Canadian Commercial Corporation
Corporation Commerciale Canadienne

Canadian Commercial Corporation

2022-2023 Third Quarter
Financial Report (Unaudited)

For the period ended
December 31, 2022

Canada

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MANAGEMENT'S DISCUSSION AND ANALYSIS

BASIS OF PREPARATION AND DISCLOSURE

The following management's discussion and analysis ("MD&A") was prepared in accordance with the Treasury Board of Canada's Directive on Accounting Standards: GC 5200 Crown Corporations Quarterly Financial Reports and is not intended to be a full MD&A. It should be read in conjunction with the Corporation's audited annual financial statements and accompanying notes for the year ended March 31, 2022. All amounts presented are in Canadian dollars unless otherwise specified.

Forward-looking statements

This document contains projections and other forward-looking statements regarding future events. Such statements require management to make assumptions that are subject to risk and uncertainty. Consequently, actual results may differ materially from expectations expressed in forward-looking statements. These risks and uncertainties are discussed in the risk section following the financial analysis.

International financial reporting standards

The financial statements have been prepared in accordance with International Financial Reporting standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), as reference for Generally Accepted Accounting Principles ("GAAP"). Under IFRS, the Canadian Commercial Corporation's ("CCC" or "the Corporation") financial results are presented on an agent basis. However, as a prime contractor, CCC remains contractually obligated to ensure completeness of contracts with foreign buyers, ensuring that the terms of the contract are fulfilled regardless of performance by the Canadian exporter.

Non-GAAP measures

In the following discussion, the Corporation also uses certain non-GAAP financial measures, such as value of contracts signed ("VCS") and Commercial Trading Transactions ("CTT"), to evaluate its performance. Non-GAAP measures are defined and qualified when presented.

Large material contracts

Historically, large contracts have materially affected the Corporation's financial statements, causing significant variations in certain year-over-year amounts on the Statement of Financial Position and the Statement of Comprehensive Income (Loss). The most significant of these contracts is the multi-billion-dollar multi-year Armoured Brigade Program ("ABP") contract. Due to the magnitude of this contract, the ABP has been presented separately in certain sections of the MD&A.

BUSINESS LINE REPORTING STRUCTURE

CCC has three main business lines (and several sub-business lines based on specific market, product and financial requirements) which support Canadian companies in variety of industrial sectors in markets around the globe.

Defence Production Sharing Agreement (DPSA)

CCC supports significant Canadian export activity under the Defence Production Sharing Agreement ("DPSA"). The DPSA enables Canadian exporters to compete for contracts as part of the United States Department of Defense ("DoD") domestic supply base. Enabling access in this manner provides Canadian exporters with business opportunities that drive exports and jobs in Canada, while generating economic benefits in both Canada and the United States, CCC does not charge fees for services provided under the DPSA.

The DPSA continues to help underpin the collective security of Canada and the United States by enabling us to leverage one another's industrial and technological strengths in meeting respective defence procurement needs. Cross-border trade linked to the DPSA also offers important opportunities for firms in some of Canada's most innovative sectors.

Budget 2021 provides an annual appropriation for CCC to administer the DPSA. A more fulsome description of the appropriation is discussed under the ***Summary of Financial Results*** section below.

International Prime Contracting (IPC)

The Corporation's International Prime Contracting ("IPC") business line is a fee-based service involving the establishment of government-to-government ("G2G") contracts with foreign government buyers.

The Corporation works with Canadian exporters of all sizes, across a diversified number of Canadian industrial sectors. The goal of these business activities is to increase the volume of exports and the number of exporters that CCC serves while also supporting a wide range of Government of Canada priorities**.** Every such contract is unique, and CCC's guarantee of contract performance provides added incentive for foreign governments to procure Canadian expertise for priority strategic projects (e.g., food security, transportation, infrastructure, national security, and others).

Concessions contracts are for the provision of electronic lotteries by a Canadian exporter in various countries.

Sourcing services for other Government of Canada Departments (Sourcing)

CCC assists Government of Canada departments and agencies in efficiently fulfilling urgent and complex procurement needs. This involves sourcing goods and services to meet a variety of international commitments or programming needs. CCC charges a fee to cover its costs to manage these programs.

Additionally, on behalf of Global Affairs Canada ("GAC"), CCC manages 10 Canadian Trade Offices in China. These offices, located in China's rapidly developing second-tier cities, provide support to Canadian companies seeking to enter the Chinese market, while also providing a cost-effective trade representation solution for GAC. CCC recovers all its costs from this program and charges a fee to GAC for its services.

VALUE OF CONTRACTS SIGNED

VCS is a non-GAAP measure used by the Corporation that represents the value of contracts and amendments signed during a reporting period. It measures the total value of goods or services to be delivered over the entire duration of a contract and hence, represents the full contract value when the contract is signed.

The sales cycle for international government contracting is often measured in years and is impacted by foreign political, economic and geo-political events beyond the control of CCC. This results in a business cycle that is difficult to predict accurately and repeat consistently. For the 2022-2023 fiscal year, continuing international aid to Ukraine, as well as the emerging international, geo-political and economic contexts are expected to continue to destabilize the global economy. Through Canadian exporters, CCC continues to support both global security and global food security. These efforts are having a significant impact on the 2022-2023 fiscal year results.

Total VCS for the nine-month period ended December 31, 2022 is $1.7 billion, ($1.0 billion for the nine-month period ended December 31, 2021) and is higher by $681.3 million (approximately 70%) when compared to the same period in the prior year. The increase is due to:

- Higher VCS in IPC ($460.9 million), primarily attributable to an increase in VCS from the agriculture sector.
- Higher VCS in Sourcing ($328.5 million), attributable to CCC's support for Government of Canada's international aid to Ukraine, primarily from the defence sector.

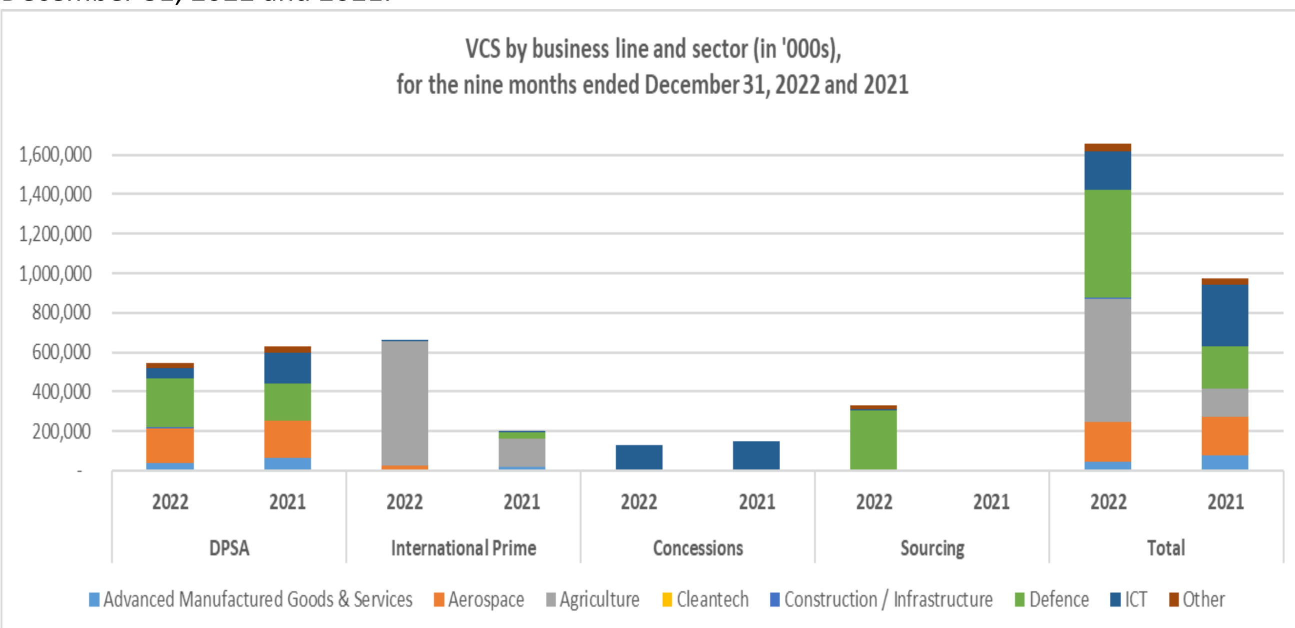
Increases in VCS were partially offset by:

- Lower VCS in Concessions ($21.1 million), which is valued based on gross ticket sales of the Lottery Program, due to the termination of a lottery contract.
- Lower VCS in DPSA ($87.0 million) due to lower signings in the aerospace, ICT, advanced manufactured goods & services, and other sectors, partially offset by increased signings in defence and construction/infrastructure sectors.

The table below presents the VCS by business line for the three and nine-month periods ended December 31, 2022, and 2021.

	For the three months ended December 31,				For the nine months ended December 31,					
									% of Total	
VCS by business line ($000's)	**2022**	2021	$ Change	% Change	**2022**	2021	$ Change	% Change	**2022**	2021
International Prime	**$ 175,878**	$ 170,598	$ 5,280	3%	**$ 654,111**	$ 193,178	$ 460,933	>100%	**40%**	20%
Concessions	**46,605**	37,877	8,728	23%	**129,466**	150,575	(21,109)	(14%)	**8%**	15%
DPSA	**163,170**	213,538	(50,368)	(24%)	**542,229**	629,261	(87,032)	(14%)	**33%**	65%
Sourcing	**39,393**	428	38,965	>100%	**329,205**	721	328,484	>100%	**20%**	<1%
Total	**$ 425,046**	$ 422,441	$ 2,605	<1%	**$ 1,655,011**	$ 973,735	$ 681,276	70%	**100%**	100%

The chart below presents VCS by business line and sector for the nine-month periods ended December 31, 2022 and 2021.



COMMERCIAL TRADING TRANSACTIONS

Commercial Trading Transactions ("CTT") is a non-GAAP measure of economic activity used by the Corporation, which represents the value of goods and services delivered under contract during the reporting period. Given the Corporation's status as an agent for reporting under International Financial Reporting Standards (IFRS), CTT is not recognized as revenue. The Corporation continues to capture CTT data since this is a measure of the Corporation's impact on the Canadian economy and a main driver of the fees for service revenue.

Total CTT for the nine-month period ended December 31, 2022 is $2.4 billion, ($2.1 billion for the nine-month period ended December 31, 2021) and is $346.7 million (approximately 17%) higher compared to the same period in the prior year.

The increase is due to:
- Higher CTT in IPC ($474.8 million), from deliveries in the agriculture sector.
- Higher CTT in Sourcing ($271.3 million) driven by the Government of Canada's international aid to Ukraine, primarily from the defence sector.

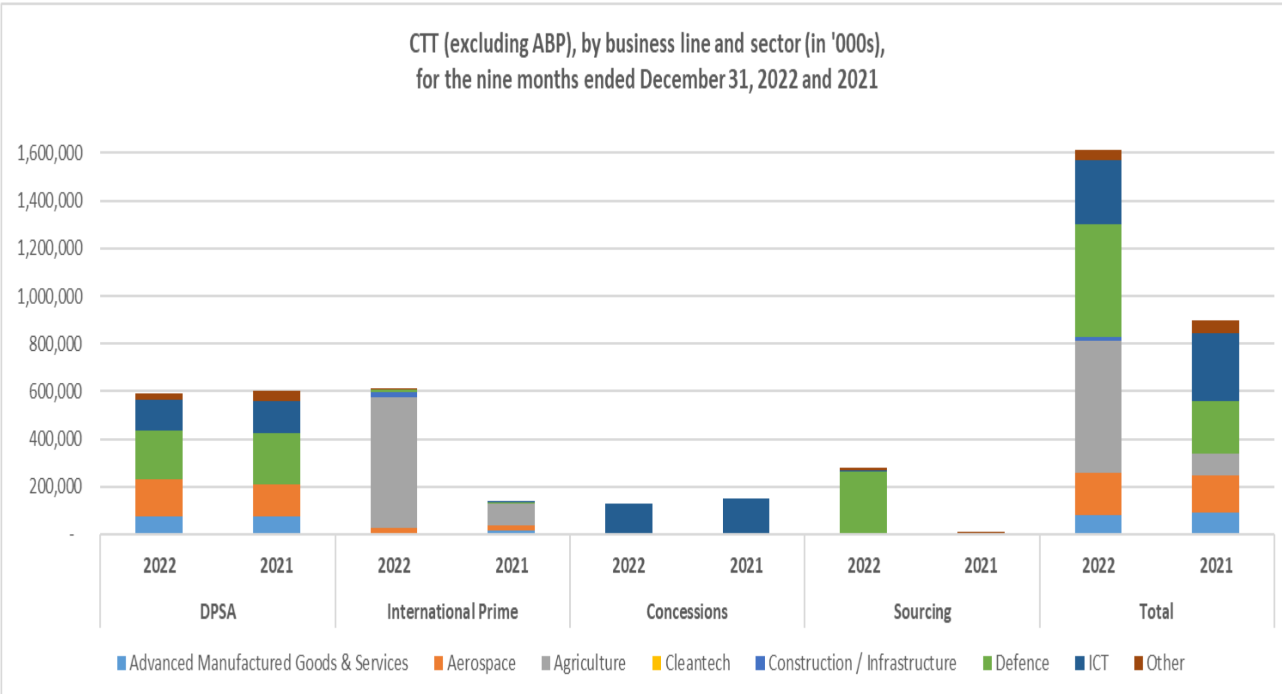
Increases in CTT were partially offset by:
- Lower CTT in Concessions ($21.1 million), due to the termination of a lottery contract.
- Lower CTT in DPSA ($7.9 million), consistent with lower VCS over the same comparative period.
- Timing of deliveries and billing activities related to the ABP program ($370.4 million).

Significant variations in CTT are expected when comparing period-over-period results given the timing of specific contract requirements and associated delivery schedules.

The table below presents CTT by business line for the three and nine-month periods ended December 31, 2022 and 2021.

	For the three months ended December 31,				For the nine months ended December 31,					
									% of Total	
CTT by business line ($000's)	**2022**	2021	$ Change	% Change	**2022**	2021	$ Change	% Change	**2022**	2021
International Prime	**$ 453,795**	$ 81,773	$ 372,022	>100%	**$ 608,476**	$ 133,687	$ 474,789	>100%	**25%**	6%
Concessions	**46,605**	37,877	8,728	23%	**129,466**	150,575	(21,109)	(14%)	**5%**	7%
DPSA	**234,165**	196,023	38,142	19%	**592,600**	600,462	(7,862)	(1%)	**24%**	29%
Sourcing	**152,202**	1,700	150,502	>100%	**281,759**	10,460	271,299	>100%	**12%**	<1%
Total excluding ABP	**$ 886,767**	$ 317,373	$ 569,394	>100%	**$ 1,612,301**	$ 895,184	$ 717,117	80%	**66%**	43%
ABP	**522,487**	1,200,810	(678,323)	(56%)	**830,441**	1,200,810	(370,369)	(31%)	**34%**	57%
Total including ABP	**$ 1,409,254**	$ 1,518,183	$ (108,929)	(7%)	**$ 2,442,742**	$ 2,095,994	$ 346,748	17%	**100%**	100%

The chart below presents CTT (excluding ABP) by business line and sector for the nine-month periods ended December 31, 2022 and 2021.



SUMMARY OF FINANCIAL RESULTS

The Corporation has had favorable financial results for the nine-month period of time, as a result of significant IPC and Sourcing business line volume and activity during the period. Consequently, financial results are significantly higher when compared to previous years or the Corporate Plan.

The tables below present CCC's financial highlights for the three and nine-month periods ended December 31, 2022 and 2021. In the discussion that follows, the variance explanations provided for the year-to-date results are generally applicable to the three months results except if noted otherwise.

Statement of Comprehensive Income discussion

For the nine-month period ended December 31, 2022, the Corporation recorded a net profit of $14.5 million, an increase of $11.4 million compared to the net profit of $3.1 million during the same period in the prior year. The favourable variance was primarily attributable to higher VCS and CTT, as outlined in the previous sections, which resulted in higher Fees for service revenue ($7.4 million), combined with higher Finance and Other income ($3.7 million).

	For the three months ended December 31,				For the nine months ended December 31,			
Net profit ($000's)	**2022**	2021	$ Change	% Change	**2022**	2021	$ Change	% Change
Fees for service revenue	**$ 12,227**	$ 9,057	$ 3,170	35%	**$ 19,095**	$ 11,666	$ 7,429	64%
Finance and Other income	**2,119**	104	2,015	>100%	**3,960**	275	3,685	>100%
Government funding	**3,656**	3,566	90	3%	**10,083**	9,688	395	4%
Expenses	**7,069**	6,245	824	13%	**19,319**	18,522	797	4%
Gain (loss) on foreign exchange	**(2)**	2	(4)	<(100%)	**699**	7	692	>100%
Net profit	**$ 10,931**	$ 6,484	$ 4,447	69%	**$ 14,518**	$ 3,114	$ 11,404	>100%

Fees for service revenue

The Corporation charges Fees for service on all programs, except for the DPSA. For IPC, Fees are generally calculated as a percentage of the contract value, whereas for Sourcing, Fees are recognized on a straight-line basis. Fees are negotiated on a contract-by-contract basis, and, within an acceptable range, are generally reflective of a project's risk profile and competitive market conditions. Fees can be recognized as revenue differently depending on the service performance obligations related to the various business lines. However, the large majority are recorded based on the promise to perform all activities required for the Canadian exporter to obtain payment under the terms and conditions of the prime contract. This is generally commensurate with CTT.

For the nine-month period ended December 31, 2022, Fees for service revenue of $19.1 million are $7.4 million higher compared to the same period in the prior year. As noted under the discussion related to CTT, Fees for service are generally commensurate with CTT, and the variance explanations detailed in the Commercial Trading Transactions section apply to the Fees variance discussion as well.

	For the three months ended December 31,				For the nine months ended December 31,					
									% of Total	
Fees for service by business line ($000's)	**2022**	2021	$ Change	% Change	**2022**	2021	$ Change	% Change	**2022**	2021
International Prime	**$ 8,393**	$ 1,539	$ 6,854	>100%	**$ 11,699**	$ 2,654	$ 9,045	>100%	**61%**	23%
Concessions	**146**	155	(9)	(6%)	**412**	604	(192)	(32%)	**2%**	5%
Sourcing	**953**	312	641	>100%	**2,216**	937	1,279	>100%	**12%**	8%
Canadian Trade Offices	**216**	210	6	3%	**648**	630	18	3%	**3%**	5%
Total excluding ABP	**$ 9,708**	$ 2,216	$ 7,492	>100%	**$ 14,975**	$ 4,825	$ 10,150	>100%	**78%**	41%
ABP	**2,519**	6,840	(4,321)	(63%)	**4,120**	6,840	(2,720)	(40%)	**22%**	59%
Total including ABP	**$ 12,227**	$ 9,056	$ 3,171	35%	**$ 19,095**	$ 11,665	$ 7,430	64%	**100%**	100%

Government funding

Budget 2021 recognized the importance of CCC's role in administering the DPSA and restored an annual parliamentary appropriation of $13.0 million, commencing in fiscal year 2022-23. As CCC does not receive Fees for service on DPSA contracts, this appropriation will serve to exclusively fund the administrative expenses incurred for the DPSA. In fiscal year 2021-22, a one-time lump sum transfer from the Government of Canada was received for this purpose. For the nine-month period ended December 31, 2022, the Corporation recognized government funding of $10.1 million, compared to $9.7 million during the same period in the prior year, as an exact offset to costs incurred for the administration of the DPSA.

Expenses

The Corporation's total administrative expenses of $19.2 million for the nine-month period ended December 31, 2022 increased by $814 thousand compared to prior year level of $18.4 million. This increase was driven mainly by consulting and travel expenditures. CCC has incurred increased consulting expenses ($688 thousand) related to the development of business growth strategies, spends to bolster CCC's online marketing and information systems capabilities and security, and additional investments in digital transformation. As pandemic related restrictions have eased, CCC has also incurred increased travel expenses ($446 thousand) to develop opportunities in the IPC business line. These increases have been partially offset by decreased workforce compensation and related expenses ($536 thousand) from staff vacancies.

	For the three months ended December 31,				For the nine months ended December 31,					
									% of Total	
Administrative expenses ($000's)	**2022**	2021	$ Change	% Change	**2022**	2021	$ Change	% Change	**2022**	2021
Workforce compensation and related expense	**$ 4,146**	$ 4,379	$ (233)	(5%)	**$ 12,637**	$ 13,173	$ (536)	(4%)	**67%**	74%
Contract management services	**650**	642	8	1%	**1,950**	1,926	24	1%	**10%**	10%
Consultants	**1,071**	355	716	>100%	**1,720**	1,032	688	67%	**9%**	6%
Rent and related expenses	**244**	232	12	5%	**670**	682	(12)	(2%)	**3%**	4%
Software, hardware and support	**210**	198	12	6%	**618**	594	24	4%	**3%**	3%
Travel and hospitality	**298**	100	198	>100%	**581**	135	446	>100%	**3%**	<1%
Depreciation	**146**	148	(2)	(1%)	**435**	439	(4)	>(1)%	**2%**	2%
Communications	**97**	72	25	35%	**276**	177	99	56%	**1%**	<1%
Other expenses	**163**	71	92	>100%	**297**	212	85	40%	**2%**	1%
Total	**$ 7,025**	$ 6,197	$ 828	13%	**$ 19,184**	$ 18,370	$ 814	4%	**100%**	100%

CCC continuously assesses expenditure levels to achieve cost efficiencies where possible. Budgets are managed on a continuous basis from the outset of the year with a view to controlling expenditures relative to forecasted business volumes and revenues. Additionally, CCC continues to strengthen its culture of innovation, invest in digital transformation, and implement process changes to improve efficiency and increase the capacity of existing resources.

Statement of Financial Position discussion

Assets and liabilities include payments made to Canadian exporters prior to collecting from foreign buyers and amounts received from foreign buyers and others that have not yet been transferred to Canadian exporters.

Items such as Cash and cash equivalents, Accounts receivable, Accounts payable and accrued liabilities represent amounts at a specific point in time. These balances can fluctuate widely on a daily basis.

As at December 31, 2022, total assets of $337.0 million increased by $240.3 million, more than 100% from the prior year end. The increase is mainly attributable to:

- An increase in Cash and cash equivalents of $237.7 million mostly driven by the receipt of advance payments from foreign buyers or Government of Canada departments, as well as the timing difference between a cash receipt from a foreign buyer and the related payment to the Canadian exporter.

Total liabilities of $298.4 million increased by $226.8 million, or more than 100% from the prior year end. This increase is primarily driven by:

- An increase in Advances of $171.1 million mostly due to advance payments received from Government of Canada departments.
- An increase in Accounts payable and accrued liabilities of $52.4 million, from timing difference between a cash receipt from a foreign buyer and payment to the Canadian exporter, as explained above.
- An increase in the Deferred government funding of $2.9 million as the parliamentary appropriation is only recognized as revenue when the related expenses are incurred.

The similar increases in both total assets and liabilities reflect the nature of the contracts under management and the effect on balances due to the timing of receipts and payments.

Equity for the period increased by $13.5 million, reflecting year-to-date net profit of $14.5 million, reduced by the dividend declared and paid during the year of $1.0 million. The improved equity position will further support CCC's financial sustainability model.

As at	**December 31, 2022**	March 31, 2022	$ Change	% Change
Total assets	**$ 336,981**	$ 96,676	$ 240,305	>100%
Total liabilities	**298,391**	71,604	226,787	>100%
Total equity	**38,590**	25,072	13,518	54%
Total liabilities and equity	**$ 336,981**	$ 96,676	$ 240,305	>100%

Dividend

On June 7, 2022, in alignment with its dividend policy, the Corporation's Board of Directors approved the issuance of a dividend of $1.0 million payable to its shareholder, which was paid in December 2022.

Statement of Cash Flows discussion

Cash and cash equivalents represent a view at a specific point in time. The Corporation's cash balances can fluctuate widely on a daily basis, as amounts are received from foreign buyers and then paid to Canadian exporters as contractual performance obligations are fulfilled. At times, these amounts may represent tens of millions of dollars that can be received one day and paid out the next day or vice versa.

On contracts outside of the DPSA, the Corporation generally pays its Canadian exporters within five business days after CCC receives payment from the foreign buyer. Under the DPSA, the Corporation generally pays its Canadian exporters within thirty days of receipt of an invoice. The Corporation may use its own funds to pay Canadian exporters on or before the 30th day in instances where payment has not yet been received from the DPSA buyer. Based on timing differences between cash receipt and payment, these transactions may span across reporting periods and cause variations in cash flows from one period to the next, with receivables being paid to the Corporation at the end of one period and payments being made to the Canadian exporter early in the next.

During the nine-month period ended December 31, 2022, the Corporation's Cash and cash equivalents increased by $237.7 million. This increase is due to cash inflows from operating activities ($236.5 million), mainly attributable, as previously explained, to Advances received and timing difference between cash receipt from a foreign buyer and related payment to the Canadian exporter as well as a favorable exchange rate fluctuation on CCC cash balances ($2.7 million).

	For the nine months ended December 31,	
Cash flows ($000's)	**2022**	2021
Operating activities	**$ 236,488**	$ 1,259
Investing activities	**(64)**	(72)
Financing activities	**(1,377)**	(322)
Effect of exchange rate changes on cash and cash equivalents	**2,690**	(388)
Changes in cash and cash equivalents	**$ 237,737**	$ 477

Comparison of financial results to 2022-23 Corporate Plan

The Corporation has achieved favourable financial results for the nine-month period ended December 31, 2022 as a result of increased IPC and Sourcing business line activity during the period. It has recorded a net profit of $14.5 million for this nine-month period ended December 31, 2022, a favorable variance of $15.8 million compared to the Corporate Plan (Plan) budgeted net loss of $1.3 million.

Several factors have contributed to these results:

- The favourable Fees for service variance ($10.1 million) in comparison to the Plan resulted from increased deliveries in the agriculture and defence sectors. Fee-generating billing transactions can vary significantly due to the rapidly changing geopolitical business environment, and the timing of contract signings and/or deliveries on CCC's large international contracts.
- The favourable Finance and other income variance ($3.6 million) in comparison to the Plan is the result of higher interest rates combined with larger than expected cash balances due to the timing of receipt of advances.
- The favourable non-DPSA expense variance ($1.4 million) in comparison to the Plan is primarily due to lower workforce compensation and related expenses from staff vacancies and lower than planned level of business travel.
- Government funding is recorded as an exact offset to costs incurred related to the administration of the DPSA.
- The favourable gain on foreign exchange ($699 thousand).

The table below presents financial results compared to the Corporate Plan for the nine-month period ended December 31, 2022.

	For the nine months ended December 31, 2022			
Net profit (loss) ($000's)	**Actual**	Plan	$ Variance	% Variance
Revenues				
Fees for service	**$ 19,095**	$ 9,006	$ 10,089	>100%
Finance and other income	**3,960**	391	3,569	>100%
	23,055	9,397	13,658	>100%
Government funding	**10,083**	9,750	333	3%
Expenses				
DPSA expenses	**10,083**	9,750	(333)	(3%)
Non-DPSA expenses	**9,236**	10,674	1,438	13%
	19,319	20,424	1,105	5%
Gain on foreign exchange	**699**	-	699	>100%
Net profit (loss)	**$ 14,518**	$ (1,277)	$ 15,795	>100%

2022-23 CORPORATE PLAN OUTLOOK

CCC's 2022-23 to 2026-27 Corporate Plan was approved by the Corporation's Board of Directors and submitted as required to the Minister of International Trade, Export Promotion, Small Business and Economic Development, and is pending approval.

For 2022-23 CCC expects to largely exceed Corporate Plan profit targets due to increased contract signings in IPC and Sourcing. Overall, total comprehensive income is forecast to be higher than 2021-22. Inflationary pressure, food insecurity and Canada's aid to Ukraine continue to be the key drivers behind the larger than anticipated increase in agricultural export activity under IPC and Sourcing. Finance and Other income are forecast to be higher due to a combined increases in yields and cash balances. Expenses are forecast to be higher in 2022-23 as operations return to pre-pandemic levels and CCC's continued commitment to innovation, and workplace transformation initiatives.

Management will proactively monitor and control expenditures relative to forecast revenues as required throughout the year and continue to optimize and modernize CCC's operations.

CCC'S COMMITMENT TO RISK MANAGEMENT

CCC's Enterprise Risk Management ("ERM") Framework sets out an approach to manage a wide variety of risks while assisting the Corporation in fulfilling its mandate to facilitate international trade on behalf of Canadian exporters. The strategy for managing these risks is discussed in detail in the Corporation's 2021-22 Annual Report. The following provides updates to the risk discussion in the Annual Report and since the last reporting period.

The Corporation has identified four key areas of risk that sit outside of risk tolerance limits and may have impacts on CCC's ability to meet its objectives in the short and long run. These include:

Business Environment Risk

A number of issues related to the business environment are facing CCC:

Invasion of Ukraine significantly heightened global tensions. Any regional escalation of the war could trigger NATO countries into action resulting in significant disruption globally. CCC continues to monitor the developing situation.

Unpredictability of the nature of government-to-government contracting exacerbated by the possibility of a slow-down in global economic activity that have impacts on foreign government spending priorities. This could have knock-on effects related to CCC's expected pipeline of export projects. CCC targets known and funded projects in emerging and non-traditional markets. This minimizes efforts spent on opportunities with low likelihoods of success.

Economic indicators related to increasing inflation / interest rates is causing concerns for CCC's customers who hold longer term, fixed rate export contracts. This raises the possibility of customers defaulting on their contractual obligations. CCC's due diligence on export transactions is increasingly focused on supplier liquidity and access to capital. CCC is working with the U.S. DoD buyers and Canadian customers to explore ways to seek -inflation relief through amended contract pricing where significant input cost increases have been felt.

COVID-19 continues to be present with new possible variants or increased infection rates. This could further disrupt the already frail supply chain. CCC continues to monitor the COVID situation and its impacts as business strategies are developed.

Protectionism in the US could impact CCC's business through the DPSA. CCC is undertaking to contact its key customers selling to the U.S. DoD and influential U.S. DoD buying commands to gauge the level of protectionism. Additionally, CCC is working with GAC and other Government of Canada stakeholders in support of broader government efforts to mitigate protectionism in the US.

While mitigation strategies are in place for business environment risks, some of the strategies have limited ability to influence the impacts or likelihood.

Human Resources and Organizational Risk

CCC anticipates an upcoming wave of retirements over the planning period reflecting a risk to CCC's ability to meet its growth objectives. The related loss of corporate knowledge also risks impacting the quality of service and CCC's internal efficiencies as new employees work through their on-boarding learning curve. The tight labour market exacerbates the situation. CCC is proactively addressing this risk and developing a robust human resources strategy that will support building and sustaining a results-focused, engaged, and diverse CCC workforce. The strategy will also contribute to the modernization of CCC's operations.

CCC will be implementing several initiatives over the planning period to bolster the efficiency of our operations and the effectiveness of our value proposition. There is the risk of failure regarding the adoption by employees for new ways of doing business, despite successful project execution. In order to yield targeted results, efficiency and effectiveness initiatives will have a disciplined project management, sequencing, execution, communication, feedback, and a change management plan to ensure that proposed changes are adopted by employees and management.

Mental health issues arising from the effects of COVID-19 may continue. CCC's employee base is not immune. Monitoring the workforce, promoting mental health awareness and the Employee Assistance program will help address impacts.

The focus on process improvements as well as a longer-term HR Strategy will help CCC adjust to the impact of retirements and other unplanned labor movements.

Security Risk

Cyber-security: Canada's role in supporting Ukraine increases the threat of Russian cyber-attacks and information mining against the Canadian government as a whole, including its related Crown corporations. The risk of unauthorized access to CCC's systems by sophisticated third parties increases, gives rise to the potential for breach. Given the increased risk level, CCC's cyber security program was reviewed, and new controls put in place to reduce risk. CCC is also in close contact with the Canadian Centre for Cyber Security to ensure early knowledge of to increasing threat levels.

Other cyber security risks of concern for CCC relate to phishing and ransomware that appear to be the most likely external cyber events that the Corporation will face. CCC's cyber security training program aims to increase vigilance and awareness within CCC's staff of the different types of cyber security threats. The program also identifies best practices to help avoid becoming a victim of these related threats.

Insider threats pose the highest cyber security risk in that staff may unknowingly open emails that contain malicious software that infects CCC's network. Guidance has been provided to staff on general security issues while working from home. The focus has been on document management protocols and cyber security.

Protection of sensitive data: As a facilitator of international G2G trade for the Government of Canada, CCC is the custodian of sensitive information from foreign governments, Canadian customers and Government of Canada departments and agencies. A breach of its data security safeguards could give rise to additional reputational and financial risk for CCC and for the Government of Canada. CCC remains vigilant in its approach to protecting its digital resources and continues to align its security posture with the National Institute of Standards and Technology Cyber Security Framework. A new data management strategy and robust data governance approach to be implemented in 2023-24 will strengthen our data security posture and help further mitigate information management and data risks.

CCC's cyber risk program helps to reduce the risk of occurrence, but should an incident occur, the impact could be significant. CCC has in place a business continuity/disaster recovery plan to assist the Corporation should a cyber event take place.

Reputational Risk

Reputational risk with foreign buyers is impacted when problems occur on export transactions that are supported by CCC. While it is normal for projects to have minor issues from time to time, CCC is managing a key transaction that has more significant problems than the norm and could result in a prolonged work-out with the foreign buyer. CCC is working with the foreign buyer and engaging other Government of Canada stakeholders as well as external advisors to assist in the management of bringing this particular transaction to a successful close.

While CCC's exports of defence oriented goods and services are aligned with the Government of Canada's export strategy, civil society may not be as supportive. Opposition to these transactions can lead to negative media coverage with related impacts on CCC's reputation. CCC is working with other stakeholders to ensure alignment with the Government's foreign policy direction.

With the above mitigation, the probability of a reputational risk related to a problem export contract or negative media coverage is low. However, should these risks materialize, CCC's brand would be impacted.

Management continues to monitor the environment for new and emerging risks.

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's Directive on Accounting Standards: GC 5200 Crown Corporations Quarterly Financial Reports, 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.

Bobby Kwon
President and Chief Executive Officer

Juliet S. Woodfield, FCPA, FCA
Vice-President of Corporate Services and
Chief Financial Officer

Ottawa, Canada
February 22, 2023

(In thousands of Canadian dollars, unless otherwise indicated)

CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

Statement of Financial Position (Unaudited)

As at	Notes	December 31, 2022	March 31, 2022
ASSETS			
Current assets			
Cash and cash equivalents	4	**$ 304,551**	$ 66,814
Accounts receivable	5 , 12	**26,936**	24,268
Other assets	6	**1,023**	752
		332,510	91,834
Non-current assets			
Property and equipment		**1,750**	1,893
Right-of-use assets		**2,721**	2,949
		4,471	4,842
Total assets		**$ 336,981**	$ 96,676
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	7 , 12	**$ 91,107**	$ 38,669
Advances		**196,222**	25,073
Deferred revenue	8	**1,150**	607
Deferred government funding	9	**2,917**	-
Lease liabilities	10	**517**	505
Employee benefits		**1,239**	1,110
		293,152	65,964
Non-current liabilities			
Lease liabilities	10	**5,078**	5,467
Employee benefits		**161**	173
		5,239	5,640
Total liabilities		**298,391**	71,604
EQUITY			
Contributed capital		**10,000**	10,000
Retained earnings		**28,590**	15,072
Total equity		**38,590**	25,072
Total liabilities and equity		**$ 336,981**	$ 96,676
Contingencies	17		

The accompanying notes are an integral part of the financial statements.
Authorized for issue on February 22, 2023

Bobby Kwon
President and Chief Executive Officer

Juliet S. Woodfield, FCPA, FCA
Vice-President of Corporate Services
and Chief Financial Officer

(In thousands of Canadian dollars, unless otherwise indicated)

Statement of Comprehensive Income (Unaudited)

	Notes	For the three months ended December 31 **2022**	For the three months ended December 31 2021	For the nine months ended December 31 **2022**	For the nine months ended December 31 2021
REVENUES					
Fees for service	13	**$ 12,227**	$ 9,057	**$ 19,095**	$ 11,666
Finance income		**2,088**	43	**3,779**	137
Other income	14	**31**	61	**181**	138
		14,346	9,161	**23,055**	11,941
GOVERNMENT FUNDING					
Parliamentary appropriation	9	**3,656**	-	**10,083**	-
Transfers from Government of Canada	9	**-**	3,566	**-**	9,688
		3,656	3,566	**10,083**	9,688
EXPENSES					
Administrative expenses	15	**7,025**	6,197	**19,184**	18,370
Finance costs	10	**44**	48	**135**	152
		7,069	6,245	**19,319**	18,522
Net income before gain (loss) on foreign exchange		**10,933**	6,482	**13,819**	3,107
Gain (loss) on foreign exchange		**(2)**	2	**699**	7
Net profit		**$ 10,931**	$ 6,484	**$ 14,518**	$ 3,114
OTHER COMPREHENSIVE INCOME ITEMS THAT WILL NOT BE RECLASSIFIED TO NET PROFIT (LOSS)					
Actuarial gain on employee benefits obligation		**-**	-	**-**	-
Total comprehensive income		**$ 10,931**	$ 6,484	**$ 14,518**	$ 3,114

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

(In thousands of Canadian dollars, unless otherwise indicated)

Statement of Changes in Equity (Unaudited)

For the three and nine months ended December 31, 2022	Note	Contributed Capital	Retained Earnings	Total
BALANCE SEPTEMBER 30, 2022		**$ 10,000**	**$ 17,659**	**$ 27,659**
Net profit			**10,931**	**10,931**
BALANCE DECEMBER 31, 2022		**$ 10,000**	**$ 28,590**	**$ 38,590**
BALANCE MARCH 31, 2022		**$ 10,000**	**$ 15,072**	**$ 25,072**
Net profit			**14,518**	**14,518**
Dividend	11		**(1,000)**	**(1,000)**
BALANCE DECEMBER 31, 2022		**$ 10,000**	**$ 28,590**	**$ 38,590**

For the three and nine months ended December 31, 2021	Contributed Capital	Retained Earnings	Total
BALANCE SEPTEMBER 30, 2021	$ 10,000	$ 8,721	$ 18,721
Net profit		6,484	6,484
BALANCE DECEMBER 31, 2021	$ 10,000	$ 15,205	$ 25,205
BALANCE MARCH 31, 2021	$ 10,000	$ 12,091	$ 22,091
Net profit		3,114	3,114
BALANCE DECEMBER 31, 2021	$ 10,000	$ 15,205	$ 25,205

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

QUARTERLY FINANCIAL REPORT (In thousands of Canadian dollars, unless otherwise indicated)

Statement of Cash Flows (Unaudited)

	Notes	For the three months ended December 31 2022	For the three months ended December 31 2021	For the nine months ended December 31 2022	For the nine months ended December 31 2021
OPERATING ACTIVITIES					
Net profit		**$ 10,931**	$ 6,484	**$ 14,518**	$ 3,114
Adjustments to determine net cash from (used in) operating activities:					
Depreciation property and equipment		**70**	72	**207**	208
Depreciation right-of-use assets		**76**	76	**228**	231
Employee benefit expense		**48**	46	**144**	139
Employee benefit payments		**-**	-	**(27)**	-
(Gain) loss on foreign exchange		**176**	232	**(2,690)**	388
Change in working capital from:					
Accounts receivable	5 , 12	**4,751**	(13,846)	**(2,668)**	(6,752)
Other assets	6	**(296)**	162	**(271)**	(331)
Accounts payable and accrued liabilities	7 , 12	**50,733**	(2,035)	**52,438**	8,832
Advances		**25,746**	497	**171,149**	(7,602)
Deferred revenue	8	**74**	(1)	**543**	(280)
Deferred government funding	9	**(3,656)**	(3,566)	**2,917**	3,312
Cash provided (used in) by operating activities		**88,653**	(11,879)	**236,488**	1,259
INVESTING ACTIVITIES					
Acquisitions of property and equipment		**-**	(19)	**(64)**	(72)
Cash used in investing activities		**-**	(19)	**(64)**	(72)
FINANCING ACTIVITIES					
Principal repayment of lease liabilities	10	**(127)**	(111)	**(377)**	(322)
Dividend paid	11	**(1,000)**	-	**(1,000)**	-
Cash used in financing activities		**(1,127)**	(111)	**(1,377)**	(322)
Effect of exchange rate changes on cash and cash equivalents		**(176)**	(232)	**2,690**	(388)
Net increase (decrease) in cash and cash equivalents		**87,350**	(12,241)	**237,737**	477
Cash and cash equivalents at the beginning of the period		**217,201**	62,166	**66,814**	49,448
Cash and cash equivalents at the end of the period		**$ 304,551**	$ 49,925	**$ 304,551**	$ 49,925
Supplementary disclosure of cash flows from operating activities					
Amount of interest received		**$ 2,091**	$ 43	**$ 3,551**	$ 137
Amount of interest paid		**$ 44**	$ 48	**$ 135**	$ 152

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

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

1. NATURE, ORGANIZATION AND FUNDING

The Canadian Commercial Corporation (the "Corporation") was established in 1946 by the *Canadian Commercial Corporation Act* ("CCC Act"). The Corporation is wholly owned by the Government of Canada, is an agent Crown corporation listed in Part I of Schedule III of the *Financial Administration Act* ("FAA") and is accountable for its affairs to Parliament through the Minister of International Trade, Export Promotion, Small Business and Economic Development (The "Minister"). The Corporation is domiciled and operates in Canada with a head office located at 350 Albert Street, Ottawa, Ontario.

The Corporation acts as the prime contracting agency for Canadian exporters 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 prime contracts with these foreign buyers and into corresponding domestic contracts with Canadian exporters. Additionally, the Corporation enters into certain sourcing services agreements to procure goods and services for international end users on behalf of the Government of Canada and foreign governments.

The Corporation's operations are funded by Fees for service, supplemented by funding from the Government of Canada.

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 then.

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

(a) Compliance with International Financial Reporting Standards (IFRS)

These condensed interim financial statements have been prepared in accordance with the Treasury Board of Canada's Directive on Accounting Standards: GC 5200 Crown Corporations Quarterly Financial Reports 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, 2022. 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, 2022.

(b) 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 and other long-term employee benefit plans are recognized at the present value of the defined benefit obligations.

(c) 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.

The Corporation's key sources of estimation uncertainty during the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are related to the measurement of expected credit loss for accounts receivable and unbilled revenue, the determination of the useful lives of property and equipment, the determination of employee benefit obligations, the determination of unsatisfied (or partially unsatisfied) performance obligations, the determination whether a contingent liability needs to be disclosed or a provision for contract remediation expenses or other contract related liabilities needs to be recognized and allocation of expenses to administer the DPSA.

The critical judgements that management has made in applying the Corporation's accounting policies and that have the most significant effect on the amounts recognized in the financial statements are related to the determination of the amount and timing of revenue recognition and related expenses, the accounting for cost recovery transactions, the allocation of indirect expenses related to administration of DPSA, the assessment whether there have been significant changes in credit risks impacting the expected credit loss for accounts receivable and unbilled revenue, the determination of right-of-use assets and lease liabilities and the determination of whether an item is recognized in the financial statements as a provision or disclosed as a contingent liability.

Impact of COVID-19
In addition to the significant estimates and the critical judgements mentioned previously, management has assessed the impact of the COVID-19 pandemic on the Corporation in the preparation of the financial statements based on available information without undue cost or effort and has not recognized any allowance for expected credit loss or provisions nor identified any contingent liabilities to disclose as a result of COVID-19 as at December 31, 2022. However, the evolution of both the magnitude and duration of the pandemic may result in future changes in estimates that may affect the timing of future revenue recognition, the accounting and disclosure for provisions, contingent liabilities and allowance for expected credit losses. Further information on the impact of COVID-19 on the Corporation is disclosed in note 12(d).

(d) 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, 2022. In addition to the accounting policies disclosed previously, the Corporation applies the following accounting policy related to Parliamentary appropriations provided by the Government of Canada.

Parliamentary appropriation
A parliamentary appropriation that is not in the nature of contributed capital is recognized as funding in the year for which it is appropriated once authorized by the Parliament of Canada. An appropriation that is restricted by legislation and related to expenses of future periods is deferred and recognized as revenue in the period when the related expenses are incurred.

An authorized parliamentary appropriation used for the purchase of property and equipment is deferred and amortized on the same basis as the related asset.

The parliamentary appropriation for this fiscal year is to be used exclusively for the administration of the DPSA. Any unused appropriation at the end of a fiscal year is to be returned to the government.

QUARTERLY FINANCIAL REPORT (In thousands of Canadian dollars, unless otherwise indicated)

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents balances include advances received from foreign buyers and others not yet paid to Canadian exporters and, when applicable, amounts held back from Canadian exporters to be remitted at later dates in accordance with the terms and conditions of contracts. Also, see note 12 for a description of the Corporation's revolving line of credit that is included in the balance of Cash.

The component of cash and cash equivalents is as follows as at:

	December 31, 2022	March 31, 2022
Cash	**$ 304,551**	$ 66,814
Cash and cash equivalents	**$ 304,551**	$ 66,814

Cash and cash equivalents had the following balances by currency as at:

	December 31, 2022		March 31, 2022	
	Original currency	**Canadian dollars**	Original currency	Canadian dollars
Canadian dollars	**208,159**	**$ 208,159**	32,827	$ 32,827
U.S. dollars	**70,741**	**95,784**	26,793	33,478
Chinese renminbi	**3,093**	**608**	2,587	509
		$ 304,551		$ 66,814

5. ACCOUNTS RECEIVABLE

Accounts receivable include amounts that are due to the Corporation for Fees for service invoiced and yet to be collected, amounts due from foreign buyers related to amounts already paid to Canadian exporters and other amounts primarily from Canadian government organizations. These amounts are based on normal international trade terms and are generally non-interest bearing.

The Corporation's accounts receivable consisted of the following as at:

	December 31, 2022	March 31, 2022
Accounts receivable	**$ 26,486**	$ 24,329
Accrued receivables	**523**	11
Allowance for expected credit loss	**(73)**	(72)
	$ 26,936	$ 24,268

QUARTERLY FINANCIAL REPORT (In thousands of Canadian dollars, unless otherwise indicated)

The currency profile of the Corporation's accounts receivable was as follows as at:

	December 31, 2022			March 31, 2022		
	Original currency		**Canadian dollars**	Original currency		Canadian dollars
U.S. dollars	**17,412**	**$**	**23,576**	18,231	$	22,779
Canadian dollars	**3,360**		**3,360**	1,489		1,489
		$	**26,936**		$	24,268

Credit and market risks related to accounts receivable are disclosed in note 12.

6. OTHER ASSETS

The Corporation's other assets included the following as at:

		December 31, 2022		March 31, 2022
Prepaid expenses	**$**	**569**	$	657
Unbilled revenues		**454**		95
	$	**1,023**	$	752

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities represent amounts due related to the Corporation's administrative and operating expenses, amounts due to Canadian exporters from amounts received from foreign buyers and other miscellaneous amounts due. These amounts are due on normal trade terms.

The Corporation's accounts payable and accrued liabilities consisted of the following as at:

		December 31, 2022		March 31, 2022
Accounts payable	**$**	**87,719**	$	35,994
Accrued liabilities		**3,388**		2,675
	$	**91,107**	$	38,669

(In thousands of Canadian dollars, unless otherwise indicated)

The currency profile of the Corporation's accounts payable and accrued liabilities was as follows as at:

	December 31, 2022			March 31, 2022		
	Original currency		**Canadian dollars**	Original currency		Canadian dollars
U.S. dollars	**64,001**	**$**	**86,659**	27,050	$	33,799
Canadian dollars	**4,203**		**4,203**	4,831		4,831
Chinese renminbi	**1,245**		**245**	199		39
		$	**91,107**		$	38,669

Market and liquidity risks related to accounts payable and accrued liabilities are disclosed in note 12.

8. DEFERRED REVENUE

A reconciliation of the Corporation's deferred revenue is as follows:

		December 31, 2022		March 31, 2022
Balance at the beginning of the year	**$**	**607**	$	405
Plus: additional deferred revenue, net of refunds		**2,701**		141
Plus: additional deferred revenue from cumulative catch-up adjustment		**-**		169
Less: amounts recognized as Fees for service or cost recovery		**(1,746)**		(209)
Impact of netting unbilled and deferred revenue from same contract		**(412)**		101
Balance at the end of the period	**$**	**1,150**	$	607

9. DEFERRED GOVERNMENT FUNDING

A parliamentary appropriation of $13.0 million was authorized for the 2022-23 fiscal year. This funding is to be used exclusively for the costs of administration of the DPSA.

In May 2021, the Corporation received a transfer from the Government of Canada of $13.0 million from the Department of Finance Canada for the 2021-22 fiscal year. This funding was recognized as revenue during the 2021-22 fiscal year and used exclusively to fund the DPSA administration costs. Those costs amounted to $13.1 million for the 2021-22 fiscal year.

A reconciliation of the Corporation's deferred government funding is as follows:

		December 31, 2022		March 31, 2022
Balance at the beginning of the year	**$**	**-**	$	-
Plus: funding from the Governement of Canada		**13,000**		13,000
Less: government funding revenue recognized		**(10,083)**		(13,000)
Balance at the end of the period	**$**	**2,917**	$	-

QUARTERLY FINANCIAL REPORT (In thousands of Canadian dollars, unless otherwise indicated)

During the three and nine-month periods ended December 31, 2022, the Corporation recognized revenue from government funding of $3.7 million and $10.1 million respectively (for the three and nine-month periods ended December 31, 2021 — $3.6 million and $9.7 million respectively) which amounted to the DPSA administration costs.

10. LEASE LIABILITIES

The Corporation's leasing activities relate to office space and office equipment.

In November 2014, the Corporation entered into a fifteen-year lease agreement for office space at the Corporation's current location. The lease payments commenced on December 1, 2016, and the lease expires at the end of November 2031 with an option to extend the term of the lease for an additional five years.

A reconciliation of the Corporation's lease liabilities is as follows:

	December 31, 2022	March 31, 2022
Balance at the beginning of the year	**$ 5,972**	$ 6,418
Interest expense	**135**	192
Lease payments	**(512)**	(638)
Balance at the end of the period	**$ 5,595**	$ 5,972

The lease liabilities are presented on the Statement of Financial Position as follows:

	December 31, 2022	March 31, 2022
Current	**$ 517**	$ 505
Non-current	**5,078**	5,467
	$ 5,595	$ 5,972

Interest expense related to lease liabilities are included in finance cost. For the three and nine-month periods ended December 31, 2022, the Corporation's administrative expenses include $213 and $584 respectively ($206 and $560 for the three and nine-month periods ended December 31, 2021) related to variable lease payments not included in the measurement of lease liabilities. For the three and nine-month periods ended December 31, 2022 and December 31, 2021, there were no significant expenses related to leases of low-value assets and short-term leases for which the recognition exemption has been applied.

QUARTERLY FINANCIAL REPORT (In thousands of Canadian dollars, unless otherwise indicated)

11. CAPITAL MANAGEMENT

For the preparation of these condensed interim financial statements, the Corporation's objective, definition and key strategies with respect to its capital are consistent with those disclosed in the Corporation's audited annual financial statements for the year ended March 31, 2022.

During the previous year, the Corporation developed a dividend policy to govern the issuance of dividends to its shareholder. The Corporation had not paid nor declared a dividend as at March 31, 2022. On June 7, 2022, in alignment with the dividend policy, the Corporation's Board of Directors approved the issuance of a dividend of $1.0 million payable to its shareholder. The dividend was paid in December 2022.

The Corporation's breakdown of supply of capital was as follows as at:

	December 31, 2022	March 31, 2022
Contributed capital	**$ 10,000**	$ 10,000
Retained earnings	**28,590**	15,072
	$ 38,590	$ 25,072

12. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

As described in the Corporation's Annual Report and audited financial statements for the year ended March 31, 2022, the Corporation is exposed to credit risk, market risk and liquidity risk as a result of holding financial instruments.

The following section 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. The credit risk arises principally from the Corporation's cash and cash equivalents, accounts receivable and unbilled revenue which includes Fees for service due to the Corporation. 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 specifies 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)

Accounts receivable

The Corporation has credit risk related to accounts receivable which includes Fees for service revenue and other amounts owed to the Corporation. Other amounts include situations where the Corporation may agree to pay DPSA and non-DPSA invoices at the request of Canadian exporters prior to receiving funds from the US Department of Defence or other foreign buyers.

Since the DPSA foreign buyer is rated AAA by recognized rating agencies, the credit exposure is minimized to acceptable levels. For non-DPSA foreign buyers, the Corporation assesses the credit risk to ensure it is also within acceptable levels.

As at December 31, 2022, 93% (March 31, 2022 — 63%) of the Corporation's accounts receivable were from AAA credit rated counterparties.

The Corporation measures a loss allowance on accounts receivable equal to the lifetime expected credit loss. The lifetime expected credit loss is estimated based on the Corporation's historical credit loss experience adjusted for factors specific to foreign buyers or other entities including credit risk rating, general economic conditions, an assessment of both the current and forecasted direction of conditions at the reporting date as well as the impact of any unresolved contract issues on the collectability of accounts receivable. The allowance for expected credit loss is related to credit risks identified that are associated to individual accounts receivable balances.

QUARTERLY FINANCIAL REPORT (In thousands of Canadian dollars, unless otherwise indicated)

The following table shows the movement in lifetime expected credit loss that has been recognized for accounts receivable in accordance with the simplified approach set out in *IFRS 9*:

	December 31, 2022	March 31, 2022
Balance at the beginning of the year	**$ 72**	$ 146
Net remeasurement of loss allowance	**-**	(32)
Amounts written off	**-**	(42)
Loss on foreign exchange	**1**	-
Balance at the end of the period	**$ 73**	$ 72

When applicable, changes in allowance for expected credit loss are included in the Other expenses component of Administrative expenses.

As at December 31, 2022, the Corporation recognized a loss allowance for expected credit loss of $16 (March 31, 2022 — $15) related to accounts receivable from foreign buyers and other entities arising from contracts with customers. There has been no change in the estimation techniques or significant assumptions made during the current reporting period.

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

	December 31, 2022	March 31, 2022
United States	**$ 19,337**	$ 14,032
Canada	**5,587**	1,329
Asia *	**768**	8,231
Central America and Caribbean	**617**	484
Africa	**520**	192
Europe	**107**	-
	$ 26,936	$ 24,268

* Includes Middle East

Accounts receivable are considered past due when the payer has failed to make the payment by the contractual due date. The ageing profile of the Corporation's past due accounts receivable was as follows as at:

	December 31, 2022	March 31, 2022
< 30 days	**$ 10,937**	$ 1,277
> 30 days and < 180 days	**4,647**	1,344
> 180 days	**2,339**	2,941
	$ 17,923	$ 5,562

Except for the amounts included in allowance for expected credit loss, all overdue accounts receivable are considered fully collectable as at December 31, 2022 as it is normal for the Corporation to encounter delays in collecting certain accounts receivable as a result of the foreign environment in which it operates.

When applicable, accounts receivable from the ABP contract covered by payments expected to be received beyond 12 months after the reporting period are presented as long term. As at December 31, 2022 and March 31, 2022, there were no long-term receivables related to the ABP contract. When applicable, these receivables are categorized as level 2 in the fair value hierarchy and the Corporation assesses if their fair value approximates their carrying value using the income approach.

(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 interest rate risk or other price risk, however, as noted below, does have currency risk exposure. The Corporation has no significant derivatives or embedded derivatives that require recognition as an asset or liability on the Statement of Financial Position.

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. The Corporation is exposed to foreign currency risk on its accounts receivable and accounts payable denominated in foreign currencies due to timing differences between their initial recognition and the actual receipt or payment of cash. As at December 31, 2022, the Corporation's currency risk exposure is minimal.

(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 is minimized through compliance with the Corporation's investment policy whereby cash and cash equivalents are 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 for non-performance of outstanding contracts 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, the Corporation receives an indemnity from the exporter against any additional costs incurred by entering into the back-to-back contractual relationship. In order to further mitigate its overall liquidity risk exposure from non-performance on contracts, the Corporation may supplement this recourse by requiring the Canadian exporter to provide commercial securities including holdbacks, bank guarantees, surety bonds, parent guarantees, insurance assignments, property liens, personal guarantees and shareholder cash to be held in trust with the Corporation.

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As part of the normal course of business, management assesses the likelihood of any contingent liabilities. Contingent liabilities with respect to certain unresolved contract issues are disclosed in note 17(b).

Under contract terms, other than DPSA related contracts, payments to Canadian exporters are usually not made in advance of receipt of payment from foreign buyers, and therefore do not expose the Corporation to liquidity risk.

The CCC 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, 2022 — $40.0 million) Canadian or its U.S. dollar equivalent. The credit facility is used exclusively for the Corporation's working capital requirements to facilitate payments to Canadian exporters under the DPSA business line.

As per contractual terms in the DPSA business line, the Corporation commits to payments to Canadian exporters within thirty days on most contracts. For the International contracts, the Corporation commits to payments within two to five business days from receipt of payments from the foreign buyer. At times, collection of amounts from the foreign buyer on DPSA contracts can take more than thirty days. This can occasionally result in the Corporation using the credit facility in the normal course of operations. Indebtedness under this agreement is unsecured and this credit facility has an expiry date of June 30, 2023 subject to extension by the Minister of Finance or the approval of a corporate plan. As at December 31, 2022, the draw on this line of credit was nil (March 31, 2022 — nil).

Accounts payable and accrued liabilities

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

	December 31, 2022	March 31, 2022
< 1 year	**$ 91,107**	$ 38,669
	$ 91,107	$ 38,669

(d) Risk associated to COVID-19

The COVID-19 pandemic has impacted the following risks for the Corporation:

Business environment risk

COVID-19 may impact the Corporation's foreign buyer procurement requirements which could result in decreased demand for the Corporation's services and therefore, impacting its revenue generating potential. The Corporation monitors environmental changes resulting from COVID-19 to manage this risk and adapts processes as necessary. Additionally, the magnitude of the adverse economic impact of COVID-19 may differ from one country to another which may impact the credit risk associated to the Corporation's Accounts receivable and Unbilled revenue from its foreign buyers. To manage this risk, the Corporation closely monitors the aging of its Accounts receivable and Unbilled revenue and monitors the general economic conditions of its foreign buyers to determine whether there has been an increase in credit risk and whether any allowance for expected credit loss should be recognized. As at December 31, 2022 and March 31, 2022, the Corporation's allowance for expected credit loss are not related to the COVID-19 pandemic.

Supplier performance risk

Supplier performance risk remains elevated reflecting the impact of COVID-19 on the Corporation's exporters. Not only are exporters directly affected, but the pandemic's impact on supply chains has presented challenges to exporters while delivering their products and services as per contractual obligations. To manage this risk, the Corporation monitors the financial, managerial, and technical capabilities of its exporter portfolio and assesses whether any provision for contract remediation should be recognized or a contingent liability disclosed. As at December 31, 2022 and March 31, 2022, the Corporation has not recognized any provisions nor identified any contingent liabilities to disclose as a result of the COVID-19 pandemic's impact in supplier performance.

The Corporation expects that the risks related to COVID-19 will be resolved as the pandemic comes to a close in 2023-24.

(In thousands of Canadian dollars, unless otherwise indicated)

13. REVENUE FROM CONTRACTS WITH CUSTOMERS

(a) Disaggregation of Fees for service revenue

The sources of the Corporation's Fees for service revenue were as follows:

	For the three months ended December 31		For the nine months ended December 31	
	2022	2021	**2022**	2021
International business	**$ 10,911**	$ 8,380	**$ 15,818**	$ 9,495
Lottery programs	**146**	155	**412**	604
	$ 11,057	$ 8,535	**$ 16,230**	$ 10,099
Government of Canada initiatives	**1,170**	522	**2,865**	1,567
	$ 12,227	$ 9,057	**$ 19,095**	$ 11,666

(b) Unsatisfied (or partially unsatisfied) performance obligations

Unsatisfied, or partially unsatisfied, contractual performance obligations are mostly due to services which are yet to be provided by the Corporation over the remaining duration of the contract. The following table sets out the estimated transaction prices allocated to unsatisfied, or partially unsatisfied contracted performance obligations of the Corporation to be met in the future and the estimated timing of revenue recognition as at December 31, 2022. Actual amounts may differ from these estimates due to a variety of factors, including the unpredictable nature of customer behaviour, industry regulation and the economic and political environments in which the Corporation operates.

	December 31, 2022
< 1 year	**$ 17,313**
> 1 year	**14,185**
	$ 31,498

The above amounts do not include the variable consideration portions that cannot be reliably estimated.

(In thousands of Canadian dollars, unless otherwise indicated)

14. OTHER INCOME

The Corporation earns other income from various sources which are typically not from international business activities. The table below illustrates the sources of other income:

	For the three months ended December 31		For the nine months ended December 31	
	2022	2021	**2022**	2021
Discounting income	**$ 16**	$ 45	**$ 102**	$ 91
Miscellaneous income	**15**	16	**79**	47
	$ 31	$ 61	**$ 181**	$ 138

15. ADMINISTRATIVE EXPENSES

Administrative expenses are as follows:

	For the three months ended December 31		For the nine months ended December 31	
	2022	2021	**2022**	2021
Workforce compensation and related expenses	**$ 4,146**	$ 4,379	**$ 12,637**	$ 13,173
Contract management services	**650**	642	**1,950**	1,926
Consultants	**1,071**	355	**1,720**	1,032
Rent and related expenses	**244**	232	**670**	682
Software, hardware and support	**210**	198	**618**	594
Travel and hospitality	**298**	100	**581**	135
Depreciation	**146**	148	**435**	439
Communications	**97**	72	**276**	177
Other expenses	**163**	71	**297**	212
	$ 7,025	$ 6,197	**$ 19,184**	$ 18,370

16. 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.

17. CONTINGENCIES

(a) Collateral

The value of outstanding deliverables to be performed by Canadian exporters for which the Corporation, on behalf of the Government of Canada, has guaranteed performance to foreign government buyers was $7.4 billion as at December 31, 2022 (March 31, 2022 — $7.8 billion).

To manage performance risk of outstanding deliverables, the Corporation has contractual recourse that consists, in all material respects, of corresponding deliverables from Canadian exporters in the same amount. The collateral pledged by Canadian exporters is to mitigate counterparty risk to the deliverables guaranteed by the Corporation in the event of non-performance claims against the Corporation for reasons related to the Canadian exporter failing to perform per the terms and conditions of contracts. The types of collateral the Corporation may require the Canadian exporter to provide are various 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.

As at December 31, 2022, commercial securities that have been pledged to the Corporation as collateral by Canadian exporters in the unlikely event of their contractual non-performance are in the form of parent guarantees totalling $6.6 billion (March 31, 2022 — $7.2 billion in the form of surety bonds and parent guarantees) which approximate their fair value.

(b) Other contingent liabilities

As part of the normal course of business, management assesses the likelihood of any contingent liabilities. As of December 31, 2022, the Corporation has certain unresolved contract issues that are being actively managed towards resolution. Except for the amounts included in allowance for expected credit loss (note 12(a)), any financial impact on the Corporation, including the potential for future contract remediation expenses, cannot be reasonably estimated at this time.