 2022–2023 of $6.9 million).
- DPSA CTT of $663.3 million (an increase of $70.7 million from comparative period results in 2022–2023 of $592.6 million). The net increase is attributable to:
    - Defence sector CTT of $312.3 million (an increase of $110.6 million from comparative period results in 2022–2023 of $201.7 million);
    - ICT sector CTT of $143.4 million (an increase of $14.6 million from comparative period results in 2022–2023 of $128.7 million);
    - Aerospace sector CTT of $114.0 million (a decrease of $40.8 million from comparative period results in 2022–2023 of $154.8 million);
    - Advanced Manufactured Goods & Services sector CTT of $52.1 million (a decrease of $24.1 million from comparative period results in 2022–2023 of $76.2 million);
    - Other sector CTT of $36.5 million (an increase of $7.3 million from comparative period results in 2022–2023 of $29.3 million); and
    - Construction/Infrastructure sector CTT of $5.0 million (an increase of $3.1 million from comparative period results in 2022–2023 of $1.9 million).
- ABP program CTT of $1.4 billion (an increase of $615.3 million from comparative period results in 2022–2023 of $830.4 million).

The table below presents CTT by business line for the nine-month period ended December 31, 2023, and December 31, 2022.

	For the three months ended December 31,				For the nine months ended December 31,				% of Total	
CTT by business line ($000s)	**2023**	2022	$ Change	% Change	**2023**	2022	$ Change	% Change	**2023**	2022
International prime	**$ 146,169**	$ 453,795	$ (307,626)	(68%)	**$ 555,053**	$ 608,476	$ (53,423)	(9%)	**18%**	25%
Concessions	**52,207**	$ 46,605	5,602	12%	**155,486**	129,466	26,020	20%	**5%**	5%
Sourcing	**73,738**	$ 152,203	(78,465)	(52%)	**276,112**	281,759	(5,647)	(2%)	**9%**	12%
DPSA	**256,332**	$ 234,165	22,167	9%	**663,273**	592,600	70,673	12%	**21%**	24%
Total excluding ABP	**$ 528,446**	$ 886,767	$ (358,321)	(40%)	**$ 1,649,924**	$ 1,612,301	$ 37,623	2%	**53%**	66%
ABP	**273,378**	522,487	(249,109)	(48%)	**1,445,727**	830,441	615,286	74%	**47%**	34%
Total including ABP	**$ 801,824**	$ 1,409,254	$ (607,430)	(43%)	**$ 3,095,651**	$ 2,442,742	$ 652,909	27%	**100%**	100%

The chart below presents CTT (excluding ABP) by business line and sector for the nine-month period ended December 31, 2023, and December 31, 2022.



SUMMARY OF FINANCIAL RESULTS

The Corporation had favourable financial results for the nine-month period ended December 31, 2023, when compared with prior periods and the 2023–2024 to 2027–2028 Corporate Plan (Plan). This was driven by increased activity in IPC, Sourcing and the ABP contract, in addition to interest income earned on cash balances held by CCC and the timing of planned expenditures.

Financial Management Policy

The sales cycle for international government contracting is often measured in years and is impacted by geopolitical and economic events. As a result, CCC plans for financial sustainability and manages surpluses and deficits across multi-year time horizons.

CCC's Financial Management Policy defines the requirements to maintain a financial self-sustainability model over the long term. This policy requires CCC to maintain sufficient equity to meet commitments and undertake appropriate capital investments to ensure operational effectiveness and efficiency and to sustain the Corporation's workforce, facilities, systems and processes. The framework considers four factors for managing capital and monitoring financial sustainability: the timing of contractual revenues and expenses, net results of operations, working capital requirements and equity position.

Comprehensive Income discussion

For the nine-month period ended December 31, 2023, the Corporation recorded a net profit of $21.3 million (an increase of $6.8 million compared to the December 31, 2022, net profit of $14.5 million).

The increase was largely attributable to:

- higher VCS and CTT, as outlined in the previous sections, which resulted in higher Fees for Service Revenue ($5.2 million);
- higher interest rates on higher cash balances, resulting in a favourable variance in Finance and other income ($5.0 million); and
- recognition of Government funding in-line with expenses incurred for the administration of the DPSA.

Increases in revenues were partially offset by:

- increased Operating and administrative expenses ($3.1 million) as planned; and
- adverse effect of foreign exchange ($1.3 million).

	For the three months ended December 31				For the nine months ended December 31			
Comprehensive Income ($000s)	**2023**	2022	$ Change	% Change	**2023**	2022	$ Change	% Change
Fees for service revenue	**$ 8,599**	$ 12,227	$ (3,628)	(30%)	**$ 24,247**	$ 19,095	$ 5,152	27%
Finance and other income	**3,444**	2,119	1,325	63%	**8,996**	3,960	5,036	>100%
Government funding	**4,063**	3,656	407	11%	**11,077**	10,083	994	10%
Expenses	**7,838**	7,069	769	11%	**22,415**	19,319	3,096	16%
Gain (loss) on foreign exchange	**(736)**	(2)	(734)	<(100%)	**(593)**	699	(1,292)	<(100%)
Net profit	**$ 7,532**	$ 10,931	$ (3,399)	(31%)	**$ 21,312**	$ 14,518	$ 6,794	47%
Other comprehensive income	**-**	-	-	-	**-**	-	-	-
Total comprehensive Income	**$ 7,532**	$ 10,931	$ (3,399)	(31%)	**$ 21,312**	$ 14,518	$ 6,794	47%

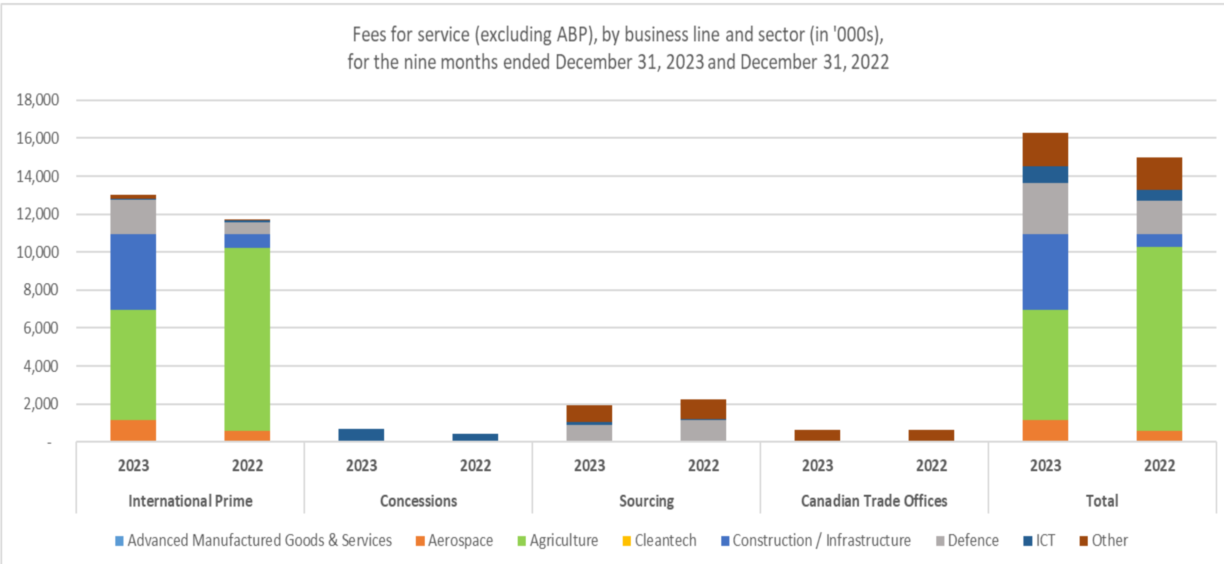
Fees for Service Revenue

The Corporation charges Fees for service on all programs, except for the DPSA. IPC fees are generally calculated as a percentage of the contract value. Fees are negotiated on a contract-by-contract basis, and, within an acceptable range, are generally reflective of a project's risk profile and competitive market conditions. Fees are recognized as revenue differently depending on the performance obligations related to the various business lines. However, the majority are recorded based on the performance of activities required for the Canadian exporter to obtain the right to payment under the terms and conditions of the prime contract. This is generally commensurate with CTT. Fees for Sourcing are recognized on a straight-line basis.

Fees for service revenue for the nine-month period ended December 31, 2023, are $24.2 million (an increase of $5.2 million, or 27%, compared to $19.1 million for the same period in the prior year). Fees for service are generally commensurate with CTT and the variance explanations detailed in the Commercial Trading Transactions section apply to the Fees variance discussion as well.

	For the three months ended December 31,				For the nine months ended December 31,				% of Total	
Fees for service by business line ($000s)	**2023**	2022	$ Change	% Change	**2023**	2022	$ Change	% Change	**2023**	2022
International Prime	**$ 5,999**	$ 8,393	$ (2,394)	(29%)	**$ 13,010**	$ 11,699	$ 1,311	11%	**54%**	61%
Concessions	**358**	146	212	>100%	**676**	412	264	64%	**3%**	2%
Sourcing	**469**	953	(484)	(51%)	**1,936**	2,216	(280)	(13%)	**8%**	12%
Canadian Trade Offices	**216**	216	-	0%	**648**	648	-	0%	**3%**	3%
Total excluding ABP	**$ 7,042**	$ 9,708	$ (2,666)	(27%)	**$ 16,270**	$ 14,975	$ 1,295	9%	**67%**	78%
ABP	**1,557**	2,519	(962)	(38%)	**7,977**	4,120	3,857	94%	**33%**	22%
Total including ABP	**$ 8,599**	$ 12,227	$ (3,628)	(30%)	**$ 24,247**	$ 19,095	$ 5,152	27%	**100%**	100%

The chart below presents Fees for service (excluding ABP) by business line and sector for the nine-month period ended December 31, 2023, and December 31, 2022.



Government funding

Federal Budget 2021 recognized the importance of CCC's role in administering the DPSA and restored an annual parliamentary appropriation of $13.0 million, commencing in fiscal year 2022–2023. This appropriation was increased to $13.6 million per the Supplementary Estimate(C) for 2023-2024 which allotted funding for compensation adjustments. This funding is used exclusively to cover the costs incurred for the DPSA.

For the nine-month period ended December 31, 2023, the Corporation recognized government funding of $11.1 million, $994.0 thousand higher than the same period in the prior year, as an offset to costs incurred for the administration of the DPSA. Included in the government funding recognized in the current quarter is $347 thousand related to 2022-2023 appropriation which was retroactively awarded during 2023-2024.

Operating and administrative expenses

The Corporation's Operating and administrative expenses for the nine-month period ended December 31, 2023, are $22.3 million (an increase of $3.1 million, or 16%, as planned when compared to $19.3 million for the same period in the prior year). This increase was primarily driven by workforce compensation, communications and travel expenditures.

For the nine-month period ended December 31, 2023, CCC incurred increased workforce and compensation expenses (by $2.1 million) as planned, due to filling staff vacancies in response to higher business volume, as well as wage inflation. CCC also incurred increased communications expenses (by $229.0 thousand) to bolster CCC's online marketing, and for additional investments in digital transformation. As pandemic related restrictions have lifted, CCC has also incurred increased travel expenses (by $673.0 thousand) to pursue opportunities across business lines.

	For the three months ended December 31				For the nine months ended December 31				% of Total	
Operating and administrative expenses ($000s)	**2023**	2022	$ Change	% Change	**2023**	2022	$ Change	% Change	**2023**	2022
Workforce compensation and related expenses	$ **5,029**	$ 4,146	$ 883	21%	$ **14,782**	$ 12,637	$ 2,145	17%	**67%**	67%
Contract management services	**650**	650	-	0%	**1,950**	1,950	-	0%	**9%**	10%
Consultants	**768**	1,071	(303)	(28%)	**1,610**	1,720	(110)	(6%)	**7%**	9%
Travel and hospitality	**470**	298	172	58%	**1,254**	581	673	>100%	**6%**	3%
Rent and related expenses	**257**	244	13	5%	**723**	670	53	8%	**3%**	3%
Software, hardware and support	**176**	210	(34)	(16%)	**550**	618	(68)	(11%)	**2%**	3%
Communications	**189**	97	92	95%	**505**	276	229	83%	**2%**	1%
Depreciation	**152**	146	6	4%	**457**	435	22	5%	**2%**	2%
Other expenses	**107**	163	(56)	(34%)	**461**	297	164	55%	**2%**	2%
Total	$ **7,798**	$ 7,025	$ 773	11%	$ **22,292**	$ 19,184	$ 3,108	16%	**100%**	100%

CCC continuously assesses expenditure levels to achieve cost efficiencies where possible. Budgets are managed on a continuous basis from the outset of the year, with a view to controlling expenditures relative to forecasted business volumes and revenues. Additionally, CCC continues to seek productivity savings by strengthening its culture of innovation, investing in digital transformation, and implementing process changes to improve efficiency and increase the capacity of existing resources.

Statement of Financial Position discussion

Assets include payments made to Canadian exporters prior to collecting from foreign buyers and liabilities include amounts received from foreign and other buyers that have not yet been transferred to Canadian exporters. As contractual performance obligations are fulfilled, balances for Cash, Accounts receivable, Accounts payable and accrued liabilities, which represent amounts at a specific point in time, can fluctuate widely.

Asset and Liability positions

As at December 31, 2023, total assets of $470.1 million increased by $201.8 million (75%), compared to $268.3 million for the prior fiscal year ended March 31, 2023. The increase is mainly attributable to an increase in Cash of $192.7 million, driven primarily by higher receipts of advance payments from Government of Canada departments and foreign buyers (of $186.9 million) and an increase of accounts receivables of $9.2 million, stemming from timing differences between payments to Canadian exporters and cash receipts from foreign buyers (as explained above).

Total liabilities of $408.2 million increased by $184.5 million (83%), when compared to $223.7 million for the prior fiscal year ended March 31, 2023. The increase is primarily driven by an increase in Advances received from Government of Canada departments and foreign buyers (of $186.9 million). The increase was partially offset by a decrease in Accounts payable and accrued liabilities (of $4.9 million), which are the result of timing differences between cash receipts from foreign buyers and payments to Canadian exporters (as explained above), and the payment of Dividends of $4.0 million.

The offsetting increases of both total assets and total liabilities reflect the nature of the contracts under management and the effect on balances due to the timing of receipts and payments.

Equity position

Equity for the nine-month period ended December 31, 2023, increased by $17.3 million to $61.9 million, reflecting year-to-date net profit of $21.3 million offset by the dividend of $4.0 million that was paid during the first quarter. These balances include shareholder Contributed Surplus of $10 million.

As at (in '000s)	December 31, 2023	March 31, 2023	$ Change	% Change
Total assets	**$ 470,103**	$ 268,263	$ 201,840	75%
Total liabilities	**408,180**	223,652	184,528	83%
Total equity	**61,923**	44,611	17,312	39%
Total liabilities and equity	**$ 470,103**	$ 268,263	$ 201,840	75%

Dividend

On June 7, 2023, in alignment with its Financial Management Policy and Dividend Policy, the Corporation's Board of Directors approved the issuance of a dividend of $4.0 million payable to the shareholder. The dividend was paid to its shareholder in November 2023.

CORPORATE PLAN DISCUSSION

The Corporation operates in challenging global markets where the budgets of foreign government buyers are dynamic and subject to frequent changes. Demand for Canadian-made solutions varies with economic and geopolitical factors, which increases the complexity of government-to-government (G2G) export sales and the duration of the sales cycle. In the face of these uncertainties, the Corporation is committed to a sustainable financial business model and plans for its fee-generating business lines to break even each year (at a minimum). To this end, CCC engages in prudent financial management, strategically invests in critical capabilities and focuses on creating value for Canadian stakeholders.

2023–2024 Corporate Plan

CCC's 2023–2024 to 2027–2028 Corporate Plan (Plan) was approved by the Corporation's Board of Directors and submitted, as required, to the Minister of Export Promotion, International Trade and Economic Development in January 2023. The analysis below reflects the revised Plan as approved by the Board of Directors in July 2023 and reflects the expense reduction measures stemming from the Federal Budget 2023.

Comparison of year-to-date VCS to Corporate Plan

VCS for the nine-month period ended December 31, 2023, is $3.0 billion ($914.2 million greater than planned VCS of $2.1 billion by the third quarter).

This result is primarily due to:

- Favourable variance of $462.9 million in IPC due to greater than planned contracts signed in the Construction/Infrastructure and Defence sectors, which were partially offset by lower than planned signings in the Aerospace, the Agriculture sectors;
- Favourable variance of $9.2 million in Concessions, attributable to higher gross ticket sales from electronic lotteries;
- Favourable variance of $120.2 million in Sourcing, attributable to the timing of contract signings for CCC's support for the Government of Canada's international assistance to Ukraine; and
- Favourable variance of $321.8 million in DPSA, attributable to higher than planned contract signings in various sectors.

Comparison of year-to-date CTT to Corporate Plan

CTT for the nine-month period ended December 31, 2023, is $3.1 billion ($601.9 million higher than the planned CTT of $2.5 billion by the third quarter).

This result is primarily due to:

- Unfavourable variance of $62.9 million in IPC, due to lower than planned contract deliveries in the Agriculture and Construction/Infrastructure, and Other sector, which was offset by higher than planned deliveries in the Aerospace, the Defence and ICT sectors;
- Favourable variance of $445.4 million from contract deliveries in the ABP program;
- Favourable variance of $9.7 million in Concessions, attributable to higher gross ticket sales from electronic lotteries;
- Favourable variance of $144.4 million in Sourcing, attributable to higher than planned contract deliveries in the Defence sector; and
- Favourable variance of $65.2 million in DPSA, attributable to higher than planned deliveries in various sectors;

Comparison of year-to-date financial results to Corporate Plan

For the nine-month period ended December 31, 2023, CCC recorded net profit of $21.3 million ($15.0 million higher than planned net profit of $6.4 million by the third quarter).
Several factors contributed to these results:

- Favourable Fees for service variance ($4.9 million) compared to the Plan were primarily due to higher-than-expected deliveries in the Defence, ICT and Other sectors. These were offset by lower-than-expected deliveries in the Aerospace, Agriculture, Construction/Infrastructure sectors. Fee-generating billing transactions can vary significantly due to the rapidly changing geopolitical business environment and the timing of contract signings and/or deliveries on CCC's large international contracts.
- The favourable Finance and other income variance ($6.7 million) compared to the Plan is the result of higher interest rates earned on higher cash balances held by CCC.
- Government funding is recorded as an offset to costs incurred related to the administration of the DPSA.
- The favourable non-DPSA expense variance ($4.0 million) compared to the Plan is primarily due to the timing of hires to fill staff vacancies and innovation-related expenditures.
- The loss on foreign exchange ($593.0 thousand).

The table below presents financial results compared to Plan for the nine-month period ended December 31, 2023. It also presents a full-year view of planned results for 2023–2024.

	For the nine-month period ended December 31, 2023				2023-24
	Actual (YTD)	Q3 CP Target (YTD)	Variance $	Variance %	CP Target
VCS ($000s)	**$ 2,997,241**	$ 2,083,048	$ 914,193	44%	$ 2,419,298
CTT ($000s)	**$ 3,095,651**	$ 2,493,786	$ 601,865	24%	$ 3,171,864

Net profit ($000s)	**Actual (YTD)**	CP Target (YTD)	Variance $	Variance %	2023-24 CP Target
Revenues					
Fees for service	**$ 24,247**	$ 19,395	$ 4,852	25%	$ 22,100
Finance and other income	**8,996**	2,305	6,691	>100%	2,658
	33,243	21,700	11,543	53%	24,758
Government funding	**11,077**	9,750	1,327	14%	13,000
Expenses					
DPSA expenses	**10,730**	9,750	980	10%	13,000
Non-DPSA expenses	**11,685**	15,347	(3,662)	(24%)	20,272
	22,415	25,097	(2,682)	(11%)	33,272
Gain (loss) on foreign exchange	**(593)**	-	(593)	>100%	-
Net profit	**$ 21,312**	$ 6,353	$ 14,959	>100%	$ 4,485

CCC'S COMMITMENT TO RISK MANAGEMENT

CCC's Enterprise Risk Management (ERM) Framework manages a variety of risks while assisting the Corporation in fulfilling its mandate to facilitate international trade on behalf of Canadian exporters. The strategy for managing these risks is discussed in detail in the Corporation's 2022–2023 Annual Report.

The following provides updates to the risk discussion found in the Annual Report.

Key risks facing CCC

The key risks that could impact Corporate Plan objectives or the organization as a whole are highlighted below. These risks are regularly reviewed with the Board of Directors through the quarterly reporting process. At any time, escalation to the Board is required when risks surpass acceptable tolerance levels.

Business environment risk

This risk relates to changes in economic, social, legal, or environmental conditions that could result in changes in demand for CCC's services[3]. The Corporation sets its Corporate Plan in the context of the expected business environment and adapts strategies and processes as necessary in response to changes. Business environment risk is considered high, reflecting the destabilizing impacts of the continued war in Ukraine and the situation in the Middle East, inflation and interest rates concerns for exporters and foreign buyers, and new competitive pressures within the US Department of Defense procurement processes. CCC has little control over these risks and monitors for potential impacts to CCC's business.

Reputational risk

This risk relates to CCC's actions or inactions result in tarnishing CCC's reputation with stakeholders, buyers and/or Canadian exporters. This risk is mitigated through strong transactional due diligence that integrates environmental, social and governance (ESG) best practices, including responsible business conduct (RBC). CCC's role in the sale of defence products and services internationally can lead to reputational risk, therefore the Corporation communicates regularly with all stakeholders and ensures its activities are aligned with the Government of Canada's international trade policy.

Reputation with buyers varies depending on their experience while contracting with CCC. From time to time, export transactions encounter issues that require complex resolutions and may lead to lower levels of buyer satisfaction, with knock-on effects on CCC's reputation. CCC's due diligence processes are geared to minimize the frequency of these issues occurring.

[3] All quotations related to risk definitions are sourced from the Corporation's Enterprise Risk Management Framework.

Human resources and organizational risk

This risk reflects the possibility of not having the right corporate structure or the correct number of people and/or the required skill sets to meet client expectations and overall corporate objectives. The implementation of a 3-year human resources strategy and the formalization of succession plans for key staff who are set to retire are in place to support the overall corporate objectives. Succession plans include knowledge transfer to key personnel, change management strategies and support ongoing innovation initiatives that will help bridge the gap left by the retirement surge.

Financial sustainability risk

The risk relates to the possibility that CCC's financial position cannot meet its liquidity requirements or support capital requirements given the risk exposure of the Corporation. Driving this risk is the upcoming sunsetting of the sizable ABP program and specially the risk that it concludes before being replaced with comparable recurring cash flows. CCC's medium-term business volumes have historically been difficult to predict and can be significantly influenced by one or two large transactions. Mitigation includes implementation of Business Development growth strategy to strengthen the business development pipeline to generate recurring and sustainable growth in CCC's fee base.

Security risk

This risk relates to the safeguarding of the Corporation's people, valued assets (including information) and the continued delivery of essential services against unforeseen circumstances. The hybrid work environment provides information security challenges and CCC's role in supporting Canada's international aid programs could make it a target of foreign cyber-attacks. CCC's cyber security stance is strong and continues to improve through implementation of IT security audit findings. Staff training also emphasizes cyber threats and those related to working from home.

Supplier Performance risk

This risk relates to the possibility that a supplier may fail to deliver the promised goods and/or services to CCC under its contractual responsibilities. Recent inflation and interest rate hikes have impacts on CCC's supplier base and may lead to contract remediation expenses for CCC should the suppliers fail to deliver on CCC export contracts. CCC financial due diligence places increased emphasis on a company's liquidity and capital position. Liquidity allows for the dealing with project cash flow requirements while capital provides for resilience from economic shocks.

Implementation of change initiatives risk

This risk relates to the corporation's ability to successfully implement its numerous change initiatives. Failing to implement CCC's change initiative will have impacts on Exporter experience and internal cost efficiencies. Implementation may also result in risks to employee engagement. Successful implementation will require senior management leadership and a strong governance process to oversee change initiatives.

MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these quarterly financial statements in accordance with the Treasury Board of Canada's Directive on Accounting Standards: GC 5200 Crown Corporations Quarterly Financial Reports, and for such internal controls as Management determines are 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.

Juliet S. Woodfield, FCPA, FCA	**Issam Elhaje, CPA, CMA**
Acting President and Chief Executive Officer	Director, Finance & Policy

Ottawa, Canada
February 26, 2024

QUARTERLY FINANCIAL REPORT (In thousands of Canadian dollars, unless otherwise indicated)

CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

Statement of Financial Position (Unaudited)

As at	Notes	December 31, 2023	March 31, 2023
ASSETS			
Current assets			
Cash	4	**$ 442,767**	$ 250,037
Accounts receivable	5 , 12	**22,220**	13,070
Other assets	6	**1,137**	764
		466,124	263,871
Non-current assets			
Property and equipment		**1,564**	1,748
Right-of-use assets	10	**2,415**	2,644
		3,979	4,392
Total assets		**$ 470,103**	$ 268,263
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	7 , 12	**$ 21,282**	$ 26,159
Advances		**376,483**	189,557
Deferred revenue	8	**1,273**	1,360
Deferred government funding	9	**2,885**	-
Lease liabilities	10	**533**	521
Employee benefits		**1,087**	963
		403,543	218,560
Non-current liabilities			
Lease liabilities	10	**4,546**	4,946
Employee benefits		**91**	146
		4,637	5,092
Total liabilities		**408,180**	223,652
EQUITY			
Contributed capital		**10,000**	10,000
Retained earnings		**51,923**	34,611
Total equity		**61,923**	44,611
Total liabilities and equity		**$ 470,103**	$ 268,263
Lease commitments	10		
Contingencies	17		

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

Authorized for issue on February 26, 2024

Juliet S. Woodfield, FCPA, FCA
Acting President and Chief Executive Officer

Issam Elhaje, CPA, CMA
Director, Finance and Policy

(In thousands of Canadian dollars, unless otherwise indicated)

Statement of Comprehensive Income (Unaudited)

	Notes	For the three months ended December 31 2023	2022	For the nine months ended December 31 2023	2022
REVENUES					
Fees for service	13	**$ 8,599**	$ 12,227	**$ 24,247**	$ 19,095
Finance income		**3,450**	2,088	**8,940**	3,779
Other income	14	**(6)**	31	**56**	181
		12,043	14,346	**33,243**	23,055
GOVERNMENT FUNDING					
Parliamentary appropriation	9	**4,063**	3,656	**11,077**	10,083
		4,063	3,656	**11,077**	10,083
EXPENSES					
Operating and administrative expenses	15	**7,798**	7,025	**22,292**	19,184
Finance costs	10	**40**	44	**123**	135
		7,838	7,069	**22,415**	19,319
Net income before gain (loss) on foreign exchange		**8,268**	10,933	**21,905**	13,819
Gain (loss) on foreign exchange		**(736)**	(2)	**(593)**	699
Net profit		**$ 7,532**	$ 10,931	**$ 21,312**	$ 14,518
OTHER COMPREHENSIVE INCOME ITEMS THAT WILL NOT BE RECLASSIFIED TO NET PROFIT (LOSS)					
Actuarial gain on employee benefits obligation		-	-	-	-
Total comprehensive income		**$ 7,532**	$ 10,931	**$ 21,312**	$ 14,518

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

(In thousands of Canadian dollars, unless otherwise indicated)

Statement of Changes in Equity (Unaudited)

For the three and nine months ended December 31, 2023	**Note**	**Contributed Capital**	**Retained Earnings**	**Total**
BALANCE SEPTEMBER 30, 2023		**$ 10,000**	**$ 44,391**	**$ 54,391**
Net profit			**7,532**	**7,532**
BALANCE DECEMBER 31, 2023		**$ 10,000**	**$ 51,923**	**$ 61,923**
BALANCE MARCH 31, 2023		**$ 10,000**	**$ 34,611**	**$ 44,611**
Net profit			**21,312**	**21,312**
Dividend	11		**(4,000)**	**(4,000)**
BALANCE DECEMBER 31, 2023		**$ 10,000**	**$ 51,923**	**$ 61,923**

For the three and nine months ended December 31, 2022	**Note**	**Contributed Capital**	**Retained Earnings**	**Total**
BALANCE SEPTEMBER 30, 2022		$ 10,000	$ 17,659	$ 27,659
Net profit			10,931	10,931
BALANCE DECEMBER 31, 2022		$ 10,000	$ 28,590	$ 38,590
BALANCE MARCH 31, 2022		$ 10,000	$ 15,072	$ 25,072
Net profit			14,518	14,518
Dividend	11		(1,000)	(1,000)
BALANCE DECEMBER 31, 2022		$ 10,000	$ 28,590	$ 38,590

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

QUARTERLY FINANCIAL REPORT (In thousands of Canadian dollars, unless otherwise indicated)

Statement of Cash Flows (Unaudited)

	Notes	For the three months ended December 31 2023	For the three months ended December 31 2022	For the nine months ended December 31 2023	For the nine months ended December 31 2022
OPERATING ACTIVITIES					
Net profit		**$ 7,532**	$ 10,931	**$ 21,312**	$ 14,518
Adjustments to determine net cash from (used in) operating activities:					
Depreciation property and equipment		**75**	70	**228**	207
Depreciation right-of-use assets	10	**77**	76	**229**	228
Employee benefit expense		**47**	48	**140**	144
Employee benefit payments		**-**	-	**(71)**	(27)
(Gain) loss on foreign exchange		**858**	176	**472**	(2,690)
Change in working capital from:					
Accounts receivable	5 , 12	**(1,351)**	4,751	**(9,150)**	(2,668)
Other assets	6	**(343)**	(296)	**(373)**	(271)
Accounts payable and accrued liabilities	7 , 12	**(6,653)**	50,733	**(4,877)**	52,438
Advances		**285,897**	25,746	**186,926**	171,149
Deferred revenue	8	**827**	74	**(87)**	543
Deferred government funding	9	**(3,101)**	(3,656)	**2,885**	2,917
Cash provided by operating activities		**283,865**	88,653	**197,634**	236,488
INVESTING ACTIVITIES					
Acquisitions of property and equipment		**(18)**	-	**(44)**	(64)
Cash used in investing activities		**(18)**	-	**(44)**	(64)
FINANCING ACTIVITIES					
Principal repayment of lease liabilities	10	**(130)**	(127)	**(388)**	(377)
Dividend paid	11	**(4,000)**	(1,000)	**(4,000)**	(1,000)
Cash used in financing activities		**(4,130)**	(1,127)	**(4,388)**	(1,377)
Effect of exchange rate changes on cash		**(858)**	(176)	**(472)**	2,690
Net increase in cash		**278,859**	87,350	**192,730**	237,737
Cash at the beginning of the period		**163,908**	217,201	**250,037**	66,814
Cash at the end of the period		**$ 442,767**	$ 304,551	**$ 442,767**	$ 304,551
Supplementary disclosure of cash flows from operating activities					
Amount of interest received		**$ 3,438**	$ 2,091	**$ 8,649**	$ 3,551
Amount of interest paid		**$ 40**	$ 44	**$ 123**	$ 135

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

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

1. NATURE, ORGANIZATION AND FUNDING

The Canadian Commercial Corporation (the Corporation) was established in 1946 by the *Canadian Commercial Corporation Act* (CCC Act). The Corporation is wholly owned by the Government of Canada and is an agent Crown corporation listed in Part I of Schedule III of the *Financial Administration Act* (FAA). The Corporation is accountable for its affairs to Parliament through the Minister of Export Promotion, International Trade and Economic Development (the Minister). The Corporation is domiciled and operates in Canada with a head office located at 350 Albert Street, Ottawa, Ontario.

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

The Corporation's operations are funded by Fees for service, supplemented by a parliamentary appropriation from the Government of Canada.

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 FAA, 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 implemented the directive effective January 1, 2010, and has remained compliant with the directive since then.

In July 2015, the Corporation was issued a directive (P.C. 2015-1110) pursuant to section 89 of the FAA to align its travel, hospitality, conference and event expenditure policies, guidelines and practices with Treasury Board policies, directives and related instruments on travel, hospitality, conference and event expenditures in a manner that is consistent with its legal obligations, and to report on the implementation of this directive in the Corporation's next corporate plan. The Corporation implemented the directive in August 2016 and has remained compliant with the directive since then.

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

2. BASIS OF PREPARATION

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

These condensed interim financial statements have been prepared in accordance with the Treasury Board of Canada's Directive on Accounting Standards: GC 5200 Crown Corporations Quarterly Financial Reports, using 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, 2023. 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, 2023.

(b) 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:

- Accrued employee benefit liabilities for post-employment and other long-term employee benefit plans are recognized at the present value of the defined benefit obligations.

(c) 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, the reported amounts of assets and liabilities, the disclosure of contingent assets and contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results may 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.

The Corporation's key sources of estimation uncertainty during the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are related to the measurement of expected credit loss for accounts receivable and unbilled revenue, the determination of the useful lives of property and equipment, the determination of employee benefit obligations, the determination of unsatisfied (or partially unsatisfied) performance obligations, the determination of whether a contingent liability needs to be disclosed or a provision for contract remediation expenses or other contract related liabilities need to be recognized, and the allocation of expenses to administer the DPSA.

QUARTERLY FINANCIAL REPORT (In thousands of Canadian dollars, unless otherwise indicated)

The critical judgements made by management in applying the Corporation's accounting policies that have the most significant effect on the amounts recognized in the financial statements are related to the determination of the amount and timing of revenue recognition and related expenses, the accounting for cost recovery transactions, the allocation of indirect expenses related to administration of DPSA, the assessment of whether there have been significant changes in credit risks impacting the expected credit loss for accounts receivable and unbilled revenue, the determination of right-of-use assets and lease liabilities, and the determination of whether an item is recognized in the financial statements as a provision or disclosed as a contingent liability.

(d) 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, 2023.

4. CASH

Cash balances include advances received from foreign buyers and others not yet paid to Canadian exporters and, when applicable, amounts held back from Canadian exporters to be remitted at later dates in accordance with the terms and conditions of contracts. Also, see note 12 for a description of the Corporation's revolving line of credit.

The currency profile of the Corporation's cash was as follows as at:

	December 31, 2023		March 31, 2023	
	Original currency	**Canadian dollars**	Original currency	Canadian dollars
Canadian dollars	**391,312**	**$ 391,312**	142,257	$ 142,257
U.S. dollars	**34,676**	**45,952**	70,331	95,052
Euros	**3,414**	**4,993**	8,344	12,225
Chinese renminbi	**2,739**	**510**	2,553	503
		$ 442,767		$ 250,037

QUARTERLY FINANCIAL REPORT (In thousands of Canadian dollars, unless otherwise indicated)

5. ACCOUNTS RECEIVABLE

Accounts receivable include amounts that are due to the Corporation for Fees for service invoiced and yet to be collected, amounts due from foreign buyers related to amounts already paid to Canadian exporters and other amounts primarily from Canadian government organizations. These amounts are based on normal international trade terms and are generally non-interest bearing.

The Corporation's accounts receivable consisted of the following as at:

	December 31, 2023	March 31, 2023
Accounts receivable	$ 20,966	$ 12,820
Accrued receivables	1,254	250
	$ 22,220	$ 13,070

The accrued receivables include $962 of parliamentary appropriation authorized for this fiscal year which has not been received (March 31, 2023 — nil).

The currency profile of the Corporation's accounts receivable was as follows as at:

	December 31, 2023		March 31, 2023	
	Original currency	Canadian dollars	Original currency	Canadian dollars
U.S. dollars	11,524	$ 15,272	8,603	$ 11,627
Canadian dollars	6,948	6,948	1,443	1,443
		$ 22,220		$ 13,070

Credit and market risks related to accounts receivable are disclosed in note 12.

6. OTHER ASSETS

The Corporation's other assets included the following as at:

	December 31, 2023	March 31, 2023
Prepaid expenses	$ 694	$ 662
Unbilled revenues	443	102
	$ 1,137	$ 764

(In thousands of Canadian dollars, unless otherwise indicated)

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities represent amounts due related to the Corporation's Operating and administrative expenses, amounts due to Canadian exporters from amounts received from foreign buyers and other miscellaneous amounts due. These amounts are due on normal trade terms.

The Corporation's accounts payable and accrued liabilities consisted of the following as at:

	December 31, 2023	March 31, 2023
Accounts payable	**$ 17,169**	$ 22,187
Accrued liabilities	**4,113**	3,972
	$ 21,282	$ 26,159

The currency profile of the Corporation's accounts payable and accrued liabilities was as follows as at:

	December 31, 2023		March 31, 2023	
	Original currency	**Canadian dollars**	Original currency	Canadian dollars
U.S. dollars	**11,455**	**$ 15,180**	10,136	$ 13,697
Canadian dollars	**6,086**	**6,086**	12,437	12,437
Chinese renminbi	**87**	**16**	127	25
		$ 21,282		$ 26,159

Market and liquidity risks related to accounts payable and accrued liabilities are disclosed in note 12.

8. DEFERRED REVENUE

A reconciliation of the Corporation's deferred revenue is as follows:

	December 31, 2023	March 31, 2023
Balance at the beginning of the year	**$ 1,360**	$ 607
Plus: additional deferred revenue	**1,853**	2,804
Less: amounts recognized as Fees for service	**(1,563)**	(2,041)
Impact of netting unbilled and deferred revenue from same contract	**(377)**	(10)
Balance at the end of the period	**$ 1,273**	$ 1,360

QUARTERLY FINANCIAL REPORT (In thousands of Canadian dollars, unless otherwise indicated)

9. DEFERRED GOVERNMENT FUNDING

The 2021 Federal Budget restored an annual parliamentary appropriation of $13.0 million, commencing in fiscal year 2022–2023. This appropriation was increased to $13.6 million per the Supplementary Estimate(C) for 2023-2024 which allotted funding for compensation adjustments. This funding is to be used exclusively for the costs to administer the DPSA.

A reconciliation of the Corporation's deferred government funding is as follows:

	December 31, 2023	March 31, 2023
Balance at the beginning of the year	**$ -**	$ -
Plus: funding from the Government of Canada	**13,615**	13,000
Less: government funding revenue recognized	**(10,730)**	(13,000)
Balance at the end of the period	**$ 2,885**	$ -

During the three and nine-month periods ended December 31, 2023, the Corporation recognized revenue from government funding of $4.1 million and $11.1 million respectively (for the three and nine-month periods ended December 31, 2022 — $3.7 million and $10.1 million respectively) which amounted to the cost to administer the DPSA. Included in the government funding recognized in the current quarter is $347 thousand related to 2022-2023 appropriation which was retroactively awarded during 2023-2024.

10. LEASE LIABILITIES

The Corporation's leasing activities relate to office space and office equipment.

In November 2014, the Corporation entered into a fifteen-year lease agreement for office space at the Corporation's current location. The lease payments commenced on December 1, 2016, and the lease was set to expire at the end of November 2031 with an option to extend the term of the lease for an additional five years. The option to extend the lease term is not included in the initial measurement of the right-of-use asset and lease liability, since at contract inception, CCC was not reasonably certain to exercise the option.

A reconciliation of the Corporation's lease liabilities is as follows:

	December 31, 2023	March 31, 2023
Balance at the beginning of the year	**$ 5,467**	$ 5,972
Interest expense	**123**	177
Lease payments	**(511)**	(682)
Balance at the end of the period	**$ 5,079**	$ 5,467

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The lease liabilities are presented on the Statement of Financial Position as follows:

	December 31, 2023	March 31, 2023
Current	$ 533	$ 521
Non-current	4,546	4,946
	$ 5,079	$ 5,467

Interest expense related to lease liabilities are included in finance cost. For the three and nine-month periods ended December 31, 2023, the Corporation's Operating and administrative expenses include $219 and $616 respectively ($213 and $584 for the three and nine-month periods ended December 31, 2022) related to variable lease payments that are not included in the measurement of lease liabilities. For the three and nine-month periods ended December 31, 2023, and December 31, 2022, there were no significant expenses related to leases of low-value assets and short-term leases for which the recognition exemption has been applied.

On February 2, 2024, the Corporation executed a termination lease agreement for its existing office space concurrently with entering into a twelve-year lease agreement for new office premises. Consequently, the Corporation anticipates relocating to the new premises on July 1, 2024. It is important to note that the signing of the termination lease agreement constitutes a non-adjusting subsequent event; therefore, its impacts have not been incorporated into the financial results for the year ended December 31, 2023.

The estimated impacts of the termination lease agreement for the current fiscal year are outlined below:

- A cash payment of $2.8 million for termination fees, disbursed in February 2024.
- An anticipated positive effect on net profit of $0.7 million in the final quarter of 2023-2024, stemming from the gain on lease termination, partially offset by accelerated depreciation of leasehold improvements and revised right-of-use assets.
- An increase in right-of-use assets of $0.6 million.
- A reduction in lease liability by $1.9 million.

As the Corporation is slated to vacate its current office space by June 30, 2024, it is expected that the leasehold improvements and revised right-of-use assets will be fully depreciated by that date. Additionally, the revised lease liability is anticipated to be entirely settled.

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11. CAPITAL MANAGEMENT

For the preparation of these condensed interim financial statements, the Corporation's objective, definition, and key strategies with respect to its capital are consistent with those disclosed in the Corporation's audited annual financial statements for the year ended March 31, 2023.

The Corporation is not subject to externally imposed capital requirements.

On June 7, 2023, the Corporation's Board of Directors approved the issuance of a dividend of $4.0 million (2022 — $1.0 million) payable to its shareholder. The dividend was paid to its shareholder in November 2023.

The Corporation's breakdown of the equity was as follows, as at:

		December 31, 2023		March 31, 2023
Contributed capital	**$**	**10,000**	$	10,000
Retained earnings		**51,923**		34,611
	$	**61,923**	$	44,611

12. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

As described in the Corporation's Annual Report and audited financial statements for the year ended March 31, 2023, the Corporation is exposed to credit risk, market risk and liquidity risk as a result of holding financial instruments.

The following section is a description of the most significant 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. The credit risk arises principally from the Corporation's cash and cash equivalents, accounts receivable and unbilled revenue which includes Fees for service due to the Corporation. 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. During the year, 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 specifies approved investment instruments and portfolio limits. Per the investment policy, the Corporation is permitted to invest cash and cash equivalents in highly liquid demand deposits and temporary investments 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)

Accounts receivable

The Corporation has credit risk related to accounts receivable which includes Fees for service revenue and other amounts owed to the Corporation. Other amounts include situations where the Corporation may agree to pay DPSA and non-DPSA invoices at the request of Canadian exporters prior to receiving funds from the U.S. Department of Defence or other foreign buyers.

Since the DPSA foreign buyer is rated AAA by recognized rating agencies, the credit exposure is minimized to acceptable levels. For non-DPSA foreign buyers, the Corporation assesses the credit risk to ensure it is also within acceptable levels.

As at December 31, 2023, 90% (March 31, 2023 — 89%) of the Corporation's accounts receivable were from AAA credit rated counterparties.

The Corporation measures a loss allowance on accounts receivable equal to the lifetime expected credit loss. The lifetime expected credit loss is estimated based on the Corporation's historical credit loss experience adjusted for factors specific to foreign buyers or other entities including credit risk rating, general economic conditions, an assessment of both the current and forecasted direction of conditions at the reporting date as well as the impact of any unresolved contract issues on the collectability of accounts receivable. The allowance for expected credit loss is related to identified credit risks associated to individual accounts receivable balances.

The following table shows the movement in lifetime expected credit loss that has been recognized for accounts receivable in accordance with the simplified approach set out in *IFRS 9*:

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	December 31, 2023	March 31, 2023
Balance at the beginning of the year	**$ -**	$ 72
Net remeasurement of loss allowance	**-**	16
Amounts written off	**-**	(89)
Loss on foreign exchange	**-**	1
Balance at the end of the period	**$ -**	$ -

When applicable, changes in allowance for expected credit loss are included in the other expenses component of Operating and administrative expenses.

As at December 31, 2023, the Corporation recognized a loss allowance for expected credit loss of $0 (March 31, 2023 — $16) related to accounts receivable from foreign buyers and other entities arising from contracts with customers. There has been no change in the estimation techniques or significant assumptions made during the current reporting period.

The maximum exposure to credit risk for accounts receivable by geographic region was as follows as at:

	December 31, 2023	March 31, 2023
United States	**$ 13,078**	$ 8,732
Canada	**6,939**	2,949
Central America and Caribbean	**1,101**	594
Asia *	**899**	-
South America	**203**	276
Africa	**-**	519
	$ 22,220	$ 13,070

* Includes Middle East

Accounts receivable are considered past due when the payer has failed to make the payment by the contractual due date. The ageing profile of the Corporation's past due accounts receivable was as follows as at:

	December 31, 2023	March 31, 2023
< 30 days	**$ 6,990**	$ 3,455
> 30 days and < 180 days	**5,618**	2,245
> 180 days	**650**	1,738
	$ 13,258	$ 7,438

All overdue accounts receivable are considered fully collectable as at December 31, 2023, as it is normal for the Corporation to encounter delays in collecting certain accounts receivable as a result of the foreign environment in which it operates.

(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 interest rate risk or other price risk, however, as noted below, it does have currency risk exposure.

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. The Corporation is exposed to foreign currency risk on its accounts receivable and accounts payable denominated in foreign currencies due to timing differences between their initial recognition and the actual receipt or payment of cash. As at December 31,2023, the Corporation's currency risk exposure is minimal.

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 is minimized through compliance with the Corporation's investment policy whereby cash and cash equivalents are invested in highly liquid demand deposits and temporary investments with a Canadian financial institution in order to meet financial obligations on a timely basis.

A potential claim for damages for non-performance of outstanding contracts could create liquidity risk for the Corporation. To mitigate this risk, the Corporation has contractual recourse that consists of, in all material respects, back-to-back contractual obligations from Canadian exporters in an amount equal to the value of the contract. In addition, the Corporation receives an indemnity from the exporter against any additional costs incurred by entering into the back-to-back contractual relationship. In order to further mitigate its overall liquidity risk exposure from non-performance on contracts, the Corporation may supplement this recourse by requiring the Canadian exporter to provide commercial securities including holdbacks, bank guarantees, surety bonds, parent guarantees, insurance assignments, property liens, personal guarantees and shareholder cash to be held in trust with the Corporation.

As part of the normal course of business, management assesses the likelihood of any contingent liabilities. Contingent liabilities with respect to certain unresolved contract issues are disclosed in note 17(b).

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Under contract terms, other than DPSA related contracts, payments to Canadian exporters are usually not made in advance of receipt of payment from foreign buyers, and therefore do not expose the Corporation to liquidity risk.

The *CCC 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 $40.0 million (March 31, 2023 — $40.0 million) Canadian or its U.S. dollar equivalent. The credit facility is used exclusively for the Corporation's working capital requirements to facilitate payments to Canadian exporters under the DPSA business line.

As per contractual terms in the DPSA business line, the Corporation commits to payments to Canadian exporters within thirty days on most contracts. For International contracts, the Corporation commits to payments within two to five business days from receipt of payments from the foreign buyer. At times, collection of amounts from the foreign buyer on DPSA contracts can take more than thirty days. This can occasionally result in the Corporation using the credit facility in the normal course of operations. Indebtedness under this agreement is unsecured and this credit facility has an expiry date of June 30, 2024, subject to extension by the Minister of Finance or the approval of a corporate plan. As at December 31, 2023, the draw on this line of credit was nil (March 31, 2023 — nil).

Accounts payable and accrued liabilities

Accounts payable and accrued liabilities are due on normal trade terms. The maturity profile of the Corporation's accounts payable and accrued liabilities was as follows as at:

	December 31, 2023	March 31, 2023
< 1 year	**$ 21,282**	$ 26,159
	$ 21,282	$ 26,159

(In thousands of Canadian dollars, unless otherwise indicated)

13. REVENUE FROM CONTRACTS WITH CUSTOMERS

(a) Disaggregation of Fees for service revenue

The sources of the Corporation's Fees for service revenue were as follows:

	For the three months ended December 31		For the nine months ended December 31	
	2023	2022	**2023**	2022
International business	**$ 7,556**	$ 10,911	**$ 20,987**	$ 15,818
Lottery programs	**358**	146	**675**	412
	$ 7,914	$ 11,057	**$ 21,662**	$ 16,230
Government of Canada initiatives	**685**	1,170	**2,585**	2,865
	$ 8,599	$ 12,227	**$ 24,247**	$ 19,095

For the three and nine-month periods ended December 31, 2023, a cumulative catch-up adjustment of $75 (nil for the three and nine-month periods ended December 31, 2022) was recognized reducing the Fees for service revenue and increasing deferred revenue.

(b) Unsatisfied (or partially unsatisfied) performance obligations

Unsatisfied, or partially unsatisfied, contractual performance obligations are mostly due to services which are yet to be provided by the Corporation over the remaining duration of the contract. The following table sets out the estimated transaction prices allocated to unsatisfied, or partially unsatisfied contracted performance obligations of the Corporation to be met in the future and the estimated timing of revenue recognition as at December 31, 2023. Actual amounts may differ from these estimates due to a variety of factors, including the unpredictable nature of customer behaviour, industry regulation and the economic and political environments in which the Corporation operates.

	December 31, 2023
< 1 year	**$ 7,997**
> 1 year	**29,377**
	$ 37,374

The above amounts do not include the variable consideration portions that cannot be reliably estimated.

(In thousands of Canadian dollars, unless otherwise indicated)

14. OTHER INCOME

The Corporation earns other income from various sources that are not typically from international business activities. The table below illustrates the sources of other income:

	For the three months ended December 31		For the nine months ended December 31	
	2023	2022	**2023**	2022
Discounting income	**$ 15**	$ 16	**$ 48**	$ 102
Miscellaneous income	**(21)**	15	**8**	79
	$ (6)	$ 31	**$ 56**	$ 181

15. OPERATING AND ADMINISTRATIVE EXPENSES

Operating and administrative expenses are as follows:

	For the three months ended December 31		For the nine months ended December 31	
	2023	2022	**2023**	2022
Workforce compensation and related expenses	**$ 5,029**	$ 4,146	**$ 14,782**	$ 12,637
Contract management services	**650**	650	**1,950**	1,950
Consultants	**768**	1,071	**1,610**	1,720
Travel and hospitality	**470**	298	**1,254**	581
Rent and related expenses	**257**	244	**723**	670
Software, hardware and support	**176**	210	**550**	618
Communications	**189**	97	**505**	276
Depreciation	**152**	146	**457**	435
Other expenses	**107**	163	**461**	297
	$ 7,798	$ 7,025	**$ 22,292**	$ 19,184

16. RELATED PARTY TRANSACTIONS

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

17. CONTINGENCIES

(a) Collateral

The value of outstanding deliverables to be performed by Canadian exporters for which the Corporation, on behalf of the Government of Canada, has guaranteed performance to foreign government buyers as at December 31, 2023, was $7.3 billion (March 31, 2023 — $7.2 billion).

To manage performance risk of outstanding deliverables, the Corporation has contractual recourse that consists, in all material respects, of corresponding deliverables from Canadian exporters in the same amount. The collateral pledged by Canadian exporters is to mitigate counterparty risk to the deliverables guaranteed by the Corporation in the event of non-performance claims against the Corporation for reasons related to the Canadian exporter failing to perform per the terms and conditions of contracts. The types of collateral the Corporation may require the Canadian exporter to provide are various 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.

As at December 31, 2023, commercial securities that have been pledged to the Corporation as collateral by Canadian exporters in the unlikely event of their contractual non-performance are in the form of parent guarantees totalling $6.3 billion (March 31, 2023 — $6.4 billion in the form of parent guarantees) which approximate their fair value.

(b) Other contingent liabilities

As part of the normal course of business, management assesses the likelihood of any contingent liabilities. As of December 31, 2023, the Corporation has certain unresolved contract issues that are being actively managed towards resolution. Any financial impact on the Corporation, including the potential for future contract remediation expenses, cannot be reasonably estimated at this time.