Canadian Commercial Corporation

Canadian Commercial Corporation
Corporation Commerciale Canadienne

2018-2019 First Quarter

Revised Financial Report

(Unaudited)

For the period ended

June 30, 2018

ERRATUM

Date: October 30

Location: Note 2, Basis of preparation paragraph 2

Revision: Addition of the following paragraph *"As permitted by the Treasury Board of Canada Standard on Quarterly Financial Reports for Crown Corporations, management has elected to only reflect the changes from adoption of IFRS 15 and IFRS 9 standards in the Corporation's audited financial statements for the year ended March 31, 2019. This constitutes a departure from generally accepted accounting principles for the first application of IFRS 15 and IFRS 9, as the quarterly financial statements for the current period do not include the impact of the new accounting standards."*

Rationale for the revision: The additional disclosure is required to inform the readers of a departure from IFRS standards in quarterly reporting by delaying adoption of IFRS 9 and IFRS 15 until the annual statements at March 31, 2019.

MANAGEMENT'S DISCUSSION AND ANALYSIS

BASIS OF PREPARATION

This discussion and analysis was prepared in accordance with the Treasury Board Standard on Quarterly Financial Reports for Crown Corporations and is not intended to be a full Management Discussion and Analysis.

The following discussion and analysis of the operating results and financial position of the Canadian Commercial Corporation for the quarter ending June 30, 2018 should be read in conjunction with the enclosed unaudited condensed interim financial statements and notes as well as the Corporation's Annual Report for the year ended March 31, 2018.

The disclosures and information contained in the Canadian Commercial Corporation Annual Report for the year ended March 31, 2018 are also mostly applicable to the current quarter.

FINANCIAL HIGHLIGHTS

CCC delivers government-to-government contracting services through two core lines of business:

(1) International Commercial Business (ICB); and
(2) Global Defence and Security (GDS), which includes the administration of the Canada-US Defence Production Sharing Agreement (DPSA)

In addition to its core business line operations, CCC performs activities related to sourcing and other Government of Canada priorities. This includes the maintenance and administration, on behalf of Global Affairs Canada, of trade development offices in China and providing sourcing services to Government of Canada departments.

Historically, large contracts have materially affected the Corporation's financial statements and have caused significant variations in certain year-over-year amounts on the Statement of Financial Position and the Statement of Comprehensive Income (Loss).

In late 2013-14, the Armoured Brigades Program (ABP), a historic multi-billion dollar 14-year contract, was signed for the supply of light armored vehicles and associated equipment, training and support services. Because of the magnitude of this transaction, this activity may result in significant variations from period-to-period on certain accounts. The accounts impacted would most notably be receivables, payables, advances to Canadian exporters and from foreign buyers and others, progress work by Canadian exporters and for foreign buyers as well as revenue accounts.

A discussion of CCC's financial highlights for the three-month period ended June 30, 2018 follows:

Note that financial results reported in the MD&A are rounded to the nearest million, while related percentages are based on numbers rounded to the nearest thousand.

STATEMENT OF COMPREHENSIVE INCOME (LOSS) DISCUSSION

Summary - Net profit (loss) (in millions of dollars)	FOR THE THREE MONTHS ENDED JUNE 30			
	2018	2017	Increase (Decrease) in Net Profit	
Revenues	$ 7.3	$ 6.5	$ 0.8	12%
Expenses	(8.0)	(8.2)	0.2	2%
Net profit (loss)	**$ (0.7)**	**$ (1.7)**	**$ 1.0**	**57%**

For three-month period ended June 30, 2018, the overall net loss was lower than the comparative period as the result of a combination of higher revenues and lower expenses. The higher revenues are due to increases in early payments at discounted amounts made to Canadian exporters by the Corporation. The reduction of administrative expenses, discussed in the administration expense section of the report also contributed to the lower loss when compared to the prior year's first quarter.

REVENUES

Revenues (in millions of dollars)	FOR THE THREE MONTHS ENDED JUNE 30				
	2018	2017	Increase (Decrease)		% of Total 2018
Commercial trading transactions					
- prime contracts	$ 618.2	$ 628.9	$ (10.7)	(2%)	
Less: Cost of commercial trading transactions					
- prime contracts	(618.2)	(628.9)	10.7	2%	
Fees for service	6.0	6.0	-	-	83%
Other income	1.1	0.4	0.7	> 100%	15%
Finance income, net	0.1	0.2	(0.1)	(64%)	1%
Loss on foreign exchange	0.1	(0.1)	0.2	> 100%	1%
Total Revenues	**$ 7.3**	**$ 6.5**	**$ 0.8**	**12%**	**100%**

For the three-month period ended June 30, 2018, after offsetting commercial trading transactions with the cost of commercial trading transactions, revenues were higher by $0.8 or 12% compared to the previous year's first quarter. The increase in revenues is primarily attributable to an increase in other income, mainly derived from early payments to Canadian exporters at discounted amounts. As part of the normal business activities of the Corporation, CCC may provide payments at discounted amounts under certain terms and conditions to Canadian exporters prior to collecting from foreign buyers, which provides a source of other income for the Corporation. The reduction in CTTs was mostly from contracts in the DPSA business line, on which CCC does not earn fee revenue, and as a result did not impact the fee revenue generated by the Corporation.

Commercial trading transactions

Commercial Trading Transactions (CTT) (in millions of dollars)	**FOR THE THREE MONTHS ENDED JUNE 30**				
	2018	**2017**	**Increase (Decrease)**		**% of Total 2018**
GDS:					
DPSA	$ 161.7	$ 170.7	$ (9.0)	(5%)	26%
Non-DPSA GDS	328.9	333.3	(4.4)	(1%)	53%
Total GDS	**$ 490.6**	**$ 504.0**	**$ (13.4)**	**(3%)**	**79%**
ICB	**127.6**	**124.9**	**2.7**	**2%**	**21%**
Total CTT	**$ 618.2**	**$ 628.9**	**$ (10.7)**	**(2%)**	**100%**

Commercial trading transactions measure the value of goods or services delivered or progress work performed during the period. Since CCC acts 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.

For the three-month period ended June 30, 2018, the overall decrease of $10.7 or 2% in commercial trading transactions is attributable to several factors. The DPSA line of business had a decrease in activity of $9,0 during the first quarter, mainly from US department of defence projects. This type of fluctuation is part of the normal cycle of deliveries in this business line and is not expected to materially effect the annual results. Lower activity was also experienced in the lottery programs for $6.4 or 11% and the Cuba program for $12.2 or 44%. The fluctuation in activity for the lottery programs is considered normal, as the comparative period was a record year in sales for the program. CCC does not expect any significant negative impact for the future. The lower level of activity in the Cuba program is the result of changes in the purchasing plans for the Cuban tourism and sugar sectors. The ABP program generated lower CTTs in the order of $6.7, while a project for a cruise ship pier brought in supplementary revenues of $11.8. Various contracts in the aerospace sector contributed an additional $2.3 in CTTs, with the remainder of the variance coming from the ICB business line with projects to develop infrastructure for a port and harbour in Ghana, the rehabilitation of an airport in Bermuda and a football stadium in Cameroon contributing an additional $9.4.

Fees for service

Fees for service (in millions of dollars)	FOR THE THREE MONTHS ENDED JUNE 30				
	2018	2017	Increase (Decrease)		% of Total 2018
GDS:					
Non-DPSA GDS	$ 2.8	$ 2.9	$ (0.1)	(3%)	47%
Total GDS	**$ 2.8**	**$ 2.9**	**$ (0.1)**	**(3%)**	**47%**
ICB	**2.3**	**1.9**	**0.4**	**18%**	**38%**
Sourcing services transactions and other	**0.9**	**1.2**	**(0.3)**	**(22%)**	**15%**
Total Fees for service	**$ 6.0**	**$ 6.0**	**$ -**	**-**	**100%**

The Corporation charges fees for service on non-DPSA GDS and ICB business lines and other services, generally calculated as a percentage of the contract value. The rates for services provided, or fees for service are negotiated on a contract-by-contract basis. 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. Pursuant to the DPSA agreement, CCC does not charge fees for service on the DPSA program. In addition to fees for service recorded from the non-DPSA core operations business line, CCC earns fees on a cost recovery basis related to sourcing services transactions and other initiatives of Government of Canada departments and agencies.

For the three-month period ended June 30, 2018, fees for services were similar to the prior year. Decreases in fees generated through the Cuba program and shared services initiatives were offset by increased fees generated by the building of the cruise ship terminal in St-Kitts and the rehabilitation of a football stadium in Cameroon.

EXPENSES

Expenses (in millions of dollars)	FOR THE THREE MONTHS ENDED JUNE 30				
	2018	2017	Increase (Decrease)		% of Total 2018
Administrative expenses					
Workforce compensation and related expenses	$ 5.2	$ 5.2	$ -	-	65%
Contract management services	0.7	0.7	-	-	8%
Travel and hospitality	0.6	0.5	0.1	19%	7%
Rent and related expenses	0.4	0.4	-	-	5%
Software, hardware and support	0.4	0.4	-	-	5%
Consultants	0.4	0.5	(0.1)	(19%)	5%
Communications	0.1	0.2	(0.1)	(12%)	2%
Depreciation	0.1	0.1	-	-	1%
Other expenses	0.1	0.2	(0.1)	(44%)	2%
Total Administrative expenses	**$ 8.0**	**$ 8.2**	**$ (0.2)**	**(2%)**	**100%**
Contract remediation expenses	**-**	**-**	**-**	**-**	**0%**
Total Expenses	**$ 8.0**	**$ 8.2**	**$ (0.2)**	**(2%)**	**100%**

Administrative expenses

For the three-month period ended June 30, 2018, expenses were comparable to the previous period. The slight decrease of $0.2 or 2% in administrative expenses is primarily related to lower consultant expenses and communications partially offset by increases in travel for continued initiatives in business development to deliver on the strategic plan of the Corporation.

Contract remediation expenses

Contract remediation expenses are recorded as actual amounts are incurred or can be reasonably estimated. For the three-month period ended June 30, 2018, no contract remediation expenses were recorded. The result reflects the Corporation's robust contract management and Enterprise Risk Management (ERM) practices.

SOURCING SERVICES FOR SUPPORT OF INTERNATIONAL GOVERNMENT ASSISTANCE PROGRAMS

Sourcing services transactions (in millions of dollars)	FOR THE THREE MONTHS ENDED JUNE 30			
	2018	2017	Increase (Decrease)	
Sourcing services transactions	$ 2.8	$ 5.0	$ (2.2)	(44%)
Less: Cost of sourcing services transactions	(2.8)	(5.0)	2.2	44%
	$ -	**$ -**	**$ -**	**-**

Sourcing services transactions are generally in support of international assistance programs, where the Corporation is not the prime contractor, but rather acts as an agent on behalf of Global Affairs Canada in accordance with a Memorandum of Understanding.

CCC also has sourcing services agreements with the National Research Council (NRC) and the Department of National Defence. For the three-month period ended June 30, 2018, the decrease in activity of $2.2 or 44% is related to normal fluctuations in the delivery of various projects.

STATEMENT OF FINANCIAL POSITION DISCUSSION

SUMMARY

Summary - Statement of financial position (in millions of dollars)	AS AT			
	June 30, 2018	March 31, 2018	Increase (Decrease)	
Assets	**$ 7,757.6**	**$ 7,135.2**	**$ 622.4**	**9%**
Liabilities	**$ 7,734.7**	**$ 7,111.6**	**$ 623.1**	**9%**
Shareholder's equity:				
Contributed surplus	10.0	10.0	-	-
Retained earnings	12.9	13.6	(0.7)	(5%)
Total Shareholder's equity	**$ 22.9**	**$ 23.6**	**$ (0.7)**	**(3%)**

As an international trade intermediary, CCC's trade-related assets are offset with matching liabilities. Therefore, trade receivables, advances to Canadian exporters and progress work by Canadian exporters are normally offset by trade payables and accrued liabilities, advances from foreign buyers and others and progress work for foreign buyers, respectively. The reduction in retained earnings reflects the first quarter loss.

ASSETS

Assets (in millions of dollars)	AS AT				
	June 30, 2018	March 31, 2018	Increase (Decrease)		% of Total
Cash and cash equivalents	$ 22.9	$ 43.4	$ (20.5)	(47%)	< 1%
Trade receivables	1,603.3	1,212.7	390.6	32%	21%
Advances to Canadian exporters	134.9	144.3	(9.4)	(6%)	2%
Progress work by Canadian exporters	5,993.5	5,731.7	261.8	5%	77%
Property and equipment	3.0	3.1	(0.1)	(4%)	< 1%
Total Assets	**$ 7,757.6**	**$ 7,135.2**	**$ 622.4**	**9%**	**100%**

The net increase in assets, compared to March 31, 2018 was primarily related to an increase in trade receivables and progress work related to the ABP contract. As this contract is in the execution and delivery phase, activity is expected to increase. Deliveries on the ABP contract are typically for significant amounts, which are reflected in the balances of receivables, payables and progress work.

LIABILITIES

Liabilities (in millions of dollars)	AS AT				
	June 30, 2018	March 31, 2018	Increase (Decrease)		% of Total
Trade payables and accrued liabilities	$ 1,564.6	$ 1,191.4	$ 373.2	31%	21%
Advances from foreign buyers and others	171.4	183.4	(12.0)	(7%)	2%
Progress work for foreign buyers	5,993.5	5,731.7	261.8	5%	77%
Deferred lease incentives	3.6	3.6	-	-	< 1%
Employee benefits	1.6	1.5	0.1	3%	< 1%
Total Liabilities	**$ 7,734.7**	**$ 7,111.6**	**$ 623.1**	**9%**	**100%**

The net increase in liabilities compared to March 31, 2018 was due to increases in the amount of progress work for foreign buyers and trade payables and accrued liabilities partially offset by a decrease in advances from foreign buyers and others. The net change to the liabilities is directly related to the change in assets discussed earlier, due to the back-to-back nature of CCC's business model.

SIGNIFICANT TRANSACTIONS IN ASSETS AND LIABILITIES

Given the back-to-back nature of CCC's contracting with foreign buyers and Canadian exporters, movements in assets and liabilities are closely related and are mostly offsetting.

The increases in trade receivables and trade payables and accrued liabilities when compared to March 31, 2018 were due primarily to increased receivable and payable transactions related to the ABP contract reflecting the progress work recorded during the quarter.

Of the total progress work by Canadian exporters and for foreign buyers, $5,960.2 or 98% was related to continued progress work on the ABP contract.

Of the advances from foreign buyers and others and advances to Canadian exporters, 74% can be attributed to five projects: ABP, an aerospace project in Peru, the construction of a parking complex in Ghana, the rehabilitation of a football stadium in Cameroon and the construction of a cruise ship pier terminal in St-Kitts & Nevis.

Of the $171.4 advances from foreign buyers and others, $134.9 or 79% were passed on to Canadian exporters. Contractually, advances are not offered on DPSA contracts. For some non-DPSA contracts, CCC may hold back some advance payments made by foreign buyers as a risk mitigation practice and release them to Canadian exporters as delivery obligations are fulfilled. Additionally, CCC receives advances related to sourcing services for Government of Canada departments prior to making sourcing payments. As a result, there are period-over-period variations due to the timing of collection and payments.

STATEMENT OF CASH FLOWS DISCUSSION

Summary - Statement of cash flows (in millions of dollars)	**FOR THE THREE MONTHS ENDED JUNE 30**				
	2018	**2017**	**Increase (Decrease)**		**% of Total 2018**
Operating activities	$ (19.5)	$ 1.3	$ (20.8)	< (100%)	95%
Investing activities	-	(0.1)	0.1	100%	0%
Effect of exchange rate changes on cash and cash equivalents	(1.0)	(0.8)	(0.2)	(16%)	5%
Net decrease in cash and cash equivalents	**$ (20.5)**	**$ 0.4**	**$ (20.9)**	**< (100%)**	**100%**

Under the DPSA program, the Corporation generally pays its Canadian exporters within thirty 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 30^{th} day, funding its trade receivables, in instances where there are collection delays and payment is not received from the DPSA buyer until beyond thirty days. On certain contracts (generally outside of the DPSA program), the Corporation pays its Canadian exporters within five business days after CCC receives payment from the foreign buyer. Depending on the timing of receipts compared to payments, these transactions can span across reporting periods and can cause variations in cash flows from one period to the next. In these instances, cash is provided to the Corporation at the end of one period with the payment made to the Canadian exporter, as stipulated in the contract, early in the next period.

The decrease in cash is primarily due to normal operating activities combined with the effect of exchange rate fluctuations on cash. The decrease in cash from operating activities is primarily related to a significant increase in early payments made at discounted amounts to Canadian exporters in comparison to the prior year.

COMPARISON OF FINANCIAL RESULTS TO THE 2018-19 TO 2021-22 CORPORATE PLAN

Statement of Comprehensive income (in millions of dollars)	**FOR THE THREE MONTHS ENDED JUNE 30, 2018**			
	Actual	**Corporate Plan**	**Variance**	**% Variance**
Revenues				
Commercial trading transactions				
- prime contracts	$ 618.2	$ 546.8	$ 71.4	13%
Less: cost of commercial trading transactions				
- prime contracts	(618.2)	(546.8)	(71.4)	-13%
Fees for service	6.0	5.5	0.5	9%
Other income	1.1	0.1	1.0	> 100%
Finance income, net	0.1	0.2	(0.1)	-50%
Loss on foreign exchange	0.1	-	0.1	100%
	7.3	5.8	1.5	26%
Expenses				
Administrative expenses	8.0	8.7	(0.7)	-8%
Contract remediation expenses	-	-	-	-
	8.0	8.7	(0.7)	-8%
Sourcing services for support of international government assistance programs				
Sourcing services transactions	2.8	4.8	(2.0)	-42%
Less: cost of sourcing services transactions	(2.8)	(4.8)	2.0	42%
	-	-	-	-
Net (profit) loss before Parliamentary appropriation	(0.7)	(2.9)	2.2	76%
Parliamentary appropriation	-	-	-	-
Net profit (loss)	**$ (0.7)**	**$ (2.9)**	**$ 2.2**	**76%**

The favorable variance of $2.2 in Net profit (loss), compared to the Corporate Plan is due to a higher than budgeted level of fees for service and other income earned for the period ended June 30 2018, combined with cost saving efficiencies in administrative expenses.

The $71.4 or 13% favorable variance related to commercial trading transactions was mostly due to a change in the timing of ABP progress work from past periods of $84.3 and unfavorable variances across all other business lines and programs of $12.9.

Fees for service are earned as contract work is delivered or completed and are largely commensurate with commercial trading transactions, leading to similar results. The $0.5 or 9%

favorable variance was due primarily to ABP fees for service earned on the progress work that was $0.7 above budget, offset by unfavorable variances of $0.2 in ICB and other GDS projects.

The Corporation manages exchange gains and losses through monitoring and maintaining its foreign currency balances at an adequate level to eliminate liabilities in that currency and does not budget for gains or losses on foreign exchange. At June 30, 2018, the Corporation held cash in Euros (EUR), Chinese Renminbi (CNY) and USD in various bank accounts. The amount exposed to currency risk in Euros and Chinese Renminbi were negligible, while the exposure to USD foreign exchange of $4.2 represents less than 0.1% of its U.S. denominated assets.

Administrative expenses are paid primarily in Canadian dollars and, as such, are not impacted by foreign exchange fluctuations. The favorable variance of $0.7 related to administrative expenses resulted primarily from savings realized due to staff vacancies during the quarter.

2018-19 CORPORATE PLAN FORECAST

The CCC 2018-19 to 2022-23 Corporate Plan has not yet been approved by the Government of Canada.

Net revenues are expected to grow from the current report's quarter-end results, largely from projects signed in 2017-18 and contracts expected to be signed in 2018-19 in the ICB and GDS business lines. The increase in signed projects reflects enhanced awareness of CCC's value proposition, resulting from investments in business development in key markets for its five sectors of focus:

- civil aerospace;
- clean technology (cleantech), energy and the environment;
- construction and infrastructure;
- information and communication technology and security; and
- defence

Administrative expenses are also expected to increase from the current report's year-end results in the following areas:

- Investments in relationship management professionals to support growth in CCC's government-to-government initiatives across the five sectors of focus;
- Heightened travel requirements to secure and manage new contracts; and
- Increase in workforce compensation from collective bargaining and staffing to the full complement of the corporate budgeted workforce.

CCC is confident that its low level of contract remediation expenses will continue due to its robust risk and contract management practices.

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 2017-18 Annual Report and 2018-19 Corporate Plan Summary.

Management continues to align its corporate social responsibility framework with that of the Government of Canada. Collaboration with other Government stakeholders ensures that a consistent approach and decision making process is in place when assessing Canadian exporters on issues related to bribery and corruption as well as buyer human rights records.

Cyber risk in an on-going threat as cyber-attacks appear to be the new reality. Numerous improvements to CCC's information systems were implemented during the past year and the Corporation continues to evolve its approach to cyber risk management.

Except for the changes mentioned above, there are no other significant changes, new risks or uncertainties identified during the period ended June 30, 2018 as compared to those previously reported or discussed.

MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS

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 period presented in the quarterly financial statements.

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

Ottawa, Canada
August 17, 2018

Statement of Financial Position (Unaudited)

As at (in thousands of Canadian dollars)		June 30, 2018		March 31, 2018
ASSETS				
Current assets				
Cash and cash equivalent (note 4)	**$**	**22,877**	$	43,355
Trade receivables (notes 5 and 7)		**1,603,293**		1,212,712
Advances to Canadian exporters (note 6)		**134,925**		144,294
Progress work by Canadian exporters (note 6)		**5,993,502**		5,731,733
		7,754,597		7,132,094
Non-current assets				
Property and equipment		**2,983**		3,096
	$	**7,757,580**	$	7,135,190
LIABILITIES				
Current liabilities				
Trade payables and accrued liabilities (notes 5 and 7)	**$**	**1,564,644**	$	1,191,322
Advances from foreign buyers and others (note 6)		**171,435**		183,401
Progress work for foreign buyers (note 6)		**5,993,502**		5,731,733
Employee benefits		**206**		206
		7,729,787		7,106,662
Non-current liabilities				
Deferred lease incentives		**3,555**		3,621
Employee benefits		**1,385**		1,336
		7,734,727		7,111,619
SHAREHOLDER'S EQUITY				
Contributed surplus		**10,000**		10,000
Retained earnings		**12,853**		13,571
		22,853		23,571
	$	**7,757,580**	$	7,135,190

Guarantees (note 14)

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

Authorized for issue on August 17, 2018

Martin Zablocki
President and
Chief Executive Officer

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

Statement of Comprehensive Income (Unaudited)

For the three months ended June 30 (in thousands of Canadian dollars)	2018	2017
REVENUES		
Commercial trading transactions		
- prime contracts (note 9)	**$ 618,188**	$ 628,829
Less: cost of commercial trading transactions		
- prime contracts	**(618,188)**	(628,829)
Fees for service (note 9)	**6,017**	6,004
Other income (note 9)	**1,097**	408
Finance income, net (note 10)	**58**	159
Gain (loss) on foreign exchange	**107**	(68)
	7,279	6,503
EXPENSES		
Administrative expenses (note 11)	**7,997**	8,166
	7,997	8,166
SOURCING SERVICES FOR SUPPORT OF INTERNATIONAL GOVERNMENT ASSISTANCE PROGRAMS		
Sourcing services transactions (note 9)	**2,820**	5,002
Less: cost of sourcing services transactions	**(2,820)**	(5,002)
	-	-
NET LOSS	**$ (718)**	$ (1,663)
OTHER COMPREHENSIVE INCOME (LOSS)		
ITEMS THAT WILL NOT BE RECLASSIFIED TO NET PROFIT (LOSS)		
Actuarial gain (loss) on employee benefits obligation	**-**	-
TOTAL COMPREHENSIVE LOSS	**$ (718)**	$ (1,663)

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

Statement of Changes in Equity (Unaudited)

For the three months ended June 30, 2018 (in thousands of Canadian dollars)	Contributed Surplus	Retained Earnings	Total
BALANCE MARCH 31, 2018	**$ 10,000**	**$ 13,571**	**$ 23,571**
Net loss	**-**	**(718)**	**(718)**
BALANCE JUNE 30, 2018	**$ 10,000**	**$ 12,853**	**$ 22,853**

For the three months ended June 30, 2017 (in thousands of Canadian dollars)	Contributed Surplus	Retained Earnings	Total
BALANCE MARCH 31, 2017	$ 10,000	$ 18,914	$ 28,914
Net loss	-	(1,663)	(1,663)
BALANCE JUNE 30, 2017	$ 10,000	$ 17,251	$ 27,251

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

Statement of Cash Flows (Unaudited)

For the three months ended June 30 (in thousands of Canadian dollars)	2018	2017
OPERATING ACTIVITIES		
Net loss	**$ (718)**	$ (1,663)
Adjustments to determine net cash from (used in) operating activities:		
Depreciation	**113**	108
Employee benefit expense	**49**	49
Effect of exchange rate changes on cash and cash equivalents	**974**	843
Deferred lease incentives	**(66)**	(66)
Change in working capital from:		
Trade receivables	**(390,581)**	(302,162)
Advances to Canadian exporters	**9,369**	28,977
Trade payables and accrued liabilities	**373,322**	305,309
Advances from foreign buyers and others	**(11,966)**	(30,102)
Cash from (used by) operating activities	**(19,504)**	1,293
INVESTING ACTIVITIES		
Acquisitions of property and equipment	**-**	(110)
Cash used in investing activities	**-**	(110)
Effect of exchange rate changes on cash and cash equivalents	**(974)**	(843)
Net increase (decrease) in cash and cash equivalents	**(20,478)**	340
Cash and cash equivalents at the beginning of period	**43,355**	76,430
Cash and cash equivalents at the end of period	**$ 22,877**	$ 76,770

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

Revised Notes to Financial Statements

June 30, 2018

1. Nature, organization and funding

The Canadian Commercial Corporation (the "Corporation") was established in 1946 by the *Canadian Commercial Corporation Act* ("Act"), is wholly owned by the Government of Canada and is an agent Crown corporation listed in Part I of Schedule III of the *Financial Administration Act* ("FAA"). 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 South America.

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 Government of Canada. The Corporation enters into contracts with these foreign buyers 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 the Government of Canada and foreign governments.

The Corporation's operations are funded primarily by 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 *FAA*, 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 and has remained compliant with the directive since.

In July 2015, the Corporation was issued a directive (P.C. 2015-1110) pursuant to section 89 of the *FAA* to align its travel, hospitality, conference and event expenditure policies, guidelines and practices with Treasury Board policies, directives and related instruments on travel, hospitality, conference and event expenditures in a manner that is consistent with its legal obligations, and to report on the implementation of this directive in the Corporation's next corporate plan. The Corporation implemented the directive in August 2016 and has remained compliant with the directive since then.

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, 2018. 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, 2018.

As permitted by the Treasury Board of Canada Standard on Quarterly Financial Reports for Crown Corporations, management has elected to only reflect the changes from adoption of IFRS 15 and IFRS 9 standards in the Corporation's audited financial statements for the year ended March 31, 2019. This constitutes a departure from generally accepted accounting principles for the first application of IFRS 15 and IFRS 9, as the quarterly financial statements for the current period do not include the impact of the new accounting standards.

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:

- Derivative 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, the reported amounts of assets and liabilities, 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 to determine the useful lives of property and equipment, to account for employee benefits liabilities, provisions, 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 Note 14 – Guarantees:

(in thousands of Canadian dollars, unless otherwise indicated)

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, 2018.

4. Cash and cash equivalents

Cash and cash equivalents included:

	June 30, 2018			March 31, 2018		
	Original currency		Canadian dollars	Original currency		Canadian dollars
Canadian dollars	**29,698**	**$**	**29,698**	32,171	$	32,171
Euros	**8,342**		**12,807**	15,809		25,058
Chinese renminbi	**1,823**		**362**	1,706		349
U.S. dollars	**(15,205)**		**(19,990)**	(11,039)		(14,223)
		$	**22,877**		$	43,355

The components of cash and cash equivalents were:

		June 30, 2018		March 31, 2018
Cash	**$**	**(5,759)**	$	20,476
Notice deposits		**10,074**		10,014
Short term investments		**18,562**		12,865
Cash and cash equivalents	**$**	**22,877**	$	43,355

Advances and holdbacks received from foreign buyers and others which will be remitted to Canadian exporters at later dates in accordance with contracts amounted to $42,557 as at June 30, 2018 (March 31, 2018 - $45,034). Where contracted, these funds may accrue interest to the credit of the Canadian exporter or foreign buyer.

(in thousands of Canadian dollars, unless otherwise indicated)

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 Corporation's trade receivables consisted of the following:

	June 30, 2018	March 31, 2018
Accrued receivables	**$ 467,355**	$ 831,648
Trade receivables	**1,135,938**	381,064
	$ 1,603,293	$ 1,212,712

The currency profile of the Corporation's trade receivables as follows:

	June 30, 2018		March 31, 2018	
	Original currency	Canadian dollars	Original currency	Canadian dollars
U.S. dollars	**1,204,382**	**$ 1,583,372**	935,022	$ 1,204,682
Canadian dollars	**12,999**	**12,999**	5,795	5,795
Euros	**4,508**	**6,922**	1,410	2,235
		$ 1,603,293		$ 1,212,712

Trade payables and accrued liabilities are due on normal trade terms. The Corporation's trade payables and accrued liabilities consisted of the following:

	June 30, 2018	March 31, 2018
Accrued liabilities	**$ 796,590**	$ 837,967
Trade payables	**765,450**	350,501
Deferred revenues	**2,604**	2,854
	$ 1,564,644	$ 1,191,322

(in thousands of Canadian dollars, unless otherwise indicated)

The currency profile of the Corporation's trade payables and accrued liabilities was as follows:

	June 30, 2018		**March 31, 2018**	
	Original currency	**Canadian dollars**	**Original currency**	**Canadian dollars**
U.S. dollars	**1,172,298**	**$ 1,541,220**	907,207	$ 1,168,845
Canadian dollars	**16,659**	**16,659**	8,641	8,641
Euros	**4,396**	**6,749**	8,649	13,708
Chinese renminbi	**82**	**16**	623	128
		$ 1,564,644		$ 1,191,322

Credit, market and liquidity risks relating to trade receivables and to trade payables and accrued liabilities are disclosed in Note 7.

6. Advances from foreign buyers and others, advances to Canadian exporters, progress work by Canadian exporters and progress work for foreign buyers

Advances received from foreign buyers and others prior to work being performed and advances paid to Canadian exporters, under contract terms and conditions, are liquidated as the work is performed or upon delivery and acceptance by the foreign buyer in the normal course of business. During the three months ended June 30, 2018, the Corporation received $6,806 in advances from foreign buyers and others (March 31, 2018 - $113,949) and $1,276 advance payments were paid to Canadian exporters (March 31, 2018 - $44,643). The amount of advances expected to be recognized into income and expense over the next twelve months are respectively $155,447 and $120,211 (March 31, 2018 - $161,433 and $126,710) with the remaining $15,988 and $14,714 (March 31, 2018 - $21,968 and $17,584) to be recognized in more than twelve months.

Given the back-to-back nature of the Corporation's contracting with foreign buyers and Canadian exporters, the balances of progress work by Canadian exporters and progress work for foreign buyers are reduced by amounts that are equal and opposite. The reductions expected due to deliveries over the next twelve months are $3,509,801 (March 31, 2018 - $2,951,585) with the remaining $2,483,701 (March 31, 2018 - $2,780,148) to be delivered in more than twelve months.

7. Risk management and financial instruments

As described in the Corporation's Annual Report and audited financial statements for the year ended March 31, 2018, the Corporation is exposed to credit risk, market risk and liquidity risk as a result of holding financial instruments. The following is a description of the most significant 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 foreign buyers. The carrying amount of financial assets recorded in the financial statements represents the maximum exposure to credit risk.

(in thousands of Canadian dollars, unless otherwise indicated)

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 demand deposits and temporary investments 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 generally mitigates credit risk related to trade receivables from export transactions through the domestic contracts with Canadian exporters. This is achieved through a back-to-back payment mechanism whereby exporters are paid when the Corporation has received the related payment from the foreign buyers. Where a foreign buyer is rated AAA by recognized rating agencies, the Corporation may agree to pay the Canadian exporter in advance of receiving the foreign buyer's payment, thereby creating a credit exposure. With the AAA rating, the credit risk is deemed mitigated and acceptable. During the three months ended June 30, 2018, 5% (March 31, 2018 - 4%) of the Corporation's trade receivables were from AAA credit rated foreign buyers.

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

	June 30, 2018	**March 31, 2018**
Asia *	**$ 1,483,820**	$ 1,147,480
United States	**75,665**	43,319
Central America and Caribbean	**20,803**	5,096
South America	**12,867**	7,732
Africa	**6,933**	3,451
Canada	**3,205**	3,399
Europe	**-**	2,235
	$ 1,603,293	$ 1,212,712

* Includes Middle East

(in thousands of Canadian dollars, unless otherwise indicated)

The maturity profile of the Corporation's trade receivables was as follows:

	June 30, 2018	March 31, 2018
< 1 year	**$ 1,602,331**	$ 1,211,825
> 1 and < 3 years	**962**	887
	$ 1,603,293	$ 1,212,712

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

	June 30, 2018	March 31, 2018
< 30 days	**$ 15,063**	$ 5,229
> 30 days and < 180 days	**219,267**	8,048
> 180 days	**6,430**	1,021
	$ 240,760	$ 14,298

The significant increase in trade receivables, particularly in the 30 to 180 days range, is directly attributable to increased activity in the ABP contract. As the contract enters into the delivery phase, timing of invoicing and collections can have a significant impact on comparative figures from prior periods.

Collateral

Commercial securities that have been pledged as collateral by Canadian exporters in the unlikely event of contractual non-performance as at June 30th, 2018 were as follows:

	June 30, 2018	March 31, 2018
Holdbacks	**$ 6,048**	$ 5,927
Parent guarantees	**$ 14,618,579**	$ 14,414,241

The amounts above 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 currency risk, interest rate risk or 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.

(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.

(in thousands of Canadian dollars, unless otherwise indicated)

Liquidity risk is minimized through compliance with the Corporation's investment policy whereby cash and cash equivalents is invested in highly liquid demand deposits and temporary investments with a Canadian financial institution in order to meet financial obligations on a timely basis.

A potential claim for damages on non-performance of contractual obligations could create liquidity risk for the Corporation. To mitigate this risk, the Corporation has contractual recourse that consists of, in all material respects, back-to-back contractual obligations from Canadian exporters in an amount equal to the value of the contract. In addition, in order to further mitigate its overall liquidity risk exposure from non-performance on contracts, 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.

Under contract terms, payments to Canadians exporters usually are not made in advance of receipt of payment from foreign buyers, and therefore do not expose the Corporation to liquidity risks.

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, 2018 - $40.0 million) Canadian or its U.S. dollar equivalent. Indebtedness under this agreement is unsecured and this credit facility has no expiry date. As at June 30, 2018, the draw on this line of credit was $20.0 million (March 31, 2018 – $14.2 million).

Trade payables and accrued liabilities

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

	June 30, 2018	**March 31, 2018**
< 1 year	**$ 1,564,644**	$ 1,191,322
	$ 1,564,644	$ 1,191,322

Due to the back to back nature of CCC`s contracting operations, the trade payables balances are largely related to corresponding amounts in trade receivables presented earlier in this note. There are no onerous contracts identified as at June 30, 2018 and no onerous contracts as at March 31, 2018.

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

(in thousands of Canadian dollars, unless otherwise indicated)

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:

	June 30, 2018	March 31, 2018
Contributed surplus	**$ 10,000**	$ 10,000
Retained earnings	**12,853**	13,571
	$ 22,853	$ 23,571

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

The Corporation facilitates sales of Canadian goods and services to foreign buyers 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.

For the three month ended June 30, the profile by geographic region is as follows:

	For the three months ended June 30					
	2018			2017		
	Revenues*	Sourcing services transactions	Total	Revenues*	Sourcing services transactions	Total
Asia **	**$ 330,548**	**$ 226**	**$ 330,774**	$ 325,167	$ 858	$ 326,025
United States	**161,765**	**-**	**161,765**	170,652	-	170,652
Central America and Caribbean	**100,797**	**54**	**100,851**	119,387	-	119,387
Africa	**17,934**	**1,880**	**19,814**	7,532	1,394	8,926
Europe	**7,675**	**-**	**7,675**	1,473	9	1,482
South America	**5,332**	**-**	**5,332**	10,199	-	10,199
Canada	**1,251**	**660**	**1,911**	758	2,741	3,499
Australia	**-**	**-**	**-**	73	-	73
	$ 625,302	**$ 2,820**	**$ 628,122**	$ 635,241	$ 5,002	$ 640,243

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

(in thousands of Canadian dollars, unless otherwise indicated)

10. Finance income, net

For the three month ended June 30, the Corporation has recorded finance income and cost in relation to the following financial instruments:

	For the three months ended June 30			
		2018		2017
Financial assets				
Finance income earned on cash and cash equivalents	**$**	**137**	$	197
Financial liabilities				
Finance cost on payables and other liabilities		**(79)**		(38)
	$	**58**	$	159

11. Administrative expenses

Administrative expenses for the three month ended June 30 included the following:

	For the three months ended June 30			
		2018		2017
Workforce compensation and related expenses	**$**	**5,155**	$	5,175
Contract management services		**661**		675
Travel and hospitality		**561**		473
Rent and related expenses		**435**		408
Software, hardware and support		**399**		424
Consultants		**374**		461
Communications		**145**		165
Depreciation		**113**		108
Other expenses		**154**		277
	$	**7,997**	$	8,166

12. Parliamentary appropriation

No appropriation was authorized by the Parliament of Canada since the end of 2016-2017 fiscal year.

(in thousands of Canadian dollars, unless otherwise indicated)

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.

14. Guarantees

As prime contractor, the Corporation is contractually obligated to complete contracts with foreign buyers ensuring that the terms of the contract are fulfilled regardless 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:

	June 30, 2018	March 31, 2018
< 1 year	**$ 4,738,381**	$ 4,120,254
> 1 and < 3 years	**5,450,708**	5,166,214
> 3 and < 5 years	**3,992,625**	4,449,648
> 5 years	**1,192,718**	1,390,006
Total contract portfolio	**$ 15,374,432**	$ 15,126,122

During the three months ended June 30, 2018, the value of contracts and amendments signed and effective, representing contractual amounts to be fulfilled, amounted to $319.2 million (June 30, 2017 - $275.5 million).