FEDERAL BRIDGE CORPORATION
SOCIÉTÉ DES PONTS FÉDÉRAUX

QUARTERLY FINANCIAL REPORT

1st QUARTER (Q1) – UNAUDITED

For the three months ended June 30, 2018

Table of Contents

1.0 INTRODUCTION

This interim financial report outlines the significant activities and initiatives, risks and financial results of The Federal Bridge Corporation Limited (FBCL) for the three month period ended June 30, 2018. This interim financial report has been prepared in accordance with the requirements of the *Financial Administration Act* and the Standard on Quarterly Financial Reports for Crown Corporations issued by the Treasury Board Secretariat and with International Financial Reporting Standards (IFRS) 34, Interim Financial Reporting. It should be read in conjunction with the interim unaudited condensed consolidated financial statements and related notes, included herein. Unless otherwise indicated, all amounts are expressed in Canadian dollars.

1.1 Forward-looking statements

Readers are cautioned that this report includes certain forward-looking information and statements. These forward-looking statements contain information that is generally stated to be anticipated, expected or projected by FBCL. They involve known and unknown risks, uncertainties and other factors, which may cause the actual results and performance of FBCL to be materiality different from any future results and performance expressed or implied by such forward-looking information.

1.2 Materiality

In assessing what information is to be provided in the interim financial report, management applies the materiality principle as guidance for disclosure. Management considers information material if it is probable that its omission or misstatement, judged in the surrounding circumstances, would influence the economic decisions of FBCL's stakeholders.

2.0 CORPORATE OVERVIEW

FBCL is responsible for Canadian federal interests at four international bridge locations in Ontario and is headquartered in Ottawa, Ontario. FBCL's responsibilities and relationships are varied and reflect the unique origin of each bridge. FBCL owns crossing assets and provides oversight to bridge operations, administers international agreements associated with the bridges, leads bridge engineering and inspection duties and manages bridge capital investment projects.

2.1 Mandate

FBCL's mandate is to provide the highest level of stewardship so that its international bridges and associated structures are safe and efficient for users.

The business or undertaking of FBCL is:

a) The design, construction, acquisition, financing, maintenance, operation, management, development, repair, demolition or reconstruction of bridges or other related structures, facilities, works or properties, including approaches, easements, power or communication transmission equipment, pipelines integrated with any such bridge, other related structure, facility, work, or property, linking the Province of Ontario in Canada to the State of New York or the State of Michigan in the United States of America, either alone, jointly or in cooperation with any other person, legal entity or governmental authority in Canada or in the United States of America;

b) The design, construction, acquisition, financing, maintenance, operation, management, development, repair, demolition or reconstruction of other bridges or other related structures, facilities, works or properties, as the Governor in Council may deem appropriate, on such terms and conditions as the Governor in Council may determine; and

c) Any business, undertaking or other activities incidental to any bridge, or other related structure, facility, work or property contemplated in paragraph (a) or (b).

For the foregoing purposes, the Corporation has, subject to the *Financial Administration Act*, the *Canada Business Corporations Act*, and these articles, as amended from time to time, the capacities and powers of a natural person.

2.2 Outlook

All four of FBCL's bridges operate under different local conditions and a different mix of types of traffic. Individually, each bridge has its own strengths and challenges that are reviewed both by the local bridge operators as well as at the head office on a consolidated level. For these reasons, FBCL is well situated to respond to, and adapt to, local issues as they arise.

The focus of the past few years has been to implement some large scale projects to improve and modernize crossings. At the same time, other projects to ensure asset longevity are ongoing, and projects to update other facilities are being contemplated.

Significant construction projects in the quarter included:

a) In Sault Ste. Marie, plaza improvements on both sides of the border continue to improve the functionality and appearance of the crossing. On the Canadian side of the border, the rehabilitation of the Canadian Plaza is substantially complete, with the final $0.7M to be executed by the fall 2018.
b) In Point Edward, additional improvements to the Plaza design continued in order to improve the flow of traffic.
c) In Lansdowne, the Corporation's share of construction works on a toll upgrade and electronic tolling projects continued.

2.2 Outlook (Cont'd)

d) In Cornwall, the lookout at Pier 3S was completed and opened to the public during the quarter. Additionally, work on the infrastructure improvements of the International Road, connecting the North and South Channel Bridges, is well underway. The design of the roadway reconstruction was based on the Environmental Assessment completed by the Mohawk Council of Akwesasne (MCA), which included several community consultations. This $4M project is expected to be completed by the end of the calendar year.

As stewards of the four bridges, FBCL has largely invested its recent energies in the delivery of asset improvements and in operational consolidation while laying the self-sustaining foundations for the corporation. With increasing numbers of successfully completed integration milestones streaming by, the Corporation is entering a phase of portfolio development with its eyes on growth. Growth that will hopefully be supported and reflected by a broader economic climate. FBCL's operational goals for the coming period aim to take action based on the insights and efficiencies acquired over the last three years since amalgamation. FBCL will evolve from renewal, consolidation & alignment towards a portfolio growth strategy that aims to focus on its core business: revenue from tolls, nurturing its bridge assets to ensure longetivety through implementation of a comprehensive asset management plan and optimization of its bridge operation partnerships.

2.3 Significant Changes

There have been no significant and material changes occurring during the three months ended June 30, 2018, related to operations, personnel and programs of FBCL.

3.0 RISK MANAGEMENT

CORPORATE RISK

In line with good governance practices, FBCL updates and revises its Enterprise Risk Management on an ongoing basis, identifying and including any changes in FBCL's environment. In order to address the risks within FBCL's corporate risk profile, effective risk mitigation strategies and action plans are developed, under the oversight of assigned members of executive management, to reduce the risk exposure to an acceptable and manageable level.

As previously reported, in the fall of 2017, FBCL updated its Enterprise Risk Management. Management monitors progress on the implementation of the mitigation strategies developed as part of the Enterprise Risk Management and reports to the Board of Directors on a regular basis. There have been no new risks identified during the three months ended June 30, 2018.

FINANCIAL RISK

FBCL's funding model intends to generate sufficient revenue to cover disbursements, including debt, and to build necessary operational surpluses to fund repairs as well as most major capital projects. The current volatility in the Canadian dollar and economic outlook are impacting traffic at all locations. To mitigate the risk of not achieving financial self-sufficiency, FBCL will continue with regular toll rate reviews with US partners, ongoing financial restraint measures, value engineering studies for capital projects, investments in technology, completion of the current capital improvement program at all bridges, and full consideration of other revenue opportunities. The debt repayment will also be slightly accelerated to save on interest expenses in future years. Toll rates were updated at the Thousand Islands International Bridge effective April 1, 2018, while there were no other changes to toll rates or operations at other locations during the three months ended June 30, 2018. There have been no accelerated debt repayments in the three months ended June 30, 2018, as the next accelerated repayment is scheduled for the second quarter of 2018-19.

4.0 QUARTERLY RESULTS

4.1 Results of Operations

SEASONAL TRENDS

Traffic on FBCL's portfolio of bridges has traditionally experienced seasonal variations. From a revenue perspective, the period of May to October has a greater number of transits. In the November to April timeframe, there are historically a lower number of transits resulting in lower toll revenues. This demand pattern is principally a result of leisure travellers, favourable weather and a preference for travel between the late spring and early fall months. However, economic conditions in Canada and the United States also have an important influence on international vehicle traffic by way of commercial truck traffic, which has a significantly higher toll rate. These economic conditions are less variable on a seasonal basis but more a result of the business climate in each country.

In regards to its expenses, FBCL incurs important annual maintenance and asset rehabilitation costs during the construction season spanning the first three quarters of the fiscal year. These planned expenses can be influenced by varying weather conditions depending on the timing of the onset of the winter climate. Expenses for operations and administration are not considered to have important seasonal variations.

STATEMENT OF COMPREHENSIVE INCOME

Revenue and government funding ('000s)

	June 30, 2018 (unaudited)	June 30, 2017 (unaudited)	Variance
Tolls	7,830	7,834	(4)
Thousand Islands International Bridge	1,792	1,635	157
Leases and permits	1,076	989	87
Interest	147	137	10
Currency exchange	-	102	(102)
Other	66	248	(182)
Total revenue	**10,911**	**10,945**	**(34)**
Government funding	**841**	**498**	**343**

Tolls and Thousand Islands International Bridge: When comparing Q1 2018-19 to Q1 2017-18, FBCL has seen an increase in overall paid traffic of 3.84% which consists of an increase of 4.93% in passenger vehicle volumes and 0.72% in commercial volumes. Increases in passenger vehicles by location vary between 0% to 7.56%. Increases in commercial volumes by location vary between 0.40% to 1.08%. Although overall paid volumes are up, revenues for Q1 2018-19 are comparable to Q1 2017-18 as the Canadian dollar was stronger this year as compared to last year for the April to June timeframe (2018 – US$1.00 = C$1.29 vs. 2017 – US$1.00 = C$1.35) and tolls are collected in both currencies.

Leases and permits and currency exchange: The Currency exchange department at the Blue Water Bridge was closed in February 2018 and consequently there is no longer any Currency exchange revenue. This building is now being rented to a third party who operates a Commercial enterprise. Consequently, leases and permits have increased as a result of this new lease.

4.1 Results of Operations (Cont'd)

Government funding: The government funding recognized in revenues consists of deferred capital funding as well as funding received in respect to decommissioning costs incurred for the Sault Ste. Marie and Lansdowne. There was no funding received for decommissioning costs during Q1 2018-19 as this component of the projects in Sault Ste. Marie and Lansdowne were completed by March 31, 2018. Consequently, the government funding represents the amortization of the deferred capital funding as the associated projects are now in service. For Q1 2017-18, $0.4 million was received for decommissioning costs and $0.1 million was recorded as amortization of deferred capital funding.

Operating and interest expense ('000s)

	June 30, 2018 (unaudited)	June 30, 2017 (unaudited)	Variance
Operations	1,813	1,899	(86)
Thousand Islands International Bridge	1,440	1,550	(110)
Currency exchange	-	190	(190)
Maintenance	3,791	2,715	1,076
CBSA & CFIA operations	1,693	1,608	85
Administration	1,883	1,887	(4)
Total expenses	**10,620**	**9,849**	**771**
Interest expense	**1,159**	**1,202**	**(43)**

Operations, Thousand Islands International Bridge, CBSA & CFIA operations and Administration: These expenses were in line with budget and comparable to Q1 2017-18.

Currency exchange: FBCL discontinued the operations at its Currency exchange located at the Blue Water Bridge in Point Edward in February 2018. Consequently there are no Currency exchange expenses this year.

Maintenance: At March 31, 2018, FBCL reviewed its useful lives and adjusted the useful lives for painting and repaving of the Blue Water Bridge as well as the roof of one building in Point Edward. This resulted in an increase to depreciation in Q1 2018-19 of $0.6 million. In addition, depreciation expenses also increased by an additional $0.2 million in Q1 2018-19 when compared to Q1 2017-18 due to completed projects. Maintenance costs other than depreciation have increased by $0.2 million when comparing Q1 2018-19 to Q1 2017-18 which consists of slight increases in salaries, utility costs and general maintenance costs.

Interest expense: As FBCL makes payments on its bank loans and bonds payable, the interest expense decreases. Additional savings on interest expense are also experienced as bank loans are repaid as they mature.

STATEMENT OF FINANCIAL POSITION

Consolidated Statement of Financial Position ($000's)	June 30, 2018 (Unaudited)	March 31, 2018 (Audited)	Variance
Assets			
Financial assets	40,975	39,171	1,804
Non-financial assets	396,597	400,528	(3,931)
Total assets	**437,572**	**439,699**	**(2,127)**
Liabilities			
Current liabilities	20,244	21,433	(1,189)
Non-current liabilities	179,904	180,842	(938)
Total liabilities	**200,148**	**202,275**	**(2,127)**
Total equity	**237,424**	**237,424**	-

Financial Assets: Financial assets consist of cash and cash equivalents, investments, and receivables. FBCL monitors its cash balance to ensure that funds are available to repay its debt obligation while at the same time ensuring that cash surpluses are invested as these funds will be used to pay for future capital projects. During this quarter, cash and cash equivalents have increased by $8.1 million which consist of $4.0 million of net cash from operations before changes in non-cash working capital as well as investments of $4.9 million that have been exchanged to cash as FBCL will be making a regular semi-annual payment of its bonds payable and one of the bank loans in Q2 2018-19.

FBCL's receivables mainly relate to government funding claims for FBCL's major capital projects and therefore fluctuations are expected, as receivables are dependent on the level of spending on capital projects and the timing of when the funding is received. Funding receivable at June 30, 2018 is $1.4 million lower than at March 31, 2018.

Non-financial Assets: Non-financial assets consist primarily of property and equipment and investment properties and also include prepaid expenses, intangible assets and lessor inducement. During the first quarter, acquisitions of property and equipment was $0.8 million mainly for the construction of the emergency access ramp in Point Edward. This is offset by $4.6 million of depreciation. There are no significant variances in prepaid expenses, intangible assets and lessor inducement. As significant capital projects at the Lansdowne and Sault Ste. Marie locations have been substantially completed as at March 31, 2018 there is a significant decrease in capital asset acquisitions when compared to the prior year. However, there is now an increase in depreciation as these assets are now in service.

Current Liabilities: Consistent with the decrease in the level of spending on capital projects, trade and other payables and holdbacks payable have decreased as at June 30, 2018 compared to March 31, 2018. There have been no significant changes to the current portion of employee benefits, deferred revenue, loans payable, bonds payable and deferred capital funding.

4.1 Results of Operations (Cont'd)

Non-Current Liabilities: The only significant change between June 30, 2018 and March 31, 2018 relates to a decrease in deferred capital funding of $0.8 million. During the Q1 2018-19, there were no parliamentary appropriations recorded, as work on capital projects will recommence only in the summer months. The $0.8 million represents the amortization of the deferred capital funding for assets that are currently in service. Refer to section 4.3 for additional details on government funding. There is no significant changes to loans and bonds payable as repayments are only scheduled for Q2 2018-19.

STATEMENT OF CASH FLOWS

Consolidated Statement of Cash Flow ('000s)

	June 30, 2018 (unaudited)	June 30, 2017 (unaudited)	Variance
Net cash generated by operating activities	4,035	7,360	(3,325)
Net cash generated (used) by investing activities	4,153	(8,166)	12,319
Net cash used by financing activities	(85)	(131)	46
Net (decrease) increase in cash	**8,103**	**(937)**	**9,040**

Cash flow from operations continue to be positive for the quarter. The cash flow from operations along with the proceeds received from investments will be used in Q2 2018-19 to pay a regular semi-annual payment of its bonds payable of $4.4 million as well as to repay one of the bank loans in the amount of $3.2 million.

4.2 Financial Performance against Corporate Plan

The following is a summary of actual revenues and expenses as compared to the full 12-month 2018-19 Corporate Plan.

Revenue and government funding ('000s)

	June 30, 2018 (3 months)	Corporate Plan (12 months)	Percentage
Tolls	7,830	30,272	26%
Thousand Islands International Bridge	1,792	7,168	25%
Leases and permits	1,076	4,532	24%
Interest	147	589	25%
Other	70	30	233%
Total revenue	10,915	42,591	26%
Government funding	841	4,082	21%

Based on seasonal trends, Q2 generally has the highest toll revenue. Given that toll revenues for Q1 2018-19 are slightly higher than 25% of the 12-month budget, it is anticipated that toll revenues for the year will be greater than budgeted. However depending on the economy of the summer months, a decrease in volumes could occur. Similarly as a portion of leases and permits is contingent on sale volumes at the Duty Free stores, it is also expected that leases and permits will increase in Q2 due to seasonal trends.

Operating and interest expense ('000s)

	June 30, 2018 (3 months)	Corporate Plan (12 months)	Percentage
Operations	1,813	7,632	24%
Thousand Islands International Bridge	1,440	6,942	21%
Maintenance	3,791	12,421	31%
CBSA & CFIA	1,693	8,114	21%
Administration	1,883	7,755	24%
Total expense	10,620	42,864	25%
Interest expense	1,159	4,296	27%

FBCL closely monitors its operating expenses against budget in order to ensure that spending is appropriately funded by revenues. Other than maintenance expense, all operating expenses represent approximately one quarter of the annual expense. Actual maintenance expense is projected to be higher than budget as the budget was prepared prior to the change in depreciation of the painting and repaving of the Blue Water Bridge and a roof replacement in Point Edward.

Interest expense is in line with budget as interest expense will decline from Q2 to Q4.

4.3 Reporting on Use of Appropriations

FBCL parliamentary appropriations are currently only received in relation to its projects at the Cornwall crossing (2018 – Cornwall and Lansdowne), and certain additional CBSA requirements in Sault Ste. Marie. The significant spending on the project in Sault Ste. Marie is funded by the Government of Canada, but through a contribution agreement.

Parliamentary appropriations ('000s)

	June 30, 2018 (unaudited)	June 30, 2017 (unaudited)
Main estimates	**3,473**	**22,885**
Reprofiling request		
from prior years	-	-
to future years [1]	-	(3,473)
Funding available	**3,473**	**19,412**
Drawdown [2]		
actual	-	8,704
plan	3,473	10,708
Total Drawdown	**3,473**	**19,412**
Remaining appropriations	**-**	**-**

[1] approvals to be sought in future budgetary exercises

[2] FBCL is generally allocated funding only once expenses are incurred

The funding relating to the Cornwall crossing will be used primarily in Q2 and Q3 of 2018-19.

The project in Sault Ste. Sault is a $51.6 million project that was initiated in 2009 and is funded by the Gateways and Border Crossing Fund. As part of this project, $0.7 million remains and is anticipated to be used by the end of Q3 2018-19.

5.0 FBCL INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended June 30, 2018

FBCL's interim unaudited condensed consolidated financial statements have been prepared by management reviewed by the Finance and Audit Committee and approved by the Board of Directors. FBCL's external auditors have not audited nor reviewed these interim unaudited condensed consolidated statements.

5.1 Statement of Management Responsibility

Management of The Federal Bridge Corporation Limited is responsible for the preparation and fair presentation of these interim unaudited condensed consolidated financial statements in accordance with the Treasury Board of Canada *Standard on Quarterly Financial Reports for Crown Corporations* and International Financial Reporting Standard 34 Interim Financial Reporting, and for such internal controls as management determine are necessary to enable the preparation of the interim unaudited condensed consolidated financial statements. Management is also responsible for ensuring all other information in this interim financial report is consistent, where appropriate, with the restated interim unaudited condensed consolidated financial statements.

The Federal Bridge Corporation Limited completed the consolidation of the interim unaudited financial statements and establishes and maintains appropriate internal controls for that purpose. To prepare its interim unaudited condensed consolidated financial statements, the management of The Federal Bridge Corporation Limited relies on unaudited financial information provided by its wholly-owned subsidiary, The Seaway International Bridge Corporation Ltd., as well as unaudited financial information provided by its international partners. The financial information provided by the subsidiary and the international partners, as well as the internal controls established and maintained to collect such information, are the responsibility of each of these entities' management.

Based on our knowledge, these unaudited condensed consolidated 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 interim unaudited condensed consolidated financial statements.

Micheline Dubé	Natalie Kinloch
President and Chief Executive Officer	Chief Financial and Operating Officer

Ottawa, Canada
August 30, 2018

The Federal Bridge Corporation Limited

Interim Unaudited Condensed Consolidated Statement of Financial Position
as at June 30, 2018

(in thousands of Canadian dollars)	Notes	June 30, 2018 unaudited	March 31, 2018
		$	$
Assets			
Current Assets			
Cash and cash equivalents		**13,127**	5,024
Investments		**21,948**	25,816
Trade and other receivables		**1,300**	2,731
Prepaids		**608**	631
Total Current Assets		**36,983**	34,202
Non-Current Assets			
Property and equipment	**7**	**375,820**	379,546
Investment properties		**19,908**	20,083
Intangible assets		**15**	18
Lessor inducement		**246**	250
Investments		**4,600**	5,600
Total Non-Current Assets		**400,589**	405,497
Total assets		**437,572**	439,699
Liabilities			
Current Liabilities			
Trade and other payables		**4,132**	5,478
Employee benefits		**1,320**	1,036
Holdbacks		**463**	601
Deferred revenue		**2,502**	2,561
Current portion of loans payable		**3,564**	3,494
Current portion of bonds payable		**4,863**	4,863
Current portion of deferred capital funding		**3,400**	3,400
Total Current Liabilities		**20,244**	21,433
Non-Current Liabilities			
Loans payable		**5,339**	5,494
Bonds payable		**57,052**	57,052
Employee benefits		**6,557**	6,450
Deferred revenue		**1,631**	1,668
Deferred capital funding		**102,794**	103,635
Provisions		**6,292**	6,292
Leasee inducement		**239**	251
Total Non-Current Liabilities		**179,904**	180,842
Equity			
Share capital - 2 shares @ no par value		**-**	-
Retained earnings		**237,620**	237,647
Accumulated other comprehensive income		**(196)**	(223)
Total Equity		**237,424**	237,424
Total Equity and Liabilities		**437,572**	439,699

The Federal Bridge Corporation Limited

Interim Unaudited Condensed Consolidated Statement of Comprehensive Income for the three-month period ended June 30, 2018

(in thousands of Canadian dollars)

	June 30, 2018	June 30, 2017
	unaudited	unaudited
	$	$
Revenue		
Tolls and services	**7,830**	7,834
Thousand Islands International Bridge revenue	**1,792**	1,635
Leases and permits	**1,076**	989
Interest	**147**	137
Currency exchange	**-**	102
Foreign exchange gain	**-**	177
Other	**66**	71
Total Revenue	**10,911**	**10,945**
Expenses		
Operations	**1,813**	1,899
Thousand Islands International Bridge expenses	**1,440**	1,550
Currency exchange	**-**	190
Maintenance	**3,791**	2,715
Canada Border Security Agency & Canadian Food Inspection Agency operations	**1,693**	1,608
Administration	**1,883**	1,887
Total Expenses	**10,620**	9,849
Operating Income Before Government Funding	**291**	1,096
Government Funding		
Amortisation of deferred capital funding	**841**	147
Funding with respect to provision	**-**	351
Total Government Funding	**841**	498
Non-Operating Items		
Interest expense	**(1,159)**	(1,202)
Total Non-Operating Income	**(1,159)**	(1,202)
Net Income	**(27)**	392
Other Comprehensive Income		
Items that may be reclassified subsequently to net income		
Investments revaluation loss on available-for-sale investments	**27**	(53)
Cumulative gain reclassified to income on sale of available-for-sale investments	**-**	-
Total Other Comprehensive Income	**27**	(53)
Total Comprehensive Income for the Period	**-**	339

5.4 Interim Unaudited Condensed Consolidated Statement of Changes in Equity

(in thousands of Canadian dollars)

	Retained Earnings	Accumulated Other Comprehensive Income	Total
	unaudited	unaudited	unaudited
	$	$	$
Balance, April 1, 2017	238,098	(33)	238,065
Total Comprehesive Income:			
Net income	392	-	392
Other Comprehesive Income:			
Cumulative gain reclassified to income on sale of available-for-sale investments	-	(53)	(53)
Investments revaluation loss on available-for-sale investments	-	-	-
Other Comprehensive Income total	-	(53)	(53)
Total Comprehensive Income	392	(53)	339
Balance at June 30, 2017	238,490	(86)	238,404
Balance, April 1, 2018	237,647	(223)	237,424
Total Comprehesive Income:			
Net income	(27)	-	(27)
Other Comprehesive Income:			
Cumulative gain reclassified to income on sale of available-for-sale investments	-	27	27
Investments revaluation gain on available-for-sale investments	-	-	-
Other Comprehensive Income total	-	27	27
Total Comprehensive Income	(27)	27	-
Balance at June 30, 2018	**237,620**	**(196)**	**237,424**

5.5 Interim Unaudited Condensed Consolidated Statement of Cash Flows

The Federal Bridge Corporation Limited

Interim Unaudited Condensed Consolidated Statement of Cash Flows for the three-month period ended June 30, 2018

(in thousands of Canadian dollars)

	June 30, 2018	June 30, 2017
	unaudited	unaudited
	$	$
Cash Flows from Operating Activities		
Net income	**(27)**	392
Adjustments for:		
Amoritsation of deferred capital funding	**(841)**	(147)
Depreciation of property and equipment	**4,434**	3,893
Depreciation of intangible assets	**3**	2
Depreciation of investment properties	**172**	152
Loss on disposal of property and equipment	**37**	
Change in employee benefits	**391**	127
	4,169	4,419
Changes in Non-cash Working Capital:		
Trade and other receivable	**1,431**	437
Lessor inducement	**4**	4
Prepaids	**23**	141
Trade and other payables	**(1,346)**	4,107
Provisions	**-**	(333)
Holdbacks	**(138)**	(1,344)
Leasee inducement	**(12)**	(12)
Deferred revenue	**(96)**	(59)
	(134)	2,941
Net cash generated by Operating Activities	**4,035**	7,360
Cash Flows from Investing Activities		
Payments for property and equipment	**(742)**	(12,979)
Government funding related to acquisitions of property and equipment	**-**	13,684
Proceeds on sale of investments	**5,234**	2,835
Purchase of investments	**(339)**	(11,706)
Net cash generated (used) for Investing Activities	**4,153**	(8,166)
Cash Flows from Financing Activities		
Repayment of loans payable	**(85)**	(131)
Net cash used for Financing Activities	**(85)**	(131)
Net (decrease) increase in cash and cash equivalents	**8,103**	(937)
Cash and cash equivalents, beginning of period	**5,024**	8,731
Cash and cash equivalents, end of period	**13,127**	7,794

5.6 Selected Notes to the Interim Unaudited Condensed Consolidated Financial Statements

1. AUTHORITY AND ACTIVITIES

The Federal Bridge Corporation Limited (the "Corporation") is a *Canada Business Corporations Act* (CBCA) corporation listed in Schedule III Part 1 of the *Financial Administration Act* (FAA). It is an agent of Her Majesty, not subject to income tax under the provisions of the *Income Tax Act*. It is a parent Crown Corporation that reports to the Parliament of Canada through the Minister of Transport. The Corporation resulted, on February 1, 2015, from an amalgamation between the legacy The Federal Bridge Corporation Limited (the "legacy FBCL"), which was a parent Crown corporation, with its subsidiary, St. Mary's River Bridge Company (SMRBC), on January 27, 2015, and with another parent Crown corporation Blue Water Bridge Authority (BWBA). This was done in accordance with the authorities provided by the *Economic Action Plan 2013 Act, No. 2.* The remaining planned amalgamation in this Act, with the Corporation's wholly owned subsidiary, The Seaway International Bridge Corporation Ltd. (SIBC), has not been realized to date.

The Corporation's primary activities involve the ownership and operation of four international bridges linking the Province of Ontario in Canada to the State of New York or the State of Michigan in the United States of America (U.S.). Moreover, the Corporation may also undertake other activities incidental to the bridge business.

The Corporation's wholly-owned subsidiary, SIBC, operates the Seaway International Bridge Crossing in Cornwall as a joint operation per agreement between the Corporation as Canadian owner and The St. Lawrence Seaway Development Corporation (SLSDC) as U.S. owner. As a Crown Corporation, SIBC, is also subject to the same authorities as the Corporation. The Corporation is also a party to two other agreements for the operation of the international bridges. In regards to the Sault Ste. Marie International Bridge, this agreement is with the U.S. owner, the Michigan Department of Transportation (MDOT). The bridge oversight is through a joint international entity, Sault Ste. Marie Bridge Administration (SSMBA), and its operation is done by the International Bridge Authority (IBA), an entity of MDOT. The agreement applicable to the operations of the Thousand Islands International Bridge, is also with the U.S. owner, the Thousand Islands Bridge Authority (TIBA), an entity of Jefferson County, State of New York. At the crossing between Point Edward, Ontario, and Port Huron, Michigan, the Corporation owns and operates the Canadian portion of the crossing. The U.S. side of the crossing is owned and operated by MDOT.

By Order in Council P.C. 2015-31 dated January 26, 2015, the Corporation was granted all necessary approvals of the *International Bridges and Tunnels Act* for the purposes of ownership and management of the international bridges under the Corporation's portfolio. The *Customs Act, section 6* requires the Corporation to provide, equip and maintain, free of charge, adequate buildings, accommodations or other facilities for customs and the Canada Border Services Agency (CBSA). A similar provision in the *Plant Protection Act* mandates similar support for the Canadian Food Inspection Agency (CFIA) based at the land crossings. The subsidiary, SIBC, is also subject to the *Canada Marine Act* for the purposes of the management of the international bridge that crosses the St. Lawrence River.

The registered office of the Corporation is 55 Metcalfe, Suite 200, Ottawa, Ontario K1P 6L5.

2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

The Corporation's interim unaudited condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* (IAS 34) and do not include all of the information required for a full annual consolidated financial statements. The interim unaudited condensed consolidated financial statements should be read in conjunction with the Corporation's audited consolidated financial statements for the year ended March 31, 2018. These interim unaudited condensed consolidated financial statements follow the same accounting policies and methods of application as disclosed in Note 2 of the Corporation's audited consolidated financial statements for the year ended March 31, 2018, with the exception for the adoption of new and amended standards as set out below.

a) New and amended standards adopted by FBCL

The Corporation has implemented two new standards and one new interpretation: IFRS 9, *Financial Instruments*; IFRS 15, *Revenue from Contracts with Customers*; and IFRIC 22, *Foreign Currency Transactions and Advance Consideration*. In addition, The Corporation has implemented the amendments to IAS 40, *Investment Properties*. Consequently, the Corporation had to change its accounting policies and make retrospective adjustments as a result of adopting IFRS 9 and IFRS 15. Both the new IFRIC 22 and the amendments to IAS 40 had no impact on the accounting policies nor resulted in retrospective adjustments.

b) Change in accounting policy

Revenue recognition

The Corporation provides access to use the bridge to both individuals and companies in exchange for a fixed fare per access provided. Revenues are recognized when control of the product has transferred and there is no unfulfilled obligation that could affect the individuals or companies receiving the goods. For the Corporation, control is transferred, and therefore revenue is recognized, at the time the individual or companies cross the bridge. Where individuals and companies prepay tolls, these amounts are included in deferred revenue until the individuals or companies cross the bridge. A receivable is recognized when companies cross the bridge, as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

Currency exchange revenues are recognized at the time each transaction is completed as this is when the control of the product has transferred and there is no unfulfilled obligation that could affect the individuals or companies receiving the goods. Payments received in U.S. dollars are translated into Canadian dollars at the daily exchange rates. Cash accounts at the currency exchange are translated at the yearend exchange rate and the adjustment relating to this translation is also included in the currency exchange revenue. The currency exchange revenue ceased in February 2018.

Accounting for the Thousand Islands International Bridge

The Corporation continues to record its proportionate share of gross revenues, gross expenses, depreciation of property and equipment. Similar to the revenue recognition policy above, gross revenues for the Thousand Islands International Bridge are recorded when the individuals or companies cross the bridge.

2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments

At the initial recognition, the Corporation measures a financial asset at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset. Subsequently, the Corporation classifies its financial assets in the following measurement categories:

- Those to be measured subsequently at fair value through other comprehensive income; and
- Those to be measured at amortized cost.

The classification depends on the Corporation's business for managing the financial assets and the contractual terms of the cash flows.

Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Interest income from these financial assets is included in net income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in net income. Impairment losses are also recognized in net income.

Fair value through other comprehensive income: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses and interest revenue. When the financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from accumulated other comprehensive income to net income and recognized as a gain or loss. Interest income from these financial assets is included in interest income using the effective interest rate method.

The Corporation's financial assets are classified as follows:

Financial Asset	**Classification**	**Subsequent measurement**
Investments	Fair value through other comprehensive income	Fair value
	Amortized cost	Amortized cost
Trade and other receivable	Amortized cost	Amortized cost

FBCL assesses on a forward-looking basis the expected credit losses associated with each class of financial assets. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade and other receivables, FBCL applies the simplified approach, which requires expected lifetime losses to be recognized from initial recognition of the receivables.

There is no change to the accounting policy relating to financial liabilities.

3. IMPACT OF ADOPTING IFRS 9 and IFRS 15

This note explains the impact of the adoption of IFRS 9, *Financial Instruments*, and IFRS 15, *Revenue from Contracts with Customers*, on the consolidated financial statements and also discloses the new accounting policies that have been applied from April 1, 2018, where they are different to those applied in prior periods.

a) IFRS 9 Financial instruments – impact of adoption

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments and impairment of financial assets. The adoption of IFRS 9 resulted in changes in accounting policies but did not result in adjustments to the amounts recognized in the consolidated financial statements.

On April 1, 2018 (the date of initial application of IFRS 9), management has assessed which business models apply to the financial assets held by the group and has classified its financial assets into the appropriate IFRS 9 categories on a retrospective basis. The main effects as at March 31, 2018 resulting from this classification are as follows:

Financial Asset	**Carrying Value**	**Classification under IAS 39**	**Classification under IFRS 9**
Investments	$ 15,365	Available-for-sale	Fair value through other comprehensive income
Investments	$ 16,051	Held-to-maturity	Amortized cost
Trade and other receivables	$ 2,731	Loans and receivables	Amortized cost

Certain investments previously classified as available-for sale are now classified as fair value through other comprehensive income as the Corporation's business model is to achieve both by collecting contractual cash flows and selling of these assets. There was no difference between the previous carrying amount and the revised carrying amount for both available-for-sale and fair value through other comprehensive income, the change in the fair value is included in other comprehensive and accumulated other comprehensive income. Accordingly, there is no adjustment to the April 1, 2017 (opening) retained earnings, accumulated other comprehensive income and the comprehensive income for the year ending March 31, 2018.

Investments previously classified as held-to-maturity and trade and other receivable previously classified as loans and receivables are now classified at amortized cost as FBCL intends to hold the investments and trade and other receivables to maturity to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding. There was no difference between the previous carrying amount and the revised carrying amount and consequently there is no adjustment to April 1, 2017 (opening) retained earnings and net income for the year ending March 31, 2018.

All of the Corporation's financial assets are subject to IFRS 9's new expected credit loss model and as such, the Corporation was required to revise its impairment methodology under IFRS 9 for each class of financial assets. The revision to the impairment methodology did not result in an adjustment to the carrying value of the financial assets at April 1, 2017 and March 31, 2018 nor to the April 1, 2017 (opening) retained earnings and net income for the year ending March 31, 2018.

3. IMPACT OF ADOPTING IFRS 9 and IFRS 15 (Cont'd)

b) IFRS 15 Revenue from Contracts with Customers – impact of adoption

IFRS 15, *Revenue from Contracts with Customers*, replaces IAS 18, *Revenue*, and related interpretations on revenue. IFRS 15 sets out the requirements for recognizing revenue that apply to all contracts with customers, except for contracts that are within scope of the Standards on leases, insurance contracts and financial instruments. IFRS 15 uses a control-based approach to recognize revenue which is a change from the IAS 18's risk and reward approach.

The Corporation has adopted IFRS 15 on a retrospective basis, which resulted in changes in accounting policies, adjustments to the amounts recognized in the consolidated statement of comprehensive income regarding the Thousand Islands International Bridge revenue, and no changes to the consolidated statement of financial position.

Revenue recognition

Under IAS 18, Tolls and services revenue were recognized when tolls were collected as vehicles pass through toll booths. Currency exchange revenue was recognized at the time each transaction was completed. Under IFRS 15, Tolls and services revenue continues to be recognized when vehicles pass through toll booths and Currency exchange revenue continues to be recognized at the time the transaction is completed.

Thousand Islands International Bridge

The Corporation continues to record its proportionate share of gross revenues, gross expenses, depreciation of property and equipment. However, previously the gross revenues and expenses were calculated in accordance of the terms as outlined in the international agreement. With the adoption of IFRS 15, it was determined that revenues should continue to be presented on the gross basis, however the revenue would be recognized when the individuals or companies cross the bridge rather than in accordance of the terms as outlined in the international agreement. This translates to recording revenues at the time of the crossing at the exchange rate at the time of the revenue is recognized rather than at the exchange rate as outlined by the international agreement.

There is a reclassification of exchange loss from Thousand Islands International Bridge expense to Thousand Islands International Bridge revenue. However, there is no impact on net income nor on the consolidated statements of financial position. For the first quarter, there is no retrospective adjustment as revenues are based on estimates. Actual adjustments will occur in the second quarter as revenues are adjusted to actuals in the second and fourth quarters.

4. SEASONALITY

Traffic on FBCL's portfolio of bridges has traditionally experienced seasonal variations. From a revenue perspective, the period of May to October has a greater number of transits. In the November to April timeframe, there are historically a lower number of transits resulting in lower toll revenues. This demand pattern is principally a result of leisure travellers , favourable weather and with a preference for travel between the late spring and early fall months. However, economic conditions in Canada and the United States also have an important influence on international vehicle traffic by way of commercial truck traffic, which has a significantly higher toll rate. These economic conditions are less variable on a seasonal basis but more a result of the business climate in each country.

4. SEASONALITY (Cont'd)

In regards to its expenses, FBCL incurs important annual maintenance and asset rehabilitation costs during the construction season spanning the first three quarters of the fiscal year. These planned expenses can be influenced by varying weather conditions depending on the timing of the onset of the winter climate. Expenses for operations and administration are not considered to have important seasonal variations.

5. USE OF JUDGMENTS AND ESTIMATES

The preparation of the interim unaudited condensed consolidated financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions that can significantly affect the amounts recognized in the consolidated financial statements. Actual results may differ from these estimates. Where these differ, the impact will be recorded in future periods. Significant judgments and estimates as at June 30, 2018 were consistent with those disclosed in Note 4 of the Corporation's audited consolidated financial statements for the year ended March 31, 2018 other than those included below.

Thousand Islands International Bridge

Since the Thousand Islands International Bridge Authority is involved in providing goods or services to a customer, the Corporation needed to determine whether the revenues should be shown on a gross on net basis depending on whether the Corporation was considered the principal or the agent. The Corporation determined that it acts as a principal and therefore a gross presentation is required. In determining who is the principal, it must be determined who controls the goods before it is transferred to the customer. Since the Corporation has an obligation to maintain the bridge, it is deemed that the Corporation controls the goods before it is transferred to the customer.

The current judgment regarding joint arrangement and associate remains.

6. FUTURE CHANGES IN ACCOUNTING POLICIES

There were no new standards and amendments to existing standards issued by the International Accounting Standards Board (IASB) during the three month period that would affect the Corporation in the future other than those disclosed in Note 4 of the Corporation's audited consolidated financial statements for the year ended March 31, 2018.

7. PROPERTY AND EQUIPMENT

Cost	Land	Bridges and roads	Vehicles and equipment	Buildings	Property Improvements	Projects in progress	Total
	$	$	$	$		$	$
Balance, April 1, 2017	14,500	228,617	24,125	102,331	22,462	64,976	457,011
Additions	-	33	115	-	242	30,982	31,372
Disposals	-	(123)	(108)	(4,820)	-	(203)	(5,254)
Transfers	148	32,275	5,964	47,079	4,714	(90,595)	(415)
Balance, March 31, 2018	14,648	260,802	30,096	144,590	27,418	5,160	482,714
Additions	-	39	26	-	-	756	821
Disposals	-	-	-	-	(37)	-	(37)
Transfers	-	864	-	146	-	(1,010)	-
Balance, June 30, 2018	**14,648**	**261,705**	**30,122**	**144,736**	**27,381**	**4,906**	**483,498**

Accumulated depreciation	Land	Bridges and Roads	Vehicles and Equipment	Buildings	Property Improvements	Projects in Progress	Total
	$	$	$	$		$	$
Balance, April 1, 2017	-	44,650	11,990	22,522	14,146	-	93,308
Eliminated on disposal of assets	-	(123)	(108)	(4,790)	-	-	(5,021)
Transfers	-	16	(65)	(240)	17		(272)
Depreciation	-	8,212	1,723	4,393	825	-	15,153
Balance, March 31, 2018	-	52,755	13,540	21,885	14,988	-	103,168
Eliminated on disposal of assets	-	-	-	-	-	-	-
Transfers	-	-	-	-	-	-	-
Depreciation	-	2,780	446	1,058	224	-	4,508
Balance, June 30, 2018	**-**	**55,535**	**13,986**	**22,943**	**15,212**	**-**	**107,676**
Net book value, June 30, 2018	**14,648**	**206,170**	**16,136**	**121,792**	**12,169**	**4,905**	**375,820**
Net book value, March 31, 2018	14,648	208,047	16,556	122,705	12,430	5,160	379,546

During the quarter, the Corporation has entered into contractual commitments of $7,245 in order to further the delivery of major capital projects. The most significant contracts are $2,684 for the Cornwall Islands Roadway and $3,682 for the demolition of the old administrative building in Point Edward.

8. FINANCIAL INSTRUMENTS

Fair Value

The fair values of trade and other receivables, trade and other payables, holdbacks, and the current portion of the loans payable and bonds payable approximate their carrying value due to the short-term nature of these instruments.

Fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and,
- Level 3 inputs are unobservable inputs for the asset or liability.

The carrying values and fair values of the Corporation's remaining financial assets and liabilities are listed in the following table:

As at June 30			**2018**
	Value $	**Cost** $	Level
Financial instruments measured at fair value on a recurring basis			
Investments (fair value through other comprehensive income)	**15,455**	**15,455**	Level 2
Financial instruments measured at amortised costs			
Investments (amortised cost)	**11,170**	**11,093**	Level 1
Loans payable	**8,548**	**8,903**	Level 2
Bonds payable	**72,522**	**61,915**	Level 2

As at March 31			**2018**
	Value $	**Cost** $	Level
Financial instruments measured at fair value on a recurring basis			
Investments (fair value through other comprehensive income)	**15,365**	**15,365**	Level 2
Financial instruments measured at amortised costs			
Investments (amortised cost)	**16,043**	**16,051**	Level 1
Loans payable	**8,994**	**8,988**	Level 2
Bonds payable	**72,203**	**61,915**	Level 2