Canadian Commercial Corporation

Quarterly Financial Report
(Unaudited)

For the three month period ended
June 30, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

Nature of Business and Operating Environment

In this new era of 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. Operations are making a significant contribution showing increased sales for Canadian exporters and a greater number of jobs for Canadians. Moreover, this has been accomplished while ensuring that the Corporation is managed in a cost efficient manner.

Financial Highlights

CCC's operations and comprehensive income for the first quarter ending June 30, 2011 resulted in a surplus of $0.4 million, compared to the deficit of $0.2 million reported as at June 30, 2010. The year-over-year increase of $0.6 million, or approximately 300%, is the result of revenues increasing by $0.7 million. Total expenses increased by $0.1 million and the parliamentary appropriation remained the same as compared to last year. The increase in revenues resulted from increases in fees for service of $0.8 million offset by a year-over-year decrease to other income of $0.1 million. With regard to total expenses, CCC continues to make important investments to support its growth, however, expenditures are 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.

Historically, large contracts have materially impacted the Corporation's financial statements and can often cause significant variations in certain year-over-year amounts on the Statement of Financial Position and Statement of Comprehensive Income. In late 2009-10, a $2.2 billion multi-year contract was signed with the US DoD Foreign Military Sales (FMS) organization for the supply of Light Armoured Vehicles (LAVs) manufactured by General Dynamics Land Systems Canada (GDLS). This contract signing was followed by a subsequent LAV signing with the U.S. DoD Marine Corp later in 2010-11 of $0.5 billion. The production related to the first contract started to accelerate later in fiscal year 2010-11, followed by the start of production on the second contract in early fiscal year 2011-12. This increased activity has resulted in accounts receivable, accounts payable, commercial trading transactions and cost of commercial trading transactions showing significant increases from last year to the current year.

The Corporation's contracts with foreign buyers are matched to equal and offsetting contracts with Canadian exporters. CCC's contracts require receipts and payments to be made in the same currency. As a result, CCC has a natural hedge against foreign exchange gains or losses that would otherwise impact the net results of operations and comprehensive income. However, as a result of the Canadian dollar's rise compared to its US dollar counterpart, from $0.9393 CAD at June 30, 2010 to $1.0314 CAD at March 31, 2011, to $1.0368 CAD at June 30, 2011, certain financial statement amounts have decreased year-over-year. Ninety percent (90%) of the Corporation's transactions are processed in US currency.

A more detailed discussion of CCC's 2010-11 financial highlights follows:

Statement of Comprehensive Income Discussion

Summary results

	June 30 2011-12 ($ Millions)	**June 30 2010-11 ($ Millions)**	**% Increase (Decrease)**
Revenues:			
Commercial trading transactions - prime contracts	$463.2	$232.9	99%
Cost of commercial trading transactions - prime contracts	($463.2)	($232.9)	99%
Fees for service	$2.8	$2.0	40%
Other revenues	$0.2	$0.3	-33%
Total Revenues	$3.0	$2.3	30%
Expenses:			
Administrative expenses	$6.5	$6.3	3%
Contract remediation expenses	$0.0	$0.1	-100%
Total Expenses	$6.5	$6.4	2%
International procurement services for government clients	$4.9	$20.2	-76%
Cost of international procurement services for government clients	($4.9)	($20.2)	-76%
Parliamentary appropriations	$3.9	$3.9	0%
Net results of operations and comprehensive income	$0.4	($0.2)	300%

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 for 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 $3.0 million by the end of the first quarter in 2011-12 compared to the $2.3 million reported in 2010-11, an increase of $0.7 million, or approximately 30%. Revenues are impacted negligibly by exchange rate fluctuations as commercial trading transactions are offset by an equal amount in the cost of commercial trading transactions and CCC's contracts require receipts and payments to be made in the same currency.

Commercial trading transactions and Procurement services transactions cumulatively were $468.1 million in Q1 of 2011-12, compared to the $253.1 million reported in Q1 of 2010-11, a $215.0 million or 85% increase due predominately to the accelerated production of LAV vehicles related to the DoD FMS and Marine Corp contracts. At June 30, 2011, commercial trading transactions generated from DPSA activity (including sales of LAV's to the U.S. DoD) represent 85% of the Corporation's total.

CCC does not charge fees for its DPSA business line transactions as these are funded through parliamentary appropriations. For all of its other business lines the Corporation charges fees, generally as a percentage of the contract value. Fees for service were $2.8 million in Q1 of 2011-12 compared to $2.0 million in Q1 of 2010-11, a 40% increase. Of the total $2.8 million, $1.2 million, or 43%, was generated by CCC's Trade Financing program, an increase of $0.2 million compared to Q1 of 2010-11. Another $0.4 million, or approximately 14%, was generated through its Procurement Services program, an increase of $0.1 million compared to Q1 of 2010-11. Five hundred thousand ($0.5 million) was earned on transactions with other Canadian government organizations, an increase of $0.2 million compared to Q1 of 2010-11. Exchange rate fluctuations have a negligible impact on fees for service as fees are largely derived from Canadian dollar transactions.

Other revenues items that may contribute to the year-over-year differences in revenues are: (1) Foreign exchange gains or losses due to fluctuations in the Canadian dollar compared to its US dollar counterpart on exposed U.S. cash balances (which are monitored closely and kept at nominal levels); and (2) Interest income earned on the Corporation's cash balances; and (3) Other income, comprised primarily of fees earned for honouring early payment discounts and payment wiring. With respect to these items for the quarter ending June 30, 2011, as compared to the same quarter in the previous year, differences were negligible.

Expenses

As at June 30, 2011, total expenses were $6.5 million, $0.1 million higher than the prior year. An increase in administrative expenses of $0.2 million was offset by a $0.1 million decrease in contract remediation expenses. For the reporting period, 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 exchange fluctuations. Significant administrative expenses were:

- Workforce compensation was $3.8 million. This increased by $0.3 million, or 9%, compared to the amount spent in Q1 of fiscal year 2010-11. The increase is due to a combination of staff increases, collective bargaining (1.5%), annual salary band increment increases, coupled with increased training and moderate increases in overtime. Workforce compensation accounted for 58% of CCC's administrative expenditures.

- PWGSC costs, for core contract management services under the DPSA, of $1.0 million was the same amount as in Q1 of 2010-11.

- Rent and related expenses of $0.5 million was the same amount as in Q1 of 2010-11.

- Travel expenses of $0.3 million, principally for operational requirements to secure or manage CCC's international contracts, was the same amount as in Q1 of 2010-11.

- Consultant expenses of $0.4 million, to complement CCC's workforce and perform assignments requiring a specific expertise, increased by $0.2 million, or 100%, compared to the amount spent in Q1 of 2010-11.

- The amortization of property and equipment, intangible assets and leasehold improvement costs of $0.2 million was the same amount as in Q1 of 2010-11.

- Computer software, hardware and support costs, over and above the information management personnel included in workforce compensation or consultants of $0.2 million, decreased by $0.2 million, or 50%, compared to the amount spent in Q1 of 2010-11.

- Other expenses, including Corporate communication costs (marketing, advertising, and the design and printing of corporate promotional material) telecommunications and bank charges, of $0.1 million, decreased by $0.1 million, or 50%, compared to the amount spent in Q1 of 2010-11.

As at June 30, 2011, 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 first quarter in 2011-12. The ratio of administrative expenses to gross revenues for 2011-12 was 1.4%, lower than the 2.5% result over the same period of time in 2010-11.

Parliamentary Appropriations

The Corporation is to receive parliamentary appropriations of $15.5 million in fiscal year 2011-12, the same amount as in the previous year. The appropriation is drawn down in equal monthly installments throughout the year. For the first quarter ending June 30, 2011, the amount drawn down was $3.9 million, the same as in the first quarter of the previous year.

Statement of Financial Position Discussion

Summary of financial position

	June 30 2011-12 ($ Millions)	**March 31 2010-11 ($ Millions)**	**% Increase (Decrease)**
Total assets	$792.1	$646.8	22%
Total liabilities	$742.3	$597.4	24%
Shareholder's Equity	$49.8	$49.4	1%

CCC's total assets were $792.1 million as at June 30, 2011, $145.3 million, or 22%, higher than at March 31, 2011. Part of the increase is due to an increase in the amount of progress payments to Canadian exporters of $95.0 million, representing a 42% increase compared to March 31, 2011 and accounting for 65% of the $145.3 million overall increase in total assets. All other asset statement line items combined for a net increase of $50.3 million from March 31, 2011.

CCC's total liabilities were $742.3 million as at June 30, 2011, $144.9 million, or 24%, higher than at March 31, 2011. The increase is due primarily to an increase in the amount of progress payments from foreign customers of $95.0 million, representing a 41% increase compared to March 31, 2011 and accounting for 66% of the $144.9 million overall increase in total liabilities. Advances from foreign customers increased by $39.3 million from March 31, 2011 and all other liability statement line items combined for a net increase of $10.6 million from March 31, 2011.

As an international trade intermediary, CCC offsets its trade-related assets with matching liabilities. Therefore, accounts receivable from foreign customers and progress payments to Canadian exporters are normally offset by accounts payable and accrued liabilities to Canadian exporters, and progress payments from foreign customers, respectively.

Accounts receivable of $267.6 million ($235.0 million at March 31, 2011), represents 34% (36% at March 31, 2011) of the total assets of $792.1 million. Accounts payable and accrued liabilities of $233.8

million ($223.2 million at March 31, 2011), represents 31% (37% at March 31, 2011) of the total liability of $742.3 million. Generally, the Corporation pays its Canadian exporters within 30 days of receipt of an invoice and substantiating documentation according to the terms of the contract under its core DPSA program. On certain contracts (generally outside of the DPSA program), the Corporation only pays its Canadian exporters after CCC receives payment from the foreign customer. Based on the mix of effective contracts currently in the Corporation's portfolio, as at June 30, 2011, approximately 40% (44% as at March 31, 2011) of Canadian exporter invoices processed were payable within 30 days.

Of the $324.4 million in progress payments from foreign customers, $321.5 million ($226.5 million as at March 31, 2011) was passed on to Canadian exporters. Contractually, progress payments occur predominantly on the DPSA business line and are required to flow through in their entirety to the Canadian exporter. Approximately 75% (77% as at March 31, 2011), or $244.6 million ($176.8 million as at March 31, 2011) of the progress payments from foreign customers relate to a significant $2.2 billion US DoD FMS contract.

Advances from foreign customers and advances to Canadian exporters increased by 28% and 25% respectively since March 31, 2011. Of the $181.5 million in advances from foreign customers, $152.4 million ($126.5 million as at March 31, 2011), or 84% (89% as at March 31, 2011), were related to five projects for Ecuador, Norway, Kingdom of Saudi Arabia, Peru and a procurement services project for DFAIT. Of these advances from foreign customers, a significant portion, $129.8 million ($103.2 million as at March 31, 2011), was passed on to Canadian exporters, accounting for 96% (96% as at March 31, 2011) 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.

CCC was authorized by the Minister of Finance to borrow commercially up to $40 million for 2010-11 to manage timing variations between its payables and receivables on its core DPSA business line.

CCC's property and equipment, and intangible assets decreased by $0.2 million during the first quarter of fiscal year 2011-12. This asset reflects the unamortized portion of capitalized costs related to the Corporation's Enterprise Resource Planning (ERP) system and for leasehold improvements which were recorded in prior years. There were no capitalized costs incurred during the first quarter of 2011-12.

CCC's provision for contract remediation expenses remains unchanged from the balance at the end of March 31, 2011 as there were no disbursements made against the provision over the course of the quarter.

As at June 30, 2011, CCC's equity, fully ascribed to the Government of Canada, was $49.8 million, an increase of $0.4 million from March 31, 2011 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 $3.5 billion at June 30, 2011. It is worth noting that in 2009-10 CCC signed a significant contract with the US DoD FMS for the delivery of LAV's. The maximum potential value of this contract is $2.2 billion of which only $190.5 million had been delivered as of June 30, 2011. The undelivered portion of this contract represents 57% of the Corporation's total undelivered commitments.

Statement of Cash Flows Discussion

Summary of cash flows

	June 30 2011-12 ($ Millions)	**June 30 2010-11 ($ Millions)**	**% Increase (Decrease)**
Operating activities	($9.6)	$20.7	-146%
Investing activities	$0.0	$0.0	0%
Effect of exchange rate changes on cash and cash equivalents	$0.0	$0.0	0%

Operating activities

During the first quarter of fiscal 2011-12, CCC used $9.6 million in cash from its operating activities, as compared to the $20.7 million provided during the first quarter of fiscal 2010-11. This increased usage is attributable to several factors as follows:

- $12.2 million was provided from advance payments that were received from foreign governments and were being held pending achievement of delivery obligations per contract terms and conditions.

- $22.3 million was used due to timing differences between the receipt of cash on CCC's accounts receivable and disbursements of cash for its accounts payable. On certain contracts, the Corporation only pays its Canadian exporters after it receives the 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 cause wide variations in cash flows from one period to the next.

- $0.5 million was provided due to an increase in retained earnings as described in the Statement of Comprehensive Income Discussion.

Investing activities

As described in the Statement of Financial Position Discussion, the Corporation did not capitalize any property, equipment or intangible assets during 2010-11.

Comparison of Financial Results to the Budget contained in the 2011-12 to 2015-16 Corporate Plan

For the quarter ending June 30, 2011, total commercial trading transactions (including procurement services transactions) of $468.1 million were $12.3 million, or 3%, higher than budget. Fees for service of $2.8 million were higher than budget by $0.2 million, or 8%. Fees for service are earned as contract work is delivered or completed. During the first quarter of 2011-12, a substantial amount of work was completed related to the Quito airport and Ghana Power projects that was over and above the work anticipated in the production schedules for this period of time.

CCC recorded a foreign exchange translation loss of $17.0 thousand as a result of the Canadian dollar's rise compared to its US dollar counterpart, from $1.0314 CAD at March 31, 2011 to $1.0368 CAD at June 30, 2011. The Corporation controls exchange gains and losses through monitoring and maintaining unhedged foreign currency balances at negligible levels. The Corporation did not budget for a gain or loss on foreign exchange although the Canadian dollar was expected to strengthen slightly in comparison to its U.S. dollar counterpart over the five year planning period.

The Corporation did not record any contract remediation expenses at this time and will only do so once actual amounts are or can be determined. As a result, contract remediation expenses were under budget by $0.1 million. This reflects the Corporation's robust risk management practices, including its updated ERM framework and improved contract management practices.

Administrative expenses of $6.5 million were $0.7 million, or 10%, lower than the budgeted amount of $7.2 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 Comprehensive Income Discussion, the Corporation was approved to receive parliamentary appropriations of $15.5 million in fiscal year 2011-12, which will be drawn down in equal monthly instalments throughout the year. For the first quarter ending June 30, 2011, the amount drawn down was $3.9 million, the same amount as was budgeted for this quarter.

2011-12 Forecast

During 2010-11 and continuing into 2011-12, the Corporation examined and analyzed key processes in delivery of the DPSA business line. Through this analysis, it was determined that a new approach was required in order to optimize expenditures while maximizing the quality of service being provided to clients. Accordingly, CCC will make investments to transition some of the work currently subcontracted to PWGSC, to CCC. This will require a transition investment of $2.3 million which will span 2011-12 and 2012-13. This new approach will generate almost $5 million in cost savings for the Corporation over the period of the 2011-12 to 2015-16 Corporate Plan. In June 2011, the Board of Directors directed management to proceed with the transition, citing that the investment represented a prudent business decision. As a result of this initiative, CCC expects to incur an operating loss of $0.9 million in 2011-12.

In 2011-12, revenues after offsetting the cost of commercial trading transactions are expected to be $14.3 million, $1.1 million, or 8%, greater than the results achieved in 2010-11. 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 defence and emerging and developing markets. Interest income of $0.4 million is anticipated to be higher than in 2010-11 as average interest rate yields and cash balances are expected to increase in 2011-12.

With respect to CCC's expenses, contract remediation expenses are forecast to be only $0.5 million, reflecting 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 $30.2 million, $2.0 million, or 7%, greater than the 2010-11 actual results. This includes an estimated $0.8 million in DPSA investment transition costs. Amortization expenses will remain consistent with the 2010-11 amount of $0.7 million as the Corporation enters its fourth full year of amortizing capitalized costs related to the ERP system that was implemented in fiscal 2007-08.

As noted earlier, the parliamentary appropriation has been approved at $15.5 million, the same level as in 2010-11.

Convergence to International Financial Reporting Standards (IFRS)

The Accounting Standards Board of the Canadian Institute of Chartered Accountants (CICA) announced for fiscal years beginning on or after January 1, 2011, the adoption of IFRS will replace Canadian Generally Accepted Accounting Principles (GAAP) for publicly accountable enterprises. On October 28, 2009, the Public Sector Accounting Board (PSAB) approved an amendment to the scope of Public Sector Accounting Standards (PSAS) giving other government organizations the choice to prepare their financial statements in accordance with PSAS or with IFRS based on their assessment of the most appropriate basis of accounting related to their specific circumstances and the needs of users of the Corporation's financial statements. As such, the Corporation determined that IFRS was the most appropriate basis of accounting and has adopted IFRS beginning in this first quarter of 2011-12, with corresponding comparative financial information provided for 2010-11. Although IFRS is principles-based and uses a conceptual framework similar to Canadian GAAP, there are some differences between IFRS and Canadian GAAP. These differences include several accounting policy choices and increased disclosure requirements.

IFRS 1 - First-time adoption of IFRS

Adoption of IFRS requires the Corporation to follow the recommendations of IFRS 1 – First-time Adoption of International Financial Reporting Standards ("IFRS 1"). IFRS 1 requires that entities retrospectively apply, with certain mandatory exceptions and optional exemptions, all IFRS standards as of the date of transition, which for the Corporation is April 1, 2010 (the starting date of the earliest period of comparison). When a standard is applied retrospectively, the opening Statement of Financial Position will be presented as though IFRS had always been applied, and the differences between Canadian GAAP and IFRS will be reflected in the IFRS opening retained earnings. However, IFRS 1 provides mandatory exceptions and optional exemptions to the retrospective application of certain standards. The only mandatory exception applicable to the Corporation relates to estimates, and the three applicable optional exemptions relate to the option to choose fair value as the deemed cost of certain assets, financial instrument designations and the recognition of cumulative actuarial gains and losses related to employee future benefits. Additional information related to these exceptions and exemptions applicable to the Corporation is presented below.

(i) Mandatory exception to retrospective application.

Estimates

The Corporation's estimates in accordance with IFRS at the date of transition to IFRS shall be consistent with estimates made for the same date in accordance with previous Canadian GAAP (after adjustments to reflect any difference in accounting policies), unless there is objective evidence that those estimates were in error. The Corporation will not use hindsight to create or revise estimates unless there is objective evidence that those estimates were made in error and accordingly, the estimates previously made under Canadian GAAP will be consistent under IFRS application.

(ii) Optional exemptions to retrospective application.

Fair value as the deemed cost

Upon adoption of IFRS, the Corporation has the option to use fair value or historical cost in the opening Statement of Financial Position (Balance Sheet under Canadian GAAP) as the deemed cost for property and equipment and intangible assets. The corporation will retain historical cost as the basis of measurement for property and equipment and intangible assets.

Financial instrument designation

Upon adoption of IFRS, the Corporation is required to retrospectively apply International Accounting Standard (IAS) 39 – Financial Instruments: Recognition and Measurement, and classify financial instruments as of the date that the financial instrument was originally acquired. Alternatively, IFRS 1 will allow the Corporation to reclassify at the transition date any financial instrument using the fair value option or as available-for-sale. The Corporation has not used this option to change current financial instrument designations and has retained the financial instruments designations used under Canadian GAAP.

Employee future benefit cumulative actuarial gains and losses

Upon adoption of IFRS, the Corporation may elect to recognize all cumulative actuarial gains and losses at the date of transition to IFRS. The Corporation has recognized all cumulative actuarial gains and losses related to employee future benefits at the date of transition to IFRS.

Primary impacts in transitioning from Canadian GAAP to IFRS

The Corporation analyzed the applicable IFRS standards and identified the relevant differences between Canadian GAAP and IFRS as they relate to the Corporation. As a result of work completed to the reporting date, the areas of the financial statements and related notes most affected include employee future benefits, related party disclosures, provisions and contingent liabilities, and financial statement presentation.

Employee future benefits

Under IFRS, the Corporation will continue to recognize a liability for severance benefits, and is required to establish a liability for unvested sick leave benefits. The liabilities for severance and sick leave have been actuarially valued under IFRS resulting in an increase in the employee benefit liabilities compared to Canadian GAAP. The increase in the liability for severance and sick leave benefits has been recognized through the retained earnings of the opening Statement of Financial Position as of the transition date of April 1, 2010.

Related party disclosures

As part of related party disclosures, IFRS requires disclosure of compensation and benefits paid to key management personnel. Key management personnel are defined as individuals having authority and responsibility for planning, directing and controlling the activities of the Corporation and will include the Board of Directors and Corporate Officers. This information will be disclosed in the Corporation's first annual statements as of March 31, 2012.

Provisions and contingent liabilities

IFRS requires a provision to be recognized when it is more likely than not (50% threshold) that an outflow of resources will be required to settle the obligation, while under Canadian GAAP a provision is recorded when it is probable (70% threshold) that an outflow of resources will be required. IFRS also requires a provision to be recognized when a contract becomes onerous, while Canadian GAAP only requires recognition of such a liability in certain specific situations which are not applicable to the Corporation. Although there are differences in the recognition and measurement criteria between IFRS and Canadian GAAP, these differences did not result in the recognition of any additional provisions due to the adoption of IFRS.

Financial statement presentation

The Canadian GAAP Balance Sheet has been renamed the Statement of Financial Position under IFRS and includes categorizations of assets and liabilities as current and non-current. The Canadian GAAP Statement of Operations, Comprehensive Income and Retained Earnings has been renamed the Statement of Comprehensive Income under IFRS, since changes in equity are now presented in a separate Statement of Changes in Equity. There were no changes to the Statement of Cash Flows.

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 are discussed in detail in the Corporation's 2010-11 Annual Report and 2011-12 Corporate Plan Summary. There are no significant changes, new risks or uncertainties during the first quarter from what has been 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

Martin Zablocki, B.Com, MBA, CBV, CMA
Vice-President, Risk and Finance, and CFO

Ottawa, Canada
August 29, 2011

Statement of Financial Position (Unaudited)

(in thousands of dollars)	June 30 2011	March 31 2011	April 1 2010
Assets			
Current assets			
Cash and cash equivalents (Note 4)	$ 65,678	$ 75,254	$ 42,982
Accounts receivable (Notes 5 and 9)	267,617	235,029	251,889
Advances to Canadian exporters	135,294	107,887	85,944
Progress payments to Canadian exporters	321,454	226,456	92,101
	790,043	644,626	472,916
Non-current assets			
Property and equipment	1,078	1,115	1,264
Intangible assets	969	1,108	1,661
	2,047	2,223	2,925
	$ 792,090	$ 646,849	$ 475,841
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities (Notes 5 and 9)	$ 233,771	$ 223,187	$ 236,327
Advances from foreign customers	181,469	142,153	96,550
Progress payments from foreign customers	324,405	229,426	91,625
Short-term employee future benefits (Note 6)	708	708	643
	740,353	595,474	425,145
Non-current liabilities			
Long-term employee future benefits (Note 6)	1,547	1,547	1,484
Provision for contract remediation expenses (Notes 7 and 13)	407	407	1,442
	1,954	1,954	2,926
	742,307	597,428	428,071
Shareholder's Equity			
Contributed surplus	10,000	10,000	10,000
Retained earnings	39,783	39,421	37,770
	49,783	49,421	47,770
	$ 792,090	$ 646,849	$ 475,841

Commitments, contingencies and guarantees (Note 13)

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

Approved:

Marc Whittingham
President and CEO

Martin Zablocki, B.Com, MBA, CBV, CMA
Vice-President, Risk and Finance and CFO

Statement of Comprehensive Income (Unaudited)

(in thousands of dollars)	For the three month period ended June 30 2011	2010
Revenues		
Commercial trading transactions - prime contracts (Note 8)	$ 463,165	$ 232,926
Less: cost of commercial trading transactions - prime contracts	(463,165)	(232,926)
Fees for service (Note 8)	2,797	1,954
Other income (Note 8)	113	227
Net interest income	137	45
Gain (loss) on foreign exchange	(17)	43
	3,030	2,269
Expenses		
Administrative expenses (Note 10)	6,538	6,285
Contract remediation expenses (recovery) (Note 13)	-	125
	6,538	6,410
International procurement services for government clients		
Procurement services transactions (Note 8)	$ 4,889	$ 20,198
Less: cost of procurement services transactions	(4,889)	(20,198)
	-	-
Net results of operations before Parliamentary appropriations	(3,508)	(4,141)
Parliamentary appropriations (Note 11)	3,870	3,887
Net results of operations and comprehensive income	$ 362	$ (254)

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

Statement of Changes in Equity (Unaudited)

(in thousands of dollars)	Contributed Surplus	Retained Earnings	Total
Balance - March 31, 2011	$ 10,000	$ 39,421	$ 49,421
Net Income		362	362
Balance - June 30, 2011	$ 10,000	$ 39,783	$ 49,783
Balance - April 1, 2010	$ 10,000	$ 37,770	$ 47,770
Net Income		(254)	(254)
Balance - June 30, 2010	$ 10,000	$ 37,516	$ 47,516

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

Statement of Cash Flows (Unaudited)

(in thousands of dollars)		For the three month period ended June 30 2011		2010
Cash flows from operating activities				
Receipts from foreign customers	$	569,761	$	328,830
Interest received		137		45
Fees for service and other income received		2,910		2,181
Payments to Canadian exporters		(579,875)		(308,038)
Administrative payments		(6,362)		(6,235)
Parliamentary appropriations		3,870		3,887
Cash provided by (used in) operating activities		(9,559)		20,670
Cash flows from investing activities				
Purchase of property and equipment, and intangible assets		-		(19)
Cash (used in) investing activities		-		(19)
Effect of exchange rate changes on cash and cash equivalents		(17)		43
Increase (decrease) in cash and cash equivalents		(9,576)		20,694
Cash and cash equivalents at beginning of period		75,254		42,982
Cash and cash equivalents at end of period (Note 4)	$	65,678	$	63,676

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

Notes to Unaudited Condensed Interim Financial Statements

June 30, 2011

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 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 operates primarily in Canada with additional offices in Asia and representation in the Caribbean.

The Corporation's operations are funded primarily by parliamentary appropriation. This is supplemented by a combination of fees for service, interest income and discounting revenues.

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 the Corporation expects to adopt in its financial statements as at and for the year ending March 31, 2012. These condensed interim financial statements do not include all of the information required for full annual financial statements.

These are the Corporation's first IFRS condensed interim financial statements for part of the period covered by the first IFRS annual financial statements. The Corporation has elected April 1, 2010 as the date of transition to IFRS (the "transition date"). IFRS 1, First-time Adoption of IFRS ("IFRS 1"), has been applied. An explanation of how the transition to IFRS has affected the financial statements is included in note 14.

Any subsequent changes to IFRS that are given effect in the Corporation's annual financial statements for the year ending March 31, 2012 could result in restatement of these condensed interim financial statements, including the transition adjustments recognized with the adoption of IFRS.

These condensed interim financial statements should be read in conjunction with the Corporation's 2011 annual financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and in consideration of the IFRS transition disclosures included in note 14 to the condensed interim financial statements.

Use of estimates

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect 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. The most significant management estimates are the provision for contract remediation expenses and the liability for employee future benefits. 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. Any changes in estimates are reflected in the financial statements in the period in which they become known.

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.

Finally, 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 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 likely and the amounts are reasonably determinable.

(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 on 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.

i) 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 held-for-trading, and measured at fair value using quoted forward prices with changes recognized in net 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 accounts receivable, or as a liability in accounts payable and accrued liabilities on the Statement of Financial Position.

The Corporation enters into certain non-financial instrument contracts which contain embedded foreign currency derivatives. 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.

ii) 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. There is little if any market activity. Inputs into the determination of fair value require significant management judgement or estimation.

The carrying amount of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximates fair value based on level 1 inputs due to the relatively short-term nature of these financial instruments.

(d) 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 interest income in the period in which they arise. The Corporation has designated its cash and cash equivalents as held-for-trading since they can be reliably measured at fair value 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 on the Statement of Comprehensive Income.

(e) Accounts receivable

Accounts receivable are classified as loans and receivables and measured at amortized cost using the effective interest rate method. 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.

(f) Accounts payable and accrued liabilities, and provision for contract remediation expenses

Accounts payable and accrued liabilities, and the provision for contract remediation expenses are classified as other financial liabilities and carried at amortized cost using the effective interest rate method.

(g) Property and equipment and intangible assets

Property and equipment includes costs associated with information systems hardware and operating systems, and leasehold improvements. Information systems hardware and operating systems are amortized, after technological feasibility is established, on a straight-line basis over the estimated useful life of five years. Leasehold improvements are amortized on a straight-line basis over the lesser of the useful life and the remaining term of the lease agreement.

Intangible assets include costs associated with information systems software and related initial set-up and configuration costs. These costs are amortized, after technological feasibility is established, on a straight-line basis over the estimated useful life of five years.

(h) 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 income on the same basis as the related asset.

(i) Interest income

Interest 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.

(j) Employee future 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 expense 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 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 benefit method prorated on services. The valuation of the liability is based upon a current market-related discount rate and other actuarial assumptions, which represent management's best long-term estimates of factors such as future wage increases and employee resignation rates. The excess of any net actuarial gain (loss) over 10% of the benefit obligation is amortized over the average remaining service period of active employees. The average remaining service period of active employees covered by this plan as of March 31, 2011 was 14 years (March 31, 2010 – 14 years).

An update of the actuarial evaluation was performed at March 31, 2011. The last full actuarial evaluation was performed March 31, 2010 and the next full actuarial evaluation is scheduled for March 31, 2012.

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 benefits is accrued as employees render the services necessary to earn them. The actuarial valuation of the liability is based on assumptions which represent management's best estimates of factors used to determine the liability.

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 major 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 recorded in the Statement of Comprehensive Income.

(k) Impairment

i) **Impairment of financial assets**
For financial assets that are not classified as fair value through net income, 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. Once impaired, financial assets carried at amortized cost are re-valued at net recoverable amount with the amount of the impairment recognized in net income. Unrealized losses on impaired available-for-sale financial assets are recognized in net income at the time of impairment. Financial assets carried at amortized cost are measured at net recoverable amount.

ii) **Impairment of non-financial assets**
Non-financial assets, including property and equipment and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount exceeds the recoverable amount.

(l) Provisions
A provision is recognized if, as a result of a past event, the Corporation has a present legal or constructive obligation that can be estimated reliably as at the Statement of Financial Position date, and it is probable that an outflow of economic benefits will be required to settle the obligation.

(m) Future accounting changes

International Financial Reporting Standards

IFRS 9
IFRS 9 Financial instruments ("IFRS 9") as issued in November 2009 and revised in October 2010, and the related consequential amendments, will replace International Accounting Standard 39 Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 relates to the recognition and derecognition and measurement of financial assets and financial liabilities.

IFRS 9 eliminates the existing financial asset categories and requires all financial assets to be classified on initial recognition either at amortized cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

Gains and losses on financial assets measured at fair value will be recognized through net income with the exception of equity investments not held for trading for which gains or losses will be recognized directly in equity.

The new standard also requires the use of a single impairment method for financial assets based on expected losses and incurred losses, replacing the multiple impairment methods in IAS 39.

IFRS 9 requires all financial liabilities not designated at fair value through net income to be subsequently measured at amortized cost using the effective interest method.

IFRS 9 is effective for annual periods beginning on or after January 1, 2013, although early adoption is permitted. The Corporation is currently evaluating the impact of IFRS 9 on its financial statements, and will continue to do so as the remaining stages of this project.

4. Cash and cash equivalents

Cash and cash equivalents included:

	June 30, 2011			March 31, 2011			April 1, 2010		
(in thousands)	**Original currency**		**Canadian dollars**	**Original currency**		**Canadian dollars**	**Original currency**		**Canadian dollars**
Canadian dollars	49,112	$	49,112	39,808	$	39,808	22,132	$	22,132
U.S. dollars	16,541		15,954	35,729		34,643	19,256		19,561
Euros	272		381	424		584	847		1,163
Australian dollars	133		137	133		134	133		124
Chinese renminbi	631		94	575		85	61		2
		$	65,678		$	75,254		$	42,982

The Corporation invests in short-term deposits in Canadian banks. At June 30, 2011, the average term to maturity of short-term deposits was nil as of June 30, 2011 (March 31, 2011 - 1 day, April 1, 2010 – 1 day) and the portfolio yield to maturity was nil as of June 30, 2011 (March 31, 2011 - 0.08%, April 1, 2010 – 0.04%).

Of the cash and cash equivalents, $61,505,000 as of June 30, 2011 (March 31, 2011 - $35,463,000, April 1, 2010 - $11,497,000) 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. Accounts receivable and accounts payable and accrued liabilities

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

	June 30 2011			March 31, 2011			April 1, 2010		
(in thousands)	**Original currency**		**Canadian dollars**	**Original currency**		**Canadian dollars**	**Original currency**		**Canadian dollars**
U.S. dollars	201,240	$	194,095	153,403	$	148,739	136,903	$	139,066
Canadian dollars	72,768		72,768	85,391		85,391	103,065		103,065
Malaysian ringgit	2,360		754	2,735		878	-		-
Australian dollars	5		5	5		5	5		5
Chinese renminbi	(25)		(5)	113		16	47		7
Euros	-		-	-		-	7,095		9,746
		$	267,617		$	235,029		$	251,889

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

(in thousands)	June 30, 2011 Original currency	June 30, 2011 Canadian dollars	March 31, 2011 Original currency	March 31, 2011 Canadian dollars	April 1, 2010 Original currency	April 1, 2010 Canadian dollars
U.S. dollars	199,497	$ 192,416	169,579	$ 164,423	148,632	$ 150,979
Canadian dollars	40,443	40,443	57,136	57,136	74,465	74,465
Malaysian ringgit	2,289	731	2,653	852	-	-
Australian dollars	138	143	138	139	138	129
Chinese renminbi	255	38	433	65	-	-
Euros	-	-	415	572	7,828	10,753
Indian rupee	-	-	-	-	53	1
		$ 233,771		$ 223,187		$ 236,327

6. Employee future benefits

(a) Employee severance benefits

The Corporation provides severance benefits to its employees based on years of service and final salary. This benefit plan is unfunded and thus has no assets, resulting in a plan deficit equal to the accrued benefit obligation. Benefits will be paid from future appropriations.

Information about the plan, measured from April 1, 2010 (the date of transition) to March 31, 2011 is as follows:

(in thousands)

Accrued benefit obligation		
Accrued benefit obligation - April 1, 2010	$	1,484
Current service cost		159
Interest cost		80
Benefits paid		(1)
Actuarial loss		96
Accrued benefit obligation - March 31, 2011	$	1,818
Unamortized net actuarial losses		(271)
Accrued employee future benefits - March 31, 2011	$	1,547

Assumptions	
Accrued benefit obligation as of March 31, 2011	
Discount rate	5.10%
Rate of economic salary increase	
Management	1.50%
Non management	1.50%
Benefit costs for year ended March 31, 2011	
Discount rate	5.10%
Rate of economic salary increase	
Management	1.50%
Non management	1.50%

(b) Employee sick leave benefits

The Corporation provides non-vested sick leave benefits to its employees, as provided for under labour contracts and conditions of employment. This benefit plan is unfunded and thus has no assets, resulting in a plan deficit equal to the accrued benefit obligation. Benefits will be paid from future appropriations.

Information about the plan, measured from April 1, 2010 (the date of transition) to March 31, 2011 is as follows:

(in thousands)

Accrued benefit obligation		
Accrued benefit obligation - April 1, 2010	$	643
Current service cost		272
Interest cost		34
Benefits paid		(241)
Actuarial loss		39
Accrued benefit obligation - March 31, 2011	$	747
Unamortized net actuarial losses		(39)
Accrued employee future benefits - March 31, 2011	$	708

Assumptions	
Accrued benefit obligation as of March 31, 2011	
Discount rate	5.10%
Rate of economic salary increase	
Management	1.50%
Non management	1.50%
Benefit costs for year ended March 31, 2011	
Discount rate	5.10%
Rate of economic salary increase	
Management	1.50%
Non management	1.50%

7. Capital management

The objective of the Corporation is to preserve and strengthen its capital base through prudent risk management and through the implementation of strategies to optimize operating surpluses. Capital is required to facilitate investments and to mitigate any potential losses, (including both expected and unexpected losses) related to operational, supplier performance and credit risk. Capital management strategies include minimizing contract remediation expenses; pacing growth in operating expenses commensurate with growth in revenues; minimizing foreign exchange exposure; attaining appropriation funding for collective bargaining salary increases and increases in Defence Production Sharing Agreement (DPSA) activities and service offerings related to public policy; and optimizing interest income.

The Corporation is not subject to externally imposed capital requirements. The Corporation's breakdown of supply of capital is as follows:

(in thousands)	June 30, 2011	March 31, 2011	April 1, 2010
Contributed surplus	$ 10,000	$ 10,000	$ 10,000
Retained earnings	39,783	39,421	37,770
Provision for contract remediation expenses	407	407	1,442
	$ 50,190	$ 49,828	$ 49,212

8. 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 month period ended June 30 (in thousands)	2011 Revenues	2011 International procurement services	2011 Total	2010 Revenues	2010 International procurement services	2010 Total
United States	$ 399,368	$ 1,833	$ 401,201	$ 203,438	$ 349	$ 203,787
Africa	29,751	273	30,024	14,717	2,277	16,994
South America	17,804	-	17,804	5,495	-	5,495
Central America & Caribbean	17,373	206	17,579	9,662	2,253	11,915
Asia	373	1,129	1,502	562	896	1,458
Europe	26	1,448	1,474	225	14,423	14,648
Canada	470	-	470	1,008	-	1,008
Other	910	-	910	-	-	-
	$ 466,075	$ 4,889	$ 470,964	$ 235,107	$ 20,198	$ 255,305

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 $341 million as of June 30, 2011 (June 30, 2010 - $348 million).

9. 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 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 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)

Accounts receivable

The Corporation's exposure to credit risk associated with accounts receivable is influenced mainly by the demographics of the Corporation's customer base. The Corporation generally manages foreign customer credit risk by extending open account terms to parties with a Moody's credit rating of at least AAA, and seeks security where the rating falls below this threshold. During the three months ended June 30, 2011 86.52% (March 31, 2011 - 89.25%, April 1, 2010 - 84.68%) of the Corporation's revenues were from AAA customers.

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

(in thousands)	**June 30, 2011**	**March 31, 2011**	**April 1, 2010**
United States	$ 185,254	$ 150,386	$ 111,104
Central America and Caribbean	51,205	67,299	73,814
South America	13,084	6,083	31,666
Asia	9,819	2,395	1,567
Canada	7,089	7,824	4,308
Europe	534	899	13,603
Africa	142	131	15,361
Other	490	12	466
	$ 267,617	$ 235,029	$ 251,889

Accounts receivable are based on normal international trade terms and are generally non-interest bearing.

The maturity profile of the Corporation’s accounts receivable was as follows:

(in thousands)	June 30, 2011	March 31, 2011	April 1, 2010
< 1 year	$ 267,342	$ 228,739	$ 244,824
> 1 and < 3 years	275	6,290	7,065
	$ 267,617	$ 235,029	$ 251,889

Accounts receivable 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 accounts receivable was as follows:

(in thousands)	June 30, 2011	March 31, 2011	April 1, 2010
< 30 days	$ 40,452	$ 23,693	$ 16,543
> 30 days and < 180 days	2,242	3,757	24,897
> 180 days	2,077	3,445	10,594
	$ 44,771	$ 30,895	$ 52,034

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 back to back 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)	June 30, 2011	March 31, 2011	April 1, 2010
Holdbacks	$ 15,329	$ 1,197	$ 891
Bank guarantees	$ 51,692	$ 52,766	$ 62,802
Surety bonds	$ 108,456	$ 109,030	$ 114,986
Parent guarantees	$ 541,162	$ 542,904	$ 479,941
Other	$ 13,068	$ 10,201	$ 281

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 accounts payable and accrued liabilities the Corporation owed $14,735,000 as of June 30, 2011 (March 31, 2011 - $27,619,000, April 1, 2010 - $42,868,000) of which $14,143,000 as of June 30, 2011 (March 31, 2011 - $22,415,000, April 1, 2010 - $32,405,000) 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, personal guarantees 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 $40,000,000 Canadian or its U.S. dollar equivalent. Indebtedness under this agreement is unsecured and this credit facility has no expiry date. As at June 30, 2011, there were no draws on this line of credit (March 31, 2011– nil, April 1, 2010 - nil).

ii) The Corporation enters into discounting arrangements with recourse with a financial institution, up to a maximum of $15,000,000 as of June 30, 2011 (March 31, 2011 - $15,000,000, April 1, 2010 - $15,000,000) to support its trade financing program.

In addition, the Corporation enters into further credit arrangements up to a maximum of $25,000,000 as of June 30, 2011 (March 31, 2011 - $25,000,000, April 1, 2010 - $25,000,000) 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.

Accounts payable and accrued liabilities

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

(in thousands)	**June 30, 2011**	**March 31, 2011**	**April 1, 2010**
< 1 year	$ 218,495	$ 222,732	$ 235,670
> 1 and < 3 years	15,276	455	657
	$ 233,771	$ 223,187	$ 236,327

Under a specific series of financing contracts related to the Corporation's trade financing program, included in accounts payable and accrued liabilities, the Corporation owed $14,735,000 as of June 30, 2011 (March 31, 2011 - $27,619,000, April 1, 2010 - $42,868,000) of which $14,143,000 as of June 30, 2011 (March 31, 2011 - $22,415,000, April 1, 2010 - $32,405,000) bears interest at the cost of funds plus 0.20% and the Corporation has offered as security certain foreign accounts receivable under certain conditions. The Corporation, however, also has access to a number of commercial securities should the foreign party fail to repay these receivables. The amount of outstanding accounts receivable pledged as securities under these arrangements was $51,298,000 as of June 30, 2011 (March 31, 2011 - $67,378,000, April 1, 2010 - $74,879,000) and was profiled as follows:

(in thousands)	**June 30, 2011**	**March 31, 2011**	**April 1, 2010**
< 1 year	$ 51,298	$ 61,484	$ 67,814
> 1 and < 3 years	-	5,894	7,065

10. Administrative expenses

Administrative expenses included the following:

For the three month period ended June 30 (in thousands)		2011		2010
Workforce compensation and related expenses	$	3,753	$	3,498
Contract management services		1,023		1,000
Rent and related expenses		528		504
Consultants		422		214
Travel and hospitality		255		268
Software, hardware and support		251		387
Amortization		176		175
Corporate communications		12		55
Other expenses		118		184
	$	6,538	$	6,285

11. Parliamentary appropriations

Appropriations authorized by the Parliament of Canada are included in income for the quarter in the amount of $3,870,000 as of June 30, 2011 (June 30, 2010 - $3,887,000).

12. 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 are measured at the exchange amount. Relationships exist between the Corporation and government related entities whereby no transactions have occurred. These relationships have not been disclosed as permitted by the partial exemption available to wholly owned government entities in International Accounting Standard 24 – Related Parties (“IAS 24”).

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

The cost of these services for the quarter amounted to $1,061,000 as of June 30, 2011 (June 30, 2010 - $1,032,000) 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 for the quarter amounted to $187,500 as of June 30, 2011 (June 30, 2010 - $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)		**2011**		**2010**
Canadian International Development Agency	$	2,314	$	(303)
Department of Foreign Affairs and International Trade	$	595	$	3,405
Department of National Defence	$	-	$	1,000

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

As a result of all related party transactions, the amounts due from and to these parties included in accounts receivable and accounts payable respectively were as follows,

(in thousands)		**June 30, 2011**		**March 31, 2011**		**April 1, 2010**
Accounts receivable	$	4,850	$	6,135	$	3,585
Accounts payable	$	5,854	$	2,739	$	930

13. Contingencies and Guarantees

The Corporation may incur contract remediation expenses should Canadian exporters fail to fulfill the terms 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 likely and the associated costs can be reasonably estimated. The Corporation did not incur any contract remediation expenses for the quarter ended June 30, 2011 (June 30, 2010 - $125,000), leaving a balance of $407,000 as of June 30, 2011 (March 31, 2011 - $407,000, April 1, 2010 - $1,442,000), representing management's best estimate of the additional costs which will likely be incurred by the Corporation to meet its contractual obligations.

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 approximates $3.5 billion as of June 30, 2011 (March 31, 2011 - $3.6 billion, April 1, 2010 - $2.7 billion).

The profile of the Corporation’s total contract portfolio was as follows:

(in thousands)	June 30, 2011	March 31, 2011	April 1, 2010
< 1 year	$ 1,659,934	$ 1,602,730	$ 1,361,783
> 1 and < 3 years	$ 1,802,207	$ 1,895,621	$ 1,030,167
> 3 and < 5 years	$ 40,890	$ 60,544	$ 323,811
> 5 years	$ 3,640	$ 3,787	$ 2,470

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 $3,507,077,000 as of June 30, 2011 (March 31, 2011 - $3,563,089,000, April 1, 2010 - $2,719,673,000).

14. Transition to International Financial Reporting Standards.

The Corporation adopted IFRS on April 1, 2011 with a date of transition effective April 1, 2010. Prior to the adoption of IFRS the Corporation prepared its financial statements in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”). The first annual financial statements issued by the Corporation that will comply with IFRS will be those issued for the year ending March 31, 2012. Accordingly, the Corporation will make an unreserved statement of compliance with IFRS beginning with its 2012 fiscal annual financial statements. The Corporation has prepared its opening IFRS Statement of Financial Position as of the transition date of April 1, 2010.

These financial statements have been prepared in accordance with the accounting polices described in Note 3 and in accordance with the requirements of IFRS 1, First-Time Adoption of International Financial Reporting Standards (“IFRS 1”), which is applicable upon first-time adoption of IFRS. IFRS 1 requires that the same policies are applied for all periods presented and that those policies are based on IFRS effective at the end of the first IFRS year-end, or March 31, 2012 for the Corporation.

The Corporation will ultimately prepare its opening Statement of Financial Position by applying existing IFRS with an effective date of March 31, 2012, or earlier. Accordingly, it is possible that the opening Statement of Financial Position and financial statements for fiscal 2011 and 2012 may differ from the information presented in these interim financial statements.

In preparing the opening IFRS *Statement of Financial Position*, the Corporation has adjusted amounts previously reported in financial statements prepared in accordance with Canadian GAAP. An explanation of how the transition from previous Canadian GAAP to IFRS has affected the Corporation’s financial position and comprehensive income is explained in the following tables and the notes accompanying the tables.

Reconciliation of Financial Position and Equity as at April 1, 2010

(in thousands of dollars)	Note	Canadian GAAP	Effect of transition to IFRS	Opening IFRS
Assets				
Current assets				
Cash and cash equivalents		$ 42,982	$ -	$ 42,982
Accounts receivable		251,889	-	251,889
Advances to Canadian exporters		85,944	-	85,944
Progress payments to Canadian exporters		92,101	-	92,101
		472,916	-	472,916
Non-current assets				
Property and equipment		1,264	-	1,264
Intangible assets		1,661	-	1,661
		2,925	-	2,925
		$ 475,841	$ -	$ 475,841
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities		$ 236,327	$ -	$ 236,327
Advances from foreign customers		96,550	-	96,550
Progress payments from foreign customers		91,625	-	91,625
Short-term employee future benefits	(a)	-	643	643
		424,502	643	425,145
Non-current liabilities				
Long-term employee future benefits	(a)	1,308	176	1,484
Provision for contract remediation expenses		1,442	-	1,442
		2,750	176	2,926
		427,252	819	428,071
Shareholder's Equity				
Contributed surplus		10,000	-	10,000
Retained earnings	(a)	38,589	(819)	37,770
		48,589	(819)	47,770
		$ 475,841	$ -	$ 475,841

Reconciliation of Financial Position and Equity as at March 31, 2011

(in thousands of dollars)	Note	Canadian GAAP	Effect of transition to IFRS	IFRS
Assets				
Current assets				
Cash and cash equivalents		$ 75,254	$ -	$ 75,254
Accounts receivable		235,029	-	235,029
Advances to Canadian exporters		107,887	-	107,887
Progress payments to Canadian exporters		226,456	-	226,456
		644,626	-	644,626
Non-current assets				
Property and equipment		1,115	-	1,115
Intangible assets		1,108	-	1,108
		2,223	-	2,223
		$ 646,849	$ -	$ 646,849
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities		$ 223,187	$ -	$ 223,187
Advances from foreign customers		142,153	-	142,153
Progress payments from foreign customers		229,426	-	229,426
Short-term employee future benefits	(a)	-	708	708
		594,766	708	595,474
Non-current liabilities				
Long-term employee future benefits	(a)	1,569	(22)	1,547
Provision for contract remediation expenses		407	-	407
		1,976	(22)	1,954
		596,742	686	597,428
Shareholder's Equity				
Contributed surplus		10,000	-	10,000
Retained earnings	(a)	40,107	(686)	39,421
		50,107	(686)	49,421
		$ 646,849	$ -	$ 646,849

Reconciliation of Comprehensive Income for the year ended March 31, 2011

(in thousands of dollars)	Note	GAAP	Effect of transition to IFRS	IFRS
Revenues				
Commercial trading transactions - prime contracts		$ 1,585,074	$ -	$ 1,585,074
Less: cost of commercial trading transactions - prime contracts		(1,585,074)	-	(1,585,074)
Fees for service		12,893	-	12,893
Other income		145	-	145
Net interest income		295	-	295
Gain (loss) on foreign exchange		(130)	-	(130)
		13,203	-	13,203
Expenses				
Administrative expenses	(b)	28,157	(133)	28,024
Contract remediation expenses (recovery)		(990)	-	(990)
		27,167		27,034
International procurement services for government clients				
Procurement services transactions		$ 81,115	$ -	$ 81,115
Less: cost of procurement services transactions		(81,115)	-	(81,115)
		-		-
Net results of operations before Parliamentary appropriations	(b)	(13,964)	133	(13,831)
Parliamentary appropriations		15,482	-	15,482
Net results of operations and comprehensive income	(b)	$ 1,518	$ 133	$ 1,651

Reconciliation of Financial Position and Equity as at June 30, 2010

(in thousands of dollars)	Note	Canadian GAAP	Effect of transition to IFRS	IFRS
Assets				
Current assets				
Cash and cash equivalents		$ 63,676	$ -	$ 63,676
Accounts receivable		200,592	-	200,592
Advances to Canadian exporters		88,071	-	88,071
Progress payments to Canadian exporters		103,198	-	103,198
		455,537	-	455,537
Non-current assets				
Property and equipment		1,228	-	1,228
Intangible assets		1,541	-	1,541
		2,769	-	2,769
		$ 458,306	$ -	$ 458,306
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities		$ 194,529	$ -	$ 194,529
Advances from foreign customers		107,470	-	107,470
Progress payments from foreign customers		105,114	-	105,114
Short-term employee future benefits	(a)	-	643	643
		407,113	643	407,756
Non-current liabilities				
Long-term employee future benefits	(a)	1,308	176	1,484
Provision for contract remediation expenses		1,550	-	1,550
		2,858	176	3,034
		409,971	819	410,790
Shareholder's Equity				
Contributed surplus		10,000	-	10,000
Retained earnings	(a)	38,335	(819)	37,516
		48,335	(819)	47,516
		$ 458,306	$ -	$ 458,306

Reconciliation of Comprehensive Income for the three month period ended June 30, 2010

(in thousands of dollars)	GAAP	Effect of transition to IFRS	IFRS
Revenues			
Commercial trading transactions - prime contracts	$ 232,926	$ -	$ 232,926
Less: cost of commercial trading transactions - prime contracts	(232,926)	-	(232,926)
Fees for service	1,954	-	1,954
Other income	227	-	227
Net interest income	45	-	45
Gain (loss) on foreign exchange	43	-	43
	2,269	-	2,269
Expenses			
Administrative expenses	6,285	-	6,285
Contract remediation expenses (recovery)	125	-	125
	6,410		6,410
International procurement services for government clients			
Procurement services transactions	$ 20,198	$ -	$ 20,198
Less: cost of procurement services transactions	(20,198)	-	(20,198)
	-		-
Net results of operations before Parliamentary appropriations	(4,141)	-	(4,141)
Parliamentary appropriations	3,887	-	3,887
Net results of operations and comprehensive income	$ (254)	$ -	$ (254)

Notes to the reconciliations of Equity and Comprehensive Income

(a) Reconciliation of equity as reported under Canadian GAAP and IFRS

The following is a reconciliation of the Corporation's equity reported in accordance with Canadian GAAP as of March 31, 2010 to its equity in accordance with IFRS at the transition date of April 1, 2010.

(in thousands)	Contributed Surplus	Retained Earnings	Total Equity
As reported under Canadian GAAP - March 31, 2010	$ 10,000	$ 38,589	$ 48,589
Differences increasing (decreasing) reported amounts:			
Short-term employee future benefits		(643)	(643)
Long-term employee future benefits		(176)	(176)
As reported under IFRS - April 1, 2010	$ 10,000	$ 37,770	$ 47,770

The following is a reconciliation of the Corporation's equity reported in accordance with Canadian GAAP to its equity in accordance with IFRS at March 31, 2011

(in thousands)	Contributed Surplus	Retained Earnings	Total Equity
As reported under Canadian GAAP - March 31, 2011	$ 10,000	$ 40,107	$ 50,107
Differences increasing (decreasing) reported amounts:			
Short-term employee future benefits		(708)	(708)
Long-term employee future benefits		22	22
As reported under IFRS - March 31, 2011	$ 10,000	$ 39,421	$ 49,421

The following is a reconciliation of the Corporation's equity reported in accordance with Canadian GAAP to its equity in accordance with IFRS at June 30, 2010

(in thousands)	Contributed Surplus	Retained Earnings	Total Equity
As reported under Canadian GAAP - June 30, 2010	$ 10,000	$ 38,335	$ 48,335
Differences increasing (decreasing) reported amounts:			
Short-term employee future benefits		(643)	(643)
Long-term employee future benefits		(176)	(176)
As reported under IFRS - June 30, 2010	$ 10,000	$ 37,516	$ 47,516

(b) Reconciliation of comprehensive income as reported under Canadian GAAP and IFRS

The following is a reconciliation of the Corporation's net income reported in accordance with Canadian GAAP to its net income in accordance with IFRS for the three months ended June 30, 2010 and the year ended March 31, 2011

(in thousands)	Three months ended June 30, 2010	Year ended March 31, 2011
Net comprehensive income as reported under Canadian GAAP	$ (254)	$ 1,518
Differences increasing (decreasing) reported amounts:		
Short term employee future benefits		(65)
Long-term employee future benefits		198
Net comprehensive income (loss) as reported under IFRS	$ (254)	$ 1,651

(c) Cash flow statement

There were no changes to the cash flow statement as a result of the conversion to IFRS.

15. Comparative figures

Certain comparative figures have been reclassified to conform to the current year's presentation.