Canadian Commercial Corporation
Corporation Commerciale Canadienne

Canadian Commercial Corporation

Quarterly Financial Report
(Unaudited)

For the three-month period ended
June 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 operations and comprehensive income for the quarter ended June 30, 2012 resulted in a loss of $0.1 million, compared to the surplus of $0.4 million reported for the quarter ended June 30, 2011. The year-over-year variance of $0.5 million, or 125%, is the result of increased revenues of $0.5 million, while total expenses increased by $1.0 million.

With regard to total expenses, 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 in 2012-13 to advance the transition required to secure these future savings. The estimated cost avoidance or savings 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.

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

Statement of Comprehensive Income Discussion

Summary results

	For the three months ended June 30 2012 ($ Millions)	For the three months ended June 30 2011 ($ Millions)	% Increase (Decrease)
Revenues:			
Commercial trading transactions - prime contracts	**$ 695.3**	$ 463.2	50%
Cost of commercial trading transactions - prime contracts	**$ (695.3)**	$ (463.2)	50%
Fees for service	**$ 3.3**	$ 2.8	18%
Other revenues	**$ 0.2**	$ 0.2	- %
Total Revenues	**$ 3.5**	$ 3.0	17%
Expenses:			
Administrative expenses	**$ 7.5**	$ 6.5	15%
Contract remediation expenses	**$ -**	$ -	- %
Total Expenses	**$ 7.5**	$ 6.5	15%
International procurement services for government clients	**$ 4.6**	$ 4.9	(6%)
Cost of international procurement services for government clients	**$ (4.6)**	$ (4.9)	(6%)
Parliamentary appropriations	**$ 3.9**	$ 3.9	- %
Net results of operations and comprehensive income	**$ (0.1)**	$ 0.4	(125%)

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 $3.5 million for the quarter ended June 30, 2012 compared to the $3.0 million for the quarter ended June 30, 2011, an increase of $0.5 million, or 17%.

Commercial trading transactions and procurement services transactions combined were $699.9 million during the quarter ended June 30, 2012, compared to the $468.1 million during the quarter ended June 30, 2011, an increase of $231.8 million or 50% due predominately to the accelerated production 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 in 2009-10 and 2010-11, respectively.

CCC does not charge fees for its DPSA business line transactions as these are funded through parliamentary appropriations. For the quarter ended June 30, 2012, commercial trading transactions generated from DPSA activity (including sales of LAVs to the US DoD) represent 84% of the Corporation's total commercial trading transactions. 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 were $3.3 million in the quarter ended June 30, 2012 compared to $2.8 million in the quarter ended June 30, 2011, an increase of $0.5 million or 18%. Fees generated from the Global Defence and Security (GDS) business line of $1.0 million were $0.8 million or 400% higher in the quarter ended June 30, 2012 compared to the quarter ended June 30, 2011, mainly due to fees earned upon the successful signing of a contract in the Middle East. Fees generated from all other business lines were $0.3 million lower as there were not as many scheduled contracted milestones (on which fees are recognized) occurring in the quarter ended June 30, 2012 compared to the quarter ended June 30, 2011.

Other revenues of $0.2 million include: (1) Foreign exchange gains or losses due to fluctuations in the Canadian dollar compared to its US dollar counterpart on exposed US cash balances (which are monitored closely and kept at nominal levels); (2) Interest 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. With respect to these items differences were negligible for the quarter ended June 30, 2012 compared to the quarter ended June 30, 2011.

Expenses

For the quarter ended June 30, 2012, total expenses were $7.5 million, an increase of $1.0 million or 15% higher than the quarter ended June 30, 2011. For the quarter ended June 30, 2012, Management did not 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 and are not impacted by foreign exchange fluctuations. For the quarter ended June 30, 2012 significant administrative expenses were:

- Workforce compensation was $4.4 million. This was higher by $0.6 million, or 16%, compared to the amount spent in the quarter ended June 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 accounted for 59% 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, of $1.0 million was the same amount spent as in the quarter ended June 30, 2011.

- Rent and related expenses of $0.6 million which was higher by $0.1 million in the quarter ended June 30, 2012, or 20%, compared to the amount spent in the quarter ended June 30, 2011. This is due to the acquisition of additional floor space for staff increases to accommodate the transition of work previously subcontracted to PWGSC.

- Travel expenses of $0.5 million, principally for operational requirements to secure or manage CCC's international contracts, was higher by $0.2 million, compared to the amount spent in the quarter ended June 30, 2011.

- Consultant expenses of $0.3 million, to complement CCC's workforce and perform assignments requiring a specific expertise, was lower by $0.1 million, compared to the amount spent in the quarter ended June 30, 2011.

- The amortization of intangible assets and depreciation of property and equipment and leasehold improvement costs of $0.2 million was the same amount amortized and depreciated as in the quarter ended June 30, 2011.

- Computer software, hardware and support costs, over and above the information management personnel included in workforce compensation or consultants of $0.3 million, was higher by $0.1 million, compared to the amount spent in the first quarter ended June 30, 2011.

- Other expenses, including Corporate communication costs (marketing, advertising, and the design and printing of corporate promotional material) telecommunications and bank charges, of $0.2 million, was higher by $0.1 million, compared to the amount spent in the quarter ended June 30, 2011.

For the quarter ended June 30, 2012, Management did not incur any contract remediation expenses. This is reflective of the Corporation's current portfolio of stable active projects and its robust risk management processes.

CCC closely monitors its administrative expenses and uses the ratio of administrative expenses to gross revenues to measure its administrative expenditure efficiency, with an objective not to exceed 2%. This objective was achieved through the quarter ended June 30, 2012. The ratio of administrative expenses to gross revenues for the quarter ended June 30, 2012 was 1.1%, an improvement over the 1.4% result for the quarter ended June 30, 2011.

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. For the quarter ended June 30, 2012, the amount drawn down was $3.9 million, the same as in the quarter ended June 30, 2011.

Statement of Financial Position Discussion

Summary of financial position

	June 30 2012 ($ Millions)	**March 31 2012 ($ Millions)**	**% Increase (Decrease)**
Total assets	**$1,274.8**	$1,043.8	22%
Total liabilities	**$1,225.5**	$ 994.4	23%
Shareholder's Equity	**$ 49.3**	$ 49.4	(<1%)

CCC's total assets were $1,274.8 million as at June 30, 2012, $231.0 million, or 22%, higher than at March 31, 2012. The majority of the increase is due to an increase in the amount of progress payments to Canadian exporters of $189.9 million, representing a 35% increase compared to March 31, 2012 and accounting for 82% of the $231.0 million overall increase in total assets. All other asset statement line items combined for a net increase of $41.1 million or 18% from March 31, 2012.

CCC's total liabilities were $1,225.5 million as at June 30, 2012, $231.1 million, or 23%, higher than at March 31, 2012. The increase is due primarily to an increase in the amount of progress payments from foreign customers of $190.0 million, representing a 35% increase compared to March 31, 2012 and accounting for 82% of the $231.1 million overall increase in total liabilities. All other liability statement line items combined for a net increase of $41.1 million or 18% from March 31, 2012.

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 $335.1 million were $11.6 million or 4% higher than the balance at March 31, 2012 and represents 26% of the total assets of $1,274.8 million. Trade payables and accrued liabilities of $337.6 million were $48.1 million higher than the balance at March 31, 2012 and represent 28% of the total liability of $1,225.5 million.

Progress payments to Canadian exporters of $726.7 million represent 57% of the total assets of $1,274.8 million. Progress payments from foreign customers of $726.9 million represent 59% of the total liabilities of $1,225.5 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, $600.8 million or 83% relate to the significant $2.2 billion US DoD FMS contract.

Advances from foreign customers of $157.9 million, decreased by $6.9 million or 4% compared to the balance at March 31, 2012. Advances to Canadian exporters of $127.6 million, increased by $4.3 million or 3% compared to the balance at March 31, 2012. Of the $157.9 million in advances from foreign customers, $131.5 million or 83%, were related to six projects for Argentina, Ecuador, Ghana, Norway, and Peru. Of these advances from foreign customers, $127.0 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 quarter ended June 30, 2012, CCC's equity, fully ascribed to the Government of Canada, was $49.3 million, a decrease of $0.1 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 $2.7 billion at June 30, 2012. It is worth noting that in 2009-10, CCC signed a significant contract with the US DoD FMS for the delivery of LAVs. The maximum potential value of this contract is $2.2 billion of which only $0.5 billion had been delivered as of June 30, 2012. The undelivered portion of this contract represents 63% of the Corporation's total undelivered commitments.

Statement of Cash Flows Discussion

Summary of cash flows

	For the three months ended June 30 2012 ($ Millions)	For the three months ended June 30 2011 ($ Millions)	% Increase (Decrease)
Operating activities	**$ 25.3**	$ (9.6)	(364%)
Investing activities	**$ (0.1)**	$ -	(100%)
Effect of exchange rate changes on cash and cash equivalents	**$ 0.1**	$ -	100%

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 uses 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 provided to the operation until the payment is made to the Canadian exporter as stipulated in the contract.

During the quarter ended June 30, 2012, CCC provided $25.3 million in cash from its operating activities, as compared to the $9.6 million used during the quarter ended June 30, 2011. 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 $871.2 million for the quarter ended June 30, 2012, $301.4 million or 53% higher than the amount reported for the quarter ended June 30, 2011. The increase is due to the accelerated production of LAV vehicles (Non-core DPSA activity) related to the $2.2 billion US DoD FMS and $0.5 billion Marine Corps contracts signed in 2009-10 and 2010-11, 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 $846.0 million for the quarter ended June 30, 2012, $266.1 or 46% higher than the amount reported in the quarter ended June 30, 2011. The increase is due to the accelerated production of LAV vehicles as noted above.

- For the quarter ended June 30, 2012, receipts from foreign customers were greater than payments to Canadian suppliers by $25.2 million. Of note, a payment of approximately $20.0 million was received immediately prior to June 30, 2012 and paid to the Canadian exporter subsequent to June 30, 2012.

Investing activities

The Corporation capitalized $0.1 million related to property, equipment or intangible assets during the quarter ended June 30, 2012, but did not capitalize any property, equipment or intangible assets during the quarter ended June 30, 2011.

Effect of exchange rate changes on cash and cash equivalents

For the quarter ended June 30, 2012, CCC recorded a foreign exchange translation gain of $0.1 million as a result of the Canadian dollar's decline compared to its US dollar counterpart, from $1.0025 USD at March 31, 2012 to $0.9822 USD at June 30, 2012.

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

For the quarter ended June 30, 2012, total commercial trading transactions (including procurement services transactions) of $699.9 million were $276.7 million, or 65%, higher than budget. Of the $276.7 million favourable variance, $200.2 million, or 72%, is due to the mass production of LAVs required to meet deliveries related to $2.2 billion US DoD FMS and $0.5 billion Marine Corps contracts signed in 2009-10 and 2010-11. Fees for service of $3.3 million were higher than budget by $0.1 million, or 3%. Fees for service are earned as contract work is delivered or completed. For the quarter ended June 30, 2012, fees generated from the GDS business line were $0.4 million higher than budget, mainly due to a contract award fee earned upon the successful signing of a contract in the Middle East, while fees generated from all other business lines were $0.3 million lower than budget as there were not as many scheduled contracted milestones (on which fees are recognized) occurring in the quarter ended June 30, 2012 as originally expected.

CCC recorded a foreign exchange translation gain of $0.1 million as a result of the Canadian dollar's decline compared to its US dollar counterpart, from $1.0025 USD at March 31, 2012 to $0.9822 USD at June 30, 2012. 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 $4.3 million represents 0.4% of its total US assets. The Corporation does not budget for gains or losses on foreign exchange.

The Corporation did not record any contract remediation expenses as of June 30, 2012 and will only do so once actual amounts are or can be determined. As a result, contract remediation expenses were under budget by $25.0 thousand. This reflects the Corporation's robust risk management practices, including its updated Enterprise Risk Management (ERM) framework and improved contract management practices.

Administrative expenses of $7.5 million were $0.5 million, or 6%, lower than the budgeted amount of $8.0 million. 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 and Retained Earnings 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 quarter ended June 30, 2012, the amount drawn down was $3.9 million, the same amount as was budgeted for this quarter.

2012-13 Forecast

For the fiscal year ending March 31, 2013, the Corporation is forecasting an operating surplus of $0.4 million, $0.2 million or 100% higher than the result at March 31, 2012.

For fiscal year 2012-13, revenues after offsetting the cost of commercial trading transactions are expected to be $15.5 million, $1.8 million, or 13%, greater than the results achieved in fiscal year 2011-12. An 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 in GDS and International Commercial Business (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 as average interest rate yields and cash balances are expected to increase in 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. 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 $30.4 million, $0.5 million, or 2%, greater than in fiscal year 2011-12. 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.

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 first quarter 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
August 14, 2012

Statement of Financial Position (Unaudited)

As at (in thousands of Canadian dollars)	June 30 2012	March 31 2012
Assets		
Current assets		
Cash and cash equivalents (note 4)	$ **83,756**	$ 58,485
Trade receivables (notes 5 and 10)	**335,124**	323,543
Advances to Canadian exporters	**127,637**	123,342
Progress payments to Canadian exporters	**726,616**	536,667
	1,273,133	1,042,037
Non-current assets		
Property and equipment	**1,194**	1,170
Intangible assets	**479**	624
	1,673	1,794
	$ **1,274,806**	$ 1,043,831
Liabilities		
Current liabilities		
Trade payables and accrued liabilities (notes 5 and 10)	$ **337,591**	$ 289,461
Advances from foreign customers	**157,867**	164,844
Progress payments from foreign customers	**726,916**	536,961
Employee benefits (note 6)	**302**	297
	1,222,676	991,563
Non-current liabilities		
Employee benefits (note 6)	**2,482**	2,437
Provision for contract remediation expenses (notes 7 and 8)	**333**	386
	2,815	2,823
	1,225,491	994,386
Shareholder's Equity		
Contributed surplus	**10,000**	10,000
Retained earnings	**39,315**	39,445
	49,315	49,445
	$ **1,274,806**	$ 1,043,831

Contingencies and guarantees (note 15)

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

Authorized for issue on August 14, 2012:

President and CEO

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

Statement of Comprehensive Income (Unaudited)

For the three months ended June 30 (in thousands of Canadian dollars)		2012		2011
Revenues				
Commercial trading transactions - prime contracts (note 9)		**$ 695,253**		$ 463,165
Less: cost of commercial trading transactions - prime contracts		**(695,253)**		(463,165)
Fees for service (note 9)		**3,323**		2,797
Other income (note 9)		**59**		113
Finance income, net (note 12)		**76**		137
Gain (loss) on foreign exchange		**90**		(17)
		3,548		3,030
Expenses				
Administrative expenses (note 11)		**7,548**		6,538
Contract remediation expenses (recovery)		**-**		-
		7,548		6,538
International procurement services for government clients				
Procurement services transactions (note 9)	**$ 4,560**		$ 4,889	
Less: cost of procurement services transactions	**(4,560)**		(4,889)	
		-		-
Net results of operations before Parliamentary appropriations		**(4,000)**		(3,508)
Parliamentary appropriations (note 13)		**3,870**		3,870
Net results of operations and comprehensive income		**$ (130)**		$ 362

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

Statement of Changes in Equity (Unaudited)

(in thousands of Canadian dollars)	Contributed Surplus	Retained Earnings	Total
Balance - March 31, 2012	**$ 10,000**	**$ 39,445**	**$ 49,445**
Net results of operations and comprehensive income		**(130)**	**(130)**
Balance - June 30, 2012	**$ 10,000**	**$ 39,315**	**$ 49,315**
Balance - March 31, 2011	$ 10,000	$ 39,421	$ 49,421
Net results of operations and comprehensive income		362	362
Balance - June 30, 2011	$ 10,000	$ 39,783	$ 49,783

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

Statement of Cash Flows (Unaudited)

For the three months ended June 30 (in thousands of Canadian dollars)	2012	2011
Cash flows from operating activities		
Receipts from foreign customers	**$ 871,210**	$ 569,761
Finance income, net (note 12)	**76**	137
Fees for service and other income received	**3,383**	2,910
Payments to Canadian exporters	**(845,981)**	(579,875)
Administrative payments	**(7,298)**	(6,362)
Parliamentary appropriations	**3,870**	3,870
Cash provided by (used in) operating activities	**25,260**	(9,559)
Cash flows from investing activities		
Acquisition of property and equipment	**(79)**	-
Cash (used in) investing activities	**(79)**	-
Effect of exchange rate changes on cash and cash equivalents	**90**	(17)
Increase (decrease) in cash and cash equivalents	**25,271**	(9,576)
Cash and cash equivalents at beginning of period	**58,485**	75,254
Cash and cash equivalents at end of period (note 4)	**$ 83,756**	$ 65,678

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

Notes to Unaudited Condensed Interim Financial Statements

June 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 and using the International Financial Reporting Standards ("IFRS") accounting policies as at and for the three months ended June 30, 2012. These condensed interim financial statements do not include all of the information required for full annual financial statements.

These condensed interim financial statements should be read in conjunction with the Corporation's annual report and 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 significant accounting policies of the Corporation are summarized below. These policies have been consistently applied to all years and periods presented, unless otherwise stated.

(a) Contracts

The Corporation records its **commercial trading transactions** and **procurement services transactions**, and their offsetting costs, when a delivery has taken place thus passing title of the purchased goods to the foreign customer. However, in the case where the contract provides for progress payments, commercial trading transactions and procurement services transactions are recorded upon acceptance by the

Corporation of the work performed. Commercial trading transactions related to prime contracts are included in **revenues**, and procurement services transactions, whereby the Corporation acts as an agent for another government or government department, are shown on a net basis under **international procurement services for government clients**.

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

Progress payments from foreign customers and **progress payments to Canadian exporters**, when required, represent payments on a percentage-of-completion basis associated with the work performed on a contract leading up to delivery. Usually these payments are restricted to 75 percent of costs incurred. Since title has not yet passed to foreign customers, the Corporation recognizes the progress payments made to Canadian exporters as an asset and the progress payments received from foreign customers as a liability. Progress payment assets and liabilities are reduced upon completion of delivery and acceptance by the foreign customer.

Advances from foreign customers and **advances to Canadian exporters** represent a down payment made at the outset of the contract before any work has been performed. The Corporation recognizes the advances made to Canadian exporters as an asset and the advances received from foreign customers as a liability. Advances made and received are reduced upon completion of delivery and acceptance by the foreign customer.

Other income is comprised mostly of income from discounting revenues related to advance payments. The Corporation offers, in certain circumstances, early payment on amounts owing to Canadian exporters in exchange for a fee. This discounting revenue is determined by applying a set percentage ranging from 0.03%, for one day of advance payment, to 1.32%, for forty days of advance payment. Discounting revenues are recognized as other income when the services are provided to the Canadian exporters.

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

(b) Foreign currency translation

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

(c) Financial instruments

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

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

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

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

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

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

Determination of fair value

All financial instruments are initially included on the Statement of Financial Position and are measured at fair value. The fair value of a financial instrument on initial recognition is the transaction price, which is the fair value of the consideration given or received. Subsequent to initial recognition, fair value is determined by using observable market data based on a three level hierarchy as follows:

Level 1 - Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the investment manager has the ability to access at the measurement date.

Level 2 - Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active.

Level 3 - Inputs that are unobservable as a result of little if any market activity. Inputs into the determination of fair value that require significant management judgment or estimation.

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

Non-derivative financial instruments

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

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

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

Derivative financial instruments

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

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

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

(d) Property and equipment

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

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

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

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

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

(e) Intangible assets

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

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

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

(f) Parliamentary appropriations

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

(g) Finance income, net

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

(h) Pension and employee benefits

i) Pension benefits

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

ii) Employee severance benefits

Employees are entitled to severance benefits, as provided for under labour contracts and conditions of employment. The cost of these post-employment benefits is accrued as employees render the services necessary to earn them. The cost of the benefits earned by employees is actuarially determined using the projected unit credit method prorated on services. The valuation of the liability is based on a discount rate determined by reference to market yields at the end of the reporting period on high quality corporate bonds. The excess of any net actuarial gain (loss) over 10% of the benefit obligation is amortized using the corridor method over the average remaining service period of active employees. Actuarial gains or losses are considered workforce compensation and related expenses and are recognized in administrative expenses in the Statement of Comprehensive Income. The average remaining service period of active employees covered by this plan as at March 31, 2012 was 13 years (March 31, 2011 – 14 years).

The outstanding benefits obligations are actuarially valued annually by performing a full valuation on even years and an update to the valuation on odd years. As a result of the transition to IFRS a full actuarial valuation was performed as at March 31, 2011 and March 31, 2012. An update of the full valuation as at March 31, 2012 is scheduled for March 31, 2013 with the next full valuation scheduled for March 31, 2014.

iii) Employee sick leave benefits

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

The outstanding benefits obligations are actuarially valued annually by performing a full valuation on even years and an update to the valuation on odd years. As a result of the transition to IFRS a full actuarial valuation was performed as at March 31, 2011 and March 31, 2012. An update of the full valuation as at March 31, 2012 is scheduled for March 31, 2013 with the next full valuation scheduled for March 31, 2014.

iv) Other employee benefits

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

(i) Provision for contract remediation expense

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

i) Contract re-procurement

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

ii) Legal claims and expenses

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

iii) Onerous contracts

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

(j) Impairment

i) Impairment of financial assets

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

ii) Impairment of non-financial assets

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

(k) Leases

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

(l) Future accounting changes

International Financial Reporting Standards

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:

	June 30, 2012			March 31, 2012		
(in thousands)	**Original currency**		**Canadian dollars**	**Original currency**		**Canadian dollars**
Canadian dollars	**47,133**	**$**	**47,133**	19,899	$	19,899
U.S. dollars	**35,253**		**35,890**	38,139		38,044
Chinese renminbi	**2,093**		**336**	870		138
Euros	**200**		**259**	200		267
Australian dollars	**133**		**138**	133		137
		$	**83,756**		$	58,485

The Corporation invests in short-term deposits in Canadian banks. The average term to maturity of short-term deposits was 4 days as at June 30, 2012 (March 31, 2012 - 3 days) and the portfolio yield to maturity was 0.06% as at June 30, 2012 (March 31, 2012 - 0.08%).

Of the cash and cash equivalents, $31,482,000 as at June 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:

	June 30, 2012			March 31, 2012		
(in thousands)	**Original currency**		**Canadian dollars**	**Original currency**		**Canadian dollars**
U.S. dollars	**279,985**	**$**	**285,056**	244,578	$	243,965
Canadian dollars	**49,787**		**49,787**	79,170		79,170
Malaysian ringgit	**860**		**276**	1,235		403
Australian dollars	**4**		**5**	5		5
		$	**335,124**		$	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:

	June 30, 2012			**March 31, 2012**		
(in thousands)	**Original currency**		**Canadian dollars**	**Original currency**		**Canadian dollars**
U.S. dollars	**304,125**	**$**	**309,627**	259,636	$	258,985
Canadian dollars	**27,492**		**27,492**	29,890		29,890
Malaysian ringgit	**834**		**268**	1,198		391
Australian dollars	**138**		**144**	138		143
Chinese renminbi	**372**		**60**	330		52
		$	**337,591**		$	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
Assumptions				
Accrued benefit obligation as of March 31				
Discount rate	**4.01%**	4.78%	**3.98%**	4.75%
Rate of economic salary increase				
Management	**1.50%**	1.50%	**1.50%**	1.50%
Non management	**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				
Management	**1.50%**	1.50%	**1.50%**	1.50%
Non management	**1.50%**	1.50%	**1.50%**	1.50%

Seniority and promotional salary increase assumptions are also considered in the actuarial valuation of accrued employee benefits.

Included in administrative expenses as workforce compensation and related expenses for the three months ended June 30, 2012 was a charge of $25,000 (June 30, 2011 - nil) for sick leave benefits and for the three months ended June 30, 2012 of $25,000 (June 30, 2011 – nil) for severance benefits 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:

	June 30, 2012			March 31, 2012		
(in thousands of Canadian dollars)	**Sick Leave**	**Severance**	**Total Benefits**	**Sick Leave**	**Severance**	**Total Benefits**
Total employee benefits	**$ 934**	**$ 1,850**	**$ 2,784**	$ 909	$ 1,825	$ 2,734
Less: current portion employee benefits	**(80)**	**(222)**	**(302)**	(78)	(219)	(297)
Non-current portion employee benefits	**$ 854**	**$ 1,628**	**$ 2,482**	$ 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	-	(53)	(53)
Provision reversed during the quarter	-	-	-
Balance, June 30, 2012	**$ -**	**$ 333**	**$ 333**

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 June 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)	June 30, 2012	March 31, 2012
Contributed surplus	**$ 10,000**	$ 10,000
Retained earnings	**39,315**	39,445
Provision for contract remediation expenses	**333**	386
	$ 49,648	$ 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 June 30	2012			2011		
(in thousands of Canadian dollars)	Revenues*	International procurement services	Total	Revenues*	International procurement services	Total
United States	**$ 589,867**	**$ -**	**$ 589,867**	$ 399,368	$ 1,833	$ 401,201
South America	**43,997**	**-**	**43,997**	17,804	-	17,804
Central America & Caribbean	**31,667**	**610**	**32,277**	17,373	206	17,579
Africa	**23,929**	**19**	**23,948**	29,751	273	30,024
Asia	**7,807**	**39**	**7,846**	373	1,129	1,502
Europe	**77**	**3,853**	**3,930**	26	1,448	1,474
Canada	**481**	**39**	**520**	470	-	470
Other	**811**	**-**	**811**	910	-	910
	$ 698,636	**$ 4,560**	**$ 703,196**	$ 466,075	$ 4,889	$ 470,964

* 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 $200 million for the three months ended June 30, 2012 (June 30, 2011 - $341 million).

10. Risk management and financial instruments

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

The Audit Committee of the 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 three months ended June 30, 2012, 85.62% (June 30, 2011 - 86.52%) 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)	**June 30, 2012**	**March 31, 2012**
United States	**$ 237,780**	$ 223,205
Central America and Caribbean	**40,538**	65,127
South America	**25,925**	14,596
Africa	**24,037**	6,912
Asia	**2,891**	2,067
Canada	**1,842**	11,025
Europe	**1,297**	599
Other	**814**	12
	$ 335,124	$ 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)	**June 30, 2012**	**March 31, 2012**
< 1 year	**$ 334,412**	$ 319,527
> 1 and < 3 years	**712**	4,016
	$ 335,124	$ 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)	**June 30, 2012**	**March 31, 2012**
< 30 days	**$ 22,502**	$ 7,814
> 30 days and < 180 days	**29,920**	3,121
> 180 days	**1,268**	1,216
	$ 53,690	$ 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)		June 30, 2012		March 31, 2012
Holdbacks	**$**	**1,253**	$	1,230
Bank guarantees	**$**	**47,839**	$	47,091
Surety bonds	**$**	**90,583**	$	88,750
Parent guarantees	**$**	**387,837**	$	457,933
Other	**$**	**11,101**	$	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 $15,961,000 as at June 30, 2012 (March 31, 2012 - $21,249,000) of which $14,980,000 as at June 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 June 30, 2012, there were no draws on this line of credit (June 30, 2011– nil).

ii) The Corporation enters into discounting arrangements with recourse with a financial institution, up to a maximum of $15 million as at June 30, 2012 (June 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 June 30, 2012 (June 30, 2011 - $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 recovery of $16,000 for the three months ended June 30, 2012 (June 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)	**June 30, 2012**	**March 31, 2012**
< 1 year	**$ 337,591**	$ 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 $15,961,000 as at June 30, 2012 (March 31, 2012 - $21,249,000) of which $14,980,000 as at June 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 $39,914,000 as at June 30, 2012 (March 31, 2012 - $62,552,000) and was profiled as follows:

(in thousands of Canadian dollars)	**June 30, 2012**	**March 31, 2012**
< 1 year	**$ 39,202**	$ 58,536
> 1 and < 3 years	**712**	4,016
	$ 39,914	$ 62,552

11. Administrative expenses

Administrative expenses included the following:

For the three months ended June 30 (in thousands of Canadian dollars)	2012	2011
Workforce compensation and related expenses	**$ 4,429**	$ 3,753
Contract management services	**1,023**	1,023
Rent and related expenses	**582**	528
Travel and hospitality	**521**	255
Consultants	**282**	422
Software, hardware and support	**268**	251
Amortization and depreciation	**201**	176
Corporate communications	**20**	12
Other expenses	**222**	118
	$ 7,548	$ 6,538

12. Finance income, net

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

For the three months ended June 30 (in thousands of Canadian dollars)	2012	2011
Financial assets		
- Finance income earned on cash and cash equivalents	**$ 76**	$ 137
Financial liabilities		
- Finance cost on payables and other liabilities	**$ -**	$ -
	$ 76	$ 137

13. Parliamentary appropriations

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

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)		June 30, 2012		March 31, 2012
Trade receivables	**$**	**566**	$	10,498
Trade payables	**$**	**72**	$	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.

For the three months ended June 30, 2012, the cost of these services amounted to $1,034,000 (June 30, 2011 - $1,061,000) 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.

For the three months ended June 30, 2012, revenues related to the provision of these services amounted to $187,500 (June 30, 2011 - $187,500) 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:

For the three months ended June 30 (in thousands of Canadian dollars)		2012		2011
Foreign Affairs and International Trade Canada	**$**	**1,373**	$	595
Canadian International Development Agency	**$**	**8**	$	2,314
Environment Canada	**$**	**8**	$	-

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

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)	**June 30, 2012**	**March 31, 2012**
< 1 year	**$ 2,039,559**	$ 1,984,373
> 1 and < 3 years	**848,268**	1,179,831
> 3 and < 5 years	**9,273**	9,227
Total contract portfolio	**$ 2,897,100**	$ 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 $2,897,432,000 as at June 30, 2012 (March 31, 2012 - $3,173,817,000).