

PPP Canada

Quarterly Financial Report

Third Quarter 2015–16

Nine-month period ended December 31, 2015

February 26, 2016

Table of Contents

Quarterly Financial Report Narrative Discussion.....	3
<i>P3 Knowledge Development and Sharing.....</i>	<i>3</i>
<i>Advancing Federal P3s.....</i>	<i>3</i>
<i>Advancing Provincial, Territorial, Municipal and First Nations P3s</i>	<i>3</i>
<i>Quarterly and Year-to-Date Results</i>	<i>4</i>
<i>Risk Management</i>	<i>5</i>
<i>Financial Risk Management</i>	<i>5</i>
<i>Report on the Use of Appropriations.....</i>	<i>6</i>
Statement of Management Responsibility	7
Statement of Financial Position (unaudited)	8
Statement of Operations (unaudited).....	9
Statement of Changes in Net Financial Assets (unaudited)	10
Statement of Cash Flows (unaudited)	11
Notes to Quarterly Financial Statements (unaudited).....	12

PPP Canada
Quarterly Financial Report Narrative Discussion
For the nine-month period ended December 31, 2015

P3 Knowledge Development and Sharing

As part of PPP Canada's mandate to act as a source of expertise and advice on public-private partnership (P3) matters, the Corporation has continued to develop its capacity and expertise under its P3 Knowledge Development and Sharing business line, through the development of market intelligence, tools, materials and overall knowledge as we continue to provide high-quality advice and expertise to our clients.

Many initiatives are underway as the Corporation implements its knowledge development and sharing strategy that encompasses a variety of audiences across all phases of a project: from market development through project development, due diligence and procurement, and into the operation and maintenance phase.

The Corporation also continues to foster relationships with P3 practitioners and procuring jurisdictions across all levels of government in order to share lessons learned and to promote a culture of P3s into new precincts.

Advancing Federal P3s

PPP Canada's Advancing Federal P3s business line continues to grow and evolve. PPP Canada continues to work with capital intensive departments and agencies to identify P3 opportunities by delivering advice and expertise and supporting the institutional drivers of P3s. PPP Canada's screening tool and supporting guide assists clients in determining the P3 suitability of their project and promotes consistency and comparability across projects.

The Federal P3 Screen continues to be an important facet for the federal business line in 2015–16. It has been completed by a number of federal departments, agencies and Crown corporations on a number of different projects. PPP Canada continues to evolve its role as a lead P3 advisor on key federal infrastructure projects, in particular the procurement of the New Bridge for the St. Lawrence (NBSL). In addition, the Corporation is working with a number of departments, agencies and Crown corporations that are evaluating the appropriateness of the P3 delivery model in the development of their potential projects.

Advancing Provincial, Territorial, Municipal and First Nations P3s

PPP Canada also continues to focus on its Advancing Provincial, Territorial, Municipal and First Nations P3s business line in order to position itself as an enabler of P3 projects, through the strategic use of the P3 Canada Fund by supporting innovative projects that demonstrate the value of P3s. PPP Canada fully committed the first \$1.2 billion to more than 20 projects across the country.

PPP Canada
Quarterly Financial Report Narrative Discussion
For the nine-month period ended December 31, 2015

Targeted outreach efforts in urgently needed sectors: transportation, water/wastewater and solid waste management infrastructure—priority sectors under the P3 Canada Fund, have greatly contributed to this growth, especially at the municipal level.

The P3 Canada Fund was renewed for an additional \$1.2 billion over five years in the 2013 budget beginning in 2014–15. Round Seven, the second round launched under the renewed Fund closed on June 12, 2015. These projects were assessed for eligibility and for merit. Thirteen of the projects have been screened-in and are moving onto the P3 Business Case development phase.

To date, PPP Canada has announced \$1,322 million in funding to P3 projects which includes total payments made to eligible recipients of \$69.4 million. P3 projects announced to date have combined total estimated project costs of \$6.4 billion and are highlighted by round below.

Round	Announced (\$M)	Payments (\$M)
Round 1	48.6	24.5
Round 2	72.8	44.3
Round 3	359.1	
Round 4	437.1	0.1
Round 5	403.8	0.5

Quarterly and Year-to-Date Results

PPP Canada budgeted \$11.4 million in operating and \$400 thousand in capital disbursements for fiscal year 2015–16 and recorded \$8.85 million in year-to-date appropriations. In addition, PPP Canada expects to receive \$219.4 million in P3 Canada Fund 2015–16 appropriations in the last quarter of 2015–16.

Total spending on operations in the first three quarters amounted to \$9.651 million and represents 85% of the total annual budget. Disbursements related to capital in the first three quarters amounted to \$106 thousand with the majority of capital expenditures expected in the last quarter of the fiscal year.

Cash flows for the period reflected the ongoing operations of the organization. PPP Canada earned \$15.323 million in interest on P3 Canada Fund investments (see Deferred Appropriations table, page 6).

PPP Canada
Quarterly Financial Report Narrative Discussion
For the nine-month period ended December 31, 2015

Risk Management

The Board of Directors is ultimately responsible for risk management by ensuring the effectiveness of the Corporation's risk management practices. The Board provides oversight and carries out its mandate with respect to risk and capital management through its Investment and Audit Committees.

The management team, led by the Chief Executive Officer (CEO) and including the executives reporting directly to the CEO and all directors, provides management oversight of risk management by approving policies and procedures and overseeing execution of risk management activities both at the P3 Canada Fund project level and corporately.

The integration of risk management into the Corporation's business processes has led to better corporate planning, priority setting and has improved operational efficiency. It is fundamental to the achievement of PPP Canada's mandate to effectively manage risks associated with delivering P3 programs and advisory services. PPP Canada is committed to the ongoing and continuous improvement of its risk management practices.

In support of the Corporation's broader risk management practices, a Business Continuity Management (BCM) policy was implemented in 2014–15, which proactively endeavours to ensure that the Corporation's more time sensitive operations/activities can be delivered to its clients and stakeholders, with minimal disruption in the event of a significant incident (such as fire, flood, electrical outage, pandemic, systems failure or otherwise) that disrupts or threatens to disrupt any operational function. PPP Canada's policy sets out the broad framework for PPP Canada's business continuity management, including key roles and responsibilities.

PPP Canada follows the principles of the Treasury Board of Canada Secretariat's *Policy on Government Security* which requires government institutions to establish a Business Continuity Planning Program (BCPP) to assure the continued delivery of government services through baseline security requirements, business continuity planning, including records management, information technology and disaster recovery planning.

Financial Risk Management

Financial commitments made from the P3 Canada Fund in support of approved projects are generally not paid until a project reaches substantial completion; which effectively means that the project is in operation with only minor aspects to complete.

During the time from when a project is ultimately approved for funding by the Minister of Finance, the appropriations received are invested in highly liquid, investment grade securities, such as treasury bills, guaranteed investment certificates (GICs) and short-term provincial bonds

PPP Canada
Quarterly Financial Report Narrative Discussion
For the nine-month period ended December 31, 2015

as mandated by the Board of Directors through our *Treasury Risk Management Policy and Investment Strategy* to mitigate the risk of financial loss. Significant financial risks that arise from transacting and holding financial instruments include credit, liquidity and market risks. The Corporation was compliant with all policy requirements during the reporting period.

Report on the Use of Appropriations

For the identified period with comparative figures for 2014 (in thousands of dollars)

Appropriations included in Estimates	Fiscal year 2015-16	Fiscal year 2014-15
Appropriations for operations	11,800	11,800
Appropriations for P3 Canada Fund	219,400	197,700
Total Appropriations	231,200	209,500

Use of Appropriations	Three month period ended		Nine month period ended	
	December 31,		December 31,	
	2015	2014	2015	2014
Operating appropriations received	2,950	2,950	8,850	8,850
Operating appropriations receivable	-	-	-	-
P3 Canada Fund appropriations received	-	-	-	197,700
Portion of parliamentary appropriations in current year deferred for future P3 Canada Fund payments	-	-	-	(197,700)
Parliamentary appropriations recognized as revenue	2,950	2,950	8,850	8,850

Deferred Appropriations	Three month period ended		Nine month period ended	
	December 31,		December 31,	
	2015	2014	2015	2014
Beginning balance	1,404,833	1,420,624	1,407,251	1,213,981
P3 Canada Fund appropriations received	-	-	-	197,700
P3 Canada Fund revenue earned	-	(9,950)	(12,522)	(9,950)
Interest received	4,814	3,334	14,246	11,024
Increase in accrued interest	405	1,663	1,077	2,916
Ending balance	1,410,052	1,415,671	1,410,052	1,415,671

PPP Canada
Statement of Management Responsibility

Management is responsible for the preparation and fair presentation of these quarterly financial statements in accordance with the Treasury Board of Canada Standard on Quarterly Financial Reports for Crown Corporations and for such internal controls as management determines is necessary to enable the preparation of quarterly financial statements that are free from material misstatement. Management is also responsible for ensuring all other information in this quarterly financial report is consistent, where appropriate, with the quarterly financial statements. These quarterly financial statements have not been audited or reviewed by our external auditors.

Based on our knowledge, these unaudited quarterly financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of the corporation, as at the date of and for the periods presented in the quarterly financial statements.



John McBride
Chief Executive Officer
PPP Canada Inc.



Gregory Smith, CPA, CA
Chief Financial Officer
PPP Canada Inc.

Ottawa, Canada
February 26, 2016

PPP Canada
Statement of Financial Position (unaudited)

As at December 31, 2015 with comparative figures for March 31, 2015 (in thousands of dollars)

	December 31, 2015	March 31, 2015
FINANCIAL ASSETS:		
Cash and cash equivalents	\$ 6,169	\$ 7,163
P3 Canada Fund accrued interest	13,192	12,115
P3 Canada Fund investments	1,392,713	1,389,898
P3 Canada Fund loan receivable	4,147	5,238
Accounts receivable	201	908
TOTAL FINANCIAL ASSETS	1,416,422	1,415,322
LIABILITIES:		
Accounts payable and accrued liabilities	602	2,664
Employee future benefits	1,385	1,158
Deferred P3 Canada Fund revenue	1,410,052	1,407,251
TOTAL LIABILITIES	1,412,039	1,411,073
NET FINANCIAL ASSETS	4,383	4,249
NON-FINANCIAL ASSETS:		
Tangible capital assets	976	1,253
Prepaid expenses	48	183
TOTAL NON-FINANCIAL ASSETS	1,024	1,436
ACCUMULATED SURPLUS	\$ 5,407	\$ 5,685

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

PPP Canada
Statement of Operations (unaudited)

For the identified period with comparative figures for 2014 (in thousands of dollars)

	Three month period ended December 31,		Nine month period ended December 31,	
	2015	2014	2015	2014
OPERATING REVENUES:				
Parliamentary appropriations	\$ 2,950	\$ 2,950	\$ 8,850	\$ 8,850
Fees from federal P3 advice	17	364	492	1,415
Interest income	9	21	31	50
	2,977	3,335	9,374	10,315
OPERATING EXPENSES:				
Salaries	1,499	\$ 1,467	4,467	3,811
Benefits	575	\$ 548	1,358	1,108
Professional services	123	\$ 456	308	986
P3 Canada Fund project due diligence	-	\$ 23	12	110
P3 Knowledge and best practices	126	\$ 182	547	423
Federal P3 project consultants	15	\$ 8	118	245
Shared administrative services	195	\$ 195	585	585
Rent	266	\$ 259	768	707
Directors' fees and expenses	33	\$ 30	81	66
Travel	88	\$ 98	262	241
Amortization of tangible capital assets	129	\$ 154	382	431
Information and communications	84	\$ 94	240	211
Maintenance and equipment	37	\$ 29	193	133
Custodial fees	51	\$ 54	155	147
Other Services	67	\$ 131	176	230
	3,288	3,728	9,651	9,434
Operating (deficit) surplus	(311)	(393)	(278)	881
P3 CANADA FUND:				
Revenue	-	9,950	12,522	9,950
Less: Payments to eligible recipients	-	9,950	12,522	9,950
P3 Canada Fund surplus	-	-	-	-
(Deficit) surplus	(311)	(393)	(278)	881
Accumulated surplus, beginning of period	5,718	7,635	5,685	6,361
Accumulated surplus, end of period	\$ 5,407	\$ 7,242	\$ 5,407	\$ 7,242

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

PPP Canada
Statement of Changes in Net Financial Assets (unaudited)

For the identified period with comparative figures for 2014 (in thousands of dollars)

	Three month period ended December 31,		Nine month period ended December 31,	
	2015	2014	2015	2014
(Deficit) Surplus	\$ (311)	\$ (393)	\$ (278)	\$ 881
Tangible capital assets:				
Acquisition of tangible capital assets	(50)	(124)	(106)	(600)
Amortization of tangible capital assets	129	154	382	431
	79	30	276	(169)
Non-financial assets:				
Decrease in prepaid expenses	54	-	135	41
(Decrease) Increase in net assets	(177)	(363)	134	753
Net financial assets, beginning of period	4,560	6,279	4,249	5,163
Net financial assets, end of period	\$ 4,383	\$ 5,916	\$ 4,383	\$ 5,916

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

PPP Canada
Statement of Cash Flows (unaudited)

For the identified period with comparative figures for 2014 (in thousands of dollars)

	Three month period ended December 31,		Nine month period ended December 31,	
	2015	2014	2015	2014
Cash flow provided by (used in) operating activities:				
(Deficit) Surplus	\$ (311)	\$ (393)	\$ (278)	\$ 881
Items not involving cash:				
Amortization of tangible capital assets	129	154	382	431
Increase in employee future benefits	76	64	227	193
Decrease in amounts receivable and prepaid expenses	229	3,882	843	1,744
Decrease in accounts payable and accrued liabilities	(66)	(213)	(2,062)	(888)
	57	3,494	(888)	2,361
Cash flow provided by (used in) investing activities:				
Net purchases and redemptions of investments	(4,814)	6,616	(2,815)	(198,774)
Repayment of P3 Canada Fund loan receivable	-	-	1,091	-
Interest received and allocated to Deferred P3 Canada				
Fund revenue	4,814	3,334	14,246	11,024
	-	9,950	12,522	(187,750)
Cash flow used in capital activities:				
Acquisition of tangible capital assets	(50)	(124)	(106)	(600)
Cash flow provided by (used in) financing activities:				
Parliamentary appropriations for P3 Canada Fund	-	-	-	197,700
Payments to eligible recipients	-	(9,950)	(12,522)	(9,950)
	-	(9,950)	(12,522)	187,750
Increase (decrease) in cash and cash equivalents	7	3,370	(994)	1,761
Cash and cash equivalents, beginning of period	6,162	4,273	7,163	5,882
Cash and cash equivalents, end of period	\$ 6,169	\$ 7,643	\$ 6,169	\$ 7,643

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

PPP Canada
Notes to Quarterly Financial Statements (unaudited)
For the nine-month period ended December 31, 2015
(in thousands of dollars)

These quarterly financial statements and associated notes must be read in conjunction with the most recent annual audited financial statements and with the narrative discussion included within this quarterly financial report.

1. Description of operations

On February 12, 2008, PPP Canada Inc. (PPP Canada) was incorporated pursuant to the *Canada Business Corporations Act*. On May 8, 2008, the Governor-in-Council declared PPP Canada a parent Crown corporation for the purposes of Part X, except Section 90, of the *Financial Administration Act*.

PPP Canada was created to spearhead the Government of Canada's efforts to promote the use of public-private partnerships (P3s) within the federal government. PPP Canada also promotes the use of P3s to other levels of government through the use of the P3 Canada Fund which was created to fund the delivery of infrastructure investments through P3s.

PPP Canada's objects as outlined in its articles of incorporation include:

- Assess P3s at the federal level in accordance with criteria established by the Treasury Board of Canada;
- Assess the suitability of P3 projects seeking funding from federal infrastructure programs in accordance with criteria established by or pursuant to Treasury Board of Canada authorities;
- Advise on the execution of P3s at the federal level;
- Manage the P3 Canada Fund in accordance with the policies and authorities established by the Treasury Board of Canada;
- Negotiate, sign and administer agreements to be funded through the P3 Canada Fund in accordance with the policies and authorities established by the Treasury Board of Canada; and
- Act as a source of expertise and advice on P3 matters.

In July 2015, the Corporation was issued a directive (P.C. 2015-1107) pursuant to section 89 of the *Financial Administration Act* to align its travel, hospitality, conference and event expenditure policies, guidelines and practices with Treasury Board policies, directives and related instruments on travel, hospitality, conference and event expenditures in a manner that is consistent with their legal obligations, and to report on the implementation of this directive in the Corporation's next corporate plan. On December 2, 2015, PPP Canada's Board approved a Directive on Travel, Hospitality, Conference and Event Expenditures and it is posted on the Corporation's website. Full implementation is expected by March 31, 2016 when expanded proactive disclosure is complete.

2. Summary of significant accounting policies

These financial statements have been prepared in accordance with Canadian Public Sector accounting standards. For the purposes of Section PS 1201, Financial Statement Presentation, PPP Canada considers the promotion of P3s at all levels of government as its program. The significant accounting policies used in the preparation of these financial statements are as follows:

(a) Revenue recognition

(i) Parliamentary appropriations

Parliamentary appropriations for operating purposes and for the purchase of tangible capital assets are without stipulations restricting their use and are recognized as revenue in the Statement of Operations when the appropriations are authorized.

Parliamentary appropriations for the P3 Canada Fund have stipulations, which meet the definition of a liability, restricting their use for payments to recipients and are recorded as deferred P3 Canada Fund revenue which will be recognized as revenue in the Statement of Operations in accordance with accounting policy 2(a)(iv) Deferred P3 Canada Fund revenue.

(ii) Interest income

Interest income earned on cash and cash equivalents is recognized as revenue in the Statement of Operations using the effective interest rate method.

Interest earned on P3 Canada Fund investments and loan receivable, which meets the definition of a liability, is credited directly to deferred P3 Canada Fund revenue using the effective interest rate method.

(iii) Fees from federal P3 advice

Revenue earned from federal government departments and agencies is recognized in the Statement of Operations when it is measurable and services rendered.

(iv) Deferred P3 Canada Fund revenue

Deferred P3 Canada Fund revenue is recognized in the Statement of Operations in the year in which PPP Canada is required to expend funds under the terms and conditions of PPP Canada financial agreements entered into with eligible recipients. Revenue is not recognized for loan agreements since repayment is required.

(b) Financial instruments

Cash and cash equivalents, P3 Canada Fund accrued interest, P3 Canada Fund investments and P3 Canada Fund loan receivable are classified in the cost or amortized cost category. Gains and losses on these financial assets are recognized in the Statement of Operations when the financial asset is derecognized due to disposal or impairment. Sales and purchases of investments are recorded on the trade date. Transaction costs related to the acquisition of investments are included in the cost of the related investments. Accounts receivable, and accounts payable and accrued liabilities are classified in the amortized cost category.

(i) Cash and cash equivalents

Cash and cash equivalents are comprised of cash and money market instruments with maturities that are capable of prompt liquidation. Cash equivalents are cashable on demand and are recorded at cost based on the transaction price on the trade date.

(ii) P3 Canada Fund investments

P3 Canada Fund investments are comprised of cash and money market instruments that are capable of prompt liquidation. P3 Canada Fund investments are recorded at cost based on the transaction price on the trade date.

(iii) P3 Canada Fund loan receivable

P3 Canada Fund loan receivable is recognized at amortized cost using the effective interest rate method. Valuation allowances are recorded to reflect loans receivable at the lower of cost and net recoverable value where recovery is uncertain.

(iv) Accounts receivable

Accounts receivable are measured at amortized cost using the effective interest method.

(v) Accounts payable and accrued liabilities

Accounts payable and accrued liabilities are measured at amortized cost using the effective interest method. Any gains, losses or interest expense is recorded in the Statement of Operations depending on the nature of the financial liability that gave rise to the gain, loss or expense.

(c) Employee future benefits

(i) Pension benefits

Eligible employees of PPP Canada are covered by the Public Service Pension Plan, a contributory defined benefit plan established through legislation and sponsored by the Government of Canada. Contributions are required by both the

employees and PPP Canada to cover current service cost. Pursuant to legislation currently in place, PPP Canada has no legal or constructive obligation to pay further contributions with respect to any past service or funding deficiencies of the Plan. Consequently, contributions are recognized as an expense in the year when employees have rendered service and represent the total pension obligation of PPP Canada.

(ii) Severance benefits

As established by the Governor-in-Council, the Chief Executive Officer (CEO) is entitled to severance benefits, the cost of which is accrued as the employee renders the service necessary to earn them. The projected accrued benefit obligation is determined using a projected benefit method which incorporates management's best estimate of salary, retirement age and discount rate. The majority of this benefit represents an obligation of PPP Canada assumed from the Public Service when the CEO was hired and entails settlement by future payments.

(iii) Retirement benefits

PPP Canada provides for extended health care and dental benefits for its eligible retired employees. The plan is unfunded and retirees are required to pay a portion of the premiums consistent with premiums paid by public service employees. PPP Canada accrues its obligations as the employees render the services necessary to earn these benefits. The cost of these benefits earned by employees has been estimated using the actuarial cost method. The most recent valuation of these benefits was as at March 31, 2015.

Actuarial gains (losses) on the accrued benefit obligation arise from differences between actual and expected experience and from changes in the actuarial assumptions used to determine the accrued benefit obligation. Actuarial gains (losses) are amortized over the average remaining service period of active employees.

Adjustments arising from plan amendments other than those relating to past service, experience gains and losses, and changes in assumptions are amortized over the expected average remaining service period. Adjustments arising from plan amendments relating to past service are recognized in the period of the plan amendment.

(iv) Sick leave benefits

Effective January 1, 2013, employees of PPP Canada are entitled to non-accumulating, non-vesting sick leave benefits. The CEO is the only employee to maintain a balance for sick leave benefits earned under the previous policy. PPP Canada recognizes a liability for the cost of the accrued benefit obligation

related to the CEO's sick leave benefit which is actuarially determined using the projected benefit method prorated on service with estimates for salary increases, retirement age, mortality, incidence rate and discount rate. The majority of this benefit represents an obligation of PPP Canada assumed from the Public Service when the CEO was hired. The most recent valuation of these benefits was as at March 31, 2015. Actuarial gains (losses) are amortized over the remaining service period of four years.

(d) Tangible capital assets

Tangible capital assets are recorded at cost less accumulated amortization. Amortization is provided for over the estimated useful lives of the assets using the following annual basis rates:

Asset	Basis	Rate
Equipment	Straight-line	3 years
Computer software	Straight-line	3 years
Furniture and fixtures	Straight-line	5 years
Leasehold improvements	Straight-line	Lesser of lease term or estimated useful life

Useful life is assessed annually and revisions are made as required.

Amortization commences when the asset is put into use and ceases when it no longer provides any further economic benefit to PPP Canada or when it is no longer in service.

(e) Measurement uncertainty

The preparation of financial statements in accordance with Canadian Public Sector accounting standards requires management to make estimates and assumptions. These estimates and assumptions affect the reporting amounts of assets and liabilities at the date of the financial statements and the reported amounts of the revenues and expenses during the period. Key areas where management has made estimates and assumptions include those related to the fair value of financial instruments, useful life of tangible capital assets, the liability for employee future benefits, contractual obligations and contingent liabilities. Estimates are based on the best information available at the time of preparation of the financial statements and are reviewed regularly to reflect new information as it becomes available. Where actual results differ from these estimates and assumptions, the impact will be recorded in future periods when the difference becomes known.

3. Commitments:

The nature of PPP Canada's activities can result in multiyear contracts and obligations whereby PPP Canada will be committed to make future payments. Significant contractual obligations related to the P3 Canada Fund that can be reasonably estimated are as follows:

P3 Canada Fund obligations	2016	2017	2018	2019	2020 and thereafter
As at December 31, 2015	\$46,090	\$142,498	\$121,100	\$743,175	\$160,200
Subsequent to December 31, 2015	-	-	\$43,500	-	-
Total P3 Canada Fund obligations	\$46,090	\$142,498	\$164,600	\$743,175	\$160,200

P3 Canada Fund obligations will be funded by deferred P3 Canada Fund revenue.