

Annual Report



For the Fiscal Year Ending March 31, 2012

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INTERNAL TRADE
SECRETARIAT



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COMMERCE INTÉRIEUR

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Overview of the Agreement

The Agreement on Internal Trade (AIT) is an intergovernmental accord on domestic trade which was signed by the federal, provincial and territorial governments in Canada in 1994 and came into effect in 1995. According to the founding principle, Article 100 of the AIT: *It is the objective of the Parties to reduce and eliminate, to the extent possible, barriers to the free movement of persons, goods, services and investments within Canada and to establish an open, efficient and stable domestic market. All Parties recognize and agree that enhancing trade and mobility within Canada would contribute to the attainment of this goal.*

It is also recognized by all Parties to the AIT that a single market, free of barriers to trade, strengthens Canada's position in the competitive global economy.

The AIT focuses on reducing trade barriers within eleven sectoral areas. This report provides details of the activities undertaken within these sectors during the reporting period April 1, 2011 to March 31, 2012.

2011/2012 Highlights

The Committee on Internal Trade (CIT) met during 2011/2012 to achieve further progress on its internal trade action plan. At its Annual Meeting on Prince Edward Island in June 2011, Ministers:

- Agreed to undertake a more effective enforcement mechanism for disputes brought by "persons" (individuals, businesses and other organizations) against a government. The changes include monetary penalties and the removal of dispute resolution privileges for non-compliance following a decision by an independent dispute resolution panel, and are generally consistent with comparable measures under the government-to-government dispute process.
- Agreed on a full review of the Dispute Resolution Chapter to ensure procedural fairness and consistency to be incorporated into a future protocol of amendment.
- Directed officials to draft an interpretative note to clarify Chapter Nine (Agricultural and Food Goods).
- Approved the Thirteenth Protocol of Amendment, improving the openness and transparency of procurement practices, including the designation of a single electronic tendering system in each jurisdiction.
- Directed officials to develop options on extending under the AIT, where appropriate, any

benefits provided under international trade agreements.

- Reviewed the progress of the regulatory harmonization work plan and work to improve government procurement and labour mobility (by extending AIT coverage to financial services occupations) and directed officials to continue work in these important areas of interprovincial trade.
- Received a presentation by the Atlantic Institute for Market Studies (AIMS) that focused on the history and evolution of trade patterns within the Atlantic region.

In December 2011, the Annual General Meeting of the Internal Trade Secretariat Corporation (ITSC) was held via conference call. A meeting of the ITSC Board of Directors took place in February 2012.

Progress under Sectoral Chapters

Chapters One to Four

The first four chapters of the AIT deal with: Operating Principles; General Definitions; Constitutional Authorities; and General Rules, setting out the objectives, extent of the obligations and general rules under which the AIT operates.

Procurement (Chapter Five)

Provisions under Chapter Five establish a framework to ensure equal access to public sector procurement for all Canadian suppliers in order to contribute to a reduction in purchasing costs and the development of a strong economy in a context of transparency and efficiency.

In 2011/2012, progress under the Chapter included the following:

- Parties continued to refine the reporting template and associated guidelines. The current reporting guidelines are posted on MARCAN alongside the procurement data to aid in the interpretation of the data.
- Continuation of the review of the Procurement Chapter. The intent is to bring greater consistency both to the interpretation of the provisions of the Chapter and to the manner by which these provisions are operationalized. Working groups examined, among other things, a proposal to make electronic tender notices the standard method of posting calls for tenders and the potential treatment of regional entities under AIT.

- The Tender Notice Exchange currently includes the notices of the governments of Newfoundland and Labrador, Nova Scotia, Prince Edward Island, New Brunswick, Quebec, Ontario, Manitoba, Saskatchewan, Alberta and British Columbia as well as notices of the broader public sector that are published on the procurement websites of these governments. Currently, the notices of participating governments can be found on each of the following official tendering sites: www.purchasingconnection.ca (Alberta); www.seao.ca (Quebec); and www.gov.ns.ca/tenders/default.asp (Nova Scotia).
- Parties continued to discuss revising Article 506(7), regarding pre-qualification lists, and continue to work on revised text.
- Parties began discussion on the Public Private Partnership (PPP) Interpretive Note. They decided to rename the note in the short term to PPP Information Note and re-examine the note in the coming months.

Investment (Chapter Six)

The objective of Chapter Six is to ensure that Canadian businesses are able to make investment decisions based on market conditions without being restrained by restrictive government policies.

In 2011/2012, progress under the Chapter included the following:

- The Working Group on Investment (WGI) collected the data required for reporting under the AIT Code of Conduct on Incentives.
- REGISTREX, the Corporate Registration and Reporting Gateway, continued to be maintained.

At the August 2010 meeting of the Council of the Federation, Premiers directed the Committee on Internal Trade Ministers to reconcile extra-provincial corporate registration and reporting requirements. Ministers received a workplan from the Canadian Association of Corporate Law Administrators (CACLA) to undertake this initiative.

Labour Mobility (Chapter Seven)

This section reports on the status of implementation of Chapter Seven as amended in 2010. The implementation activities undertaken by governments are guided by the Labour Mobility Coordinating Group (LMCG) under the auspices of the Forum of Labour Market Ministers (FLMM).

Overall, major progress has been made in 2011/2012 in implementing the amended Chapter Seven on four significant fronts: (1) resolving interpretation issues, (2) posting of exceptions to labour mobility, (3) expanding the scope of Chapter Seven to cover the financial services sector occupations and (4) launching of a new LMCG website in April 2012. During this reporting period, several outreach activities took place, notably, engaging regulatory stakeholders, collecting data and information to inform an evaluation and creating communication tools for stakeholders.

Consistent interpretation and application of Chapter Seven across jurisdictions is key to ensuring an efficient, well-functioning labour market. As expected, many policy interpretation issues have arisen in response to the amended Chapter, and in 2011/2012 the LMCG continued to make significant progress in their resolution.

Given that new interpretation issues are expected to emerge regularly, the work to clarify how the Chapter should be applied in practice is expected to remain part of ongoing LMCG business. This will include communicating LMCG decisions and providing guidance to regulators through modified Chapter Guidelines and additional information on the new LMCG website.

Another important element to support transparency and a well-functioning Chapter is ensuring that any measure maintained as a legitimate objective, which is permitted under the Chapter in carefully prescribed circumstances, is posted online on a public website in a consistent manner. The process for posting such measures is generally working well and in 2011/2012, all the provinces had posted such measures. To date, 44 measures spanning 15 regulated occupations have been posted, a relatively small number considering the hundreds of regulated occupations which exist in Canada.

It is equally important to make sure that these lists of measures remain current and relevant, which is why the LMCG is developing clearer criteria and internal guidelines, to keep all such listings up-to-date. This work will be informed by the recent dispute panel decisions on labour mobility, the first two labour mobility disputes since the 2009 amendments.

The financial services sector will legally come under Chapter Seven once all jurisdictions have signed the Twelfth Protocol of Amendment of the AIT. In the meantime, implementation work is proceeding, in line with a Council of the Federation directive to achieve full labour mobility for this sector in Canada by July 2011. Analysis has shown that the financial services sector was generally compliant in terms of labour mobility. However, as insurance industry occupations are regulated differently across jurisdictions, some additional work is required. The LMCG has met with industry representatives and will continue to work with them to ensure barriers are eliminated or reduced to the extent possible.

Progress has also been made on implementing an evaluation framework to assess the effectiveness, and to monitor for any unintended adverse consequences, as a result of Chapter Seven implementation.

In terms of engagement with regulatory authorities, in 2011/2012 the LMCG began a proactive planning process to identify and target areas for improvements in labour mobility. In 2011/2012, representatives participated in consortium meetings for licensed practical nurses, teachers, massage therapists, chiropractors, paramedics, social workers and cosmetologists. This is an important ongoing outreach activity for the LMCG to assist regulators in understanding and applying the Chapter. The LMCG is also working with the skilled trades, which have not been the focus of LMCG work to date.

LMCG priorities going forward will be guided by the FLMM Strategic Plan and include work on resolving interpretation issues and updating Chapter Seven guidelines, reviewing the exceptions and the posting process, and ensuring that all occupations, including the trades and the insurance industry, comply with Chapter Seven.

Consumer-Related Measures and Standards (Chapter Eight)

Chapter Eight of the Agreement calls upon the Parties to cooperate with respect to consumer protection measures and report on such activities. As such, the Committee on Consumer Related Measures and Standards (CMC), composed of officials of each government, undertook negotiations to reach agreement on specific commitments made under the AIT. This work was substantially completed in 1998. The CMC is tasked with monitoring the implementation and administration of these commitments.

The CMC is also responsible for identifying any substantive measures for inclusion in future negotiations, acting as a forum for discussions between the Parties on consumer-related measures, and undertaking dispute resolution.

In 2011/2012, progress under the Chapter included the following:

- The CMC Consumer/Credit Reporting Working Group submitted the draft text of a harmonization agreement for Provincial/Territorial consumer reporting legislation to Deputy Ministers Responsible for Consumer Affairs, for their consideration. This draft agreement remains under consideration by jurisdictions.
- The CMC Enforcement Best Practices Working Group continued its examination of consumer law enforcement best practices and how those practices may help CMC members improve compliance. In previous years, the Working Group had identified areas they considered to hold the greatest potential for promoting increased compliance with consumer laws: best practices in the use of Administrative Monetary Penalties; inter-

jurisdictional communications and collaboration, and; best practices in inspection/investigation techniques and training. A report on Administrative Monetary Penalties was submitted to CMC in early 2011, and an expert's report on internal communications and collaborative tools was submitted to the Working Group in March 2012.

- The CMC Consumer Awareness Working Group published two new sections in the Canadian Consumer Handbook, on e-waste and insurance, and updated and expanded sections on identity theft, warranties and vehicles. Build Your Buying Skills was developed to provide basic buying tips for consumers when making purchases.
- In January 2012, Deputy Ministers Responsible for Consumer Affairs established a new CMC research group to examine issues respecting fair terms in consumer contracts. Deputy Ministers also established a new CMC research group to examine consumer complaint classification systems. As of March 31, research is underway for both projects.
- Respecting payday lending regulation, the federal Governor in Council designated Saskatchewan for the purposes of the criminal interest rate provisions of the Criminal Code, and that designation came into force when the province brought its regulatory regime into force, on January 1, 2012. The provinces designated under the Criminal Code for these purposes are: Alberta, British Columbia, Manitoba, Nova Scotia, Ontario and Saskatchewan.

Agricultural and Food Goods (Chapter Nine)

The revised Chapter Nine extends the scope and coverage of non-discriminatory commitments of the Agreement in a way that ensures that technical measures adopted by the Parties do not restrict interprovincial trade of agricultural and food goods more than necessary to achieve legitimate objectives.

In 2011/2012, Parties were engaged in discussions on developing an interpretative note to clarify certain elements of the Chapter. There were no additional developments under the Chapter in 2011/2012.

Alcoholic Beverages (Chapter Ten)

The purpose of Chapter Ten is to reduce or eliminate barriers to interprovincial trade in alcoholic beverages.

In 2011/2012:

- The Canadian Food Inspection Agency (CFIA) completed its initial public consultations on wine regulatory amendments designed to: develop an Icewine standard in a regulation under the *Canada Agricultural Products Act*; amend the *Consumer Packaging and Labelling Regulations* (CPLR) to allow for Single Field of Vision labelling; and to address other minor changes to the *Food and Drug Regulations* and the CPLR.

The proposed amendments will help Canada harmonize its wine labelling rules with those of other countries and respect its obligations under its international wine trade agreements. The proposed amendment to include Single Field of Vision labelling would allow for mandatory labelling information such as common name, net quantity, country of origin and alcohol content by volume to be displayed anywhere on the container, excluding the bottom and top, as long as it is visible without having to turn the container. This will also ensure that Canadians can make informed decisions.

Natural Resources Processing (Chapter Eleven)

Chapter Eleven prohibits the introduction of new barriers to the processing of forestry, fisheries and mineral resource products.

In 2011/2012, the Working Group on Natural Resources met to review the status of the Chapter's implementation and concluded that the Chapter is meeting its objectives with no outstanding issues identified.

Energy (Chapter Twelve)

The conclusion of an Energy Chapter for the AIT has been an outstanding obligation since the AIT came into effect in 1995 and has been a key element in the Council of the Federation plan to improve internal trade since 2004.

A draft Energy Chapter was concluded and presented to the CIT at its October 2009 meeting. All Parties except one supported the formal inclusion of the draft Chapter into the AIT. Since consensus of all the Parties is required to incorporate the Chapter into the AIT, the draft Chapter was rejected.

Several Parties continued negotiations on an energy agreement, outside of the AIT framework but consistent with Article 1800, based on the draft text that had been presented to the CIT.

Communications (Chapter Thirteen)

Chapter Thirteen ensures equal access to public telecommunications networks and the use of public telecommunications services. There were no new developments under the Chapter in 2011/2012.

Transportation (Chapter Fourteen)

The objective of Chapter Fourteen is to ensure harmonization of regulations applicable to commercial vehicles such as safety standards, weights and dimension rules, bills of lading, tax administration, and operating authority requirements.

All items identified in Chapter Fourteen have either been addressed or are subject to ongoing discussion. In particular, the reconciliation obligations set out under Article 1408(1) include the following specific issues: motor vehicle weights and dimensions; motor carrier safety rules; bills of lading; fuel and sales tax and vehicle registration administrative harmonization; a Memorandum of Understanding on Regulatory Review; and, agents for service. Only those issues with ongoing work are highlighted below.

In 2011/2012, progress under the Chapter included the following:

- Efforts are ongoing to expand and refine standards to establish and maintain uniform rules governing the size and weight of commercial motor vehicles with amendments to the 1988 Memorandum of Understanding endorsed in 1991, 1994, 1997, 2004, 2008, 2009 and, more recently, in 2011.
- All jurisdictions have adopted the National Safety Code for Motor Carriers and efforts are continuing to refine these standards.
- The Parties affirm their commitments to the guiding principles of regulatory policy and the criteria and process for regulatory review embodied in the "Memorandum of Understanding to Review Regulations Affecting Transportation", and work is continuing with a view to bringing the process envisaged by that Memorandum of Understanding into operation.

Environmental Protection (Chapter Fifteen)

Chapter Fifteen ensures that federal, provincial or territorial environmental protection measures do not become non-tariff trade barriers. Obligations from the Chapter continue to be fulfilled by departments of the environment, as well as by the Canadian Council of Ministers of the Environment (CCME), the body responsible for administering this Chapter. There were no major issues concerning implementation, outstanding obligations, or disputes to report in

2011/2012. Two notifications of an environmental measure were posted on the CCME website concerning draft Quebec regulations. CCME continues to promote harmonization of approaches, thereby limiting real or perceived barriers to trade.

Institutional Provisions (Chapter Sixteen)

In 2011/2012, in providing administrative and operational support services related to various AIT initiatives, the Secretariat:

- Organized the CIT Annual Meeting on Prince Edward Island, providing agendas, logistics, documentation, summary records and follow up action.
- Organized a Government-to-Government Panel (Manitoba v Ontario on Public Accounting), providing diverse support services to panellists and disputing Parties, including arranging a trade panel hearing in Toronto.
- Organized a Person-to-Government Panel (a Quebec person v Ontario on crane operators), providing diverse support services to panellists and disputing parties, including arranging a trade panel hearing in Toronto.
- Organized the Annual General Meeting of the Internal Trade Secretariat Corporation, providing the agenda, documentation, minutes as well as follow up action.
- Assisted in drafting the Thirteenth Protocol of Amendment.
- Organized two face-to-face meetings of Internal Trade Representatives (ITRs) in Ottawa and Toronto, and one meeting of the Procurement Negotiating Table (PNT) in Ottawa, providing agendas, logistics, documentation, summary records, and follow up action.
- Organized more than 35 conference calls for ITRs, the PNT and the Working Group on Dispute Resolution, providing agendas, documentation, summary records, and follow up action.
- Attended two face-to-face meetings of the Labour Mobility Coordinating Group (LMCG) in Edmonton and Ottawa, and participated in 20 conference calls on labour mobility issues.
- Updated Panel Rosters and the List of Screeners.
- Regularly updated information on the AIT, MARCAN and REGISTREX websites.
- Published CIT and Panel press releases and media advisories.

- Prepared the Annual Report of the Internal Trade Agreement for 2010-2011 and posted it on the AIT website.
- Received an average of 76,500 hits per month on the general AIT website; 55,500 on MARCAN, and 7,000 on REGISTREX.

Dispute Resolution Procedures (Chapter Seventeen)

Chapter Seventeen features a quasi-judicial dispute settlement mechanism, to deal with complaints, that is accessible to both governments and persons. For the past several years, Parties have been engaged in a full review of AIT dispute resolution procedures to address issues related to timing, procedural fairness and consistency as well as enforcement relating to both the Government-to-Government and Person-to-Government dispute resolution process.

During 2011/2012, the Dispute Resolution Working Group continued to focus its work to strengthen and improve the Person-to-Government dispute process, i.e. disputes brought by individuals, businesses and other organizations against a government. Proposed changes include monetary penalties and removal of dispute resolution privileges for non-compliance, and are consistent with comparable measures under the revised Government-to-Government dispute process. Once consensus is reached on the changes to be made, they will be incorporated into a future Protocol of Amendment.

Final Provisions (Chapter Eighteen)

Chapter Eighteen recognizes that it is appropriate for governments to enter into bilateral or multilateral arrangements to enhance trade and mobility and provide a level of trade liberalization beyond what is required by the AIT.

To increase transparency of such arrangements, an inventory has been prepared of those trade-related arrangements that currently exist between the federal /provincial/territorial governments. This inventory, which is published as “Trade Enhancement Arrangements” on the AIT website, provides the name of the arrangement, the Parties to the arrangement, the date of its entry into force and links to an electronic copy of the arrangement where available.

Internal Trade Disputes

The Agreement encourages a conciliatory, cooperative and harmonious approach to resolution of disputes in the first instance via consultations by Parties; there are provisions for progressive steps in the dispute avoidance and resolution process so as to arrive at a mutually satisfactory resolution of any matter under the AIT.

During 2011/2012, two dispute panel reports were issued (available on the AIT website):

- In January 2012, a Panel ruled that Ontario's Notice of Measure concerning public accountants was inconsistent with Chapter Seven and unjustified to achieve a legitimate objective. Ontario was requested to bring itself into compliance with the AIT by mid-April 2012 and allow all Certified General Accounts (CGAs) to practice public accounting in Ontario without any material additional training, experience, examinations or assessments.
- In February 2012, a Panel ruled that the Quebec occupation of crane operator matched the Ontario occupation of tower crane operator and that Ontario measures restricted access to practice by a Quebec person recognized as qualified to operate tower cranes. The Panel ruled that Ontario's measures caused injury to the Quebec person and awarded costs to the person.

Other AIT trade dispute activity included:

- In September 2011, Alberta requested consultations with Ontario alleging that the domestic content requirements of Ontario's Feed-in-Tariff Program (FIT) Program are discriminatory to Alberta suppliers and investors. British Columbia and Saskatchewan also entered into consultations with Ontario.
- In January 2012, Saskatchewan and British Columbia requested consultations with Quebec regarding certain measures in the Quebec Food Products Act and Regulation Respecting Food, alleging restrictions on the manufacturer and sale of dairy analogues and blends in Quebec. Manitoba also entered into consultations with Quebec.

For information on disputes regarding procurement by the Federal Government, please visit the website of the Canadian International Trade Tribunal at www.citt-tcce.gc.ca.

Organizational Structure

Committee on Internal Trade

Under the AIT, the Committee on Internal Trade (CIT), a committee of ministers, is established with responsibility for the implementation of the AIT. The CIT meets annually, and as necessary, to review progress under the AIT and its chairmanship is rotated each year on the basis of a roster of Parties. Decisions are taken by consensus (unanimity).

Internal Trade Representatives

Internal Trade Representatives (ITRs) are senior trade officials appointed by each Party to the AIT. ITRs meet regularly as a committee or in working groups to direct the work of implementing the AIT.

Board of Directors

Under the articles of incorporation, ITRs are also appointed by each Party to the AIT to serve as a Board of Directors to provide general guidance to the Executive Director in the administration and operation of the Internal Trade Secretariat Corporation, a federally-established not-for-profit organization set up in 2006.

Internal Trade Secretariat

The AIT established a Secretariat to act as a neutral and independent coordinating support body to committees and working groups under the AIT. Constituted as the Internal Trade Secretariat Corporation in 2006, the Secretariat is headed by an Executive Director who reports to a Chair and Board of Directors.

Agreement on Internal Trade Website

For more detailed information, please visit the AIT website at www.ait-aci.ca.

Committee on Internal Trade (CIT)

(as of March 31, 2012)

Alberta

The Honourable Cal Dallas
Minister of International and
Intergovernmental Relations

British Columbia

The Honourable Pat Bell
Minister of Minister of Jobs, Tourism and
Innovation

Canada

The Honourable Christian Paradis
Minister of Industry

Manitoba

The Honourable Peter Bjornson
Minister of Entrepreneurship, Training
and Trade

New Brunswick

The Honourable Paul Robichaud
Minister of Business New Brunswick

Newfoundland and Labrador

The Honourable Keith Hutchings
Minister of Innovation, Business and
Rural Development

Northwest Territories

The Honourable David Ramsay (Chair)
Minister of Industry, Tourism and
Investment

Nova Scotia

The Honourable Percy Paris
Minister of Economic and Rural
Development and Tourism

Ontario

The Honourable Brad Duguid
Minister of Economic Development and
Innovation

Prince Edward Island

The Honourable Allen F. Roach
Minister of Innovation and Advanced
Learning

Quebec

The Honourable Sam Hamad
Minister of Economic Development,
Innovation and Export Trade

Saskatchewan

The Honourable Jeremy Harrison
Minister Responsible for Trade

Yukon

The Honourable Currie Dixon
Minister of Economic Development

Nunavut (Observer Status)

The Honourable Peter Taptuna
Minister of Economic Development and
Transportation

Internal Trade Representatives (ITRs)

(as of March 31, 2012)

Alberta

Shawn Robbins
Executive Director, Trade Policy–
Domestic
International and Intergovernmental
Relations

British Columbia

Janna Jessee
Manager, Internal Trade
Jobs, Tourism and Innovation

Canada

Albert Cloutier
Director, International and Trade Policy
Industry Canada

Manitoba

Alan Barber
Director, Policy, Planning
and Coordination
Entrepreneurship, Training and Trade

New Brunswick

Andrew Hashey
Senior Policy Advisor, Trade Policy
Intergovernmental Affairs

Newfoundland and Labrador

Richard Squires
Manager, Trade Policy
Innovation, Business and Rural
Development

Northwest Territories

Alexandrea Malakoe (Chair)
Trade Officer, Investment and Economic
Analysis
Industry, Tourism and Investment

Nova Scotia

J. Andrew MacDonald
Senior Trade Policy Analyst
Economic and Rural Development and
Tourism

Ontario

Richard Caine
Manager
Trade and International Policy
Economic Development and Innovation

Prince Edward Island

Kal Whitnell
Director - Trade and Economic Policy
Innovation and Advanced Learning

Quebec

Marie-Andrée Marquis
Advisor, Commercial Policy
Economic Development, Innovation and
Export Trade

Saskatchewan

Nadette Schermann
Senior Trade Analyst, Trade Policy
Executive Council - Intergovernmental
Affairs

Yukon

Lisa Badenhorst
Senior Policy Advisor, Policy & Planning
Economic Development

Nunavut (Observer Status)

William MacKay
Senior Advisor
Executive & Intergovernmental Affairs

INTERNAL TRADE SECRETARIAT CORPORATION

Financial Statements

For the year ended March 31, 2012

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Independent Auditor's Report

To the Board of Directors of Internal Trade Secretariat Corporation

We have audited the accompanying financial statements of Internal Trade Secretariat Corporation, which comprise the statement of financial position as at March 31, 2012, and the statement of operations and unrestricted net assets for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian Generally Accepted Accounting Principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Qualified Opinion

As outlined in note 3 to the financial statement, the Internal Trade Secretariat Corporation does not capitalize and amortize its property and equipment. In this respect only, the financial statements are not in accordance with Canadian generally accepted accounting principles.

Qualified Opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of Internal Trade Secretariat Corporation as at March 31, 2012 and the results of its operations and its cash flows for the year then ended in accordance with Canadian Generally Accepted Accounting Principles.

BDO Canada LLP

Chartered Accountants

Winnipeg, Manitoba
June 12, 2012

INTERNAL TRADE SECRETARIAT CORPORATION
Statement of Financial Position

March 31	2012	2011
	\$	\$
Assets		
Current Assets		
Cash	311,142	347,796
Accounts receivable	56,960	2,614
Prepaid expenses	1,952	4,019
	370,054	354,429
Capital assets (Note 3)	1	1
	370,055	354,430
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued liabilities (Note 2)	46,553	47,245
Federal Government surplus payable (Note 4)	32,772	-
	79,325	47,245
Net Assets		
Surplus funds - Federal Government (Note 4)	-	-
Surplus funds - Provinces and Territories (Note 5)	178,408	179,863
Reserve funds - Contingency (Note 6)	110,000	125,000
Unrestricted	2,322	2,322
	290,730	307,185
	370,055	354,430

Approved on behalf of the Corporation:

 Director

INTERNAL TRADE SECRETARIAT CORPORATION
Statement of Operations and Unrestricted Net Assets

For the year ended March 31	2012	2011
	\$	\$
Revenue		
Contributions		
Federal Government (Note 4)	219,476	210,252
Provinces and Territories (Note 5)	217,576	208,709
Interest		
Federal Government (Note 4)	2,932	2,240
Provinces and Territories (Note 5)	4,832	3,783
	444,816	424,984
Expenses		
Personnel	270,699	256,089
Rent (Note 8)	42,371	37,311
Meetings and conferences	34,134	40,742
Office expenses	28,607	22,030
Travel	20,334	14,622
Translation	13,194	16,414
Communications	11,571	19,852
Professional services	9,014	7,707
Computers and software	7,645	1,180
Goods and services tax, net	4,146	4,444
Professional development	3,101	4,593
	444,816	424,984
Excess of revenue over expenses for the year	-	-
Unrestricted net assets, beginning of year	2,322	2,322
Unrestricted net assets, end of year	2,322	2,322

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

INTERNAL TRADE SECRETARIAT CORPORATION

Summary of Significant Accounting Policies

For the year ended March 31, 2012

Basis of Accounting	The financial statements are prepared in accordance with Canadian generally accepted accounting principles, except as noted below, which require the Corporation to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues and expenses, and disclosures of contingencies. Actual results could differ from these estimates.
Property and Equipment	Property and equipment are charged to expenditures in the year of purchase. Generally accepted accounting principles require that property and equipment be capitalized and amortized over their estimated useful life. The effect of this policy is described in note 3.
Revenue Recognition	The Corporation follows the deferral method of accounting for contributions. Restricted contributions are recognized as revenue in the year in which the related expenses are incurred. Contributions receivable are recognized if the amount can be reasonably estimated and ultimate collection is reasonably assured.
Surplus Funds	The management board of the Corporation resolved on November 21, 2005 to change the existing policy with regards to deferred contributions. Beginning fiscal 2005/2006, unused funds are no longer considered to be deferred contributions, but will now be considered an internally restricted surplus fund for future use within the organization.
Financial Instruments	<p>The Corporation utilizes various financial instruments. Unless otherwise noted, it is management's opinion that the Corporation is not exposed to significant interest, currency or credit risks arising from these financial instruments and the carrying amounts approximate fair values.</p> <p>The fair values of cash and short-term investments, accounts receivable and accounts payable approximate their carrying value because of their short-term maturity of these instruments.</p> <p>The Corporation classifies its financial instruments into one of the following categories based on the purpose for which the asset was acquired. The Corporation's accounting policy for each category is as follows:</p>

INTERNAL TRADE SECRETARIAT CORPORATION

Summary of Significant Accounting Policies

For the year ended March 31, 2012

Financial Instruments (continued)

Held-for-trading - This category is comprised of certain investments in equity and debt instruments, stand-alone derivatives, other than those designated as hedging items, and embedded derivatives requiring separation. They are carried in the balance sheet at the fair value with changes in fair value recognized in the income statement. Transactions costs related to instruments classified as held-for-trading are expensed as incurred. Fair values are determined directly by reference to published price quotations in an active market.

Loans and Receivables - These assets are non-derivative financial assets resulting from the delivery of cash or other assets by a lender to a borrower in return for a promise to repay on a specified date or dates, or on demand. They arise principally through the provision of goods and services (accounts receivable), but also incorporate other types of contractual monetary assets. They are initially recognized at fair value and subsequently carried at amortized cost, using the effective interest rate method, less any provision for impairment.

Other Financial Liabilities - Other financial liabilities include all financial liabilities other than those classified as loans and receivable and comprises trade accounts payable. These liabilities are initially recognized at fair value and subsequently carried at amortized cost using the effective interest rate method.

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 at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's best estimates as additional information becomes available in the future.

New Accounting Pronouncements

In December 2010, the Accounting Standards Board and Public Sector Accounting Board (Boards) issued new standards for not-for-profit organizations (NPOs). For private sector NPOs, they have a choice of International Financial Reporting Standards ("IFRS") or accounting standards for NPOs.

The Boards require NPOs to adopt their respective standards for year ends beginning on or after January 1, 2012. Until the date of transition to the new standards, all NPOs will continue to follow the current Canadian Institute of Chartered Accountants Handbook – Accounting Part V – Pre-Changeover Standards.

INTERNAL TRADE SECRETARIAT CORPORATION

Notes to Financial Statements

For the year ended March 31, 2012

1. Status and Nature of Activities

The Internal Trade Secretariat (the "Corporation") is a non-taxable, incorporated association that was established on August 8, 1995, as required by the Agreement on Internal Trade. The objective of this Agreement is to reduce and eliminate, to the extent possible, barriers to the free movement of persons, goods, services, and investments in Canada.

The Corporation's role is to provide administrative and operational support to the Committee on Internal Trade and other working groups or committees set up to implement the Agreement on Internal Trade.

During the 2006 fiscal year an application was filed to incorporate a corporation under the name "The Internal Trade Secretariat Corporation" under the Canada Corporations Act. The Letters Patent was issued on November 15, 2005. The Secretariat began operating under the new incorporated entity effective April 1, 2006.

The Corporation considers its capital to comprise its internally restricted net assets. There have been no changes to what the Corporation considers to be its capital since the previous period.

The Corporation manages its capital in order to ensure that it maintains sufficient resources to satisfy its objective of providing administrative and operational support on Internal Trade . The Corporation also manages its capital to ensure that it has sufficient resources to satisfy its obligations such as its general and administrative expenses, major repairs and the purchase of required fixed assets.

2. Accounts Payable and Accrued Liabilities

	<u>2012</u>	<u>2011</u>
	\$	\$
Trade accounts payable	38,084	14,770
Vacation payable	3,999	21,748
Wages and source deductions payable	4,470	10,727
	<u>46,553</u>	<u>47,245</u>

INTERNAL TRADE SECRETARIAT CORPORATION

Notes to Financial Statements

For the year ended March 31, 2012

3. Capital Assets

Capital assets are charged to expenditures in the year of purchase. During the year, there were purchases of \$3,216 (nil in 2011) that were expensed. Generally accepted accounting principles require that property and equipment be capitalized and amortized over their estimated useful life. The estimated useful life of the property and equipment components which include computers, furniture and office equipment is usually 5 years. If property and equipment had been capitalized and amortized over their estimated useful life of five years, amortization expense would have been increased by \$2,386 (\$1,743 in 2011), contribution revenue would have been increased by \$2,386 (\$1,743 in 2011), and capital assets and surplus funds on the balance sheet would each have increased by \$4,772 (\$3,649 in 2011).

4. Surplus Funds - Federal Government

Based on a Funding Agreement (2010 - 2015) with the Federal Government, the Corporation is to receive contributions to cover 50% of eligible expenditures incurred during the year from the Federal Government. The details of contributions from the Federal Government for the year are as follows:

	2012	2011
	\$	\$
Surplus funds, beginning of year	-	-
Contributions for the year	262,500	262,500
	262,500	262,500
Required contributions		
50% of the eligible expenditures of \$444,816 (\$424,985 in 2011)	222,408	212,492
Deduct interest earned on advances from the Federal Government	(2,932)	(2,240)
Contributions recognized as revenue for the year	219,476	210,252
Less transferred to Province and Territories for contingency reserve	(10,252)	(52,248)
<u>Less amounts requested to be repaid by the Federal Government (recorded as accounts payable)</u>	(32,772)	-
Surplus funds, end of year	-	-

INTERNAL TRADE SECRETARIAT CORPORATION

Notes to Financial Statements

For the year ended March 31, 2012

5. Surplus Funds - Provinces and Territories

Based on the Agreement on Internal Trade, the Corporation is to receive contributions to cover 50% of eligible expenditures incurred during the year from the Provinces and Territories. The details of contributions from the Provinces and Territories for the year are as follows:

	<u>2012</u>	<u>2011</u>
	\$	\$
Surplus funds, beginning of year	179,863	122,039
Contributions for the year	<u>205,869</u>	<u>214,285</u>
	<u>385,732</u>	<u>336,324</u>
Required contributions		
50% of the eligible expenditures of \$444,816 (\$424,985 in 2011)	222,408	212,492
Deduct interest earned on advances from the Provinces and Territories	<u>(4,832)</u>	<u>(3,783)</u>
Contributions recognized as revenue for the year	<u>217,576</u>	<u>208,709</u>
Add transferred from Federal Government for contingency reserve	<u>10,252</u>	<u>52,248</u>
Surplus funds, end of year	<u>178,408</u>	<u>179,863</u>

6. Reserve Funds - Contingency

The contingency reserve fund, as established by board resolution February 29, 2008, is to be maintained at \$125,000 to cover any costs contingencies relating to extra ministerial and/or officials' meeting, more than one dispute panel, non-payment or delay in member contributions being received, and any special projects.

In the current year, the board authorized the Corporation to pay up to \$15,000 of Manitoba's legal costs to allow Manitoba's legal counsel to complete the Person-to-government draft text for the benefit of all AIT Parties. The details of the reserve fund activity for the year is as follows:

	<u>2012</u>	<u>2011</u>
Reserve funds, beginning of year	\$ 125,000	\$ 125,000
Legal fees	<u>(15,000)</u>	<u>-</u>
Reserve funds, end of year	<u>\$ 110,000</u>	<u>\$ 125,000</u>

INTERNAL TRADE SECRETARIAT CORPORATION

Notes to Financial Statements

For the year ended March 31, 2012

7. Statement of Cash Flows

A separate statement of cash flows has not been provided since the sources and uses of cash from (to) operating, investing, and financing activities are readily apparent from the information included in the financial statements.

8. Commitments

The Corporation has an operating lease for its premises at \$3,601 per month including common area cost and realty taxes, under a lease expiring in January 2015.

9. Economic Dependence

The operations of the Corporation are dependent upon the continued funding from federal, provincial and territorial jurisdictions.