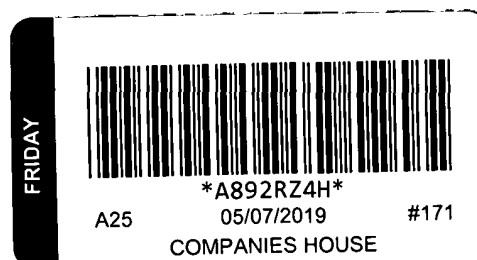


BAE Systems Projects (Canada) Limited

Annual Report and Financial Statements

For the year ended 31 December 2018

Registered Number: 02082545



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Directors' Report

Company registration

The Company is a private company, limited by shares and registered in England and Wales with the registered number 02082545.

Results and dividends

The Company's profit for the financial year is C\$3.2m (2017: profit C\$1.1m). The directors do not propose a dividend (2017: C\$3m).

Business review and principal activities

The principal activity of BAE Systems Projects (Canada) Limited (the "Company") was the provision of support to the Royal Canadian Navy submarine fleet.

VICTORIA Class submarine support continued to be the primary line of business. Order intake for the year was slightly above budget. Sales were significantly lower than budget due to poor delivery performance across a number of suppliers which delayed forecasted deliveries to customers.

Looking forward

A decision to restructure the Canadian business resulted in the transfer of all assets as well as the assignment of all assumed debts and obligations of BAE Systems Projects (Canada) Limited to BAE Systems (Canada) Inc. The reason for this is that the Company could no longer maintain Facility Security clearance preventing it from taking contracts that have security requirements. This transfer was effective on 31 December 2018. As a result of the transfer and going forward, BAE Systems Projects (Canada) Limited will cease operational activity and carry on as a holding company.

Going concern

Given the management decision to transfer all of its assets to BAE Systems (Canada) Inc. the Company has ceased to trade and will remain as a holding company, therefore the financial statements have been prepared on a basis other than going concern.

Overseas branch office

The Company has an overseas branch office in Ottawa, Canada.

Principal risks and uncertainties

The Canadian business is exposed to volatility in currency exchange rates. In order to protect itself against currency fluctuations, the business hedges all material, firm transactional exposures in accordance with Company policy.

Small companies exemption

The Directors' Report has been prepared in accordance with the special provisions relating to small companies within Part 15 of the Companies Act 2006, and consequently a Strategic Report has not been prepared.

Directors and their interests

The directors who served throughout the year, and up to the date of this report, unless otherwise stated, were as follows:

Mr G J Baverstock (resigned 26 January 2018)

Mr R J Carroll

Mr W J Blamey (resigned 8 January 2018)

Mr C M Robson (appointed 8 January 2018)

Mr G J Edwards (appointed 29 January 2018; resigned 20 November 2018)

Mr J M Collard (appointed 20 November 2018)

The Board is not aware of any contract of significance in relation to the Company in which any director has, or has had, a material interest.

Directors' Report *(continued)*

Disclosure of information to auditor


The directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of S418 of the Companies Act 2006.

Auditor

Following a Group audit retender by the Company's ultimate parent company, BAE Systems plc, Deloitte LLP was appointed as auditor to the Company on 5 December 2018.

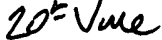
Deloitte LLP have indicated their willingness to be re-appointed as the Company's auditor and a resolution proposing their re-appointment will be put to the member.

Approved by the Board and signed on its behalf by



Mr. J M Collard
Director

2019



Registered office:

BAE Systems Projects (Canada) Limited
Warwick House
PO Box 87
Farnborough Aerospace Centre
Farnborough
Hampshire
GU14 6YU
United Kingdom

Directors' Responsibilities Statement

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard 101 ("FRS 101") Reduced Disclosure Framework. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent Auditor's Report to the Members of BAE Systems Projects (Canada) Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of BAE Systems Projects (Canada) Limited (the "Company"):

- give a true and fair view of the state of the Company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure": Framework; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the Income Statement;
- the Statement of Comprehensive Income;
- the Balance Sheet;
- the Statement of Changes in Equity; and
- the related notes 1 to 18.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure" Framework (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the "FRC's") Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter – Financial statements prepared other than on a going concern basis

We draw attention to note 1 in the financial statements, which indicates that the financial statements have been prepared on a basis other than that of a going concern. Our opinion is not modified in respect of this matter.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of directors

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Independent Auditor's Report to the Members of BAE Systems Projects (Canada) Limited
(continued)

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Directors' Report has been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Directors' Report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the directors were not entitled to take advantage of the small companies' exemption in preparing the director's report and from the requirement to prepare a strategic report.

We have nothing to report in respect of these matters.

Use of our report

This Report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Christopher Robertson (Senior Statutory Auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

Manchester, United Kingdom

20 June 2019

Income Statement

for the year ended 31 December 2018

	Notes	2018 C\$m	2017 (restated) ¹ C\$m
Revenue	2	12.5	11.4
Operating costs	3	(7.9)	(9.3)
Operating profit		4.6	2.1
Profit before finance costs and tax		4.6	2.1
Investment income	5	0.1	0.1
Finance costs	6	-	(0.1)
Profit before tax		4.7	2.1
Tax expense	7	(1.5)	(1.0)
Profit for the year		3.2	1.1

1. Prior year comparatives have been restated upon the Company's adoption of International Financial Reporting Standard (IFRS) 15 Revenue from Contracts with Customers. See note 17 for details regarding the restatement.

Statement of Comprehensive Income

for the year ended 31 December 2018

	2018 C\$m	2017 (restated) ¹ C\$m
Profit for the year	3.2	1.1
Total other comprehensive income for the year	3.2	1.1

1. Prior year comparatives have been restated upon the Company's adoption of International Financial Reporting Standard (IFRS) 15 Revenue from Contracts with Customers. See note 17 for details regarding the restatement.

The notes on pages 10 to 21 form part of the financial statements.

The results for 2018 and 2017 arise from discontinued activities.

Balance Sheet

as at 31 December 2018

	Notes	2018 C\$m	2017 (restated) ¹ C\$m
Non-current assets			
Property, plant and equipment	8	-	0.1
Investments	9	2.7	-
		2.7	0.1
Current assets			
Inventories	10	-	0.1
Trade, other and contract receivables	11	-	4.1
Cash and cash equivalents		-	6.3
		-	10.5
Total assets		2.7	10.6
Current liabilities			
Trade and other payables	13	-	(8.0)
Provisions	14	-	(0.1)
		-	(8.1)
Total liabilities		-	(8.1)
Net assets		2.7	2.5
Capital and reserves			
Share capital		-	-
Retained earnings		2.7	2.5
Total equity		2.7	2.5

1. Prior year comparatives have been restated upon the Company's adoption of International Financial Reporting Standard (IFRS) 15 Revenue from Contracts with Customers. See note 17 for details regarding the restatement.

Approved by the Board on 20 June 2019 and signed on its behalf by:

Mr. J M Collard
Director



Registered number: 02082545

Statement of Changes in Equity

for the year ended 31 December 2018

	Notes	Share Capital C\$m	Retained earnings C\$m	Total equity C\$m
Balance at 1 January 2018		-	2.5	2.5
Profit for the year		-	3.2	3.2
Ordinary share dividends	15	-	(3.0)	(3.0)
At 31 December 2018		-	2.7	2.7
Balance at 1 January 2017		-	1.4	1.4
Profit for the year		-	1.1	1.1
At 31 December 2017		-	2.5	2.5

Notes to the Financial Statements

1 Accounting policies

BAE Systems Projects (Canada) Limited (the "Company") is a private company, limited by shares, and registered in England and Wales and incorporated in the United Kingdom. Its ultimate controlling party is BAE Systems Marine (Holdings) Limited. The address of the Company's registered office is shown on page 3. The principal activity of the Company is set out in the Directors' Report on page 2.

These financial statements, which have been prepared in accordance with the Companies Act 2006, are presented in Canadian dollars which is both the functional and presentational currency, as the company's principle operations are in Canada and, unless otherwise stated, rounded to the nearest million.

Basis of preparation

The Company meets the definition of a qualifying entity under FRS 100 'Application of Financial Reporting Requirements' issued by the FRC. Accordingly, these financial statements were prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' issued in September 2015. The amendments to FRS 101 (2015/16 cycle) issued in July 2016 and FRS 101 (2016/17 cycle) issued in July 2017 have no impact on the Company.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards ("IFRS") as adopted by the EU ("EU-adopted IFRS"), but makes amendments where necessary in order to comply with the Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken:

- the requirements of IFRS 7 Financial Instruments: Disclosures;
- the requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers;
- the requirement in paragraph 38 of IAS 1 Presentation of Financial Statements, to present comparative information in respect of: paragraph 79(a)(iv) of IAS 1; paragraph 73(e) of IAS 16 Property, Plant and Equipment; paragraph 118(e) of IAS 38 Intangible Assets; and paragraphs 76 and 79(d) of IAS 40 Investment Property;
- the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134 to 136 of IAS 1 Presentation of Financial Statements;
- the requirements of IAS 7 Statement of Cash Flows, and
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- the requirements of paragraphs 17 and 18A of IAS 24 Related Party Disclosures;
- the requirements in IAS 24 Related Party Disclosures, to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.

The Company intends to continue to prepare its financial statements in accordance with FRS 101.

The Company is exempt under section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included by full consolidation in the consolidated financial statements of its ultimate parent, BAE Systems plc, a company registered in England and Wales. Accordingly, these financial statements present information about the Company as an individual undertaking and not as a group.

The following paragraphs summarise the main accounting policies of the Company and have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of relevant financial assets and financial liabilities (including derivative instruments). These financial statements have been prepared on a basis other than going concern as noted in the Director's Report.

Notes to the Financial Statements (continued)

1 Accounting policies (continued)

Critical accounting policies

Certain of the Company's significant accounting policies are considered by the directors to be critical because of the level of complexity, judgement or estimation involved in their application and their impact on the financial statements. The critical accounting policies are listed below:

Critical accounting policy	Description
Revenue and profit recognition	<p>The Company accounts for revenue in accordance with IFRS 15 Revenue from Contracts with Customers. For most of the Company's contracts, revenue and associated margin are recognised progressively over time as costs are incurred, and as risks have been mitigated or retired.</p> <p>The ultimate profitability of contracts is based on estimates of revenue and costs, including allowances for technical and other risks, which are reliant on the knowledge and experience of the Company's project managers, engineers, and finance and commercial professionals. Material changes in these estimates could affect the profitability of individual contracts. Cost estimates are reviewed and updated at least monthly, and more frequently as determined by events or circumstances. See further details below.</p>

Judgements made in applying accounting policies

In the course of preparing the financial statements, no judgements have been made in the process of applying the Company's accounting policies, other than those involving estimates, that have had a significant effect on the amounts recognised in the financial statements.

Changes in accounting policies

IFRS 15 Revenue from Contracts with Customers became effective on 1 January 2018. The impact of adoption is set out in note 17.

Several accounting standards, interpretations and amendments to existing standards became effective on 1 January 2018, none of which had a material impact on the Company.

IFRS 16 Leases is effective from 1 January 2019. The standard replaces IAS 17 Leases. Whilst lessor accounting under IFRS 16 is similar to IAS 17, lessee accounting is significantly different. Under IFRS 16, the Company will recognise within the Balance Sheet a right-of-use asset and a lease liability for future lease payments in respect of all leases, unless the underlying assets are of low value or the lease term is 12 months or less. Within the Income Statement, rental expense on the impacted leases will be replaced with depreciation on the right-of-use asset and interest on the lease liability.

Significant accounting policies

The significant accounting policies applied in the preparation of these financial statements are set out below. These policies have been applied consistently to all the years presented, unless otherwise stated. The directors believe that the financial statements reflect appropriate judgements and estimates, and provide a true and fair view of the Company's financial performance and position.

Revenue and profit recognition

Revenue represents income derived from contracts for the provision of goods and services, over time or at a point in time, by the Company to customers in exchange for consideration in the ordinary course of the Company's activities.

Revenue and profit recognition

Revenue is recognised as performance obligations are satisfied as control of the goods and services is transferred to the customer. For each performance obligation within a contract, the Company determines whether it is satisfied over time or at a point in time. Performance obligations are satisfied over time if one of the following criteria is satisfied:

- the customer simultaneously receives and consumes the benefits provided by the Company's performance as it performs;
- the Company's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- the Company's performance does not create an asset with an alternative use to the Company and it has an enforceable right to payment for performance completed to date.

The Company has determined that most of its contracts satisfy the over-time criteria, either because the customer simultaneously receives and consumes the benefits provided by the Company's performance as it performs (typically services or support contracts) or the Company's performance does not create an asset with an alternative use to the Company and it has an enforceable right to payment for performance completed to date (typically development or production contracts).

For each performance obligation to be recognised over time, the Company recognises revenue using an input method, based on costs incurred in the period. Revenue and attributable margin are calculated by reference to reliable estimates of transaction price and total expected costs, after making suitable allowances for technical and other risks. Revenue and associated margin are therefore recognised progressively as costs are incurred, and as risks have been mitigated or retired. The Company has determined that this method faithfully depicts the Company's performance in transferring control of the goods and services to the customer.

Notes to the Financial Statements (continued)

If the over-time criteria for revenue recognition are not met, revenue is recognised at the point in time that control is transferred to the customer, which is usually when legal title passes to the customer and the business has the right to payment, for example, on delivery.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised immediately as an expense.

Costs to obtain a contract

The Company expenses pre-contract bidding costs which are incurred regardless of whether a contract is awarded. The Company does not typically incur costs to obtain contracts that it would not have incurred had the contracts not been awarded, such as sales commission.

Leases

Lease payments made under operating leases, including any incentives granted, are recognised in the Income Statement on a straight-line basis over the lease term.

Interest income and borrowing costs

Interest income is recognised in the Income Statement in the period in which it is incurred.

Dividends

Dividends received and receivable are credited to the Company's Income Statement. Equity dividends paid on ordinary share capital are recognised as a liability in the period in which they are declared.

Property, plant and equipment

Cost

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads. The cost of demonstration assets is written off as incurred.

Depreciation

Depreciation is provided, normally on a straight-line basis, to write off the cost of property, plant and equipment over their estimated useful lives to any estimated residual value, using the following rates:

Plant and machinery	3 to 5 years
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The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each Balance Sheet date.

Impairment

The carrying amounts of the Company's property, plant and equipment are reviewed at each Balance Sheet date to determine whether there is any indication of impairment.

Investments

Fixed asset investments in shares in subsidiary undertakings and in shares in participating interests are stated at cost less provision for impairment.

Foreign currencies

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the exchange rates ruling at the Balance Sheet date. These exchange differences are recognised in the Income Statement.

Inventories

Inventories are stated at the lower of cost, including all relevant overhead expenditure, and net realisable value.

Trade and other contract receivables

Trade and other receivables are stated at amortised cost including a provision for expected credit losses. The Company measures the provision at an amount equal to lifetime expected credit losses, estimated by reference to past experience and relevant forward-looking factors.

The Company writes off a trade receivable when there is objective evidence that the debtor is in significant financial difficulty and there is no realistic prospect of recovery, for example, when a debtor enters bankruptcy or financial reorganisation.

Contract receivables represent amounts for which the Company has an unconditional right to consideration in respect of unbilled revenue recognised at the Balance Sheet date and comprise costs incurred plus attributable margin.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, call and term deposits, and other short-term liquid investments with original maturities of three months or less and which are subject to an insignificant risk of change in value.

Notes to the Financial Statements (*continued*)

1 Accounting policies (*continued*)

Trade and other payables

Trade and other payables are stated at amortised cost.

Tax

Tax expense comprises current and deferred tax. Current and deferred tax is recognised in the profit or loss except to the extent that it relates to a business combination or items recognised directly in equity or in other comprehensive income.

Current tax

Current tax is the expected tax payable or receivable on the taxable profit or loss for the year, using tax rates enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for temporary differences:

- on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- related to investments in subsidiaries and equity accounted investments to the extent that it is probable that they will not reverse in the foreseeable future; and
- arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to corporate income taxes levied by the same tax authority and they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Provisions

A provision is recognised in the Balance sheet when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and the amount has been reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at an appropriate pre-tax discount rate.

Warranties and after-sales service

Warranties and after-sales service are provided in the normal course of business with provisions for associated costs being made based on an assessment of future claims with reference to past experience. A provision for warranties is recognised when the underlying products and services are sold. The provision is based on historical warranty data and a weighting of possible outcomes against their associated probabilities.

Retirement benefit obligations

Defined contribution pension schemes

A defined contribution pension scheme is a post-employment benefit plan under which the Company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts.

Obligations for contributions are recognised as an expense in the Income Statement as incurred.

Financial instruments

Derivative financial instruments and hedging activities

The international nature of the Company's business means that it is exposed to volatility in currency exchange rates. In order to protect itself against currency fluctuations, the Company's policy is to hedge all material firm transactional exposures.

In accordance with its treasury policy, the Company does not hold derivative financial instruments for trading purposes.

The Company aims to achieve hedge accounting treatment for all derivatives that hedge material foreign currency exposures.

Derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition, such instruments are stated at fair value at the Balance Sheet date. Fair values are estimated by discounting expected future cash flows.

Notes to the Financial Statements (continued)

2 Revenue

Revenue by reporting segment	2018 C\$m	2017 (restated) ¹ C\$m
Commercial	11.3	10.3
Intercompany	1.2	1.1
	12.5	11.4
Revenue by customer location	2018 C\$m	2017 (restated) ¹ C\$m
United Kingdom	1.2	1.0
USA and Canada	11.3	10.4
	12.5	11.4
Revenue by category	2018 C\$m	2017 (restated) ¹ C\$m
Sale of goods	11.3	9.9
Provision of services	1.2	1.5
	12.5	11.4

1. Prior year comparatives have been restated upon the Company's adoption of International Financial Reporting Standard (IFRS) 15 Revenue from Contracts with Customers. See note 17 for details regarding the restatement.

3 Operating costs

	2018 C\$m	2017 (restated) ¹ C\$m
Raw materials, subcontracts and other bought-in items used	2.2	4.5
Change in inventories of finished goods and work-in-progress	1.5	-
Cost of inventory expensed	3.7	4.5
Staff costs (note 4)	2.9	3.2
Lease and sublease expense	0.4	0.4
Other operating charges	0.9	1.2
	7.9	9.3

1. Prior year comparatives have been restated upon the Company's adoption of International Financial Reporting Standard (IFRS) 15 Revenue from Contracts with Customers. See note 17 for details regarding the restatement.

The remuneration of the auditor for the year ended 31 December 2018 for auditing of the financial statements was £120k (2017: £163k and was borne by BAE Systems Marine Limited. Any allocation to the audit of these financial statements would not be material and therefore no amount has been attributed.

Notes to the Financial Statements *(continued)*

4 Employees

The weekly average number of Company employees including directors was 21 (2017: 30).

The aggregate staff costs of Company employees were as follows:

	2018	2017
	C\$m	C\$m
Wages and salaries	2.7	2.9
Social security costs	0.1	0.1
Pension costs – defined contribution plans	0.1	0.2
	2.9	3.2

Only one director received any emoluments from the Company during the year. The other five who served during the year were employed by BAE Systems plc and were remunerated through that company and did not provide any material qualifying services to the Company.

The disclosures below represent an allocation of the emoluments received by the directors to reflect their qualifying services to the Company.

	2018	2017
	C\$m	C\$m
Directors' remuneration	0.2	0.2
Company contributions to defined benefit pension scheme	-	-
	0.2	0.2

5 Investment income

	2018	2017
	C\$m	C\$m
Interest income	0.1	0.1

6 Financial expense

	2018	2017
	C\$m	C\$m
Foreign exchange losses	-	0.1

Notes to the Financial Statements (continued)

7 Tax expense

Tax expense	2018	2017 (restated) ¹
	C\$m	C\$m
Current tax		
UK:		
Current tax	(0.7)	(0.3)
Double tax relief	0.7	0.3
	-	-
Overseas:		
Current tax	(1.2)	(0.5)
Adjustments in respect of prior years	-	(0.4)
	(1.2)	(0.9)
Deferred tax		
Origination and reversal of temporary differences	(0.3)	(0.1)
Tax expense	(1.5)	(1.0)

1. Prior year comparatives have been restated upon the Company's adoption of International Financial Reporting Standard (IFRS) 15 Revenue from Contracts with Customers. See note 17 for details regarding the restatement.

The UK corporation tax rate was reduced from 20% to 19% with effect from 1 April 2017, and will be reduced to 17% with effect from 1 April 2020. The rate applying to UK deferred tax assets and liabilities is therefore 17%

Reconciliation of tax expense

The following table reconciles the expected corporate income tax expense, using the UK corporation tax rate, to the reported tax expense.

	2018	2017 (restated) ¹
	C\$m	C\$m
Profit before tax	4.7	
UK corporation tax rate	19.00%	19.25%
Expected income tax expense	(0.9)	(0.4)
Effect of tax rates in foreign jurisdictions	(0.4)	(0.1)
Change in accounting policy	(0.2)	(0.1)
Adjustments in respect of prior years	-	(0.4)
Tax expense	(1.5)	(1.0)

1. Prior year comparatives have been restated upon the Company's adoption of International Financial Reporting Standard (IFRS) 15 Revenue from Contracts with Customers. See note 17 for details regarding the restatement.

8 Property, plant and equipment

	Plant and machinery C\$m
Cost or valuation	
At 1 January 2018	0.5
Transfers	(0.5)
At 31 December 2018	-
Depreciation and impairment	
At 1 January 2018	0.4
Transfers	(0.4)
At 31 December 2018	-
Net book value	
At 31 December 2018	-
At 31 December 2017	0.1

Notes to the Financial Statements (continued)

9 Investments

	C\$m
Carrying value	
At 1 January 2018	-
Additions	2.7
At 31 December 2018	2.7

Subsidiary undertaking and participating interests at 31 December 2018

In accordance with Section 409 of the Companies Act 2006, a full list of subsidiary undertakings and significant holdings as at 31 December 2018 is disclosed below. Unless otherwise stated, the subsidiary undertaking is owned directly by the Company and has a financial year end of 31 December.

Company name	Class of shares held	Proportion of class (%)	Primary activity
BAE Systems (Canada) Inc 220 Laurier Ave West, Suite 1200, Ottawa, Ontario, K1P 5Z9, Canada	Ordinary shares of C\$1	100	Submarine support

10 Inventories

	2018 C\$m	2017 C\$m
Short-term work-in-progress	-	0.1

11 Trade, other and contract receivables

	2018 C\$m	2017 C\$m
Current		
Trade receivables	-	3.6
Amounts owed by BAE Systems plc and its subsidiaries	-	0.2
Prepayments and accrued income	-	0.2
Overseas corporation tax	-	0.1
	-	4.1

Notes to the Financial Statements (continued)

12 Deferred tax

The deferred tax asset which has not been recognised in the financial statements is made up as follows:

Deferred tax asset

	Deferred tax assets	
	2018	2017
	C\$m	C\$m
Change in accounting policy	-	0.3
Property, plant and equipment	-	-

Movement in temporary difference during the year

	At 1 January 2018 C\$m	Recognised in income C\$m	At 31 December 2018 C\$m
Change in accounting policy	0.3	(0.3)	-

	At 1 January 2017 C\$m	Recognised in income C\$m	At 31 December 2017 C\$m
Change in accounting policy	0.4	(0.1)	(0.3)

Unrecognised deferred tax asset

	Deferred tax assets	
	2018	2017
	C\$m	C\$m
Property, plant and equipment	-	0.1
Net deferred tax assets	-	0.1

The deferred tax asset was not been recognised in 2017 because there was insufficient evidence to support its recoverability.

13 Trade and other payables

	2018	2017 (restated) ¹
	C\$m	C\$m
Current		
Trade payables	-	0.1
Accruals and deferred income	-	7.9
	-	8.0

1. Prior year comparatives have been restated upon the Company's adoption of International Financial Reporting Standard (IFRS) 15 Revenue from Contracts with Customers. See note 17 for details regarding the restatement.

Notes to the Financial Statements (continued)

14 Provisions

	Warranties and after-sales service C\$m
Current	-
At 1 January 2018	0.1
Transferred	(0.1)
At 31 December 2018	-

Warranties and after-sales service

Warranty and after-sales service costs are generally incurred within three years post-delivery. Whilst actual events could result in potentially significant differences to the quantum, but not the timing, of the outflows in relation to the provisions, management has reflected current knowledge in assessing the provision levels.

15 Share capital

Share capital

	C\$1 Ordinary shares	Nominal value C\$
Authorised	100	100
Issued and fully paid		
At 1 January 31 December 2018	5	5

The holders of the shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

Equity dividends

	2018 C\$m	2017 C\$m
Final dividend for ordinary shares paid in respect of the previous year	3.0	-

The directors propose a dividend of C\$nil for 2018 (2017: C\$3.0m).

16 Events after the reporting period

There were no material events after the Balance Sheet date requiring disclosure.

Notes to the Financial Statements (continued)

17 Change in accounting policies

This note explains the impact of the adoption of IFRS 15 Revenue from Contracts with Customers, on the Company's financial statements.

Impact on financial statements

As a result of changes in the Company's accounting policies, prior year comparative information has been restated for the adoption of IFRS 15 Revenue from Contracts with Customers. The following tables show the adjustments recognised for each individual line item. Line items that are not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided.

Balance Sheet (extract)

	As at 31 December 2017		
	As previously reported C\$m	Impact of IFRS 15 C\$m	Restated on adoption of IFRS 15 C\$m
Current liabilities			
Trade and other payables	7.3	0.7	8.0
Retained earnings	3.2	(0.7)	2.5

Trade and other payables note (extract)

	As at 31 December 2017		
	As previously reported C\$m	Impact of IFRS 15 C\$m	Restated on adoption of IFRS 15 C\$m
Current			
Accruals and deferred income	6.9	1.0	7.9
Other taxes and social security costs	0.3	(0.3)	-

Income Statement

	As at 31 December 2017		
	As previously reported C\$m	Impact of IFRS 15 C\$m	Restated on adoption of IFRS 15 C\$m
Revenue	12.9	(1.5)	11.4
Operating costs	(11.1)	1.8	(9.3)
Profit/(loss) before tax	1.8	0.3	2.1
Tax expense	(0.9)	(0.1)	(1.0)
Profit/(loss) for the year	0.9	0.2	1.1

Statement of Comprehensive Income

	As at 31 December 2017		
	As previously reported C\$m	Impact of IFRS 15 C\$m	Restated on adoption of IFRS 15 C\$m
Profit/(loss) for the year	0.9	0.2	1.1
Total comprehensive income for the year	0.9	0.2	1.1

Notes to the Financial Statements *(continued)*

17 Change in accounting policies *(continued)*

IFRS 15 Revenue from Contracts with Customers – impact of adoption

The Company has adopted IFRS 15 fully retrospectively in accordance with paragraph C3(a). Comparatives for the year ended 31 December 2017 have been restated. The following expedients have been used in accordance with paragraph C5:

- revenue in respect of completed contracts that begin and end in the same accounting period has not been restated;
- revenue in respect of completed contracts with variable consideration reflects the transaction price at the date the contracts were completed; and
- the transaction price allocated to unsatisfied and partially unsatisfied performance obligations as at 31 December 2017 is not disclosed.

The accounting policy in respect of revenue applied from 1 January 2018 is set out in note 1.

The impact of adoption on the Company's comparative Income Statement, Balance Sheet and Statement of Comprehensive Income is shown above.

The impact of adoption on the Company's retained earnings at 31 December 2017 and 31 December 2016 is as follows:

	2017 C\$m	2016 C\$m
Retained earnings – as previously reported	3.2	2.3
Recognition of revenue for over time contracts based on costs incurred and including attributable margin	(1.0)	(1.3)
Deferred tax	0.3	0.4
Adjustment to retained earnings upon adoption of IFRS 15	(0.7)	(0.9)
Retained earnings – IFRS 15 (restated)	2.5	1.4

18 Controlling parties

The immediate parent company is BAE Systems Marine (Holdings) Limited and the ultimate parent company is BAE Systems plc, which is the only parent company preparing group financial statements. Both companies are incorporated in Great Britain and registered in England and Wales.

The consolidated financial statements of BAE Systems plc are available to the public and may be obtained from its registered address:

6 Carlton Gardens
London
SW1Y 5AD

Website: www.baesystems.com