Canadian Commercial Corporation
Corporation Commerciale Canadienne

Canadian Commercial Corporation

Quarterly Financial Report
(Unaudited)

For the three and six-month periods ended September 30, 2013

Management's Discussion and Analysis

Overview

CCC was established in 1946 under the *Canadian Commercial Corporation Act*. The Act outlines CCC's broad mandate, which is to assist in the development of trade by helping Canadian exporters access markets abroad and by helping foreign buyers obtain goods from Canada. The legislation also provides the Corporation with a range of powers, including the ability to export goods from Canada either as principal or as agent in such a manner and to such an extent as it deems appropriate. As a result, CCC negotiates and executes bilateral government-to-government procurement arrangements, facilitating export transactions on behalf of Canadian exporters.

Nature of Business and Operating Environment

In this current climate of underperforming and uncertain state of the global economy, Canadian companies continue to face a period of dramatic economic shift in certain key industry sectors. For the Canadian Commercial Corporation (CCC), this shift is manifested in the decreasing volume of the Defence Production Sharing Agreement (DPSA) related business; nevertheless, the Corporation plays an important role in promoting Canadian capabilities and increasing exports beyond the United States (U.S.) and DPSA markets. CCC works with its base of exporters in global defence and security markets to leverage Canadian and U.S. military and security related procurements that are export-ready in order to open new markets with allied nations. The DPSA, Global Defense and Security (GDS) and International Commercial Business (ICB) business line strategy that CCC has developed continues to prove its effectiveness through increased sales for Canadian exporters and a greater number of jobs for Canadians. These accomplishments are being achieved while managing the Corporation in a cost efficient manner.

Financial Highlights

CCC's year to date net results of operations and total comprehensive income for the six-month period ended September 30, 2013 was a deficit of $48 thousand, compared to a deficit of $0.9 million reported for the six-month period ended September 30, 2012. The bottom line improvement by $0.8 million, was the result of $0.3 million in revenue increase and savings to total expenses of $0.5 million. The parliamentary appropriation was the same as compared to last year. Of the $0.3 million increase in revenue, $0.2 million was the result of a gain on foreign exchange upon conversion of the Corporation's unhedged U.S. dollar cash balances to Canadian dollars for financial statement purposes. The Canadian dollar weakened in relationship to its U.S. dollar counterpart as at September 30, 2013 compared to September 30, 2012.

Expenses continue to be incurred in a controlled manner with a resulting decrease of $0.5 million, relative to revenues earned and respective of the spirit of the Government of Canada's cost containment measures set out in the 2010 Budget.

The net results of operations and total comprehensive income for the three-month period ended September 30, 2013 was a profit of $0.4 million compared to a deficit of $0.8 million for the three-month period ended September 30, 2012. The increase of $1.2 million was the result of revenues increasing by $0.9 million and total expenses decreasing by $0.3 million. Of the $0.9 million increase in revenues, $0.8 million or 89% was the result of increase in fees for service**.**

For the fiscal year ended March 31, 2014, the Corporation is forecasting an operating deficit of $0.3 million, versus an operating surplus of $1.3 million for the fiscal year ended March 31, 2013 and an improvement of $1.1 million over the 2013-14 Corporate Plan budget. For the fiscal year ended March 31, 2014, fees for service are forecasted to be $11.5 million, $3.7 million or 24% lower than the fiscal year ended March 31, 2013 and the same as the 2013-14 Corporate Plan budget. For the fiscal year ended March 31, 2014, commercial trading and procurement services transactions combined are forecasted to be $1.43 billion, $822.7 million or 37% lower than the fiscal year ended March 31, 2013 and $156.4 million or 10% lower than the 2013-14 Corporate Plan budget.

A more detailed discussion of CCC's 2013-14 financial highlights follows:

Statement of Comprehensive Income Discussion

Summary results

	FOR THE THREE MONTHS ENDED				FOR THE SIX MONTHS ENDED		
	September 30 2013 ($ Millions)	**September 30 2012 ($ Millions)**	**% Increase (Decrease)**		**September 30 2013 ($ Millions)**	**September 30 2012 ($ Millions)**	**% Increase (Decrease)**
Revenues:							
Commercial trading transactions - prime contracts	**$ 348.1**	**$ 579.8**	(40%)		**$ 721.9**	**$ 1,272.4**	(43%)
Cost of commercial trading transactions - prime contracts	**(348.1)**	**(582.5)**	(40%)		**(721.9)**	**(1,272.4)**	(43%)
Fees for service	**3.4**	**2.7**	30%		**6.1**	**6.0**	2%
Other revenues	**0.1**	**(0.1)**	200%		**0.3**	**0.2**	50%
Total Revenues	**3.5**	**2.6**	34%		**6.4**	**6.2**	4%
Expenses:							
Administrative expenses	**6.9**	**7.2**	(4%)		**14.2**	**14.8**	(4%)
Contract remediation expenses	**-**	-	- %		**-**	-	- %
Total Expenses	**6.9**	**7.2**	(4%)		**14.2**	**14. 8**	(4%)
International procurement services for government clients	**20.4**	**4.6**	342%		**30.6**	**9.2**	233%
Cost of international procurement services for government clients	**(20.4)**	**(4.6)**	342%		**(30.6)**	**(9.2)**	233%
Parliamentary appropriations	**3.9**	**3.9**	- %		**7.7**	**7.7**	- %
Net results of operations and comprehensive income	**$ 0.4**	**$ (0.8)**	(154%)		**$ 0.1**	**$ (0.9)**	(95%)

Revenues

Revenues consist of Commercial Trading Transactions (CTT) on prime contracts, fees for service, other income, net interest income, and gains (or an offset to revenues if a loss) on foreign exchange. It is important to note that revenues from commercial trading transactions on prime contracts are fully offset by the cost of commercial trading transactions on prime contracts. After offsetting the cost of commercial trading transactions, total revenues were $6.4 million for the six-month period ended September 30, 2013 compared to $6.2 million for the six-month period ended September 30, 2012, an increase of $0.2 million or 4%. Total revenues were $3.5 million for the three-month period ended September 30, 2013 compared to the $2.6 million for the three-month period ended September 30, 2012, an increase of $0.9 million or 34%.

Commercial trading transactions and procurement services transactions combined were $752.5 million for the six-month period ended September 30, 2013, compared to the $1,281.6 million for the six-month period ended September 30, 2012, a decrease of $529.1 million or 41%. Commercial trading transactions and procurement services transactions combined were $368.5 million for the three-month period ended September 30, 2013, compared to the $584.4 million for the three-month period ended September 30, 2012, a decrease of $215.9 million or 37%. CTT are anticipated to trend downward through the remaining delivery period of the Light Armoured Vehicles (LAV) contract signed with the U.S. Department of Defense Foreign Military Sales organization (U.S. DoD FMS) in 2009-2010 valued at $2.22 billion. This LAV contract was the largest contract signed by the Corporation in its history and has contributed to significantly higher levels of CTT for the last several years.

GDS CTT of $66.5 million represents 9% of the Corporation's total CTT and is $36.1 million or 119% higher than GDS CTT for the six-month period ended September 30, 2012. ICB CTT of $96.1 million represent 13% of the Corporation's total CTT and is $44.0 million or 31% lower than ICB CTT for the six-month period ended September 30, 2012. The ICB CTT total of $96.1 million includes $11.3 million from the Cuba Contracting Program.

CCC does not charge fees for its DPSA business line transactions as these are funded through parliamentary appropriations. For the six-month period ended September 30, 2013, commercial trading transactions generated from DPSA activity (including sales of LAVs to the U.S. DoD) represent 77% of the Corporation's total commercial trading transactions compared to the six-month period ended September 30, 2012 of 87%.

For all of its other business lines, the Corporation charges fees, generally as a percentage of the contract value. Fees are recognized as revenue when goods and services are delivered. Fees for service are $6.1 million for the six-month period ended September 30, 2013 compared to $6.0 million for the six-month period ended September 30, 2012, an increase of $0.1 million or 2%. GDS fees for services of $2.4 million account for 40% of the total fees for service and are $0.8 million or 48% higher than GDS fees for services for the six-month period ended September 30, 2012. ICB fees for service of $1.8 million account for 30% of the total fees for service and are $0.6 million or 24% lower than the ICB fees for service for the six-month period ended September 30, 2012. Procurement and Other Service (including China-regional offices and PPP Canada Inc.-shared services agreement) fees for service of $1.8 million account for 30% of the total fees for service and are $0.1 million or 6% lower than procurement services for the six-month period ended September 30, 2012. Fees for service are $3.4 million for the three-month period ended September 30, 2013 compared to $2.7 million for the three-month period ended September 30, 2012, an increase of $0.7 million or 30%.

Other revenues include: (1) Foreign exchange gains or losses due to the weakening or strengthening of the Canadian dollar compared to its U.S. dollar counterpart on exposed

U.S. cash balances; (2) Finance income earned on the Corporation's cash balances; and (3) Other income comprised primarily of fees earned for providing early payment discounts and payment wiring to Canadian exporters.

For the six-month period ended September 30, 2013: (1) The foreign exchange gain of $0.1 million, due to the weakening of the Canadian dollar compared to its U.S. dollar counterpart was $0.1 million higher compared to the foreign exchange loss of $0.1 million for the six-month period ended September 30, 2012; (2) Finance income of $0.1 million was $45 thousand lower compared to the result for the six-month period ended September 30, 2012 as cash balances were generally lower; and (3) Other income of $0.1 million was $37 thousand higher compared to the result for the six-month period ended September 30, 2012 as Canadian exporters opted for more early payment discounts in the current year.

For the three-month period ended September 30, 2013: (1) The foreign exchange loss of $0.1 million, due to the fluctuation of the Canadian dollar compared to its U.S. dollar counterpart was $64 thousand lower compared to the foreign exchange loss for the three-month period ended September 30, 2012; (2) Finance income was $31 thousand lower compared to the result for the three-month period ended September 30, 2012; and (3) Other income was $57 thousand higher compared to the result for the three-month period ended September 30, 2012 as Canadian exporters opted for more early payment discounts in the current year.

Expenses

For the six-month period ended September 30, 2013, total expenses were $14.2 million, a decrease of $0.6 million or 4% lower than the six-month period ended September 30, 2012. For the three-month period ended September 30, 2013, total expenses were $6.9 million, a decrease of $0.3 million or 4% lower than the three-month period ended September 30, 2012. For the six-month period ended September 30, 2013, Management did not incur or accrue any contract remediation expenses and will defer recognition until such time as actual amounts are or can be determined. Administrative expenses are paid primarily in Canadian dollars, are not impacted by foreign exchange fluctuations, and included the following:

- Workforce compensation and related expenses of $9.3 million for the six-month period ended September 30, 2013 was $0.4 million, or 5%, higher than the six-month period ended September 30, 2012. Workforce compensation and related expenses of $4.7 million for the three-month period ended September 30, 2013 was $0.3 million, or 6%, higher than the three-month period ended September 30, 2012. The increase is due to regular collective bargaining and annual salary band increment increases. Workforce compensation and related expenses accounts for approximately 65% of CCC's administrative expenditures.

- PWGSC costs for core contract management services under the DPSA that where not transferred to CCC, were $2.1 million for the six-month period ended

September 30, 2013, $0.2 million or 8% lower than the six-month period ended September 30, 2012. PWGSC costs of $1.0 million for the three-month period ended were $0.2 million or 16% lower than the three-month period ended September 30, 2012.

- Rent and related expenses of $1.1 million for the six-month period ended September 30, 2013 was $0.1 million, or 9%, lower than the six-month period ended September 30, 2012. Rent and related expenses of $0.5 million for the three-month period ended September 30, 2013 was $0.1 million, or 13%, lower than the three-month period ended September 30, 2012.

- Travel and hospitality expenses of $0.6 million for the six-month period ended September 30, 2013 were $0.2 million, or 23%, lower than the six-month period ended September 30, 2012. Travel and hospitality expenses of $0.3 million for the three-month period ended September 30, 2013 were the same for the three-month period ended September 30, 2012. Travel and hospitality expenses are incurred due primarily to business development activity in support of Canadian exporters in pursuit of and to secure of projects in Colombia, Ghana and the Middle East and the management of the projects once they are secured and effective.

- Consultant expenses of $0.4 million for the six-month period ended September 30, 2013 were $154 thousand, or 30%, lower than the six-month period ended September 30, 2012. Consultant expenses of $0.2 million for the three-month period September 30, 2013 were $39 thousand, or 17%, lower in the three-month period ended September 30, 2012. Consultant expenses complement CCC's workforce and perform assignments requiring a specific expertise. The Corporation was able to negotiate significant savings on in-country consultation services related to the delivery of export promotion undertaken in China.

- The amortization of intangible assets and depreciation of property and equipment and leasehold improvement costs of $0.1 million were 79% lower for the six-month period ended September 30, 2013 compared to the six-month period ended September 30, 2012. Amortization and depreciation of $42 thousand was 11% lower for the three-month period ended September 30, 2013 compared to the three-month period ended September 30, 2012. The Enterprise Resource Planning (ERP) system that was implemented during 2008, along with related upgrades, was fully amortized by the end of fiscal year 2012-13.

- Computer software, hardware and support costs of $0.3 million, over and above the information management personnel included in workforce compensation or consultants, were approximately the same for the six-month period ended September 30, 2013 compared to the six-month period ended September 30, 2012. Computer software, hardware and support costs were $59 thousand or 155% lower for the three-month period ended September 30, 2013 compared to the three-month period ended September 30, 2012. During the six-month and three-month period ended September 30, 2013, the Corporation recovered costs it had incurred on behalf of PPP Canada Inc. in accordance with the revised shared service Memorandum Of Understanding (MOU). The recovery of these costs were not specifically detailed in the prior MOU, therefore not recovered during fiscal year 2012-13.

- Other expenses of $0.3 million were $89 thousand, or 22%, lower for the six-month period ended September 30, 2013 compared to the six-month period ended September 30, 2012. Other expenses of $0.1 million for the three-month period September 30, 2013 were 17% lower for the three-month period ended September 30, 2013 compared to the three-month period ended September 30, 2012. Other expenses include Corporate communication costs (marketing, advertising, and the design and printing of corporate promotional material) telecommunications and bank charges.

For the six-month period ended September 30, 2013, Management did not incur any contract remediation expenses, the same as the six-month period ended September 30, 2012.

Parliamentary Appropriations

The Corporation is to receive parliamentary appropriations of $15.5 million in fiscal year 2013-14, the same amount as in fiscal year 2012-13. The appropriation is drawn down in equal monthly instalments throughout the year. The amount drawn down of $7.7 million for the six-month period ended September 30, 2013 was the same as six-month period ended September 30, 2012. The amount drawn down of $3.9 million for the three-month period ended September 30, 2013 was the same as three-month period ended September 30, 2012.

Statement of Financial Position Discussion

Summary of financial position

	September 30 2013 ($ Millions)	**March 31 2013 ($ Millions)**	**% Increase (Decrease)**
Total assets	**$ 1,188.4**	$ 1,172.6	1%
Total liabilities	**$ 1.138.1**	$ 1,122.2	1%
Shareholder's Equity	**$ 50.3**	$ 50.4	- %

CCC's total assets were $1,188.4 million as at September 30, 2013, $15.8 million, or 1%, higher than at March 31, 2013. The increase is due to an increase from March 31, 2013 in the amount of progress payments to Canadian exporters of $69.4 million or 8%, offset by a net decrease from March 31, 2013 across all other asset statement line items combined of $53.6 million or 16%.

CCC's total liabilities were $1,138.1 million as at September 30, 2013, $15.9 million, or 1%, higher than at March 31, 2013. The increase from March 31, 2013 is due to an increase in the amount of progress payments from foreign customers of $69.1 million or

8%, offset by a net decrease from March 31, 2013 across all other liability statement line items combined of $53.2 million or 19%.

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 $110.7 million were $36.2 million or 25% lower than the balance at March 31, 2013 and represents 9% of the total assets of $1,188.4 million. Trade payables and accrued liabilities of $95.0 million were $25.9 million or 21% lower than the balance at March 31, 2013 and represent 8% of the total liability of $1,138.1 million.

Progress payments to Canadian exporters of $909.6 million represent 77% of the total assets of $1,188.4 million. Progress payments from foreign customers of $911.9 million represent 80% of the total liabilities of $1,138.1 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, $775.3 million or 85% relate to the significant $2.22 billion U.S. DoD FMS LAV contract.

Advances from foreign customers of $129.0 million, decreased by $25.8 million or 17% compared to the balance at March 31, 2013. Advances to Canadian exporters of $107.8 million, decreased by $15.7 million or 13% compared to the balance at March 31, 2013. Of the $129.0 million in advances from foreign customers, $116.6 million or 90%, were related to projects for Colombia, Ecuador, Ghana, Norway, and Peru. Of these advances from foreign customers, $106.1 million were passed on to Canadian exporters, accounting for 98% of advances to Canadian exporters. Contractually, advances are not offered on the DPSA business line. For all other business lines, CCC's risk mitigation practices require that for most projects CCC holds back advance payments made by foreign customers and releases them to Canadian exporters as delivery obligations are fulfilled. This explains the period-over-period variations that occur.

For the six-month period ended September 30, 2013, CCC's equity, fully ascribed to the Government of Canada, was $50.3 million, a decrease of $48 thousand from March 31, 2013 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 $2,071.1 billion at September 30, 2013. It is worth noting that in 2009-2010, CCC signed the U.S. DoD FMS LAV contract. The maximum potential value of this contract is $2.22 billion of which $1.08 billion had been delivered as of September 30, 2013. The undelivered portion of this contract represents 51% of the Corporation's total undelivered commitments.

Statement of Cash Flows Discussion

Summary of cash flows

	FOR THE THREE MONTHS ENDED				FOR THE SIX MONTHS ENDED		
Source (use) of cash	**September 30 2013 ($ Millions)**	**September 30 2012 ($ Millions)**	**% Increase (Decrease)**		**September 30 2013 ($ Millions)**	**September 30 2012 ($ Millions)**	**% Increase (Decrease)**
Operating activities	**$ (17.5)**	**$ 8.6**	(304%)		**$ (1.8)**	**$ 33.8**	105%
Investing activities	**$ -**	**$ (0.1)**	100%		**$ -**	**$ (0.1)**	(100%)
Effect of exchange rate changes on cash and cash equivalents	**$ (0.1)**	**$ (0.2)**	(40%)		**$ 0.1**	**$ (0.1)**	(244%)

Operating activities

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

During the six-month period ended September 30, 2013, CCC used $1.8 million in cash from its operating activities, as compared to the $33.8 million provided during the six-month period ended September 30, 2012, a decrease of $35.6 million. Details are as follows:

- Receipts from foreign customers include cash received for deliveries, progress work performed and advances as stipulated under the foreign customer contract. Receipts from foreign customers were $831.9 million for the six-month period ended September 30, 2013, $802.9 million or 49% lower than the amount reported for the six-month period ended September 30, 2012. The decrease is due to the downward trend in CTT during the remaining delivery period under the significant LAV contract.

- 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 $832.2 million for the six-month period ended September 30, 2013, $768.6 or 48% lower than the amount reported in the six-month period ended September 30, 2012. The decrease is due to the downward trend in CTT during the remaining delivery period under the significant LAV contract.

- For the six-month period ended September 30, 2013 compared to the six-month period ended September 30, 2012, the decrease in receipts from foreign customers were greater than the decrease in payments to Canadian suppliers, therefore reducing the cash by $34.3 million. In addition to the $34.3 million cash reduction by export transactions, another $1.3 million decrease in cash came from finance income, fees for services, use of cash for administrative payments and other income received combined.

During the three-month period ended September 30, 2013, CCC used $17.5 million in cash from its operating activities, as compared to the $8.6 million provided during the three-month period ended September 30, 2012, a change of $26.1 million. Details are as follows:

- Receipts from foreign customers include cash received for deliveries, progress work performed and advances as stipulated under the foreign customer contract. Receipts from foreign customers were $378.5 million for the three-month period ended September 30, 2013, $386.0 million or 50% lower than the amount reported for the three-month period ended September 30, 2012. The decrease is due to the downward trend in CTT during the remaining delivery period under the significant LAV contract.

- 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 $396.5 million for the three-month period ended September 30, 2013, $358.3 million or 47% lower than the amount reported in the three-month period ended September 30, 2012. The decrease is due to the downward trend in CTT during the remaining delivery period under the significant LAV contract.

- For the three-month period ended September 30, 2013 compared to the three-month period ended September 30, 2012, decrease in receipts from foreign customers were greater than increase in payments to Canadian suppliers, therefore using $27.7 million of cash for export transactions.

- In addition to the $27.7 million cash used by export transactions, $0.3 million increase in cash was provided from finance income, fees for service and other income received. The combined total of $27.4 million used was offset by $1.3 million as cash was provided from a reduction to spending on administrative expenses.

Investing activities

For the six-month period ended September 30, 2012, the Corporation capitalized $0.1 million related to property, equipment or intangible but only capitalized a negligible amount related to property, equipment or intangible for the six-month period ended September 30, 2013, resulting in a negligible use of cash for investing activities.

For the three-month period ended September 30, 2012, the Corporation capitalized $0.1 million related to property, equipment or intangible but only capitalized a negligible amount related to property, equipment or intangible for the three-month period ended September 30, 2013, resulting in a negligible use of cash for investing activities.

Effect of exchange rate changes on cash and cash equivalents

For the six-month period ended September 30, 2013, CCC recorded a foreign exchange translation gain of $0.1 million as a result of the Canadian dollar's decreasing compared to its U.S. dollar (USD) counterpart, from $0.9843 USD at March 31, 2013 to $0.9706 USD at September 30, 2013. This resulted in $0.1 million use of cash when compared to the six-month period ended September 30, 2012.

Comparison of Financial Results to the Budget contained in the 2013-2014 to 2017-2018 Corporate Plan

For the six-month period ended September 30, 2013, total commercial trading transactions (including procurement services transactions) of $752.3 million were $1.5 million, or less than 1%, lower than budget.

Fees for service of $6.1 million were higher than budget by $0.9 million, or 18%. Fees for service are earned as contract work is delivered or completed. For the six-month period ended September 30, 2013, fees generated from the ICB business line were $0.5 million higher than budget, mainly due to Cuba Contracting Program fees which are $0.4 million or 38% higher than budget as the Corporation continues to finance Cuba Contracting Program transactions and earn related financing fees until the financing components of the program are transferred to Export Development Canada (EDC), while fees generated from all other business lines were $0.4 million higher than budget as there were more scheduled contracted milestones (on which fees are recognized) occurring in the six-month period ended September 30, 2013 as originally expected.

Results for the six-month period ended September 30, 2013 include a foreign exchange gain of $0.1 million resulting from movements in the Canadian dollar relative to its U.S. dollar counterpart decreasing from $0.9843 USD at March 31, 2013 to $0.9706 USD at September 30, 2013. The Corporation manages exchange gains and losses through monitoring and maintaining unhedged foreign currency balances at negligible levels. The Corporation does not budget for gains or losses on foreign exchange.

The Corporation did not record any contract remediation expenses as of September 30, 2013 and will only do so once actual amounts are or can be determined. As a result, contract remediation expenses were under budget by $50 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 $14.2 million were $0.5 million, or 3%, lower than the budgeted amount of $14.7 million. Direct expenses of $9.4 million are $0.1 million or 1% below budget. Indirect expenses of $4.8 million are $0.4 million or 7% under budget. This result reflects Management's continued control of expenditures relative to revenues earned.

As explained under the *Parliamentary Appropriations* section of the Statement of Comprehensive Income Discussion, the Corporation was approved to receive parliamentary appropriations of $15.5 million in fiscal year 2013-2014, which will be drawn down in equal monthly instalments throughout the year. For the six-month period ended September 30, 2013, the amount drawn down was $7.7 million, the same amount as was budgeted for this quarter.

2013-2014 Forecast

For the fiscal year ending March 31, 2014, the Corporation is forecasting an operating deficit of $0.3 million, versus an operating surplus of $1.3 million for the fiscal year ended March 31, 2013. The $0.3 million is a significant improvement over the $1.4 million deficit which was planned and contained in the Board of Director approved 2013-2014 to 2017-18 Corporate Plan. Deficits are expected in the first couple of years of the five-year Corporate Plan as the Corporation transitions out of or reduces activity in certain lines of business and refocuses pursuit of remaining business line opportunities which will eventually replace and increase fee revenue, and simultaneously implement cost reduction measures which will be achieved through an improved alignment between CCC's resources and future activities.

For fiscal year 2013-2014, revenues after offsetting the cost of commercial trading transactions are expected to be $12.1 million, $4.2 million or 26% lower than the results achieved in fiscal year 2012-2013. This decrease is largely attributed to the transfer of the trade financing currently carried out by CCC to EDC. Working with EDC, the Corporation is working through an approach to transfer its trade financing in a manner that will improve the balance of risks while continuing to ensure support to the Canadian exporters that CCC has been in business with over the past twenty years and to other Canadian exporters present in this market. In addition, in 2012-2013 under the ICB business line, two major infrastructure projects in Ecuador and Ghana were substantially completed and a significant project signed in Kenya was completed. As a result, fees in 2013-2014 are expected to be lower, given the long timelines associated with winning infrastructure procurement contracts, until replacement projects emerge from the Corporation's pipeline of opportunities being explored.

Average annual revenues are forecast to return to traditional levels of approximately $13.0 to $14.0 million over the five year period of the Corporate Plan. Net finance income for fiscal year 2013-2014 is anticipated to be $0.3 million, approximately the same as in fiscal year 2012-2013.

With respect to expenses, CCC is not anticipating to incur any contract remediation expenses, the same as in fiscal year 2012-2013. 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 $28.0 million, $2.4 million or 8% lower than in fiscal year 2012-2013. A large portion of the reduction is due to savings achieved through attrition as positions vacated through fiscal year 2012-2013 year were not staffed. A further reduction of $0.7 million occurs due to a non-recurring, one-time charge recorded in 2012-2013 related to the additional severance expense in accordance with the newly signed collective bargaining agreement.

As noted earlier, the parliamentary appropriation for fiscal year 2013-2014 has been approved at $15.5 million at the same level as in fiscal year 2012-2013.

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 2012-2013 Annual Report and 2013-2014 Corporate Plan Summary.

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

There are no other significant changes, new risks or uncertainties identified during the three and six-months period ended September 30, 2013 as compared to those previously reported or discussed.

Management Representation

Management is responsible for the preparation and fair presentation of these quarterly financial statements in accordance with the Treasury Board of Canada Standard on Quarterly Financial Reports for Crown Corporations, and for such internal controls as management determines is necessary to enable the preparation of quarterly financial statements that are free from material misstatement. Management is also responsible for ensuring all other information in this quarterly financial report is consistent, where appropriate, with the quarterly financial statements. These quarterly financial statements have not been audited or reviewed by an external auditor.

Based on our knowledge, these unaudited quarterly financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of the corporation, as at the date of and for the periods presented in the quarterly financial statements.

Marc Whittingham
President and CEO

Anthony Carty
Vice-President, Risk and Finance, and CFO

Ottawa, Canada
November 13, 2013

Statement of Financial Position (Unaudited)

As at (in thousands of Canadian dollars)		September 30 2013		March 31 2013
Assets				
Current assets				
Cash and cash equivalents (note 4)	**$**	**59,368**	$	61,068
Trade receivables (notes 5 and 10)		**110,742**		146,907
Advances to Canadian exporters		**107,753**		123,436
Progress payments to Canadian exporters		**909,588**		840,148
		1,187,451		1,171,559
Non-current assets				
Property and equipment		**961**		1,046
Intangible assets		-		-
		961		1,046
	$	**1,188,412**	$	1,172,605
Liabilities				
Current liabilities				
Trade payables and accrued liabilities (notes 5 and 10)	**$**	**95,027**	$	120,961
Advances from foreign customers		**128,999**		154,799
Progress payments from foreign customers		**911,851**		842,769
Employee benefits (note 6)		**541**		1,984
		1,136,418		1,120,513
Non-current liabilities				
Employee benefits (note 6)		**1,407**		1,428
Provision for contract remediation expenses (notes 7 and 8)		**267**		296
		1,674		1,724
		1,138,092		1,122,237
Shareholder's Equity				
Contributed surplus		**10,000**		10,000
Retained earnings		**40,320**		40,368
		50,320		50,368
	$	**1,188,412**	$	1,172,605

Contingencies and guarantees (note 15)

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

Authorized for issue on November 13, 2013:

Marc Whittingham
President and CEO

Anthony Carty
Vice-President, Risk and Finance, and CFO

Statement of Comprehensive Income (Unaudited)

	For the three months ended September 30		For the six months ended September 30	
(in thousands of Canadian dollars)	**2013**	**2012**	**2013**	**2012**
		Restated (note 3)		Restated (note 3)
Revenues				
Commercial trading transactions - prime contracts (note 9)	**$ 348,113**	$ 579,800	**$ 721,851**	$ 1,272,385
Less: cost of commercial trading transactions - prime contracts	**(348,113)**	(579,800)	**(721,851)**	(1,272,385)
Fees for service (note 9)	**3,436**	2,640	**6,069**	5,963
Other income (note 9)	**82**	25	**121**	84
Finance income net (note 12)	**61**	92	**123**	168
Gain (loss) on foreign exchange	**(98)**	(162)	**104**	(72)
	3,481	2,595	**6,417**	6,143
Expenses				
Administrative expenses (note 11)	**6,943**	7,225	**14,206**	14,774
Contract remediation expenses	**-**	-	**-**	-
	6,943	7,225	**14,206**	14,774
International procurement services for government clients				
Procurement services transactions (note 9)	**20,416**	4,622	**30,613**	9,182
Less: cost of procurement services transactions	**(20,416)**	(4,622)	**(30,613)**	(9,182)
	-	-	**-**	-
Net results of operations before Parliamentary appropriations	**(3,462)**	(4,630)	**(7,789)**	(8,631)
Parliamentary appropriations (note 13)	**3,870**	3,870	**7,741**	7,741
Net results of operations	**$ 408**	$ (760)	**$ (48)**	$ (890)
Other comprehensive income (loss)				
Items that will not be reclassified to net results of operations				
Actuarial loss on employee benefits obligation	**-**	-	**-**	-
Total comprehensive income (loss)	**$ 408**	$ (760)	**$ (48)**	$ (890)

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

Statement of Changes in Equity (Unaudited)

For the three and six months ended September 30, 2013

(in thousands of Canadian dollars)	Contributed Surplus	Retained Earnings	Total
Balance June 30, 2013	**$ 10,000**	**$ 39,912**	**$ 49,912**
Net results of operations	**-**	**408**	**408**
Actuarial loss on employee benefits obligation	-	-	-
Total comprehensive income	**-**	**408**	**408**
Balance September 30, 2013	**$ 10,000**	**$ 40,320**	**$ 50,320**
Balance March 31, 2013	**$ 10,000**	**$ 40,368**	**$ 50,368**
Net results of operations	**-**	**(48)**	**(48)**
Actuarial loss on employee benefits obligation	-	-	-
Total comprehensive loss	**-**	**(48)**	**(48)**
Balance September 30, 2013	**$ 10,000**	**$ 40,320**	**$ 50,320**

For the three and six months ended September 30, 2012

(in thousands of Canadian dollars)	Contributed Surplus	Retained Earnings	Total
Balance June 30, 2012	$ 10,000	$ 39,315	$ 49,315
Net results of operations	-	(760)	(760)
Actuarial loss on employee benefits obligation	-	-	-
Total comprehensive loss	-	(760)	(760)
Balance September 30, 2012	$ 10,000	$ 38,555	$ 48,555
Balance March 31, 2012	$ 10,000	$ 39,445	$ 49,445
Net results of operations	-	(890)	(890)
Actuarial loss on employee benefits obligation	-	-	-
Total comprehensive loss	-	(890)	(890)
Balance September 30, 2012	$ 10,000	$ 38,555	$ 48,555

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

Statement of Cash Flows (Unaudited)

(in thousands of Canadian dollars)	For the three months ended September 30 2013	2012	For the six months ended September 30 2013	2012
Cash flows from operating activities				
Receipts from foreign customers	**$ 378,539**	$ 764,517	**$ 831,911**	$ 1,634,860
Finance income, net (note 12)	**61**	92	**123**	168
Fees for service and other income received	**3,518**	3,217	**6,190**	6,047
Payments to Canadian exporters	**(396,517)**	(754,823)	**(832,183)**	(1,600,782)
Administrative payments	**(6,944)**	(8,296)	**(15,586)**	(14,271)
Parlimentary appropriations	**3,870**	3,870	**7,741**	7,741
Cash provided by (used in) operating activities	**(17,473)**	8,577	**(1,804)**	33,763
Cash flows from investing activities				
Acquisition of property and equipment	**-**	(74)	**-**	(79)
Acquisition of intangible assets	**-**	(6)	**-**	(6)
Cash used in investing activities	**-**	(80)	**-**	(85)
Effect of exchange rate changes on cash and cash equivalents	**(98)**	(162)	**104**	(72)
Increase (decrease) in cash and cash equivalents	**(17,571)**	8,335	**(1,700)**	33,606
Cash and cash equivalents at the beginning of period	**76,939**	83,756	**61,068**	58,485
Cash and cash equivalents at the end of period (note 4)	**$ 59,368**	$ 92,091	**$ 59,368**	$ 92,091

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

Notes to Unaudited Condensed Interim Financial Statements

September 30, 2013

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 International Financial Reporting Standards (IFRS)

These condensed interim financial statements have been prepared in accordance with the Treasury Board of Canada *Standard on Quarterly Financial Reports for Crown Corporations* using the International Financial Reporting Standards ("IFRS") accounting policies adopted in the Corporation's audited annual financial statements as at and for the year ended March 31, 2013. These condensed interim financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the Corporation's annual report and audited financial statements for the year ended March 31, 2013.

Basis of measurement

The financial statements have been prepared on the historical cost basis except for, as permitted by IFRS and to the extent material, the following items in the Statement of Financial Position:

- derivative financial instruments are measured at fair value
- financial instruments at fair value through profit or loss are measured at fair value
- accrued employee benefit liabilities for post-employment benefit plans are recognized at the present value of the defined benefit obligations
- provision for contract remediation expense measured at the present value of future expected cash flows

Use of estimates and judgments

The preparation of financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ significantly from estimates resulting in significant differences in the related financial statement balances.

Estimates and underlying assumptions are reviewed on an ongoing basis and in detail as at the date of the financial statements. Any changes in estimates are reflected in the financial statements in the period in which they become known and in any future periods affected. Management has used estimates in determining the useful lives of property and equipment, intangible assets, in accounting for the employee benefits liabilities, the provision for contract remediation expenses, lease commitments and contingencies and used judgment in accounting for 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 **–** pension and employee benefits
Note 7 **–** provision for contract remediation expenses
Note 15 – guarantees

Functional and presentation currency

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

3. Significant accounting policies

The accounting policies applied in the preparation of these condensed interim financial statements are consistent with those disclosed in the Corporation's audited annual financial statements for the year ended March 31, 2013.

Correction of prior period accounting errors

The Corporation retrospectively restated the comparatives as of March 31, 2012 in the audited financial statements for the year ended March 31, 2013 to correct the following prior period accounting errors which also impacted previously issued unaudited interim financial statements for fiscal year 2012-2013:

i) On March 15, 2012 an Incremental Contract Price (ICP) agreement of $65,000,000 USD was signed to settle a claim as a result of a political event that caused unforeseen delays in a construction contract. The ICP claim was not considered a contract amendment at the time and therefore not originally fully recorded in the books of the Corporation as of March 31, 2012.

The ICP claim should have been considered a contract amendment and consequently resulted in restatement of the following line items and disclosures for the three months ended September 30, 2012:

- Advances to Canadian exporters and advances from foreign customers were overstated in the Statement of Financial Position and both decreased by $42,278,000.

ii) As a result of the review of transactions for year-end cut-off purposes, errors were identified that individually were not material but, in the aggregate, required correction in the Corporation's previously issued financial statements.

These cut-off issues consequently resulted in restatement of the following line items and disclosures for the three months ended September 30, 2012:

- Trade receivables and trade payables and accrued liabilities were understated in the Statement of Financial Position and both were increased by $628,000.
- Supplier progress payments and Customer progress payments were overstated in the Statement of Financial Position and both were decreased by $6,570,000.
- Commercial trading transactions-prime and the cost of commercial trading transactions-prime contracts were overstated in the Statement of Comprehensive Income and both were decreased by $5,389,000.

Overall, there is no impact on the previously reported total comprehensive income (previously in prior year: net results of operations and comprehensive income) and retained earnings.

The following table summarizes the restatements made to the Statement of Financial Position for the six months ended September 30 2012:

Restatement of Statement of Financial Position (Unaudited)

As at (in thousands of Canadian dollars)	September 30, 2012	Impact of restatement	September 30, 2012 Restated
Assets			
Current assets			
Cash and cash equivalents	$ 92,091	$ -	$ 92,091
Trade receivables	281,943	628	282,571
Advances to Canadian exporters	126,490	(42,278)	84,212
Progress payments to Canadian exporters	856,402	(6,570)	849,832
	1,356,926	(48,220)	1,308,706
Non-current assets			
Property and equipment	1,137	-	1,137
Intangible assets	340	-	340
	1,477	-	1,477
	$ 1,358,403	$ (48,220)	$ 1,310,183
Liabilities			
Current liabilities			
Trade payables and accrued liabilities	$ 298,582	$ 628	$ 299,210
Advances from foreign customers	151,419	(42,278)	109,141
Progress payments from foreign customers	856,690	(6,570)	850,120
Employee benefits	308	-	308
	1,306,999	(48,220)	1,258,779
Non-current liabilities			
Employee benefits	2,526	254	2,780
Provision for contract remediation expenses	323	-	323
	2,849	254	3,103
	1,309,848	(47,966)	1,261,882
Shareholder's Equity			
Contributed surplus	10,000	-	10,000
Retained earnings	38,555	(254)	38,301
	48,555	(254)	48,301
	$ 1,358,403	$ (48,220)	$ 1,310,183

The following tables summarize the restatements made to Statement of Comprehensive Income for the three and six months ended September 30 2012:

Restatement of Statement of Comprehensive Income (Unaudited)

For the three months ended September 30 (in thousands of Canadian dollars)	**2012**	**Impact of restatement**	**2012** Restated
Revenues			
Commercial trading transactions - prime contracts (note 9)	$ 582,521	$ (2,721)	$ 579,800
Less: cost of commercial trading transactions - prime contracts	(582,521)	2,721	(579,800)
Fees for service	2,640	-	2,640
Other income	25	-	25
Finance income, net	92	-	92
Loss on foreign exchange	(162)	-	(162)
	2,595	-	2,595
Expenses			
Administrative expenses	7,225	-	7,225
Contract remediation expenses	-	-	-
	7,225	-	7,225
International procurement services for government clients			
Procurement services transactions	4,622	-	4,622
Less: cost of procurement services transactions	(4,622)	-	(4,622)
	-	-	-
Net results of operations before Parliamentary appropriations	(4,630)	-	(4,630)
Parliamentary appropriations	3,870	-	3,870
Net results of operations	$ (760)	$ -	$ (760)
Other comprehensive income			
Items that will not be reclassified to net results of operations			
Actuarial loss on employee benefits obligation	-	-	-
Total comprehensive loss	$ (760)	$ -	$ (760)

Restatement of Statement of Comprehensive Income (Unaudited)

For the six months ended Septemer 30 (in thousands of Canadian dollars)	2012	Impact of restatement	2012 Restated
Revenues			
Commercial trading transactions - prime contracts (note 9)	$ 1,277,774	$ (5,389)	$ 1,272,385
Less: cost of commercial trading transactions - prime contracts	(1,277,774)	5,389	(1,272,385)
Fees for service	5,963	-	5,963
Other income	84	-	84
Finance income, net	168	-	168
Loss on foreign exchange	(72)	-	(72)
	6,143	-	6,143
Expenses			
Administrative expenses	14,774	-	14,774
Contract remediation expenses	-	-	-
	14,774	-	14,774
International procurement services for government clients			
Procurement services transactions	9,182	-	9,182
Less: cost of procurement services transactions	(9,182)	-	(9,182)
	-	-	-
Net results of operations before Parliamentary appropriations	(8,631)	-	(8,631)
Parliamentary appropriations	7,741	-	7,741
Net results of operations	$ (890)	$ -	$ (890)
Other comprehensive income			
Items that will not be reclassified to net results of operations			
Actuarial loss on employee benefits obligation	-	-	-
Total comprehensive loss	$ (890)	$ -	$ (890)

4. Cash and cash equivalents

Cash and cash equivalents included:

	September 30, 2013		March 31, 2013	
(in thousands)	Original currency	Canadian dollars	Original currency	Canadian dollars
Canadian dollars	**31,868**	**$ 31,868**	38,975	$ 38,975
U.S. dollars	**25,944**	**26,730**	21,515	21,859
Chinese renminbi	**3,822**	**642**	568	93
Australian dollars	**133**	**128**	133	141
		$ 59,368		$ 61,068

The Corporation invests in short-term deposits in Canadian banks. At September 30, 2013, the average term to maturity of short-term deposits was one day (March 31, 2013 - five days) and the portfolio yield to maturity was 0.03% as at September 30, 2013 (March 31, 2013 - 0.08%).

Of the cash and cash equivalents, $30,762,000 as at September 30, 2013 (March 31, 2013 - $40,745,000) represents advances and holdbacks received from foreign customers which will be remitted to Canadian exporters at later dates in accordance with contracts. Where contracted, these funds may accrue interest to the credit of the Canadian exporter or foreign customer.

5. Trade receivables and trade payables and accrued liabilities

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

	September 30, 2013		March 31, 2013	
(in thousands)	Original currency	Canadian dollars	Original currency	Canadian dollars
U.S. dollars	**70,753**	**$ 72,896**	100,167	$ 101,770
Canadian dollars	**37,759**	**37,759**	45,127	45,127
Australian dollars	**48**	**46**	5	5
Chinese renminbi	**244**	**41**	29	5
		$ 110,742		$ 146,907

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

	September 30, 2013		March 31, 2013	
(in thousands)	**Original currency**	**Canadian dollars**	**Original currency**	**Canadian dollars**
U.S. dollars	**81,713**	**$ 84,189**	105,601	$ 107,291
Canadian dollars	**10,623**	**10,624**	13,480	13,480
Australian dollars	**181**	**174**	138	146
Chinese renminbi	**239**	**40**	208	34
British pounds	**-**	**-**	6	10
		$ 95,027		$ 120,961

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.

The sick leave and severance employee benefits have a current (payable within 12 months) and non-current portion and are presented on the Statement of Financial Position as follows:

	September 30, 2013			March 31, 2013		
(in thousands of Canadian dollars)	**Sick Leave**	**Severance**	**Total Benefits**	**Sick Leave**	**Severance**	**Total Benefits**
Total employee benefits	**$ 1,133**	**$ 815**	**$ 1,948**	$ 1,083	$ 2,329	$ 3,412
Less: current portion employee benefits	**(72)**	**(469)**	**(541)**	(69)	(1,915)	(1,984)
Non-current portion employee benefits	**$ 1,061**	**$ 346**	**$ 1,407**	$ 1,014	$ 414	$ 1,428

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)	**2013**	**2012**	**2013**	**2012**
Accrued benefit obligation				
Balance at beginning of year	**$ 909**	$ 746	**$ 2,079**	$ 1,818
Current service cost	**106**	87	**188**	165
Interest cost	**36**	36	**84**	87
Benefits paid	**(113)**	(42)	**(170)**	(148)
Actuarial loss	**145**	82	**148**	157
Total accrued benefits at end of year	**$ 1,083**	$ 909	**$ 2,329**	$ 2,079
Economic assumptions				
Accrued benefit obligation as of March 31				
Discount rate	**3.76%**	4.01%	**3.40%**	3.98%
Rate of economic salary increase	**1.50%**	1.50%	**1.50%**	1.50%
Benefit costs for year ended March 31				
Discount rate	**3.76%**	4.01%	**3.40%**	3.98%
Rate of economic salary increase	**1.50%**	1.50%	**1.50%**	1.50%

Demographic assumptions including seniority and promotional salary increases, withdrawal rates, rates of retirement, pensionable disability, mortality and longevity improvement factors, taken from the actuarial report on the pension plan for the Public Service of Canada, are also considered in the actuarial valuation of accrued employee sick leave benefits. The underlying assumptions adopted in measuring the Corporation's sick leave and severance benefits are reviewed annually by management and have been consistently applied. Changes in these assumptions can have a significant impact on the related financial statement balances.

Included in administrative expenses as workforce compensation and related expenses for the three months ended September 30, 2013 was a charge of $25,000 (September 30, 2012 – $25,000), $50,000 for the six months ended September 30, 2013 (September 30, 2012 – $50,000) for sick leave benefits and for the three months ended September 30, 2013 was a charge of nil (September 30, 2012 – $25,000), nil for the six months ended September 30, 2013 (September 30, 2012 – $50,000) for severance benefits related to the change in liability of these benefits in the reporting period and changes in management estimates.

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, 2013	$ -	$ 296	$ 296
Provision used during the year	-	(29)	(29)
Balance, September 30, 2013	**$ -**	**$ 267**	**$ 267**

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

No onerous contracts have been identified as at September 30, 2013 and March 31, 2013.

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 activities and service offerings related to public policy. The Corporation may return any part of capital to the Government deemed to be in excess of the amount required for the purposes for which it was constituted.

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

(in thousands of Canadian dollars)	September 30, 2013	March 31, 2013
Contributed surplus	**$ 10,000**	$ 10,000
Retained earnings	**40,320**	40,368
Provision for contract remediation expenses	**267**	296
	$ 50,587	$ 50,664

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

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

The profile by geographic region is as follows:

For the three months ended September 30	**2013**			**2012** Restated (note 3)		
(in thousands of Canadian dollars)	**Revenues***	**International procurement services**	**Total**	**Revenues***	**International procurement services**	**Total**
United States	**$ 259,090**	**$ -**	**$ 259,090**	$ 515,120	$ -	$ 515,120
Central America & Caribbean	**45,138**	**2,536**	**47,674**	41,862	1,586	43,448
South America	**42,389**	**271**	**42,660**	20,084	-	20,084
Europe	**1,288**	**15,597**	**16,885**	47	2,677	2,724
Asia	**3,026**	**114**	**3,140**	4,722	12	4,734
Canada	**483**	**1,412**	**1,895**	461	341	802
Africa	**140**	**486**	**626**	27	6	33
Other	**77**	**-**	**77**	142	-	142
	$ 351,631	**$ 20,416**	**$ 372,047**	$ 582,465	$ 4,622	$ 587,087

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

For the six months ended September 30	2013			2012 Restated (note 3)		
(in thousands of Canadian dollars)	Revenues*	International procurement services	Total	Revenues*	International procurement services	Total
United States	**$ 559,652**	**$ -**	**$559,652**	$1,102,318	$ -	$1,102,318
Central America & Caribbean	**93,476**	**5,227**	**98,703**	73,529	2,196	75,725
South America	**61,773**	**525**	**62,298**	64,081	-	64,081
Europe	**1,800**	**19,889**	**21,689**	124	6,530	6,654
Asia	**8,466**	**931**	**9,397**	12,529	51	12,580
Canada	**869**	**3,320**	**4,189**	942	380	1,322
Africa	**1,628**	**721**	**2,349**	23,956	25	23,981
Other	**377**	**-**	**377**	953	-	953
	$ 728,041	**$ 30,613**	**$758,654**	$1,278,432	$ 9,182	$1,287,614

* 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 $457 million for the six months ended September 30, 2013 (September 30, 2012 - $354 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. During the six months ended September 30, 2013, 77% (September 30, 2012 – 87%) of the Corporation's revenues were from AAA customers.

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

(in thousands of Canadian dollars)	September 30, 2013	March 31, 2013
United States	**$ 71,966**	$ 96,867
Central America and Caribbean	**32,118**	37,746
Canada	**2,408**	2,813
Europe	**1,544**	1,769
Asia	**1,334**	3,136
South America	**1,162**	4,436
Africa	**129**	132
Other	**82**	8
	$ 110,742	$ 146,907

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

(in thousands of Canadian dollars)	September 30, 2013	March 31, 2013
< 1 year	**$ 109,811**	$ 146,019
> 1 and < 3 years	**932**	888
	$ 110,742	$ 146,907

Trade receivables are considered past due when the payor has failed to make the payment by the contractual due date. The aging profile of the Corporation's past due trade receivables was as follows:

(in thousands of Canadian dollars)	September 30, 2013	March 31, 2013
< 30 days	**$ 4,581**	$ 19,146
> 30 days and < 180 days	**2,102**	15,273
> 180 days	**2,784**	4,496
	$ 9,468	$ 38,915

Advances and progress payments to Canadian exporters

Credit risk exposure related to advances and progress payments to Canadian exporters is mitigated by the back to back nature of the Corporation's contractual obligations and supplemented by collateral held.

Collateral

With respect to managing credit risk related to its outstanding contractual obligations, the Corporation has contractual recourse that consists, in all material respects, of corresponding contractual obligations against Canadian exporters in the same amount. In addition, in order to further mitigate its overall credit risk exposure, depending upon the results of its due diligence, the Corporation may supplement this recourse by requiring commercial securities including holdbacks, bank guarantees, surety bonds, parent guarantees, insurance assignments, property liens, personal guarantees and shareholder cash held in trust with the Corporation.

The profile of the Corporation's total collateral held with respect to its contractual obligations in the unlikely event of contractual non-performance by Canadian companies was as follows:

(in thousands of Canadian dollars)		**September 30, 2013**		**March 31, 2013**
Holdbacks	**$**	**9,516**	$	9,381
Bank guarantees	**$**	**24,807**	$	39,146
Surety bonds	**$**	**85,247**	$	84,064
Parent guarantees	**$**	**291,174**	$	346,125
Other	**$**	**8,484**	$	12,897

The above amounts approximate the fair values of collateral held.

(b) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market rates. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk. The Corporation is not exposed to significant other price risk.

i) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. To address foreign exchange risks, contracts with foreign customers and corresponding contracts with Canadian exporters are generally transacted in the same currency. In some cases where payment between parties is made in a different currency the Corporation may enter into forward contracts. The Corporation uses these strategies to effectively transfer the currency risk to the Canadian exporter resulting in minimal net exposure.

ii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Corporation's exposure to fair-value interest rate risk arises from investing cash and cash equivalents. The risks associated with fluctuations in interest rates are minimized by investing in highly liquid temporary deposits with a Canadian chartered bank.

Under a specific series of financing contracts, included in trade payables and accrued liabilities the Corporation owed nil as at September 30, 2013 (March 31, 2013 - nil) of which nil as at September 30, 2013 (March 31, 2013 - nil) 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 U.S. dollar equivalent. Indebtedness under this agreement is unsecured and this credit facility has no expiry date. As at September 30, 2013, there were no draws on this line of credit (March 31, 2013 – nil).

ii) The Corporation enters into discounting arrangements with recourse with a financial institution, up to a maximum of $15 million as at September 30, 2013 (September 30, 2012 - $15 million) to support its trade financing program.

In addition, the Corporation enters into further credit arrangements up to a maximum of $25 million as at September 30, 2013 (March 30, 2013 - $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 incurred an expense of nil for the three months ended September 30, 2013 (September 30, 2012 – nil) and an expense of nil for the six months ended

September 30, 2013 (September 30, 2012 – expense recovery of $16,000) related to this trade financing program.

Trade payables and accrued liabilities

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

(in thousands of Canadian dollars)	September 30, 2013	March 31, 2013
< 1 year	**$ 95,027**	$ 120,961
	$ 95,027	$ 120,961

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 nil as at September 30, 2013 (March 31, 2013 - nil) of which nil as at September 30, 2013 (March 31, 2013 - nil) bears interest at the cost of funds plus 0.20%. The Corporation 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 $30,770,000 as at September 30, 2013 (March 31, 2013 - $36,706,000) and was profiled as follows:

(in thousands of Canadian dollars)	September 30, 2013	March 31, 2013
< 1 year	**$ 29,838**	$ 35,818
> 1 and < 3 years	**932**	888
	$ 30,770	$ 36,706

11. Administrative expenses

Administrative expenses included the following:

(in thousands of Canadian dollars)	For the three months ended September 30 2013	2012	For the six months ended September 30 2013	2012
Workforce compensation and related expenses	**$ 4,691**	$ 4,429	**$ 9,290**	$ 8,859
Contract management services	**1,037**	1,230	**2,075**	2,253
Rent and related expenses	**547**	630	**1,106**	1,212
Travel and hospitality	**274**	263	**604**	784
Consultants	**195**	234	**362**	516
Software, hardware and support	**(21)**	38	**304**	306
Amortization and depreciation	**42**	201	**84**	402
Corporate communications	**29**	20	**68**	40
Other expenses	**149**	180	**313**	402
	$ 6,943	$ 7,225	**$ 14,206**	$ 14,774

12. Finance income, net

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

(in thousands of Canadian dollars)	For the three months ended September 30 2013	2012	For the six months ended September 30 2013	2012
Financial assets				
- Finance income earned on cash and cash equivalents	**$ 61**	$ 92	**$ 123**	$ 168
Financial liabilities				
- Finance cost on payables and other liabilities	**-**	-	**-**	-
	$ 61	$ 92	**$ 123**	$ 168

13. Parliamentary appropriations

Appropriations authorized by the Parliament of Canada are included in the net results of operations for the three months ended September 30, 2013 in the amount of $3,870,000 (September 30, 2012 - $3,870,000) and for the six months ended September 30, 2012 in the amount of $7,741,000 (September 30, 2012 - $7,741,000)

14. Related party transactions

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

Individually significant transactions and transactions that are collectively significant are listed below.
As a result of all related party transactions, the amounts due from and to these parties included in trade receivables and trade payables respectively were as follows:

(in thousands of Canadian dollars)	September 30, 2013	March 31, 2013
Trade receivables	**$ 1,215**	$ 891
Trade payables	**$ 485**	$ 477

(a) Public Works and Government Services Canada
Public Works and Government Services Canada provides contract management and other administrative services to the Corporation at negotiated rates which reflect fair value.

For the three months ended September 30, 2013, the cost of these services amounted to $1,046,000 (September 30, 2012 - $1,239,000) and $2,093,000 for the six months ended September 30, 2013 (September 30, 2012 - $2,274,000 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 September 30, 2013, revenues related to the provision of these services amounted to $187,500 (September 30, 2012 - $187,500) and $375,000 for the six months ended September 30, 2013 (September 30, 2012 - $375,000) and are included in fees for service.

(c) Other

Commercial trading transactions, fees for service, and procurement services transactions, arising from the Corporation's facilitation of sales of Canadian goods to foreign customers, and other international activities include the following transactions with related government entities:

(in thousands of Canadian dollars)	For the three months ended September 30 2013	2012	For the six months ended September 30 2013	2012
Department of Foreign Affairs, Trade and Development	**$ 1,254**	$ 2,152	**$ 8,810**	$ 3,525
Department of National Defence	**$ -**	$ -	**$ 6**	$ -
Canadian International Development Agency	**$ -**	$ 93	**$ -**	$ 100
Environment Canada	**$ -**	$ -	**$ -**	$ 8

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

15. Guarantees

As prime contractor, the Corporation is contractually obligated to complete numerous contracts with foreign customers ensuring that the terms of the contract are fulfilled regardless of the quality of performance by the Canadian exporter. The Corporation also engages in the fulfilment of contractual obligations related to international procurement services for government clients.

The total prime and procurement services contract portfolio value remaining to be fulfilled was as follows:

(in thousands of Canadian dollars)	September 30, 2013	March 31, 2013
< 1 year	**$ 1,516,137**	$1,980,641
> 1 and < 3 years	**519,885**	250,933
> 3 and < 5 years	**3,681**	7,265
Total contract portfolio	**$ 2,039,703**	$2,238,839