CCC

Canadian Commercial Corporation
Corporation Commerciale Canadienne

Canadian Commercial Corporation

Quarterly Financial Report
(Unaudited)

For the three and nine-month period ended December 31, 2015

Management's Discussion and Analysis

Overview

Canadian Commercial Corporation (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 exporter's access markets abroad and by helping foreign customers 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

CCC delivers its government-to-government contracting services through two core lines of business: Global Security sales (GS) which includes administering the Canada – United States Defence Production Sharing Agreement (DPSA), and International Commercial Business sales (ICB).

World trade is expected to grow, however the effects of years of recession are still evident. In early 2016, the World Bank noted that there is a global economic shift back to developed economies leading growth as opposed to the forecasted growth from emerging countries. Most developed nations are expected to continue the trend to reduce their defence expenditures and seek to shift the terms of engagement towards limited interventions and burden-sharing through participation in alliances, conflict prevention and contracting out security. Emerging countries will move toward expanding their military capacities. Countries are expected to continue to purchase defence equipment in efforts to contain illegal activities and terrorism within their borders. Military spending in the U.S. is expected to have continued pressure to decrease given constrained budgets and the reduction of resources in Iraq and Afghanistan.

For the CCC, this shift is manifested in the decreasing volume of the DPSA related business in the U.S.; nevertheless, the Corporation plays an important role in promoting Canadian capabilities and increasing exports beyond the U.S. 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 GS and 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

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 the Statement of Comprehensive Income. In late 2009-2010, a $2.2 billion multi-year contract was signed with the U.S. Department of Defence (U.S. 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 the signing in late 2013-2014 of the historic multi-billion dollar Armoured Brigades Program (ABP) contract in the Middle East for the supply of LAVs and associated equipment, training and support services manufactured and provided by GDLS. This activity will result in progress payments to Canadian exporters and from foreign customers, commercial trading transactions, cost of commercial trading transactions and fees for service showing significant increases from last year to the current year.

For the nine-month period ended December 31, 2015, the net result of operations was a surplus of $5.2 million, compared to a surplus of $8.5 million reported for the nine-month period ended December 31, 2014. The decrease of $3.3 million was due to the phased in reduction of the appropriation in accordance with the corporate plan. The appropriation received for the nine-month period ended December 31, 2015 was $4.3 million lower than received for the nine-month period ended December 31, 2014. Otherwise, for the nine-month period ended December 31, 2015 the increase in operating revenues of $3.6 million exceeded the increase in operating expenses of $2.4 million for a net surplus contribution of $1.2 million compared to the nine-month period ended December 31, 2014.

A more detailed discussion of CCC's three-month and nine-month period ended December 31, 2015 financial highlights follows:

Statement of Comprehensive Income Discussion

Summary results

	FOR THE THREE MONTHS ENDED				FOR THE NINE MONTHS ENDED		
	December 31 2015 ($ Millions)	**December 31 2014 ($ Millions)**	**% Increase (Decrease)**		**December 31 2015 ($ Millions)**	**December 31 2014 ($ Millions)**	**% Increase (Decrease)**
Revenues:							
Commercial trading transactions - prime contracts	**$ 819.2**	$ 794.3	3%		**$ 2,170.6**	$ 1,970.5	10%
Cost of commercial trading transactions - prime contracts	**(819.2)**	(794.3)	(3%)		**(2,170.6)**	(1,970.5)	(10%)
Fees for service	**6.2**	8.0	(23%)		**21.2**	18.5	15%
Other revenues	**0.6**	0.4	50%		**1.7**	0.8	113%
Total Revenues	**6.8**	8.4	(19%)		**22.9**	19.3	19%
Expenses:							
Administrative expenses	**7.2**	7.6	(5%)		**24.2**	21.8	11%
Contract remediation expenses	**-**	0.1	- %		**0.1**	0.1	- %
Total Expenses	**7.2**	7.7	(6%)		**24.3**	21.9	11%
Sourcing services transactions	**8.7**	9.0	(3%)		**23.5**	34.9	(33%)
Cost of sourcing services transactions	**(8.7)**	(9.0)	3%		**(23.5)**	(34.9)	33%
Parliamentary appropriation	**2.2**	3.2	(31%)		**6.7**	11.0	(39%)
Net results of operations	**$ 1.7**	$ 3.9	(56%)		**$ 5.2**	$ 8.5	(39%)

Revenues: General

Revenues consist of commercial trading transactions on prime contracts, fees for service, other income, net interest income, and gains (losses) on foreign exchange. It is important to note that as an international trade intermediary, 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 $22.9 million for the nine-month period ended December 31, 2015 compared to

$19.3 million for the nine-month period ended December 31, 2014, an increase of $3.6 million or 19%.

After offsetting the cost of commercial trading transactions, total revenues were $6.8 million for the three-month period ended December 31, 2015 compared to $8.4 million for the three-month period ended December 31, 2014, a decrease of $1.6 million or 19%.

Revenues: Commercial trading transactions

Commercial trading transactions measure the value of delivery of a good or service or progress work after a contract is signed and becomes effective. Commercial trading transactions were $2,170.6 million for the nine-month period ended December 31, 2015, compared to $1,970.5 million for the nine-month period ended December 31, 2014, an increase of $200.1 million or 10%. Commercial trading transactions were $819.2 million for the three-month period ended December 31, 2015, compared to $794.3 million for the three-month period ended December 31, 2014, an increase of $24.9 million or 3%.

Contributions to commercial trading transactions by the two programs within the GS business line are as follows:

- DPSA commercial trading transactions of $530.8 million, representing 25% of the Corporation's total commercial trading transactions were $78.3 million or 17% higher compared to the nine-month period ended December 31, 2014.

- Non-DPSA GS commercial trading transactions of $1,374.7 million, representing 63% of the Corporation's total commercial trading transactions were $61.5 million or 5% higher compared to the nine-month period ended December 31, 2014. The Corporation is benefitting from non-DPSA GS signed contracts of $431.8 million in Latin America and Asia in 2014-2015 which have been largely delivered in 2015-2016. Of the total non-DPSA GS commercial trading transactions, $1,134.1 million or 82% were recorded for deliveries and progress work related to the ABP contract.

ICB commercial trading transactions of $265.1 million, representing 12% of the Corporation's total commercial trading transactions were $60.4 million or 29% higher compared to the nine-month period ended December 31, 2014. ICB commercial trading transactions were higher than the previous year due to the increased level of gross sales related to the Corporation's two lottery system management projects in Central America.

Revenues: Fees for service

For GS (excluding DPSA) and ICB business lines and services, the Corporation charges fees, generally as a percentage of the contract value and at negotiated rates for services provided. Fees are recognized as revenue when commercial trading transactions related to prime contracts and international sourcing services agreements are recorded and from other international and domestic activities when services are rendered.

Fees for service were $21.2 million for the nine-month period ended December 31, 2015 compared to $18.5 million for the nine-month period ended December 31, 2014, an increase of $2.7 million or 15%. Fees for service were $6.2 million for the three-month period ended December 31, 2015 compared to $8.0 million for the nine-month period ended December 31, 2014, a decrease of $1.8 million or 23%.

Contributions to fees for service by the two programs within the GS business line are as follows:

- DPSA: CCC does not receive fees for service for the DPSA business and was previously funded for this business by an annual parliamentary appropriation. In accordance with the plan which started in 2014-2015, the Corporation's appropriation will be gradually phased out. Over the course of the five-year planning period, CCC will reduce the appropriation to $8.9 million in 2015-2016, $3.5 million in 2016-2017 and then nil from 2017-2018 going forward, reaching its planned objective of financial self-sufficiency.

- Non-DPSA GS fees for service of $14.0 million, which account for 66% of the total fees for service, were $917 thousand or 7% higher compared to fees of $13.1 million for the nine-month period ended December 31, 2014. The fee increase was commensurate with the increased level of non-DPSA GS commercial trading transactions discussed previously. Of the $14.0 million total GS fees, $8.8 million or 63% of the total GS fees were earned based on the deliveries and progress work related to the ABP contract.

ICB fees for service of $3.7 million, which account for 17% of the total fees for service, were $1.2 million or 48% higher compared to fees of $2.5 million for the nine-month period ended December 31, 2014. The increase in ICB fees compared to the nine-month period ended December 31, 2014 was primarily the result of fees earned and recorded related to the commencement of a smart water meter project signed in Barbados.

Fees for service from sourcing and other Government of Canada priorities of $3.5 million, accounting for 17% of the total fees for service, were $594 thousand or 20% higher compared to fees of $2.9 million for the nine-month period ended December 31, 2014. Of the $3.5 million, $2.1 million or 60% relate to the maintenance and administration of the trade development offices in China on behalf of Global Affairs Canada (GAC), formerly the Department of Foreign Affairs, Trade and Development (DFATD). Another $855 thousand or 24% of fees earned were for services provided by CCC, specifically related to sourcing transactions which occur at the discretion of GAC and the availability of budget funding to satisfy requirements of their programs. The remaining $563 thousand or 16% is from a shared services arrangement with another crown corporation which generates economies of scale in providing a variety of corporate services to both organizations.

Revenues: Other

Other revenues include: (1) foreign exchange gains or losses due to the weakening or strengthening of the Canadian dollar compared to the U.S. dollar on exposed U.S. cash balances; (2) finance income earned on the Corporation's cash balances; and (3) other income comprised of fees earned for providing discounted early payment and payment wiring to Canadian exporters, and other miscellaneous amounts.

For the nine-month period ended December 31, 2015, a foreign exchange gain of $925 thousand was reported compared to a foreign exchange gain of $164 thousand for the nine-month period ended December 31, 2014. The overall foreign exchange gain of $925 thousand resulted from: (1) a gain of $544 thousand due to foreign exchange implications related to long outstanding accounts receivable balances from the U.S. DoD under the DPSA which were paid to CCC; and (2) a gain of $381 thousand from the weakening of Canadian dollar relative to the U.S. dollar (USD) from $0.7895 USD as at March 31, 2015 to $0.7225 USD as at December 31, 2015. For the three-month period ended December 31, 2015, a foreign exchange gain of $181 thousand was reported compared to a foreign exchange gain of $100 thousand for the three-month period ended December 31, 2014. The Corporation manages exchange gains and losses through monitoring and maintaining unhedged foreign currency balances at negligible levels.

For the nine-month period ended December 31, 2015, finance income of $257 thousand was $31 thousand or 14% higher compared to the result of $226 thousand for the nine-month period ended December 31, 2014. For the three-month period ended December 31, 2015, finance income of $97 thousand was the same as the result for the three-month period ended December 31, 2014. Average Canadian cash balances were higher during the first nine months of 2015-2016 as a result of the cash received and recorded as deferred revenue in July 2014 related to the ABP contract.

For the nine-month period ended December 31, 2015, other income of $555 thousand was $105 thousand or 23% higher compared to the result of $450 thousand for the nine-month period ended December 31, 2014. For the three-month period ended December 31, 2015, other income of $279 thousand was $52 thousand or 23% higher compared to the result of $227 thousand for the three-month period ended December 31, 2014. The increase resulted from a greater requirement for discounted early payments under the DPSA.

Expenses

For the nine-month period ended December 31, 2015, administrative expenses of $24.2 million were $2.4 million or 11% higher than the expenses for the nine-month period ended December 31, 2014. For the three-month period ended December 31, 2015, administrative expenses of $7.2 million were $502 thousand or 5% lower than the expenses for the three-month period ended December 31, 2014. Administrative expenses are paid primarily in Canadian dollars and are not impacted by foreign exchange fluctuations. Administrative expenses include the following:

- Workforce compensation and related expenses of $14.3 million for the nine-month period ended December 31, 2015 were $382 thousand or 3% higher than the expenses for the nine-month period ended December 31, 2014 of $14.0 million. Workforce compensation and related expenses of $5.0 million for the three-month period ended December 31, 2015 were $192 thousand or 4% higher than the expenses for the three-month period ended December 31, 2014 of $4.8 million. Workforce compensation and related expenses account for approximately 55% of CCC's administrative expenditures.

- Public Works Government and Services Canada (PWGSC) is paid for certain core contract management services under the DPSA. In recent years, as part of an initiative to streamline processes in the delivery of the DPSA and decrease related expenses, CCC has brought in-house certain contract management services previously performed by PWGSC. As a result, total PWGSC expenses of $2.0 million for the nine-month period ended December 31, 2015 were $327 thousand or 14% lower than expenses of $2.4 million for the nine-month period ended December 31, 2014. Total PWGSC expenses of $400 thousand for the three-month period ended December 31, 2015 were $215 thousand or 35% lower than expenses of $615 thousand for the three-month period ended December 31, 2014.

- Rent and related expenses of $2.7 million for the nine-month period ended December 31, 2015 were $606 thousand or 29% higher than the expenses of $2.1 million for the nine-month period ended December 31, 2014. Rent and related expenses of $516 thousand for the three-month period ended December 31, 2015 were $427 thousand or 45% lower than the expenses of $943 thousand for the three-month period ended December 31, 2014. The prior year increase was primarily due to a one-time payment of $1.8 million (amortized over a 12 month period commencing October 1, 2014) as Management exercised its right, on September 26, 2014, to terminate the current lease agreement for office space effective September 30, 2015. In November 2014, the Corporation entered into a less expensive fifteen-year lease agreement for office space in a new location, which expires at the end of November 2031, in order to achieve future cost reduction goals.

- Travel and hospitality expenses of $1.2 million for the nine-month period ended December 31, 2015 were $17 thousand or 1% higher than the expenses for the nine-month period ended December 31, 2014. Travel and hospitality expenses of $390 thousand for the three-month period ended December 31, 2015 were $33 thousand or 8% lower than the expenses for the three-month period ended December 31, 2014. Travel and hospitality expenses are incurred primarily for business development activity in support of Canadian exporters in pursuit of, and to secure, projects in Latin America, Africa, Pacific-Asia and the Middle East and the management of the projects once they are signed and effective.

- Consultant expenses of $1.4 million for the nine-month period ended December 31, 2015 were $772 thousand or 120% higher than the expenses of $644 thousand for the nine-month period ended December 31, 2014. Consultant expenses of $476 thousand for the three-month period ended December 31, 2015 were $240 thousand or 102% higher than the expenses of $236 thousand for the three-month period ended December 31, 2014. Consultant expenses are higher during the first nine months of 2015-2016 due to several one-time corporate initiatives related to human resource management, business development and the move to the new office space location. Consultant expenses complement CCC's workforce and perform assignments requiring a specific expertise.

- The amortization of intangible assets and depreciation of property and equipment and leasehold improvement costs of $1.2 million for the nine-month period ended December 31, 2015 were $755 thousand or 177% higher than expenses of $427 thousand for the nine-month period ended December 31, 2014. The amortization of intangible assets and depreciation of property and equipment and leasehold improvement costs of $44 thousand for the three-month period ended December 31, 2015 were $299 thousand or 87% lower than expenses of $343 thousand for the three-month period ended December 31, 2014. The prior year increase resulted from the accelerated amortization of the remaining net book value of leasehold improvements at the previous location over an abbreviated period of time which corresponds with the previous lease termination date of September 30, 2015 and payment made in consideration for the contractual requirement to restore the premises at the previous location to its 2005 condition.

- Computer software, hardware and support costs of $436 thousand, over and above the information management personnel included in workforce compensation or consultants, for the nine-month period ended December 31, 2015 were $64 thousand or 17% higher than the expenses of $372 thousand for the nine-month period ended December 31, 2014. Computer software, hardware and support costs of $35 thousand, over and above the information management personnel included in workforce compensation or consultants, for the three-month period ended December 31, 2015 were $20 thousand or 37% lower than the three-month period ended December 31, 2014 of $55 thousand.

- Other expenses of $920 thousand were $167 thousand or 22% higher for the nine-month period ended December 31, 2015 compared to expenses of $753 thousand for the nine-month period ended December 31, 2014. Other expenses of $305 thousand were $60 thousand or 24% higher for the three-month period ended December 31, 2015 compared to expenses of $245 thousand for the three-month period ended December 31, 2014. Other expenses are generally higher in 2015-2016 due to one-time costs required establish CCC representation in South America. Other expenses include corporate communication costs (e.g. marketing, advertising, and the design and printing of corporate promotional material), telecommunications, bank charges and other miscellaneous amounts.

For the nine-month period ended December 31, 2015, the Corporation recorded $193 thousand in contract remediation expenses compared to $73 thousand for the nine-month period ended December 31, 2014. For the three-month period ended December 31, 2015, the Corporation recorded $36 thousand in contract remediation expenses compared to $52 thousand for the three-month period ended December 31, 2014. The increase was due to a one-time payment made in September 2015 in order to settle a long standing litigation case. Contract remediation expenses are recorded as actual amounts are incurred or can be determined. The Corporation has robust risk management practices, including the Enterprise Risk Management (ERM) framework and contract management practices, which contribute to containing these expenses.

Sourcing services for support of international government assistance programs

Sourcing Services for support of international assistance programs represent transactions whereby the Corporation acts as an agent on behalf of a domestic or foreign Government entity. In these engagements, CCC is not the prime contractor. All of the activity that is generated through GAC under these terms is classified as this transaction type. This activity occurs at the discretion of GAC and the availability of budget funding to satisfy requirements of their programs. In addition, there is one GS project originally signed in 2007 that is classified under this transaction type. CCC entered into an agreement to act as agent to procure six wing kits and manage the replacement of the wings kits on six Norwegian aircraft on behalf of the Royal Norwegian Air Force. For the nine-month period ended December 31, 2015, Sourcing Service transactions and the cost of Sourcing Service transactions of $23.5 million are $11.4 million or 33% lower than the $34.9 million recorded for the nine-month period ended December 31, 2014. For the three-month period ended December 31, 2015, Sourcing Service transactions and the cost of Sourcing Service transactions of $8.7 million is $330 thousand or 4% lower than the $9.0 million recorded for the three-month period ended December 31, 2014. The decrease was due primarily to less delivery activity related to the Norwegian wing replacement at this time.

Parliamentary appropriation

The Corporation received a parliamentary appropriation of $6.7 million for the nine-month period ended December 31, 2015, which was $4.3 million or 40% lower than the amount received for the nine-month period ended December 31, 2014. The Corporation received a parliamentary appropriation of $2.2 million for the three-month period ended December 31, 2015, which was $986 thousand or 31% lower than the amount received for the three-month period ended December 31, 2014.

The Corporation's appropriation is being gradually phased out in accordance with the corporate plan which commenced in 2014-2015. Over the course of the five-year planning period, CCC will reduce the appropriation to $8.9 million in 2015-2016, $3.5 million in 2016-2017 and then nil from 2017-2018 and ongoing, reaching its planned objective of financial self-sufficiency.

Statement of Financial Position Discussion

Summary of financial position

	December 31 2015 ($ Millions)	March 31 2015 ($ Millions)	% Increase (Decrease)
Total assets	**$ 3,922.6**	$ 3,058.7	28%
Total liabilities	**$ 3,896.7**	$ 3,038.0	28%
Shareholder's equity	**$ 25.9**	$ 20.7	25%

CCC's total assets were $3,922.6 million as at December 31, 2015, $863.9 million, or 28%, higher than at March 31, 2015. The increase from March 31, 2015 was primarily due to an increase in the amount of progress payments to Canadian exporters of $1,099.3 million or 67% offset by a net decrease of $235.4 million or 17% from all other assets.

CCC's total liabilities were $3,896.7 million as at December 31, 2015, $858.7 million, or 28%, higher than at March 31, 2015. The increase from March 31, 2015 was primarily due to an increase in the amount of progress payments from foreign customers of $1,099.3 million or 67% offset by a net decrease of $240.6 million or 17% from all other liabilities.

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 $199.7 million were $32.3 million or 19% higher than the balance at March 31, 2015 and represents 5% of the total assets of $3,922.6 million. Trade payables and accrued liabilities of $225.5 million were $54.0 million or 31% higher than the balance at March 31, 2015 and represent 6% of the total liabilities of $3,896.7 million. The increase in trade receivables and trade payables was the result of a greater number of transactions to record delivery activity in accordance with contractual obligations on DPSA projects for which cash had not been received from the foreign buyer nor paid to the Canadian exporter during December 2015 compared to March 2015.

Progress payments to Canadian exporters of $2,738.2 million represent 70% of the total assets of $3,922.6 million, increased by $1,099.3 million or 67% compared to the balance at March 31, 2015. Progress payments from foreign customers of $2,738.2 million represent 70% of the total liabilities of $3,896.7 million, increased by $1,099.3 million or 67% compared to the balance at March 31, 2015. Of the total progress payments to Canadian exporters and from foreign customers, $2,580.1 million or 94% related to progress work associated with the ABP contract. The increase in progress payments to Canadian exporters and from foreign customers was due directly to the completion of a contractual milestone event for progress work related to the production of LAV's on the ABP contract.

Advances from foreign customers of $930.9 million that represent 24% of the total liabilities of $3,896.7 million, decreased by $294.6 million or 24% compared to the balance at March 31, 2015. Advances to Canadian exporters of $910.2 million that represent 23% of the total assets of $3,922.6 million, decreased by $277.1 million or 23% compared to the balance at March 31, 2015. Of the $930.9 million in advances from foreign customers and the $910.2 million in advances to Canadian exporters, $832.0 million or 89% and 91% respectively was related to the ABP contract. Another $83.1 million was related to projects in Barbados, Ghana, Norway and Peru. Of these advances from foreign customers, $74.4 million were passed on to Canadian exporters. The decrease in advances from foreign customers and to Canadian exporters was mainly the result of reductions of advances as progress work continues on the production of the LAVs related to the ABP contract. Contractually, advances are not offered on the DPSA business. For all other business lines, CCC's risk mitigation practices require that for most projects CCC hold back some advance payments made by foreign customers and release them to Canadian exporters as delivery obligations are fulfilled. As a result period-over-period variations will occur.

As at December 31, 2015, CCC's equity, fully ascribed to the Government of Canada, was $25.9 million, an increase of $5.2 million from March 31, 2015. A discussion of commercial and operational risks follows in CCC's Commitment to Risk Management section.

Statement of Cash Flows Discussion

Summary of cash flows

	FOR THE THREE MONTHS ENDED				**FOR THE NINE MONTHS ENDED**		
	December 31 2015 ($ Millions)	**December 31 2014 ($ Millions)**	**% Increase (Decrease)**		**December 31 2015 ($ Millions)**	**December 31 2014 ($ Millions)**	**% Increase (Decrease)**
Operating activities	**$ 3.6**	$ (25.6)	114%		**$ 9.7**	$ (24.4)	(140%)
Investing activities	**$ (0.5)**	$ -	-		**$ (1.4)**	$ -	-
Effect of exchange rate change on cash and cash equivalents	**$ 0.2**	$ 0.1	100%		**$ 0.9**	$ 0.2	350%
Increase (decrease) in cash and cash equivalents	**$ 3.3**	$ (25.5)	113%		**$ 9.2**	$ (24.3)	(138%)

Operating activities

Under the DPSA program, the Corporation generally pays its Canadian exporters within 30 days of receipt of an invoice and substantiating documentation according to the terms and conditions of the contract. Consequently the Corporation may use its own cash to pay Canadian exporters on the 30th day funding its trade receivables in instances where there are collection delays and payment is not received from the DPSA customer until beyond the 30 days. On certain contracts (generally outside of the DPSA program), the Corporation only pays its Canadian exporters within five business 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 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.

For the nine-month period ended December 31, 2015, $9.7 million in cash was provided by operating activities, as compared to $24.4 million used by operating activities for the nine-month period ended December 31, 2014, an increase of $34.1 million or 140% to cash. Details are as follows:

- Receipts from foreign customers include cash received for deliveries, progress payments and advances as stipulated under the foreign customer contract. Receipts from foreign customers were $1,867.3 million for the nine-month period ended December 31, 2015, $1,771.4 million or 49% lower than the amount reported for the nine-month period ended December 31, 2014. The decrease was due primarily to a $1,720.0 million difference between $2,574.5 million that was received from the foreign customer related to the ABP contract in order to commence progress work during the nine-month period ended December 31, 2014 compared to $854.5 million that was received from the foreign customer related to the ABP contract in accordance with contractual requirements during the nine-month period ended December 31, 2015.

- Payments to Canadian exporters include cash paid for deliveries, progress payments and advances as stipulated under the domestic contract. Payments to Canadian exporters were $1,863.3 million for the nine-month period ended December 31, 2015, $1,806.7 million or 49% lower than the amount reported for the nine-month period ended December 31, 2014. The decrease was due primarily to a $1,707.7 million difference between $2,554.2 million that was paid to the Canadian exporter related to the ABP contract in order to commence progress work during the nine-month period ended December 31, 2014 compared to $846.5 million that was paid to the Canadian exporter related to the ABP contract in accordance with contractual requirements during the nine-month period ended December 31, 2015.

- For the nine-month period ended December 31, 2015 compared to the nine-month period ended December 31, 2014, the decrease in receipts from foreign customers was less than the decrease in payments to Canadian exporters by $35.3 million therefore resulting in an overall increase of $35.3 million to cash from export transactions. In addition to the $35.3 million increase to cash from export transactions, an increase of $3.2 million to cash was provided by finance income, fees for service and other income received and administrative payments and a decrease to cash of $4.4 million as less parliamentary appropriation was drawn down for the nine-month period ended December 31, 2015 compared to the nine-month period ended December 31, 2014. The decrease in the appropriation is the result of the implementation of the directed phased in plan towards becoming self-sufficient as described under the Parliamentary Appropriation section.

For the three-month period ended December 31, 2015, $3.6 million in cash was provided by operating activities, as compared to $25.6 million used by operating activities for the three-month period ended December 31, 2014, resulting in an increase of $29.2 million or 114% to cash. Details are as follows:

- Receipts from foreign customers include cash received for deliveries, progress payments and advances as stipulated under the foreign customer contract. Receipts from foreign customers were $383.8 million for the three-month period ended December 31, 2015, $50.0 million or 12% lower than the amount reported for the three-month period ended December 31, 2014.

- Payments to Canadian exporters include cash paid for deliveries, progress payments and advances as stipulated under the domestic contract. Payments to Canadian exporters were $381.8 million for the three-month period ended December 31, 2015, $81.5 million or 18% lower than the amount reported for the three-month period ended December 31, 2014.

- For the three-month period ended December 31, 2015 compared to the three-month period ended December 31, 2014, the decrease in receipts from foreign customers was less than the decrease in payments to Canadian exporters by $31.5 million therefore resulting in an overall increase of $31.4 million to cash from export transactions. In addition to the $34.1 million increase to cash from export transactions, an increase of $0.5 million to cash provided due to lower administrative payments was offset by a decrease of $1.8 million for cash used by finance income, fees for service and other income received and a decrease to cash of $1.0 million as less parliamentary appropriation was drawn down for the three-month period ended December 31, 2015 compared to the three-month period ended December 31. The decrease in the appropriation is the result of the implementation of the directed phased in plan towards becoming self-sufficient as described under the Parliamentary Appropriation section.

Investing activities

For the nine-month period ended December 31, 2015, the Corporation capitalized $1.4 million for the accelerated amortization of the remaining net book value on existing leasehold improvements at the previous location over an abbreviated period of time which corresponds with the prior lease termination date of September 30, 2015 and payment made in consideration for the contractual requirement to restore the premises at the previous location to the 2005 condition, resulting in a decrease to cash of $1.4 million compared to the nine-month period ended December 31, 2014.

For the three-month period ended December 31, 2015, the Corporation capitalized $540 thousand for the accelerated amortization of the remaining net book value on existing leasehold improvements at the previous location over an abbreviated period of time which corresponds with the prior lease termination date of September 30, 2015 and payment made in consideration for the contractual requirement to restore the premises at the previous location to the 2005 condition, resulting in a decrease to cash of $540 thousand compared to the three-month period ended December 31, 2014.

The Corporation did not capitalize any amount related property, equipment or intangible assets during the nine-month period and three-month period ended December 31, 2014.

Effect of exchange rate changes on cash and cash equivalents

As discussed previously, for the nine-month period ended December 31, 2015, a foreign exchange gain of $925 thousand was reported compared to a gain of $164 thousand for the nine-month period ended December 31, 2014. The overall foreign exchange gain of $925 thousand resulted from: (1) a gain of $544 thousand due to foreign exchange implications related to long outstanding accounts receivable balances from the U.S.DoD under the DPSA which were paid to CCC; and (2) a gain of $381 thousand from the weakening of Canadian dollar relative to the U.S. dollar (USD) from $0.7895 USD as at March 31, 2015 to $0.7225 USD as at December 31, 2015.

For the three-month period ended December 31, 2015, a foreign exchange gain of $181 thousand was reported compared to a foreign exchange gain of $100 thousand for the three-month period ended December 31, 2014. The Corporation manages exchange gains and losses through monitoring and maintaining unhedged foreign currency balances at negligible levels.

Comparison of Financial Results to the Budget contained in the 2015-2016 to 2019-2020 Corporate Plan

For the nine-month period ended December 31, 2015, the net results of operations was a surplus of $5.2 million, $3.2 million or 162% higher than the budgeted surplus of $2.0 million.

For the nine-month period ended December 31, 2015, total commercial trading transactions of $2,170.6 million were $103.1 million or 5% higher than budget of $2,067.5 million. ABP GS and ICB commercial trading transactions combined to contribute a favourable variance of $124.7 million or 10% higher than budget offset by an unfavourable variance of $21.6 million or 4% lower than budget contributed by other GS (including DPSA) commercial trading transactions.

Fees for service of $21.2 million were $312 thousand or 1% higher than the budget of $20.9 million. Fees for service are earned as contract work is delivered or completed. Fees generated from the ICB business line of $3.7 million were $1.9 million or 101% higher than budget of $1.8 million, resulting primarily from accelerated delivery of potash under the Cuba Contracting Program and higher than originally anticipated fees recorded upon the commencement of the Barbados and Cowater International contract. Fees earned on sourcing and other services of $3.5 million were $68 thousand higher than the budget of $3.4 million, as fees recovered for the maintenance and administration of the trade development offices in China on behalf of GAC during the nine-month period ended December 31, 2015 were higher. For the nine-month period ended December 31, 2015, fees generated from GS business line of $14.0 million were $1.6 million or 10% lower than budget of $15.6 million. Related to the GS business line, new contract signings have not materialized as originally expected as several business opportunities in Chile, Dominican Republic, Ecuador and Peru are being pursued but have not yet occurred .

As discussed previously, for the nine-month period ended December 31, 2015, the Corporation recorded a foreign exchange translation gain of $925 thousand, of which $544 thousand was realized due to long outstanding significant USD accounts receivable balances from the U.S. DoD under the DPSA which were paid in the nine-month period ended December 31, 2015 with the remaining $381 thousand resulting from currency fluctuations on the Corporation's exposed foreign currency balances. Generally, the Corporation manages exchange gains and losses through monitoring and maintaining of its exposed foreign currency balances and does not budget for gains or losses on foreign exchange. The Corporation's exposed U.S. currency balance of $2.3 million represents less than 0.1% of its U.S. denominated assets.

For the nine-month period ended December 31, 2015, the Corporation recorded $193 thousand in contract remediation expenses. As a result, contract remediation expenses contributed a favorable budget variance of $325 thousand.

For the nine-month period ended December 31, 2015, administrative expenses of $24.2 million were $1.3 million or 5% lower than the budgeted amount of $25.6 million. Direct expenses of $15.1 million were $1.7 million or 10% below budget primarily the result of incremental expenses anticipated to manage the ABP contract that were not incurred and several staff positions that were vacant at various times during the period up to December 31, 2015. Indirect expenses of $9.2 million were $325 thousand or 4% over budget resulting from amortized leasehold improvements related to the Corporation's move to the new location.

As explained previously, the Corporation received a parliamentary appropriation of $6.7 million for the nine-month period ended December 31, 2015, consistent with the budget.

2015-2016 Forecast

The planning objectives and assumptions used to forecast the Operating Budget for 2015-2016 and in subsequent years are detailed and discussed in CCC's Corporate Plan 2015-2016 to 2019-2020.

CCC is forecasting an operating surplus of $4.9 million in 2015-2016. Net revenues (which exclude the Parliamentary appropriation) will increase to $28.5 million from $24.2 million in 2014-2015, an increase of $4.3 million or 18%.

The ABP contract will contribute approximately 29% of the overall $3.9 million increase in fees for service. In addition to the ABP contract, the GS business line contributed signed contracts of $431.8 million in Latin America and Asia in 2014-2015. A large portion of these contracts will be delivered in 2015-2016, on which fees for service are earned and account for 27% of the increase. Additionally, greater activity related to the Cuba Contracting Program under the ICB business line will contribute another 29% of the increase.

Other revenue sources which include finance income, accounts receivable discounting fees, foreign exchange gains and other miscellaneous transactions, combined are forecast to be $1.8 million in 2015-2016, $429 thousand or 30% higher than in 2014-2015. The increase is primarily due to the gain on foreign exchange (previously discussed) realized on long outstanding significant USD accounts receivable balances from the U.S. DoD under the DPSA and currency fluctuations on the Corporation's exposed foreign currency balances as the Canadian dollar weakened compared to its U.S. counterpart.

As previously discussed, the Corporation's appropriation will be gradually phased out in accordance with the corporate plan. Over the course of the five-year planning period, CCC will reduce the appropriation to $8.9 million in 2015-2016, $3.5 million in 2016-2017 and then nil from 2017-2018 and ongoing, reaching its planned objective of financial self-sufficiency.

Administrative expenses are forecast to increase to $32.3 million in 2015-2016 from $30.0 million in 2014-2015, a net increase of $2.3 million or 8%. The following one-time or evolving initiatives contributed the increase of $2.3 million compared to the prior year administrative expenses: (1) $597 thousand are related to the increased cost in the effort and associated expenses required to contract manage the ABP contract; (2) $517 thousand are related to direct expenses for regional staff, rent of premises and other operational requirements to manage the additional offices in China on behalf of GAC (the latter being fully offset and recoverable through GAC); (3) one-time costs of approximately $1.2 million related to the negotiation of a new lease for office space which will contribute to future cost reduction goals; and (4) $528 thousand related to the establishment of foreign office representation commencing in mid-2015-2016 with the expectation that position vacancies will be fully staffed. Both the ABP and the establishment of additional representative offices in China on behalf of GAC experienced implementation delays resulting in expense levels that are lower than anticipated in CCC's original 2014-2015 forecast. The $2.8 million increase contributed by the one-time or evolving initiatives, were partially offset by net savings of $548 thousand for cost efficiencies achieved throughout other areas of the organization.

In 2015-2016, contract remediation expenses are forecasted at $225 thousand, $76 thousand higher than 2014-2015. The increase is due to a one-time payment made in September 2015 to settle a long standing litigation case Contract remediation expenses are recorded as actual amounts are incurred or can be determined.

CCC's Commitment to Risk Management

CCC manages various 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 2014-2015 Annual Report and 2015-2016 Corporate Plan Summary.

Most major ratings agencies have maintained an AAA rating for the Government of the United States. These ratings remain within the requirements of CCC's credit policy.

There are no significant changes, new risks or uncertainties identified during the nine-month period ended December 31, 2015 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.

Martin Zablocki
President and CEO

Ernie Briard
Vice-President, Corporate Services and
Chief Financial Officer

Ottawa, Canada
February 9, 2016

Statement of Financial Position (Unaudited)

As at (in thousands of Canadian dollars)	December 31 2015	March 31 2015
Assets		
Current assets		
Cash and cash equivalents (note 4)	**$ 73,863**	$ 64,614
Trade receivables (notes 5 and 9)	**199,660**	167,393
Advances to Canadian exporters	**910,173**	1,187,284
Progress payments to Canadian exporters	**2,738,226**	1,638,897
	3,921,922	3,058,188
Non-current assets		
Property and equipment	**719**	513
	$ 3,922,641	$ 3,058,701
Liabilities		
Current liabilities		
Trade payables and accrued liabilities (notes 5 and 9)	**$ 225,514**	$ 171,537
Advances from foreign customers	**930,941**	1,225,509
Progress payments from foreign customers	**2,738,226**	1,638,897
Employee benefits (note 6)	**222**	219
	3,894,903	3,036,162
Non-current liabilities		
Employee benefits (note 6)	**1,873**	1,838
	3,896,776	3,038,000
Shareholder's Equity		
Contributed surplus	**10,000**	10,000
Retained earnings	**15,865**	10,701
	25,865	20,701
	$ 3,922,641	$ 3,058,701

Guarantees (note 14)

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

Authorized for issue on February 9, 2016

Martin Zablocki
President and CEO

Ernie Briard
Vice-President, Corporate Services and Chief Financial Officer

Statement of Comprehensive Income (Unaudited)

(in thousands of Canadian dollars)	For the three months ended December 31 2015	2014	For the nine months ended December 31 2015	2014
Revenues				
Commercial trading transactions - prime contracts (note 8)	**$ 819,203**	$ 794,258	**$ 2,170,641**	$ 1,970,465
Less: cost of commercial trading transactions - prime contracts	**(819,203)**	(794,258)	**(2,170,641)**	(1,970,465)
Fees for service (note 8)	**6,174**	8,007	**21,192**	18,478
Other income	**279**	227	**555**	450
Finance income, net (note 11)	**97**	97	**257**	226
Gain on foreign exchange	**181**	100	**925**	164
	6,731	8,431	**22,929**	19,318
Expenses				
Administrative expenses (note 10)	**7,168**	7,670	**24,232**	21,796
Contract remediation expenses	**36**	52	**193**	73
	7,204	7,722	**24,425**	21,869
Sourcing services for support of international government assistance programs				
Sourcing services transactions (note 8)	**8,711**	9,041	**23,515**	34,893
Less: cost of sourcing services transactions	**(8,711)**	(9,041)	**(23,515)**	(34,893)
	-	-	**-**	-
Net results of operations before Parliamentary appropriation	**(473)**	709	**(1,496)**	(2,551)
Parliamentary appropriation (note 12)	**2,220**	3,206	**6,660**	11,034
Net results of operations	**$ 1,747**	$ 3,915	**$ 5,164**	$ 8,483
Other comprehensive income (loss)				
Items that will not be reclassified to net results of operations				
Actuarial loss on employee benefits obligation	**-**	-	**-**	-
Total Comprehensive income	**$ 1,747**	$ 3,915	**$ 5,164**	$ 8,483

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

Statement of Changes in Equity (Unaudited)

For the three and nine months ended December 31, 2015 (in thousands of Canadian dollars)	**Contributed Surplus**	**Retained Earnings**	**Total**
Balance September 30, 2015	**$ 10,000**	**$ 14,118**	**$ 24,118**
Net results of operations	**-**	**1,747**	**1,747**
Balance December 31, 2015	**$ 10,000**	**$ 15,865**	**$ 25,865**
Balance March 31, 2015	**$ 10,000**	**$ 10,701**	**$ 20,701**
Net results of operations	**-**	**5,164**	**5,164**
Balance December 31, 2015	**$ 10,000**	**$ 15,865**	**$ 25,865**

For the three and nine months ended December 31, 2014 (in thousands of Canadian dollars)	**Contributed Surplus**	**Retained Earnings**	**Total**
Balance September 30, 2014	$ 10,000	$ 7,077	$ 17,077
Net results of operations	-	3,915	3,915
Balance December 31, 2014	$ 10,000	$ 10,992	$ 20,992
Balance March 31, 2014	$ 10,000	$ 2,509	$ 12,509
Net results of operations	-	8,483	8,483
Balance December 31, 2014	$ 10,000	$ 10,992	$ 20,992

Statement of Cash Flows (Unaudited)

	For the three months ended December 31		For the nine months ended December 31	
(in thousands of Canadian dollars)	**2015**	**2014**	**2015**	**2014**
Cash flows from operating activities				
Receipts from foreign customers	**$ 383,828**	$ 433,878	**$ 1,867,321**	$ 3,638,713
Finance income, net	**97**	97	**257**	226
Fees for service and other income received	**6,453**	8,234	**21,747**	18,928
Payments to Canadian exporters	**(381,837)**	(463,360)	**(1,863,259)**	(3,669,940)
Administrative payments	**(7,113)**	(7,620)	**(23,013)**	(23,395)
Parliamentary appropriation	**2,220**	3,206	**6,660**	11,034
Cash provided by (used in) operating activities	**3,648**	(25,565)	**9,713**	(24,434)
Cash flows from investing activities				
Acquisition of property and equipment	**(540)**	-	**(1,389)**	-
Cash used in investing activities	**(540)**	-	**(1,389)**	-
Effect of exchange rate changes on cash and cash equivalents	**181**	100	**925**	164
Increase (decrease) in cash and cash equivalents	**3,289**	(25,465)	**9,249**	(24,270)
Cash and cash equivalents at the beginning of period	**70,574**	90,733	**64,614**	89,538
Cash and cash equivalents at the end of period	**$ 73,863**	$ 65,268	**$ 73,863**	$ 65,268

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

Notes to Financial Statements

December 31, 2015

1. Nature, organization and funding

The Canadian Commercial Corporation (the "Corporation") was established in 1946 by the *Canadian Commercial Corporation Act* (the "Act"), is wholly owned by the Government of Canada and an agent Crown corporation listed in Part I of Schedule III of the *Financial Administration Act*. The Corporation is domiciled in Canada with a head office located at 350 Albert Street, Ottawa, Ontario. The Corporation operates primarily in Canada with representation in Asia and the Caribbean.

The Corporation 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 sourcing 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 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, 2015. 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, 2015.

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 are measured at fair value through profit or loss
- accrued employee benefit liabilities for post-employment benefit plans are recognized at the present value of the defined benefit obligations

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, in accounting for the employee benefits liabilities, the provisions and contingent liabilities, lease commitments and contingencies and used judgment in determining whether a provision for contract remediation expenses should be recognized or disclosed.

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

Note 6 – employee benefits
Note 14 – guarantees

Functional and presentation currency

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

(in thousands of Canadian dollars, unless otherwise indicated)

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, 2015.

4. Cash and cash equivalents

Cash and cash equivalents included:

	December 31, 2015		**March 31, 2015**	
	Original currency	**Canadian dollars**	**Original currency**	**Canadian dollars**
Canadian dollars	**41,717**	**$ 41,717**	45,514	$ 45,514
U.S. dollars	**20,994**	**29,055**	14,859	18,821
Chinese renminbi	**3,433**	**2,359**	1,363	279
Euros	**1,569**	**732**	-	-
		$ 73,863		$ 64,614

The Corporation invests in short-term deposits in Canadian banks. At December 31, 2015, the average term to maturity of short-term deposits was four days (March 31, 2015 - one day) and the portfolio yield to maturity was 0.25% as at December 31, 2015 (March 31, 2015 - 0.10%).

Of the cash and cash equivalents, $27,133 (March 31, 2015 - $45,945) represents advances and holdbacks received from foreign customers which will be remitted to Canadian exporters at later dates in accordance with contracts. Advances from foreign customers also include overpayments from customers due to temporary timing differences in their liquidation methods and accounting for work performed. Where contracted, these funds may accrue interest to the credit of the Canadian exporter or foreign customer.

(in thousands of Canadian dollars, unless otherwise indicated)

5. Trade receivables and trade payables and accrued liabilities

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

	December 31, 2015		March 31, 2015	
	Original currency	Canadian dollars	Original currency	Canadian dollars
U.S. dollars	**95,531**	**$ 132,215**	79,647	$ 100,881
Canadian dollars	**67,445**	**67,445**	66,395	66,395
Chinese renminbi	**-**	**-**	575	117
		$ 199,660		$ 167,393

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:

	December 31, 2015		March 31, 2015	
	Original currency	Canadian dollars	Original currency	Canadian dollars
U.S. dollars	**106,048**	**$ 146,820**	79,085	$ 100,130
Canadian dollars	**78,684**	**78,684**	71,337	71,337
Chinese renminbi	**50**	**10**	345	70
		$ 225,514		$ 171,537

Credit, market and liquidity risks relating to trade receivables and to trade payables and accrued liabilities are disclosed in Note 9.

6. Employee benefits

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

(in thousands of Canadian dollars, unless otherwise indicated)

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

	December 31, 2015			**March 31, 2015**		
	Sick Leave	**Severance**	**Total Benefits**	**Sick Leave**	**Severance**	**Total Benefits**
Total employee benefits	**$ 1,422**	**$ 673**	**$ 2,095**	$ 1,384	$ 673	$ 2,057
Less: current portion	**(115)**	**(107)**	**(222)**	(112)	(107)	(219)
Non-current portion	**$ 1,307**	**$ 566**	**$ 1,873**	$ 1,272	$ 566	$ 1,838

The Corporation eliminated the accrual of its employee severance benefits upon resignation or retirement and consequently, employees no longer accrue severance benefits.

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**	
	2015	**2014**	**2015**	**2014**
Accrued benefit obligation				
Balance at beginning of year	**$ 1,350**	$ 1,083	**$ 659**	$ 2,329
Current service cost	**138**	119	**11**	11
Interest cost	**59**	40	**22**	48
Benefits paid	**(111)**	(179)	**(118)**	(1,821)
Actuarial loss	**(52)**	288	**99**	92
Total accrued benefits at end of year	**$ 1,384**	$ 1,350	**$ 673**	$ 659
Economic assumptions				
Accrued benefit obligation as of March 31				
Discount rate	**3.24%**	4.34%	**2.49%**	3.76%
Rate of economic salary increase	**1.00%**	2.00%	**1.00%**	2.00%
Benefit costs for year ended March 31				
Discount rate	**4.34%**	3.76%	**3.76%**	3.40%
Rate of economic salary increase	**2.00%**	2.00%	**2.00%**	2.00%

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.

(in thousands of Canadian dollars, unless otherwise indicated)

Included in administrative expenses as workforce compensation and related expenses for the three months ended December 31, 2015 was a charge of $13 (December 31, 2014 – $50) and $38 for the nine months ended December 31, 2015 (December 31, 2014 – $150), for sick leave benefitsfor sick leave benefits.

7. 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 in people and processes and to mitigate any potential losses related to operational, performance and credit risk.

Key strategies used by the Corporation to manage its capital base include: minimizing contract remediation expenses; balancing smart growth with operating expenses; minimizing foreign exchange exposure; optimizing interest income. The Corporation may be required to return to the Government of Canada any part of capital deemed to be in excess of the amount required for the purposes for which the Corporation was constituted.

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

	December 31, 2015	**March 31, 2015**
Contributed surplus	**$ 10,000**	$ 10,000
Retained earnings	**15,865**	10,701
	$ 25,865	$ 20,701

8. Commercial trading transactions, fees for service, other income and sourcing 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 transactions related to sourcing services for support of international programs.

(in thousands of Canadian dollars, unless otherwise indicated)

The profile by geographic region is as follows:

For the three months ended December 31	**2015**			**2014**		
	Revenues*	**Sourcing services transactions**	**Total**	**Revenues***	**Sourcing services transactions**	**Total**
Asia	**$ 472,861**	**$ 2,080**	**$ 474,941**	$ 451,060	$ 1,005	$ 452,065
United States	**246,528**	**-**	**246,528**	175,659	-	175,659
Central America & Caribbean	**79,269**	**161**	**79,430**	112,238	590	112,828
South America	**24,658**	**-**	**24,658**	63,009	-	63,009
Europe	**44**	**6,039**	**6,083**	75	3,791	3,866
Canada	**472**	**185**	**657**	101	3,323	3,424
Africa	**182**	**246**	**428**	350	332	682
Other	**1,642**	**-**	**1,642**	-	-	-
	$ 825,656	**$ 8,711**	**$ 834,367**	$ 802,492	$ 9,041	$ 811,533

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

For the nine months ended December 31	**2015**			**2014**		
	Revenues*	**Sourcing services transactions**	**Total**	**Revenues***	**Sourcing services transactions**	**Total**
Asia	**$1,329,022**	**$ 5,246**	**$1,334,268**	$1,173,714	$ 2,614	$1,176,328
United States	**531,365**	**-**	**531,365**	453,988	-	453,988
Central America & Caribbean	**255,829**	**251**	**256,080**	246,160	1,804	247,964
South America	**67,498**	**-**	**67,498**	113,267	-	113,267
Europe	**799**	**16,626**	**17,425**	1,001	23,909	24,910
Africa	**4,169**	**880**	**5,049**	1,052	1,162	2,214
Canada	**1,324**	**512**	**1,836**	149	5,404	5,553
Other	**2,382**	**-**	**2,382**	62	-	62
	$2,192,388	**$ 23,515**	**$2,215,903**	$1,989,393	$ 34,893	$2,024,286

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

Revenues for the three months ended December 31, 2015 include $432,752 (December 31, 2014 – $427,839), $1,142,934 for the nine months ended December 31, 2015 (December 31, 2014 – $1,138,884) of accrued unbilled revenues. Value of contracts signed is distinct from revenues. During the nine months ended December 31, 2015, the value of contracts and amendments which were signed and became effective amounted to $724.9 million (December 31, 2014 - $1,083.0 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 Audit Committee of the Board of Directors 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 Board of Directors approved 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)

(in thousands of Canadian dollars, unless otherwise indicated)

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 nine months ended December 31, 2015, 55% (March 31, 2015 - 40%) of the Corporation's trade receivables were from AAA credit rated customers.

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

	December 31, 2015	**March 31, 2015**
United States	**$ 107,123**	$ 59,366
Central America and Caribbean	**64,587**	54,734
Asia	**25,298**	34,122
Canada	**1,701**	3,401
South America	**951**	10,924
Europe	**-**	862
Other	**-**	3,984
	$ 199,660	$ 167,393

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:

	December 31, 2015	**March 31, 2015**
< 1 year	**$ 199,660**	$ 167,393
	$ 199,660	$ 167,393

(in thousands of Canadian dollars, unless otherwise indicated)

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:

	December 31, 2015	March 31, 2015
< 30 days	**$ 9,746**	$ 567
> 30 days and < 180 days	**24,098**	19,857
> 180 days	**2,478**	2,330
	$ 36,322	$ 22,754

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:

	December 31, 2015	March 31, 2015
Holdbacks	**$ 6,365**	$ 7,720
Bank guarantees	**$ 34,565**	$ 33,730
Surety bonds	**$ 28,628**	$ 104,798
Parent guarantees	**$ 18,655,811**	$ 17,172,356
Other	**$ 11,756**	$ 4,570

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

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.

As directed by the Minister of International Trade, during the year ended March 31, 2014, the Corporation developed an approach to transfer its Cuba trade financing activities to a related Crown Corporation which eliminates related risks to the Corporation while continuing to ensure support to the Canadian exporters.

Under a specific series of financing contracts, included in trade payables and accrued liabilities, the Corporation owed $50,498 as at December 31, 2015 (March 31, 2015 - $51,962) which bears interest at the cost of funds plus 0.25% (March 31, 2015 – 0.25%).

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.

(in thousands of Canadian dollars, unless otherwise indicated)

With respect to outstanding contractual obligations to foreign customers, the Corporation has contractual recourse that consists of, in all material respects, back to back contractual obligations against Canadian exporters in the same amount. Under contract terms, payments to exporters usually are not made in advance of receipt of payment from foreign customers. 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 $90.0 million.

The Corporation has a revolving credit facility providing access to funds in the amount of $40.0 million (March 31, 2015 – $20.0 million) Canadian or its U.S. dollar equivalent. Indebtedness under this agreement is unsecured and this credit facility has no expiry date. As at December 31, 2015, there were no draws on this line of credit (March 31, 2015 – nil).

In addition, the Corporation enters into credit arrangements up to a maximum of $70.0 million as at December 31, 2015 (March 31, 2015 – $70.0 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 the Cuba contracting program. The Corporation incurred an expense of $1,860 during the three months ended December 31, 2015 (December 31, 2014 – $712) and expense of $ 2,904 for the nine months ended December 31, 2015 (December 31, 2014 – $1,760) related to the Cuba contracting 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:

	December 31, 2015	March 31, 2015
< 1 year	**$ 225,514**	$ 171,537
	$ 225,514	$ 171,537

(in thousands of Canadian dollars, unless otherwise indicated)

Under a specific series of financing contracts, related to the Cuba contracting program included in trade payables and accrued liabilities the Corporation owed $50,498 as at December 31, 2015 (March 31, 2015 – $51,962) which bears interest at the cost of funds plus 0.25% (March 31, 2015 - 0.25%) and the Corporation has offered as security certain foreign trade receivables under certain conditions. The amount of outstanding trade receivables fully insured by a related Crown corporation under these arrangements was $50,556 as at December 31, 2015 (March 31, 2015 – $52,733) and was profiled as follows:

	December 31, 2015	March 31, 2015
< 1 year	**$ 50,556**	$ 52,733
	$ 50,556	$ 52,733

No onerous contracts have been identified as at December 31, 2015 and March 31, 2015.

10. Administrative expenses

Administrative expenses included the following:

	For the three months ended December 31		For the nine months ended December 31	
	2015	2014	2015	2014
Workforce compensation and related expenses	**$ 5,002**	$ 4,810	**$ 14,338**	$ 13,956
Rent and related expenses	**516**	943	**2,674**	2,068
Contract management services	**400**	615	**2,025**	2,352
Consultants	**476**	236	**1,416**	644
Travel and hospitality	**390**	423	**1,241**	1,224
Amortization and depreciation	**44**	343	**1,182**	427
Software, hardware and support	**35**	55	**436**	372
Corporate communications	**80**	61	**214**	239
Other expenses	**225**	184	**706**	514
	$ 7,168	$ 7,670	**$ 24,232**	$ 21,796

(in thousands of Canadian dollars, unless otherwise indicated)

11. Finance income, net

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

	For the three months ended December 31		For the nine months ended December 31	
	2015	**2014**	**2015**	**2014**
Financial assets				
- Finance income earned on cash and cash equivalents	**$ 113**	$ 120	**$ 325**	$ 295
Financial liabilities				
- Finance cost on payables and other liabilities	**(16)**	(23)	**(68)**	(69)
	$ 97	$ 97	**$ 257**	$ 226

12. Parliamentary appropriation

The appropriation authorized by the Parliament of Canada is included in the Statement of Comprehensive Income for the three months ended December 31, 2015 in the amount of $2,220 (December 31, 2014 - $3,206) and for the nine months ended December 31, 2015 in the amount of $6,660 (December 31, 2014 - $11,034).

13. 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.

The amounts due from and to these parties included in trade receivables and trade payables and accrued liabilities respectively were as follows:

	December 31, 2015	March 31, 2015
Trade receivables	**$ 698**	$ 1,101
Trade payables	**$ 1,962**	$ 1,042

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

(in thousands of Canadian dollars, unless otherwise indicated)

(a) Public Works and Government Services Canada (PWGSC)

Public Works and Government Services Canada provides contract management and other administrative services to the Corporation at negotiated rates which reflect fair value. The cost of these services is included in administrative expenses.

	For the three months ended December 31		For the nine months ended December 31	
	2015	**2014**	**2015**	**2014**
PWGSC	**$ 400**	$ 616	**$ 2,025**	$ 2,352
	$ 400	$ 616	**$ 2,025**	$ 2,352

(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. The revenue related to the provision of these services is included in fees for service.

	For the three months ended December 31		For the nine months ended December 31	
	2015	**2014**	**2015**	**2014**
PPP Canada Inc.	**$ 188**	$ 188	**$ 563**	$ 563
	$ 188	$ 188	**$ 563**	$ 563

(c) Other Government of Canada departments, agencies and Crown corporations

Commercial trading transactions, fees for service, and sourcing 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 party entities:

	For the three months ended December 31		For the nine months ended December 31	
	2015	**2014**	**2015**	**2014**
Global Affairs Canada	**$ 7,329**	$ 6,064	**$ 13,434**	$ 13,237
	$ 7,329	$ 6,064	**$ 13,434**	$ 13,237

The Corporation also participates in employee interchange programs with Global Affairs Canada (GAC) formerly the Department of Foreign Affairs, Trade and Development (DFATD).

(in thousands of Canadian dollars, unless otherwise indicated)

(d) Transactions with Canadian exporters solely or jointly governed by key management personnel

The Corporation may enter into supply contracts with Canadian exporters whose financial and operating policies are solely or jointly governed by key management personnel of the Corporation. The Corporation enters into transactions with these Canadian exporters 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. Transactions pertaining to supply contracts with related party Canadian exporters were as follows:

	For the three months ended December 31		For the nine months ended December 31	
	2015	**2014**	**2015**	**2014**
Weatherhaven Global Resources Ltd.	**$ 1,483**	$ 11	**$ 6,236**	$ 11
Blue Drop Performance Learning Inc.	**$ -**	$ -	**$ 37**	$ 37
Cascade Aerospace Inc.	**$ -**	$ 2,899	**$ -**	$ 11,582
	$ 1,483	$ 2,910	**$ 6,273**	$ 11,630

The total contract portfolio value remaining to be fulfilled involving related Canadian exporters includes the following:

	December 31, 2015	**March 31, 2015**
Weatherhaven Global Resources Ltd.	**$ -**	$ 7,608
Blue Drop Performance Learning Inc.	**$ -**	$ 30
	$ -	$ 7,638

No amounts were due from and to these related Canadian exporters as at December 31, 2015 (March 31, 2015 – nil).

14. Guarantees

As prime contractor, the Corporation is contractually obligated to complete 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 sourcing services for support of international assistance programs. The total prime and sourcing services contract portfolio value remaining to be fulfilled was as follows:

	December 31, 2015	**March 31, 2015**
< 1 year	**$ 881,722**	$ 922,284
> 1 and < 3 years	**5,565,094**	2,342,986
> 3 and < 5 years	**10,579,897**	9,699,879
> 5 years	**2,523,260**	5,296,627
Total contract portfolio	**$ 19,549,973**	$18,261,776