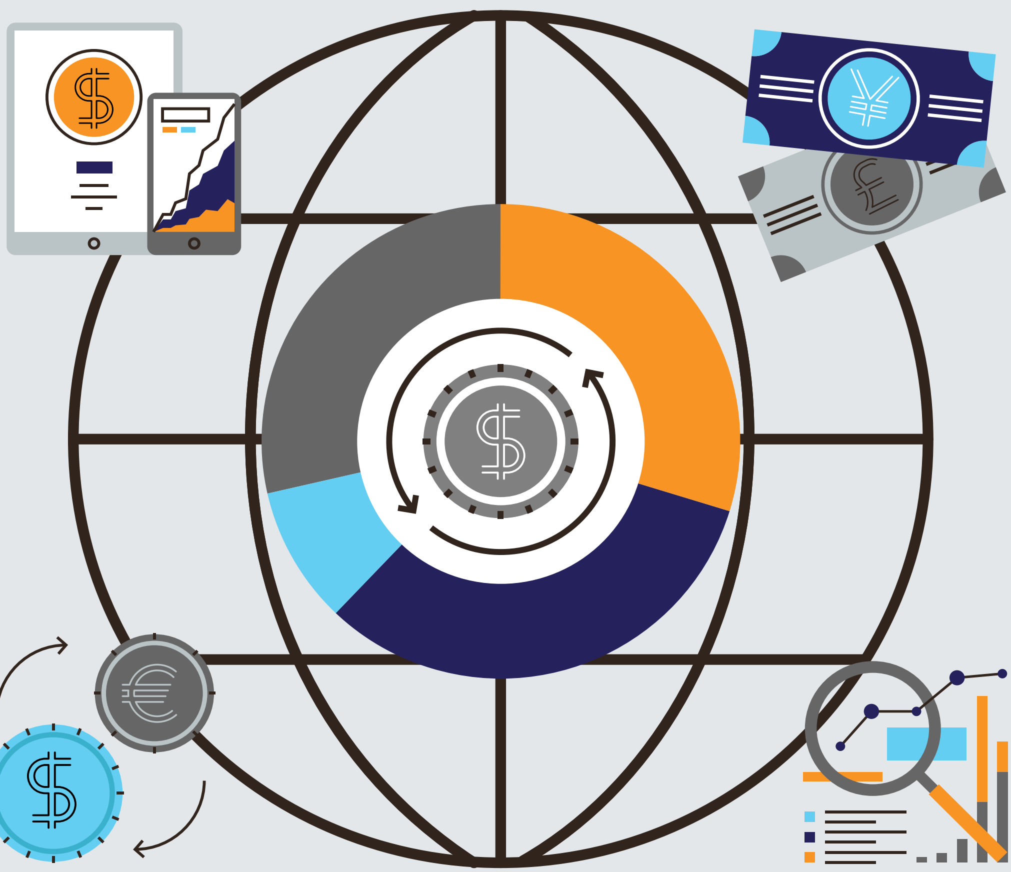
EXPLORING FOREIGN EXCHANGE RISK MANAGEMENT IN CANADA



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ACKNOWLEDGEMENTS

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Vice President, Research
FEI Canada

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EXECUTIVE SUMMARY

What's going to happen next in the foreign exchange market? It's the top of mind question for economists, policy makers and CFOs in particular, who, as this study shows, are largely responsible for managing foreign exchange risk in businesses across the country.

Given the dizzying fall in the value of the loonie, subsequent mild recovery, and the importance of the U.S. dollar to Canadian businesses (100% of respondents will transact in USD in the next year), this study was undertaken to better understand the challenges to articulating and executing a robust foreign exchange management strategy and to share best practices.

Here's what we learned: Canada's CFOs and business leaders are not only paying attention to foreign exchange, a full two-thirds rank it as important or extremely important, with almost the same number reporting it is more or much more important than it has been perceived to be in the past.

To that end, while more than half of online respondents report the CFO is in charge of managing foreign exchange risk, some 41% state that going forward they will be seeking input from their treasurer and other financial decision makers as well as external advisers. Surprisingly, 25% do not consult with external parties.

Commodity market turbulence is the top concern keeping finance executives up at night with respect to the economic outlook for business and Canada and what might trigger the most foreign exchange volatility in the coming year. When the world and many Canadians continue to view oil and gas as the foundation for the Canadian dollar, this is no surprise.

Calgary-based Bellatrix Exploration Ltd., is living this reality. "We are a price taker," says the company's vice president of finance, Leanne Gress-Blue. "What the market is going to pay for oil and natural gas is set externally. The impact of the correlation or lack of correlation with regards to that price and the foreign exchange is critical."

Central bank policy changes and the slowing Chinese economy round out what respondents view will be the top triggers for foreign exchange volatility in the next 12 months.

The study also reveals that even though the foreign exchange market is in a state of flux and global economic growth continues to stagnate, only 36% of respondents are able to adjust pricing with suppliers as needed. This drops to just 27% when it comes to prices charged to customers. At the same time, 71% of total respondents cite payables as their top type of foreign exposure in the next 12 months, followed by receivables (42%).

The top three challenges in managing foreign exchange risk are:

- lack of resources or time for analysis (36% of respondents stated this as their #1 priority)
- difficulty measuring currency exposures (24% of respondents stated this as their #1 priority)
- lack of internal knowledge (13% of respondents stated this as their #1 priority).

When it comes to estimating exposure to exchange rate changes, almost two-thirds of respondents stated they rely on cash flow forecasts, 36% use sensitivity analysis and 24% employ historical estimates.

Almost 20% of respondents from businesses with revenues between $25M and $100M did not track foreign exchange exposure.

Bank forecasts are the go-to resource for respondents when establishing foreign exchange rate budgets (61%), followed by implied forward rates (25%) and hedged rates (20%).

Even though the importance of foreign exchange risk management has increased and the top foreign exchange objective for the coming year is to mitigate risk, the majority of respondents report there has been no change to their strategy. Just over one quarter have no foreign exchange risk management strategy in place and almost one third have no plans to implement one.

RESEARCH METHODOLOGY AND DEMOGRAPHICS

Exploring foreign exchange risk management in Canada was prepared by CFERF, the research arm of FEI Canada and sponsored by Cambridge Global Payments. It is based on the results of an online survey of 116 senior financial executives from across Canada. The online survey was conducted between February 23, 2016 and March 10, 2016. About half of respondents were CFOs, 14% were vice presidents of finance, 10% were controllers and 9% were directors of finance.

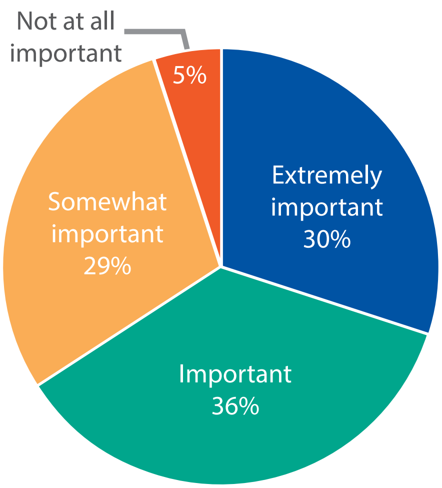
More than half of respondents worked at private companies, while just over one-third worked at public companies and the rest were employed at not-for-profit organizations, government, Crown corporations and other organizations. Almost one-quarter of respondents were in the manufacturing sector and almost all had operations in Canada with about half operating in the U.S., 18% in Europe, 17% in Latin America and the Caribbean and 16% in Asia Pacific. All organizations polled transact in foreign currencies.

Almost 20% of these organizations had annual revenues of $1B or greater, with one-quarter reporting sales of between $100 million to $1 billion and 31% reporting sales between $25 million and $100 million. For more detailed demographic information, see Appendix A.

The results of the online survey were enhanced by insights gained during a roundtable discussion with senior finance and business executives. The discussion was held on March 8, 2016 in Toronto, Calgary, Halifax, and Vancouver, and participants were connected via videoconference.

RANKING THE IMPORTANCE OF FOREIGN EXCHANGE MANAGEMENT

CHART 1: How would you rate the importance of foreign exchange risk management at your organization today?



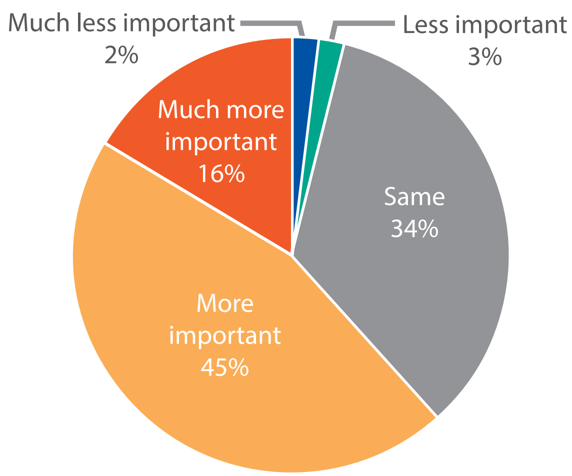
Given the extreme volatility of global markets and the accompanying tectonic shift in the foreign exchange market coupled with the fact all qualified respondents work at organizations that transact in currencies other than the Canadian dollar, it is not surprising that the majority (66%) rate foreign exchange management as important or extremely important. Only 5% stated it was not at all important.

Geography also impacts how foreign exchange management is viewed. 40% of the respondents who had operations in Asia Pacific, Latin America & the Caribbean, Africa or the Middle East stated that the importance of foreign exchange management is extremely important. This compares to 32% of respondents with operations in the U.S. and 29% of respondents with operations in Europe who stated foreign exchange management is extremely important.

Still, 29% of total respondents view foreign exchange management as just somewhat important. When asked if the importance has changed in the last 12 months, 34% stated that it had stayed the same, despite the dramatic drop in the value of the Canadian dollar over that time.

In terms of how the level of importance has changed in the last 12 months, size matters. Forty-three percent of the largest organizations reported it has become much more important. This compares to just 10% for respondents from organizations with between $25M and $1B in revenues.

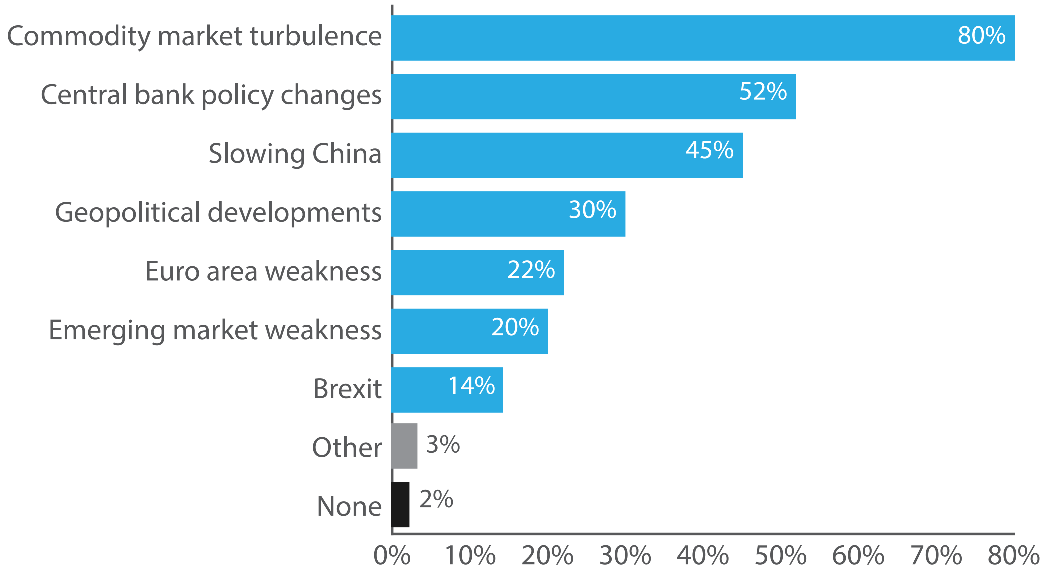
CHART 2: How has the importance of foreign exchange risk management changed, if any, at your organization over the last 12 months?



> “Financial exchange risk management has certainly received heightened attention. Our business is reasonably complex. Our input costs are in U.S. dollars and our products are priced in Canadian dollars. The sharp movement has really led to sticker shock, which has caused some deferral. We also have fairly substantial inventories. So as we're buying new equipment, the key question that we have to ask ourselves is, are things going to improve vis-à-vis the strengthening Canadian dollar? When you're sitting on $300 million worth of inventory, that's a pretty big exposure. We are spending a fair amount of time with our operating teams driving good fundamental working capital disciplines. For pure foreign exchange exposures, we try to eliminate all risks with rolling hedges and forward contracts.”
>
> **Paul Jewer – Executive Vice President and CFO, Toromont Industries Ltd.**

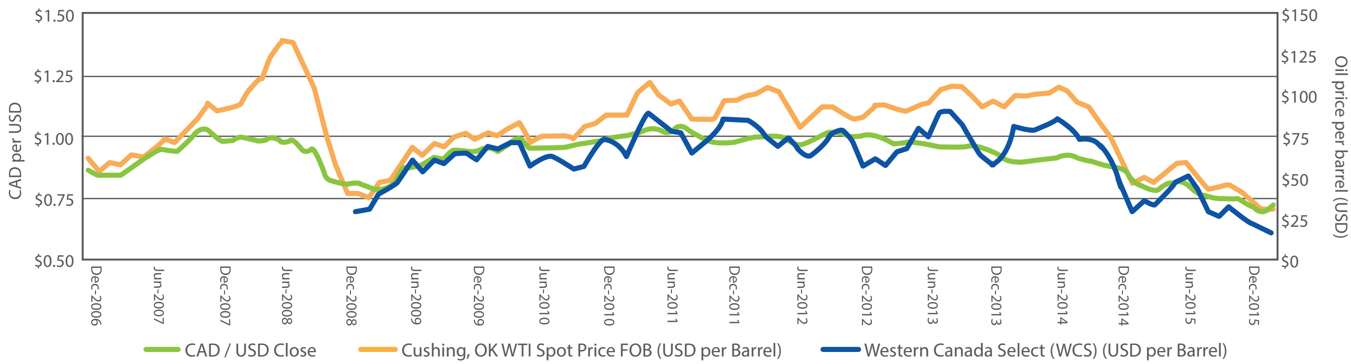
WHAT WILL TRIGGER FOREIGN EXCHANGE VOLATILITY IN THE NEXT 12 MONTHS?

CHART 3: From a general economic outlook perspective, which of the following issues do you see triggering significant foreign exchange volatility in the 12 months ahead? (Select all that apply)



Canada has long been perceived as an energy-based economy. Any change in oil and gas investment has ripple effects throughout the domestic economy. Since about the 1990s, where the price of oil has gone, the dollar has followed.

CHART 4: CAD exchange rate and oil price per barrel in USD
December 2006 - February 2016



Source:
Government of Alberta (http://economicdashboard.alberta.ca/OilPrice)
U.S Energy Information Administration (http://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=PET&s=RWTC&f=M)
Bank of Canada, monthly average exchange rate (http://www.bankofcanada.ca/rates/exchange/monthly-average-lookup/)

The decade-long super cycle of high oil prices led to a prolonged period of currency over-valuation that negatively impacted exporters, which has had a profound effect on the overall economy.

"What we're seeing is a seismic shift in the long-term currency trends," says Ajay Rao, CFO, Conros. "We've had a supercycle in commodity pricing followed by a general decline in economic activity across industries. We are certainly seeing this on the retail side. It's a global phenomenon and it's feeding through into our resource economy."

With that as the backdrop, it is easy to see why 80% of respondents expect commodity market turbulence to trigger significant foreign exchange volatility in the next 12 months.

That said, there is also an increasing understanding that commodity prices are just part of a complex set of factors impacting foreign exchange rates.

More than half of total respondents expect central bank policy changes to trigger volatility in the coming year, nearly half have their eye on a slowing China economy and others cite geopolitical developments. Weaknesses in the European Union and emerging markets were also cited. Respondents from companies with $10M or less in revenue were less likely to be concerned about commodity market turbulence (59%) as compared to 86% of respondents from companies with between $100M and $1B of revenue.

"I think this notion of the Canadian dollar being a petrol currency has to change. The commodity market shouldn't create the volatility, central bank policy divergence and whether or not Canada and the U.S. are going to raise or lower interest rates is what's creating the volatility. The Bank of Canada's efforts to promote Canadian exports is a policy that is working for our company, because we had the ability to move the majority of production back to Canada from the U.S. When you get to a point where transportation and logistics costs are offset by the lower loonie, then it makes sense to produce more in Canada."

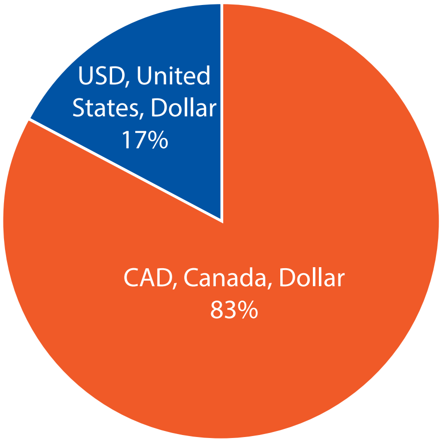
JJ Giraldi – CFO, Packers Plus Energy Services

"Central bank policy in Canada, the U.S., Europe, China and Japan is important for long-term direction on currencies. Those policymakers have the ability to shift the market over time if they decide that's what they want to do."

John Forester – CFO, DBG Canada Ltd.

CAD, USD, EUR: WHAT'S YOUR MAIN CURRENCY?

CHART 5: What is your organization's primary functional currency?



Not surprisingly, respondents report their functional currency is either the Canadian Dollar (83%) or US Dollar (17%). For organizations with operations outside Canada, the importance of the USD increases. The relative lower CAD exchange rate is proving to be either a positive or negative development, depending on the industry, nature of transactions taking place and the impact it has on customers.

"I would say about 70% of our clients are based in the U.S., so the majority of our sales are in U.S. currency, while our costs are mostly in Canadian dollars," says Kevin Yau, financial controller, one45 Software Inc. in Vancouver. "This gives us big exposure. On the one hand, it looks great on our financials because of the exchange rate, but on the other hand, if you dive a little bit deeper, it might show a different picture."

For Calgary-based Trimac Transportation Ltd., the lower loonie is indirectly shifting the business, transactions and flow of traffic, says Scott Calver, the company's vice president and CFO. "This has more to do with the impact on our customers' businesses than it does with the foreign exchange exposure within the company."

TOMORROW'S CURRENCIES

CHART 6: In the next 12 months, which of the following currencies will your organization have transactional or translational dealings? (Select all that apply)

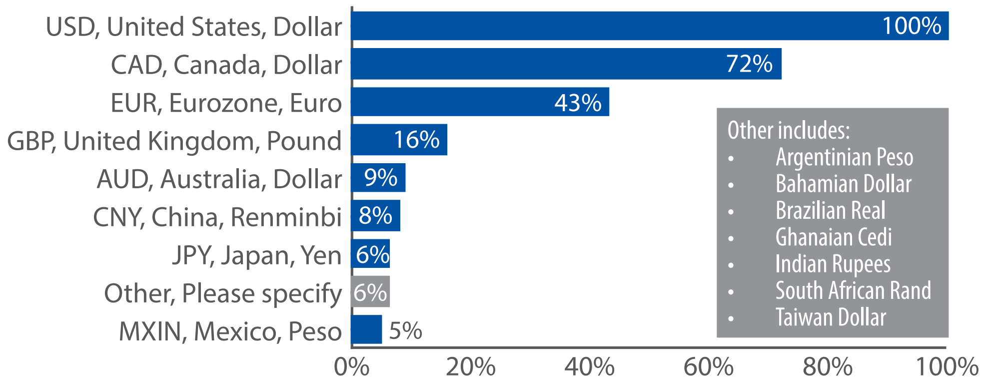
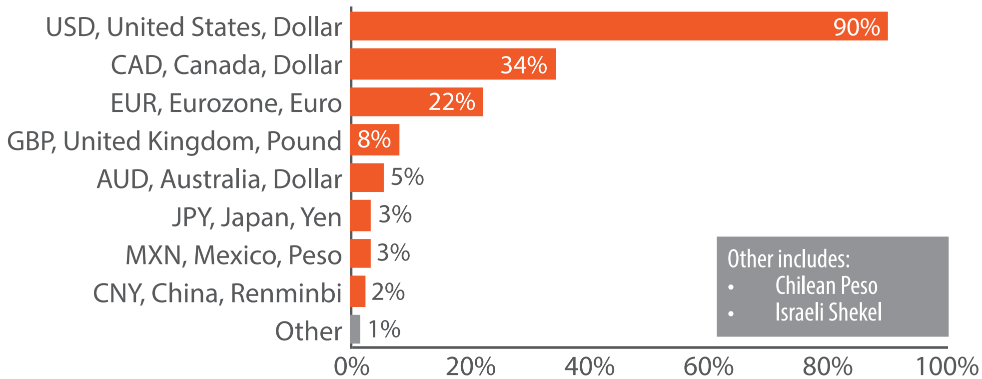


CHART 7: Over the next 12 months, which of the following currencies are likely to represent significant exposures for your organization? (Select all that apply)



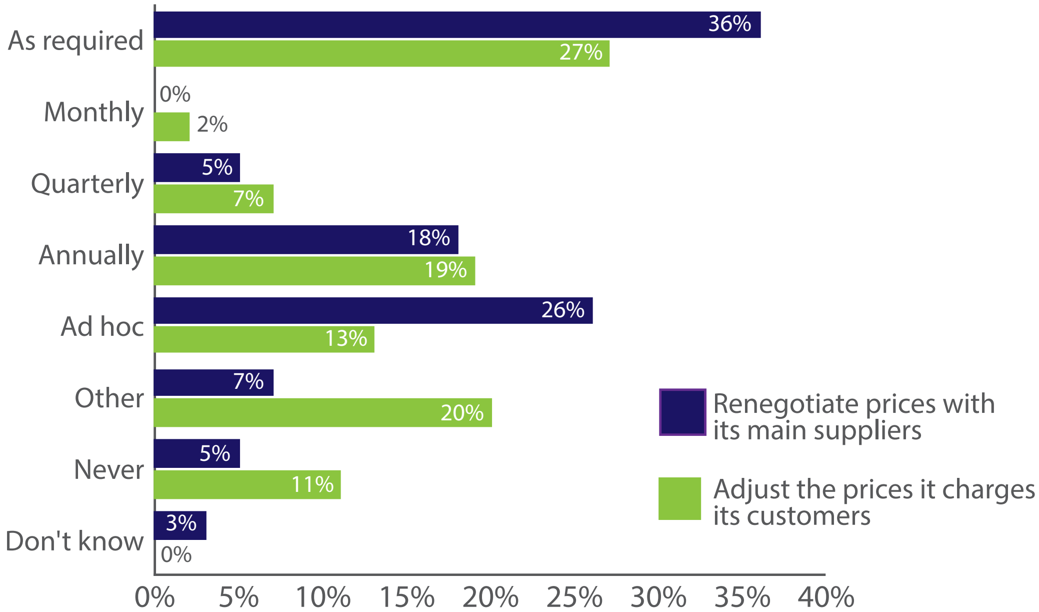
Regardless of industry, business structure, size or geographic location, 100% of respondents will deal in USD in the next 12 months. Not surprisingly, 91% of total respondents expect the USD to present significant exposure to their business in the coming year.

Almost three quarters of total respondents will deal in Canadian dollars, but this rises to 88% for companies with less than $10M in sales as compared to 59% for organizations with between $100M and $1B in revenue. Almost half of respondents will transact or have transactional dealings in the EUR.

As a result, the USD, the CAD and the EUR are the top three currencies that are expected to present significant exposure/risk in the next 12 months.

RENEGOTIATING WITH SUPPLIERS/CUSTOMERS

CHART 8: How often can your organization renegotiate prices with its suppliers / adjust prices it charges its customers?



OTHER (PLEASE SPECIFY) SUPPLIER	OTHER (PLEASE SPECIFY) CUSTOMER
• Varies by contract / agreement (4 respondents) • Contractors are paid in USD, and is non negotiable • In the railway industry prices are mainly set industry wide • Operate in a regulated environment. Main price negotiations are done through CRTC proceedings • On maturity of deposit products • It is dependent upon our contractual arrangements which are market driven	• Contract negotiation/renegotiation (6 respondents) • Market price (4 respondents) • Ad hoc with 3-4 months pre-advance notice • Difficult to change • It depends on the product • Large retailers will not take price increases • Long term full service leases lock prices for many years • NA, pre revenue • Once or twice annually in retail, monthly in food service • Only with regulatory approval • Our prices are fixed and only change if it is part of a strategic related decision • US clients are only invoiced in USD • Varies by customer & contract • Varies depending on the customer. Rarely are exchange adjustments allowed where revenues are under long term contract

Pricing drives hedging behavior and the risk management processes organizations can employ. So how helpful are suppliers and customers now that the Canadian dollar is struggling?

The findings reveal that companies have much more flexibility re-negotiating pricing with suppliers on an as-required basis (36%) than they do with customers (27%). This was most evident in organizations with $1B or more in revenue, with 43% citing the ability to renegotiate as needed with suppliers versus 29% who replied they are able to do the same with customers.

One in five respondents was only able to adjust pricing annually with their suppliers and customers. Given the level of risk that poses, it places these businesses in a particularly challenging situation.

Online survey respondents and roundtable participants also reported that re-negotiation was dependent on contractual arrangements and the terms of individual agreements.

“We typically enter into long-term equipment supply contracts that span two to two and a half years out and where we get paid GBP. At the same time, we procure all over the world, so foreign exchange risk management has always been a big issue for us.”

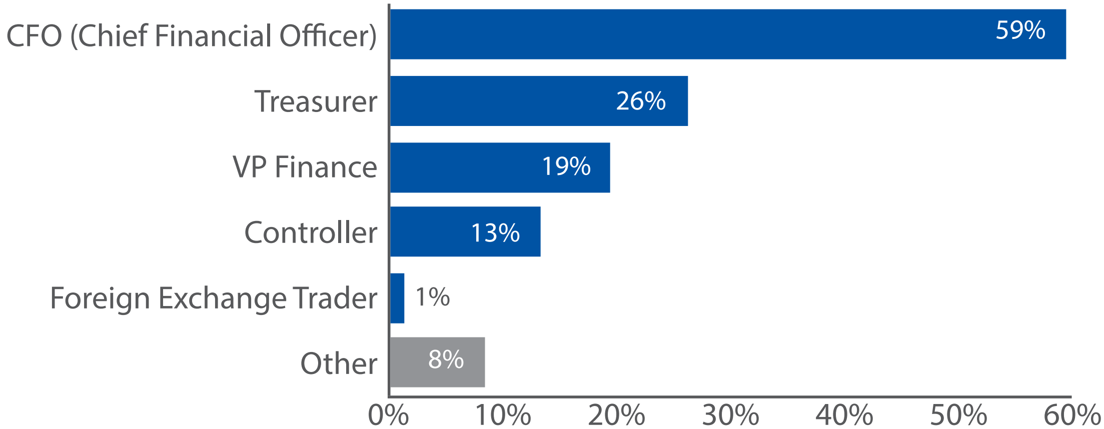
Timm Kukler – CFO, Nexterra Systems Corp.

“We find that we have less opportunity to negotiate pricing outside of our contract in the United States whereas with vendors in Peru, for example, whose costs are in their own currency but who sell to us in USD, we are able to negotiate some favorable price adjustments. With our customers, we try and build in a bit of risk management into our selling price. But you’ve got to be careful, the market is the market.”

Kenneth Kirk – CFO, Sepro Mineral Systems Corp.

WHO'S IN CHARGE OF MANAGING FOREIGN EXCHANGE RISK?

CHART 9: Who within your organization is currently primarily responsible for managing foreign exchange risk? (Select all that apply)



More than half of respondents (59%) stated the CFO was in charge of managing foreign exchange risk, followed by the treasurer (26%), the vice president of finance (19%) and the controller (13%). When we looked further into the results, there was a distinct difference between organizations with more than $1B in revenue where in 71% of cases, the treasurer was in charge of managing risk as compared to organizations with revenue less than $10M where the primary responsibility fell to the CFO (76%) since smaller organizations often do not have a separate role for a treasurer.

What became clear during the roundtable discussion was that the speed and impact of the volatility in foreign exchange markets over the last several months has resulted in changes in the reporting structure. Increasingly, the discussion and decision-making around FX management is moving to the board level.

This has certainly been the case at family-owned and operated manufacturer Conros Corp. "Interest on the part of the business owner has heightened and now responsibility is moving above the CFO," says Ajay Rao, CFO of Conros. "Because the impact is huge, the ownership wants to play a role."

"Within the last year, we have created a risk management committee consisting primarily of the CEO, CFO, COO, and myself. We try to meet regularly and are evolving our hedging policy to best manage commodity, foreign exchange and interest rate risk. Our board provided insight and input into what that policy looks like."

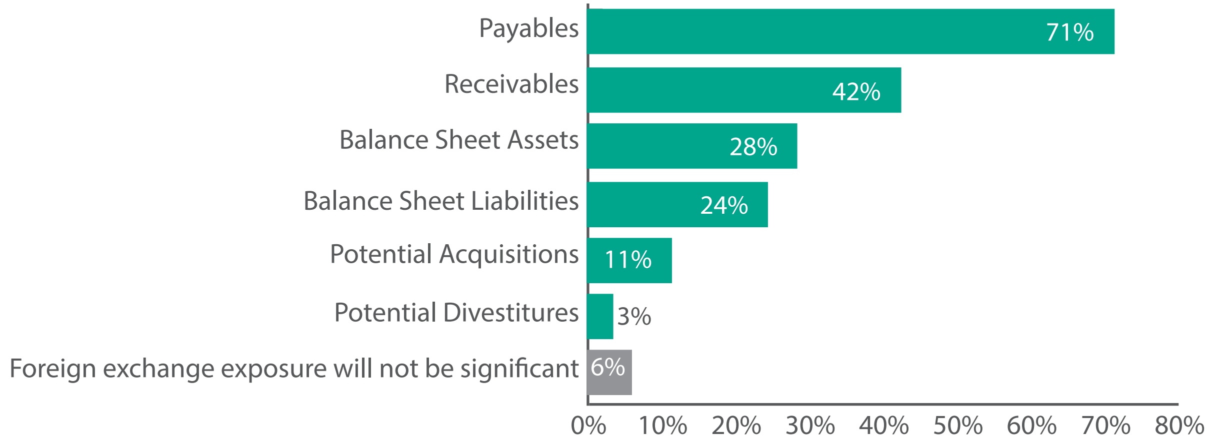
Leanne Gress-Blue – Vice President Finance, Bellatrix Exploration Ltd.

"We are about a $2B dollar revenue organization. As CFO, I am responsible for managing a number of different risks. When foreign exchange suddenly comes to the forefront as one of the larger risks, everybody feels it. I'm reporting a lot more to the board and I'm initiating that."

Paul Jewer – Executive Vice President and CFO, Toromont Industries Ltd.

WHAT'S NEXT IN FOREIGN EXCHANGE EXPOSURE?

Chart 10: In the 12 months ahead, what types of foreign exchange exposure are likely to be significant to your organization? (Select all that apply)



The economic consequences created by an exchange rate move can challenge entire business models. When the Canadian dollar began to appreciate against most global currencies in the mid 2000s, a significant shift took place with manufacturing moving outside the country because many businesses could not adapt to the new environment. Now that the dollar is weakening, a new shift could be taking hold.

So what are Canadian businesses anticipating in terms of foreign exchange exposure in the coming year? Not surprising, the number one response for all respondents to this question was payables (seven out of ten respondents, compared to only four out of ten anticipating a significant issue with receivables). For organizations with operations in the U.S. it was almost evenly split between payables and receivables, at 61% and 60% respectively. A similar story played out for respondents from companies operating in Asia Pacific with 79% citing payables and 74% citing receivables as presenting significant exposure in the coming year.

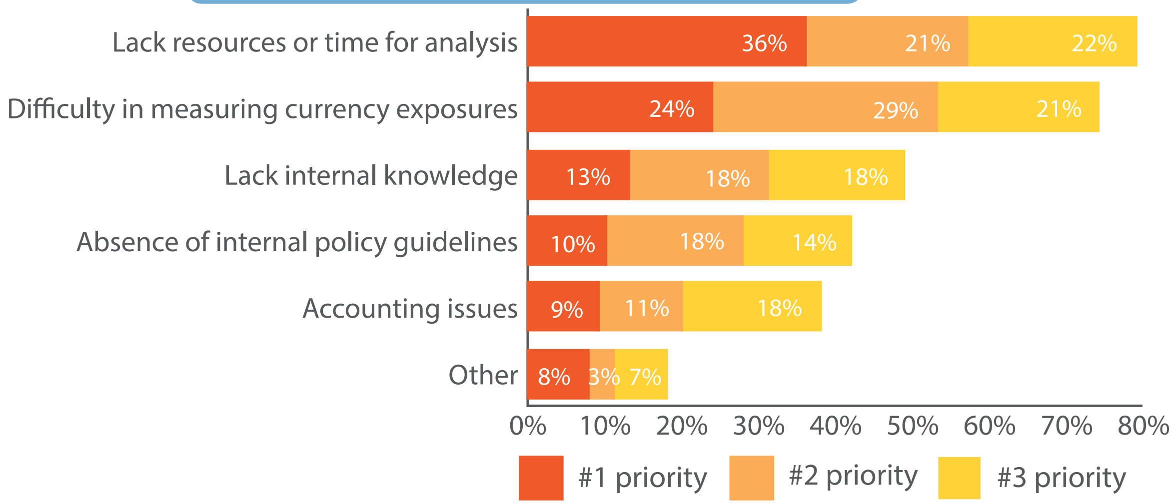
Other balance sheet assets and liabilities are also on the radar, as cited by 28% and 24% of total respondents respectively.

"We serve retailers such as Walmart. We have tried to naturally hedge by buying and selling in USD. But when the business community reads that the Chinese currency is in trouble, there is an expectation on the part of retailers to pass on the benefit. To a certain extent, it's not foreign exchange exposure that's creating challenges, it's a foreign exchange economic event that is impacting business—both payables and receivables."

Ajay Rao – CFO, Conros Corp.

THE TOP CHALLENGES TO MANAGING FOREIGN EXCHANGE RISK

Chart 11: Please rank the top three challenges your organization faces when managing foreign exchange risk?



When asked to rank their top three challenges managing foreign exchange risk, the dominant challenge cited was lack of resources or time for analysis. This was followed by difficulty measuring currency exposures and lack of internal knowledge, while a few cited the absence of any internal policy.

"In the past, the foreign exchange market wasn't as volatile, so our treasury folks would look for a natural hedge, based on input from the business on the previous year's timing of foreign currency revenues and costs. They would then mitigate any estimated exposure using foreign exchange contracts. However, given that the exchange rate fluctuations have recently been much larger, the fact that we don't have the systems and processes to provide actual data means that we could have unhedged currency risk."

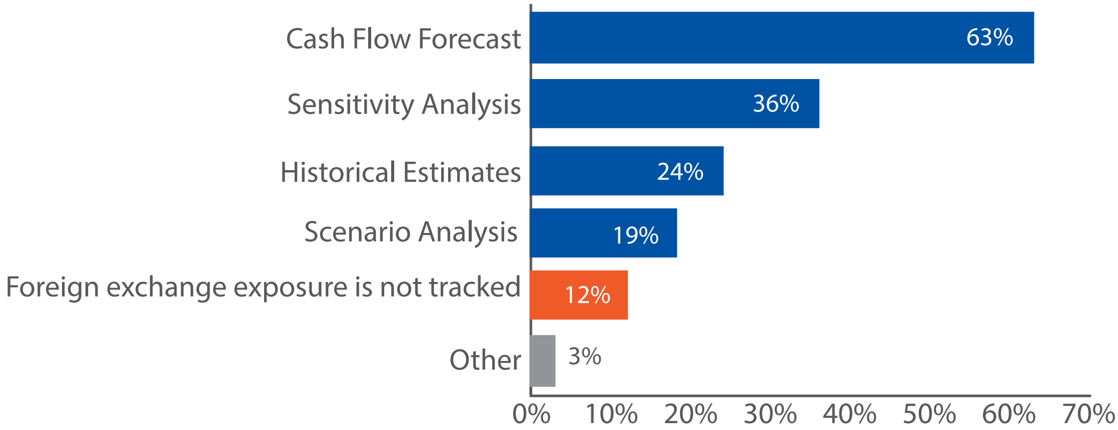
Gerard De Souza – Director of Finance, MTS Allstream

"A lot of people think they know foreign exchange, but they don't. We have many offices in a number of countries that operate in volatile currencies and they don't have a clue about what impact the foreign exchange has on the company as a whole. So it's really trying to keep them educated and make sure that as an organization you are reemphasizing your foreign exchange position."

Kenneth Kirk – CFO, Sepro Mineral Systems Corp.

CRYSTAL BALL, ANYONE? ESTIMATING EXPOSURE TO EXCHANGE RATE CHANGES

Chart 12: Currently, how does your organization estimate its exposure to exchange rate changes? (Select all that apply)



The consensus among roundtable participants was that forecasting foreign exchange is a humbling experience. The primary challenge is being able to understand your organization's exposures from day one. The question is how?

The majority of respondents (63%) rely on cash flow forecasts. This number rises to 94% for organizations with less than $10M in revenue and 71% for respondents from companies with more than $1B in revenue. Respondents from companies with revenues between $100M and $1B were almost evenly split on relying on cash flow forecasts (41%), historical estimates (31%) and sensitivity analysis (34%)

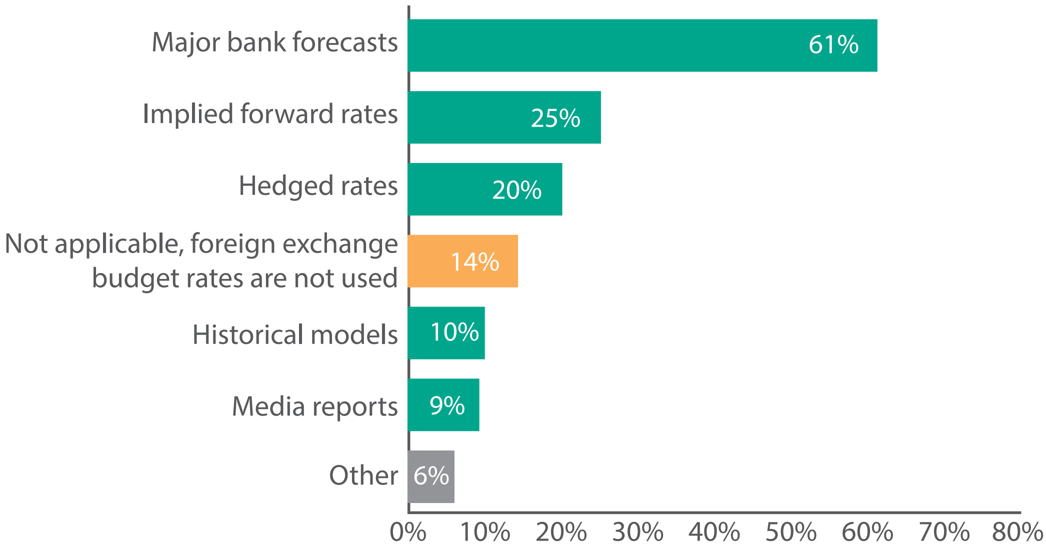
More than one third of total respondents relied on sensitivity analysis and almost one-quarter employed historical estimates to forecast exposure to exchange rate changes.

Almost 20% of respondents from businesses with revenues between $25M and $100M did not track foreign exchange exposure as compared to 12% of total respondents. This may be the result of the top challenge identified in managing foreign exchange risk: a lack of resources or time for analysis. Or, as DBG Canada's John Forester points out, "it's easy to overlook something that's complicated, especially if you're making a reasonable profit. It's when you can't afford to overlook it that you begin to dig deeper and start to identify the opportunities or lost opportunities."

It comes down to what's behind that profit. "I'm always concerned about both the downside and the upside of exchange rates," says Kenneth Kirk of Sepro Mineral Systems. "We absolutely have some pretty big gains happening. So what I'd like to know is what's the difference between what we really make on the deal versus how much did foreign exchange kick into that? Otherwise, you might give yourself a false impression of great gross margins that could lead to wrong decisions with pricing going forward."

Given that it is currently benefiting from a strong USD and weak CAD, one45 Software Inc. has developed internal measures and tracks committed monthly revenue on a one to one basis in order to gain a clear perspective of exactly what's driving profit.

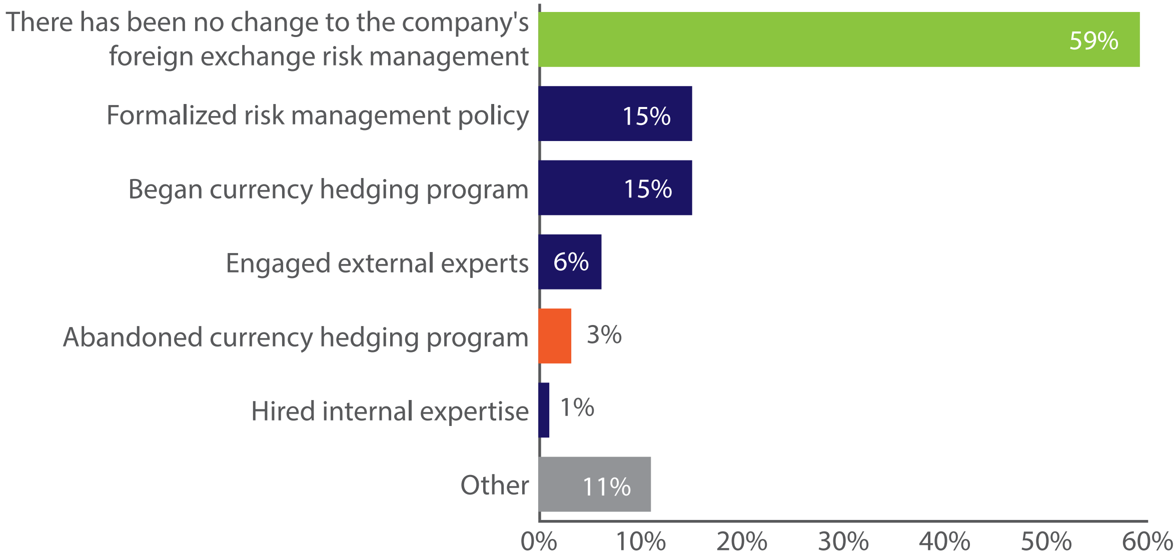
CHART 13: How does your organization currently establish foreign exchange budget rates for the year ahead? (Select all that apply)



Almost two-thirds of total respondents (61%) rely on major bank forecasts to establish their foreign exchange budget rates. One quarter employ implied forward rates and one in five use hedged rates.

Respondents from organizations with less than $10M in sales (35%) and more than $1B in sales (52%) are much more likely to use implied forward rates. Smaller organizations (under $10M in sales) are also the least likely to use hedged rates (6%).

CHART 14: Over the last 12 months, how has your approach to managing foreign exchange risk changed, if any? (Select all that apply)



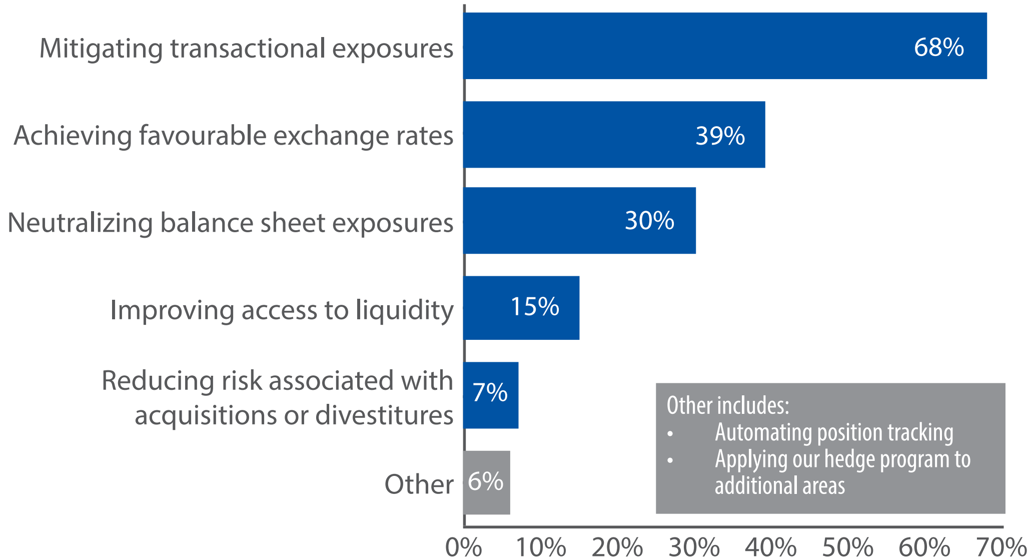
The majority of respondents (59%) report there has been no change to their organization's foreign exchange risk management over the past year. Responses varied by company sales with 76% of respondents from companies with less than $10M in sales stating no change and 48% of respondents from companies with revenues over $1B in sales reporting no change in the organization's foreign exchange risk management.

Interestingly, 15% of total respondents began a currency hedging program and an equal number created a formalized risk management policy.

Online respondents also reported they expanded the types of instruments being used, revised existing policy, have higher level review and awareness of the potential impact and focused on natural hedges by increasing foreign currency-based revenues.

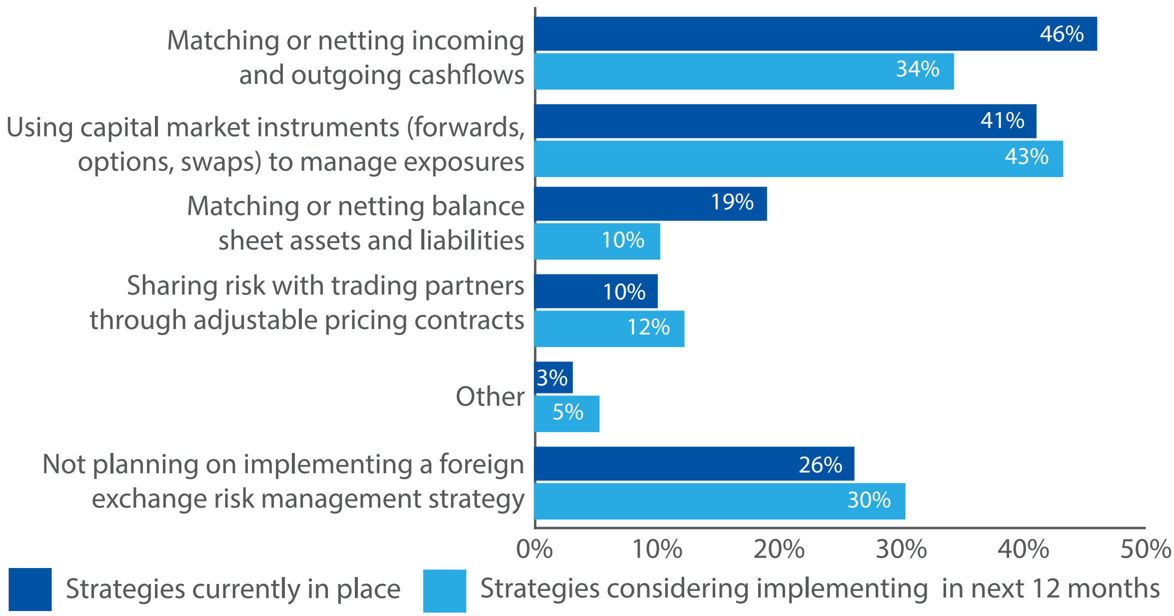
OBJECTIVES, STRATEGIES AND TACTICS

CHART 15: In the next 12 months, what will your organization's core objectives be with respect to managing foreign exchange risk? (Select all that apply)



The top foreign exchange objective for the coming year is mitigating risk (68%), followed by achieving favourable exchange rates (39%) and neutralizing balance sheet exposures (30%). Canada's largest companies are most focused on mitigating transactional exposures, as reported by 90% of respondents from companies with more than $1B in sales.

CHART 16: Which of the following foreign exchange risk management strategies do you currently have in place – considering implementing in the next 12 months? (Select all that apply)



The findings reveal a disconnect on the part of respondents. On the one hand, they have clearly identified mitigating foreign exchange risk as a top priority in the coming year. On the other hand, just over one quarter currently have no foreign exchange risk management strategy in place, while almost one-third report they don't plan to implement one any time soon.

Roundtable participants from the oil patch provided some insight as to why companies may hesitate to take a position. "Here in Calgary, where there is no hint of a recovery in oil prices, the board is taking a wait-and- see approach until oil prices start climbing," says Scott Calver, vice president and CFO, Trimac Transportation Ltd.

"This comes back to the correlation between commodity prices and foreign exchange," says Leanne Gress-Blue of Bellatrix Exploration. "No one wants to lock into prices at these levels. The decision not to act at this point in time and to ride it out is the strategy. Companies are thinking about it, evaluating what's happening and taking a wait-and-see position."

"We're not going to make significant strategic decisions on a currency that just devalued by 25% to 35% in less than half a year. I think everybody recognizes that the significant shift in the short period of time is unusual and, in fact, the Canadian dollar is already starting to show a bit of life already. The ability to reflect on your strategy and whether it's still appropriate is important because there's no such thing as a perfect strategy."

John Forester – CFO, DBG Canada Ltd.

Most respondents do have a foreign exchange strategy. The most frequent strategy identified was matching or netting incoming and outgoing cash flows (46%). 41% use capital market instruments such as forwards, options or swaps to manage exposures while 19% match or net balance sheet assets and liabilities. Looking forward over the next 12 months, using capital market instruments will be key, as cited by 43% of respondents. This was followed by matching or netting incoming and outgoing cash flows at 34%.

"We have a lot of U.S. revenue, so we put all our debt in USD, creating a dollar-for-dollar hedge. However, as a result of the fast, material change in currency and the fact that the revenues that match that debt have a five to seven year window to be realized, all of our debt has been revalued on our balance sheet as an unrealized foreign exchange loss, which is affecting some of our covenant-based loans. Now we're having what I call accounting conversations because of foreign exchange, which is the last thing that I would ever dream of."

John Forester – CFO, DBG Canada Ltd.

Roundtable participants brought the discussion around strategy back to policy and the need to ensure flexibility in a volatile market environment.

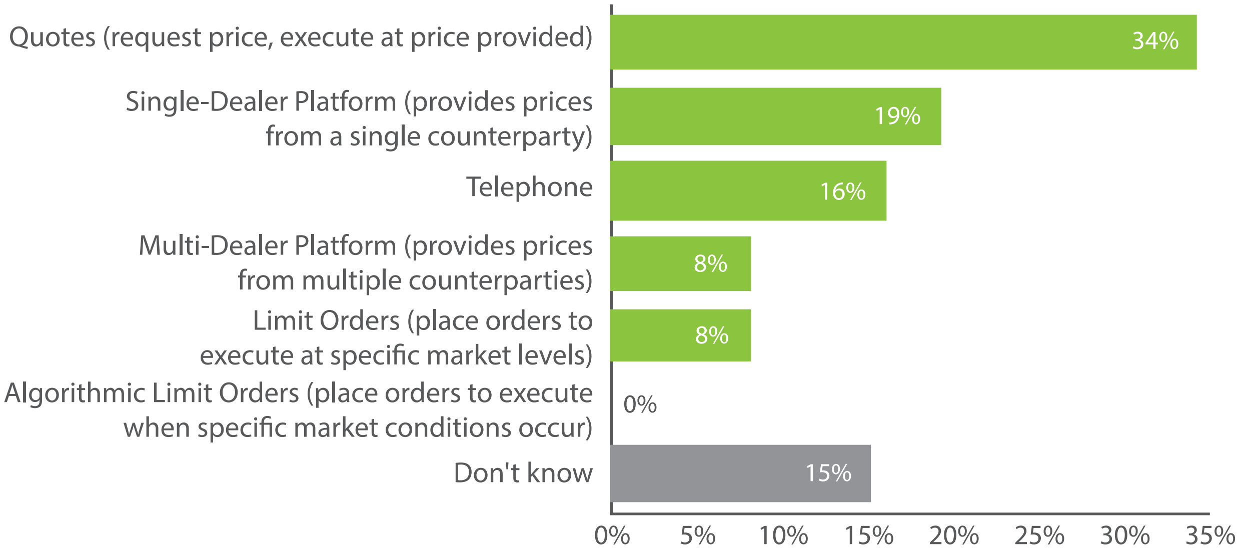
"Being in the mining business and watching how the gold prices nosedived, much like oil prices, has made it very difficult for us to sell. One of the things that we've decided is to become agile in everything we do. We're going to look at the policy and be flexible enough and agile enough to change to reflect market forces. If we need to revise our foreign exchange policy or any other policy we have, we do that and that's been a successful focal point in our company."

Kenneth Kirk – CFO, Sepro Mineral Systems Corp.

"One of the biggest risks that we have within the organization is individuals who like to take positions on where the currency is going. I spend a lot of time in front of our operational leaders telling them if anybody can tell you where foreign exchange is going, they're one of two F's, a fool or a fraud. All of our policies are put into place to prevent people from taking those positions."

Paul Jewer – Executive Vice President and CFO, Toromont Industries Ltd.

CHART 17: Which tools do you use when executing foreign exchange transactions? (Select all that apply)

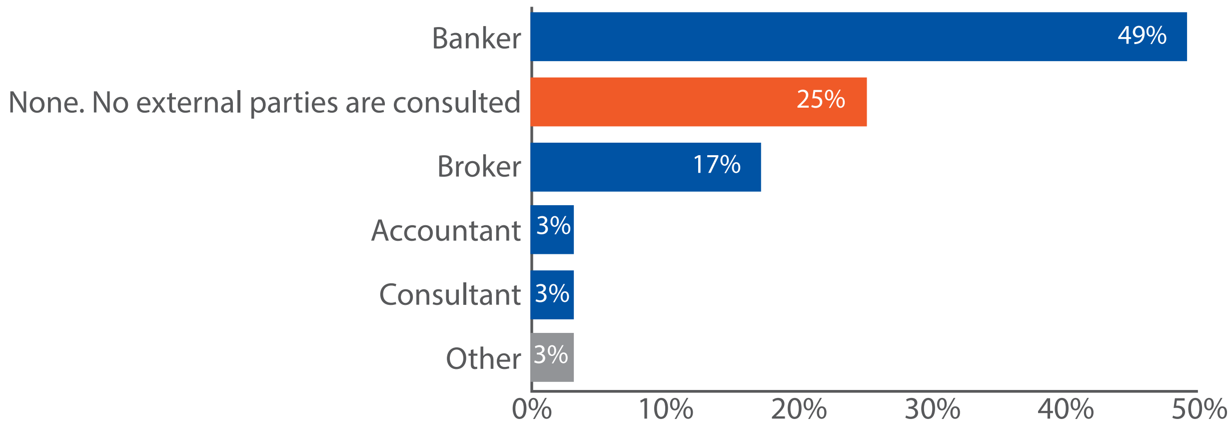


When it comes to specific tools being used to execute foreign exchange transactions, just over one third of respondents reported using quotes, 19% used single dealer platforms and 16% used the telephone. Almost one quarter of organizations with $1B plus in revenue used multi-dealer platforms.

No one reported using algorithmic limit orders while 15% of total respondents and 29% of respondents from the largest organizations did not know which tools were being used to execute foreign exchange transactions.

WHO YOU GONNA CALL?

CHART 18: Looking ahead: Which external parties, if any, do you engage with to provide additional guidance on your organization's foreign exchange strategy? (Select all that apply)



One quarter of total respondents indicated they do not engage external parties when it comes to their foreign exchange strategy, preferring to go at it alone. For those that do, the top choice is bankers (49%), followed by brokers at 17%.

"We rely on external third parties such as the banks and brokers to help us manage our exchange risk. My concern is, am I always getting the best rate or the best vehicles to handle my exchange risk?"

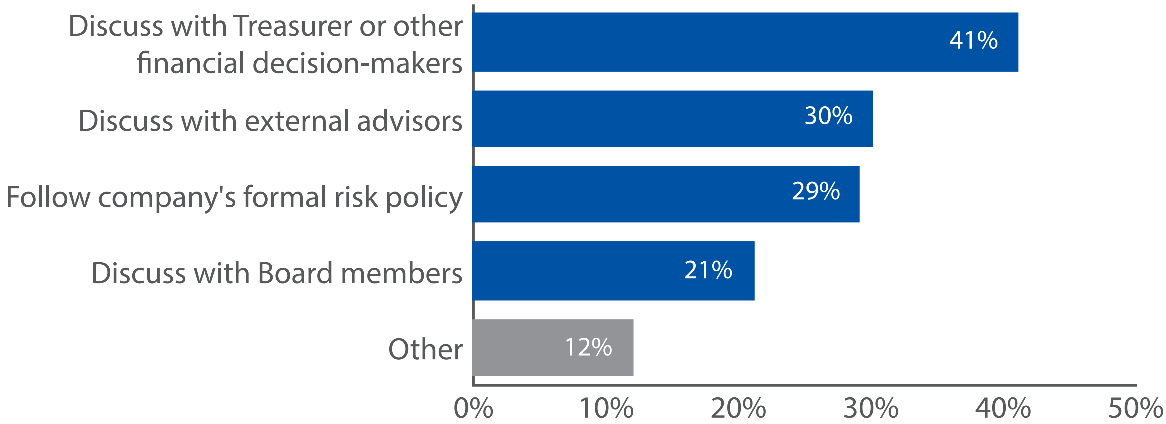
Charles Chang – CFO, SanMar Canada

"All banks provide forecasts that are pretty well available to everybody. We try and look at each bank and discern the averages based on their independent forecasts. They provide a reliable source of the possibilities. Brokers offer more of a sense of liquidity and the kind of sentiment in the marketplace versus the longer term empirical prediction of where things are going."

John Forester – CFO, DBG Canada Ltd.

Of course, for companies in survival mode, guidance on foreign exchange strategy is simply not a priority, says Vic Fitch, independent CFO consultant in Calgary.

CHART 19: In the 12 months ahead, how does your organization plan to make foreign exchange risk management strategy decisions? (Select all that apply)



The majority of respondents (41%) will make their foreign risk management decisions based on input from their treasurer or other financial decision makers. Thirty percent will reach out to external advisers (this drops to just 14% for respondents from companies with $1B plus in revenues) and 29% will follow their organization's formal risk policy (this rises to 43% for the largest organizations polled). Just over one in five respondents will reach out to their board. This was a much less popular choice for the largest organizations (10%).

"Having a policy in place is critical because ideally you're setting policy at a time when there isn't so much volatility, which can cloud your judgement. A policy can help insulate you from some of the different reactive influencers that typically appear when there is more volatility."

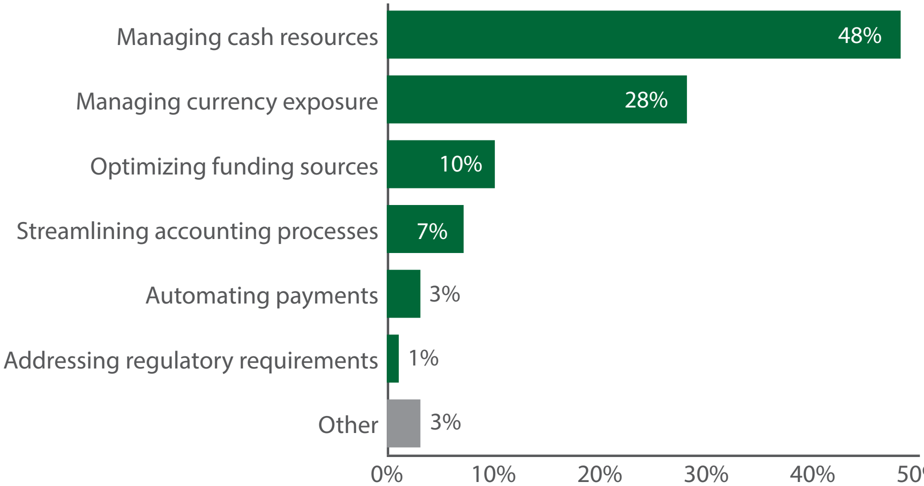
Timm Kukler – CFO, Nexterra Systems Corp.

"Foreign exchange is like a Ouija board, it's hard to predict exactly what it's going to do, so I think you've got to reach out to a number of conferring individuals or experts to see if there isn't some form of consistency to a specific strategy or what the foreign exchange is doing. For our organization, looking at our policy is important. The policy is a living policy. It changes as the currencies are changing, or as some of our strategies are changing. Keeping the policy fresh is critical."

Kenneth Kirk – CFO, Sepro Mineral Systems Corp.

CASH TRUMPS CURRENCY EXPOSURE

CHART 20: In the 12 months ahead, overall, what are your organization's most important treasury and cash management priorities?



Cash is indeed king going forward, as almost half of total respondents (48%) listed managing cash resources as a top priority. Managing currency exposure was cited by 28% of respondents and optimizing funding sources was cited by 10%. Size of organization impacted results, with smaller companies (less than $10M in sales) more focused on optimizing funding than managing currency exposure.

When asked to distinguish between managing cash resources and managing currency exposure, some roundtable participants connected the two.

"For example, let's say you had a treasury department that has significant current liabilities in USD, with no offsetting current assets, but did nothing about them. It will affect the future cash resources unless the business is able to pass the currency risk to its customers in the form of higher prices," says Gerard De Souza of MTS Allstream. "In some respects, managing your currency exposure will help you better manage your cash resources."

Foreign exchange impact on commodity prices is important. However given the challenging commodity price environment, the priority is clear for Bellatrix Exploration. "From an oil and gas perspective in Calgary, there's one focus and that's going to be managing your cash resources. Survival is the goal," says Leanne Gress-Blue. "When we look 12 months ahead, it's about making sure we're still around."

CONCLUSION

Given the speed and impact of recent volatility and the dramatic fall of the loonie, it's no surprise that foreign exchange risk management is not only increasing in importance, it is making its way from the CFO's office to the boardroom.

If the supercycle of strong oil prices and a strong Canadian dollar are truly over, then an economic shift will follow. What are Canadian business leaders doing to adapt to this new environment from a foreign exchange perspective?

First, they're assessing exposure. The USD, CAD and EUR are expected to be the source of significant risk in the coming year, while commodity prices and central bank policy changes are expected to trigger even more foreign exchange volatility.

To that end, the top priority in the next 12 months with respect to managing foreign exchange risk is mitigating transactional exposures. This is followed by achieving favourable exchange rates and neutralizing balance sheet exposures.

All important objectives, but there is a clear disconnect on the part of respondents, because just over one quarter report they currently have no foreign exchange risk management strategy in place and 30% say they don't plan to put any in place any time soon. The majority also report there has been no change to their approach to managing foreign exchange in the last year, with only 15% having put a formal policy in place and 15% having implemented a currency hedging program.

Part of the problem may be a lack of resources, cited as the top challenge to managing foreign exchange risk. This was followed by difficulty in measuring currency exposures, an absence of a formal policy and lack of internal knowledge. Instead, many organizations are focusing on their core business and taking a wait-and-see approach to foreign exchange risk management.

JJ Giraldi, CFO, Packers Plus Energy Inc., who took part in the roundtable discussion, succinctly captures a shared sentiment: "I'm always leery to make long-term structural decisions based on currency and how weak or strong the Canadian dollar is today. Go into the underlying economic sense of your business because it may change dramatically overnight."

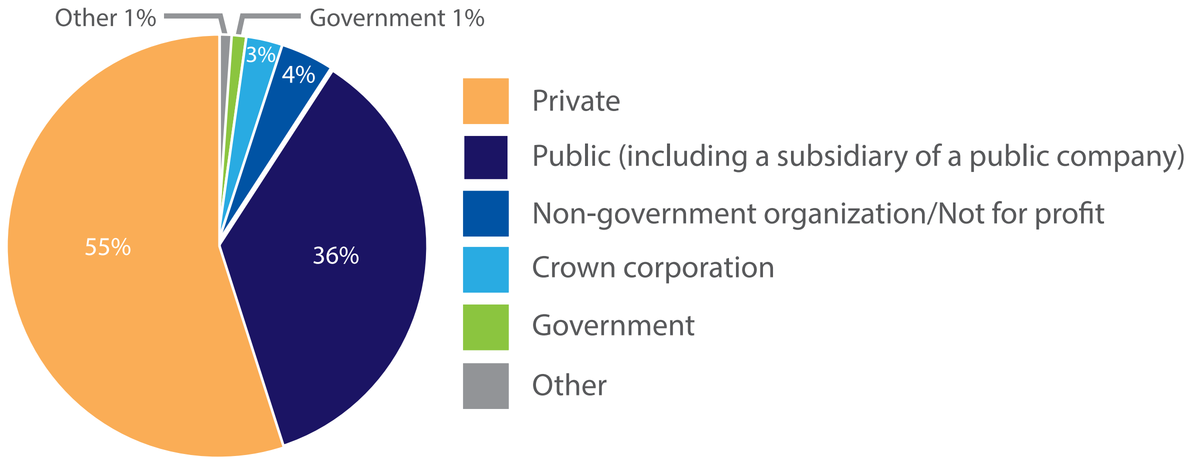
For those who are being more proactive, they are relying on cash flow forecasts, sensitivity analysis and historical estimates to measure exposure to exchange rate changes and many are considering using capital market instruments to manage those exposures. When it comes to establishing foreign exchange budget rates, bank forecasts are the current go-to resource. Looking ahead, bankers are also the preferred external source to provide additional guidance.

In the next 12 months, a significant number of respondents (41%) report their organizations will make foreign exchange risk management decisions based on input from the treasurer or other financial decision makers while 30% say they will discuss their options with external advisors and 29% will follow their company's formal risk policy.

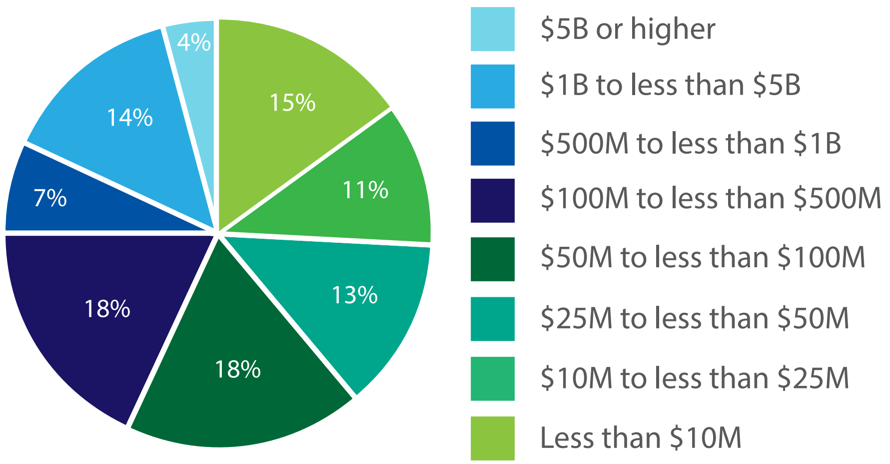
Still, when it comes to foreign exchange, anything can happen, says John Forester, CFO, DBG Canada Ltd. and Chair of FEI Canada's Treasury & Capital Markets Committee "I don't think there's any amount of resources you can have that will help you figure out where currencies are going. I think the best you can do is understand your business and know what the potential impacts are going to be and hopefully have some plans of what to do in the event of A, B or C scenario."

APPENDIX A – DEMOGRAPHICS

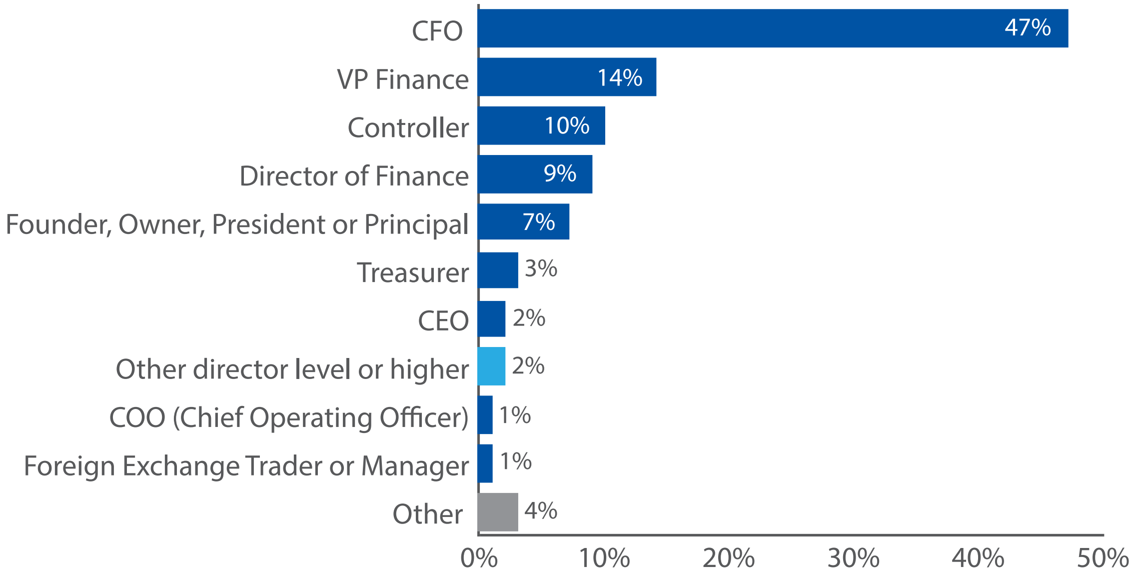
CORPORATE STRUCTURE



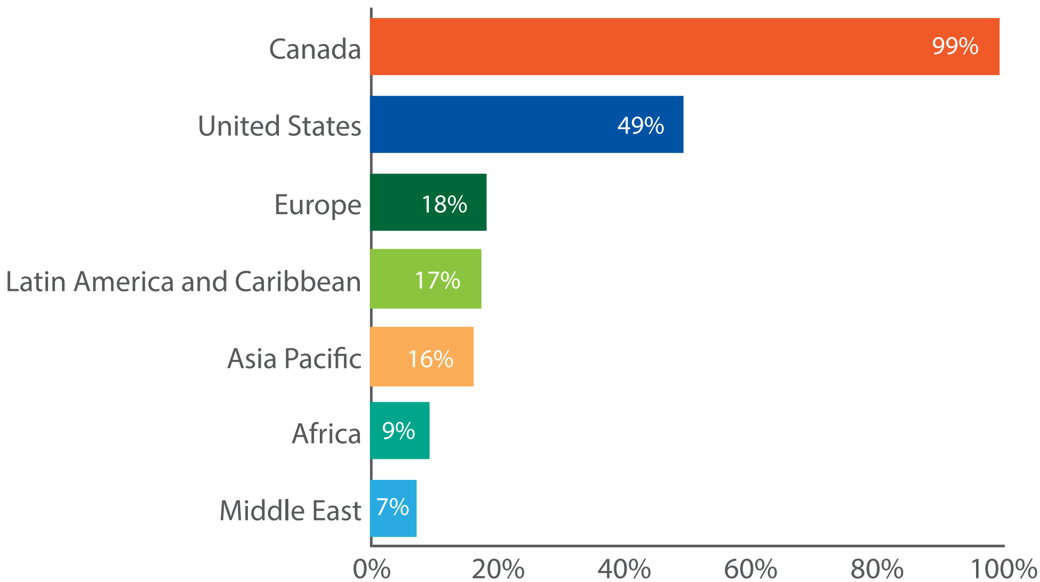
ANNUAL REVENUE



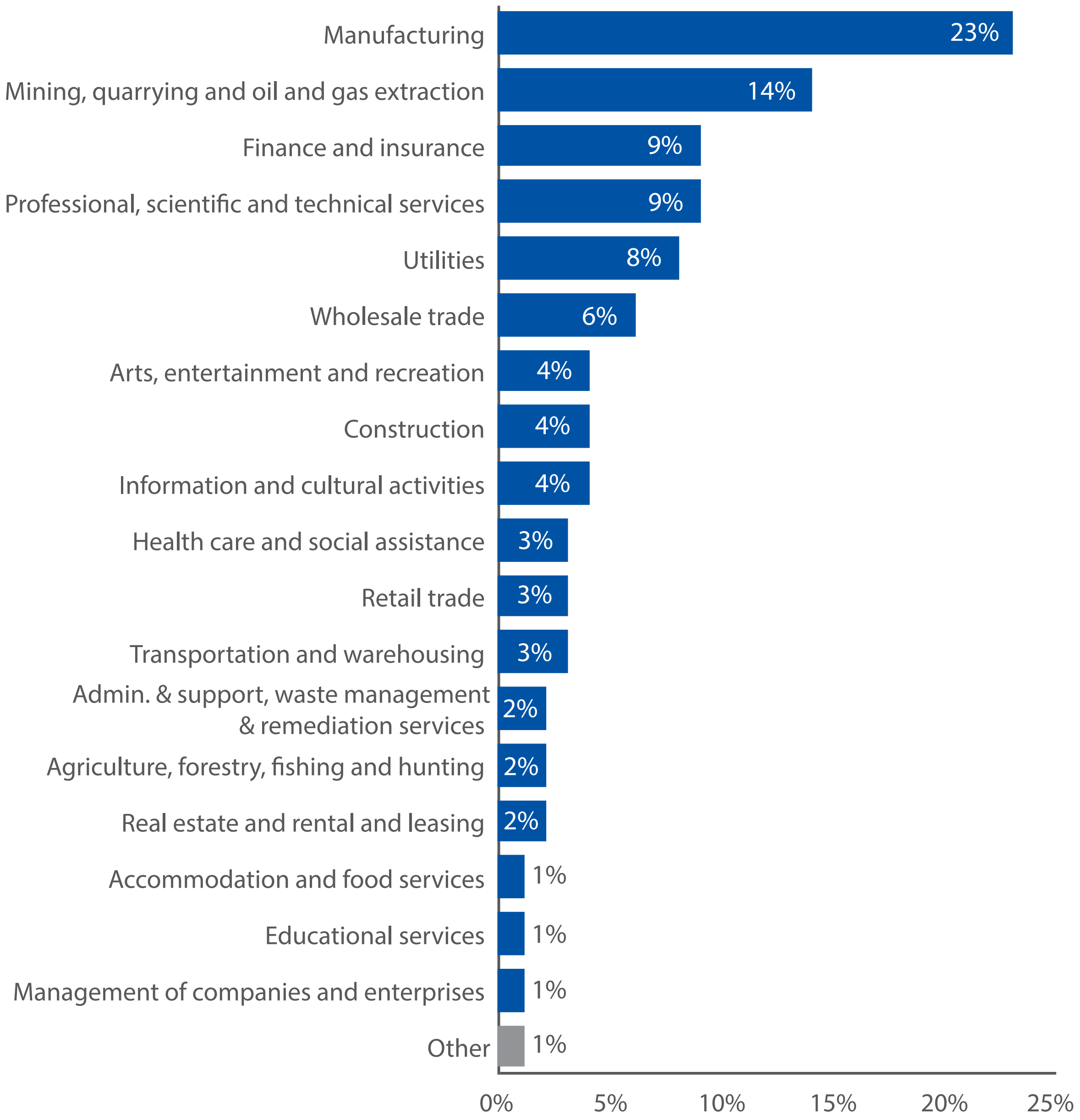
POSITION TITLE



LOCATIONS OF OPERATIONS



PRIMARY INDUSTRY



APPENDIX B: FORUM PARTICIPANTS

Forum Chair:	Michael Conway – President & CEO, FEI Canada
Moderators:	Karl Schamotta – Head of Enterprise Risk Management, Cambridge Global Payments Laura Pacheco – Vice President, Research, FEI Canada

Participants:

Calgary:	Scott Calver – Vice President & CFO, Trimac Transportation Limited Vic Fitch – FEI Canada Calgary Chapter JJ Giraldi – CFO, Packers Plus Energy Services Inc Leanne Gress-Blue – Vice President Finance, Bellatrix Exploration Ltd
Halifax:	Geoff Baldwin – Secretary & Treasurer, Bragg Group of Companies
Toronto:	Aurelio Calabretta – Vice President of Finance, Canadian Strategic Business Area, Smucker Foods of Canada Corp Gerard De Souza – Director of Finance, MTS Allstream John Forester – CFO, DBG Canada Limited and Chair of FEI Canada's Treasury & Capital Markets Committee Paul Jewer – Executive Vice President & CFO, Toromont Industries Ltd. Ajay Rao – CFO, Conros Corporation
Vancouver:	Charles Chang – CFO, SanMar Canada Kenneth Kirk – CFO, Sepro Mineral Systems Corp Timm Kukler – CFO, Nexterra Systems Corp. Kevin Yau – Financial Controller, one45 Software Inc.

Observers:

Calgary:	Patrick Smith –Regional Director, Central Canada Sales and Trading, Cambridge Global Payments Mary Teresa Bitti – Writer, FEI Canada
Toronto:	Laura Bobak – Research & Communications Manager, FEI Canada Jennifer Forde –Events Manager, FEI Canada Glen Bullen – Account Manager, Cambridge Global Payments
Vancouver:	Joseph Gardener – Senior Trader, Hedging Solutions, Cambridge Global Payments Liz Bowell – Membership Manager, FEI Canada

ACKNOWLEDGMENTS

ABOUT FINANCIAL EXECUTIVES INTERNATIONAL CANADA (FEI CANADA)

FEI Canada is the all-industry professional membership association for senior financial executives. With eleven chapters across Canada and more than 1,600 members, FEI Canada provides its members thought leadership, advocacy services and extensive professional development opportunities – including its executive education offering, the CFO Leadership Beyond Finance program. The association membership, which consists of Chief Financial Officers, Audit Committee Directors and senior executives in the Finance, Controller, Treasury and Taxation functions, represents a significant number of Canada's leading and most influential corporations. Further information can be found at www.feicanada.org. Follow us on Twitter at @FEICanada.

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CFERF is the non-profit research institute of FEI Canada. The foundation's mandate is to advance the profession and practices of financial management through research. CFERF undertakes objective research projects relevant to the needs of Canada's senior financial executives in working toward the advancement of corporate efficiency in Canada. For more information, please visit www.feicanada.org.

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