

Financial Statements of

TRANSPORT CANADA

(Unaudited)

For the year ended March 31, 2010

TRANSPORT CANADA

Statement of Management Responsibility Including Internal Control over Financial Reporting

Responsibility for the integrity and objectivity of the accompanying financial statements for the year ended March 31, 2010, and all information contained in these statements rests with the management of Transport Canada. These financial statements have been prepared by management in accordance with Treasury Board accounting policies, which are consistent with Canadian generally accepted accounting principles for the public sector.

Management is responsible for the integrity and objectivity of the information in these financial statements. Some of the information in the financial statements is based on management's best estimates and judgment, and gives due consideration to materiality. To fulfill its accounting and reporting responsibilities, management maintains a set of accounts that provides a centralized record of the department's financial transactions. Financial information submitted in the preparation of the Public Accounts of Canada, and included in the department's *Departmental Performance Report*, is consistent with these financial statements.

Management is also responsible for maintaining an effective system of internal control over financial reporting designed to provide reasonable assurance that financial information is reliable, that assets are safeguarded and that transactions are properly authorized and recorded in accordance with the *Financial Administration Act* and other applicable legislation, regulations, authorities and policies.

Management seeks to ensure the objectivity and integrity of data in its financial statements through careful selection, training, and development of qualified staff; through organizational arrangements that provide appropriate divisions of responsibility; through communication programs aimed at ensuring that regulations, policies, standards, and managerial authorities are understood throughout the department; and through conducting an annual assessment of the effectiveness of the system of internal control over financial reporting.

An assessment for the year ended March 31, 2010 was completed in accordance with the Policy on Internal Control and the results and action plans are summarized in the annex.

The system of internal control over financial reporting is designed to mitigate risks to a reasonable level based on an on-going process to identify key risks, to assess effectiveness of associated key controls, and to make any necessary adjustments.

The effectiveness and adequacy of the department's system of internal control is reviewed by the work of internal audit staff, who conduct periodic audits of different areas of the department's operations, and by the Departmental Audit Committee, which oversees management's responsibilities for maintaining adequate control systems and the quality of financial reporting, and which recommends the financial statements to the Deputy Minister of Transport Canada.

The financial statements of Transport Canada have not been audited.

Original signed by Yaprak Baltacıoğlu

Original signed by Linda Brouillette
Director General, Human Resources,
on behalf of André Morency

Yaprak Baltacıoğlu,
Deputy Minister
Ottawa, Canada

André Morency,
Chief Financial Officer
Ottawa, Canada

August 16, 2010

August 16, 2010

TRANSPORT CANADA

Statement of Operations (*Unaudited*)

For the Year Ended March 31, 2010

(in thousands of dollars)

	2010	2009 (Restated - Note 18) (Note 19)
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Expenses (Note 4)		
An Efficient Transportation System	580,557	462,811
A Safe Transportation System	473,687	449,952
Internal Services	235,443	363,914
A Secure Transportation System	118,416	156,671
A Clean Transportation System	14,099	181,692
Ship-Source Oil Pollution Fund and other programs (Note 15)	973	6,244
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Total expenses	1,423,175	1,621,284
Revenues (Note 5)		
An Efficient Transportation System	292,453	314,461
A Safe Transportation System	62,235	59,799
Internal Services	12,828	21,645
A Secure Transportation System	112	193
Ship-Source Oil Pollution Fund and other programs (Note 15)	9,598	10,213
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Total revenues	377,226	406,311
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Net cost of operations	1,045,949	1,214,973
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The accompanying notes form an integral part of these financial statements.

TRANSPORT CANADA

Statement of Financial Position (*Unaudited*)

At March 31, 2010

(in thousands of dollars)

	2010	2009 (Restated - Note 18)
Assets		
Financial assets		
Accounts receivable and advances (Note 6)	31,761	22,105
Loans receivable (Note 7)	13,264	12,515
Rent receivable (Note 8)	42,149	49,429
Investments (Note 9)	52,792	52,792
Total financial assets	139,966	136,841
Non-financial assets		
Prepaid expenses	2,484	2,809
Inventory	12,350	12,243
Tangible capital assets (Note 10)	2,720,407	2,788,590
Total non-financial assets	2,735,241	2,803,642
Total	2,875,207	2,940,483
Liabilities and Equity of Canada		
Liabilities		
Accounts payable and accrued liabilities (Note 11)	937,543	952,806
Vacation pay and compensatory leave	25,451	28,459
Deferred revenue	3,693	2,365
Employee severance benefits (Note 12)	91,660	99,153
Lease obligation for tangible capital assets (Note 13)	622,313	638,422
Environmental and contingent liabilities (Note 14)	173,047	220,735
Total liabilities	1,853,707	1,941,940
Equity of Canada	1,021,500	998,543
Total	2,875,207	2,940,483

Contingent liabilities (Note 14)

Contractual obligations (Note 16)

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

TRANSPORT CANADA

Statement of Equity of Canada (*Unaudited*)

For the Year Ended March 31, 2010

(in thousands of dollars)

	2010	2009 (Restated - Note 18)
Equity of Canada, beginning of year	998,543	1,141,398
Net cost of operations	(1,045,949)	(1,214,973)
Current year appropriations used (Note 3)	1,011,716	1,040,016
Revenues not available for spending	(35,681)	(47,748)
Refund of previous year's expenditures	(5,838)	(3,018)
Change in net position of the Consolidated Revenue Fund (Note 3)	11,938	7,214
Services received without charge from other government departments (Note 17)	86,771	75,654
Equity of Canada, end of year	1,021,500	998,543
Restricted equity of Canada (see Note 15)	389,689	381,064
Non-Restricted equity of Canada	631,811	617,479
Equity of Canada	1,021,500	998,543

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

TRANSPORT CANADA

Statement of Cash Flow (*Unaudited*)

For the Year Ended March 31, 2010

(in thousands of dollars)

	2010	2009 (Restated - Note 18)
Operating activities		
Net cost of operations	1,045,949	1,214,973
Non-cash items		
Amortization of tangible capital assets	(146,073)	(161,869)
Services received without charge	(86,771)	(75,654)
Loss on disposal and write-down of tangible capital assets	(11,511)	(32,196)
Allowance for environmental and contingent liabilities	47,688	(15,858)
Prior years' assets under construction expensed	(14,330)	(3,071)
Employee severance benefits	7,493	(17,500)
Other	13	(283)
Variations in Statement of Financial Position		
Increase (decrease) in financial assets	3,125	(25,962)
Increase (decrease) in inventory and prepaid expenses	(218)	3,567
Increase (decrease) in other liabilities	16,943	42,588
Cash used by operating activities	862,308	928,735
Capital investment activities		
Principal repayment of tangible capital leases	16,109	15,407
Acquisitions of tangible capital assets	92,567	65,599
Transfer of tangible capital assets with no monetary impact	14,317	3,354
Proceeds from disposal of tangible capital assets	(3,166)	(16,631)
Cash used by capital investment activities	119,827	67,729
Financing activities		
Net cash provided by Government of Canada	(982,135)	(996,464)

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

TRANSPORT CANADA

Notes to the Financial Statements (Unaudited)
For the Year Ended March 31, 2010

1. Authority and objectives

Transport Canada is a department of the Government of Canada named in Schedule 1 of the *Financial Administration Act* and reports to Parliament through the Minister of Transport, Infrastructure and Communities.

Transport Canada is responsible for the transportation policies, programs and goals set by the Government of Canada, which are supported through the following departmental programs:

- *An Efficient Transportation System* program: establishes marketplace frameworks to govern the economic behaviour of transportation sector organizations; provides leadership for Gateways and Trade Corridors strategies; provides stewardship for federal transportation assets and implements transportation infrastructure projects in partnership with provinces, territories, municipal governments and private sector entities; stimulates innovation.
- *A Clean Transportation System* program: advances the federal government's clean air agenda in the transportation sector and complements other federal programs designed to reduce air emissions for the health of Canadians; helps to protect the marine environment by reducing the pollution of water from transportation sources; fulfills Transport Canada's responsibilities in working towards a cleaner and healthier environment with regard to its own operations.
- *A Safe Transportation System* program: develops transportation safety regulations and oversees their implementation; manages programs to support safety-related investments at small airports, to protect navigable waterways, to certify and license aircrafts, vessels and road vehicles; and provides air transport services to support aviation safety oversight work and federal and municipal clients.
- *A Secure Transportation System* program: develops policies and programs that respond to emerging security risks and keep Canada competitive; develops transportation security regulations and oversees their implementation by industry; and works with international and national partners to advance a shared and effective transportation security agenda.
- The *Internal Services* program: Internal Services are groups of related activities and resources that are administrated to support the needs of programs and other corporate obligations of Transport Canada. Internal Services include only those activities and resources that apply across its organization and not to those provided specifically to a program.

Transport Canada delivers its programs and services under numerous legislative and constitutional authorities including the *Department of Transport Act*, *Canada Transportation Act*, *Aeronautics Act*, *Canada Marine Act*, *Canada Shipping Act*, *Navigable Waters Protection Act*, *Railway Safety Act*, *Transportation of Dangerous Goods Act*, *Motor Vehicle Safety Act*, *Canadian Air Transport Security Authority Act* and *Marine Transportation Security Act*.

TRANSPORT CANADA

Notes to the Financial Statements (Unaudited)
For the Year Ended March 31, 2010

2. Summary of significant accounting policies

The financial statements have been prepared in accordance with Treasury Board accounting policies, which are consistent with Canadian generally accepted accounting principles for the public sector.

Significant accounting policies are as follows:

- (a) Parliamentary appropriations – Transport Canada is financed by the Government of Canada through Parliamentary appropriations. Appropriations provided to the department do not parallel financial reporting according to generally accepted accounting principles since appropriations are primarily based on cash flow requirements. Consequently, items recognized in the statement of operations and the statement of financial position are not necessarily the same as those provided through appropriations from Parliament. Note 3 provides a high-level reconciliation between the bases of reporting.
- (b) Net Cash Provided by Government – Transport Canada operates within the Consolidated Revenue Fund (CRF), which is administered by the Receiver General for Canada. All cash received by the department is deposited to the CRF and all cash disbursements made by the department are paid from the CRF. The net cash provided by Government is the difference between all cash receipts and all cash disbursements including transactions between departments of the federal government.
- (c) Change in net position in the Consolidated Revenue Fund is the difference between the net cash provided by Government and appropriations used in a year, excluding the amount of non-responsible revenue recorded by the department. It results from timing differences between when a transaction affects appropriations and when it is processed through the CRF.
- (d) Revenues:
 - Revenues from regulatory fees are recognized in the accounts based on the services provided in the year.
 - Other revenues are accounted for in the period in which the underlying transaction or event occurred that gave rise to the revenues.
 - Revenues that have been received but not yet earned are recorded as deferred revenues.
- (e) Expenses – These are recorded when the underlying transaction or expense occurred subject to the following:
 - Grants are recognized in the year in which the conditions for payment are met. In the case of grants, which do not form part of an existing program, the expense is recognized when the Government announces a decision to make a non-recurring transfer, provided the enabling legislation or authorization for payment receives parliamentary approval prior to the completion of the financial statements.
 - Contributions are recognized in the year in which the recipient has met the eligibility criteria or fulfilled the terms of a contractual transfer agreement.
 - Vacation pay and compensatory leave are expensed as the benefits accrue to employees under their respective terms of employment.

TRANSPORT CANADA

Notes to the Financial Statements (Unaudited)
For the Year Ended March 31, 2010

2. Summary of significant accounting policies (cont'd)

- Services provided without charge by other government departments for accommodation, the employer's contribution to the health and dental insurance plans, worker's compensation, and legal services are recorded as operating expenses at their estimated cost.
- (f) Employee future benefits
- Pension benefits: Eligible employees participate in the Public Service Pension Plan administered by the Government of Canada. The department's contributions to the plan are charged to expenses in the year incurred and represent the total departmental obligation to the plan. Current legislation does not require the department to make contributions for any actuarial deficiencies of the plan.
 - Severance benefits: Employees are entitled to severance benefits, as provided for under labour contracts or conditions of employment. These benefits are accrued as employees render the services necessary to earn them. The obligation relating to the benefits earned by employees is calculated using information derived from the results of the actuarially determined liability for employee severance benefits for the Government as a whole.
- (g) Accounts receivables from external parties are stated at amounts expected to be ultimately realized; a provision is made for external receivables where recovery is considered uncertain.
- (h) Loans receivable are recorded at cost. They are written down to their net present value to reflect concessionary terms using market rates at the time of the loans. Loan discounts are amortized over the term of the loans. A provision is made for loans where recovery is considered uncertain.
- (i) Investments in Crown corporations are recorded at cost. If there is a permanent impairment in value, an allowance is recorded to reduce the carrying value of the investment to a nominal amount.
- (j) Contingent liabilities – Contingent liabilities are potential liabilities, which may become actual liabilities when one or more future events occur or fail to occur. To the extent that the future event is likely to occur or fail to occur, and a reasonable estimate of the loss can be made, an estimated liability is accrued and an expense recorded. If the likelihood is not determinable or an amount cannot be reasonably estimated, the contingency is disclosed in the notes to the financial statements.
- (k) Environmental liabilities – Environmental liabilities reflect the estimated costs related to the management and remediation of environmentally contaminated sites. Based on management's best estimates, a liability is accrued and an expense recorded when the contamination occurs or when the department becomes aware of the contamination and is obligated, or is likely to be obligated to incur such costs. If the likelihood of the department's obligation to incur these costs is not determinable, or if an amount cannot be reasonably estimated, the costs are disclosed as contingent liabilities in the notes to the financial statements.

TRANSPORT CANADA

Notes to the Financial Statements (Unaudited)
For the Year Ended March 31, 2010

2. Summary of significant accounting policies (cont'd)

- (l) Inventories – Inventories consist of spare parts, material, supplies and publications held by the Department. Inventories, other than serialized inventory items or rotatable parts, are valued at average cost. Serialized inventory items and rotatable parts are valued on a specific cost basis. A *serialized inventory item* is consumable inventory, which has a serial number and is required to be tracked for airworthiness purposes. Inventories with no further service potential are valued at the lower of cost or net realizable value.
- (m) Foreign currency transactions – Transactions involving foreign currencies are translated into Canadian dollar equivalents using rates of exchange in effect at the time of those transactions. Monetary assets and liabilities denominated in a foreign currency are translated into Canadian dollars using the rate of exchange in effect on March 31, 2010. Losses resulting from foreign currency transactions are included in miscellaneous expenses on the statement of operations.
- (n) Tangible capital assets – All tangible capital assets and leasehold improvements having an initial cost of \$10,000 or more are recorded at their acquisition cost. The department does not capitalize intangibles, works of art and historical treasures that have cultural, aesthetic or historical value, assets located on Indian Reserves and museum collections. Land has no minimal cost threshold.

Amortization of tangible capital assets is done on a straight-line basis over the estimated useful life of the assets as follows:

Asset type	Amortization period
Confederation Bridge	100 years
Buildings and works:	
Buildings	20 to 40 years
Works and Infrastructure	10 to 40 years
Machinery and equipment:	
Machinery and equipment	5 to 20 years
Informatics hardware	3 to 5 years
Informatics software	3 years
Vehicles:	
Ships and boats	10 to 20 years
Aircrafts	6 to 20 years
Motor vehicles	6 to 35 years
Leasehold improvements	Lesser of the remaining term of the lease or useful life of the improvement
Assets under construction	Once in service, in accordance with asset type
Leased tangible capital assets	According to the useful life of the asset if a bargain purchase offer exists or over the term of the lease

TRANSPORT CANADA

Notes to the Financial Statements (Unaudited)
For the Year Ended March 31, 2010

2. Summary of significant accounting policies (cont'd)

- (o) Measurement uncertainty – The preparation of these financial statements in accordance with Treasury Board accounting policies which are consistent with Canadian generally accepted accounting principles for the public sector requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses reported in the financial statements. At the time of preparation of these statements, management believes the estimates and assumptions to be reasonable. The most significant items where estimates are used are contingent liabilities, environmental liabilities, the liability for employee severance benefits and the useful life of tangible capital assets. Actual results could significantly differ from those estimated. Management's estimates are reviewed periodically and, as adjustments become necessary, they are recorded in the financial statements in the year they become known.

3. Parliamentary appropriations

Transport Canada receives most of its funding through annual Parliamentary appropriations. Items recognized in the statement of operations and the statement of financial position in one year may be funded through Parliamentary appropriations in prior, current or future years. Accordingly, the department has different net results of operations for the year on a government-funding basis than on an accrual accounting basis. The differences are reconciled in the tables on the following page:

TRANSPORT CANADA

Notes to the Financial Statements (Unaudited)
For the Year Ended March 31, 2010

3. Parliamentary appropriations (cont'd)

(a) Reconciliation of net cost of operations to current year appropriations used

	2010	2009 (Restated - Note 18)
		<i>(in thousands of dollars)</i>
Net cost of operations	1,045,949	1,214,973
Adjustments for items affecting net cost of operations but not affecting appropriations:		
Add (Less):		
Amortization of tangible capital assets	(146,073)	(161,869)
Services provided without charge	(86,771)	(75,654)
Revenues not available for spending	35,681	47,748
Allowance for environmental and contingent liabilities	47,688	(15,858)
Loss on disposals and write-downs of tangible capital assets	(11,511)	(32,196)
Prior years' work-in-progress expensed	(14,330)	(3,071)
Variation in vacation pay and compensatory leave	3,008	(2,605)
Employee severance benefits	7,493	(17,500)
Refunds of previous years' expenditures	5,838	3,018
Other	13	(283)
	886,985	956,703
Adjustments for items not affecting net cost of operations but affecting appropriations:		
Add (Less):		
Variation in prepaid expenses	(325)	1,309
Variation in inventory	107	2,258
Acquisitions of tangible capital assets	92,567	65,599
Transfer of tangible capital assets with no monetary impact	14,317	3,354
Repayment of lease obligation for tangible capital assets	16,109	15,407
Other	1,956	(4,614)
	124,731	83,313
Current year appropriations used	1,011,716	1,040,016

TRANSPORT CANADA

Notes to the Financial Statements (Unaudited)
For the Year Ended March 31, 2010

3. Parliamentary appropriations (cont'd)

(b) Appropriations provided and used

	2010	2009
	<i>(in thousands of dollars)</i>	
Appropriations provided		
Vote 1 – Operating expenditures	448,660	398,081
Vote 5 – Capital expenditures	182,948	78,926
Vote 10 – Transfer payments	740,606	810,898
Statutory amounts	<u>205,392</u>	<u>174,664</u>
	1,577,606	1,462,569
Less:		
Appropriations available for future years	(1,137)	(882)
Lapsed appropriations: Operating	(49,710)	(40,807)
Lapsed appropriations: Capital	(76,317)	(12,691)
Lapsed appropriations: Transfer payments	(437,844)	(368,173)
Lapsed: Crown assets disposal	<u>(882)</u>	<u>-</u>
Total Lapsed	(564,753)	(421,671)
Current year appropriations used	1,011,716	1,040,016

(c) Reconciliation of net cash provided by Government to current year appropriations used

	2010	2009
	<i>(in thousands of dollars)</i>	
Net cash provided by Government	982,135	996,464
Revenues not available for spending	35,681	47,748
Refunds of previous years' expenditures	<u>5,838</u>	<u>3,018</u>
	1,023,654	1,047,230
Change in net position in the Consolidated Revenue Fund		
Variation in financial assets	(3,125)	25,962
Variation in liabilities	(13,935)	(45,193)
Proceeds of disposal – Capital assets	3,166	16,631
Other adjustments	1,956	(4,614)
	(11,938)	(7,214)
Current year appropriations used	1,011,716	1,040,016

TRANSPORT CANADA

Notes to the Financial Statements (Unaudited)
For the Year Ended March 31, 2010

4. Expenses

The following table presents details of expenses by category:

	2010	2009 (Restated - Note 18)
	<i>(in thousands of dollars)</i>	
Other levels of governments within Canada	133,897	211,526
Industry	116,627	106,303
Non-profit organizations	112,036	77,713
Individuals	483	85,834
Other countries and international organizations	183	172
Total transfer payments	363,226	481,548
Salaries and employee benefits	553,274	546,483
Amortization of tangible capital assets	146,073	161,869
Professional and special services	125,824	183,115
Equipment repair and maintenance	59,237	40,939
Interest on lease obligation for tangible capital assets	40,879	40,559
Accommodation	36,994	30,440
Travel and relocation	33,899	38,947
Utilities, materials and supplies	22,844	23,001
Net loss on disposal of tangible capital assets	11,511	32,196
Telecommunications	7,202	10,943
Payments in lieu of property taxes	7,092	6,513
Rentals	6,104	6,088
Information services – communications	5,519	5,123
Postage	3,555	3,602
Pollution control	973	6,244
Damage and other claims against the Crown	265	1,322
Miscellaneous	(1,296)	2,352
Total operating expenses	1,059,949	1,139,736
Total expenses	1,423,175	1,621,284

TRANSPORT CANADA

Notes to the Financial Statements (Unaudited)
For the Year Ended March 31, 2010

5. Revenues

The following table presents details of revenues by category:

	2010	2009
	<i>(in thousands of dollars)</i>	
Sales of goods and services:		
Airport rent	250,095	268,280
Aircraft maintenance and flying services	38,475	33,110
Monitoring and enforcement revenues	36,946	40,459
Rentals and concessions	26,456	28,010
Transport facilities user fees	13,868	14,625
Pollution control revenues	9,598	10,213
Interest	925	642
Miscellaneous	546	10,420
Research and development	317	552
Total revenues	377,226	406,311

6. Accounts receivable and advances

	2010	2009
	<i>(in thousands of dollars)</i>	
Accounts receivable from other government departments	13,965	7,895
Accounts receivable from external parties	19,392	17,927
Advances to employees	<u>325</u>	<u>390</u>
	33,682	26,212
Less: Allowance for doubtful accounts on external accounts receivable	(1,921)	(4,107)
Total accounts receivable and advances	31,761	22,105

TRANSPORT CANADA

Notes to the Financial Statements (Unaudited)
For the Year Ended March 31, 2010

7. Loans receivable

	2010	2009
	<i>(in thousands of dollars)</i>	
Saint John Harbour Bridge Authority	22,647	22,647
Victoria Harbour	2,279	2,365
St. Lawrence Seaway Management Corporation	77	168
	25,003	25,180
Less:		
Discounts on loans	(11,739)	(12,665)
Total Loans	13,264	12,515

(i) Saint John Harbour Bridge Authority

The loan receivable from the Saint John Harbour Bridge Authority consists of consolidated non-interest bearing advances made in connection with the financing, construction and operation of a toll bridge across the harbour of Saint John, New Brunswick. The Saint John Harbour Bridge Authority has a debt repayment schedule starting in March 2009 and ending in 2016. A discount of \$10,910,850 is recorded to reflect the concessionary nature of the loan (\$11,552,665 at March 31, 2009).

(ii) Victoria Harbour

The Victoria Harbour long-term receivable relates to the sale of a parcel of Victoria Harbour land for \$2,578,469. A discount of \$828,133 is recorded to reflect the concessionary nature of the loan (\$1,111,575 at March 31, 2009). A payment of \$85,440 was received in fiscal year 2009-10 (\$42,720 in 2008-09).

(iii) St-Lawrence Seaway Management Corporation

The St-Lawrence Seaway Management Corporation loan portfolio account was established by subsection 80(1) of the *Canada Marine Act*. The loan portfolio is managed in accordance with the Seaway Agreements between Transport Canada and the St-Lawrence Seaway Management Corporation. The remaining loan is secured by title on the property, and has prescribed monthly repayment terms with an annual interest rate of 7%, and was repayable by March 2004. The mortgagor is in negotiations with Transport Canada and Justice Canada with respect to the remaining loan, which was repayable March 2004.

TRANSPORT CANADA

Notes to the Financial Statements (Unaudited)
For the Year Ended March 31, 2010

8. Rent receivable

The National Airport System (NAS) consists of Canadian airports considered essential to air transportation in Canada, including 3 airports owned by Territorial Governments. Transport Canada has leased all of these airports under long-term operating agreements with Canadian Airport Authorities (21) and a municipal government (1).

In fiscal year 2003-04, Transport Canada entered into lease amendments with nine of the Canadian Airport Authorities, which provided for deferral of a portion of the airport rent payable by the Airport Authorities to Transport Canada for the 2003 to 2005 lease years. The total rent deferred for 2003 to 2005 is payable to Transport Canada over ten years beginning in the 2006 lease year. Repayments of \$7,280,000 were received in fiscal year 2009-10 (\$7,323,000 in 2008-09). Rent receivable was \$42,149,000 at March 31, 2010 (\$49,429,000 at March 31, 2009).

9. Investments

	2010	2009
	<i>(in thousands of dollars)</i>	
Royal Canadian Mint	40,000	40,000
VIA Rail Canada Inc.	9,300	9,300
Parc Downsview Park Inc.	2,492	2,492
Ridley Terminals Inc.	1,000	1,000
Total Investments	52,792	52,792

(i) Royal Canadian Mint

As a result of Government restructuring in 2006-07, the Royal Canadian Mint was transferred from the Canada Revenue Agency to Transport Canada. The investment of \$40,000,000 is divided into 4,000 shares of \$10,000 each.

(ii) Via Rail Canada Inc.

In fiscal year 1979-80, a non-budgetary authority was granted to Transport Canada to purchase common shares of Via Rail Canada Inc. to be valued at \$100 per share for a total value of \$9,300,000.

(iii) Parc Downsview Park Inc.

The investment in Parc Downsview Park Inc. is for the purpose of allowing the completion of the transfer of lands from the department of National Defense to Parc Downsview Park Inc.

(iv) Ridley Terminals Inc.

On November 1, 2000, the shares of Ridley Terminals Inc. owned by Canada Ports Corporation were transferred to the Crown under the administration of Transport Canada at \$90,000,000. Due to concerns regarding the viability of Ridley Terminals Inc., for prior years, the investment in Ridley Terminals Inc. has been written-down by \$89,000,000 for a nominal value of \$1,000,000 in Transport Canada's financial statements.

TRANSPORT CANADA

Notes to the Financial Statements (Unaudited)

For the Year Ended March 31, 2010

10. Tangible capital assets

(in thousands of dollars)

+	Cost					Accumulated Amortization				2010 Net book value	2009 Net book Value (Restated - Note 18)
	Opening balance (Restated - Note 18)	Acquisitions	Transfer	Disposals and write-offs	Closing balance	Opening balance (Restated - Note 18)	Amortization	Disposals and write-offs	Closing balance		
Land ⁽¹⁾	225,034	29,374	-	61	254,347	-	-	-	-	254,347	225,034
Buildings and works ⁽²⁾	3,758,154	6,654	22,766	28,147	3,759,427	2,296,821	107,581	16,418	2,387,984	1,371,443	1,461,333
Machinery and equipment ⁽³⁾	181,818	6,055	(6,343)	2,957	178,573	122,527	9,477	3,910	128,094	50,479	59,291
Vehicles	738,464	5,149	8,878	13,411	739,080	533,685	19,732	9,571	543,846	195,234	204,779
Leasehold improvements	17,222	50	175	-	17,447	9,763	1,094	-	10,857	6,590	7,459
Assets under construction	108,767	45,285	(25,476)	-	128,576	-	-	-	-	128,576	108,767
Confederation Bridge	818,820	-	-	-	818,820	96,893	8,189	-	105,082	713,738	721,927
TOTAL	5,848,279	92,567	-	44,576	5,896,270	3,059,689	146,073	29,899	3,175,863	2,720,407	2,788,590

Amortization expense for the year ended March 31, 2010 is \$146,073 (2009 - \$161,869).

⁽¹⁾ Includes land for 23 National Airports with a net book value of \$165,360 (2009 - \$165,360).

⁽²⁾ Includes building and works for 23 National Airports with a net book value of \$690,603 (2009 - \$778,477).

⁽³⁾ Includes machinery and equipment for 23 National Airports with a net book value of \$634 (2009 - \$713).

TRANSPORT CANADA

Notes to the Financial Statements (Unaudited)
For the Year Ended March 31, 2010

10. Tangible capital assets (cont'd)

(a) National Airport System assets

The National Airport System (NAS) assets recorded above consist of the land, buildings, works and infrastructures of 23 Canadian airports.

Transport Canada has leased all of these airports under long-term operating agreements with Canadian Airport Authorities (21) and a municipal government (1). These agreements are in accordance with the federal *National Airports Policy, the Public Accountability Principles for Canadian Airport Authorities and the Fundamental Principles for the Creation and Operations of Canadian Airport Authorities*, which, in part, entails the transfer of the management, operations and maintenance of certain airports in Canada to Canadian Airport Authorities.

Transport Canada has the right to terminate the operating agreements and assume the responsibility for the management, operation and maintenance of the airport if the leased airports are not operated in accordance with the terms of the respective operating agreements and the Policies and Principles referred to above.

11. Accounts payable and accrued liabilities

	2010	2009
	<i>(in thousands of dollars)</i>	
Payables to third parties	811,557	844,689
Payables to other government departments	114,313	62,011
Accrued salaries	7,541	30,476
Other	4,132	15,630
Total accounts payable and accrued liabilities	937,543	952,806

12. Employee Benefits

(a) Pension benefits: The department's employees participate in the Public Service Pension Plan, which is sponsored and administered by the Government of Canada. Pension benefits accrue up to a maximum period of 35 years at a rate of two percent per year of pensionable service, times the average of the best five consecutive years of earnings. The benefits are integrated with Canada/Québec Pension Plans benefits and they are indexed to inflation.

Both the employees and the department contribute to the cost of the plan. The 2009-10 expense amounts to \$70,314,000 (\$61,246,000 in 2008-09), which represents approximately 1.9 times (2.0 times in 2008-09) the contributions by employees.

TRANSPORT CANADA

Notes to the Financial Statements (Unaudited)
For the Year Ended March 31, 2010

12. Employee Benefits (cont'd)

The department's responsibility with regard to the plan is limited to its contributions. Actuarial surpluses or deficiencies are recognized in the financial statements of the Government of Canada, as the plan's sponsor.

- (b) Employee severance benefits: The department provides severance benefits to its employees based on eligibility, years of service and final salary. These severance benefits are not pre-funded. Benefits will be paid from future appropriations. Information about the severance benefits, measured as at March 31, is as follows:

	2010	2009
	<i>(in thousands of dollars)</i>	
Accrued benefit obligation, beginning of year	99,153	81,653
Expense for the year	(167)	25,146
Benefits paid during the year	(7,326)	(7,646)
Accrued benefit obligation, end of year	91,660	99,153

13. Lease obligations for tangible capital assets

Under the *Northumberland Strait Crossing Act*, the Government of Canada entered into a long-term capital lease arrangement in 1992 and is obligated to pay an annual subsidy of \$41,900,000 to the Strait Crossing Finance Inc., a wholly owned corporation of the Province of New Brunswick, for the construction of the Confederation Bridge. The annual payments made by Transport Canada are due on April 1 and will be used to retire \$661,000,000 of 4.5 per cent real rate bonds issued in October 1993 by Strait Crossing Finance Inc. to finance the construction of the bridge. Annual payments made by Transport Canada began in 1997 and will continue until 2033. At such time, the ownership of the bridge will be transferred to the Government of Canada.

On April 1, 2009 an annual payment in the amount of \$56,668,000 (2008-09 - \$56,066,000) was made. This payment represents payment of principal in the amount of \$16,109,000 (2008-09 - \$15,407,000) and interest expense of \$40,559,000 (2008-09 - \$40,659,000).

The department has recorded a capital lease obligation of \$622,313,000 as of March 31, 2010 (\$638,422,000 at March 31, 2009), based on the present value for the future subsidy payments using an interest rate of 6.06% (2009 - 6.06%).

TRANSPORT CANADA

Notes to the Financial Statements (Unaudited)
For the Year Ended March 31, 2010

13. Lease obligations for tangible capital assets (cont'd)

Future minimum annual lease payments are as follows:

Maturing year	<i>(in thousands of dollars)</i>
2010-2011	57,721
2011-2012	55,807
2012-2013	56,650
2013-2014	57,506
2014-2015 and thereafter	1,209,773
<hr/>	
Total future minimum lease payments	1,437,457
Less: imputed interest (6.06%)	815,144
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Balance of obligations under leased tangible capital assets	622,313

14. Contingent liabilities

(a) Contaminated sites

Liabilities are accrued to record the estimated costs related to the management and remediation of contaminated sites where Transport Canada is obligated or likely to be obligated to incur such costs. The department has identified approximately 404 sites (527 sites in 2009) where such action is possible and for which a liability of \$146,546,829 (\$197,684,580 in 2009) has been recorded. The department has estimated additional clean-up costs of \$34,911,819 (\$125,189,335 in 2009) that are not accrued, as these are not considered likely to be incurred at this time. Transport Canada's ongoing efforts to assess contaminated sites may result in additional environmental liabilities related to newly identified sites, or changes in the assessments or intended use of existing sites. These liabilities will be accrued by the department in the year in which they become known.

TRANSPORT CANADA

Notes to the Financial Statements (Unaudited)
For the Year Ended March 31, 2010

14. Contingent liabilities (cont'd)

(b) Claims and litigation

Claims have been made against Transport Canada in the normal course of operations. Legal proceedings for claims totaling approximately \$71,935,208 (\$107,873,525 in 2009) were still pending at March 31, 2010. Some of these potential liabilities may become actual liabilities when one or more future events occur or fail to occur. To the extent that the future event is likely to occur or fail to occur, and a reasonable estimate of the loss can be made, an estimated liability is accrued and an expense recorded in the financial statements. An amount of \$26,500,000 has been recorded in the financial statements as of March 31, 2010 (\$23,050,000 in 2009).

Transport Canada is named as a defendant in a claim for \$22,500,000 filed by the Mohawks of Akwesasne. The action was first initiated in 1976 for unlawful expropriation and breach of fiduciary duty regarding the expropriation of land in the 1950's for the construction of the St Lawrence Seaway and of the Seaway International Bridge. The outcome of this claim is not determinable at this time.

15. Restricted equity of Canada

The department includes in its revenues and expenses certain transactions that legislation requires be earmarked for expenses relating to specified purposes. The department has two such accounts:

(a) The Ship-Source Oil Pollution Fund

The Ship-Source Oil Pollution Fund (Fund) was established pursuant to section 702 of the *Canada Shipping Act*, to record levy tonnage payments for oil carried by ships in Canadian waters. Maritime pollution claims, the fee of the fund administrator, and related oil pollution control expenses, are financed out of the Fund.

	2010	2009
	<i>(in thousands of dollars)</i>	
Restricted Ship-source Oil Pollution:		
Opening balance	380,314	376,432
Revenues for the year	9,526	10,126
Expenses for the year	(969)	(6,244)
Closing balance	388,871	380,314

TRANSPORT CANADA

Notes to the Financial Statements (Unaudited)
For the Year Ended March 31, 2010

15. Restricted equity of Canada (cont'd)

(b) Fines for transport of dangerous goods

The Fines for Transport of Dangerous Goods account was established pursuant to the *Transportation of Dangerous Goods Act 1992* and related regulations to record fines levied by courts.

	2010	2009
	<i>(in thousands of dollars)</i>	
Restricted - Fines for Transport of Dangerous Goods:		
Opening balance	750	663
Revenues	72	87
Expenses	(4)	-
Closing balance	818	750
Restricted equity of Canada	389,689	381,064

16. Contractual obligations

The nature of Transport Canada's activities results in some large multi-year contracts and obligations whereby the department is committed to making future payments when the services are performed and goods are received. Significant contractual obligations that can be reasonably estimated are summarized as follows:

<i>(in thousands of dollars)</i>	2010-11	2011-12	2012-13	2013-14	2014-15 Thereafter	Total
Transfer payments	375,367	328,887	235,492	65,180	62,497	1,067,423
Tangible capital assets	15,100	541	308	-	-	15,949
Other goods and services	30,380	8,315	1,386	1,386	543	42,010
Software maintenance agreements	1,157	-	-	-	-	1,157
Operating leases	1,410	1,048	597	-	-	3,055
Total	423,414	338,791	237,783	66,566	63,040	1,129,594

TRANSPORT CANADA

Notes to the Financial Statements (Unaudited)
For the Year Ended March 31, 2010

17. Related party transactions

Transport Canada is related as a result of common ownership to all Government of Canada departments, agencies, and Crown corporations. The department enters into transactions with these entities in the normal course of business and on normal trade terms. Also, during the year, Transport Canada received services, which were obtained without charge from other Government departments as presented below.

During the year Transport Canada received without charge from other departments, accommodation, the employer's contribution to the health and dental insurance plans, worker's compensation, and legal services. These services without charge have been recognized in the department's Statement of Operations as follows:

	2010	2009
	<i>(in thousands of dollars)</i>	
Accommodation	36,994	30,440
Contributions covering employer's share of employees' insurance premiums	37,843	35,731
Worker's compensation	3,370	3,329
Legal services	8,564	6,154
Total	86,771	75,654

The Government has structured some of its administrative activities for efficiency and cost-effectiveness purposes so that one department performs these on behalf of all without charge. The costs of these services, which include payroll and cheque issuance services provided by Public Works and Government Services Canada, are not included as an expense in the department's Statement of Operations.

18. Correction of error

a) In 2009-2010 Transport Canada identified Inventories that should have been expensed according to Accounting Policies on Inventories. The correction represents a decrease to inventory in 2008-2009 and prior years. Consequently, the comparative financial statements presented for the year ended March 31, 2009 have been restated. The effect of this adjustment is presented in the table below.

b) In 2009-2010 Transport Canada identified Tangible capital assets that should have been expensed according to Accounting Policies on Tangible capital assets. The correction represents a decrease to Tangible capital assets in 2008-2009 and prior years. Consequently, the comparative financial statements presented for the year ended March 31, 2009 have been restated. The effect of this adjustment is presented in the table below.

TRANSPORT CANADA

Notes to the Financial Statements (Unaudited)
For the Year Ended March 31, 2010

18. Correction of error (cont'd)

2008-2009 (in thousands of dollars)	As previously stated	Effect of the adjustments		Restated amounts
		18 (a)	18 (b)	
Statement of Operations				
Expenses: A Safe Transportation System	451,289	1,907	(3,244)	449,952
Net cost of operations	1,216,310	1,907	(3,244)	1,214,973
Statement of Financial Position				
Inventory	62,557	(50,314)		12,243
Tangible capital Assets	2,805,328		(16,738)	2,788,590
Equity of Canada	1,065,595	(50,314)	(16,738)	998,543
Statement of Equity of Canada				
Equity of Canada, beginning of the year	1,209,787	(48,407)	(19,982)	1,141,398
Net cost of operations	(1,216,310)	(1,907)	3,244	(1,214,973)
Equity of Canada, end of the year	1,065,595	(50,314)	(16,738)	998,543
Statement of Cash Flow				
Net cost of operations	1,216,310	1,907	(3,244)	1,214,973
Amortization of tangible capital assets	(162,708)		839	(161,869)
Increase in inventory and prepaid expenses	5,474	(1,907)		3,567
Acquisitions of tangible capital assets	63,194		2,405	65,599

19. Comparative information

Comparative figures have been reclassified to conform to the current year's presentation.