



## Managing risk

ANNUAL | 0405  
REPORT |

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## TAKING THE RIGHT PATH



## Highlights

**\$1.522 billion**

Value of new export orders received

**81%**

Percentage of clients who are SMEs

**3,575**

Number of Canadian companies using CCC services

**202**

Number of exporters contracting through CCC

**\$1.116 billion**

Contracts signed in the U.S.

**\$406 million**

Contracts signed in 24 other countries

**\$16.4 million**

Parliamentary appropriations

**\$9.6 million**

Net revenues including fees for service

**\$1.174 billion**

Commercial trading transactions\*

\* Includes billings from current and previous years' export orders received.



## Who We Are

At the Canadian Commercial Corporation (CCC), we are proud of the role we play in helping Canadian exporters enhance their presence in markets around the world. Our contracting expertise and services help Canadian entrepreneurs win export sales.

The *Canadian Commercial Corporation Act* provides CCC with a legislative mandate to support the development of trade between Canada and other nations. It's a mandate that we pursue energetically, innovatively and collaboratively - working closely with many other federal institutions and provinces as well as private-sector stakeholders to support and advance Canada's exporting businesses.

We help Canadian businesses access international procurement opportunities. We facilitate trade with buyers in other countries - primarily in public sector markets. Our primary business is to act as prime contractor, structuring deals, signing and managing contracts with foreign buyers for goods and services from Canadian companies. In this role, we enhance trust and transparency in export transactions.

A federal Crown corporation reporting to Parliament through the Minister of International Trade, and operating on commercial principles, we promote exports of Canadian innovation by understanding the complex environment in which our clients do business and by providing business solutions to help exporters take advantage of the opportunities that occur. Small- and medium-sized firms make up over 80 percent of our clients. To capture CCC's value proposition to Canadian exporters and their customers abroad, we developed the following Mission Statement:

*"To serve as an effective Canadian trade instrument, bringing buyers and sellers together, and closing successful export contracts on the best possible terms and conditions."*

Headquartered in Ottawa, CCC has liaison officers in major centres across Canada.



## Services

CCC offers services to help Canadian exporters identify and pursue solid, qualified leads. From building a solid offer to strengthening negotiations with the full weight of the Government of Canada at the table, CCC works actively with Canadian companies to secure the best possible terms and conditions for deals.

CCC's **International Prime Contractor Solution** offers exporters more than just contracting expertise – CCC also brings the weight of the Government of Canada to the table to support an export deal with government-to-government arrangements and our government guarantee of contract performance. CCC's involvement in a deal can also result in more favourable contract terms, including a reduction or waiver of bid and performance bonds, and payment guarantees. Exporters can also create a customized package of advisory services to meet their specific needs, whether it is proposal development, contract structuring and negotiation, or contract management.

For Canadian exporters wanting to access the **U.S. aerospace and defence markets**, CCC offers specialized contracting services for exporters selling to the U.S. Department of Defense and National Aeronautics and Space Administration (NASA). Under the Defence Production Sharing Arrangement (DPSA), the procurement regulations of the U.S. Department of Defense require all defence-related purchases from Canada over US\$100,000 to be undertaken through CCC. We also help exporters pursue U.S. federal government business through the **GSA Schedules Program**. Being a GSA Schedule contractor allows a Canadian business to compete on an equal footing with American companies.

When it comes to identifying solid business leads, exporters can turn to **SourceCAN**, which provides clients free online services such as customized opportunity matching, a virtual trade show and much more. CCC matches thousands of global business opportunities to Canadian companies and their products and services, and electronically delivers these business leads daily to SourceCAN registrants.

In the role of **Procurement Agent**, CCC helps foreign buyers access high-quality Canadian goods and services by undertaking the contracting process and managing the purchasing cycle.





“The Board is ensuring that the required control mechanisms are in place to keep the Corporation on a secure footing as it moves more and more into the commercial marketplace.”

## Chairperson’s message

2004-2005 was another strong year for CCC as clearly demonstrated by the volume of business that was undertaken in support of the Canadian export community. It was also a notable year for the action taken to build upon existing corporate governance practices to ensure that risks inherent in international contracting are managed responsibly as CCC supports the entrepreneurial spirit of Canadian exporters.

For its part, the Board of Directors is mindful of the need to have diverse and relevant experience among its members and to have recognized mechanisms and processes in place to support its functioning. During the year, the Board commissioned an independent review of its governance practices to confirm that its oversight responsibility was current and that its members properly understood it. This review also demonstrated and benchmarked the Board’s effectiveness against best practices. As a result of this review, the Board moved towards the establishment of a Governance Committee as well as the adoption of a process to evaluate the Board’s performance and that of the individual Board members.

During the year, the Nominating Committee of the Board established a nomination process in accordance with the new Treasury Board guidelines for Crown corporations and made a recommendation to the Minister of International Trade that led to the selection of Mr. John McBride as the Corporation’s new President. The Board is strongly supportive of this new process as it gives its members more accountability in overseeing the affairs of the Corporation.

As part of its oversight responsibility, the Board is ensuring that the required control mechanisms are in place to keep the Corporation on a secure footing as it moves more and more into the commercial marketplace. A comprehensive review has been initiated to ensure that the Corporation’s risk management regime is kept current with the expanding commercial initiatives that the Corporation is undertaking. The Board has also put into place a Commercial Initiatives Committee, which, on behalf of the Board, receives all major project proposals that management brings forward for Board approval. This committee works with management to ensure that proper due diligence has been undertaken on each proposal and that all aspects of the proposed project have been properly scrutinized.

On behalf of the Board, I want to thank Hugh O’Donnell for his stewardship as interim President this past year, and in helping CCC achieve such significant results. I also wish to acknowledge the services of outgoing members, Louis-Marie Beaulieu, David Fransen, Amélia Salehabadi and Grant Mitchell whose counsel and advice added enormous value to discussions and the decision making of the Board.

Finally, I offer my compliments to all CCC employees whose expertise and hard work continue to help Canada’s exporters win business around the world.

*“Alan R. Curleigh”  
(signed)*

Alan R. Curleigh



“CCC operates at the intersection between international procurement and international trade. It assists foreign governments buying in Canada and it helps Canadian suppliers sell to foreign governments.”



## President's message

I am honoured to have been appointed as the President of the Canadian Commercial Corporation. For nearly 60 years, CCC has been a successful instrument for achieving Canada's international policy objectives. I am excited by the opportunity to contribute to this long tradition of success.

CCC operates at the intersection between international procurement and international trade. It assists foreign governments buying in Canada and it helps Canadian suppliers sell to foreign governments. In doing so, CCC contributes to all of the objectives of the Government's International Policy Agenda – Commerce, Diplomacy, Defence and Development.

The business of international trade and procurement is complicated by a multitude of players. To be successful, CCC must be focused and work effectively with partners. The Corporation has particular expertise in the defence market. It has a privileged relationship with the U.S. Department of Defense that provides Canadian companies with access to one of the largest single purchasers of goods and services in the world. CCC leverages this experience to help Canadian suppliers sell to other defence markets around the world.

CCC has also demonstrated its ability in non-defence markets. The Corporation is active in markets where a government-to-government relationship is key to confidence and access. It also works with the Canadian International Development Agency (CIDA) in select cases to help deliver the Government's development agenda. The key will be continuing to identify areas where CCC can add value to clients and the Government's international agenda.

CCC is most effective when it partners with others. As a niche player in specialized markets, it needs to capitalize on networks and resources to realize its potential. Within its own portfolio, the Corporation needs to continue to build its relationship with the Department of International Trade and Export Development Canada to ensure that the Canadian exporter community is well served.

In the short time that I have been part of CCC, I have been impressed by the dedication and skills of CCC staff. I would like to take this opportunity to recognize all of their work over the last year.

*“John McBride”  
(signed)*

John McBride

# Corporate Performance Against Objectives

CCC establishes performance objectives to measure its progress in implementing key strategies in its five-year Corporate Plan.

The performance measures and targets, both operational and financial, are designed to help management and staff, the Board of Directors and government officials with oversight responsibilities, monitor and track the performance of the Corporation relative to the strategic directions laid out in the Corporate Plan.

In the 2004-2005 Corporate Plan, CCC's three strategic directions were to:

- Achieve a growing diversified export portfolio
- Sharpen the Corporation's commercial focus
- Enhance the corporate profile and improve awareness

CCC categorized its performance measures as either primary or secondary in nature. Primary performance measures are linked to the Corporation's parliamentary mandate and government direction. Their importance is measured by an annual comparison of targeted versus actual results. Secondary performance measures show how successful internal service units are at meeting the primary objectives. The distinction between the two categories also lies in their evaluation, as secondary measures are often viewed as evolutionary in nature, reflecting goals designed to be achieved over a number of years.

## Primary performance objectives

### Objective 1: Grow a diversified export contract portfolio

**Growing the portfolio:** CCC uses two indices to measure the growth of the Corporation's export contract portfolio – value of new export orders received and value of indirect new export orders received. Value of new export orders received tracks the increase in the value of new contracts signed each year. Value of indirect new export orders received tracks the increase in the value of contracts signed by CCC clients when CCC is not the prime contractor on the deal.

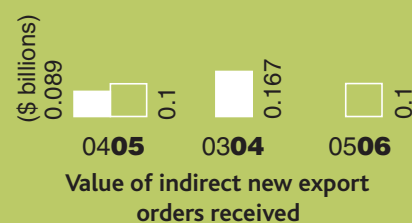
2004-2005 was a mixed year for CCC in reaching its performance objectives for its two indicators of growth. While the key measure of value of new export orders received exceeded the target for the year, the value of indirect new orders received did not reach projected performance.

**Diversifying the portfolio:** CCC measures its success in diversifying its contract portfolio beyond its core business of aerospace and defence in the U.S. market.

2004-2005 closed showing progress in sector diversification, however, less than anticipated headway was made in market diversification as a result of the level of sales outside of the U.S. Sales to the U.S. were positive during the year resulting from the continued demand for defence-related products. Significant unexpected business as a procurement agent for the Canadian International Development Agency meant the target for non-aerospace and defence business was surpassed substantially.

## Growing a Diversified Export Contract Portfolio

Performance measure  Actual  Target



### Objective 2: Sharpen the commercial focus

CCC uses three indices to measure its success in sharpening its commercial focus.

**Revenues as a percentage of direct non-DPSA costs:** This index measures the degree that net revenues (composed primarily of fees for service, receivable discounting fees and interest revenue) cover direct expenses (that include primarily direct labour and travel costs, additional contract costs and services provided by Public Works and Government Services Canada (PWGSC)) related to the Corporation's non-DPSA business lines. The ratio should be at least 100 percent, indicating that revenues at a minimum cover direct expenses with any excess contributing to cover indirect and overhead costs.

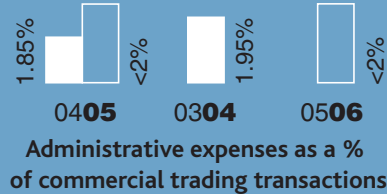
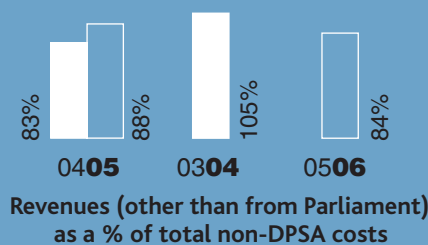
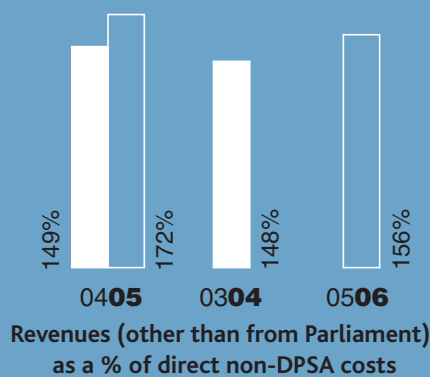
2004-2005 results were lower than anticipated on this index. While revenue results were on target for the year, the level of additional contract costs for non-DPSA contracts was higher than anticipated for the year.

**Revenues as a percentage of total non-DPSA costs:** This index matches revenues to the related costs of supporting these services, including indirect costs and overheads. Such costs are generally assigned to either the DPSA or non-DPSA business lines based on the relative volume of business activity of each business line.



## Sharpening the Commercial Focus

Performance measure  Actual  Target



In the last two financial years, this forecast measure was exceeded with results of more than 100 percent, with the 2004-2005 results showing the sensitivity of the index to changes in overhead. This year's performance was also affected by a significant increase to the additional contract cost provision.

**Administrative expenses as a percentage of commercial trading transactions:** This index provides a view of the Corporation's spending trends for operating expenses, and is designed to reflect the Corporation's need to see growth in operating expenditures aligned with overall growth in total revenues. It compares total administrative expenditures to commercial trading transactions that include contract billings (value of work delivered or in process during the year on signed contracts), fees-for-service revenues, receivable discounting revenues and other miscellaneous revenue (not including interest revenue or any resulting gain on foreign exchange).

2004-2005 showed an encouraging downward trend in this performance measure with CCC surpassing the target by a comfortable margin. It reflects a responsible relationship between the Corporation's solid growth in commercial trading transactions and management of its related growth in administration expenses.

## Objective 3: Enhance the corporate profile and increase awareness

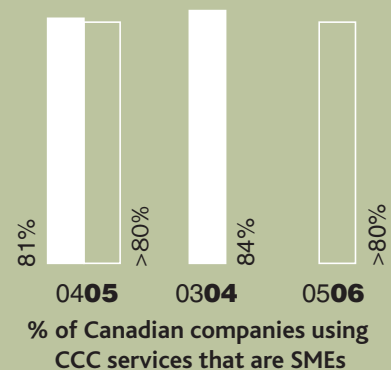
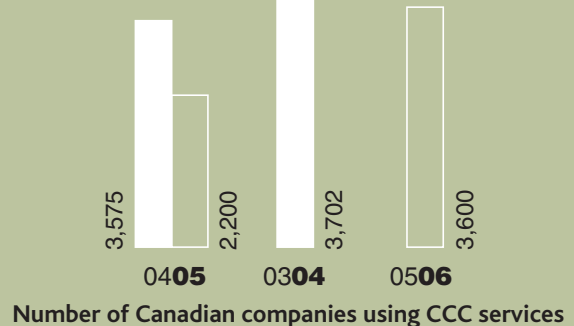
CCC's performance objectives in this area are related to two key indicators – the number of companies using CCC services, and the proportion of those clients who are small- and medium-sized enterprises (SMEs). Data used to derive these measures is collected from two sources – CCC's internal business applications and SourceCAN, a Web-based service offering managed in collaboration with Industry Canada.

**Number of companies using CCC services:** The growth in the number of customers using CCC services is a measure of the value of its offerings to prospective clients. The number of companies accessing CCC services increased dramatically in 2003-2004. Projections for 2004-2005 anticipated a normalized rate of usage of SourceCAN for number of clients served. 2004-2005 actual performance surpassed the normalized target by a significant margin of 63 percent.

**Percentage of companies using CCC services that are SMEs:** In 2004-2005, the target was achieved, however, year-over-year results showed a decrease due, in part, to CCC's decision in September 2004 to stop accepting new applications for its Progress Payment Program offering.

## Enhancing Corporate Profile & Increasing Awareness

Performance measure  Actual  Target



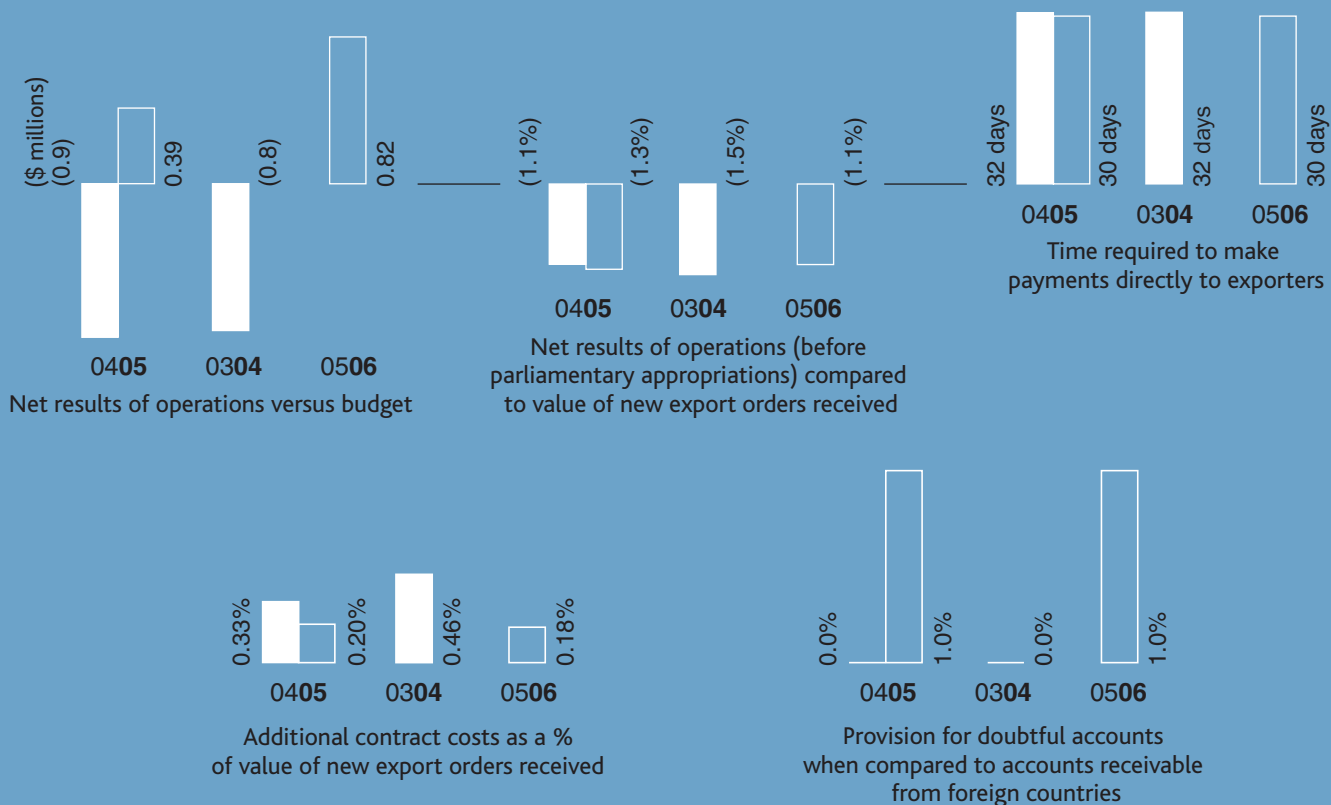
## Secondary performance objectives

Secondary performance indicators reflect measurement objectives that are likely to take several years to be fulfilled. Performance measures deemed to be secondary in nature include:

- Improve internal and external service delivery capacity in the areas of human resources and informatics
- Maintain or improve upon key financial and related operations performance indicators
- Ensure that targeted communications activities are met or exceeded and long-term awareness targets remain on-track

### Finance Selected Secondary Financial Performance Measures

Performance measure ■ Actual □ Target



### Five-year Historical Review of Key Indicators

Indicator	2004-2005	2003-2004	2002-2003	2001-2002	2000-2001
New orders received	\$1.522B	\$1.144B	\$0.952B	\$1.214B	\$1.338B
Revenues from non-parliamentary sources	\$9.917M	\$11.922M	\$9.458M	\$7.911M	\$7.798M
Revenues (before appropriations) as a percentage of total non-DPSA costs	83%	105%	104%	N/A	N/A
Net results of operations	(\$0.9M)	(\$0.8M)	\$0.1M	\$2.5M	\$1.8M
Additional contract costs as a percentage of directly facilitated exports*	0.33%	0.46%	0.21%	0.03%	0.2%
Provision for doubtful accounts when compared to accounts receivable from foreign countries	0.0%	0.0%	0.0%	0.0%	0.0%
Number of Canadian companies using CCC services	3,575	3,702	1,971	1,954	1,795
Percentage of clients who are SMEs	81%	84%	82%	N/A	53%

\* Orders received used for previous years' calculations.



Courtesy of the Canadian Department of National Defence

## Management's Discussion and Analysis

### Operations

#### Aerospace and defence

The United States is by far Canada's most important trading partner, with almost 85 percent of Canadian exports flowing to the U.S. The U.S. Department of Defense (U.S. DoD) and the National Aeronautics and Space Administration (NASA) are two key customers for Canadian exporters, purchasing, in part, goods and services under the Canada-U.S. Defence Production Sharing Arrangement.

In 2004-2005, CCC signed contracts totaling \$763 million with the U.S. DoD and NASA. There continues to be strong demand for defence-related products. Canadian suppliers were also the source of renewed interest from NASA for repair work on the Hubble space telescope.

The purchase of two aircraft to be used in surveillance by the Department of Homeland Security (DHS) is a positive sign. CCC continued to meet with DHS to build a more significant role in its procurement process and explore future procurement opportunities in information, communication and security products and services.

In global aerospace, CCC signed a major contract in Germany with a Canadian firm providing satellite imagery capability that can be used for map making and crop monitoring applications.

We also pursued the sale of helicopters and Light Armoured Vehicles (LAVs) to Thailand.

## IDENTIFYING the potential risks requires a holistic and ongoing effort

To ensure exporters can meet all contractual obligations and eliminate undue export transactional risk, CCC performs pre-contract due diligence. CCC will not sign any foreign contract until risks identified at this pre-contract stage are mitigated. The certification process includes formally documenting CCC's due diligence and conditions for moving forward.

CCC's team-based approach to pre-contract due diligence ensures the appropriate mix of skills for reviewing a supplier's financial, managerial and technical capability along with all other areas of concern. CCC relies on consultants and subject matter experts at Public Works and Government Services Canada when additional expertise is needed. Regardless of the size of a project, a CCC team ensures all risks are identified and mitigated at the outset.



# RISK



## Engineering procurement and construction projects (EPC)

In 2004-2005, CCC completed its due diligence for the Quito airport project in Ecuador and proceeded to obtain approval from the Board of Directors and Ministers of International Trade and Finance. The contract is expected to be signed by mid 2005. The project is representative of infrastructure opportunities increasingly being undertaken by governments worldwide.

CCC established a team with infrastructure project management experience to manage the Quito project and develop business principally in the areas of transportation, hydroelectric and water project development. Canadian companies are particularly strong on the service side of these industries and are capable of taking leading roles in large project development. During the year, CCC also brought together a consortium of Canadian companies and continues to pursue an opportunity with the Louisiana Airport Authority to construct an air cargo facility. The EPC team also signed contracts, on behalf of Canadian companies, for feasibility studies for EPC projects in various countries.

### International commercial business and structured finance

An important market focus for CCC in 2004-2005 was CCC's role as procurement agent for a foreign government or a Canadian government organization. Much of the work done was in concert with efforts initiated by the Canadian International Development Agency (CIDA).



CCC's procurement expertise was put to work supporting the Government of Canada's humanitarian efforts in the Darfur region of Sudan, and delivering the Canadian contribution to the *Sommet de la Francophonie* in Burkina Faso. CCC will play a similar role for the 2005 Francophonie Games in Niger in the coming year. At the request of CIDA and the Zambian Ministry of Health, CCC continues to provide a transparent purchasing and distribution process for health and pharmaceutical products.

CCC plans to work more closely with CIDA and other government departments in 2005-2006 to build this area of business, and therefore increase its value in promoting Canadian businesses abroad.

In 2004-2005, CCC followed through on its relationship with the U.S. General Services Administration (GSA), in organizing a procurement conference. In doing so, CCC began the process of reaching out to the Inter-American Development Bank and the Organization of American States, and linking directly to the countries outside the NAFTA agreement for government procurement opportunities. The GSA Program supports Canadian exporters, many being small- and medium-sized enterprises (SMEs), wishing to make sales to the GSA, the U.S. government procurement agency, for non-defence related acquisitions.

The Caribbean region remains a focus for CCC's business development efforts, with new contracts signed in the Dominican Republic, and for cancer care hospital design, technology and training in Trinidad and Tobago.

## Building strategic alliances

An important way for CCC to assist Canada's exporters is to partner with other federal and provincial government agencies and departments, and to forge relationships with the Canadian business community.

In 2004-2005, CCC solidified existing alliances and established new ones with specific sector associations including Canadian Manufacturers and Exporters, Aerospace Industries Association of Canada, Canadian Defence Industries Association, and others. They have been important elements of CCC's marketing and business development strategies aimed at raising awareness and understanding, and identifying and qualifying new projects.

To help increase awareness of CCC and provide new platforms for early business leads, CCC is actively involved in two shared service initiatives: SourceCAN and the Virtual Trade Commissioner.

SourceCAN is an electronic marketplace launched in partnership with Industry Canada in 2000. It brings buyers and sellers together by filtering and matching real opportunities from around the world with Canadian company capabilities. SourceCAN saw another year of continued growth in 2004-2005. More than 58,000 registered users had access to 550,000 opportunities extracted from over 40 electronic business opportunity feeds. This resulted in 8.5 million SourceCAN bid matches that were delivered to Canadian companies, many of which are SMEs. One electronic feed alone resulted in over \$784 million in awards to Canadian companies, 95 percent of which were primed by CCC.

## Business Performance at a Glance

The following table shows actual results against targets (millions of dollars)

	2004-2005 Actual	2004-2005 Target	2003-2004 Actual	2003-2004 Target
Aerospace and Defence				
DPSA	\$763	\$625	\$800	\$600
Major defence projects (including LAV)	\$343	\$200	\$112	\$54
Global aerospace and defence	\$294	\$145	\$43	\$132
International Commercial Business				
Baseline	\$106	\$95	\$118	\$80
Progress Payment Program	\$5	\$55	\$7	\$75
ICB major projects	\$11	\$135	\$64	\$115
New orders received	\$1,522	\$1,255	\$1,144	\$1,056

## ASSESSING the probability and impact of risk

CCC's IT group is in the process of building a Business Continuity Plan to deal with the unexpected circumstances that can interrupt day-to-day business without warning. CCC's business units have come together to identify which documents, systems and processes are the most important and how long they could function without these important tools, while indicating the impact of their absence on service delivery levels.

At the same time, the IT group is taking steps to upgrade hardware for all critical systems to reduce the risk of downtime in the event of a disaster. CCC is determined to assess all risks and be as prepared as possible for the unexpected.



# RISK



# PLANNING a response based on where the business is headed, not solely on where it is today

Risk management has to evolve to match changing business needs. For example, CCC has focused on Engineering, Procurement and Construction (EPC) projects, which are integrated, complex and typically multi-million dollar projects that may be of strategic importance to the host country. CCC developed a due diligence process for the Quito airport project that could be used for future EPC business.

CCC has also established an expert team with major infrastructure project management experience to manage the projects as they develop.



## RISK

In a continuing effort to improve SourceCAN, administrative agreements were renewed to put added emphasis on governance and strengthen the relationship among the parties. SourceCAN commissioned a performance and impact assessment, which will be followed by a client survey in the coming year.

CCC and its project partners in SourceCAN were selected to receive the Public Service Award for "Excellence in Citizen-focused Service Delivery" for achieving results for Canadians that reflect the current values, ethics and priorities of the Public Service of Canada.

CCC also entered into a partnership with International Trade Canada's (ITCan) "Virtual Trade Commissioner" service (VTC). This electronic portal brings ITCan and its partners, which include Export Development Canada, Canadian Heritage and Agriculture and Agri-Food Canada, closer to Canadian global traders and their preferred markets.

### Corporate social responsibility

As a Crown corporation of the Government of Canada, CCC is committed to upholding and promoting Canada's position toward corporate social responsibility.

In 2004-2005, CCC made progress in implementing its plan to address environmental, social and ethical responsibility matters as they relate to the Corporation's operations, public policy mandate, Canada's international commitments and the capabilities of its employees. Specific areas of focus have included conflict of interest, code of conduct and bribery and corruption, and corporate values.

### Protecting the environment

Environmental impacts and associated risks are taken into account when CCC evaluates potential export projects. In 2004-2005, as

"CCC strives to meet financial targets that may be adjusted by the Government from time to time, and to manage its ongoing risks and financial responsibilities in a prudent manner that recognizes the wishes of the Government of Canada."

part of a program involving 40 other Crown corporations, CCC undertook negotiations with the Canadian Environmental Assessment Agency to establish specific regulations under the *Canadian Environmental Assessment Act* for overseas construction projects. Discussions with the Agency focused on evaluating the suitability of the *Projects Outside Canada* regulation currently used by a number of government departments. An important consideration has been to determine how CCC can harmonize the environmental standards required by export credit agencies, other investment institutions and foreign governments involved in many of these projects and ensure that they are conducted in a consistent, environmentally responsible manner. The parties have also been seeking to find an environmental assessment reporting arrangement that best reflects the complicated timing of CCC's involvement in such projects. CCC expects to complete this process in the coming year.



# MITIGATING risk with an appropriate and cost-effective response, while remaining consistent with corporate objectives and priorities

In the complex world of international trade, one way in which CCC mitigates risk is through efforts to identify risk-sharing partners, whether it is other Crown corporations, private sector insurers or financial institutions. The sharing of risk allows CCC to pursue its objectives with minimal risk exposure, and to leverage its capital base to increase its business.



## RISK

### Internal capacity

Continuous learning is one of CCC's corporate values and is supported by a commitment to build transferable skills that support a broad commercial agenda. Many of our employees have specialized education and training in international contracting, finance, risk management, negotiation, sales and market development. CCC has adopted a "5 + 5" approach towards employee development initiatives, investing five percent of its payroll expenditures in career development initiatives, and providing an average of five days training per person per year, which was exceeded. The Corporation has focused particular efforts on supporting employees who are pursuing post secondary education and professional designations. In the last year, four employees earned their accreditation as a Certified International Trade Professional (CITP) and several others continued their studies towards a Project Management Professional (PMP) designation.

The CCC workforce is well balanced in terms of age, experience and gender, and the Corporation's bilingual capacity allows it to effectively provide services to exporters from all regions of Canada. A formal succession-planning framework for the management cadre was developed and approved by the Board of Directors.

CCC undertook a number of changes in the area of information technology in 2004-2005. In support of the Corporation's business objectives, hardware, software, voice and data communications, security, and business resumption planning were all realigned. During the year, the Communications and IT groups collaborated to deliver a new public Web site and an internal employee portal by leveraging CCC's in-house Oracle e-Business Suite platform.

### Corporate governance

In 2004-2005, the Board of Directors of CCC continued to provide guidance to the Corporation, instituting a number of actions to

further strengthen its corporate governance practices and processes in order to ensure the appropriate oversights are being provided to the Corporation and its management.

The governance structure in place helps CCC fulfill its mandate and achieve the proper balance between its public policy and commercial objectives while at the same time achieving a consistently high standard of accountability. The Corporation's governance structure is consistent with the Treasury Board guidelines found in *Corporate Governance Guidelines in Crown Corporations and Other Public Enterprises*, and the *Guidelines for Audit Committees in Crown Corporations and Other Public Enterprises*.

### Building integrity

At the same time, the Board recognizes that regular self-examination must be undertaken in order to improve its overall governance regime. It has implemented changes to address the need for additional training of members and for evaluations of individual directors and the Board as a whole.

CCC assessed its governance structures against the measures and findings of two reports on Crown corporation governance issued during the year by the Auditor General of Canada and the Treasury Board Secretariat. The Corporation has already implemented a number of the measures being recommended. CCC also researched best governance practices, comparing them against the recommendations in the two reports and identified areas to be addressed, including Board member education and improving communications with stakeholders.

The Audit Committee undertook a review and revision of its mandate, developing a Charter, Terms of Reference and a work plan based on best practices of Crown corporations. These changes also took into account leading corporate governance practices, including the U.S. Sarbanes-Oxley legislation, and the governance requirements and practices of the Ontario Securities Commission.

"Our Directors contribute unique professional experiences that help us respond to the complex issues of selling in the international marketplace. Each has a firm understanding of our business and can effectively challenge management on any issue or plan."

#### Board renewal

The Board approved CCC's 2004-2008 Corporate Plan, which reflected a strategy to more fully meet the commercial challenges and opportunities of the international procurement marketplace in a responsible and transparent manner. Board renewal was identified as a major area of focus, and to enhance its functioning, the Board undertook the development of a Composition Strategy and Director Profiles to provide guidance in selecting the best candidates to fill any competency gaps as vacancies on the Board arise. The establishment of a permanent Nominating Committee took place and its first mandate was to oversee the selection process and make recommendations to the Board for the Corporation's new President.

The Nominating Committee also reviewed and recommended to the Board the appointment of two new directors. The recruitment process that has been adopted is consistent with the appointment process announced by the Government in March 2004.

#### Board remuneration

Directors are paid an annual retainer and per diem. Amounts are set by the Governor-in-Council pursuant to the *Financial Administration Act*:

- The Chair of the Board receives an annual retainer of \$9,400 and a per diem of \$375
- Other private sector directors receive an annual retainer of \$4,700 and a per diem of \$375
- Committee Chairs receive an additional retainer of \$1,500
- Public service directors do not receive remuneration

The per diem is paid for attending meetings, travel and review of materials. Directors are also reimbursed for all reasonable out-of-pocket expenses, including travel, accommodations and meals.

"The Board of Directors sets the strategic direction of the Corporation and is responsible for ensuring the mandate is fulfilled in the best possible manner."

## MONITORING AND COMMUNICATING the effectiveness of risk management facilitates feedback and improvement

CCC monitors risk at the export transactional, operational and strategic levels. The Post Contract Management (PCM) manual is used to monitor credit and exporter performance risk. CCC completed the implementation of its PCM process in 2004-2005, including the introduction of the PCM manual that establishes the procedures for contract management monitoring. The manual, a requirement for all working on PCM activities, shows staff how to improve risk management and the cost effectiveness of PCM practices. CCC emphasizes that the PCM methodology and concepts are a core requirement of any project/contract management activity. CCC emphasizes that the PCM methodology and concepts are a core requirement of any project/contract management activity.



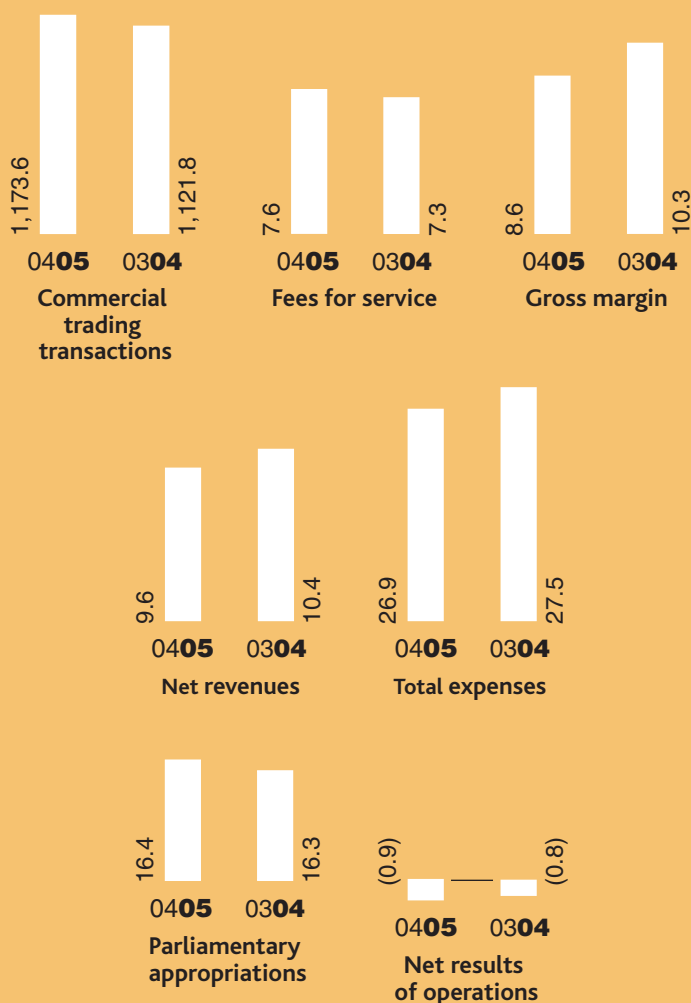
# Finance

## Financial highlights

The 2004-2005 fiscal year ended with a loss as a result of higher than expected additional contract costs related to a small number of SME facilitated contracts. The Corporation posted record level fees for services, improving on last year's total by over \$0.3 million. This result further points to exporters' generally positive response to the Corporation's implementation of its fees-for-service policy and reflects the value placed by exporters on CCC's services and expertise in developing successful projects.

A more detailed discussion of the Corporation's 2004-2005 financial highlights follows.

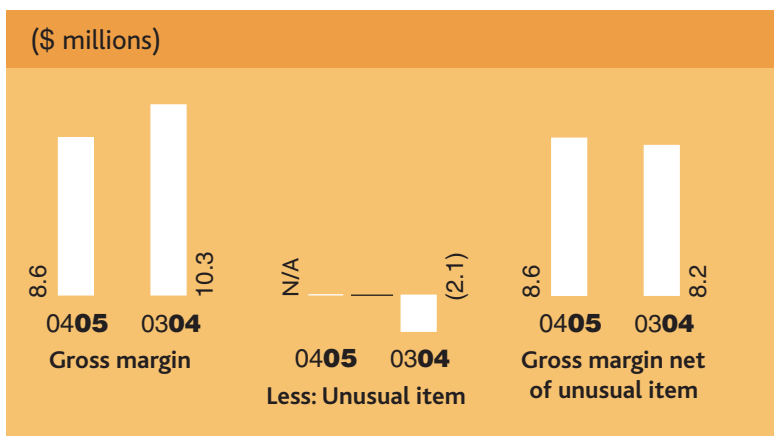
### Income Statement Discussion Summary results of operations (\$ millions)



Fees for service are part of commercial trading transactions and form the main component of gross margin and net revenues.

Commercial trading transactions include the Corporation's billings from outstanding signed contracts, fees for service and income generated from discounting exporters' receivables. The value of these transactions was slightly higher this year than last, despite the effects of a higher valued Canadian dollar that discounted project values and returns that had been contracted in U.S. dollars. The increase resulted from the commencement of work related to two consecutive years of record-breaking orders received.

The Corporation's gross margin decreased by \$1.7 million over the previous year. However, this is the result of the inclusion in 2003-2004 of an unusual item of \$2.1 million related to the reversal of a long-standing liability. A full comparison is provided below.



Net revenues, comprised of the total of gross margin, net interest income, and gain (loss) on foreign exchange, decreased by \$0.8 million compared to last year due primarily to the lower gross margin results discussed earlier. However, the increase in the value of the Canadian dollar against the U.S. dollar resulted in a foreign exchange loss of \$0.2 million in 2004-2005, when the Corporation's U.S. assets were converted to Canadian dollar equivalents. This compares favourably to last year's foreign exchange loss of \$1.6 million. As a result of a new treasury management framework implemented in 2003-2004, foreign exchange translation losses were significantly lower in 2004-2005 than in 2003-2004, even though both years saw the Canadian dollar appreciate significantly.

Total expenses decreased by \$0.6 million year-over-year, with administrative expenses \$0.2 million lower than last year and additional contract and related costs decreasing by \$0.4 million. Some of the major items comprising the administrative expenditures were:

- The Corporation's workforce consisting largely of highly skilled full-time employees, complemented by consultants and temporary hires to fill assignments requiring specific expertise, cost \$10.0 million, effectively the same as last year
- Public Works and Government Services Canada (PWGSC) fees for service amount to \$5.2 million annually on the core activities under the Defence Production Sharing Arrangement (DPSA). Over and above this amount, \$0.6 million was paid for PWGSC involvement on special projects (outside core services)
- Rent for the premises amounted to almost \$1.0 million, slightly higher than the amount expended in 2003-2004
- Travel, principally for operations requirements to secure or manage over \$1.0 billion in international contracts, amounted to \$1.0 million, materially unchanged from the amount spent in 2003-2004



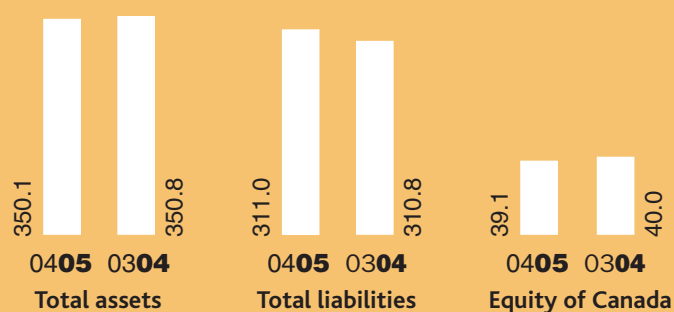
- Computer hardware, software and support costs (not including full-time employees that are included in workforce discussed previously) were \$1.1 million, some \$0.3 million lower than the amount expensed last year
- Marketing and promotion costs amounted to \$0.9 million, the same level as the previous year
- The amortization of capitalized assets associated with the Corporation's overhaul of its computer system, totaled \$0.7 million, the same amount as in 2003-2004

The Corporation closely monitors its administrative expenditures. Overall, administrative expenditures were slightly lower in 2004-2005 than in the previous year. The Corporation uses the ratio of administrative expenditures to commercial trading transactions to measure its administrative expenditure efficiency, with an objective not to exceed 2 percent. The 2004-2005 ratio of 1.85 percent was not only below the 2 percent threshold, but also lower than the 2003-2004 result of 1.95 percent.

In 2004-2005, at \$16.4 million, the Corporation received approximately the same amount of appropriations from Parliament as in the previous year.

### Balance Sheet Discussion

Summary financial position  
(\$ millions)



Total assets at \$350.1 million at March 31, 2005 were materially unchanged from the previous fiscal year end.

As an international trade intermediary, CCC for the most part offsets its trading-related assets with matching liabilities. Accounts receivable from foreign customers and progress payments to Canadian exporters on the assets side of the balance sheet are largely offset by accounts payable and accrued liabilities to Canadian exporters, as well as by progress payments from foreign customers.

In certain circumstances, however, the Corporation does have a need for other sources of working capital to bridge timing differences between its payables and receivables. CCC's statutory power to borrow commercially up to \$90 million provides it with useful flexibility to manage such variations.

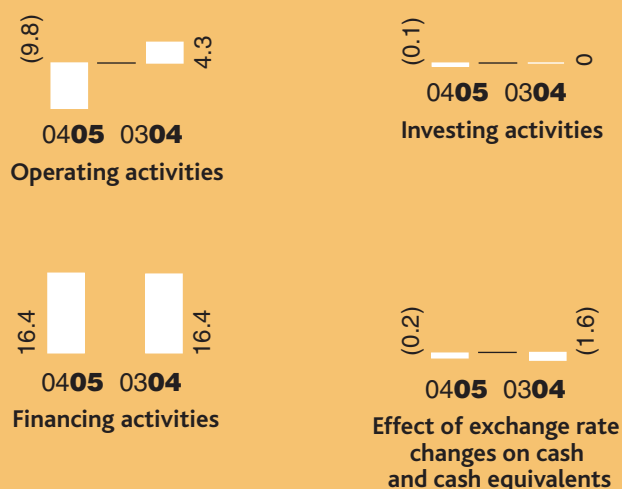
CCC's capital assets decreased on a net basis by \$617,000 in 2004-2005. This was the result of amortization of the Corporation's information system technology.

The Corporation's provision for additional contract and related costs decreased by approximately \$3.0 million. Increases to the provision of \$5.2 million related to expenses incurred during the year were more than offset by \$6.2 million in cash disbursements related to settlements of contracts not fulfilled by Canadian exporters and \$2.0 million in reductions to other assets.

The value of the equity investment of the Government of Canada in CCC remained essentially the same, at approximately \$39.1 million. The Corporation's equity backstops the normal commercial risks inherent in its contract portfolio of undelivered contracts totaling approximately \$1.4 billion at year-end. The Corporation applies comprehensive risk management practices to support this position, acknowledging that, as an agent of the Crown, all obligations of the Corporation are obligations of the Government of Canada.

### Changes in Cash Flow Discussion

Summary of cash flow  
Cash provided (used) by  
(\$ millions)



As described in the Corporation's Cash Flow Statement, cash and short-term deposits at March 31, 2005 increased by \$6.3 million compared to the previous year. This can be identified under three key activity areas:

#### Operating activities

For 2004-2005, the Corporation used \$9.8 million in cash in its operating activities, as compared to the \$4.3 million provided by operating activities in 2003-2004. CCC's annual cash flow from operations is traditionally negative due to the payment policies in its DPSA business, where the Corporation pays Canadian exporters in 30 days from receipt of invoice irrespective of when it receives payment from the U.S. Government. In 2004-2005, large amounts were also disbursed over the course of the year to settle contracts not fulfilled by Canadian exporters, thereby escalating the negative result.

## Investing activities

As was the case in 2003-2004, there were no significant investing activities this year.

## Financing activities

Cash provided by financing activities amounted to \$16.4 million for the year ended March 31, 2005, the same amount for the previous year. This year's cash flow from financing activities represents the Corporation's parliamentary operating appropriations.

## Comparison with 2004-2005 to 2008-2009 Corporate Plan

2004-2005 was a positive year for the Corporation from a revenue generation perspective. CCC exceeded its gross revenue target of \$9.1 million by \$0.9 million, as Canadian exporters confirmed the value they place on CCC's services and expertise in developing successful projects. Specifically, the Corporation surpassed its \$7.2 million fees-for-service revenue target, generating \$7.6 million in its third year of implementation, the highest level of fees-for-service revenues in CCC's business history. Net interest revenue results were greater than planned, due primarily to improved receivable collection efforts that reduced the Corporation's commercial borrowing costs.

While foreign exchange translation losses were held to a minimum by specific programs designed to control such losses, the Corporation posted a larger foreign exchange translation loss than budgeted, due to a greater than expected appreciation of the Canadian dollar versus the U.S. dollar throughout the year. The Canadian dollar strengthened as compared to its U.S. dollar counterpart from 0.7626 U.S. (1.3113 CAD) at March 31, 2004 to 0.8267 U.S. (1.2096 CAD) at March 31, 2005.

Additional contract and related costs exceeded budgeted levels (based on historical trends) by \$3.3 million. This situation arose as a result of problems related to a small number of SME facilitated contracts signed prior to 2003. However, damages could not be determined or quantified until this year. The Corporation will continue its efforts to better control its internal processes to ensure that optimal risk management and monitoring are in place for all contracts.

## Looking ahead five years

CCC's Corporate Plan for 2005-2006 to 2009-2010 identifies the objectives and strategies the Corporation will pursue to fulfil its mandate of facilitating trade. CCC will continue to work towards achieving a more diversified export contract portfolio. For 2005-2006, the Corporation has developed a fees-for-service target of \$7.3 million.

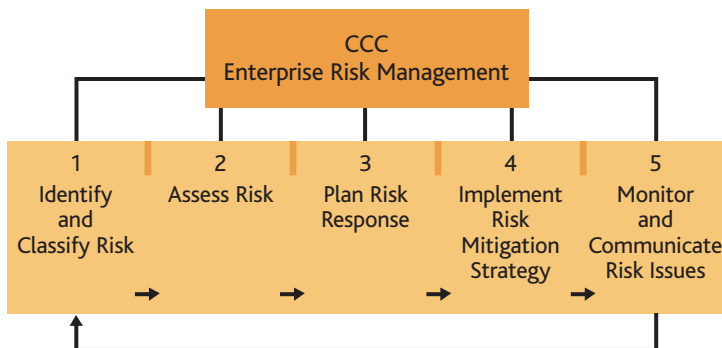
In response to a growing number of companies asking for CCC's support for more complex projects with an overseas construction component, CCC is increasing its focus in this area. A shift toward these projects will have a positive impact on the Corporation's finances because they involve extensive pre-contract work, which under the Corporation's fees-for-service policy is chargeable as the work is performed.

Net income for 2005-2006 is planned at \$0.8 million, as additional contract costs are anticipated to return to pre-2003-2004 levels as the Corporation makes significant efforts to improve on its internal risk management processes.

## Risk management

### Overview

CCC is subject to a wide variety of risks and uncertainties (both external and internal) in fulfilling its mandate to facilitate international trade flows. To strengthen CCC's existing risk management practices, the Corporation embarked upon the implementation of an Enterprise Risk Management (ERM) framework. ERM will strengthen the Corporation's ability to link strategic, operational and export transactional risks to the achievement of corporate objectives. The ERM framework will support consistency across the Corporation in terms of the risk analysis process.



The ERM implementation began mid-way through the fiscal year, with the majority of the deliverables due to be implemented during 2005-06.

### Risk governance

The risk management function is practiced across the Corporation. The Audit Committee reports to the Board of Directors on risk management issues. Management is responsible for developing the risk management structures, policies and procedures for the Board of Directors' consideration. In developing the Corporate Plan, Management considers strategic risks to the achievement of corporate objectives. Operational risk is the responsibility of the departmental Vice-Presidents. The Vice-President, Risk and Financial Services sets the policies and procedures related to pre-contract export transactional risks. Compliance with these policies is the responsibility of the Vice-President, Operations, who also sets the post-contract risk management policies related to export transactions.

In addition to setting the export transactional risk parameters, the role of the Vice-President, Risk and Financial Services is to ensure that strategic, operational and export transactional risks are being appropriately addressed by the risk owners through the ERM initiative.

## Categories of risk

### Strategic risk

The Corporation regards strategic risk as those risks that could interfere with the achievement of corporate objectives. Management and the Board of Directors review these risks through the development of the Corporate Plan. Management considers the following to have strategic impact:

#### *Mandate risk*

CCC's mandate is to assist in the development of international trade. Although this is a wide-ranging statement, programs and services offered by the Corporation must support the Government's trade agenda while not overlapping with other government initiatives or Crown corporation activities. Also, CCC must meet all government regulations set out in the various acts governing Crown corporations. A sub-committee of the Board (Commercial Initiatives Committee) has been established and is tasked with ensuring that these criteria are met for all existing and any new products/services.

#### *Organizational risk*

Management must ensure that the proper corporate structure is in place to support the organization in meeting its objectives. This includes human resources, information management and reporting structures. During the year, changes in the risk management function and individual risk responsibilities were introduced to better equip the Corporation in fulfilling its objectives.

#### *Reputational risk*

Reputational risk results from events that tarnish the CCC brand. Poor communication with the Corporation's stakeholders may also lead to a loss of reputation. Ensuring that stakeholders are fully apprised of the Corporation's activities minimizes this possibility. The Corporation maintains close ties with its stakeholders and has increased its transparency by augmenting the reporting available to the public via the CCC Web site.

#### *Business environment risk*

Changes in the economy, business needs, insurance and banking practices have an impact on the utilization and value of CCC's services to Canada's exporters. In developing the Corporate Plan, the Board and Management consider these trends while selecting priorities for the Corporation.

### Operational risk

Each business unit within the Corporation manages the risk of loss resulting from inadequate or failed internal processes, people and systems. The risk owners are the Vice-Presidents of the business units. The ERM team provides oversight and support where needed.

#### *People risk*

Ensuring that the Corporation's staff has appropriate training opportunities is key to having the right people with the right skill sets. Over 55 training programs were provided to staff throughout the year. A succession-planning framework was presented to the Board of Directors during the year.

#### *Information risk*

Having sound information management systems is critical for staff to be empowered to achieve the corporate objectives. During the year, the Corporation focused on improving its information management system, finalized business continuity plans and began work on a new Web-based portal for employees and eventual roll-out to clients.

#### *Process risk*

As part of the ERM implementation, all major processes related to the day-to-day operations of the Corporation are being revisited. Of particular emphasis has been the Corporation's file management and project certification processes. As the ERM process evolves in 2005-2006, other key processes such as treasury and accounts receivable/payables management will be reviewed.

### Export transactional risk

The Corporation is sensitive to the need to protect taxpayers by effectively managing risk in its business transactions, specifically its export contracts and other financial activities. In managing its export transactional risk, the following key risk areas are reviewed:

#### *Contract risk*

With approximately \$1.4 billion in outstanding contractual obligations, the terms and conditions of foreign contracts that CCC enters into are a key area of risk. CCC's role as prime contractor allows for direct negotiations with foreign buyers to remove onerous terms and conditions that are beyond CCC's risk tolerance. By doing so, CCC mitigates its own delivery risk under the foreign contract. This also lowers the exporter's risk at the same time.

Some examples of the contractual risk issues that CCC addresses include: liquidated damages, timing of foreign payment flows to exporter production cash flows, location and basis of acceptance of goods or services, location and basis for dispute resolution, and timing of foreign party contractual obligations versus those of the exporter. CCC passes on all the obligations of the foreign contract to the Canadian supplier via a back-to-back matching domestic contract.

#### *Performance risk*

Performance risk is the risk that the Corporation's supplier or suppliers (exporters) may fail to supply goods and services to the foreign buyer consistent with the terms and conditions of the contract. Prior to entering into such contracts, the Corporation conducts an extensive due diligence review of the exporter's managerial, technical and financial capability and the foreign contract.

In the case of DPSA projects and some others, PWGSC conducts this risk assessment on behalf of the Corporation. Depending upon the results, the Corporation may require additional assurances such as performance securities and/or contract modifications.

Following contract signing, the Corporation actively monitors and manages the risks associated with transactions post-commitment to ensure that issues are identified and addressed as early as possible. The Corporation provided extensive training throughout the year after the formal introduction of its Post-Contract Management Manual (PCM). The implementation of this manual has improved the Corporation's risk management practices and business processes associated with its outstanding contract portfolio.

#### *Foreign credit risk*

Foreign credit risk is the risk that the foreign party will not honour its obligation to pay for the goods and/or services under the contract. The Corporation has a foreign credit risk policy that determines the amount and extent to which it will entertain this risk on its own account. Specifically, it takes a Triple-A rated credit risk of foreign governments and commercial parties, and accepts commercial securities to back up customers' payment obligations where the credit rating is less, unless the Board has provided an



exception. In all other cases, the foreign credit risk is the responsibility of the exporter, who often uses the financing and insurance services of Export Development Canada (EDC) to mitigate credit exposures.

#### *Export contract foreign exchange risk*

Foreign exchange risk is the risk that the foreign currency under the contract fluctuates negatively against the Canadian dollar over the term of the contract resulting in lower Canadian dollar revenues for the exporters. The Corporation passes this risk onto the exporter by way of CCC's back-to-back contracting mechanism. CCC only pays exporters in the base currency of the foreign contract.

#### **Risk capital allocation**

The Corporation uses its capital to backstop risk related to its export transactions. This includes supplier performance risk as well as any credit risks that the Corporation has entered into.

The SME community may have difficulties meeting CCC's strict due diligence criteria. Although SMEs may have strong technical skills, their financial and managerial depth may be limited. In certain circumstances, the Corporation may undertake projects with SMEs that have special risks. In the event that the project is beyond CCC's normal risk tolerance, the project may be supported through the SME Risk Fund. This fund was established by the Board of Directors to underwrite specific project risks that could not be mitigated through the normal due diligence process. Risks must be quantifiable to be backstopped by the SME Risk Fund, and corresponding risk premia must be charged back to the exporter.

The Board is updated quarterly on the status of available risk capital and the level and risk exposure of the SME Risk Fund.

# Financial Statements and Notes

## Management Responsibility for Financial Statements

The financial statements of the Canadian Commercial Corporation and all information in this annual report are the responsibility of management. The statements have been prepared in accordance with Canadian generally accepted accounting principles, using management's best estimates and judgments, where appropriate. Financial information presented elsewhere in the annual report is consistent with the statements.

In support of its responsibility, management has developed and maintains books of account, records, financial and management controls, information systems and management practices. These are designed to provide reasonable assurance as to the reliability of financial information that assets are safeguarded and controlled, and that transactions of the Corporation are in accordance with the *Financial Administration Act* and regulations and, as appropriate, the *Canadian Commercial Corporation Act*, the by-laws of the Corporation and the charter.

The Audit Committee oversees management's responsibilities for maintaining adequate control systems and the quality of financial reporting. The Audit Committee meets with management and the external auditor to review the manner in which these groups are performing their responsibilities and to discuss auditing, internal controls and other relevant financial matters. The Audit Committee has reviewed the financial statements with the external auditor and has submitted its report to the Board of Directors. The Board of Directors has reviewed and approved the financial statements.

The Corporation's external auditor, the Auditor General of Canada, audits the financial statements in accordance with Canadian generally accepted auditing standards, and expresses her opinion on the financial statements.

*"John McBride"*  
(signed)

John McBride  
President and CEO

Ottawa, Canada  
May 20, 2005

*"Michel Houle"*  
(signed)

Michel Houle, CMA  
Vice President, Risk and  
Financial Services and CFO



## Auditor's Report

To the Minister of International Trade

I have audited the balance sheet of the Canadian Commercial Corporation as at March 31, 2005 and the statements of operations and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canadian Commercial Corporation Act* and the by-laws of the Corporation.

"Douglas G. Timmins"  
(signed)

Douglas G. Timmins, CA  
Assistant Auditor General  
for the Auditor General of Canada

Ottawa, Canada  
May 20, 2005



# Balance Sheet

As at March 31 (in thousands of dollars)	2005	2004
<b>Assets</b>		
Cash and cash equivalents (Note 4)	\$ 56,453	\$ 50,156
Accounts receivable (Note 5)	201,335	193,612
Advances to Canadian exporters	22,304	32,484
Progress payments to Canadian exporters	68,335	72,286
	348,427	348,538
Capital assets (Note 6)	1,652	2,269
	\$ 350,079	\$ 350,807
<b>Liabilities</b>		
Accounts payable and accrued liabilities (Note 5)	\$ 191,388	\$ 186,961
Advances from foreign customers	43,058	42,847
Progress payments from foreign customers	70,735	72,215
Provision for additional contract and related costs (Note 10)	4,804	7,757
	309,985	309,780
Employee future benefits (note 8)	981	1,063
	310,966	310,843
Contractual obligations and contingencies (Notes 9 and 11)		
<b>Equity of Canada</b>		
Contributed surplus (Note 1)	28,000	28,000
Retained earnings	11,113	11,964
	39,113	39,964
	\$ 350,079	\$ 350,807

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

Approved:

*"Alan R. Curleigh"*  
(signed)

Alan R. Curleigh  
Chair, Board of Directors

*"John Duffy"*  
(signed)

John Duffy, CA  
Chair, Audit Committee

# Statement of Operations and Retained Earnings

For the year ended March 31 (in thousands of dollars)	2005	2004
<b>Revenues</b>		
Commercial trading transactions (Note 12)	\$1,173,605	\$1,121,831
Less: cost of commercial trading transactions	1,165,012	1,111,515
Gross margin	8,593	10,316
Net interest income	1,230	1,606
Loss on foreign exchange	(226)	(1,558)
Net revenues	9,597	10,364
<b>Expenses</b>		
Additional contract and related costs (Note 10)	5,182	5,584
Administrative expenses (Note 13)	21,671	21,867
Total expenses	26,853	27,451
Net results of operations before Parliamentary appropriations	(17,256)	(17,087)
Parliamentary appropriations (Note 15)	16,405	16,274
Net results of operations	(851)	(813)
Retained earnings at beginning of year	11,964	12,777
Retained earnings at end of year	\$ 11,113	\$ 11,964

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

# Statement of Cash Flows

For the year ended March 31 (in thousands of dollars)	2005	2004
<b>Cash flows from operating activities</b>		
Receipts from foreign customers	\$1,156,026	\$1,110,658
Interest received	1,230	1,606
Fees for service and other income received	8,593	10,308
Payments to Canadian exporters	(1,154,357)	(1,096,805)
Administrative payments	(21,268)	(21,497)
Cash (used in) provided by operating activities	(9,776)	4,270
<b>Cash flows from investing activities</b>		
Purchase of capital assets	(100)	-
Cash used in investing activities	(100)	-
<b>Cash flows from financing activities</b>		
Parliamentary appropriations - operating	16,399	16,381
Cash provided by financing activities	16,399	16,381
Effect of exchange rate changes on cash and cash equivalents	(226)	(1,558)
Increase in cash and cash equivalents	6,297	19,093
Cash and cash equivalents at beginning of year	50,156	31,063
Cash and cash equivalents at end of year	\$ 56,453	\$ 50,156

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



# Notes to Financial Statements

March 31, 2005

## 1. Nature, organization and funding

The Canadian Commercial Corporation (the "Corporation") was established in 1946 by the *Canadian Commercial Corporation Act* and is an agent Crown corporation listed in Part I of Schedule III of the *Financial Administration Act*.

The Corporation generally acts as the prime contracting agency when foreign governments, international organizations, or foreign private sector buyers wish to purchase products and services from Canada through the Canadian Government. The Corporation enters into contracts with these foreign customers and the Corporation enters into corresponding supply contracts with Canadian exporters.

Parliament has provided the Corporation with \$28 million as contributed surplus. Annually, the Corporation's operations are funded primarily through a combination of parliamentary appropriations, interest income, cost recovery, fees for service and discounting revenues.

The Corporation is not subject to the provisions of the *Income Tax Act*.

## 2. Significant accounting policies

These financial statements were prepared in accordance with Canadian generally accepted accounting principles. A summary of significant policies follows:

### (a) Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. The most significant management estimate was the provision for additional contract costs. Actual results could differ from that estimate.

### (b) Contracts

The Corporation records its commercial trading revenues, and related costs, when a delivery has taken place thus passing title to the foreign customer, or, in the case where the contract provided for progress payments, upon acceptance by the Corporation for work performed.

Progress payments, where allowed, represent payments from foreign customers and payments to Canadian exporters on contracts associated with the work performed on a contract leading up to delivery. Usually these payments represent up to 75 percent of costs incurred. Since title has not yet passed to foreign customers, the Corporation recognizes the progress payments made to Canadian exporters as an asset and the progress payments received from foreign customers as a liability. Progress payment assets and liabilities are reduced upon completion of delivery and acceptance by the foreign customer.

Advances from foreign customers and advances to Canadian exporters represent a down payment made at the outset of the contract before any work has been performed. The Corporation recognizes the advances made to Canadian exporters as an asset and the advances received from foreign customers as a liability. Advances made and received are reduced upon completion of delivery and acceptance by the foreign customer.

Prior to the amendment of the *Canadian Commercial Corporation Act* on April 19, 2002, the Corporation was only allowed to recover costs directly incurred upon securing specific international contracts. Amounts recovered on international contracts signed prior to this date are recognized in commercial trading revenues as earned when:

- (1) deliveries have been made by the Canadian exporter; or
- (2) substantial work has been performed by the Canadian exporter in the case of progress payments.

Upon the coming into force of this amendment to the Act, the Corporation was permitted to charge commercial fees for services. Commercial fees generated on international contracts signed on or subsequent to April 19, 2002 are recognized in commercial trading revenues when services are delivered.

Discounting revenues are revenues generated by the Corporation based on the difference between the amount the Corporation pays to the Canadian exporter and the amount the Canadian exporter originally billed the Corporation.

The Corporation is responsible for ensuring that the terms of the contract with the foreign customer are fulfilled regardless of the quality of performance by the Canadian exporter. If the Canadian exporter fails to fulfill its domestic contract obligations to the Corporation, the Corporation may encounter additional contract and related costs. These costs are determined on a contract-by-contract basis, and include completion, re-procurement, associated legal and other costs that are based on quotes or estimates. These costs are recorded in the statement of operations in the year in which the non-performance is identified and the additional costs to be incurred by the Corporation are reasonably determinable.

**(c) Foreign currency translation**

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the year-end exchange rates. Revenues and expenses are translated at the average monthly exchange rate.

Working capital is maintained in currencies other than Canadian dollars to facilitate cash flows between foreign customers and Canadian exporters.

**(d) Cash and cash equivalents**

Cash and cash equivalents include cash, demand deposits and temporary investments, maturing in less than three months from acquisition date.

**(e) Capital assets**

Capital assets, primarily costs associated with the design and development of information systems, are recorded, when significant, after technological feasibility is established. These capital assets are amortized on a straight-line basis over the estimated useful life of five years.

**(f) Parliamentary appropriations**

Parliamentary appropriations that are not in the nature of contributed surplus are recorded as funding in the year for which they are appropriated, except for appropriations restricted by legislation and related to expenses of future periods which are deferred and recognized as funding in the period in which the related expenses are incurred. Appropriations used for the purchase of capital assets are deferred and amortized into income on the same basis as the related asset.

**(g) Employee future benefits**

*i) Pension benefits*

All eligible employees participate in the Public Service Pension Plan administered by the Government of Canada. The Corporation's contributions reflect the full cost as employer. This amount is currently based on a multiple of an employee's required contributions and may change over time depending on the experience of the Plan. The Corporation's contributions are expensed during the year in which the services are rendered and represent the total pension obligation of the Corporation. The Corporation is not currently required to make contributions with respect to any actuarial deficiencies of the Public Service Pension Plan.

*ii) Employee severance benefits*

Employees are entitled to severance benefits, as provided for under labour contracts and conditions of employment. The cost of these benefits is accrued as employees render the services necessary to earn them. The cost of the benefits earned by employees is actuarially determined using the projected benefit method prorated on services. The valuation of the liability is based upon a current market-related discount rate and other actuarial assumptions, which represent management's best long-term estimates of factors such as future wage increases and employee resignation rates. The excess of any net actuarial gain (loss) over 10% of the benefit obligation is amortized over the average remaining service period of active employees. The average remaining service period of active employees covered by this plan is 12 years (2004 – 12 years). These benefits represent the only obligation of the Corporation that entails settlement by future payment.

The last full actuarial evaluation was done March 31, 2004 and the next one is scheduled for March 31, 2007.

**3. Fair value of financial instruments**

The fair value of cash and cash equivalents, accounts receivable, advances to Canadian exporters, progress payments to Canadian exporters, accounts payable and accrued liabilities, advances from foreign customers and progress payments from foreign customers, since they have short maturities, are equivalent to their carrying amounts.

#### 4. Cash and cash equivalents

As at March 31, 2005, cash and cash equivalents included (in thousands of dollars):

	2005		2004	
	Original currency	Canadian dollars	Original currency	Canadian dollars
Canadian dollars	35,824	\$ 35,824	37,926	\$ 37,926
U.S. dollars	14,392	17,408	8,599	11,277
Australian dollars	2,811	2,627	338	338
British pound sterling	174	397	167	402
Eastern Caribbean dollars	434	197	434	213
		\$ 56,453		\$ 50,156

The Corporation invests in short-term deposits in Canadian banks. At March 31, 2005, the average term to maturity of short-term deposits was 1 day (2004 - 1 day). The overall portfolio yield at March 31, 2005 was 2.54% (2004 - 1%). Cash and cash equivalents are recorded at cost, which approximates fair value.

Of the cash and cash equivalents, \$18,642,000 (2004 - \$8,740,000) represents funds received from foreign customers which will be remitted to Canadian exporters at later dates in accordance with contracts. Where contracted, these funds may accrue interest to the credit of the Canadian exporter or foreign customer.

#### 5. Accounts receivable and accounts payable and accrued liabilities

Accounts receivable are due on normal international trade terms and are generally non-interest bearing. The maturity profile of the Corporation's accounts receivable was as follows:

< 1 year	\$ 198,142,000
> 1 and < 3 years	\$ 3,193,000

Accounts payable are due on normal trade terms, except for accounts payable to certain small-medium enterprises with contracts signed prior to January 2001. Where these contracts have not been completed, related accounts payable are paid within 15 days. The maturity profile of the Corporation's accounts payable was as follows:

< 1 year	\$ 188,461,000
> 1 and < 3 years	\$ 2,927,000

Under a specific series of financing contracts, included in *accounts payable and accrued liabilities*, the Corporation owed \$26,754,000 as of March 31, 2005 (2004 - \$32,725,000). These contracts bear interest at the cost of funds plus 0.25% and the Corporation has offered as security certain foreign accounts receivable under certain conditions. The Corporation, however, also has access to a number of commercial securities should the foreign party fail to repay these receivables. The amount of outstanding accounts receivable offered as securities under these arrangements as of March 31, 2005 was \$30,771,000 (2004 - \$32,966,000) and was profiled as follows:

< 1 year	\$ 27,578,000
> 1 and < 3 years	\$ 3,193,000

#### 6. Capital assets

Year ended March 31 (in thousands of dollars)

	2005		2004	
	Cost	Accumulated amortization	Net book value	Net book value
Information systems	\$3,683	\$2,031	\$1,652	\$2,269

Included in administrative expenses was \$717,000 (2004 - \$717,000) of amortization.

#### 7. Demand operating credit facility

The *Canadian Commercial Corporation Act* permits the Corporation to borrow from the Consolidated Revenue Fund or other sources for an amount not to exceed \$90 million (previously \$10 million). The Corporation opened a revolving credit facility providing access to funds in the amount of \$40 million Canadian or its U.S. dollar equivalent. Indebtedness under this agreement is unsecured and this credit facility has no expiry date. As at March 31, 2005, there were no draws on this line of credit.



## 8. Employee future benefits

### a) Pension benefits

The Corporation and all eligible employees contribute to the Public Service Pension Plan. This pension plan provides benefits based on years of service and average earnings at retirement. The benefits are fully indexed to the increase in the Consumer Price Index. The Corporation's and employees' contributions to the Public Service Pension Plan for the year were as follows:

(in thousands of dollars)	2005	2004
Corporation's contribution	\$ 756	\$ 820
Employees' contributions	\$ 339	\$ 298

### b) Severance benefits

The Corporation provides severance benefits to its employees based on years of service and final salary. This benefit plan is unfunded and thus has no assets, resulting in a plan deficit equal to the accrued benefit obligation. Benefits will be paid from future appropriations. Information about the plan, measured as at the balance sheet date, is as follows:

(in thousands of dollars)	2005	2004
<b>Accrued benefit obligation</b>		
Balance at beginning of year	\$ 951	\$ 981
Current service cost	68	67
Interest cost	57	54
Benefits paid	(70)	(177)
Actuarial (gain) losses	(7)	26
Balance at end of year	\$ 999	\$ 951
Accrued benefit obligation at end of the year	999	951
<b>Unamortized net actuarial gains (losses)</b>	(18)	112
Accrued benefit liability at end of year	\$ 981	\$ 1,063

	2005	2004
Accrued benefit obligation as of March 31		
Discount rate	6.05 %	6.05 %
Rate of compensation increase	1.50 %	3.00 %
Benefit costs for year ended March 31		
Discount rate	6.05 %	5.78 %
Rate of compensation increase	1.50 %	3.00 %

## 9. Contractual obligations and risk management

### (a) Contractual obligations and indemnities

The Corporation is obligated to complete numerous contracts with foreign customers. As of March 31, 2005, the total contract portfolio value remaining to be fulfilled approximates \$1.382 billion (2004 - \$1.357 billion). The profile of the Corporation's total contract portfolio was as follows:

< 1 year	\$694,016,000
> 1 and < 3 years	\$442,190,000
> 3 and < 5 years	\$245,367,000

The Corporation has contractual recourse to Canadian companies to fulfill its contractual obligations. Depending upon the results of its due diligence, the Corporation may supplement this recourse through the provision of commercial securities including holdbacks, bank guarantees, surety bonds, parent guarantees, insurance assignments, property liens, personal guarantees and shareholder cash held in trust with the Corporation.

Under the Progress Payment Program, the Corporation indemnifies participating banks for amounts they have advanced to Canadian exporters. The Corporation may claim title to the works in progress should a Canadian exporter fail to complete a contract. The amount of outstanding indemnities as of March 31, 2005 was \$731,000 (2004 - \$1,713,000). The profile of the Corporation's outstanding indemnities was as follows:

< 1 year	\$731,000
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Besides claiming title to the works in progress, the Corporation may supplement this recourse depending upon the results of its due diligence through the provision of commercial securities including parent guarantees, insurance assignments, property liens, personal guarantees and shareholder cash held in trust with the Corporation.

## (b) Risk management

In terms of foreign customer credit risk, the Corporation generally extends open account terms to parties with a credit rating of at least AAA, and seeks security where the rating falls below this threshold.

To address foreign exchange risks, contracts with foreign customers and corresponding contracts with Canadian exporters are generally transacted in the same currency. The Corporation uses this to effectively transfer the currency risk to the Canadian exporter.

## 10. Provision for additional contract and related costs

The Corporation may incur additional contract and related costs should Canadian exporters not fulfil the terms of their contracts. The Corporation has recorded an expense of \$5,182,000 (2004 - \$5,584,000) related to the *additional contract and related costs*, leaving a balance of \$4,804,000 as of March 31, 2005 (2004 - \$7,757,000), representing management's best estimate of the additional costs which will be incurred by the Corporation to meet its contractual obligations.

## 11. Contingencies

The Corporation is the claimant or defendant in certain pending claims and lawsuits. While the damages being claimed by the plaintiffs are significant, management believes, based on advice from legal counsel, that the potential liabilities of the Corporation and consequent damages or awards arising from such liabilities are, at present, not determinable.

Amounts payable, if any, will be recorded in the year in which they can be determined.

During the 2004 fiscal year, a judgment was rendered against the Corporation and Public Works and Government Services Canada (PWGSC) by the Ontario Court Superior Division for an amount of \$30 million plus interest from October 1985, the date the cause of action arose. The Attorney General of Canada has filed a Notice of Appeal against the judgment which was heard in April 2005. No decision regarding this appeal has yet been rendered. Any liability arising from this case will be shared between the Corporation and PWGSC. The allocation cannot be determined at this time. Management believes that the potential liabilities of the Corporation and consequent damages or awards arising from such liabilities are, at present, not determinable.

## 12. Commercial trading transactions

Commercial trading transactions arising from the Corporation's facilitation of sales of Canadian goods to foreign customers, which includes governments, international agencies and other buyers throughout the world, were as follows:

Year ended March 31 (in thousands of dollars)	2005	2004
U.S. government and other buyers	\$ 818,820	\$ 680,630
Other foreign governments and buyers	354,785	441,201
	\$1,173,605	\$1,121,831

Commercial trading transactions were comprised of contract billings of \$1.2 billion (2004 - \$1.1 billion) and fees for services and other income of \$8,593,000 for the year ended March 31, 2005 (2004 - \$10,316,000).

Business volume is distinct from commercial trading transactions. Business volume describes the value of contracts and amendments signed during the year which amounted to \$1.5 billion for the year ended March 31, 2005 (2004 - \$1.2 billion).

## 13. Administrative expenses

Administrative expenses included the following:

Year ended March 31 (in thousands of dollars)	2005	2004
Workforce compensation	\$10,050	\$10,007
Contract management services (net of \$433,000 in recovered costs) (Note 14(a))	5,380	5,231
Software, hardware and support	1,118	1,388
Travel and hospitality	1,021	1,004
Rent	966	949
Marketing and promotion	939	910
Amortization	717	717
Human resource training and other initiatives	616	629
Other expenses	587	711
Telecommunications, courier and translations	277	321
	\$21,671	\$21,867

#### 14. Related party transactions

The Corporation is related in terms of common ownership to all Government of Canada departments, agencies and Crown Corporations. The Corporation enters into transactions with these entities in the normal course of business.

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

Public Works and Government Services Canada provides contract management services to the Corporation at negotiated rates, based in part on the amount of contracts procured, and provides certain functions at cost.

For the year ended March 31, 2005, the cost of these services amounted to \$5,813,000 (2004 - \$5,231,000) and is included in administrative expenses.

In one circumstance, Public Works and Government Services Canada provided the Corporation with contract management services at no additional cost. It was not practicable to determine the cost of these services. Accordingly, the value of these services was not recorded in the Corporation's accounts.

##### (b) Department of Justice

The Department of Justice provides legal services to the Corporation and represents it in certain matters. The Corporation pays for these legal services and expenses incurred in connection with specific actions. For the year ended March 31, 2005, the cost of such legal fees and expenses in the amount of \$402,000 (2004 - \$295,000) was included in administrative expenses, and the amount of \$232,000 (2004 - \$347,000) was included in additional contract and related costs.

##### (c) Privy Council Office

The Corporation allows its employees to participate in interchange employee programs with other departments or agencies. For the year ended March 31, 2005, the Corporation recovered salaries and benefits charges of \$167,340 (2004 - \$167,360).

##### (d) Other

The Corporation has also entered into commercial trading transactions with the following related government entities:

(in thousands of dollars)

Department of National Defence	\$16,816
Canadian International Development Agency	\$12,921
Natural Resources Canada	\$ 1,324
Consulting and Audit Canada	\$ 805
Environment Canada	\$ 416

As a result of all related party transactions, the amounts due from and to these parties were \$6,495,000 (2004 - \$570,000) and \$6,908,000 (2004 - \$699,000) and were included in accounts receivable and accounts payable respectively.

#### 15. Parliamentary appropriations

During the year, the Parliament of Canada authorized appropriations for the Corporation in the amount of \$16,405,000 (2004 - \$16,274,000).

#### 16. Lease commitments

Future minimum payments by fiscal year on operating leases for premises are as follows:

(in thousands of dollars)

2005-2006	\$ 708
2006-2007	625
2007-2008	625
2008-2009	625
2009-2010	625
	<hr/>
	\$3,208



# CCC Board of Directors



**Alan R. Curleigh**  
Chair of the Board  
Canadian Commercial Corporation  
Appointed November 2002



**John McBride**  
President  
Canadian Commercial Corporation  
Appointed April 2005



**Martine Corriveau-Gougeon**  
President  
Gestion Corriveau-Gougeon Inc.  
St. Bruno, Quebec  
Appointed May 2005



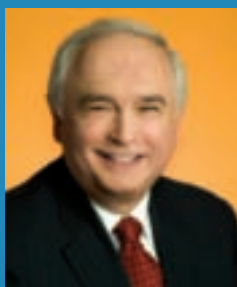
**John Duffy, CA**  
Chief Financial Officer and  
Vice President, Finance  
Neate Roller Limited  
Mississauga, Ontario  
Appointed October 2003



**Andrew Saxton**  
Chairman  
King George Financial Corporation  
Vancouver, British Columbia  
Appointed November 2002



**David W. Stapley**  
President, DRS Technologies  
Canada Inc., and  
Senior Vice President,  
International Business Development,  
Government Relations, DRS  
Technologies Inc.  
Carleton Place, Ontario  
Appointed October 2003



**Ken Sunquist**  
Assistant Deputy Minister  
World Markets Branch  
International Trade Canada  
Ottawa, Ontario  
Appointed May 2004



**Norman A. Turnbull, CA**  
President  
NAT Expertise/Conseil  
Montreal, Quebec  
Appointed May 2005



**Peter M. Wright, LLB**  
Chairman  
Patterson Palmer Hunt Murphy  
Moncton, New Brunswick  
Appointed September 2002



**Neil Yeates**  
Assistant Deputy Minister  
Industry Sector, Industry Canada  
Ottawa, Ontario  
Appointed March 2005

Departing the Board were  
Louis-Marie Beaulieu,  
David Franssen,  
Amélia Salehabadi and  
Grant Mitchell

# CCC Officers



**John McBride**  
President and CEO



**Michel Houle, CMA**  
Vice President, Risk and  
Financial Services  
and Chief Financial Officer



**Tamara Parschin-Rybkin, QC**  
Corporate Counsel  
and Corporate Secretary



**Robert Ryan**  
Vice President  
Operations



**Sharon Fleming**  
Vice President  
Corporate Services

# Glossary of Terms

## **Additional contract costs:**

Costs incurred by the Corporation to meet its contractual obligations to foreign buyers when suppliers are unable to meet their contractual commitment to CCC. This may include the cost of procurement or the cost of compensation.

## **Advance payments:**

Down payment made by the buyer at the outset of the contract, before any work has been performed.

## **Appropriations:**

Funding CCC receives from the Government of Canada to manage DoD/NASA prime contracts.

## **Capital projects:**

A project where a significant portion of the work is performed by a Canadian exporter, or by its subcontractor, in a foreign country and/or the contract contains a significant supply risk associated with the long-term sale of commodities.

## **Clients:**

Canadian exporters doing business through CCC.

## **Contract:**

Legally binding agreement between the Corporation and Canadian exporters or foreign buyers with respect to the supply of a product and/or service.

## **Contract amendment:**

Variation to the original signed contract.

## **Contract billings:**

The total amount the Corporation invoiced to foreign customers for the delivery of products and services.

## **Contract performance guarantee:**

An assurance provided to the foreign buyer that CCC, as an agency of the Government of Canada, will perform the contract in accordance with its terms and conditions.

## **Contract risk:**

Possibility that a party to the contract may not meet the terms and conditions of the contract.

## **Cost recovery:**

Direct costs, such as travel expenses and direct labour costs, recovered by the Corporation on a number of contracts.

## **Credit risk:**

Possibility of a contract party failing to meet its financial/payment commitments.

## **Customers:**

Foreign buyers doing business through CCC.

## **Defence Production Sharing Arrangement (DPSPA):**

Agreement signed in 1956 between Canada and the United States to allow Canadian industry to compete with U.S. firms for defence contracts on a commercial basis.

## **Directly facilitated exports:**

The value of effective contracts and amendments signed by CCC through its Prime Contractor and Progress Payment Program services.

## **EPC:**

Engineering Procurement and Construction projects are integrated, complex and typically multi-million dollar infrastructure projects, found in a variety of sectors such as energy, transportation, telecommunications, engineering and construction.

## **Fees for service:**

Direct and indirect costs including risk premium and appropriate service fees charged to Canadian exporters or foreign buyers using CCC services.

## **Gain/Loss on foreign exchange translation:**

Gain/loss resulting from the movement in the exchange rate, which affects the Canadian value of the Corporation's foreign exchange holdings.

## **Indirectly facilitated exports:**

The value of export contracts and amendments signed by Canadian companies whereby CCC's unbundled services, SourceCAN, and the DPSPA project management service were accessed in order to win the contract or amendment.

## **Pre-shipment financing:**

Financing required to cover direct costs incurred on a project at a stage before the exporter has generated a receivable.

## **Prime contractor:**

This is CCC's role when it signs the international contract with the foreign buyer, guaranteeing that its terms and conditions will be met, and then issues a domestic contract to the Canadian supplier for the execution of the work.

## **Procurement agent:**

This is CCC's role when it sources Canadian supply for international customers from Canadian companies.

## **Progress payments:**

Payments from foreign customers and to Canadian exporters on contracts where the partial recoupment of costs associated with the work performed on a contract leading up to delivery is allowed.

## **Risk Management Framework:**

CCC's Risk Management Framework combines the Board of Directors' directive on annual allowable losses and management's policies and practices related to operational risk mitigation.

## **Receivables Discounting Service:**

Receivables Discounting Service provides Canadian companies having contracts with CCC access to immediate payments for their invoices at a reasonable financing rate. This allows these companies to meet their financial obligations without increasing their debt.

## **Small- and medium-sized enterprises (SMEs):**

Canadian entities with annual sales of less than \$25 million.

## **Unbundled services:**

The International Prime Contractor service has been separated into individual services that allow Canadian exporters to build a customized service package that meets their needs.

## **Value of orders received:**

This term is sometimes used interchangeably with directly facilitated exports. They represent the total value of contracts and amendments signed during the year, and are distinct from billings that reflect the value of work that is performed on directly facilitated exports. Billings measure the actual deliveries being made or relate to in-progress work that has been completed after a contract has been signed and is effective.



## Our Office

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Manager

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**Angela Wasylynka**  
Specialist, International Finance

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