Canadian Commercial Corporation
Corporation Commerciale Canadienne

Canadian Commercial Corporation

Quarterly Financial Report (Unaudited)

For the three and six-month periods ended September 30, 2012

Management's Discussion and Analysis

Nature of Business and Operating Environment

In this current climate of global economic challenges and increased competition for Canadian exporters, the Canadian Commercial Corporation (CCC) has strategically positioned itself to play a leadership role in working as a Government of Canada partner with a broad spectrum of Canadian companies who are looking to access international defence markets, and international infrastructure markets in emerging and developing countries. The five business line strategy that CCC has developed is already proving 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

CCC's year to date net results of operations and comprehensive income for the six-month period ended September 30, 2012 was a deficit of $0.9 million, compared to a surplus of $0.8 million reported for the six-month period ended September 30, 2011. The decrease of $1.7 million, or 209%, was the result of revenues decreasing by $0.1 million and total expenses increasing by $1.6 million. The parliamentary appropriation was the same as compared to last year. The decrease in revenues was a result of fees for service increasing by $0.4 million, offset by a decrease in other revenue of $0.5 million. Of the $0.5 million decrease in other revenue, $0.3 million or 56% was the result of a loss on foreign exchange upon conversion of the Corporation's un-hedged US dollar cash balances to Canadian dollars for financial statement purposes. The Canadian dollar strengthened in relationship to its US dollar counterpart as at September 30, 2012 compared to September 30, 2011.

CCC continues to make important investments to support its growth. Administrative expenses will be higher in 2012-13 as a result of the continued transition required to streamline its processes in the delivery of the Defence Production Sharing Agreement (DPSA) and avoid future increases in outsourced costs of some $1.7 million annually. A further transition investment of $1.4 million is expected during the current fiscal year to advance the transition required to secure these future savings. The estimated cost avoidance anticipated from this transition investment over the life of the 2012-13 to 2016-17 Corporate Plan is in excess of $6.0 million. Expenses continue to be incurred in a controlled manner, relative to revenues earned and respective of the spirit of the Government of Canada's cost containment measures set out in the 2010 Budget.

The result for the three-month period ended September 30, 2012 was a deficit of $0.8 million compared to a surplus of $0.5 million for the three-month period ended September 30, 2011. The decrease of $1.3 million was the result of revenues decreasing by $0.8 and total expenses increasing by $0.5 million. Of the $0.8 million decrease in revenues, $0.4 million or 63% was the result of a loss on foreign exchange conversion of the Corporation's un-hedged US dollar cash balances to Canadian dollars for financial statement purposes, as the Canadian dollar strengthened as at September 30, 2012 compared to September 30, 2011.

A more detailed discussion of CCC's 2012-13 financial highlights follows:

Statement of Comprehensive Income Discussion

Summary results

	FOR THE THREE MONTHS ENDED				FOR THE SIX MONTHS ENDED		
	September 30 2012 ($ Millions)	**September 30 2011 ($ Millions)**	**% Increase (Decrease)**		**September 30 2012 ($ Millions)**	**September 30 2011 ($ Millions)**	**% Increase (Decrease)**
Revenues:							
Commercial trading transactions - prime contracts	**$ 582.5**	$ 589.3	(1%)		**$ 1,277.8**	$ 1,052.5	21%
Cost of commercial trading transactions - prime contracts	**(582.5)**	(589.3)	1%		**(1,277.8)**	(1,052.5)	(21%)
Fees for service	**2.6**	2.8	(4%)		**6.0**	5.6	7%
Other revenues	**(0.1)**	0.5	(109%)		**0.2**	0.7	(76%)
Total Revenues	**2.5**	3.3	(20%)		**6.2**	6.3	(2%)
Expenses:							
Administrative expenses	**7.2**	6.7	8%		**14.8**	13.2	12%
Contract remediation expenses	**-**	-	- %		**-**	-	- %
Total Expenses	**7.2**	6.7	8%		**14.8**	13.2	12%
International procurement services for government clients	**4.6**	9.7	(52%)		**9.2**	14.6	(37%)
Cost of international procurement services for government clients	**(4.6)**	(9.7)	52%		**(9.2)**	(14.6)	37%
Parliamentary appropriations	**3.9**	3.9	- %		**7.7**	7.7	- %
Net results of operations and comprehensive income	**$ (0.8)**	$ 0.5	(266%)		**$ (0.9)**	$ 0.8	(209%)

Revenues

Revenues consist of commercial trading transactions on prime contracts, fees for service, other income, net interest income, and gains (or an offset to revenues if a loss) on foreign exchange. It is important to note that revenues from commercial trading transactions on prime contracts are fully offset by the cost of commercial trading transactions on prime contracts. After offsetting the cost of commercial trading transactions, total revenues were $6.2 million for the six-month period ended September 30, 2012 compared to $6.3 million for the six-month period ended September 30, 2011, a decrease of $0.1 million or 2%. Total revenues were $2.5 million for the three-month period ended September 30, 2012 compared to the $3.3 million for the three-month period ended September 30, 2011, a decrease of $0.8 million or 20%.

Commercial trading transactions and procurement services transactions combined were $1,287.0 million for the six-month period ended September 30, 2012, compared to the $1,067.1 million for the six-month period ended September 30, 2011, an increase of $219.9 million or 21%. Commercial trading transactions and procurement services transactions combined were $587.1 million for the three-month period ended September 30, 2012, compared to the $599.0 million for the three-month period ended September 30, 2011, a decrease of $11.9 million or 2%. The increase for the six-month period ended September 30, 2012 was due predominately to the accelerated production and delivery of Light Armoured Vehicles (LAV) vehicles related to the $2.2 billion US Department of Defence (DoD) Foreign Military Sales (FMS) contract and the $0.5 billion Marine Corps contract signed during the Corporation's fiscal year ended March 31, 2010 and March 31, 2011, respectively, however, production was relatively the same in the three-month ended September 30, 2012 compared to the three-month period ended September 30, 2011.

CCC does not charge fees for its DPSA business line transactions as these are funded through parliamentary appropriations. For the six-month period ended September 30, 2012, commercial trading transactions generated from DPSA activity (including sales of LAVs to the US DoD) represent 86% of the Corporation's total commercial trading transactions compared to the six-month period ended September 30, 2011 of 87%. For all of its other business lines, the Corporation charges fees, generally as a percentage of the contract value. Fees are recognized as revenue when goods and services are delivered. Fees for service are $6.0 million for the six-month period ended September 30, 2012 compared to $5.6 million for the six-month period ended September 30, 2011, an increase of $0.4 million or 7%. Fees for service are $2.6 million for the three-month period ended September 30, 2012 compared to $2.8 million for the three-month period ended September 30, 2011, a decrease of $0.2 million or 4%. The increase was due to fees generated from the Global Defence and Security (GDS) business line of $1.6 million. The increase in GDS fees of $1.3 million, or 325%, was offset by a decrease of fees generated from the International Commercial Business (ICB) business line (including Cuba) of $0.9 million during the six-month period ended September 30, 2012 compared to the six-month period ended September 30, 2011. The increase in fees earned from GDS through the six-month period ended September 2012 was partly due to fees earned upon the successful signing of a contract in the Middle East as well as fees earned on deliveries of export goods to Australia, Argentina and Peru. Fees generated from all other business lines were lower for the six-month period ended September 30, 2012 compared to the six-month period ended September 30, 2011 by $0.9 million and the three-month period ended September 30, 2012 compared to the three-month period ended September 30, 2011 by $0.6 million respectively, as there were not as many scheduled contracted milestones (on which fees are recognized).

Other revenues include: (1) Foreign exchange gains or losses due to the weakening or strengthening of the Canadian dollar compared to its US dollar counterpart on exposed US cash balances; (2) Finance income earned on the Corporation's cash balances; and (3) Other income comprised primarily of fees earned for providing early payment discounts and payment wiring to Canadian exporters.

For the six-month period ended September 30, 2012: (1) The foreign exchange loss of $0.1 million, due to the strengthening of the Canadian dollar compared to its US dollar counterpart was $0.3 million or 130% lower compared to the foreign exchange gain of $0.2 million for the six-month period ended September 30, 2011; (2) Finance income of $0.2 million was $0.1 million or 37% lower compared to the result for the six-month period ended September 30, 2011 as cash balances were generally lower; and (3) Other income of $0.1 million was $0.1 million or 63% lower compared to the result for the six-month period ended September 30, 2011 as Canadian exporters did not opt for as many early payment discounts in the current year.

For the three-month period ended September 30, 2012: (1) The foreign exchange loss of $0.2 million, due to the strengthening of the Canadian dollar compared to its US dollar counterpart was $0.5 million or 163% lower compared to the foreign exchange gain of $0.3 million for the six-month period ended September 30, 2011; (2) Finance income of $0.1 million was marginally or 30% lower compared to the result for the six-month period ended September 30, 2011; and (3) Negligible other income was $0.1 million or 78% lower compared to the result for the six-month period ended September 30, 2011.

Expenses

For the six-month period ended September 30, 2012, total expenses were $14.8 million, an increase of $1.6 million or 12% higher than the six-month period ended September 30, 2011. For the three-month period ended September 30, 2012, total expenses were $7.2 million, an increase of $0.5 million or 8% higher than the three-month period ended September 30, 2011. For the six-month period ended September 30, 2012, Management did not incur or accrue any contract remediation expenses and will defer recognition until such time as actual amounts are or can be determined. Administrative expenses are paid primarily in Canadian dollars, are not impacted by foreign exchange fluctuations, and included the following:

- Workforce compensation and related expenses of $8.9 million for the six-month period ended September 30, 2012 was $1.2 million, or 15%, higher than the six-month period ended September 30, 2011. Workforce compensation and related expenses of $4.4 million for the three-month period ended September 30, 2012 was $0.5 million, or 13%, higher than the three-month period ended September 30, 2011. The increase is due to a combination of staff increases primarily resulting from the transition of work previously subcontracted by Public Works and Government Services Canada (PWGSC), collective bargaining, annual salary band increment increases, coupled with increased training and moderate increases in overtime. Workforce compensation and related expenses accounts for approximately 60% of CCC's administrative expenditures.

- PWGSC costs for core contract management services under the DPSA that will not or have not yet been transferred to CCC, were $2.3 million for the six-month period ended September 30, 2012, $0.2 million or 10% higher than the six-month period ended September 30, 2011. PWGSC costs of $1.2 million for the three-month period ended were $0.2 million or 20% higher than the three-month period ended September 30, 2011.

- Rent and related expenses of $1.2 million for the six-month period ended September 30, 2012 was $0.2 million, or 15%, higher than the six-month period ended September 30, 2011. Rent and related expenses of $0.6 million for the three-month period ended September 30, 2012 was $0.1 million, or 20%, higher than the three-month period ended September 30, 2011. This is due to the leasing of additional floor space for staff increases to accommodate the transition of work previously subcontracted to PWGSC.

- Travel and hospitality expenses of $0.8 million for the six-month period ended September 30, 2012 were $0.2 million, or 44%, higher than the six-month period ended September 30, 2011. Travel and hospitality expenses of $0.3 million for the three-month period ended September 30, 2012 were the same for the three-month period ended September 30, 2011. Travel and hospitality expenses were higher in the three-month period ended September 30, 2012 due primarily to increased business development activity in support of Canadian exporters in pursuit of and to secure of projects in Colombia, Ghana and the Middle East.

- Consultant expenses of $0.5 million for the six-month period ended September 30, 2012 were $0.3 million, or 39%, lower than the six-month period ended September 30, 2011. Consultant expenses of $0.2 million for the three-month period September 30, 2012 were $0.2 million, or 45%, lower in the three-month period ended September 30, 2011. Consultant expenses complement CCC's workforce and perform assignments requiring a specific expertise. The Corporation was able to negotiate significant savings on in-country consultation services related to the delivery of export promotion undertaken in China.

- The amortization of intangible assets and depreciation of property and equipment and leasehold improvement costs of $0.4 million were approximately the same for the six-month period ended September 30, 2012 compared to the six-month period ended September 30, 2011. Amortization and depreciation of $0.2 million were approximately the same for the three-month period ended September 30, 2012 compared to the three-month period ended September 30, 2011.

- Computer software, hardware and support costs of $0.3 million, over and above the information management personnel included in workforce compensation or consultants, were approximately the same for the six-month period ended September 30, 2012 compared to the six-month period ended September 30, 2011. Computer software, hardware and support costs of $40.0 thousand were approximately the same for the three-month period ended September 30, 2012 compared to the three-month period ended September 30, 2011.

- Other expenses of $0.4 million were approximately the same for the six-month period ended September 30, 2012 compared to the six-month period ended September 30, 2011. Other expenses of $0.2 million for the three-month period September 30, 2012 were approximately the same for the three-month period ended September 30, 2012 compared to the three-month period ended September 30, 2011. Other expenses, include Corporate communication costs (marketing, advertising, and the design and printing of corporate promotional material) telecommunications and bank charges.

For the six-month period ended September 30, 2012, Management did not incur any contract remediation expenses compared to $8 thousand recorded in the six-month period ended September 30, 2011. This is reflective of the Corporation's current portfolio of stable active projects and its robust risk management processes.

Parliamentary Appropriations

The Corporation is to receive parliamentary appropriations of $15.5 million in fiscal year 2012-13, the same amount as in fiscal year 2011-12. The appropriation is drawn down in equal monthly instalments throughout the year. The amount drawn down of $7.7 million for the six-month period ended September 30, 2012 was the same as six-month period ended September 30, 2011. The amount drawn down of $3.9 million for the three-month period ended September 30, 2012 was the same as three-month period ended September 30, 2011.

Statement of Financial Position Discussion

Summary of financial position

	September 30 2012 ($ Millions)	**March 31 2012 ($ Millions)**	**% Increase (Decrease)**
Total assets	**$ 1,358.4**	$ 1,043.8	30%
Total liabilities	**$ 1,309.8**	$ 994.4	32%
Shareholder's Equity	**$ 48.6**	$ 49.4	(2%)

CCC's total assets were $1,358.4 million as at September 30, 2012, $314.6 million, or 30%, higher than at March 31, 2012. The increase is due to an increase in progress payments to Canadian exporters of $319.7 million, representing a 60% increase compared to March 31, 2012, offset by a net decrease of all other asset statement line items of $5.1 million.

CCC's total liabilities were $1,309.8 million as at September 30, 2012, $315.5 million, or 32%, higher than at March 31, 2012. The increase is due primarily to an increase in the amount of progress payments from foreign customers of $319.7 million, representing a 60% increase compared to March 31, 2012, offset by a net decrease of all other liability statement line items of $4.2 million.

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 $281.9 million were $41.6 million or 13% lower than the balance at March 31, 2012 and represents 21% of the total assets of $1,358.4 million. Trade payables and accrued liabilities of $298.6 million were $9.1 million or 3% lower than the balance at March 31, 2012 and represent 23% of the total liability of $1,309.8 million.

Progress payments to Canadian exporters of $856.4 million represent 63% of the total assets of $1,358.4 million. Progress payments from foreign customers of $856.7 million represent 65% of the total liabilities of $1,309.8 million. Contractually, progress payments occur predominantly on the DPSA business line 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, $714.1 million or 83% relate to the significant $2.2 billion US DoD FMS contract.

Advances from foreign customers of $151.4 million, decreased by $13.4 million or 8% compared to the balance at March 31, 2012. Advances to Canadian exporters of $126.5 million, increased by $3.1 million or 3% compared to the balance at March 31, 2012. Of the $151.4 million in advances from foreign customers, $129.7 million or 86%, were related to eight projects for Argentina, Ecuador, Ghana, Middle East, Norway, and Peru. Of these advances from foreign customers, $125.4 million were passed on to Canadian exporters, accounting for 99% of advances to Canadian exporters. Contractually, advances are not offered on the DPSA business line. For all other business lines, CCC's risk mitigation practices require that for most projects, CCC holds back advance payments made by foreign customers and releases them to Canadian exporters as delivery obligations are fulfilled. This explains the period-over-period variations that occur.

For the six-month period ended September 30, 2012, CCC's equity, fully ascribed to the Government of Canada, was $48.6 million, a decrease of $0.9 million from March 31, 2012 as detailed in the Statement of Comprehensive Income Discussion. CCC's equity backstops the commercial risks inherent in its portfolio of undelivered contracts which totalled approximately $2.5 billion at September 30, 2012. It is worth noting that during the Corporation's fiscal year ended March 31, 2010, CCC signed a significant contract with the US DoD FMS for the delivery of LAVs. The undelivered commitment under this contract as of September 30, 2012 is $1.5 billion which represents 60% of the Corporation's total undelivered commitments of $2.5 billion.

Statement of Cash Flows Discussion

Summary of cash flows

	FOR THE THREE MONTHS ENDED				FOR THE SIX MONTHS ENDED		
	September 30 2012 ($ Millions)	**September 30 2011 ($ Millions)**	**% Increase (Decrease)**		**September 30 2012 ($ Millions)**	**September 30 2011 ($ Millions)**	**% Increase (Decrease)**
Operating activities	**$ 8.6**	$ 3.8	124%		**$ 33.8**	$ (5.7)	690%
Investing activities	**$ (0.1)**	$ -	(100%)		**$ (0.1)**	$ -	(100%)
Effect of exchange rate changes on cash and cash equivalents	**$ (0.2)**	$ 0.3	(163%)		**$ (0.1)**	$ 0.2	(130%)

Operating activities

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

During the six-month period ended September 30, 2012, CCC provided $33.8 million in cash from its operating activities, as compared to the $5.7 million used during the six-month period ended September 30, 2011, an increase of $39.5 million. Details are as follows:

- Receipts from foreign customers include cash received for deliveries, progress work performed and advances as stipulated under the foreign customer contract. Receipts from foreign customers were $1,634.9 million for the six-month period ended September 30, 2012, $452.3 million or 38% higher than the amount reported for the six-month period ended September 30, 2011. The increase is due to the accelerated production and delivery of LAV vehicles (Non-core DPSA activity) related to the significant contracts with the US DoD FMS and Marine Corps contracts signed during the Corporation's fiscal year ended March 31, 2010 and March 31, 2011, respectively.

- Payments to Canadian suppliers include cash paid for deliveries, progress work performed and advances as stipulated under the domestic contract. Payments to Canadian suppliers were $1,600.8 million for the six-month period ended September 30, 2012, $411.7 or 35% higher than the amount reported in the six-month period ended September 30, 2011. The increase is due to the accelerated production and delivery of LAV vehicles.

- For the six-month period ended September 30, 2012 compared to the six-month period ended September 30, 2011, the increase in receipts from foreign customers were greater than the increase in payments to Canadian suppliers by $40.6 million, therefore providing $40.6 million to cash. In addition to the $40.6 cash provided by export transactions, another $0.2 million increase in cash provided from finance income, fees for services and other income received. The combined total of $40.8 million provided was offset by an increase of $1.3 million in use of cash for administrative payments.

During the three-month period ended September 30, 2012, CCC provided $8.6 million in cash from its operating activities, as compared to the $3.8 million provided during the three-month period ended September 30, 2011, an increase of $4.8 million. Details are as follows:

- Receipts from foreign customers include cash received for deliveries, progress work performed and advances as stipulated under the foreign customer contract. Receipts from foreign customers were $764.5 million for the three-month period ended September 30, 2012, $151.7 million or 25% higher than the amount reported for the three-month period ended September 30, 2011. The increase is due to the accelerated production and delivery of LAV vehicles (Non-core DPSA activity) related to the $2.2 billion US DoD FMS and $0.5 billion Marine Corps contracts signed during the Corporation's fiscal year ended March 31, 2010 and March 31, 2011, respectively.

- Payments to Canadian suppliers include cash paid for deliveries, progress work performed and advances as stipulated under the domestic contract. Payments to Canadian suppliers were $754.8 million for the three-month period ended September 30, 2012, $145.6 or 24% higher than the amount reported in the three-month period ended September 30, 2011. The increase is due to the accelerated production and delivery of LAV vehicles.

- For the three-month period ended September 30, 2012 compared to the three-month period ended September 30, 2011, increase in receipts from foreign customers were greater than increase in payments to Canadian suppliers by $6.1 million, therefore providing $6.1 million to cash.

- In addition to the $6.1 million cash provided by export transactions, $0.3 million increase in cash was provided from finance income, fees for service and other income received. The combined total of $6.4 million provided was offset by an increase of $1.6 million in use of cash for administrative payments.

Investing activities

For the six-month period ended September 30, 2012, the Corporation capitalized $0.1 million related to property, equipment or intangible but only capitalized a negligible amount related to property, equipment or intangible for the six-month period ended September 30, 2011, resulting in a negligible use of cash.

Effect of exchange rate changes on cash and cash equivalents

For the six-month period ended September 30, 2012, CCC recorded a foreign exchange translation loss of $0.1 million as a result of the Canadian dollar's strengthening compared to its US dollar counterpart, from $1.0025 USD at March 31, 2012 to $1.0171 USD at September 30, 2012. This resulted in $0.3 million use of cash when compared to the six-month period ended September 30, 2011.

Comparison of Financial Results to the Budget contained in the 2012-13 to 2016-17 Corporate Plan

For the three-month period ended September 30, 2012, total commercial trading transactions (including procurement services transactions) of $1,287.01 million were $218.4 million, or 22%, higher than budget. Of the $218.4 million favourable variance, $145.6 million, or 67%, is due to the production of

LAVs required to meet deliveries related to $2.2 billion US DoD FMS and $0.5 billion Marine Corps contracts signed during the Corporation's fiscal year ended March 31, 2010 and March 31, 2011, respectively. Fees for service of $6.0 million were $0.5 million, or 8%, lower than budget. Fees for service are earned as contract work is delivered or completed.

For the six-month period ended September 30, 2012, fees generated from the GDS business line were $1.0 million higher than budget, due to a contract award fee earned upon the successful signing of a contract in the Middle East and deliveries made on contracts in Australia, Argentina and Peru. Fees generated from all other business lines were $1.5 million lower than budget as there were not as many scheduled contracted milestones (on which fees are recognized) occurring in the six-month period ended September 30, 2012 as originally expected.

For the six-month period ended September 30, 2012, the Corporation recorded a foreign exchange translation loss of $0.1 million resulting from movements in the Canadian dollar relative to its US dollar. The Corporation manages exchange gains and losses through monitoring and maintaining unhedged foreign currency balances at negligible levels. The Corporation's unhedged US currency balance of $4.5 million represents 0.4% of its US denominated assets. The Corporation does not budget for gains or losses on foreign exchange.

For the six-month period ended September 30, 2012, the Corporation did not record any contract remediation expenses and will only do so once actual amounts are or can be determined. As a result, contract remediation expenses were under budget by $50.0 thousand. This reflects the Corporation's robust risk management practices, including its updated Enterprise Risk Management (ERM) framework and improved contract management practices.

For the six-month period ended September 30, 2012, administrative expenses of $14.8 million were $1.0 million, or 6%, lower than the budget. This result reflects Management's continued control of expenditures relative to revenues earned, while also respecting the spirit of the Government of Canada's cost containment measures set out in Budget 2010.

As explained under the *Parliamentary Appropriation* section of the Statement of Operations, Comprehensive Income Discussion, the Corporation was approved to receive parliamentary appropriations of $15.5 million in fiscal year 2012-13, which will be drawn down in equal monthly instalments throughout the year. For the six-month period ended September 30, 2012, the amount drawn down was $7.7 million, the same amount as was budgeted for the six-month period.

2012-13 Forecast

For the fiscal year ended March 31, 2013, the Corporation is forecasting an operating surplus of $1.3 million, $1.1 million or 455% higher than the result for the fiscal year ended March 31, 2012 and $2.1 million or 267% higher than the 2012-13 Corporate Plan budget.

For fiscal year 2012-13, revenues after offsetting the cost of commercial trading transactions are expected to be $17.2 million, $3.5 million, or 26%, higher than the results achieved in fiscal year 2011-12 and $2.2 million, or 15%, higher than the 2012-13 Corporate Plan budget. Expected increase in fees for service will contribute to this result, as fees are expected to increase based on the anticipated delivery requirements on several contracts expected to be signed in the second half of the year in GDS and ICB business lines. Net finance income for fiscal year 2012-13 is anticipated to be $0.4 million, $0.1 million higher than in fiscal year 2011-12 and approximately the same as the 2012-13 Corporate

Plan budget, as average interest rate yields and cash balances are expected to increase in the second half of fiscal year 2012-13.

With respect to CCC's expenses, contract remediation expenses are forecast to be only $0.1 million, virtually the same as in fiscal year 2011-12 and the same as in the 2012-13 Corporate Plan budget. This reflects the high degree of risk management that is applied to all of CCC's business. This amount is achievable given CCC's current portfolio of active and potential projects and the robust nature of its ERM framework, as well as the Corporation's continued investments to improve contract due diligence and management practices.

Administrative expenses are forecast to be $31.2 million, $2.3 million, or 8%, higher than in fiscal year 2011-12 and $0.1 million, or less than 1%, higher than the 2012-13 Corporate Plan budget. This includes an estimated $1.4 million in DPSA investment transition costs. Amortization and depreciation expenses will remain consistent with the 2011-12 amount of $0.7 million as the Corporation enters its fifth full year of amortizing capitalized costs related to the ERP system that was implemented in fiscal 2007-08.

As noted earlier, the parliamentary appropriation for fiscal year 2012-13 has been approved at $15.5 million, the same level as in fiscal year 2011-12 and the same as in the 2012-13 Corporate Plan budget.

CCC's Commitment to Performance and Risk Management

CCC manages a wide range of risks as it undertakes to fulfill its mandate of promoting and facilitating international trade on behalf of Canadian exporters. The strategy for managing these risks is discussed in detail in the Corporation's fiscal 2011-12 Annual Report and 2011-12 Corporate Plan Summary.

The Government of the United States remains at a AAA rating for most rating agencies and as a AA+ by one agency. These ratings remain within the requirements of CCC's credit policy.

There are no other significant changes, new risks or uncertainties identified during the three and six-months period ended September 30, 2012 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.

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.

Marc Whittingham
President and CEO

Anthony Carty, BA, MBA, CPA
Vice-President, Risk and Finance, and CFO

Ottawa, Canada
November 14, 2012

Statement of Financial Position (Unaudited)

As at (in thousands of Canadian dollars)	September 30 2012	March 31 2012
Assets		
Current assets		
Cash and cash equivalents (note 4)	**$ 92,091**	$ 58,485
Trade receivables (notes 5 and 10)	**281,943**	323,543
Advances to Canadian exporters	**126,490**	123,342
Progress payments to Canadian exporters	**856,402**	536,667
	1,356,926	1,042,037
Non-current assets		
Property and equipment	**1,137**	1,170
Intangible assets	**340**	624
	1,477	1,794
	$ 1,358,403	$ 1,043,831
Liabilities		
Current liabilities		
Trade payables and accrued liabilities (notes 5 and 10)	**$ 298,582**	$ 289,461
Advances from foreign customers	**151,419**	164,844
Progress payments from foreign customers	**856,690**	536,961
Employee benefits (note 6)	**308**	297
	1,306,999	991,563
Non-current liabilities		
Employee benefits (note 6)	**2,526**	2,437
Provision for contract remediation expenses (notes 7 and 8)	**323**	386
	2,849	2,823
	1,309,848	994,386
Shareholder's Equity		
Contributed surplus	**10,000**	10,000
Retained earnings	**38,555**	39,445
	48,555	49,445
	$ 1,358,403	$ 1,043,831

Contingencies and guarantees (note 15)

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

Authorized for issue on November 14, 2012:

Marc Whittingham
President and CEO

Anthony Carty, BA, MBA, CPA
Vice-President, Risk and Finance, and CFO

Statement of Comprehensive Income (Unaudited)

(in thousands of Canadian dollars)	For the three months ended September 30 2012	For the three months ended September 30 2011	For the six months ended September 30 2012	For the six months ended September 30 2011
Revenues				
Commercial trading transactions - prime contracts (note 9)	**$ 582,521**	$ 589,334	**$ 1,277,774**	$ 1,052,499
Less: cost of commercial trading transactions - prime contracts	**(582,521)**	(589,334)	**(1,277,774)**	(1,052,499)
Fees for service (note 9)	**2,640**	2,753	**5,963**	5,550
Other income (note 9)	**25**	116	**84**	229
Finance income, net (note 12)	**92**	131	**168**	268
Gain (loss) on foreign exchange	**(162)**	257	**(72)**	240
	2,595	3,257	**6,143**	6,287
Expenses				
Administrative expenses (note 11)	**7,225**	6,662	**14,774**	13,200
Contract remediation expenses (recovery)	**-**	8	**-**	8
	7,225	6,670	**14,774**	13,208
International procurement services for government clients				
Procurement services transactions (note 9)	**$ 4,622**	$ 9,680	**$ 9,182**	$ 14,569
Less: cost of procurement services transactions	**(4,622)**	(9,680)	**(9,182)**	(14,569)
	-	-	**-**	-
Net results of operations before Parliamentary appropriations	**(4,630)**	(3,413)	**(8,631)**	(6,921)
Parliamentary appropriations (note 13)	**3,870**	3,871	**7,741**	7,741
Net results of operations and comprehensive income	**$ (760)**	$ 458	**$ (890)**	$ 820

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

Statement of Changes in Equity (Unaudited)

For the three and six months ended September 30, 2012

(in thousands of Canadian dollars)	Contributed Surplus	Retained Earnings	Total
Balance - July 1, 2012	**$ 10,000**	**$ 39,315**	**$ 49,315**
Net results of operations and comprehensive income		**(760)**	**(760)**
Balance - September 30, 2012	**$ 10,000**	**$ 38,555**	**$ 48,555**
Balance - April 1 , 2012	**$ 10,000**	**$ 39,445**	**$ 49,445**
Net results of operations and comprehensive income		**(890)**	**(890)**
Balance - September 30, 2012	**$ 10,000**	**$ 38,555**	**$ 48,555**

For the three and six months ended September 30, 2011

(in thousands of Canadian dollars)	Contributed Surplus	Retained Earnings	Total
Balance - July 1, 2011	$ 10,000	$ 39,783	$ 49,783
Net results of operations and comprehensive income		458	458
Balance - September 30, 2011	$ 10,000	$ 40,241	$ 50,241
Balance - April 1 , 2011	$ 10,000	$ 39,421	$ 49,421
Net results of operations and comprehensive income		820	820
Balance - September 30, 2011	$ 10,000	$ 40,241	$ 50,241

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

Statement of Cash Flows (Unaudited)

(in thousands of Canadian dollars)	For the three months ended September 30 2012	2011	For the six months ended September 30 2012	2011
Cash flows from operating activities				
Receipts from foreign customers	**$ 764,517**	$ 612,856	**$ 1,634,860**	$ 1,182,617
Finance income, net (note 12)	**92**	131	**168**	268
Fees for service and other income received	**3,217**	2,869	**6,047**	5,779
Payments to Canadian exporters	**(754,823)**	(609,238)	**(1,600,782)**	(1,189,113)
Administrative payments	**(8,296)**	(6,653)	**(14,271)**	(13,015)
Parliamentary appropriations	**3,870**	3,871	**7,741**	7,741
Cash provided by (used in) operating activities	**8,577**	3,836	**33,763**	(5,724)
Cash flows from investing activities				
Acquisition of property and equipment	**(74)**	(7)	**(79)**	(7)
Acquisition of intangible assets	**(6)**	-	**(6)**	-
Cash (used in) investing activities	**(80)**	(7)	**(85)**	(7)
Effect of exchange rate changes on cash and cash equivalents	**(162)**	257	**(72)**	240
Increase (decrease) in cash and cash equivalents	**8,335**	4,086	**33,606**	(5,491)
Cash and cash equivalents at beginning of period	**83,756**	65,678	**58,485**	75,254
Cash and cash equivalents at end of period (note 4)	**$ 92,091**	$ 69,764	**$ 92,091**	$ 69,764

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

Notes to Unaudited Condensed Interim Financial Statements

September 30, 2012

1. Nature, organization and funding

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

The Corporation generally acts as the prime contracting agency when foreign governments, international organizations, or foreign private sector buyers wish to purchase products and services from Canada through the Canadian Government. The Corporation enters into contracts with these foreign customers and into corresponding supply contracts with Canadian exporters. Additionally, the Corporation enters into procurement 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 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, 2012. 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, 2012.

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 those estimates as factors impacting the ability of Canadian exporters to fulfill their contracts change or there are changes in the Corporation's discount rate and rate of compensation increases.

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 related to liabilities for the employee benefits, the provision for contract remediation expenses and contingencies and used judgment related to the provision for contract remediation expenses.

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

Note 6 – employee benefits
Note 7 – provision for contract remediation expenses
Note 15 – contingencies and guarantees

Functional and presentation currency

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

3. Significant accounting policies

The accounting policies applied in the preparation of these condensed interim financial statements are consistent with those disclosed in the Corporation's audited annual financial statements for the year ended March 31, 2012.

Future accounting changes

New standards and amendments issued by the International Accounting Standards Board (the "IASB") as having a possible effect on the Corporation in the future have been assessed and are detailed in the

Corporation's annual report and financial statements for the year ended March 31, 2012. The Corporation is currently determining the impact, if any, of these standards and amendments on its financial statements.

4. Cash and cash equivalents

Cash and cash equivalents included:

	September 30, 2012			March 31, 2012		
(in thousands)	**Original currency**		**Canadian dollars**	Original currency		Canadian dollars
U.S. dollars	**54,136**	**$**	**53,227**	38,139	$	38,044
Canadian dollars	**38,475**		**38,475**	19,899		19,899
Chinese renminbi	**1,617**		**253**	870		138
Australian dollars	**133**		**136**	133		137
Euros	**-**		**-**	200		267
		$	**92,091**		$	58,485

The Corporation invests in short-term deposits in Canadian banks. The average term to maturity of short-term deposits was 3 days as at September 30, 2012 (March 31, 2012 - 3 days) and the portfolio yield to maturity was 0.05% as at September 30, 2012 (March 31, 2012 - 0.08%).

Of the cash and cash equivalents, $26,141,000 as at September 30, 2012 (March 31, 2012 - $42,731,000) represents advances and holdbacks received from foreign customers which will be remitted to Canadian exporters at later dates in accordance with contracts. Where contracted, these funds may accrue interest to the credit of the Canadian exporter or foreign customer.

5. Trade receivables and trade payables and accrued liabilities

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

	September 30, 2012			March 31, 2012		
(in thousands)	**Original currency**		**Canadian dollars**	Original currency		Canadian dollars
U.S. dollars	**228,042**	**$**	**224,211**	244,578	$	243,965
Canadian dollars	**57,571**		**57,571**	79,170		79,170
Malaysian ringgit	**485**		**156**	1,235		403
Australian dollars	**5**		**5**	5		5
		$	**281,943**		$	323,543

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

	September 30, 2012		March 31, 2012	
(in thousands)	**Original currency**	**Canadian dollars**	**Original currency**	**Canadian dollars**
U.S. dollars	**201,133**	**$ 197,755**	259,636	$ 258,985
Canadian dollars	**100,478**	**100,478**	29,890	29,890
Malaysian ringgit	**470**	**151**	1,198	391
Australian dollars	**138**	**141**	138	143
Chinese renminbi	**366**	**57**	330	52
		$ 298,582		$ 289,461

6. Employee benefits

The Corporation provides non-vested sick leave benefits to its employees, as provided for under labour contracts and conditions of employment, as well as severance benefits to its employees 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.

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

	Sick Leave Benefits		Severance Benefits	
(in thousands of Canadian dollars)	**2012**	**2011**	**2012**	**2011**
Accrued benefit obligation				
Balance at beginning of year	**$ 746**	$ 643	**$ 1,818**	$ 1,484
Current service cost	**87**	271	**165**	159
Interest cost	**36**	34	**87**	80
Benefits paid	**(42)**	(241)	**(148)**	(1)
Actuarial loss	**82**	39	**157**	96
Accrued benefit obligation at end of the year	**$ 909**	$ 746	**$ 2,079**	$ 1,818
Unamortized net actuarial losses				
Experience losses	**n/a**	n/a	**$ (123)**	$ (103)
Changes in assumptions	**n/a**	n/a	**(131)**	6
Total unamortized net actuarial losses	**n/a**	n/a	**$ (254)**	$ (97)
Total accrued employee benefits at end of year	**$ 909**	$ 746	**$ 1,825**	$ 1,721

	Sick Leave Benefits		Severance Benefits	
	2012	**2011**	**2012**	**2011**
Economic assumptions				
Accrued benefit obligation as of March 31				
Discount rate	**4.01%**	4.78%	**3.98%**	4.75%
Rate of economic salary increase	**1.50%**	1.50%	**1.50%**	1.50%
Benefit costs for year ended March 31				
Discount rate	**4.01%**	4.78%	**3.98%**	4.75%
Rate of economic salary increase	**1.50%**	1.50%	**1.50%**	1.50%

Demographic assumptions including seniority and promotional salary increases, withdrawal rates, rates of retirement, pensionable disability, mortality and longevity improvement factors, taken from the actuarial report on the pension plan for the Public Service of Canada, are also considered in the actuarial valuation of accrued employee benefits.

Included in administrative expenses as workforce compensation and related expenses for sick leave benefits for the three months ended September 30, 2012 was a charge of $25,000 (September 30, 2011 - nil), $50,000 for the six months ended September 30, 2012 (September 30, 2011 - nil) and for severance benefits for the three months ended September 30, 2012 a charge of $25,000 (September 30, 2011 – nil), $50,000 for the six months ended September 30, 2012 (September 30, 2011 – nil), related to the expected change in liability of these benefits in the reporting period and changes in management estimates.

The sick leave and severance employee benefits have a current (payable within twelve months) and non-current portion and are presented on the Statement of Financial Position as follows:

	September 30, 2012			March 31, 2012		
(in thousands of Canadian dollars)	**Sick Leave**	**Severance**	**Total Benefits**	**Sick Leave**	**Severance**	**Total Benefits**
Total employee benefits	**$ 959**	**$ 1,875**	**$ 2,834**	$ 909	$ 1,825	$ 2,734
Less: current portion employee benefits	**(82)**	**(226)**	**(308)**	(78)	(219)	(297)
Non-current portion employee benefits	**$ 877**	**$ 1,649**	**$ 2,526**	$ 831	$ 1,606	$ 2,437

7. Provision for contract remediation expenses

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

(in thousands of Canadian dollars)	Contract re-procurement	Legal	Total
Balance, March 31, 2012	$ -	$ 386	$ 386
Provision made during the quarter	-	-	-
Provision used during the quarter	-	(63)	(63)
Provision reversed during the quarter	-	-	-
Balance, September 30, 2012	**$ -**	**$ 323**	**$ 323**

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

No onerous contracts were identified as at September 30, 2012.

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 implementation of strategies to optimize operating surpluses ensures that capital is available to facilitate investments and to mitigate any potential losses related to operational, supplier performance and credit risk.

Key strategies used by the Corporation to manage its capital base include: controlling contract remediation expenses; balancing smart growth with operating expenses; minimizing foreign exchange exposure; optimizing interest income; and ensuring that appropriation funding is sufficient to cover Defence Production Sharing Agreement (DPSA) activities and service offerings related to public policy. The Corporation is not subject to externally imposed capital requirements.

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

(in thousands of Canadian dollars)	September 30, 2012	March 31, 2012
Contributed surplus	**$ 10,000**	$ 10,000
Retained earnings	**38,555**	39,445
Provision for contract remediation expenses	**323**	386
	$ 48,878	$ 49,831

9. Commercial trading transactions, fees for service, other income and procurement services transactions

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

The profile by geographic region is as follows:

For the three months ended September 30 **(in thousands of Canadian dollars)**	**2012** **Revenues***	**International procurement services**	**Total**	**2011** **Revenues***	**International procurement services**	**Total**
United States	**$ 517,841**	**$ -**	**$ 517,841**	$ 529,186	$ 766	$ 529,952
Central America & Caribbean	**41,862**	**1,586**	**43,448**	16,639	721	17,360
South America	**20,084**	**-**	**20,084**	43,336	-	43,336
Asia	**4,722**	**12**	**4,734**	2,483	364	2,847
Europe	**47**	**2,677**	**2,724**	102	4,592	4,694
Canada	**461**	**341**	**802**	443	3,132	3,575
Africa	**27**	**6**	**33**	14	105	119
Other	**142**	**-**	**142**	-	-	-
	$ 585,186	**$ 4,622**	**$ 589,808**	$ 592,203	$ 9,680	$ 601,883

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

For the six months ended September 30 **(in thousands of Canadian dollars)**	**2012** **Revenues***	**International procurement services**	**Total**	**2011** **Revenues***	**International procurement services**	**Total**
United States	**$ 1,107,708**	**$ -**	**$ 1,107,708**	$ 928,554	$ 2,599	$ 931,153
Central America & Caribbean	**73,529**	**2,196**	**75,725**	34,012	927	34,939
South America	**64,081**	**-**	**64,081**	61,140	-	61,140
Africa	**23,956**	**25**	**23,981**	29,765	378	30,143
Asia	**12,529**	**51**	**12,580**	2,856	1,493	4,349
Europe	**124**	**6,530**	**6,654**	128	6,040	6,168
Canada	**942**	**380**	**1,322**	913	3,132	4,045
Other	**953**	**-**	**953**	910	-	910
	$ 1,283,822	**$ 9,182**	**$ 1,293,004**	$ 1,058,278	$ 14,569	$ 1,072,847

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

Value of contracts signed is distinct from revenues. Value of contracts signed describes the value of contracts and amendments signed and effective which amounted to $354,000,000 for the six months ended September 30, 2012 (September 30, 2011 - $892,000,000).

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 Corporation 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 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. For the six months ended September 30, 2012, 86.68% (September 30, 2011 – 88.43%) of the Corporation's revenues were from AAA customers.

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

(in thousands of Canadian dollars)	September 30, 2012	March 31, 2012
United States	**$ 218,620**	$ 223,205
Central America and Caribbean	**36,530**	65,127
South America	**18,841**	14,596
Asia	**3,619**	2,067
Canada	**3,330**	11,025
Europe	**497**	599
Africa	**494**	6,912
Other	**12**	12
	$ 281,943	$ 323,543

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:

(in thousands of Canadian dollars)	September 30, 2012	March 31, 2012
< 1 year	**$ 281,531**	$ 319,527
> 1 and < 3 years	**412**	4,016
	$ 281,943	$ 323,543

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:

(in thousands of Canadian dollars)	September 30, 2012	March 31, 2012
< 30 days	**$ 13,269**	$ 7,814
> 30 days and < 180 days	**53,098**	3,121
> 180 days	**1,713**	1,216
	$ 68,080	$ 12,151

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:

(in thousands of Canadian dollars)	September 30, 2012	March 31, 2012
Holdbacks	**$ 1,212**	$ 1,230
Bank guarantees	**$ 46,571**	$ 47,091
Surety bonds	**$ 87,478**	$ 88,750
Parent guarantees	**$ 332,294**	$ 457,933
Other	**$ 10,082**	$ 10,640

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. The Corporation uses this strategy 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.

Under a specific series of financing contracts, included in trade payables and accrued liabilities the Corporation owed $9,936,000 as at September 30, 2012 (March 31, 2012 - $21,249,000) of which $9,340,000 as at September 30, 2012 (March 31, 2012 - $21,081,000) bears interest at the cost of funds plus 0.20%.

(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, 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 million:

i) The Corporation has a revolving credit facility providing access to funds in the amount of $40 million Canadian or its US dollar equivalent. Indebtedness under this agreement is unsecured and this credit facility has no expiry date. As at September 30, 2012, there were no draws on this line of credit (March 31, 2012– nil).

ii) The Corporation enters into discounting arrangements with recourse with a financial institution, up to a maximum of $15 million as at September 30, 2012 (September 30, 2011 - $15 million) to support its trade financing program.

In addition, the Corporation enters into further credit arrangements up to a maximum of $25 million as at September 30, 2012 (March 31, 2012 - $25 million) where transactions are fully insured by a related Crown corporation with a Moody’s credit rating of AAA, thereby mitigating all liquidity risk related to its trade financing program. The Corporation had an expense of nil for the three months ended September 30, 2012 (September 30, 2011 – nil) and an expense recovery of $16,000 for the six months ended September 30, 2012 (September 30, 2011 – expense of $353,000) related to this trade financing 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:

(in thousands of Canadian dollars)	September 30, 2012	March 31, 2012
< 1 year	**$ 298,582**	$ 289,461

Under a specific series of financing contracts related to the Corporation’s trade financing program, included in trade payables and accrued liabilities, the Corporation owed $9,936,000 as at September 30, 2012 (March 31, 2012 - $21,249,000) of which $9,340,000 as at September 30, 2012 (March 31, 2012 - $21,081,000) bears interest at the cost of funds plus 0.20% and the Corporation has offered as security certain foreign trade receivables under certain conditions. The Corporation, however, also has access to a number of commercial securities should the foreign party fail to repay these trade receivables. The amount of outstanding trade receivables pledged as securities under these arrangements was $34,860,000 as at September 30, 2012 (March 31, 2012 - $62,552,000) and was profiled as follows:

(in thousands of Canadian dollars)	September 30, 2012	March 31, 2012
< 1 year	**$ 34,449**	$ 58,536
> 1 and < 3 years	**411**	4,016
	$ 34,860	$ 62,552

11. Administrative expenses

Administrative expenses included the following:

(in thousands of Canadian dollars)	For the three months ended September 30 2012	For the three months ended September 30 2011	For the six months ended September 30 2012	For the six months ended September 30 2011
Workforce compensation and related expenses	**$ 4,429**	$ 3,934	**$ 8,858**	$ 7,687
Contract management services	**1,230**	1,024	**2,253**	2,047
Rent and related expenses	**630**	525	**1,212**	1,053
Travel and hospitality	**263**	289	**784**	544
Consultants	**234**	425	**516**	847
Amortization and depreciation	**38**	176	**402**	352
Software, hardware and support	**201**	40	**306**	291
Corporate communications	**20**	75	**40**	87
Other expenses	**180**	174	**402**	292
	$ 7,225	$ 6,662	**$ 14,773**	$ 13,200

12. Finance income, net

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

(in thousands of Canadian dollars)	For the three months ended September 30 2012	For the three months ended September 30 2011	For the six months ended September 30 2012	For the six months ended September 30 2011
Financial assets				
- Finance income earned on cash and cash equivalents	**$ 92**	$ 132	**$ 168**	$ 268
Financial liabilities				
- Finance cost on payables and other liabilities	**$ -**	$ -	**$ -**	$ -
	$ 92	$ 132	**$ 168**	$ 268

13. Parliamentary appropriations

Appropriations authorized by the Parliament of Canada are included in comprehensive income for the three months ended September 30, 2012 in the amount of $3,870,000, (September 30, 2011 - $3,871,000) and for the six months ended September 30, 2012 in the amount of $7,741,000 (September 30, 2011 - $7,741,000).

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

As a result of all related party transactions, the amounts due from and to these parties included in trade receivables and trade payables respectively were as follows:

(in thousands of Canadian dollars)	September 30, 2012	March 31, 2012
Trade receivables	**$ 834**	$ 10,498
Trade payables	**$ 32**	$ 425

(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, based in part on the amount of contracts procured and provides certain functions at cost.

The cost of these services amounted to $1,239,000 for the three months ended September 30, 2012 (September 30, 2011 - $1,051,000) and $2,274,000 for the six months ended September 30, 2012 (September 30, 2011 - $2,112,000) 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.

Revenues related to the provision of these services amounted to $187,500 for the three months ended September 30, 2012 (September 30, 2011 - $187,500) and $375,000 for the six months ended September 30, 2012 (September 30, 2011 - $375,000) and are included in fees for service.

(c) Other
Commercial trading transactions, fees for service, and procurement 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 government entities:

(in thousands of Canadian dollars)	For the three months ended September 30 2012	2011	For the six months ended September 30 2012	2011
Foreign Affairs and International Trade Canada	**$ 2,152**	$ 778	**$ 3,525**	$ 1,373
Canadian International Development Agency	**$ 93**	$ 918	**$ 100**	$ 3,232
Environment Canada	**$ -**	$ -	**$ 8**	$ -
Department of National Defence	**$ -**	$ 3,126	**$ -**	$ 3,126

The Corporation also participates in employee interchange programs with the following departments or agencies: Foreign Affairs and International Trade Canada and Department of National Defence.

15. Contingencies and 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 international procurement services for government clients. The total prime and procurement services contract portfolio value remaining to be fulfilled was as follows:

(in thousands of Canadian dollars)		**September 30, 2012**		**March 31, 2012**
< 1 year	**$**	**1,404,730**	$	1,984,373
> 1 and < 3 years		**1,118,216**		1,179,831
> 3 and < 5 years		**6,107**		9,227
Total contract portfolio	**$**	**2,529,053**	$	3,173,431

The total contract portfolio remaining to be fulfilled, in addition to the provision for contract remediation expenses provided for in the Statement of Financial Position, represents the Corporation's maximum contractual obligations and is estimated to be $2,529,376,000 as at September 30, 2012 (March 31, 2012 - $3,173,817,000).