Canadian Commercial Corporation

2017-2018 First Quarter
Financial Report
(Unaudited)

For the period ended
June 30, 2017

Management's Discussion and Analysis

BASIS OF PREPARATION

This discussion was prepared in accordance with the Treasury Board Standard on Quarterly Financial reports for Crown Corporations. This narrative discussion is not intended to be a full Management Discussion and Analysis. Disclosures and information in the Canadian Commercial Corporation annual report for the year ended March 31, 2017 are assumed to apply to the current quarter unless otherwise stated.

The following discussion and analysis of the operating results and financial position of the Canadian Commercial Corporation for the quarter ending June 30, 2017 should be read in conjunction with the enclosed unaudited condensed interim financial statements as well as the Corporation's annual report for the year ended March 31, 2017.

FINANCIAL HIGHLIGHTS

CCC delivers its 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 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 which include the maintenance and administration of the trade development offices in China on behalf of Global Affairs Canada, sourcing transactions with Government of Canada departments and agencies and a shared services arrangement with another crown corporation which generate economies of scale in providing a variety of corporate services to both organizations.

Historically, large contracts have materially impacted the Corporation's financial statements and can often cause significant variations in certain year-over-year amounts on the Statement of Financial Position and the Statement of Comprehensive Income.

In late 2013-2014 the Armoured Brigades Program (ABP), a historic multi-billion dollar contract, was signed for the supply of light armored vehicles (LAVs) and associated equipment, training and support services. As a result of the magnitude of this transaction, this activity could result in significant variations from period-to-period on certain accounts. The accounts impacted will most notably be receivables, payables, advances to Canadian exporters and from foreign customers as well as progress work by Canadian exporters and for foreign customers.

(in millions of Canadian dollars, unless otherwise indicated)

A discussion of CCC's three-month period ended June 30, 2017 financial highlights follows:

STATEMENT OF COMPREHENSIVE INCOME DISCUSSION

Summary - Net profit (loss)	FOR THE THREE MONTHS ENDED JUNE 30			
	2017	2016	Increase (Decrease)	
Revenues	$ 6.5	$ 5.8	$ 0.7	12%
Expenses	(8.2)	(7.4)	(0.8)	-11%
Parliamentary appropriation	-	0.9	(0.9)	-100%
Net profit (loss)	**$ (1.7)**	**$ (0.7)**	**$ (1.0)**	**-143%**

For three-month period ended June 30, 2017, the overall increase in the net loss was due primarily to the elimination of the parliamentary appropriation. Otherwise, increases to expenses were essentially offset by increases to revenues.

REVENUES

Revenues	FOR THE THREE MONTHS ENDED JUNE 30				
	2017	2016	Increase (Decrease)		% of Total 2017
Commercial trading transactions					
- prime contracts	$ 628.8	$ 582.4	$ 46.4	8%	
Cost of commercial trading transactions					
- prime contracts	(628.8)	(582.4)	(46.4)	-8%	
Fees for service	6.0	5.6	0.4	7%	93%
Other income	0.4	0.1	0.3	264%	6%
Finance income, net	0.2	0.1	0.1	50%	2%
Loss on foreign exchange	(0.1)	-	(0.1)	-423%	-1%
Total Revenues	**$ 6.5**	**$ 5.8**	**$ 0.7**	**12%**	**100%**

For three-month period ended June 30, 2017, after offsetting commercial trading transactions with the cost of commercial trading transactions, the increase in total revenues was due to higher fees for service earned and recorded as deliveries and progress work occurred on the higher volume of contracts signed in 2016-2017 related primarily to the ICB business line. In addition, other income increased due to a number of miscellaneous items identified during the first quarter of the year.

(in millions of Canadian dollars, unless otherwise indicated)

Commercial trading transactions

Commercial Trading Transactions (CTT)	FOR THE THREE MONTHS ENDED JUNE 30				
	2017	2016	Increase (Decrease)		% of Total 2017
GDS:					
DPSA	$ 170.6	$ 150.5	$ 20.1	13%	27%
Non-DPSA GDS	333.3	341.6	(8.3)	-2%	53%
Total GDS	**$ 503.9**	**$ 492.1**	**$ 11.8**	**2%**	**80%**
ICB	**124.9**	**90.3**	**34.6**	**38%**	**20%**
Total CTT	**$ 628.8**	**$ 582.4**	**$ 46.4**	**8%**	**100%**

Commercial trading transactions measure the value of delivery of a good or service or progress work that has been performed . It is important to note that as an international trade intermediary, revenues from commercial trading transactions on prime contracts are fully offset by the cost of commercial trading transactions on prime contracts.

For three-month period ended June 30, 2017, the overall increase in commercial trading transactions was due to an increase in deliveries and work performed related primarily to the DPSA and ICB business lines.

The increase to DPSA and ICB commercial trading transactions is primarily attributed to the higher level of contract dollar volume signed in 2016-17 related to these two business lines.

Of significance, for the three-month period ended June 30, 2017, $321.9 or 97% (June 30, 2016 - $324.8 or 95%) of the total non-DPSA GDS commercial trading transactions were recorded for progress work related to the ABP contract.

(in millions of Canadian dollars, unless otherwise indicated)

Fees for service

Fees for service	FOR THE THREE MONTHS ENDED JUNE 30				
	2017	2016	Increase (Decrease)		% of Total 2017
GDS:					
Non-DPSA GDS	$ 2.9	$ 3.0	$ (0.1)	-5%	49%
Total GDS	**$ 2.9**	**$ 3.0**	**$ (0.1)**	**-5%**	**49%**
ICB	**1.9**	**1.4**	**0.5**	**43%**	**32%**
Sourcing services transactions and other	**1.2**	**1.2**	**-**	**-**	**19%**
Total Fees for service	**$ 6.0**	**$ 5.6**	**$ 0.4**	**7%**	**100%**

The Corporation charges fees for service on non-DPSA GDS, ICB business and other services, generally as a percentage of the contract value at negotiated rates for services provided. Fees are recognized as revenue when commercial trading transactions related to prime contracts and international sourcing services agreements are recorded and from other international and domestic activities when services are rendered. It is important to note that CCC does not charge fees for service on the DPSA program. In addition to fees for service recorded on non-DPSA core operations business line activity, CCC collects fees related to sourcing services transactions and other initiatives of Government of Canada departments and agencies.

For three-month period ended June 30, 2017, the overall net fee increase is commensurate with the increase in activity explained under the commercial trading transactions section.

(in millions of Canadian dollars, unless otherwise indicated)

EXPENSES

Expenses	FOR THE THREE MONTHS ENDED JUNE 30				
	2017	2016*	Increase (Decrease)		% of Total 2017
Administrative expenses					
Workforce compensation and related expenses	$ 5.2	$ 4.7	$ 0.5	9%	64%
Contract management services	0.7	0.8	(0.1)	-10%	8%
Travel and hospitality	0.5	0.5	-	-	6%
Consultants	0.5	0.3	0.2	56%	6%
Software, hardware and support	0.4	0.4	-	-	5%
Rent and related expenses	0.4	0.4	-	-	5%
Communications	0.2	0.1	0.1	154%	2%
Depreciation	0.1	0.1	-	-	1%
Other expenses	0.2	0.1	0.1	204%	3%
Total Administrative expenses	**$ 8.2**	**$ 7.4**	**$ 0.8**	**11%**	**100%**
Contract remediation expenses	**-**	**-**	**-**	**-**	**0%**
Total Expenses	**$ 8.2**	**$ 7.4**	**$ 0.8**	**11%**	**100%**

* Some comparative figures have been reclassified to conform to current year's presentation.

Administrative expenses

For three-month period ended June 30, 2017, the overall increase is due primarily to higher workforce compensation and related expenses resulting from collective bargaining, and planned growth in business development related expenses.

Contract remediation expenses

Contract remediation expenses are recorded as actual amounts are incurred or can be reasonably estimated. For three-month period ended June 30, 2017, no contract remediation expenses were recorded. The result reflects the Corporation's robust contract management and Enterprise Risk Management (ERM) practices.

(in millions of Canadian dollars, unless otherwise indicated)

SOURCING SERVICES FOR SUPPORT OF INTERNATIONAL GOVERNMENT ASSISTANCE PROGRAMS

Sourcing services transactions	FOR THE THREE MONTHS ENDED JUNE 30			
	2017	2016	Increase (Decrease)	
Sourcing services transactions	$ 5.0	$ 3.8	$ 1.2	31%
Cost of sourcing services transactions	(5.0)	(3.8)	(1.2)	-31%
	$ -	**$ -**	**$ -**	**-**

Sourcing services for support of international assistance programs represent transactions whereby the Corporation is not the prime contractor, however acts as an agent on behalf of a domestic or foreign Government entity. The majority of the services are provided to Global Affairs Canada (GAC) in accordance with an MOU that was signed in 2007. CCC also entered into separate agreements with the National Research Council (NRC) and the Department of National Defence (DND) during 2016-17. For the three-month period ended June 30, 2017, the increased activity was due to deliveries related primarily to the agreements with DND.

PARLIAMENTARY APPROPRIATION

Parliamentary appropriation	FOR THE THREE MONTHS ENDED JUNE 30			
	2017	2016	Increase (Decrease)	
Parliamentary appropriation	$ -	$ 0.9	$ (0.9)	-100%
Total Parliamentary appropriation	**$ -**	**$ 0.9**	**$ (0.9)**	**-100%**

In 2017-18, CCC no longer receives an appropriation. The Corporation's appropriation was phased out in accordance with the direction detailed in its 2014-2015 Corporate Plan as follows: $15.7 in 2013-2014, $14.2 in 2014-2015, $8.9 in 2015-2016, $3.5 in 2016-2017 and nil from 2017-2018 and ongoing.

(in millions of Canadian dollars, unless otherwise indicated)

STATEMENT OF FINANCIAL POSITION DISCUSSION

SUMMARY

Summary - Statement of financial position	AS AT						
		June 30, 2017		March 31, 2017		Increase (Decrease)	
Assets	$	**6,257.9**	$	**5,664.6**	$	**593.3**	**10%**
Liabilities	$	**6,230.6**	$	**5,635.7**	$	**594.9**	**11%**
Shareholder's equity:							
Contributed surplus		10.0		10.0		-	-
Retained earnings		17.3		18.9		(1.6)	-9%
Total Shareholder's equity	$	**27.3**	$	**28.9**	$	**(1.6)**	**-6%**

As an international trade intermediary, CCC trade-related assets are offset with matching liabilities. Therefore, trade receivables from foreign customers and progress work by Canadian exporters are normally offset by trade payables and accrued liabilities to Canadian exporters and progress work for foreign customers, respectively.

ASSETS

Assets	AS AT							
		June 30, 2017		March 31, 2017		Increase (Decrease)		% of Total
Cash	$	76.8	$	76.4	$	0.4	0%	1%
Trade Receivables		1,043.4		741.2		302.2	41%	17%
Advances to Canadian exporters		146.4		175.4		(29.0)	-17%	2%
Progress work by Canadian exporters		4,987.9		4,668.2		319.7	7%	80%
Property and equipment		3.4		3.4		-	-	0%
Total Assets	$	**6,257.9**	$	**5,664.6**	$	**593.3**	**10%**	**100%**

The increase from March 31, 2017 was due to increases in the amount of progress work by Canadian exporters and trade receivables offset partially by a decrease primarily from advances to Canadian exporters. The net change to the assets resulted primarily from the continued progress work related to the ABP contract.

(in millions of Canadian dollars, unless otherwise indicated)

LIABILITIES

Liabilities	AS AT				
	June 30, 2017	March 31, 2017	Increase (Decrease)		% of Total
Trade payables and accrued liabilities	$ 1,065.7	$ 760.4	$ 305.3	40%	17%
Advances from foreign customers	171.2	201.3	(30.1)	-15%	3%
Progress work for foreign customers	4,987.9	4,668.2	319.7	7%	80%
Deferred lease incentives	3.8	3.9	(0.1)	-2%	0%
Employee benefits	2.0	1.9	0.1	3%	0%
Total Liabilities	**$ 6,230.6**	**$ 5,635.7**	**$ 594.9**	**11%**	**100%**

The increase from March 31, 2017 was due to increases in the amount of progress work for foreign customers and trade payables and accrued liabilities partially offset by a decrease primarily from advances from foreign customers. The net change to the liabilities resulted primarily from continued progress work related to the ABP contract.

SIGNIFICANT TRANSACTIONS IN ASSETS AND LIABILITIES

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

The increases in trade receivables and trade payables from March 31, 2017 was due primarily to the recording of accrued receivable and payable transactions related to the ABP to reflect progress work to date.

Contractually, payments for progress work for foreign customers are required to flow through in their entirety to the Canadian exporter. Of the total progress work by Canadian exporters and for foreign customers, $4,840.0 or 97% was related to continued progress work on the ABP contract.

Of the advances from foreign customers and advances to Canadian exporters, $54.1 or 32% and 37% respectively was related to the ABP contract. Another $90.2 or 53% was related to projects under the GDS and ICB business lines. Of the $90.2 advances from foreign customers, $89.8 was passed on to Canadian exporters. Contractually, advances are not offered on DPSA contracts. For non-DPSA contracts, CCC's risk mitigation practices require that in some circumstances, CCC hold back some advance payments made by foreign customers and release them to Canadian exporters as delivery obligations are fulfilled. As a result, period-over-period variations will occur.

(in millions of Canadian dollars, unless otherwise indicated)

STATEMENT OF CASH FLOWS DISCUSSION

Summary - Statement of cash flows	FOR THE THREE MONTHS ENDED JUNE 30			
	2017	2016	Increase (Decrease)		% of Total 2017
Operating activities	$ 1.3	$ 0.7	$ 0.6	74%	380%
Investing activities	(0.1)	-	(0.1)	-100%	-32%
Effect of exchange rate changes on cash	(0.9)	(0.2)	(0.7)	-300%	-248%
Net increase in cash	**$ 0.3**	**$ 0.5**	**$ (0.2)**	**-36%**	**100%**

Under the DPSA program, the Corporation generally pays its Canadian exporters within 30 days of receipt of an invoice and substantiating documentation according to the terms and conditions of the contract. Consequently, the Corporation may use its own cash to pay Canadian exporters on the 30th day funding its trade receivables in instances where there are collection delays and payment is not received from the DPSA customer until beyond the 30 days. On certain contracts (generally outside of the DPSA program), the Corporation pays its Canadian exporters within five business days after CCC receives payment from the foreign customer. Depending on the timing of receipts compared to payments, these transactions often cross 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 until the payment is made to the Canadian exporter, as stipulated in the contract, early in the next period.

The decrease is due to the effect of exchange rate changes on cash which more than offset an increase from operating activities related to the general timing of receipts from foreign customers compared to payments made to Canadian exporters related to the Corporation's main operating activities.

(in millions of Canadian dollars, unless otherwise indicated)

COMPARISON OF FINANCIAL RESULTS TO THE 2017-2018 TO 2021-2022 CORPORATE PLAN

Statement of Comprehensive income	**FOR THE THREE MONTHS ENDED JUNE 30, 2017**			
	Actual	**Corporate Plan**	**Variance**	**% Variance**
Revenues				
Commercial trading transactions				
- prime contracts	$ 628.8	$ 796.3	$ (167.5)	-21%
Less: cost of commercial trading transactions				
- prime contracts	(628.8)	(796.3)	167.5	21%
Fees for service	6.0	7.0	(1.0)	-14%
Other income	0.4	0.1	0.3	300%
Finance income, net	0.2	0.1	0.1	100%
Loss on foreign exchange	(0.1)	-	(0.1)	-100%
	6.5	7.2	(0.7)	-10%
Expenses				
Administrative expenses	8.2	8.5	(0.3)	-4%
Contract remediation expenses	-	-	-	-
	8.2	8.5	(0.3)	-4%
Sourcing services for support of international government assistance programs				
Sourcing services transactions	5.0	5.6	(0.6)	-11%
Less: cost of sourcing services transactions	(5.0)	(5.6)	0.6	11%
	-	-	-	-
Net (profit) loss before Parliamentary appropriation	(1.7)	(1.3)	(0.4)	-31%
Parliamentary appropriation	-	-	-	-
Net profit (loss)	**$ (1.7)**	**$ (1.3)**	**$ (0.4)**	**-31%**

The Net profit (loss) variance of ($0.4) compared to the Corporate Plan resulted from lower than budgeted levels of fees for service that were earned and recorded for the period ended June 30, 2017, partially offset by other income and by cost saving efficiencies.

The ($167.5) variance related to commercial trading transactions was due to a lower level of ABP progress work than originally planned of $194.3 offset partially by variances across all other business lines and programs of $26.8.

(in millions of Canadian dollars, unless otherwise indicated)

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 ($1.0) variance was due primarily to ABP fees for service earned on the progress work that were $1.4 under budget offset partially by variances of $0.4 contributed by ICB and other GDS projects.

The Corporation manages exchange gains and losses through monitoring and maintaining its exposed foreign currency balances at negligible levels and does not budget for gains or losses on foreign exchange. The Corporation's exposed U.S. currency balance of $1.4 represents less than 0.04% 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 variance of ($0.3) related to administrative expenses resulted primarily from savings realized due to staff vacancies during the first quarter of the year.

2017-2018 CORPORATE PLAN FORECAST

Statement of comprehensive income	FOR YEAR ENDED MARCH 31, 2018			
	Forecast	Corporate Plan	Variance	% Variance
Revenues	$ 25.5	$ 32.6	$ (7.1)	-22%
Expenses	(31.8)	(32.6)	0.8	2%
Parliamentary appropriation	-	-	-	-
Net profit (loss)	**$ (6.3)**	**$ (0.0)**	**$ (6.3)**	**> 100%**

The planning objectives and assumptions used to forecast the Operating Budget for 2017-2018 are detailed and discussed in CCC's Corporate Plan 2017-2018 to 2021-2022.

CCC is forecasting an operating deficit of $6.3 in 2017-2018 with net revenues of $25.5.

In 2017-2018, net revenues are expected to decrease by $7.1 or 22%, with the decrease coming from fees for service due primarily to lower ABP fees for service in 2017-18 than originally expected in the Corporate Plan. This reduction is the reflection of timing changes to ABP delivery schedules, which result in reducing fees for service in 2017-18, and increasing fees for service in future years.

Expenses are forecasted at $31.8 in 2017-2018 compared to the plan of $32.6, a decrease of $0.8, or 2%. The decrease will result from targeted cost containment measures and savings realized due to staff vacancies. In 2017-2018, no contract remediation expenses are forecast. CCC is confident that no contract remediation expenses will occur due to its robust risk and contract management practices.

The Corporation's appropriation has been eliminated in accordance with a three-year phased plan which began in 2014-2015.

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 2016-2017 Annual Report and 2017-2018 Corporate Plan Summary.

There are no significant changes, new risks or uncertainties identified during the three-month period ended June 30, 2017 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 periods presented in the quarterly financial statements.

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

Ottawa, Canada
August 15, 2017

Statement of Financial Position (Unaudited)

As at (in thousands of Canadian dollars)		June 30, 2017		March 31, 2017
ASSETS				
Current assets				
Cash (note 4)	**$**	**76,770**	$	76,430
Trade receivables (notes 5 and 7)		**1,043,355**		741,193
Advances to Canadian exporters (note 6)		**146,390**		175,367
Progress work by Canadian exporters (note 6)		**4,987,932**		4,668,186
		6,254,447		5,661,176
Non-current assets				
Property and equipment		**3,434**		3,432
	$	**6,257,881**	$	5,664,608
LIABILITIES				
Current liabilities				
Trade payables and accrued liabilities (notes 5 and 7)	**$**	**1,065,655**	$	760,346
Advances from foreign customers (note 6)		**171,236**		201,338
Progress work for foreign customers (note 6)		**4,987,932**		4,668,186
Employee benefits		**292**		292
		6,225,115		5,630,162
Non-current liabilities				
Deferred lease incentives		**3,820**		3,886
Employee benefits		**1,695**		1,646
		6,230,630		5,635,694
SHAREHOLDER'S EQUITY				
Contributed surplus		**10,000**		10,000
Retained earnings		**17,251**		18,914
		27,251		28,914
	$	**6,257,881**	$	5,664,608

Guarantees (note 14)

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

Authorized for issue on August 15, 2017

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)	2017	2016
REVENUES		
Commercial trading transactions		
- prime contracts (note 9)	**$ 628,829**	$ 582,373
Less: cost of commercial trading transactions		
- prime contracts	**(628,829)**	(582,373)
Fees for service (note 9)	**6,004**	5,599
Other income (note 9)	**408**	113
Finance income, net (note 10)	**159**	106
Loss on foreign exchange	**(68)**	(13)
	6,503	5,805
EXPENSES		
Administrative expenses (note 11)	**8,166**	7,366
	8,166	7,366
SOURCING SERVICES FOR SUPPORT OF INTERNATIONAL GOVERNMENT ASSISTANCE PROGRAMS		
Sourcing services transactions (note 9)	**5,002**	3,821
Less: cost of sourcing services transactions	**(5,002)**	(3,821)
	-	-
Net loss before Parliamentary appropriation	**(1,663)**	(1,561)
Parliamentary appropriation (note 12)	**-**	878
NET LOSS	**$ (1,663)**	$ (683)
OTHER COMPREHENSIVE INCOME (LOSS)		
ITEMS THAT WILL NOT BE RECLASSIFIED TO NET PROFIT (LOSS)		
Actuarial gain (loss) on employee benefits obligation	**-**	-
TOTAL COMPREHENSIVE LOSS	**$ (1,663)**	$ (683)

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

Statement of Changes in Equity (Unaudited)

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)**
Actuarial (gain) loss on employee benefits obligation	**-**	**-**	**-**
Total comprehensive loss	**-**	**(1,663)**	**(1,663)**
BALANCE JUNE 30, 2017	**$ 10,000**	**$ 17,251**	**$ 27,251**

For the three months ended June 30, 2016 (in thousands of Canadian dollars)	**Contributed Surplus**	**Retained Earnings**	**Total**
BALANCE MARCH 31, 2016	$ 10,000	$ 18,669	$ 28,669
Net loss	-	(683)	(683)
Actuarial (gain) loss on employee benefits obligation	-	-	-
Total comprehensive loss	-	(683)	(683)
BALANCE JUNE 30, 2016	$ 10,000	$ 17,986	$ 27,986

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)	2017	2016*
OPERATING ACTIVITIES		
Net loss	**$ (1,663)**	$ (683)
Adjustments to determine net cash from (used in) operating activities:		
Depreciation	**108**	101
Employee benefit expense	**49**	51
Effect of exchange rate changes on cash	**843**	211
Deferred lease incentives	**(66)**	306
Change in working capital from:		
Trade and other receivables	**(302,162)**	15,984
Advances to Canadian exporters	**28,977**	333,870
Trade payables and accrued liabilities	**305,309**	(10,744)
Advances from foreign customers	**(30,102)**	(338,355)
Cash provided by operating activities	**1,293**	741
INVESTING ACTIVITIES		
Acquisitions of property and equipment	**(110)**	-
Cash used in investing activities	**(110)**	-
Effect of exchange rate changes on cash	**(843)**	(211)
Net increase in cash	**340**	530
Cash at the beginning of period	**76,430**	85,670
Cash at the end of period	**$ 76,770**	$ 86,200

The accompanying notes are an integral part of the financial statements.
** Change made to the presentation of the comparative figures (Note 15)*

Notes to Financial Statements

June 30, 2017

1. Nature, organization and funding

The Canadian Commercial Corporation (the "Corporation") was established in 1946 by the *Canadian Commercial Corporation Act* (the "Act"), is wholly owned by the Government of Canada and is an agent Crown corporation listed in Part I of Schedule III of the *Financial Administration Act*. The Corporation is domiciled in Canada with a head office located at 350 Albert Street, Ottawa, Ontario. The Corporation operates primarily in Canada with representation in Asia and 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 Canadian Government. The Corporation enters into contracts with these foreign customers and into corresponding supply contracts with Canadian exporters. Additionally, the Corporation enters into sourcing services agreements to procure goods and services for international end use on behalf of Canadian and foreign governments.

The Corporation's operations are funded primarily by fees for service.

In September 2008, the Corporation, together with a number of other Crown corporations, was issued a directive (P.C. 2008-1598) pursuant to Section 89 of the *Financial Administration Act*, entitled *Order giving a direction to parent Crown corporations involved in commercial lending to give due consideration to the personal integrity of those they lend to or provide benefits to in accordance with Government's policy to improve the accountability and integrity of federal institutions*. The Corporation implemented the directive effective January 1, 2010.

In July 2015, the Corporation was issued a directive (P.C. 2015-1110) pursuant to section 89 of the *Financial Administration Act* 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 performed a detailed review of existing policies regarding travel, hospitality, conferences and events, as well as the approach to public disclosure of this information and completed the implementation of the directive in August 2016.

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, 2017. 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, 2017.

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, 2017.

4. Cash

Cash included:

	June 30, 2017		March 31, 2017	
	Original currency	**Canadian dollars**	**Original currency**	**Canadian dollars**
Canadian dollars	**43,338**	**$ 43,338**	51,277	$ 51,277
U.S. dollars	**25,581**	**33,171**	18,684	24,848
Chinese renminbi	**1,364**	**261**	1,574	305
		$ 76,770		$ 76,430

Of the cash, $30,807 (March 31, 2017 - $32,084) represents advances and holdbacks received from foreign customers which will be remitted to Canadian exporters at later dates in accordance with contracts. Advances from foreign customers also include overpayments from foreign customers due to temporary timing differences in their liquidation methods and accounting for work performed. Where contracted, these funds may accrue interest to the credit of the Canadian exporter or foreign customer.

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, 2017	**March 31, 2017**
Accrued receivables	**$ 970,563**	$ 657,900
Trade receivables	**72,792**	83,293
	$ 1,043,355	$ 741,193

(in thousands of Canadian dollars, unless otherwise indicated)

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

	June 30, 2017		**March 31, 2017**	
	Original currency	**Canadian dollars**	**Original currency**	**Canadian dollars**
U.S. dollars	**796,274**	**$1,032,492**	548,567	$ 729,540
Canadian dollars	**10,863**	**10,863**	11,639	11,639
Chinese renminbi	**-**	**-**	75	14
		$1,043,355		$ 741,193

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

	June 30, 2017	**March 31, 2017**
Accrued liabilities	**$ 974,613**	$ 667,053
Trade payables	**89,480**	91,142
Deferred revenues	**1,562**	2,151
	$ 1,065,655	$ 760,346

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

	June 30, 2017		**March 31, 2017**	
	Original currency	**Canadian dollars**	**Original currency**	**Canadian dollars**
U.S. dollars	**811,368**	**$1,052,100**	558,464	$ 742,700
Canadian dollars	**13,544**	**13,544**	17,598	17,598
Australian dollars	**-**	**-**	20	20
Chinese renminbi	**57**	**11**	146	28
		$1,065,655		$ 760,346

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 customers, advances to Canadian exporters, Progress work by Canadian exporters and progress work for foreign customers

Advances received from foreign customers in advance of work being performed and advances paid to Canadian exporters, in accordance with contract terms and conditions, are reduced as the work is performed or upon delivery and acceptance by the foreign customer in the normal course of business. During the three month ended June 30, 2017, the Corporation received $14,783 in advances from foreign customers (March 31, 2017 - $145,503). Conversely, $2,513 advance payments were made to Canadian exporters (March 31, 2017 - $68,852). The amounts of advances expected to be recognized into income and expense over the next twelve months are respectively $67,347 and $42,538 (March 31, 2017 - $87,175 and $61,204) with the remaining $103,889 and $103,852 (March 31, 2017 - $114,163 and $114,163) to be recognized in more than twelve months.

Given the back-to-back nature of CCC's contracting with foreign customers and Canadian exporters, the balances of progress work by Canadian exporters and progress work for foreign customers are reduced by amounts that are equal and opposite. The reductions expected due to deliveries over the next twelve months are $945,831 (March 31, 2017 - $578,561) with the remaining $4,042,101 (March 31, 2017 - $4,089,625) 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, 2017, 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 trade receivables from customers. The carrying amount of financial assets recorded in the financial statements represents the maximum exposure to credit risk.

Trade receivables

The Corporation generally passes credit risk related to trade receivables from export transactions through to 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 customers. Where a foreign customer is rated AAA by recognized rating agencies, CCC may agree to pay the Canadian exporter in advance of receiving the foreign customer's payment, thereby creating a credit exposure. With the

(in thousands of Canadian dollars, unless otherwise indicated)

AAA rating, the credit risk is deemed mitigated and acceptable. During the three month ended June 30, 2017, 4% (March 31, 2017 - 6%) of the Corporation's trade receivables were from AAA credit rated customers.

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

	June 30, 2017	March 31, 2017
Asia *	**$ 977,498**	$ 670,223
United States	**37,595**	46,363
Africa	**9,643**	7,915
Central America and Caribbean	**9,265**	12,150
South America	**6,708**	2,768
Canada	**1,642**	1,744
Europe	**978**	4
Australia	**26**	26
	$ 1,043,355	$ 741,193

* Includes Middle East

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

	June 30, 2017	March 31, 2017
< 1 year	**$ 1,043,263**	$ 741,164
> 1 and < 3 years	**92**	29
	$ 1,043,355	$ 741,193

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

	June 30, 2017	March 31, 2017
< 30 days	**$ 7,454**	$ 3,718
> 30 days and < 180 days	**7,980**	2,928
> 180 days	**990**	1,560
	$ 16,424	$ 8,206

(in thousands of Canadian dollars, unless otherwise indicated)

Collateral

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

	June 30, 2017	**March 31, 2017**
Holdbacks	**$ 5,960**	$ 6,113
Parent guarantees	**$17,997,850**	$ 18,483,325
Other	**$ 7,225**	$ 9,764

The above amounts approximate the fair values of collateral held.

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

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

With respect to outstanding contractual obligations to foreign customers, the Corporation has contractual recourse that consists of, in all material respects, back-to-back contractual obligations against Canadian exporters in the same amount. Under contract terms, payments to exporters usually are not made in advance of receipt of payment from foreign customers. In addition, in order to further mitigate its overall liquidity risk exposure, depending upon the results of its due diligence, the Corporation may supplement this recourse by requiring commercial securities including holdbacks, bank guarantees, surety bonds, parent guarantees, insurance assignments, property liens, personal guarantees and shareholder cash held in trust with the Corporation.

The *Canadian Commercial Corporation Act* permits the Corporation to borrow from the Consolidated Revenue Fund or enter into other credit arrangements or indemnities from other sources for an amount not to exceed $90.0 million.

(in thousands of Canadian dollars, unless otherwise indicated)

The Corporation has a revolving credit facility providing access to funds in the amount of $40.0 million as at June 30, 2017 (March 31, 2017 - $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, 2017, there were no draws on this line of credit (March 31, 2017 – nil).

In addition, the Corporation enters into credit arrangements up to a maximum of $70.0 million as at June 30, 2017 (March 31, 2017 – $70.0 million) where transactions are fully insured by a related Crown Corporation with a Moody's credit rating of AAA, thereby mitigating all liquidity risk related to the Cuba contracting program.

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, 2017	**March 31, 2017**
< 1 year	**$ 1,065,655**	$ 760,346
	$ 1,065,655	$ 760,346

No onerous contracts have been identified as at June 30, 2017 and March 31, 2017.

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.

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.

(in thousands of Canadian dollars, unless otherwise indicated)

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

	June 30, 2017	March 31, 2017
Contributed surplus	**$ 10,000**	$ 10,000
Retained earnings	**17,251**	18,914
	$ 27,251	$ 28,914

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

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

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

	2017			**2016**		
	Revenues*	**Sourcing services transactions**	**Total**	**Revenues***	**Sourcing services transactions**	**Total**
Asia **	**$ 325,167**	**$ 858**	**$ 326,025**	$ 338,342	$ 1,123	$ 339,465
United States	**170,652**	**-**	**170,652**	150,490	-	150,490
Central America and Caribbean	**119,387**	**-**	**119,387**	80,859	174	81,033
South America	**10,199**	**-**	**10,199**	15,333	128	15,461
Africa	**7,532**	**1,394**	**8,926**	14	-	14
Canada	**758**	**2,741**	**3,499**	481	106	587
Europe	**1,473**	**9**	**1,482**	136	2,290	2,426
Australia	**73**	**-**	**73**	2,430	-	2,430
	$ 635,241	**$ 5,002**	**$ 640,243**	$ 588,085	$ 3,821	$ 591,906

* 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:

	2017	**2016**
Financial assets		
Finance income earned on cash	**$ 197**	$ 120
Financial liabilities		
Finance cost on payables and other liabilities	**(38)**	(14)
	$ 159	$ 106

11. Administrative expenses

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

	2017	**2016***
Workforce compensation and related expenses	**$ 5,175**	$ 4,754
Contract management services	**675**	750
Travel and hospitality	**473**	480
Consultants	**461**	295
Software, hardware and support	**424**	381
Rent and related expenses	**408**	449
Communications	**165**	65
Depreciation	**108**	101
Other expenses	**277**	91
	$ 8,166	$ 7,366

* Some comparative figures have been reclassified to conform to current year's presentation.

12. Parliamentary appropriation

No appropriation was authorized by the Parliament of Canada for the three month ended June 30, 2017 (June 30, 2016 - $878).

(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 customers ensuring that the terms of the contract are fulfilled regardless of the quality of performance by the Canadian exporter. The Corporation also engages in the fulfilment of contractual obligations related to sourcing services for support of international assistance programs.

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

	June 30, 2017	**March 31, 2017**
< 1 year	**$ 3,883,826**	$ 2,940,244
> 1 and < 3 years	**10,653,696**	10,777,469
> 3 and < 5 years	**3,513,318**	4,535,665
> 5 years	**721,099**	1,036,032
Total contract portfolio	**$18,771,939**	$19,289,410

During the three months ended June 30, 2017, the value of contracts and amendments signed and effective, representing contractual amounts to be fulfilled, amounted to $275.5 million (June 30, 2016 - $341.8 million). It is expected that the contract portfolio to be fulfilled will be reduced by up to $3,563.1 million due to anticipated contract amendments.

15. Comparative figures

To provide more relevant information about the Corporation's cash flows, the Corporation changed the presentation of the Statement of Cash Flows by removing the changes in Progress work by Canadian exporters and Progress work for foreign customers from the change in working capital section of the cash flows provided by (used in) operating activities. This change had no net impact on the total amounts presented in the comparative figures for cash provided by (used in) operating activities in the Statement of Cash Flows as it resulted in removing a cash inflow of $359,325 and a cash outflow of the same amount. This change did not impact any other statements or note disclosures.