Quarterly Financial Report of

TRANSPORT CANADA

(Unaudited)

For the quarter ended December 31st, 2014

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Statement outlining results, risks and significant changes in operations, personnel and program

1. Introduction

This quarterly financial report has been prepared by management as required by section 65.1 of the *Financial Administration Act* and in the form and manner prescribed by the Treasury Board Accounting Standard 1.3. The quarterly report should be read in conjunction with the Main Estimates and Supplementary Estimates (A) and (B), as well as *Canada's Economic Action Plan 2012* (Budget 2012).

This quarterly report has not been subject to an external audit or review.

1.1 Authority, Mandate and Program Activities

A summary description of Transport Canada's program activities is presented in Part II of the Main Estimates.

1.2 Basis of Presentation

This quarterly report has been prepared by management using an expenditure basis of accounting. The accompanying Statement of Authorities includes Transport Canada's spending authorities granted by Parliament and those used by the Department consistent with the Main Estimates and Supplementary Estimates (A) and (B) for the 2014-15 fiscal year. This quarterly report has been prepared using a special purpose financial reporting framework designed to meet financial information needs with respect to the use of spending authorities.

The authority of Parliament is required before moneys can be spent by the Government. Approvals are given in the form of annually approved limits through appropriation acts or through legislation in the form of statutory spending authority for specific purposes.

When Parliament is dissolved for the purposes of a general election, section 30 of the *Financial Administration Act* authorizes the Governor General, under certain conditions, to issue a special warrant authorizing the Government to withdraw funds from the Consolidated Revenue Fund. A special warrant is deemed to be an appropriation for the fiscal year in which it is issued.

Transport Canada uses the full accrual method of accounting to prepare and present its annual departmental financial statements that are part of the departmental performance reporting process. However, the spending authorities voted by Parliament remain on an expenditure basis.

2. Highlights of Fiscal Quarter and Fiscal Year to Date (YTD) Results

2.1 Statement of Authorities

Transport Canada's total authorities available for use increased by approximately $271 million (or 17%), from $1,598 million as of December 31, 2013 to $1,869 million as of December 31, 2014, as summarized below:

Changes in Authorities:

Description	(in millions of dollars)
Vote 1 – Operating expenditures	22
Vote 5 – Capital expenditures	(3)
Vote 10 – Grants and contributions	223
Budgetary statutory authorities	29
Total change in authorities	**271**

Note: Totals may not add or may not agree with details provided elsewhere due to rounding.

The Statement of Authorities attached at the end illustrates the total authorities available for use, the authorities used for the quarter and the year-to-date authorities used for the current fiscal year as well as the comparative figures for the previous year. The major year-to-year changes for the quarter ended December 31, 2014 are explained below.

2.1.1 Vote 1 – Operating expenditures (increase of $22M)

Planned operating expenditures were to decrease by $15 million from 2013-2014 as a result of savings measures announced in Budget 2012. However, these savings were offset in 2014-15 by new funding of $15 million for the implementation of a world class prevention, preparedness and response regime for oil spills from ships to safeguard Canada's marine environment as well as a net $22 million increase in funding for items such as the replacement of the MV Princess of Acadia vessel (which serves the Saint John, New Brunswick to Digby, Nova Scotia ferry route), the Detroit River International Crossing Major Crown Project, and the Ports Asset Transfer Program.

2.1.2 Vote 5 – Capital expenditures (decrease of $3M)

Capital expenditures authorities decreased by $3 million from 2013-14 to 2014-15, largely explained by the following factors:

- Decrease in planned spending of:
  - $59 million as a result of funding moved to future years related to land acquisition for the Detroit River International Crossing; and
  - $7 million primarily due to the completion of several major projects, for the Ferry Services Program in 2013-2014;

- Offset by increased planned spending of:
  - $63 million in funding for the replacement of the Princess of Acadia vessel.

2.1.3 Vote 10 – Grants and contributions (increase of $223M)

Grants and contributions authorities increased by $223 million from 2013-14 to 2014-15, largely explained by the following factors:

- Increases in planned spending of:

- $304 million for Gateways and Border Crossings Fund, in particular for the Rt. Hon. Herb Gray Parkway project that is an essential link to the Detroit River International Crossing;

- Offset by decreases in planned spending of:
    - $66 million primarily due to the completion of several major projects for the Asia Pacific Gateway and Corridor Transportation Infrastructure Fund in 2013-2014;
    - $8 million for the sun-setting of funding for the Port Divestiture Fund; and
    - $8 million for the Outaouais Roads Development Agreement, due to the completion of phase 2 of the Extension of the Highway 5 project in 2013-2014.

2.1.4 Budgetary statutory authorities (increase of $29M)

The budgetary statutory authorities increased by $29 million mainly as a result of an increase of $31 million in capital requirements associated with the St. Lawrence Seaway offset by a reduction of $4 million for the department's Employee Benefits Plan.

2.2 Statement of Departmental Budgetary Expenditures by Standard Object

The statement of Departmental Budgetary Expenditures by Standard Object attached at the end illustrates the annual planned expenditures, the expenditures for the quarter and the year-to-date expenditures for the current fiscal year as well as the comparative figures for the previous year. Overall, the year-to-date expenditures at the end of the third quarter of 2014-15 represent 46% of the annual planned expenditures, compared to 51% in 2013-14.

Historically, most spending on high-dollar value, major infrastructure grants and contribution programs occurs in the fourth quarter. This is due to the fact that the majority of recipients submit their claims for reimbursement in the last quarter following the summer and fall construction period. In addition, year-to-date capital expenditures are lower than planned as a result of negotiation delays with the state of Michigan for the Detroit River International Crossing.

The major year-to-year variances as at December 31, 2014 are as follows:

- **Personnel**

  The planned expenditures related to ***Personnel*** for 2014-15 decreased by approximately $19 million compared to the 2013-14 planned expenditures. The decrease is primarily related to reductions for the Deficit Reduction Action Plan and timing differences for severance and maternity pay.

  The year-to-date expenditures related to ***Personnel*** at December 31, 2014 increased by approximately $28 million when compared to the 2013-14 third quarter year-to-date expenditures. This is largely attributed to the liquidation of severance pay and a significant increase in the number of employees for oversight activities within Marine Safety, Transportation of Dangerous Goods and Multimodal Safety and Security. Severance pay is funded by the Treasury Board Secretariat and the corresponding authorities will be added to the Department's authorities prior to year end.

- **Transportation and communication**

  The year-to-date expenditures related to ***Transportation and communication*** at December 31, 2014 increased by approximately $5 million when compared to the 2013-14 third quarter year-to-date expenditures. The increase is largely attributed to increases in travel and relocation costs associated for safety and security oversight.

- **Professional and special services**

  The planned expenditures related to ***Professional and special services*** for 2014-15 increased by approximately $23 million compared to the 2013-14 planned expenditures, mainly due to an increase in planned spending for the world class marine oil spill prevention initiative and increased planned spending for the Federal Contaminated Sites Action Plan.

The year-to-date expenditures related to ***Professional and special services*** at December 31, 2014 increased by approximately $14 million when compared to the 2013-14 third quarter year-to-date expenditures. The increase is largely attributed to increases in spending for services related to the Victoria Harbor Rock Bay remediation project.

- **Acquisitions of land, buildings and works**

  The planned expenditures related to ***Acquisitions of land, buildings and works*** for 2014-15 decreased by approximately $27 million compared to the 2013-14 planned expenditures. The decrease is mainly a result of funding moved to future years for the Detroit River International Crossing.

- **Acquisitions of machinery and equipment**

  The planned expenditures related to ***Acquisitions of machinery and equipment*** for 2014-15 increased by approximately $25 million compared to the 2013-14 planned expenditures. The increase is mainly the result of funding for the replacement of the MV Princess of Acadia vessel ($63 million) offset by a decrease of funding moved to future years for the Detroit River International Crossing ($32 million).

  The year-to-date expenditures related to ***Acquisitions of machinery and equipment*** at December 31, 2014 increased by approximately $47 million when compared to the 2013-14 third quarter year-to-date expenditures. The increase is largely attributed to year-to-date expenditures for the replacement of the MV Princess of Acadia vessel ($45 million).

- **Transfer payments**

  The planned expenditures related to ***Transfer payments*** for 2014-15 increased by approximately $224 million when compared to the planned expenditures for 2013-14. The causes of the variances are explained in section 2.1.3.

  The year-to-date expenditures related to ***Transfer payments*** at December 31, 2014 decreased by approximately $87 million compared to the 2013-14 third quarter year-to-date expenditures largely attributed to:

  - Decreases in expenditures for:
    - Asia Pacific Gateway and Corridor Transportation Infrastructure Fund ($52 million), mainly due to the completion of the South Fraser Perimeter Road project in 2013-14;
    - Gateways and Border Crossing Fund ($50 million), mainly due to the completion of the Port of Sept-Îles and the Port of Montreal Container Handling Facility projects in 2013-14; and
    - The sun-setting of funding for the Port Divestiture Fund ($3 million);

  - Offset by increases in expenditures for:
    - Airport Capital Assistance Program ($14 million); and
    - Oshawa Harbor Port Consolidation Program ($6 million).

  Transport Canada is expecting to incur substantial expenditures for the Rt. Hon. Herb Gray Parkway project in the last quarter of the year, for which significant project milestones are expected to be completed.

- **Other subsidies and payments**

  The planned expenditures related to ***Other subsidies and payments*** for 2014-15 increased by approximately $39 million when compared to the planned expenditures for 2013-14. The variance is mainly due to an increase of $31 million in the annual statutory payments to the St. Lawrence Seaway Management Corporation and $13 million in funding for the duty payment related to the replacement of the MV Princess of Acadia vessel, offset by $5 million in funding transferred to Infrastructure Canada in 2014-15 mainly for the construction of a new bridge for the St. Lawrence.

  The year-to-date expenditures related to ***Other subsidies and payments*** at December 31, 2014 increased by approximately $39 million when compared to the 2013-14 third quarter year-to-date expenditures. The increase is largely attributed to a larger cashflow requirement from the St. Lawrence Seaway Management Corporation when compared to the same prior year period ($11 million), the duty payment related to the replacement of the MV Princess of Acadia vessel ($11 million) and a one-time transition payment of $15 million for implementing salary payment in arrears by the Government of Canada.

3. Risks and Uncertainties

Transport Canada maintains a Corporate Risk Profile which identifies and assesses high-level risks that could affect the achievement of the Department's objectives and priorities. The identification of risks and the development of risk responses contribute to making decisions related to setting departmental priorities, planning, allocating resources, developing policies, managing programs and reporting on performance. Additional information regarding the Department's key risk areas is presented in the Report on Plans and Priorities.

Certain risks could have financial impacts should they materialize, for example many factors affecting the timing of transfer payments lie outside the control of the Department and could require funds to be re-profiled to future years. To minimize these impacts, the Department continuously monitors its program funding and expenditures, including a monthly senior management review of plans and forecasts.

4. Significant Changes in Relation to Operations, Personnel and Programs

There have been no significant changes in relation to operations, personnel and programs over the last quarter, except as described in sections 2.1 and 5.

5. Budget 2012 Implementation

This section provides an overview of the savings measures announced in Budget 2012 that are being implemented in order to refocus government and programs; make it easier for Canadians and business to deal with their government and modernize and reduce the back office.

Transport Canada will achieve Budget 2012 savings of $62 million (expenditure basis) by fiscal year 2014-15 through efficiency measures and program reductions that align resources to its core mandate, scaling back where the need is reduced; transforming how it works internally; and by consolidating and streamlining. With these changes Transport Canada will focus on supporting management excellence and accountability across government.

In the first year of implementation, Transport Canada achieved savings of approximately $37 million. Savings increased to $47 million in 2013-14 and will result in ongoing savings of $62 million in 2014-15.

Transport Canada is mitigating financial risks or uncertainties related to these savings by taking measures to:

- Ensure that core safety and security functions are not compromised;
- Minimize the impact on employees and Canadians;
- Focus on long-term benefits;
- Improve internal processes;
- Identify efficiency improvement opportunities;
- Focus on core functions which are in line with the Department's mandate and strategic outcome structure.

Approved by:

Original signed by

Louis Lévesque,
Deputy Minister
Ottawa, Canada
February 27, 2015

Original signed by

André Lapointe,
Chief Financial Officer
Ottawa, Canada
February 27, 2015

Statement of Authorities (Unaudited)

(in thousands of dollars)	Fiscal year 2014-2015			Fiscal year 2013-2014		
	Total available for use for the year ending March 31, 2015 (1)	Used during the quarter ended December 31, 2014	Year-to-date used at quarter-end	Total available for use for the year ending March 31, 2014 (1)	Used during the quarter ended December 31, 2013	Year-to-date used at quarter-end
Vote 1 – Operating expenditures	684,937	182,398	491,571	662,373	148,078	414,819
Vote 1 – Revenues credited to the vote	(86,667)	(22,397)	(61,008)	(86,033)	(22,929)	(62,014)
Vote 5 – Capital expenditures	229,800	61,897	78,704	232,461	16,042	27,679
Vote 10 – Grants and contributions	778,475	70,055	111,791	555,591	165,054	200,177
Budgetary statutory authorities						
Contributions to employee benefit plans	69,130	22,836	51,381	73,215	18,142	54,427
Minister of Transport – Salary and motor car allowance	80	40	120	79	39	92
Minister of State – Motor car allowance	-	-	-	2	-	-
Refunds of amounts credited to revenues in previous years	-	(10)	-	-	-	-
Payments to the Canadian National Railway Company – Victoria Bridge, Montreal	3,300	1,015	1,458	3,300	-	611
Northumberland Strait Crossing Subsidy Payment	62,836	-	61,733	61,582	-	60,830
Payments in respect of St. Lawrence Seaway Agreements	126,950	73,897	124,583	95,700	80,505	112,586
Total authorities	**1,868,841**	**389,731**	**860,333**	**1,598,270**	**404,931**	**809,207**

(1) *Includes only Authorities available for use and granted by Parliament at quarter end.*

Departmental Budgetary Expenditures by Standard Object (Unaudited)

(in thousands of dollars)	Fiscal year 2014-2015			Fiscal year 2013-2014		
	Planned expenditures for the year ending March 31, 2015	Expended during the quarter ended December 31, 2014	Year-to-date expended at quarter-end	Planned expenditures for the year ending March 31, 2014	Expended during the quarter ended December 31, 2013	Year-to-date expended at quarter-end
Expenditures:						
Personnel	495,759	133,239	393,878	514,637	122,570	365,766
Transportation and communications	30,949	9,193	21,531	29,231	7,096	16,555
Information	3,404	667	1,545	3,221	713	1,411
Professional and special services	173,033	39,838	71,673	149,864	26,099	57,520
Rentals	6,998	1,279	5,499	4,467	1,456	5,944
Repair and maintenance	17,538	3,940	7,705	16,715	2,962	7,035
Utilities, materials and supplies	17,045	4,166	11,447	16,134	3,984	11,386
Acquisition of land, buildings and works	95,379	11,665	24,196	122,271	12,357	21,215
Acquisition of machinery and equipment	135,082	49,744	55,167	110,190	4,353	8,024
Transfer payments	844,611	71,070	174,982	620,473	165,054	261,618
Other subsidies and payments	135,710	87,327	153,718	97,100	81,216	114,747
Total gross budgetary expenditures	**1,955,508**	**412,128**	**921,341**	**1,684,303**	**427,860**	**871,221**
Less revenues netted against expenditures:						
Vote-netted revenues	(86,667)	(22,397)	(61,008)	(86,033)	(22,929)	(62,014)
Total Revenues netted against expenditures:	**(86,667)**	**(22,397)**	**(61,008)**	**(86,033)**	**(22,929)**	**(62,014)**
Total net budgetary expenditures	**1,868,841**	**389,731**	**860,333**	**1,598,270**	**404,931**	**809,207**