FOREIGN EXCHANGE RISK MANAGEMENT: PERSPECTIVES FROM FINANCIAL EXECUTIVES

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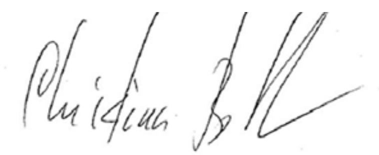
ACKNOWLEDGEMENTS

We gratefully acknowledge the efforts of our survey respondents and our forum participants who took valuable time away from their day jobs to participate in this work. We are particularly grateful to our research partner, CIBC, without whom this study would not have been possible.



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EXECUTIVE SUMMARY

It is a common refrain in business today that the international strength of the Canadian dollar, best illustrated by parity with the U.S. dollar today after flirting with 60-cent territory a decade ago, is a competitive disadvantage to a trading nation such as ours. It is clearly not a fatal disadvantage, given the international reach of many of our leading companies. For most organizations, foreign exchange risk – and its management – are challenges for which there exists an emerging and ever-more sophisticated set of policies, procedures and tools.

Canadian businesses continue to adapt to an increasingly complex currency universe. They cannot predict with any certainty the future value of the euro, Japanese yen or even the U.S. dollar, but they can and do mitigate the risk of currency fluctuations with proactive business practices supplemented with products such as swaps, futures and options backed by well-thought out policies designed to ensure that they are not taking on too much risk.

What is clear according to this study by the Canadian Financial Executives Research Foundation (CFERF) is that foreign exchange risk is a major issue. In fact, 90% of organizations surveyed rated foreign exchange management as an important consideration in their business. However, just over one half of organizations participating in the survey have a policy or formal process/procedure in place to FX manage risk. This would suggest that some organizations could benefit from a more structured approach to managing their FX risk.

Canada's status as a trading nation has created a generation of financial executives who are keen currency watchers. Illustrating the critical role currency fluctuations can play with regard to revenue and profit, four out of five respondents (80%) said that they track foreign exchange by currency unit, either manually or with an automatic feed.

Managing foreign currency risk is no longer simply a case of guarding against changes in the respective dollars of the U.S. and Canada. A surprising 42% of Canadian financial executives surveyed said that they are now doing business in fast-growing emerging markets, where currencies can be volatile or under strict government controls.

EXECUTIVE SUMMARY

Responsibility for managing FX risk generally lies near the top of Canadian businesses. In the majority of cases the CFO, VP of Finance or Treasurer has direct responsibility for controlling FX risk and many of those executives report directly to a board committee charged with monitoring the business' foreign exchange exposure.

Canadian companies take a "do no harm" approach to FX risk management, borne out by the stated goals of their FX hedging programs. Hedges are not created as speculative bets with the hope or expectation of windfall gains out of currency fluctuations, but are created instead to protect against short-term changes in exchange rates, provide certainty for purchases and/or sales and short-term cash flows in home currencies or neutralize the balance sheet impact on working capital and long term capital.

Organizations employ a sophisticated range of processes to mitigate exchange rate impacts, such as diversifying their foreign currency holdings, adjusting selling prices in response to exchange rate volatility, borrowing in foreign currencies and limiting longer term contractual arrangements to lessen the impact of currency fluctuations.

Canadian businesses understand the risks that come with failing to insure against possible foreign exchange shifts. Those include the potential for lower revenue and profits, loss of market competitiveness, the potential for higher interest costs and debt levels in a foreign market and the uncertainty that comes with controlled or managed currencies.

Currency fluctuations are a serious concern for one in four of the survey respondents. Negative effects range from a loss of competitiveness in a foreign market to shrinking profit and sales to a reduction in reinvestment in the parent company.

Most financial executives have come to grips with changing international financial regulations, based on responses to the survey. Nearly one half now use IFRS (International Financial Reporting Standards) and are considering the implications of Basel III with respect to foreign exchange. "We expect higher credit charges for longer tenor hedging and a contraction of credit availability from our counterparties," said one respondent.

Canadian companies also managed the high volatility of foreign currencies versus the U.S. dollar in the time after the collapse of Lehman Bros., one of the events that triggered the international financial crisis. "Since 2008, we have increased hedge ratios, shortened hedge tenors and spread out the rollover time frames to avoid large maturities in a specific month," explained one survey participant.

Foreign exchange risk management should be a component of a Canadian company's international growth strategy, but slightly more than one half of the organizations surveyed have a policy, formal process or procedure in place to manage FX risk.

If Canadian companies are going to continue to grow – and play a larger role on the international business stage – they must be able to utilize an expanding set of tools and policies designed to manage, minimize and even prosper from foreign exchange risks. The following pages provide valuable insight for companies seeking to establish their own policies and procedures to deal with the risks of selling and buying products in foreign markets and with operating in foreign currencies.

METHODOLOGY AND DEMOGRAPHICS

The *Foreign exchange risk management: Perspectives from financial executives* report is based on the results of an online survey that took place between November 26, 2012 and January 3, 2013, during which time 109 respondents completed the survey. These results were expanded with insights gathered during an executive research forum that included participants in Montreal, Toronto and Calgary on November 28, 2012. Of the survey respondents, 50% worked for private companies and 37% for public companies. 42% of respondents were CFOs while 15% held the title of VP Finance. Four out of 10 (40%) represented companies with revenue of less than $50 million. See Appendix A for more details on demographics.

DEFINING AND UNDERSTANDING FX RISK

Foreign exchange risk management: Perspectives from financial executives seeks to discover how organizations define and understand foreign exchange (FX) risk, and what policies, procedures and financial instruments they utilize to manage the risk of currency fluctuations.

Given the international nature of business today and Canada's status as a trading nation, foreign exchange is of increasing concern to most businesses today. Three out of four respondents in the study reported that some percentage of their revenue is denominated in a foreign currency and 17% reported that 76% to 100% of their revenue is denominated in a foreign currency. One small marketing company, which does most of its business in the U.S., looks upon the upward climb of the Canadian dollar with dread. "We would rather have a 60-cent Canadian dollar," said the VP Finance of the company. "We primarily have U.S. net cash coming in and then all of our operating needs are Canadian-dollar denominated."

Ali Jinnah, Director of Financial Risk Management with Bombardier Inc., deals with currency complexity on a daily basis as a result of the transportation giant's geographically dispersed manufacturing operations. "In our European rail operations, we have production facilities in 60 different countries, leaving us with large scale FX exposures in a multitude of currency pairs, both from a cost perspective and from the revenue side. On the aerospace side, revenues are primarily in U.S. dollars, while our production facilities are in Canada, Mexico and the U.K., resulting in a diverse mix of FX exposures for our cost base. To top that all off, at the consolidated level we report in U.S. dollars."

Export credit agency Export Development Canada noted in a recent foreign exchange white paper that Canadian companies that are active in international markets view volatility in the Canadian dollar as the number one constraint to growing exports. The CFERF foreign exchange risk management study similarly found that organizations consider the management of FX risk to be a critical task. More than two-thirds of respondents (68%) rated foreign exchange management "extremely important" or "important." Just 10% rated FX management "not at all important." However, only about half actually had a policy or procedure in place to manage risk.

FX risk can negatively affect cash flow and profitability both in the short and long term. Changes of more than 5% in the value of the Canadian dollar relative to the U.S. dollar are commonplace over any typical 60-day period. Viewed over the longer term, the Canadian dollar has broken out of a narrow, stable trading band with the U.S. that prevailed from 1994 until 2007. The financial crisis of 2008 resulted in three years of extreme currency volatility, and risk. "The swings in the U.S.-Canada currencies became very extreme," said Mary Mulqueen, Managing Director of Foreign Exchange Sales with CIBC. "So companies that aren't addressing risk management would have experienced that in a major way and would be feeling it now. 78% of our exports are still to the U.S. and even for those companies that are expanding into Asia, most of their trade is denominated in U.S. dollars. We expect that to change and evolve over time, but currently the U.S. dollar is the key counterparty currency for Canada."

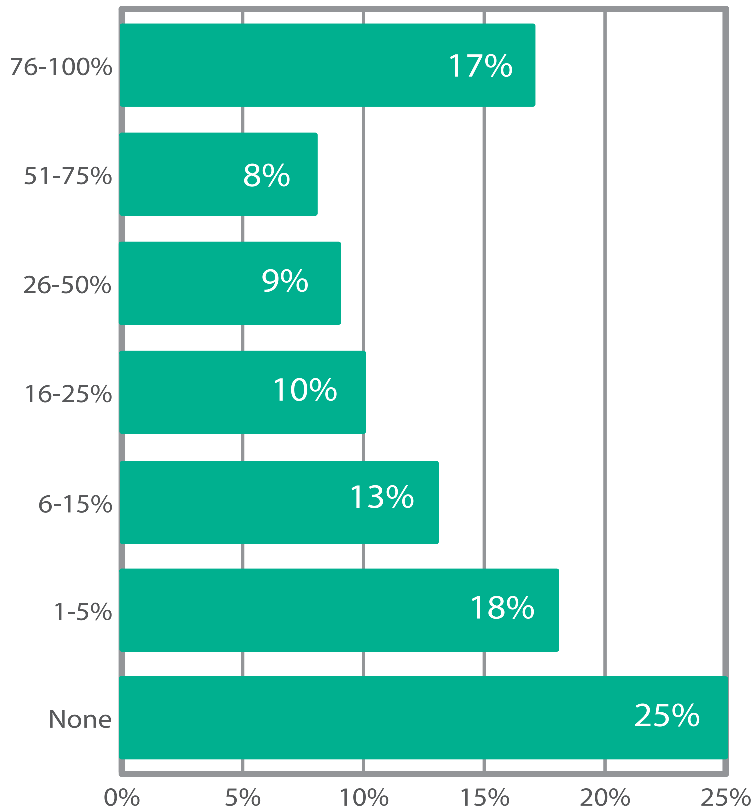
Of the organizations that monitor currency risk, the majority track it the old-fashioned way by manually entering currency values, with only a small minority utilizing an automatic feed. "All our sales and the majority of payables are in USD," said one respondent. "A separate USD account is maintained. Profits are drawn from this account and converted to CDN when beneficial."

Virtually all organizations participating in the survey had some amount of payables denominated in a foreign currency. Nearly three quarters (73%) had 1-50% of payables in a foreign currency while 23% had more than half of their payables in foreign currencies. "Mostly we deal in foreign countries, so Latin America, South America, Western Africa, Mongolia," said Allan MacDougall, Global Finance Director of mining contractor Dumas Contracting Ltd. "We pay most of our costs in the local currency and most of our contracts are in U.S. dollars."

"Our company raised a significant amount of debt in the U.S., more than was actually needed to fund our operations and our capital requirements down there. As a result, we loaned a portion of those funds to our Canadian parent. The issue with that is then we ended up with a U.S. dollar liability in Canada that had to be revalued and translated back into Canadian dollars at the end of every month. So ultimately, this created a significant amount of P&L volatility in our consolidated financial statements."

Dean Leskowski – Manager of Treasury and Risk Management, Calfrac Well Services

CHART 1 – WHAT PERCENTAGE OF REVENUE COMES FROM A FOREIGN-DENOMINATED CURRENCY?



DOING BUSINESS IN EMERGING MARKETS

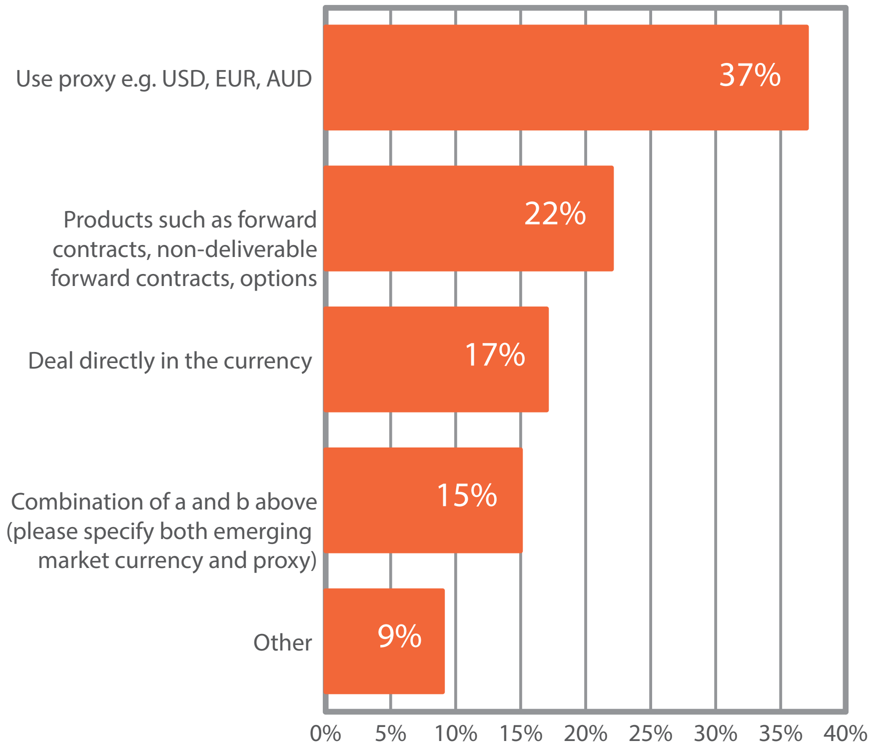
For years, experts have urged companies to lessen their dependence on the giant U.S. market next door and expand their reach to new markets. Today that often means higher-growth, higher-risk emerging markets such as China and Mexico. Survey respondents are playing the emerging market card in a major way: 42% said they are currently conducting business in an emerging market. Oil and gas services company Canadian Oilfield Solutions Corp., having followed its customers across North America, today finds itself in Mexico and accumulating a growing corporate account of pesos. "We have a huge Mexican exposure," said Gordon Travis, Canadian Oilfield's CFO. "We're more or less addressing that on a country basis, as we're there for the long term. For transactions, we are reporting in U.S. dollars, which is something we conscientiously decided to do a year and a half ago, because our focus is 100% U.S. and Mexico. As it turned out under IFRS, that was a good decision. But the other issue is currency transactions. We're doing up to $10-15 million transactions, so we're starting to look at hedging the projects themselves."

Companies are using a variety of strategies to manage their exposure to emerging market currencies. The most popular strategy among survey respondents is the use of a proxy currency such as the U.S. dollar, which was cited by 37% of respondents (see Chart 2).

"With emerging markets like Mexico, Poland, Eastern Europe, basic FX hedging can work there. I think where we have the most challenges is in countries where there are controls on the currency. We started off doing non-deliverable forwards to hedge our exposures. But the problem is that you don't get to actually have these cash flows occur in the local entity that is centered in this country. We're now moving more and more towards onshore hedging, where we go through the local FX market to hedge and are subject to all types of local government regulations and restrictions. In certain situations, we have to literally account for every payment and every receipt with proper documentation so that the local government will allow the funds to come in and out of the bank account."

Ali Jinnah – Director, Market Risk Management, Bombardier Inc.

CHART 2 – HOW DO YOU MANAGE EXPOSURE TO EMERGING MARKETS CURRENCIES?



One natural resources respondent said that a delicate balancing act can allow for a quasi-hedging strategy. "TZS (Tanzanian shilling) and NAD (Namibian dollar) are emerging market currencies. We try to balance our cash and receivables in emerging market currencies so that they roughly equal our payables in emerging market currencies. Sort of an unofficial hedge. Our proxy for larger contracts is USD, which is also a foreign currency for us, but is unhedged." Another respondent takes the "go local" approach with "a combination of using local currency as a natural hedge, purchases and sales in the local currency. Net exposure is then hedged using forwards."

FX RISK IN ACTION: WHO IS IN CHARGE? HOW IS PERFORMANCE MEASURED?

Ensuring that foreign exchange risk is adequately accounted for in Canadian companies is clearly the purview of the finance department within organizations, based on survey responses. More than half (54%) said that FX risks were the responsibility of the CFO, followed by the VP Finance/Director of Finance (24%) and Treasurer (19%). The remaining three respondents said the duty was handled by the CEO, a dual president/ CFO, and a treasury department consisting of a treasurer, two deputy treasurers and a treasury manager.

While FX risk management in the end resides with one executive in an organization, there is typically an oversight committee or board that will monitor compliance and performance. Lida Sadrazodi, CFO of KUBRA, provides reports on the performance of the privately owned communications management company at regular board meetings. "I report on the currency gain or loss that we have had, comment and justify any hedging or lack of it. I don't normally have a specific direction by the board that I have to cover the FX risk, unless there are material movements in US$, given our specific position. If I have a specific recommendation, based on the circumstances, I bring it up to the board and get their approval. Otherwise I do what sounds prudent, given the risk tolerance of company."

Larger organizations with more extensive international operations can have elaborate programs and policies to deal with the uncertainties of foreign currencies. What they do not always do, however, is to shield individuals from responsibility for their decisions. "GE has a very, very large and very active treasury department that fully hedges GE's overall foreign exchange exposure and also offers a large number of products internally, such as income hedging, position hedging, transactional hedging and so on. I can get it all internally," said Jim Fergusson, Vice-President of Finance, GE Railcar Services Canada. "Once you get beyond that, it is the responsibility of the individual businesses and the individual managers to hedge or not to hedge, to choose to take advantage of these products, with the following backdrop, in terms of risk, we want to be able to forecast

"We have a formal policy which results in regular feedback to the Board. However, we also have a Management Committee, which includes the Chairman, the Vice-Chairman, President, COO, CFO, the SVPs that meets in the office every week. The result is that certain members of our board are in the office almost every week. They're very hands-on and knowledgeable about key Treasury activities. There is a considerable level of understanding of the various markets risks the company faces, whether it's FX, interest rates, commodity prices or other business risks at the highest levels of the company."

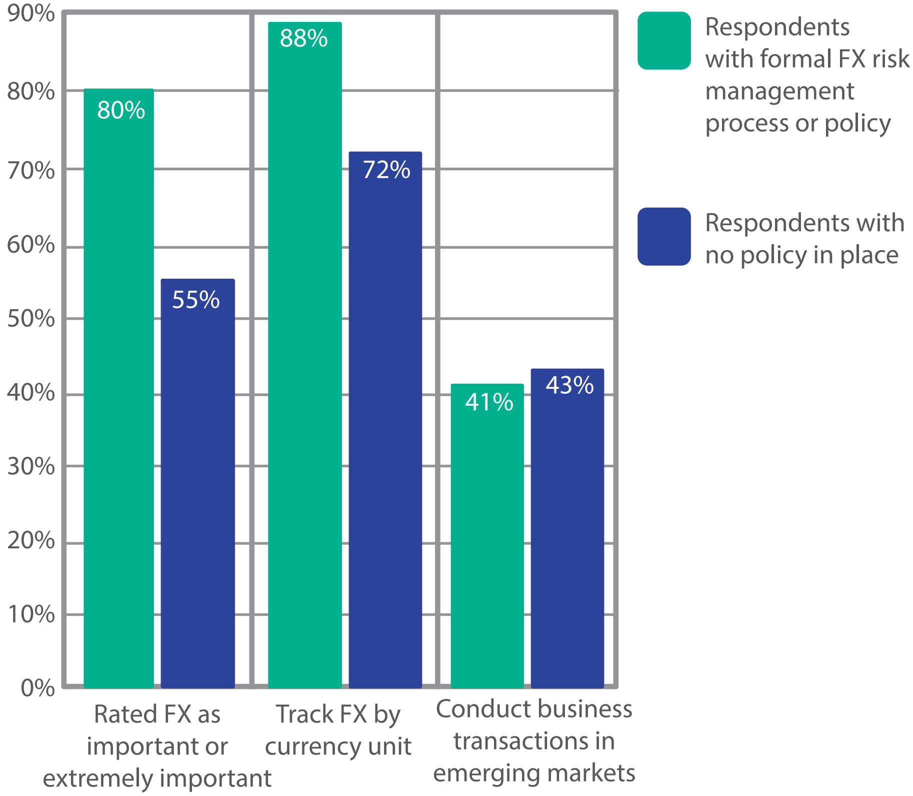
John McCoshen – Director of Treasury, Canadian Natural Resources

everything and have it be repeatable and consistent. There's a lot of pressure to ensure that you achieve those goals by hedging any foreign exchange exposure."

Slightly more than one half (51%) of organizations participating in the survey have a policy or formal process/procedure in place to FX manage risk. How those companies measure their success in controlling FX risk varies widely. As one respondent explained: "Margins are compared to budget, the goal of our FX hedging is to preserve the budgeted margin, not to enhance margins. FX execution performance is measured relative to best price available at time of execution." Another survey respondent pointed to the all-too real danger of viewing FX hedging as a potential profit-making exercise rather than one of risk limitation. "We do not view the managing of FX risk as a profit center. We have gone down that road but found that it incented risky behaviour. We spent a fair amount of time defining the variables that define our FX risk (a mix of accounting and economic FX risks) and put fairly tight limits around the risk."

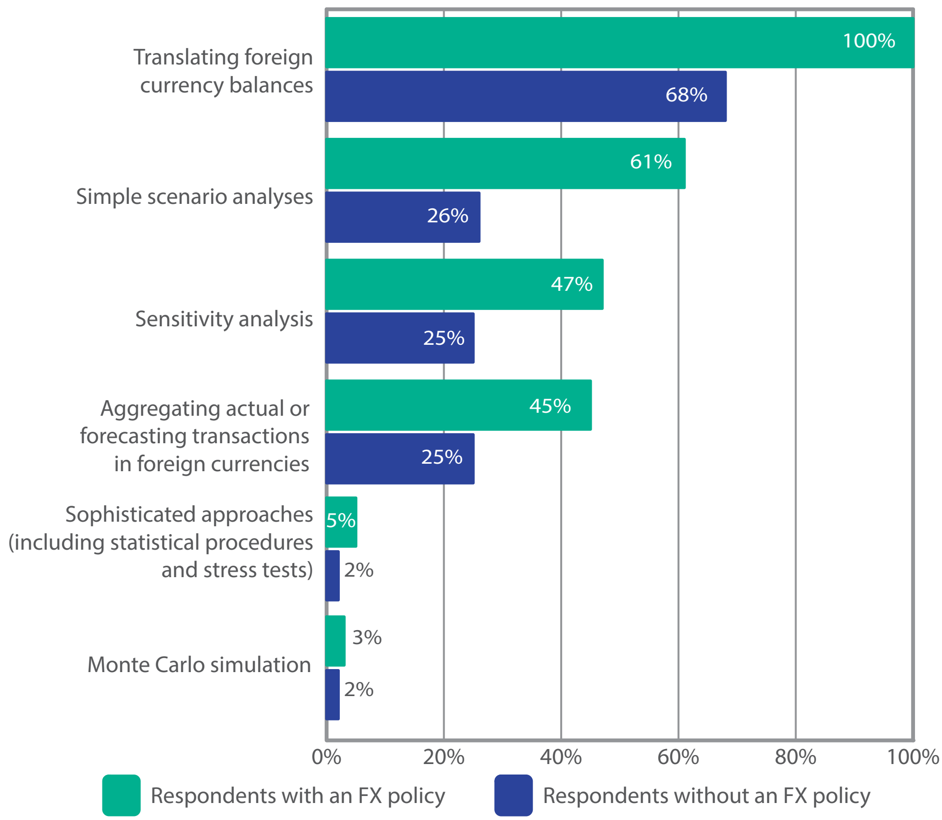
Organizations establish FX hedging policies to achieve unique outcomes based upon their real and perceived risks. The most common purpose according to survey respondents is to guard against short-term exchange impact (41%) with regards to sales or purchases in foreign currencies (see attached chart). "A bit of all of the above," explained one respondent. "We spent a fair amount of time trying to find a balance between the accounting and economic impacts of FX risk."

CHART 3 – COMPARISON BETWEEN SURVEY RESPONDENTS WITH AND WITHOUT FORMAL FX RISK MANAGEMENT POLICIES



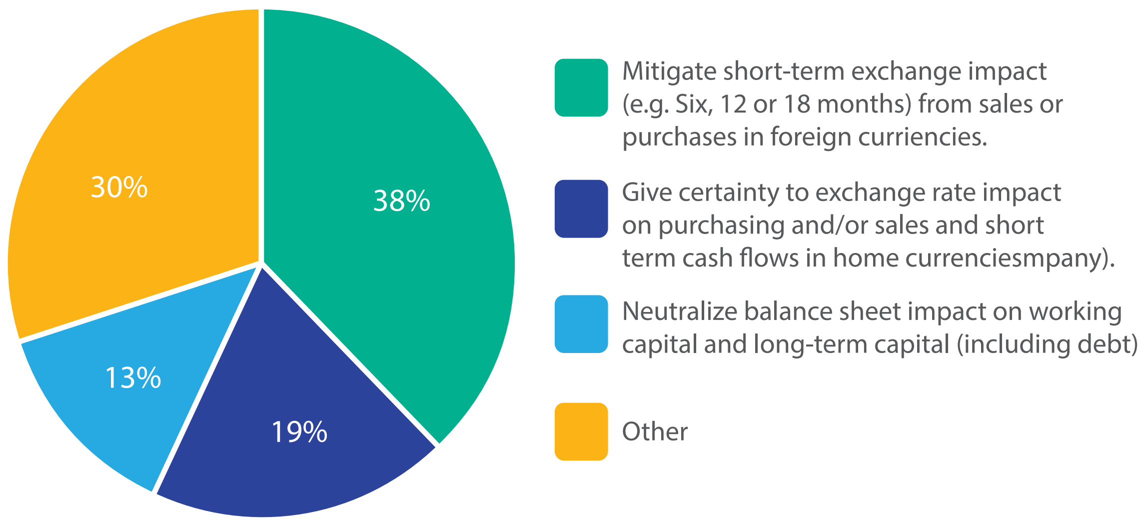
Some interesting differences can be observed between those organizations which do have a policy and those who don't. Not surprisingly, Chart 3 highlights that 80% of respondents with an FX risk management policy say their organization rates FX as important or extremely important. However, a relatively high number of respondents – more than half – with no policy in place still say FX risk management is important or extremely important at their organization. It was interesting to note that despite the differences in the level of importance assigned to FX between the two groups, both groups had about the same proportion conducting business transactions in emerging markets (41% and 43%, respectively).

CHART 4 – DO YOU REGULARLY QUANTIFY FOREIGN EXCHANGE RISK BY DOING ANY OF THE FOLLOWING?



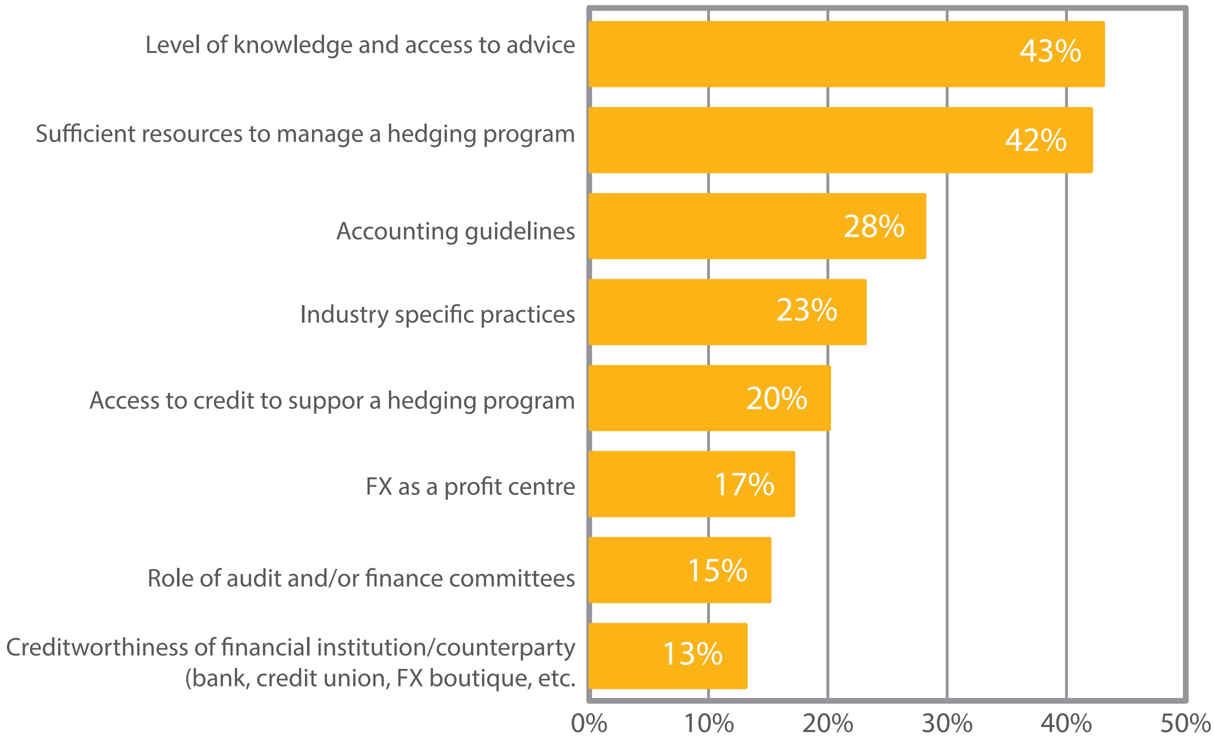
Some differences emerge when the two groups' methods of quantifying risk are compared (Chart 4). Those respondents with FX risk management policies and procedures are more likely to engage in quantification activities such as simple scenario analyses, sensitivity analyses, and aggregating actual or forecasting transactions in foreign currencies (100% of those with FX policies versus only 25% of those without such policies). Those with policies are slightly less likely to use simpler methods such as simply translating foreign currency balances.

CHART 5 – PURPOSE OF FX HEDGING POLICY



At many organizations, FX risk management and hedging policies have grown more sophisticated and international operations have expanded while currency concerns have grown. Stephen Dyer, CFO of Agrium Inc., has seen the fertilizer maker's strategy grow more formalized and sophisticated as the company's operations have spilled beyond Canada's borders. "We have a policy in place with our board that is more what you're allowed to do, it doesn't dictate what you have to do. We also have a financial risk committee that's looking across all of our financial risks, including the FX component. It looks at what financial risks are coming at us, what our strategy is and projects we have. It meets quarterly and reports to our audit committee, and that committee also has operations updating them on what's going on with their business and what they see as their financial risks as well."

CHART 6 – DECIDING FACTORS WHETHER OR NOT TO MANAGE FX EXPOSURE



“Having a board with the ultimate responsibility for risk management rather than just the organization’s officers sounds realistic in theory, but only works in practice if directors have some knowledge of foreign exchange risks and techniques and strategies to mitigate them”, noted Gordon Travis, CFO of Canadian Oilfield Solutions Corp. “Organizations’ biggest issues have been around the expertise to put accountability for risk on the board. The issue usually is, do board members understand or have the time to understand what they are now being mandated to address? I think there is actually a mandate for the board to strategically know, understand and address foreign exchange risks.”

In light of the international financial crisis of 2008-2009, an assessment of the strength of organization's key financial lenders may be an area of scrutiny. That is fast becoming a standard reporting category for Bombardier Inc., said its Director of Financial Risk Management, Ali Jinnah. "One thing we also report to senior management is our overall counterparty exposure, including the marked-to-market position of our FX, interest rates and commodity derivatives as well as any deposits we may have with a given counterparty. We've also set risk limits per institution based on credit ratings and risk, which we look at closely."

For Canadian companies that regularly sell their goods and services internationally and get paid in a foreign currency, a clear risk exists that by the time they are paid, exchange rates will change and they will end up receiving less in Canadian dollars than when they agreed to the deal in the first place. Called transaction exposure, this type of FX risk is the one that companies with foreign operations focus most on mitigating.

Survey respondents said that they utilize a variety of FX instruments to mitigate risk, the most common being forward contracts, foreign exchange swaps and currency options or a blend of the three. "Vanilla forward purchase FX contracts are the only thing we use," said one survey participant. "Other more exotic options are available to us, but we do not use them." Another survey respondent said their firm's strategy employs "FX spot and forward exchange contracts, FX swaps, foreign currency borrowing and lending for fixed terms."

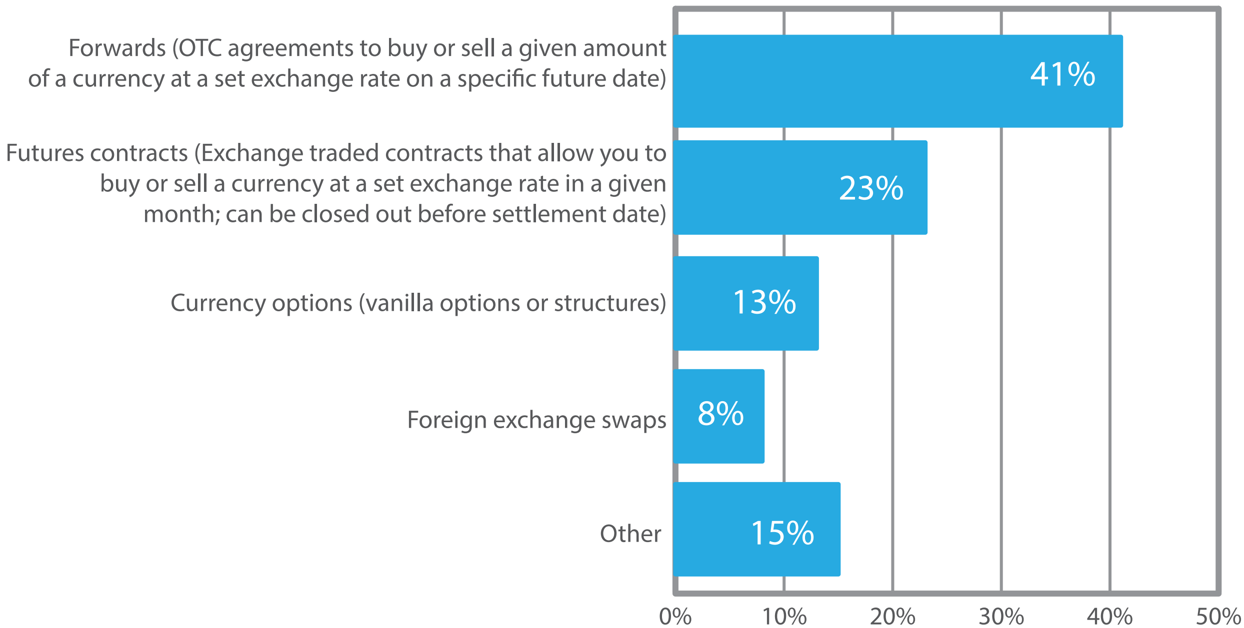
"We have what we call a risk management policy that was approved by the board and is reviewed on a yearly basis. That risk management policy is fairly tight; it's mostly hedging 100% of FX risk. On the interest rate side we have a range of 60 % to 100 % of fixed rate. Currently most of our debt is fixed and we see no incentive to move to floating rate debt. We report on a quarterly basis what are the levels and confirm to the board that we're respecting the risk management policy."

Pierre van Gheluwe – Treasurer, Yellow Media Inc.

"We don't have a formal process in place. Any new relationship or instrument that we've entered into is reviewed and approved at the board level before we embark on a new tactic but its not a formally documented process. We don't surprise anybody with new ways of doing things until we've had some input from the entire board."

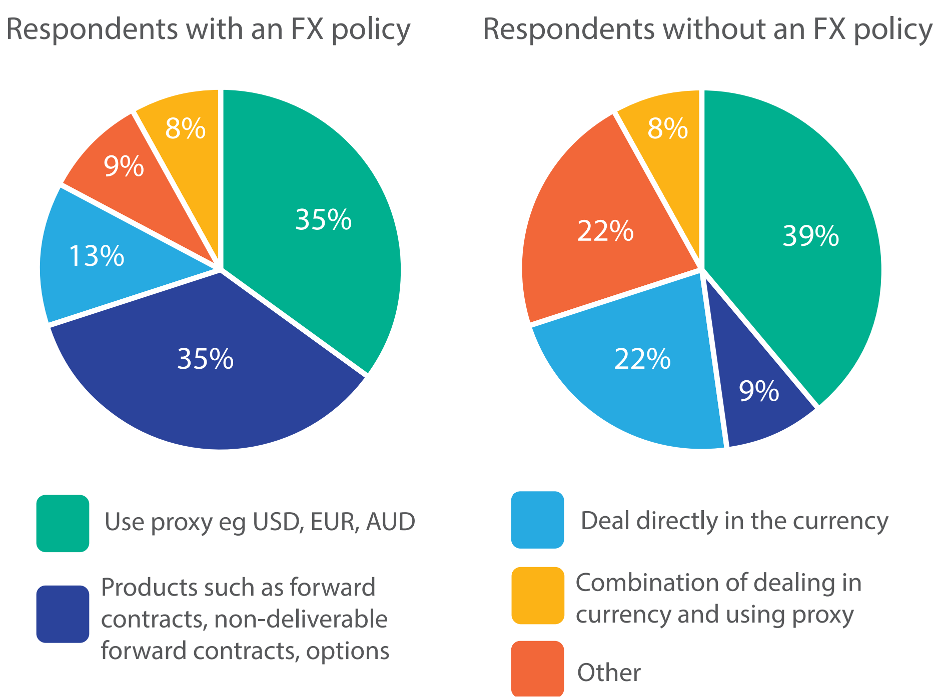
Bill Cummins – CFO of Petromanas Energy Inc.

CHART 7 – FINANCIAL INSTRUMENTS OR PRODUCTS USED TO MITIGATE RISK



"The structure of the company, public or private, will also play a role in what mix of FX risk mitigation products they use," observed Mary Mulqueen. "A public company is more likely to use a product that gets what we call hedge accounting treatment, so that they don't have volatility in their revenue every quarter based on marking their hedges to market. In private companies, they may use a variety of structured products, which are options based products that give them the certainty of a worst case price to protect their margins or budgets while allowing for participation in a favourable market move."

CHART 8 – HOW DO YOU MANAGE EXPOSURE TO EMERGING MARKETS CURRENCIES?



Interestingly, those organizations with a formal FX policy in place are far more likely to use products such as forward contracts, non-deliverable forward contracts and options (see Chart 8).

CANADIAN DOLLAR: PARITY, BOON OR HINDRANCE?

The march to parity of the Canadian dollar with the U.S. greenback has made it more difficult for some to compete internationally while on the other hand it has lowered the cost to invest and upgrade foreign-sourced capital equipment.

Currency fluctuations are a two-edged sword for companies, however most organizations surveyed said that currency fluctuations have not changed their competitiveness within their industry. Three-quarters said they were unaffected while the remainder reported that changes in currency values have hurt their business. "In the aerospace business segment, revenues are in USD while most of our costs are in CAD, the rising CAD has made our competitive position more difficult," said one respondent.

Many of those who reported a negative impact from currency fluctuations referenced the rise of the Canadian dollar against the U.S. dollar and its negative impact on revenue. U.S.-Canada parity has had other unwanted effects. "[It has] significantly reduced profits and resulted in reduced reinvestment in the company to maintain our competitive position," reported one respondent, while another said currency changes have "lowered profits in the foreign country and have attracted competitors to the domestic market."

The dominance of the U.S. dollar in international trade is not always a negative in the experience of Danielle Parent, VP of Finance Platform Products Group with Fujitsu America. The Canadian unit of the Japanese office product maker found itself at a disadvantage as its competitors' products were priced in U.S. dollars while it priced its product lines in Canadian dollars. "Our pricing people had trouble following the market because the dollar was so volatile. So I worked closely with the sales and marketing people and we decided that why not sell in U.S. dollars like our competitors, therefore we don't have to address our pricing in Canadian dollars on a daily basis to cope with the volatility of the dollar. That has been a perfect edge for us. The product mix has evolved over the years, however we still have a few lines of product that we sell in U.S. dollars which is helping us create a natural hedge since products are purchased from the factory in U.S. dollars. And when the GST came into play, that was a bonus for us, because it sort of made the spread even bigger."

CONCLUSION

Foreign exchange risk management: Perspectives from financial executives shows that Canadian companies are embracing the need to expand their businesses beyond our borders and deal with whatever currency risks that come with that strategy.

Companies need to see rewards as well as the risks with foreign exchange. As the participants in the Executive Research Forum and survey respondents highlighted, Canadian businesses are tackling the issues around foreign currencies with increasing sophistication. ″FX in the form of foreign currency transactions, i.e. payables and receivables, is an integral part of more and more Canadian businesses today," said Mary Mulqueen. "As a result, FX is getting a much higher profile, whether it be from the news media or just internally, as businesses have to rely on global connections to survive and thrive. The focus on emerging markets like Latin America and Asia has opened up new opportunities for Canada as these countries seek natural resources for industrial and infrastructure development. Foreign exchange can materially impact businesses' competitive advantage or put them at a real disadvantage if they aren't aware of their risks or don't handle them effectively because that impact goes directly to the bottom line."

The research shows that foreign exchange risk management is taken seriously. In most cases, it is the direct responsibility of senior financial executives who report the results of their policies and programs to the entire board of directors or to a board committee.

Managing foreign currency risk is only going to grow more complicated in the future as Canadian business strive to lessen their dependence on traditional U.S. markets and set their sights on developing markets such as those in Asia, South America or Africa. Even mature markets such as Europe present heightened complexity and risk, given the serious sovereign debt and currency issues in the European Union.

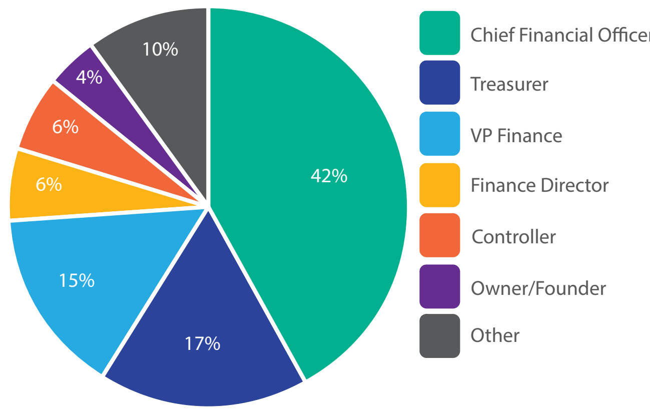
Businesses have taken a very serious approach to FX risk programs such as hedging. Rather than consider hedging as a potential profit centre, hedges are created as defensive foreign currency "insurance policies" to guard against short-term currency shifts or long term threats to corporate capital.

CONCLUSION

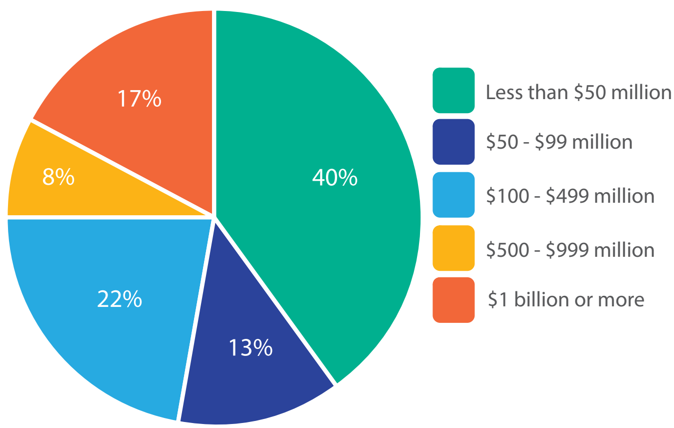
Foreign exchange risk management needs to be part of a Canadian company's international growth strategy. As only half of the organizations surveyed have a policy, formal process or procedure in place to manage FX risk, others should follow their example. A close examination of practices of those who have FX policies shows that having such a policy in place is associated with placing a greater importance on FX risk management in the organization, employing more sophisticated methods of quantifying risk, and a higher likelihood of using products such as options and forward contracts. Further study of organizations' best practices in FX risk management would shed more light on the effectiveness of their strategies and tactics.

APPENDIX A: DEMOGRAPHICS

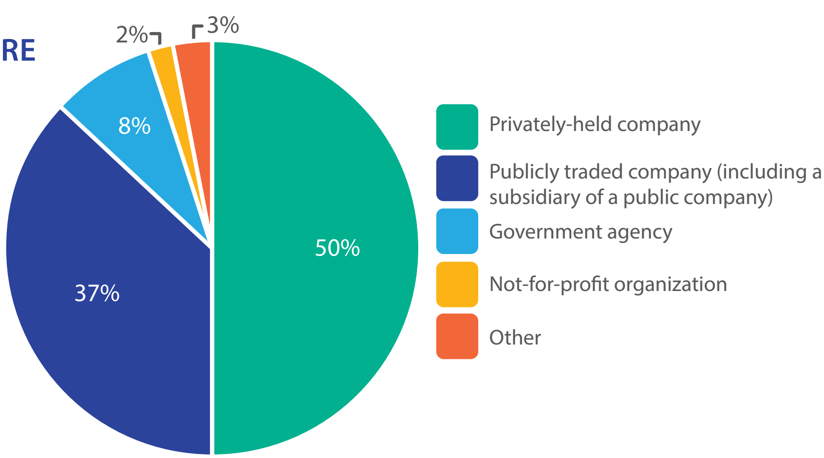
POSITION TITLE



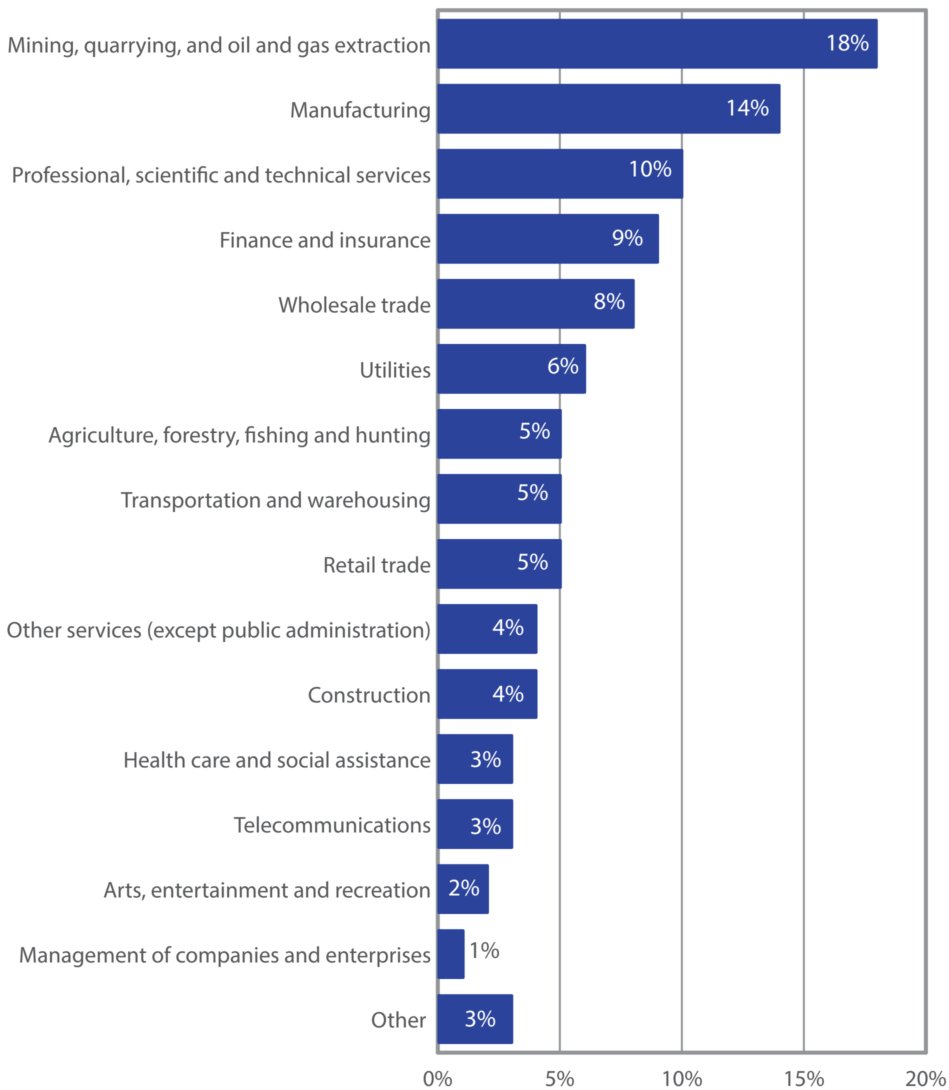
ANNUAL REVENUE



CORPORATE STRUCTURE



INDUSTRY CLASSIFICATION



APPENDIX B: FORUM PARTICIPANTS

Forum Chair:	Michael Conway – Chief Executive & National President, FEI Canada
Moderators:	Christian Bellavance – VP, Research & Communications, FEI Canada Mary Mulqueen – Managing Director, Foreign Exchange Sales, CIBC
Calgary Participants:	Bill Cummins – CFO, Petromanas Energy Inc. Stephen Dyer – EVP & CFO, Agrium Inc. Jim Fergusson – VP Finance, GE Railcar Services Canada Chris LeBlanc – Executive Director, Foreign Exchange Sales, CIBC Dean Leskowski – Manager, Treasury and Risk Management, Calfrac Well Services Ltd. John McCoshen – Manager, Treasury, Canadian Natural Resources Limited Grant McNeil– VP Finance, Ian Murray & Company Jerry Pratt – Executive Director, Foreign Exchange Sales, CIBC Bill Ross – VP, Finance, Enbridge Pipelines Gordon Travis – CFO, Canadian Oilfield Solutions Corp. Craig Werbicki – Director, Commercial Banking Calgary, CIBC
Toronto Participants:	Jonathan Burkhead – Director, Treasury Operations, OpenText Corporation Hanif Ladha – VP Financial Planning and Operations Support, G4S Cash Services (Canada) Ltd. Allan MacDougall – Global Director of Finance, Dumas Contracting Ltd. Don Mikolich – Executive Director, Corporate Solutions, CIBC Danielle Parent – VP, Finance & Administration, Fujitsu Canada, Inc. Derek Petridis – VP, Finance, Shikatani Lacroix Design Inc. Lida Sadrazodi – CFO, KUBRA
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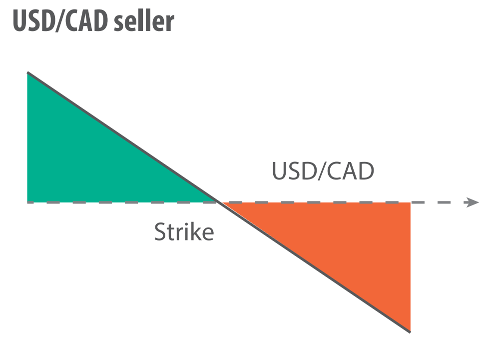
Observers:	Paul Brent – Writer, Donohue Brent Training and Consulting Melissa Gibson – Communications & Research Manager, FEI Canada

APPENDIX C: GLOSSARY

Example of outright forward – USD seller

Spot ref.: 1.0200 CAD per USD

- Allows a client to lock-in a foreign exchange rate at which they can sell on a given date in the future.
- As such, all uncertainty associated with foreign exchange movements will be nullified.
- However, the client will not be able to benefit from a favourable move in the spot market.
- Valid hedging instrument for "certain" cash flows.



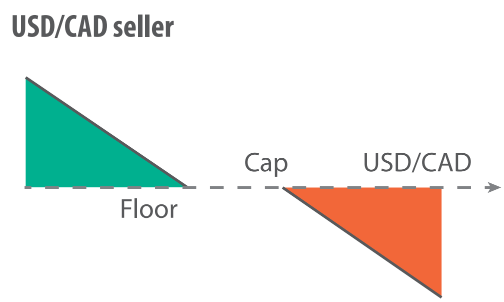
Indicative terms & conditions:

- Client position: Sell USD / Buy CAD forward
- Expiry date: 1 month
- Strike: 1.0205 CAD per USD
- Notional: US$ 10,000,000
- C$ 10,205,000
- Premium: none

Example of FX collar – USD seller

1-month forward ref: 1.0205 CAD per USD
Spot ref.: 1.0200 CAD per USD

- A collar (also known as a risk reversal) provides a client with a protected rate and a best case rate for a given date in the future.
- Client participates fully in movements between the protected rate (floor) and best case rate (cap).
- Cap and floor are typically selected so there is no upfront premium.



Indicative terms & conditions:

- Client position: Sell USD / Buy CAD Forward
- Expiry date: 1 month
- Cap: 1.0475 CAD per USD
- Floor: 1.0000 CAD per USD
- Notional: US$ 10,000,000
- Premium: none

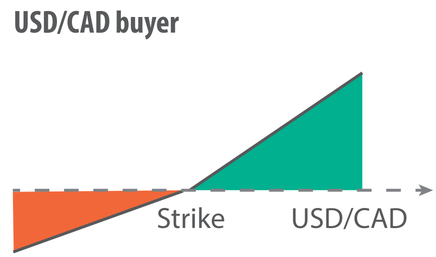
Analysis:

- Full protection against USD depreciation below the floor
- Full participation between the floor and cap
- No participation in USD appreciation above the cap
- No upfront premium

Example of participating forward – USD buyer

- Allows a client to lock-in a foreign exchange rate at which they can buy on a given date in the future.
- Amount of USD the client has the right to buy exceeds the amount of USD the client is obligated to buy.
- Strike is higher than an outright forward in exchange for potential to benefit from a favourable move in the spot market on part of the notional.

1-month forward ref: 1.0205 CAD per USD
Spot ref.: 1.0200 CAD per USD



Indicative terms & conditions:

- Client position: Buy USD / Sell CAD forward
- Expiry date: 1 month
- Strike: 1.0260 CAD per USD
- Notional: US$ 10,000,000, if above strike
- US$ 5,000,000, if below strike
- Premium: none

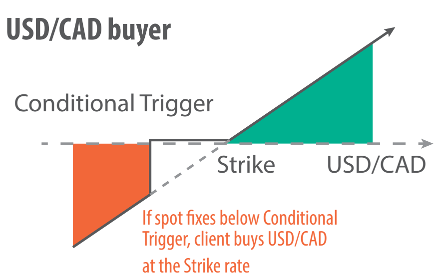
Analysis:

- Full protection against an appreciation of the USD
- Partial participation in a depreciation of the USD
- Higher strike compared to an outright forward

Example of at-maturity variable rate forward – USD buyer

- Designed to offer clients protection at a known worst case rate while providing the client with the ability to participate in a potential favourable move in spot to the pre-determined conditional trigger.
- Only if spot USD/CAD is below the conditional trigger at maturity, will the client be required to buy USD/CAD at the pre-agreed strike rate.
- Tradeoff for client is agreeing to a slightly higher Strike upfront compared to the outright forward in exchange for the potential to participate in favourable move in spot to the conditional trigger.

3-month forward ref: 1.0225 CAD per USD
Spot ref.: 1.0200 CAD per USD



Analysis:

- Full protection against an appreciation of the USD
- Full participation in a potential depreciation of the USD down to the conditional trigger
- Zero upfront premium
- Initial give up of 50 pips relative to the outright forward for a potential 180 pips participation
- Hedge accounting friendly

Indicative terms & conditions:

- Client position: Buy USD / Sell CAD forward
- Expiry date: 3 months
- Strike: 1.0275 CAD per USD
- Conditional trigger: 1.0045 CAD per USD
- Notional: US$ 10,000,000

DEFINITIONS:

Spot transaction: Single outright transaction involving the exchange of two currencies at a rate agreed on the date of the contract for value or delivery (cash settlement) within two business days.

Outright forward: Transaction involving the exchange of two currencies at a rate agreed on the date of the contract for value or delivery (cash settlement) at some time in the future (more than two business days later). This category also includes non-deliverable forwards and other forward contracts for differences.

Foreign exchange swap: Transaction which involves the actual exchange of two currencies (principal amount only) on a specific date at a rate agreed at the time of the conclusion of the contract (the short leg), and a reverse exchange of the same two currencies at a date further in the future at a rate (generally different from the rate applied to the short leg) agreed at the time of the contract (the long leg).

Non-deliverable forward: A cash-settled, short-term forward contract on a thinly traded or non-convertible foreign currency, where the profit or loss at the time at the settlement date is calculated by taking the difference between the agreed upon exchange rate and the spot rate at the time of settlement, for an agreed upon notional amount of funds.

Currency option: Option contract that gives the right to buy or sell a currency with another currency at a specified exchange rate during a specified period. This category also includes exotic currency options such as average rate options and barrier options.

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