

PPP Canada

Quarterly Financial Report

Second Quarter 2014-15

Period ended September 30, 2014

November 28, 2014

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PPP Canada
Quarterly Financial Report Narrative Discussion
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P3 Knowledge Development and Sharing

As part of PPP Canada's mandate to act as a source of expertise and advice on 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 as the Government of Canada's centre of expertise.

Many initiatives for the 2014-15 planning period are in the planning stages as the Corporation develops a 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, into the operations 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 Screen continues to be an important facet for the Federal Business line in 2014 - 15. The Federal Screen has been completed by a number of Federal departments, agencies and Crown corporations on a number of different projects. The results of the screens completed continue to impress upon PPP Canada the importance of educating and informing Federal departments and agencies regarding the mechanics of the P3 procurement model and its key differences as compared to a traditional procurement. Thus PPP Canada continues to work in awareness-building and education of federal departments. PPP Canada continues to evolve its role as a lead P3 advisor on key federal infrastructure projects that are evaluating the appropriateness of the P3 delivery model.

Advancing Provincial, Territorial, Municipal and First Nation P3s

PPP Canada also continues to focus on its *Advancing Provincial, Territorial, Municipal and First Nation 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 projects that demonstrate the value of P3s. PPP Canada fully committed the first \$1.2 billion to more than 20 projects across the country.

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These investments are leveraging more than \$6 billion in public infrastructure projects that promote jobs and stimulate economic growth. 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 Economic Action Plan 2013 beginning in 2014-15. Round Six, the first Round launched under the renewed Fund closed on June 13, 2014. These projects are currently being assessed for eligibility and for merit. Those projects that are screened-in in the fall will move onto the P3 Business Case Development phase.

To date PPP Canada has announced \$1,196 million in funding to P3 projects which includes payments made to eligible recipients in prior fiscal years of \$27.9 million. P3 projects announced to date have combined total estimated project costs of \$5.7 billion and are highlighted by Round below.

Round 1 - \$48.6 million
Round 2 - \$73.1 million
Round 3 - \$371.1 million
Round 4 - \$437.1 million
Round 5 - \$266 million

Since July 1, 2014 PPP Canada has announced the Kokish River Hydroelectric Project, a \$12.94 million investment in the green energy infrastructure sector.

As outlined in *Economic Action Plan 2013*, P3 viability must be assessed for all projects with total eligible capital costs over \$100 million with applications under the New Building Canada Fund. The P3 Screen, which officially launched in the 2014-15 planning period, is a two-step process beginning with a Suitability Assessment which if viewed by PPP Canada as positive for P3 potential, a Procurement Option Analysis is required. Since April 2014, seven separate Suitability Assessments have been submitted to PPP Canada for review.

Quarterly and Year-to-Date Results

PPP Canada budgeted \$11.8 million in operating and \$1 million in capital disbursements for fiscal year 2014-15 and recorded \$5.9 million in year to date appropriations. In addition, PPP Canada received \$197.7 million in P3 Canada Fund 2014-15 appropriations in July 2014.

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Total spending on operations in the first two quarters amounted to \$5.706 million and represents 48% of the total annual budget. Disbursements related to capital in the first two quarters amounted to \$476 thousand and represent 48% of the annual capital budget. PPP Canada expects to disburse another \$125 thousand of its capital budget in the third and fourth quarters of 2014-15.

Cash flows for the period reflected the ongoing operations of the organization. PPP Canada received \$5.076 million in interest on P3 Canada Fund investments (see Deferred Appropriations table, page 6).

Risk Analysis

Risk Management (RM) within PPP Canada is a shared process between the Corporation's management team and the Board of Directors.

Progress in establishing effective Enterprise Risk Management (ERM) systems and processes is an ongoing and important management item. Steps are being taken to continuously improve ERM capacity and capabilities within the organization and to integrate risk more systematically into planning, decision making and other business processes. Examples of this include annual updates of PPP Canada's Corporate Risk Profile (CRP) and using the results to inform strategic and business planning and decision making. The CRP presents a comprehensive overview of PPP Canada's key risk priorities as it continues its development and implementation of ERM.

PPP Canada's Board of Directors and its management will continue to promote effective RM in the organization by building on the progress made to date and strengthen the ERM process in concert with other key elements of the overall planning framework. PPP Canada will review regularly and update the CRP on an annual basis or as new risks emerge and refine supporting risk management systems and processes to ensure that the Corporation can effectively and efficiently respond to risks as they arise.

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For the six month period ended September 30, 2014

Report on the Use of Appropriations

For the identified period with comparative figures for 2013 (in thousands of dollars)

Appropriations included in Main Estimates	Fiscal year 2014-15	Fiscal year 2013-14
Appropriations for operations	11,800	12,300
Appropriations for P3 Canada Fund	197,700	252,900
Total Appropriations	209,500	265,200

Use of Appropriations	Three month period ended September 30,		Six month period ended September 30,	
	2014	2013	2014	2013
Operating appropriations received	-	3,075	2,375	6,150
Operating appropriations receivable	3,525	-	3,525	-
P3 Canada Fund appropriations received	197,700	252,900	197,700	252,900
Portion of parliamentary appropriations in current year deferred for future P3 Canada Fund payments	(197,700)	(252,900)	(197,700)	(252,900)
Parliamentary appropriations recognized as revenue	3,525	3,075	5,900	6,150

Deferred Appropriations	Three month period ended September 30,		Six month period ended September 30,	
	2014	2013	2014	2013
Beginning balance	1,218,128	953,006	1,213,981	949,971
P3 Canada Fund appropriations received	197,700	252,900	197,700	252,900
P3 Canada Fund revenue earned	-	-	-	-
Interest received	5,076	2,333	7,690	4,692
Increase in accrued interest	(280)	1,401	1,253	2,077
Ending balance	1,420,624	1,209,640	1,420,624	1,209,640

**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, CA
Chief Financial Officer
PPP Canada Inc.

Ottawa, Canada
November 28, 2014

PPP Canada
Statement of Financial Position (unaudited)

As at September 30, 2014 with comparative figures for March 31, 2014 (in thousands of dollars)

	September 30, 2014	March 31, 2014
FINANCIAL ASSETS:		
Cash and cash equivalents	\$ 4,273	\$ 5,882
P3 Canada Fund accrued interest	8,969	7,716
P3 Canada Fund investments	1,411,655	1,206,265
Accounts receivable	4,396	2,217
Total financial assets	1,429,293	1,222,080
LIABILITIES:		
Accounts payable and accrued liabilities	1,359	2,034
Employee future benefits	1,031	902
Deferred P3 Canada Fund revenue	1,420,624	1,213,981
Total liabilities	1,423,014	1,216,917
Net assets	6,279	5,163
NON-FINANCIAL ASSETS:		
Tangible capital assets	1,321	1,122
Prepaid expenses	35	76
Total non-financial assets	1,356	1,198
Accumulated surplus	\$ 7,635	\$ 6,361

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 2013 (in thousands of dollars)

	Three month period ended September 30,		Six month period ended September 30,	
	2014	2013	2014	2013
OPERATING REVENUES:				
Parliamentary appropriations	\$ 3,525	3,075	\$ 5,900	\$ 6,150
Fees from federal P3 advice	543	31	1,051	31
Interest income	15	7	29	17
	4,083	3,113	6,980	6,198
OPERATING EXPENSES:				
Salaries	1,159	1,074	2,344	2,178
Benefits	337	311	560	542
Professional services	262	178	530	379
P3 Canada Fund project due diligence	60	-	87	16
P3 Knowledge and best practices	179	16	241	36
Federal P3 project consultants	199	31	237	56
Shared administrative services	195	195	390	390
Rent	260	195	448	388
Directors' fees and expenses	18	22	36	40
Travel	71	48	143	115
Amortization of tangible capital assets	146	138	277	275
Information and communications	68	48	117	78
Maintenance and equipment	52	45	104	77
Custodial fees	52	41	93	80
Other Services	38	12	99	54
	3,096	2,354	5,706	4,704
Operating surplus	987	759	1,274	1,494
P3 CANADA FUND:				
Revenue	-	-	-	-
Less: Payments to eligible recipients	-	-	-	-
P3 Canada Fund surplus	-	-	-	-
Surplus	987	759	1,274	1,494
Accumulated surplus, beginning of period	6,648	3,945	6,361	3,210
Accumulated surplus, end of period	\$ 7,635	\$ 4,704	\$ 7,635	\$ 4,704

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

PPP Canada
Statement of Changes in Net Assets (unaudited)

For the identified period with comparative figures for 2013 (in thousands of dollars)

	Three month period ended September 30,		Six month period ended September 30,	
	2014	2013	2014	2013
Surplus	\$ 987	\$ 759	\$ 1,274	\$ 1,494
Tangible capital assets:				
Acquisition of tangible capital assets	(441)	(23)	(476)	(85)
Amortization of tangible capital assets	146	138	277	275
	(295)	115	(199)	190
Non-financial assets:				
Decrease in prepaid expenses	2	-	41	3
Increase in net assets	694	874	1,116	1,687
Net assets, beginning of period	5,585	2,607	5,163	1,794
Net assets, end of period	\$ 6,279	\$ 3,481	\$ 6,279	\$ 3,481

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 2013 (in thousands of dollars)

	Three month period ended		Six month period ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Cash flow provided by (used in) operating activities:				
Surplus	\$ 987	\$ 759	\$ 1,274	\$ 1,494
Items not involving cash:				
Amortization of tangible capital assets	146	138	277	275
Increase in employee future benefits	64	64	129	128
(Increase) decrease in amounts receivable and prepaid expenses	(3,403)	264	(2,138)	547
Increase (decrease) in accounts payable and accrued liabilities	179	295	(675)	(540)
	(2,027)	1,520	(1,133)	1,904
Cash flow provided by (used in) investing activities:				
Net purchases and redemptions of investments	(202,776)	(255,232)	(205,390)	(257,591)
Interest received and allocated to Deferred P3 Canada Fund revenue	5,076	2,333	7,690	4,692
	(197,700)	(252,899)	(197,700)	(252,899)
Cash flow used in capital activities:				
Acquisition of tangible capital assets	(441)	(23)	(476)	(85)
Cash flow provided by (used in) financing activities:				
Parliamentary appropriations for P3 Canada Fund	197,700	252,900	197,700	252,900
Payments to eligible recipients	-	-	-	-
	197,700	252,900	197,700	252,900
(Decrease)increase in cash and cash equivalents	(2,468)	1,498	(1,609)	1,820
Cash and cash equivalents, beginning of period	6,741	3,658	5,882	3,336
Cash and cash equivalents, end of period	\$ 4,273	\$ 5,156	\$ 4,273	\$ 5,156

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

PPP Canada
Notes to Quarterly Financial Statements (unaudited)
For the six month period ended September 30, 2014
(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;
- Assess the suitability of P3 projects seeking funding from federal infrastructure programs in accordance with criteria established by or pursuant to Treasury Board 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;
- 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; and
- Act as a source of expertise and advice on P3 matters.

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 when it is measurable and has been earned using the effective interest rate method.

Interest earned on P3 Canada Fund investments, 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.

(b) Financial instruments

Cash and cash equivalents, P3 Canada Fund accrued interest and P3 Canada Fund investments 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) Accounts receivable

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

(iv) 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 (the "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, 2014.

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. Actuarial gains (losses) are amortized over the remaining service period of 5 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 lives are assessed annually and revisions to the useful life 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 present value of 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:

Significant contractual obligations related to the P3 Canada Fund that can be reasonably estimated are as follows:

P3 Canada Fund Obligations	2015	2016	2017	2018	2019 and thereafter
As at September 30, 2014	35,330	46,085	162,100	125,700	651,100
Subsequent to September 30, 2014	-	-	-	-	-
Total P3 Canada Fund Obligations	35,330	46,085	162,100	125,700	651,100