

CANADA   
INFRASTRUCTURE BANK

BANQUE DE L'INFRASTRUCTURE DU  
CANADA 

# A PARTNER TO INVEST IN NEW INFRASTRUCTURE

**2018-19 Annual Report**

**Canada Infrastructure Bank**

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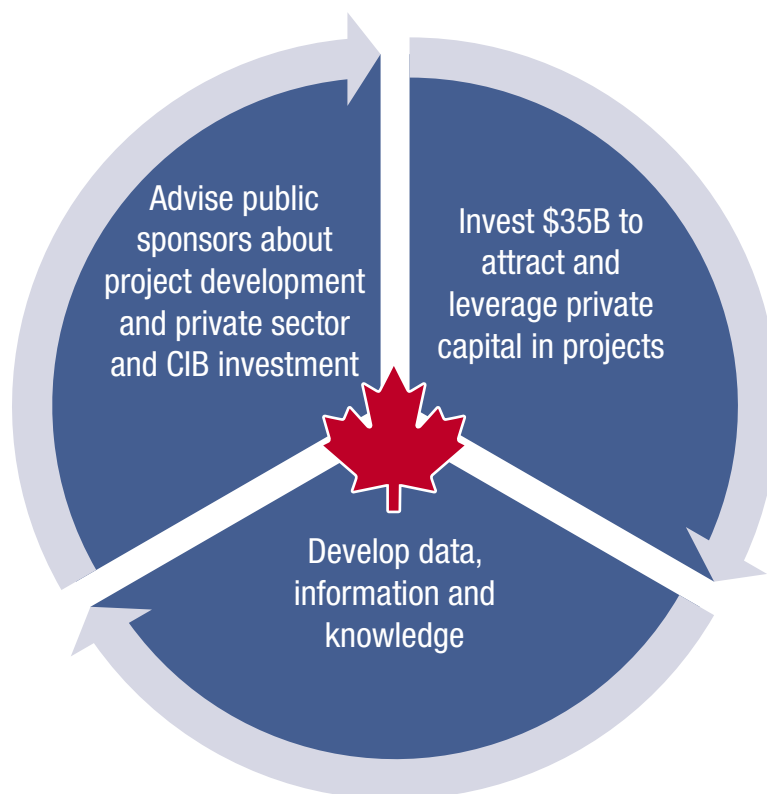
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# The CIB is building a centre of expertise for infrastructure investment



The Canada Infrastructure Bank (CIB) was created to advance a new partnership model to transform the way infrastructure is planned, financed and delivered in Canada. We are distinguished by our focus on transformational revenue-generating projects that are in the public interest, linked to national economic priorities, and developed in partnership with both the public and private sectors. Our priority sectors are public transit, trade and transportation, green infrastructure and broadband internet.

# Developing Projects and Investment Opportunities

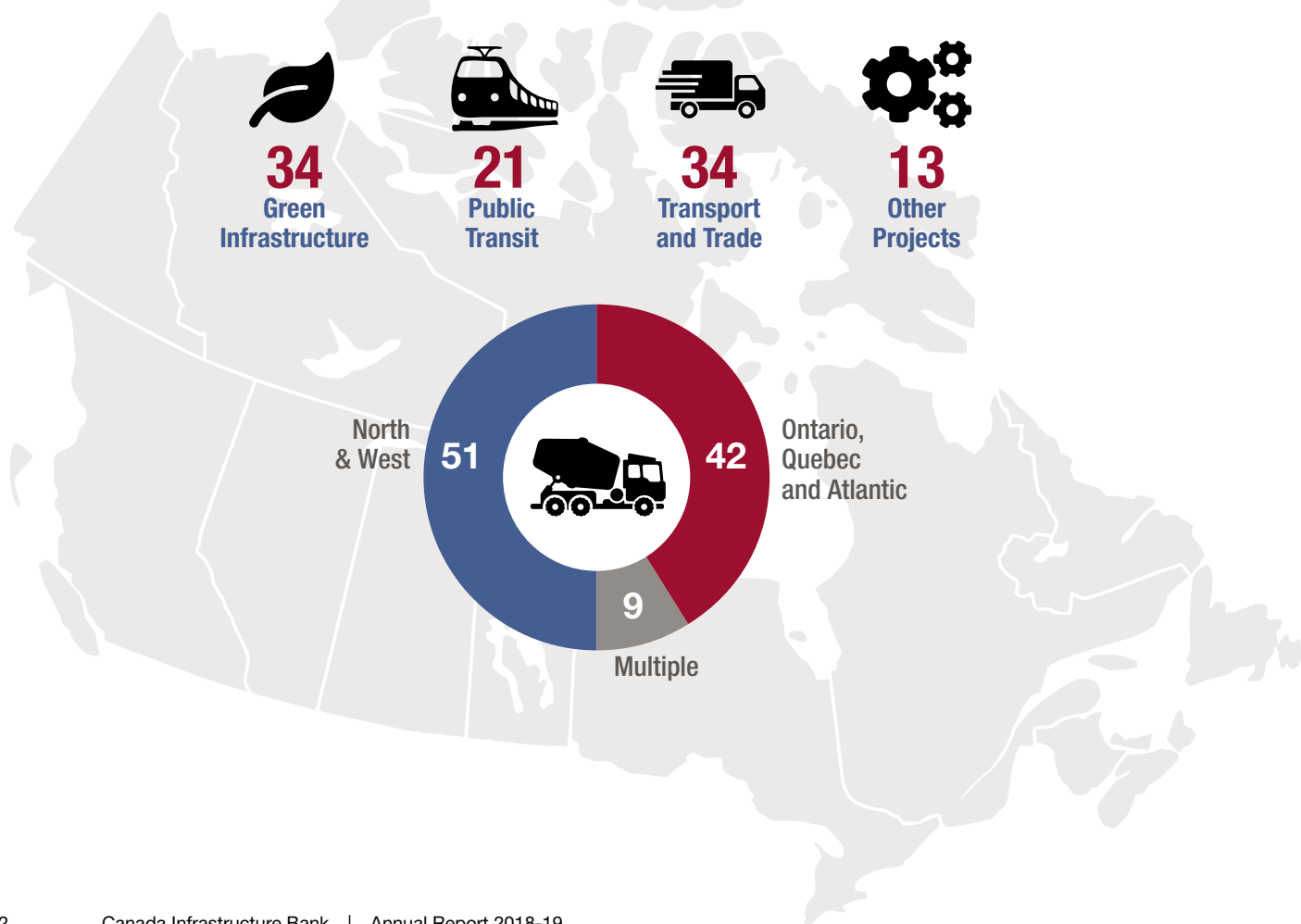
**310** investment related meetings with government sponsors and private sector and institutional investors

**85** public outreach events reaching audiences of 10,000+ people in industry and the public sector

**\$1.28 billion** invested in Réseau express métropolitain (REM) to expand transit in Montreal

**13 projects** are in active due diligence

**100+ projects** have been brought forward for discussion and review with the CIB



# 2018-19 Milestones

## Spring 2018

- President & Chief Executive Officer appointed (Order in Council)
- Chief Financial Officer & Chief Administrative Officer hired
- Board Chair addressed Standing Committee on Transport, Infrastructure and Communities

## Summer 2018

- REM investment commitment announced (CIB's first project)

## Fall 2018

- Head of Investments hired
- Attended meeting of provincial-territorial Ministers
- 2017-18 Annual Report and 2018-19 Summary Corporate Plan tabled in Parliament
- Head of Finance hired
- General Counsel & Corporate Secretary hired
- First annual public meeting held by webcast
- REM investment transaction financial close

## Winter 2018-2019

- CEO addressed Standing Committee on Indigenous and Northern Affairs
- Head of Project Development hired
- Head of Public Affairs and Communications hired
- Enterprise Risk Management framework approved by CIB board
- Bilateral engagement with provincial and territorial governments
- Head of Risk hired
- CEO and General Counsel addressed Senate Committee on Official Languages

Budget 2019 stated the CIB is “examining opportunities to apply its innovative financing tools to stimulate private sector investment in **high-speed internet infrastructure** in unserved and underserved communities” and is “well positioned to work with jurisdictions, including northern communities, to plan and finance projects that improve access within Canada to affordable, reliable and clean electricity that improve interconnections between **provincial electricity grids.**”

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# Message from the Chair

## Investing in infrastructure for the long-term.

Canada Infrastructure Bank (CIB) built a strong foundation in 2018-19 to enable investments in transformational projects that will benefit Canadians over the long-term.

CIB aspires to create a centre of excellence that provides advice, makes investments and develops knowledge to modernize infrastructure that matters to Canadians' quality of life. CIB is one element of the overall Investing in Canada Plan, and will act as a catalyst for new financing and investment in critical infrastructure assets.

While governments across Canada are investing public funds in infrastructure renewal, CIB is an ambitious new way to stimulate private sector investment in new infrastructure in partnership with public sector sponsors. By stretching beyond the status quo to advance new financing for revenue-generating projects, CIB serves as a new tool to attract private capital while protecting the public interest.

CIB's first investment commitment, a \$1.283 billion loan to the Réseau express métropolitain (REM), will contribute to improved transit and better quality of life in Greater Montreal. Like all investment decisions, the CIB board of directors approved this transformational project based on extensive due diligence. After year-end, CIB announced its participation of up to \$2 billion in the Ontario GO Expansion – On Corridor project; CIB's second transit project. The board is confident that these projects are positive examples of how the CIB can partner with government and institutional or private investors in order to improve Canada's infrastructure.

CIB's board of directors includes the expertise required to govern a new Crown Corporation with an ambitious public mandate. The directors, from diverse backgrounds, offer points of view from government and business perspectives, represent different parts of the country and contribute distinct professional experience in relevant fields. The CIB board of directors provides expert governance, strategic direction and ensures oversight and accountability.

Our first President and CEO, Pierre Lavallée, led the recruitment of highly qualified executive leaders and employees with the commercial and professional expertise needed to deliver on CIB's mandate.

The board approved a number of foundational policies brought forward by management in 2018-19 to ensure strong governance practices.

For example, CIB's Code of Conduct and companion policies reflect the highest standards for good governance, integrity and transparency.

CIB's enterprise risk management framework and investment policy contain extensive measures to manage the various risks that are part and parcel of investing in large, complex infrastructure projects. Under the board's guidance, CIB management has established a rigorous due diligence and approval process, and we expect a number of projects to come to the board for approval in the coming year.

The combination of securing our first investment, pursuing future project opportunities, hiring highly qualified people, and establishing policies and practices means CIB is positioned to accelerate momentum going forward.

With growing awareness of our partnership model, I am confident CIB will invest in infrastructure projects that benefit Canadians and their communities.

We look forward to ongoing cooperation with Infrastructure Canada, Finance Canada and other partners in the public and private sectors, in order to expand and accelerate infrastructure investments in Canada. Many stakeholders have contributed their valuable time and expertise to help us succeed and we appreciate the continued interest and support.

In closing, I would like to thank my fellow board members, Pierre Lavallée and his leadership team, and CIB employees and contractors for their dedication and efforts during the year.



Janice Fukakusa  
Chair, Board of Directors  
Canada Infrastructure Bank





# Message from the CEO

## Transforming infrastructure to benefit Canadians.

Modern approaches to public infrastructure require increased commitment to the public interest and partnerships with the private sector. Canada is well positioned to reduce the infrastructure deficit and manage the costs to governments by tapping into private and institutional investor capital for new infrastructure assets.

The CIB will play an important role to bridge the gap between public sponsors and private investors, in order to advance projects that are in the public interest. The CIB is a partner to invest in new infrastructure.

To enable good investment decisions alongside the private sector, and to provide expert infrastructure investment advice to governments, our focus at the CIB in 2018–19 was on ramping up our capacity and capabilities.

Our leadership met with government representatives from every province and territory. We also engaged municipal officials responsible for infrastructure. Through these discussions, we gained a better grasp of public-sector infrastructure priorities across the country, and helped public-sector leaders understand CIB's advisory role and our ability to tailor custom investments in public infrastructure projects. Ongoing engagement with all levels of government, including Indigenous leaders, will remain a priority in the years to come.

We met with hundreds of infrastructure investors, both domestic and international, and reached an estimated ten thousand stakeholder through eighty-five public speaking engagements and presentations. The goal is to continue to raise awareness about the CIB in order to pursue our advisory, investment and knowledge development mandate.

We received more than 100 project proposals during the year, and are encouraged by the reception to the CIB model from government sponsors as well as private and institutional investors.

The CIB is developing models where we have the flexibility to adjust our capital to fit the requirements of each project. In the case of our first investment commitment, we chose to provide a \$1.28-billion loan to the Greater Montreal electric rail system known as Réseau express métropolitain (REM). This transit project will generate revenue to help cover costs, has environmental benefits, and attracted significant institutional capital from the *Caisse de dépôt et placement du Québec*.

In May 2019, we announced our participation in a second urban transit project. The CIB will provide up to \$2 billion in debt financing to Ontario's GO Expansion project in the Greater Toronto and Hamilton Area. We are excited to work alongside Infrastructure Ontario and Metrolinx to

enhance regional rail service for commuters, reduce greenhouse gas emissions and generate economic opportunities in southern Ontario.

We see strong investment opportunities across our priority sectors: public transit, trade and transportation, green infrastructure, and broadband. We refined our project intake, investment review and approval processes in 2018–19, in order to establish discipline to our due diligence and decision-making.

Looking ahead, we plan to commit between \$1.5 billion and \$4 billion a year to new projects over the next several years to help deliver the infrastructure that Canadians need. As of spring 2019, we were holding active discussions and conducting due diligence on 13 projects for potential investment. We look forward to announcing additional investment commitments.

We adhere to requirements for transparency; however, in our role of convening private capital, we also respect confidentiality with investors and will strike a balance between information that is in the public domain versus commercially sensitive.

The CIB put in place crucial building blocks in 2018–19.

I would like to thank CIB board members for their ongoing support and guidance, my colleagues on the executive team and all CIB employees for bringing our mandate to life. In addition, our public-sector partners in Ottawa and across the country have been candid and generous in sharing their views and investors have shown great interest in our new model. Thank you to all.

The CIB team has many exciting prospects to pursue. We look forward to working with governments and private sector and institutional investors to fulfill our goal to invest \$35 billion in new revenue-generating infrastructure that is in the public interest.



A handwritten signature in blue ink, appearing to read 'P. Lavallée'.

Pierre Lavallée  
President & Chief Executive Officer  
Canada Infrastructure Bank

# Management's Discussion and Analysis

## Overview

The Canada Infrastructure Bank (CIB) was created in 2017 with an ambitious goal: to advance a new partnership model in Canada that can transform the way infrastructure is planned, financed and delivered.

Public transit, trade and transportation, and green infrastructure are CIB's three initial priority sectors. Investments in these sectors will involve public sector sponsors and include partnerships with the private sector to make investments that are in the public interest. CIB will maximize partnership opportunities for the public and private sectors that are in the public interest.

CIB is distinguished by its focus on large, transformational projects that are in the public interest, linked to national strategic economic priorities, and developed and delivered in partnership with public sector sponsors and private and institutional investors.

CIB is responsible for investing \$35 billion in new revenue-generating infrastructure that is in the public interest.

This significant new federal support will be invested alongside public sponsors and private and institutional capital in public infrastructure. In addition, CIB is building capacity to advise public sector owners and develop knowledge through data and information initiatives.

Together, the CIB's advisory, investment and knowledge development activities will create a centre of expertise that supports infrastructure modernization across Canada.

CIB supports and advises on infrastructure investments in the public interest. Our legislated mandate includes the following functions:

- Structure proposals and negotiate agreements with proponents of and investors in infrastructure projects;
- Invest in infrastructure projects, including by means of innovative financial tools, and seek to attract investment from private sector investors and institutional investors in infrastructure projects;
- Receive unsolicited proposals for infrastructure projects that come from private or institutional investors;
- Support infrastructure projects by fostering evidence-based decision making;

## 2019 Federal Budget

The 2019 federal budget stated the CIB is “examining opportunities to apply its innovative financing tools to stimulate private sector investment in high-speed internet infrastructure in unserved and underserved communities” and is “well positioned to work with jurisdictions, including northern communities, to plan and finance projects that improve access within Canada to affordable, reliable and clean electricity [...] that improve interconnections between provincial electricity grids.” Broadband internet and electrical infrastructure complement our other priority areas: public transit, trade and transportation, and green infrastructure.]

- Act as a centre of expertise on infrastructure projects in which private or institutional investors are making a significant investment;
- Provide advice to all levels of governments with regard to infrastructure projects;
- Collect and disseminate data in order to monitor and assess the state of infrastructure in Canada and to better inform investment decisions.

CIB works collaboratively with federal, provincial, territorial, municipal and Indigenous government partners and private and institutional investors by:

- Engaging public and private sector partners early in the planning and design process;
- Exploring new and innovative approaches to project finance and delivery; and
- Identifying projects where revenue-based business models and significant risk transfer to the private sector is appropriate.

Innovative financing available through CIB provides an optional tool for government sponsors to further the reach of government support directed to public infrastructure and advance models where users or beneficiaries contribute to funding the project, where it makes sense to do so.

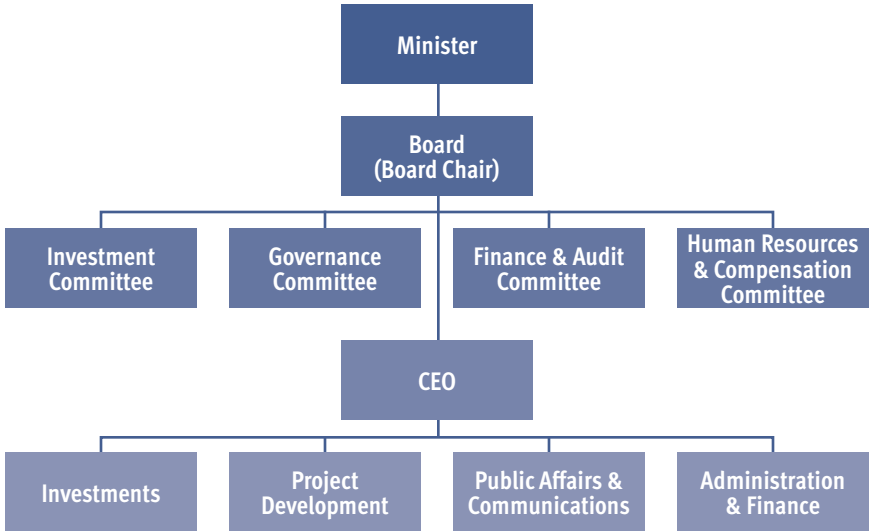
# Organizational Structure

CIB made great strides in building its organizational capabilities and capacity in 2018-19.

Project Development, Public Affairs and Communications and Finance and Administration teams.

By January 2019, the CIB's five executive positions were filled. The executive team is composed of the President and CEO, as well as four direct reports who lead the Investments,

The organization chart below includes the board of directors and its four committees, which are discussed in detail in the Governance section.



As of March 31, 2019, the CIB had 35 full-time employees, 11 directors and four contract staff.

The following table illustrates the CIB teams that are responsible for the CIB's three core elements of the mandate: investments, advisory and knowledge development.

		Business Line / Function			
		Investment	Advisory	Knowledge Development (Data and Information)	Corporate Services
CIB Team Responsible	Investments	○	○		
	Project Development		○	○	
	Public Affairs & Communications				○
	Administration & Finance teams (Legal, HR, Finance, Risk, IT, Internal Audit)				○

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## Executive Committee

The Executive Committee consists of the:

- President and CEO;
- Chief Financial Officer and Chief Administrative Officer;
- Head of Investments;
- Head of Project Development; and
- Head of Public Affairs and Communications.

The role of the Executive Committee is to provide senior leadership to the CIB's operations and activities, and to implement the policies, procedures and directions provided by the board of directors.

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## Management Investment Committee

The Management Investment Committee was established in 2018-19 and is composed of the following members of CIB's management team:

- the President and CEO;
- the Head of Investments;
- the Head of Project Development;
- the Head of Risk; and
- any other individual as designated by the CEO.

Its role is to:

- Review and make a recommendation to the Investment Committee of the Board relating to the acquisition or disposition of investments or transactions, which the Investment Committee may then recommend to the Board for approval;
- Review and evaluate CIB's investment activities, performance, capital requirements and usage;
- Review and evaluate the effectiveness of CIB's investment risk management policies and processes; and
- Carry out or monitor the implementation of any other duties and functions delegated by the Investment Committee.

The CEO and the Head of Investments are required to report investment activities to the Investment Committee of the Board at least once per quarter of the fiscal year.

# Executing our Strategy

CIB is establishing itself as a centre of expertise in infrastructure and a resource for public and private sector partners across Canada. Specifically, the CIB will provide advice regarding project opportunities, invest in projects that are in the public interest and bankable, and build knowledge through data and information.

The Corporation's priorities, activities and results have been informed by both the Statement of Priorities and Accountabilities (SPA) and the 2018-19 Corporate Plan. As resources increased over the course of 2018-19, CIB exceeded or made significant progress toward all objectives

and the performance measures established for each area in the 2018-19 Corporate Plan.

The following sections provide detail about how CIB built organizational capability and capacity in 2018-19, promoted new ways of planning, financing and delivering new infrastructure, and prepared to make additional co-investments alongside private capital.

In addition to describing 2018-19 achievements in each area, this section provides our near-term outlook and plans.

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## Strategic Objectives

The CIB was created to bridge the public sector's need for capital to build more, new infrastructure for Canadians by drawing in private and institutional investment.

The CIB's strategic objectives are as follows:

1. Build organizational capability and capacity to be able to effectively and efficiently deliver on all elements of its mandate;

2. Champion and promote new models for planning, developing and financing new infrastructure by engaging broadly with stakeholders, working with all orders of government in Canada and fostering evidence-based decision-making; and
3. Make strategic co-investments and use innovative tools to finance public infrastructure, by attracting private capital, and making and managing investments in revenue-generating infrastructure to maximize their impact.

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## Advisory

CIB is building greater awareness of our partnership model and investment criteria, and we support project sponsors and proponents with advice at the project development and at the investment structuring stages. Advisory work is intended to encourage public entities to consider private financing alternatives for projects. CIB hired a Head of Project Development and will recruit additional professionals to the team, which is responsible for incubating new projects from idea to bankability. The team will be structured to deliver advice at the early stages of project development, maintain a forward-looking inventory of Canadian infrastructure projects, and develop the thought leadership, data and information required to become a recognized centre of expertise.

CIB's Investment team also provides advice to public sponsors whose projects are more developed in order to attract private and institutional investors and allocate risks appropriately. The Investments Team was actively engaged with partners at Metrolinx and Infrastructure Ontario in advance of CIB's participation in regional transit, and has also had significant dialogue regarding opportunities to address broadband investments since Budget 2019.

Advisory		
Short-Term and Medium-Term Objectives from Corporate Plan 2018-19	Performance Measures	Achievements in 2018-2019
To increase awareness of the benefits of the CIB model to fund public infrastructure	Implement a stakeholder engagement plan to promote the benefits of the CIB model	<ul style="list-style-type: none"> <li>Active engagement with industry and investors in Canada, US, UK, Japan and China</li> <li>Speaking engagements at 85 events attended by ~10,000 people</li> <li>310 meetings, more than 100 projects discussed</li> </ul>
To nurture relationships with partners using targeted outreach, and educate governments on the additional tool available to them	Deliver a targeted outreach strategy to communicate the CIB's advisory offerings to provinces, territories and municipalities, Indigenous governments (PTMI) and private sector	<ul style="list-style-type: none"> <li>Provincial and Territorial outreach initiated</li> <li>Bilateral meetings with all provinces and territories</li> <li>Discussed priorities and projects to be included in Inventory of Canadian Infrastructure Projects</li> </ul>
To showcase projects for potential investment consideration by CIB and partner governments	Develop a plan to create the five-year forward-looking National Project Pipeline (Inventory of Canadian Infrastructure Projects)	<ul style="list-style-type: none"> <li>Plan under development</li> <li>Consulting with provinces and territories</li> </ul>

## Accomplishments and Outlook

We engaged stakeholders in both the public and private sectors throughout 2018-19 to establish and build relationships and educate governments on the option of involving CIB in infrastructure projects. A fall 2018 meeting with Canada's federal, provincial and territorial ministers responsible for infrastructure was followed by bilateral meetings to discuss how CIB can help to advance public projects. We also met with municipal representatives from some of Canada's largest cities.

Many priorities and themes emerged from our discussions with jurisdictions across the country. The willingness of provincial, territorial, municipal and Indigenous leaders to consider partnership with the private sector is encouraging. There is growing interest in the value that CIB brings, both in terms of expertise as an advisor and also as a potential investor. There is growing consideration of new models of investment, including revenue-generating projects.

A key area of discussion has been the need for investment in transit and transportation. There is also a high degree of interest in creating stronger ties between electrical grids (interties) in different parts of the country, as another step to increase green infrastructure.

Many communities have identified an infrastructure deficit related to their water and waste-water systems. There is strong commitment to renewing water infrastructure, along with openness to consider innovative ways to do this in cooperation with the CIB.

Providing access to high quality, reliable broadband service remains extremely important, particularly in remote,

underserved and unserved communities. Consistent with the direction in Budget 2019, this is an area where CIB can participate.

These are a few of the many asset classes, project priorities and investment opportunities that we continue to discuss with various jurisdictions.

We started working with public sector project sponsors in 2018-19 to determine the viability of projects for private and institutional investment. We also advised many public sponsors on specific projects to help develop project proposals that are sufficiently advanced such that CIB can make public interest and bankability determinations.

We actively participated in an estimated 85 external industry events, conferences, speaking opportunities, and reached more than 10,000 stakeholders – governments, investors, advisors, developers, researchers/think tanks, and foreign peers.

With anticipated growth in CIB's project development, investment and other professional staff resources, we plan to offer consultation and advisory services to more governments in 2019-20 as we broaden our public-sector network and relationships.

## Investments

CIB works with federal, provincial, territorial, municipal and Indigenous (PTMI) partners and private-sector investors to transform the way infrastructure is planned, financed and delivered in Canada. In 2018-19 we assembled a team of

professionals responsible for CIB's investment strategy and advising on capital deployment and asset management. The team manages the intake process for receiving and evaluating projects, including unsolicited proposals.

Investments		
Short-Term and Medium-Term Objectives from Corporate Plan 2018-19	Performance Measures	Achievements in 2018-2019
To demonstrate presence of projects which meet investment requirements	Establish a process for receiving and evaluating projects, including unsolicited proposals Conduct assessment activities and invest in projects	Processes established More than 100 projects received and evaluated; 13 under detailed analysis; one investment made
To advance projects for investment	Formulate a strategy for conducting due diligence to advance projects for Investment	Investment Policy approved by Board Developed Investment Process Standard to support detailed process
To improve efficiency by transferring revenue risk and ensuring minimal concessionality	Implement an Investment Risk Management Strategy	Investment risk covered as a subset of Board-approved Enterprise Risk Management (ERM) framework and incorporated into Board-approved Investment Policy
To crowd in (not crowd out) private sector investors to increase total investment	Develop methodology for determining value and benefit of CIB investment relative to alternative financing options	Specific investment strategies and products identified and documented
To free up government funding by leveraging private investment in public infrastructure	Succeed vis a vis quantitative goals such as an appropriate "efficiency ratio" and utilization of capital	REM investment of \$1.3B

## Accomplishments and Outlook

CIB hired an experienced Head of Investments from the private sector in October 2018 and attracted significant investment talent with infrastructure and financial experience to the team.

We developed a formal investment policy and created more detailed standards that govern investment processes and methodologies, from intake to portfolio monitoring.

As of March 31, 2019, CIB officials conducted 310 investment-related meetings during the course of 2018-19, both to raise general awareness of the CIB mandate and our plans, and to discuss specific projects. Private

sector and institutional investors showed strong interest and brought forward project ideas, some in the form of unsolicited proposals. In 2018-19, we received more than 100 project proposals from both public and private sponsors, underscoring the widespread interest across all priority sectors.

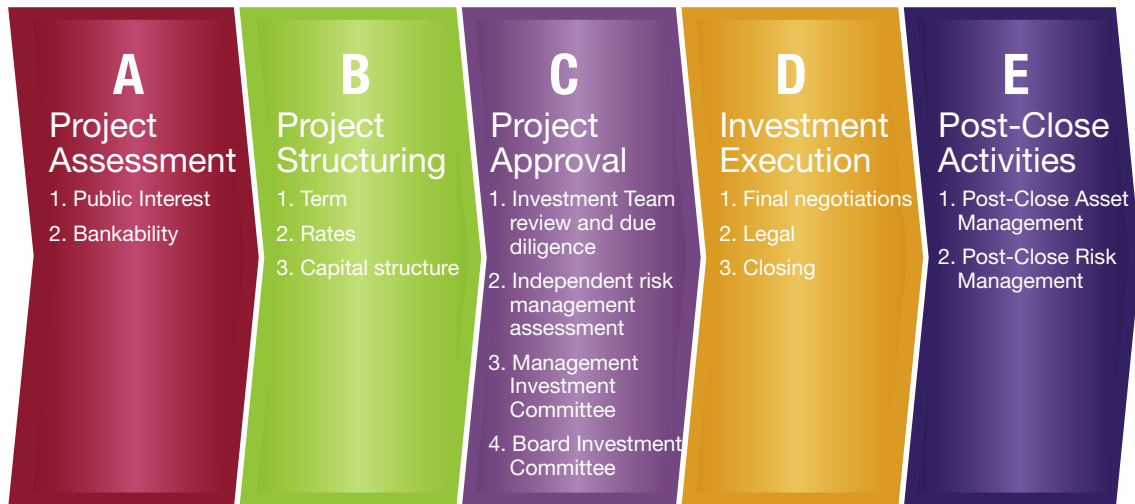
We worked closely with Infrastructure Canada in 2018-19 to refine the set of considerations we use to ensure that investments are made in the public interest and are bankable. These two determinations described in general below are important factors in CIB's due diligence for project investments.

Public interest considerations	Bankability factors
Consistent with federal infrastructure priorities and outcomes	Compelling business case
Alignment with other government sponsors' priorities	Stage of development
Supports federal priorities established in a policy document	Convenes private capital
Supports economic growth	Adequate risk transfer
Contributes to infrastructure sustainability (during the asset lifecycle, as well as climate change impacts and community benefits)	Market testing and optimization of costs <ul style="list-style-type: none"> <li>▪ Procurement / go-to-market strategy</li> <li>▪ Appropriate CIB role</li> </ul>

## Project Process

We refined our project review and approval process during the year. The Management Investment Committee was established to oversee investment and project development

work and activities. A simplified version of the project assessment and approval process is shown below.



Our first investment commitment was made in 2018–2019 in the Réseau express métropolitain project (REM) in Greater Montréal which is a 67-kilometre light rail, high-frequency network with 26 stations. Construction began in 2018 and the first trains are scheduled to run in the summer of 2021.

CIB's \$1.28-billion loan completed the REM project's \$6.3-billion financing. The interests of the other partners, CDPQ and the Province of Quebec, consist of preferred equity and subordinated equity, respectively.

Of note, the CIB's 15-year loan at interest rates ranging from 1% to 3% improved risk transfer to the institutional investor (CDPQ), while the concessional nature of our loan improved the project's affordability.

Throughout the year we held discussions with public-sector partners, investors and prospective investors on a range of projects, their business cases and potential CIB involvement, and we conducted due diligence on potential deals. This activity led to our second project announcement in May 2019. CIB pledged up to \$2 billion in financing for Ontario's GO Expansion – On Corridor project, in partnership with Infrastructure Ontario and Metrolinx. This project will help transform the GO rail network in the Greater Toronto and Hamilton Area and significantly improve service for commuters. CIB's investment will improve the cost of financing and attract private capital, while ensuring appropriate risk transfer to the private sector.

The CIB's role in GO Expansion is a financing partner and advisor to Metrolinx and Infrastructure Ontario, which

are leading the competitive procurement process. CIB will finalize a credit agreement with the preferred proponent selected by Infrastructure Ontario and Metrolinx when the project reaches financial close.

With its involvement in the GO Expansion project, combined with the REM loan, CIB will be committing almost \$3.3 billion to significantly improve transit for Canadians.





We expect to invest approximately \$1.5 billion to \$4 billion per year in the near term. At March 31, 2019, we were actively pursuing new project opportunities and conducting due diligence on 13 projects in order to make commitments to at least two projects per year.

Guided by public interest and bankability requirements, we will make sure that investments are made responsibly. Over

time, we expect that CIB-supported projects will include operational, usage and revenue risk transfer to the private sector.

As part of our overall investments approach, and consistent with the CIB mandate we are developing an unsolicited proposals framework informed by consultations with public sector sponsors and private sector partners.

## Knowledge Development (Data and Information)

CIB contributes to helping governments make evidence-based decisions by working with public and private partners to gather a wide range of data and information, particularly as it relates to revenue-generating projects, but also more broadly to projects where the private sector has a large role.

We intend to provide data, information and best practices to government partners to help evaluate and select the most

appropriate model for infrastructure, on a case-by-case basis, in order to achieve better results for Canadians.

Knowledge development involves close collaboration between our Project Development and Investment teams, as data is inherently linked to providing evidence-driven advice.

Knowledge Development (Data and Information)		
Short-Term and Medium-Term Objectives from Corporate Plan 2018-19	Performance Measures	Achievements in 2018-2019
To provide information on the Canadian landscape for revenue-generating infrastructure that may attract private investment	Engage key players responsible for infrastructure data	Held meetings with Statistics Canada, Infrastructure Canada and Canadian Council on PPP regarding data and information Covered topics in provincial and territorial meetings
To identify gaps where CIB can have an impact	Produce a study to identify the existing state of infrastructure data	Based on the above activity and external benchmarks, a study is underway Alignment on key objectives of Data and Information function

## Accomplishments and Outlook

In 2018-19, we began working with Infrastructure Canada, Statistics Canada, and provincial, municipal, territorial and Indigenous governments to discuss the collection and sharing of data about Canadian infrastructure projects. Our goal is to help governments and public agencies across Canada obtain access to better information and resources about revenue-generating infrastructure and the potential for private-sector involvement, and to build a knowledge base that will support informed decisions.

We discussed data and information needs during our bilateral meetings with all provinces and territories, and a study is underway to identify the quality of existing Canadian infrastructure data as well as gaps.

We began to develop a plan to create a five-year, forward-looking inventory of Canadian infrastructure projects. We continue to assess options and consult with all orders of government on needs and priorities for this inventory.

We expect to hire the core of the CIB data and information team in 2019-20, and to complete a study on existing Canadian infrastructure data.

CIB will build on preliminary work to produce a national inventory of projects. This work requires consultations and project inputs from federal, provincial, territorial, municipal and Indigenous governments.

We also plan to strengthen our network of institutional relationships, and to begin producing publications that will demonstrate how CIB can have an impact in the market.

## Corporate Services

Corporate services encompass a variety of teams, led by the Chief Financial Officer/Chief Administrative Officer and the Head of Public Affairs and Communications.

The CFO/CAO is responsible for the following corporate functions:

- Financial Accounting and Reporting
- Legal and Compliance
- Human Resources
- Information Technology
- Enterprise Risk Management
- Internal Audit

The Public Affairs and Communications team is responsible for media relations, corporate communications, issues management, web and social media strategies, project communications, event management, government relations, corporate planning, and stakeholder and industry relations.

Corporate Services		
Short-Term and Medium-Term Objectives from Corporate Plan 2018-19	Performance Measures	Achievements in 2018-2019
To build capability (new IT systems, Enterprise Resource Planning, staff with specialized skills)	Establish a preliminary Enterprise Risk Management (ERM) framework and create training modules to onboard staff	Draft ERM framework developed and finalized
To meet public scrutiny on process, transparency and reporting on performance and results	Develop financial management and internal audit capacity for evaluation and reporting	Hired financial team Bookkeeping outsourced, with oversight and review by CIB management Key policy documents unique to CIB in place Internal audit charter approved by Board; three-year plan presented to the Finance & Audit Committee and Board
To practice sound internal governance and financial management	Receive unqualified audit opinion	2017-18 external audit completed with unqualified opinion issued 2018-2019 external audit completed
To operate efficiently, demonstrating sound financial and operational use of resources	Expand operational resources and increase the number of employees in the planning period	35 full-time staff and four contractors at year end
To be nimble and responsive, ready and able to respond to emerging needs	Receive good reviews from partners in the public and private sectors as operations expand	Hired experienced investment and advisory professionals who extended the outreach capabilities of the organization

## Accomplishments and Outlook

We made progress in filling positions across the organization and establishing core policies to govern the CIB's operations.

We added communications, financial management, legal and risk management professionals, as well as administrative staff.

We increased the CIB's capacity to operate in both official languages. We are developing an official languages action plan; shared our experience with the Senate Committee on Official Languages; and added bilingual internal capacity, specifically on our Legal, Investments and Public Affairs and Communications teams, including four investment consultants to serve the Quebec market.

Policies approved in 2018-19 included a Code of Conduct and Conflict of Interest Policy, which apply to all officers and employees of CIB, as well as to consultants; additional human resources policies; an enterprise risk management framework; and an internal audit charter. All employees have been through mandatory code of conduct training, and employee onboarding modules were developed.

Our Head of Public Affairs and Communications established a team that will expand communications, shareholder relations and engagement of external stakeholders and partners, to advance the overall organizational mandate. As the CIB ramped up resources and activities in 2018-19,

our external engagement with investors and infrastructure proponents grew significantly.

We kept stakeholders apprised of our activities online via our bilingual website and Twitter and LinkedIn accounts. In 2018-19, the CIB began disclosing access to information and privacy requests, as well as travel and hospitality expenses for the board of directors and executive team on our website.

We expect to leverage innovative technology across the organization to improve reporting, achieve efficiencies and be ready and able to respond to emerging needs. For example, we plan to implement a new financial software system, including tools to improve our ability to monitor and measure financial and non-financial metrics.

Recruiting and developing the right talent in a competitive marketplace is crucial to the CIB's success. To build our employment culture and brand and manage employee turnover, we are developing a robust talent management process.

An internal audit charter and three-year plan was reviewed by the board of directors and we will implement the internal audit plan starting in 2019-20.

Our Public Affairs and Communications team will continue to coordinate activities and interactions with relevant federal departments and agencies; manage the CIB's public profile and reputation; contribute to industry awareness of the CIB; and use modern communication strategies and tools to help inform and report to Canadians on our activities and the benefits of the CIB model.

# Risk Management

CIB is adopting policies, procedures and guidelines for good governance, including best practices for risk management.

We established an Enterprise Risk Management (ERM) framework in 2018-19. The ERM framework includes investment risk controls contained in the investment policy and process guidelines. As part of the ERM development work in 2018-19, the CIB reviewed sources of risk, potential risk scenarios, their likelihood and potential impact, and mitigation strategies. Five main sources of risk are considered to be the most acute for infrastructure investors such as CIB. These sources are:

1. **Reputational risk** at the enterprise level, originating from political or governance-related sources;
2. **Operational risk**, arising from CIB processes, people and systems or external events;
3. **Partnership risk**, such as commercial disputes, stemming from partnering with third parties, investors and creditors across the private and public sectors;

4. **Investment management risk**, arising from the portfolio of investments, including individual project operations, environmental and social risks, and market conditions; and
5. **Development risk**, including project design, construction, environmental and operating risks.

Risk events from the sources noted above could have financial, reputational and organizational (operational) impacts. Enterprise and investment risks and issues are monitored continuously.

The CIB hired its first Head of Risk in March 2019 to implement the ERM framework and to establish a central risk management function. The Head of Risk will work closely with the Investments team on evaluation and mitigation of deal-related risks, both before investment commitments are made, and on an ongoing basis after deal closings.

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## Investment Risk Management

Investment risk forms the largest part of the CIB's overall ERM framework. The CIB investment policy and detailed process guide developed by management both incorporate investment risk management processes.

The CIB actively monitors each of its investments to ensure that all investment conditions are met, to understand any shift in an investment's risk profile and to assess the value of each investment.

In 2018-19, we established a Management Investment Committee composed of the CEO, Head of Investments, Head of Project Development and Head of Risk. This committee is responsible for delivering on the CIB's investment mandate, within the parameters established by the investment policy. The Management Investment Committee recommends investments to the Investment Committee of the board.

The CIB seeks to invest a minimum of \$5 billion in each of its priority sectors (public transit, trade and transportation, green infrastructure) and \$1 billion in broadband. However, we do not manage the portfolio to fixed investment allocations by sector, geography or fiscal year. As a result, the CIB will always have a more concentrated set of risk exposures than would be typical for a portfolio of its size. Sectoral and industry concentration risks are an unavoidable consequence of the CIB's mandate and role in the marketplace.

# Financial Management

As an entity entrusted with investing public funds, CIB adopts best practices for financial management supporting the careful and effective stewardship of its financial resources.

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS), which provide a market-based approach to financial information in the industry in which the Bank operates. The statements are jointly audited by the Auditor General of Canada and an external independent auditor appointed by the Governor in Council. BDO Canada LLP was appointed as the Bank's external auditor for 2018-19.

During the fiscal year, the first two draws totalling \$549 million of the \$1.283 billion commitment to the REM transaction were funded. Accounting and measurement of the commitment under IFRS standards are presented in detail in the accompanying financial statements.

Total operating expenses for 2018-19, including professional fees, facilities expenses, personnel and other costs, were \$11.4 million versus \$2.2 million for the comparative period in the prior year. 2018-2019 was a successful year in building capacity to review investment and project development opportunities. By the end of the fiscal year, there were 35 full time employees on staff, the majority of which are in the investments and project development areas. Given the number of opportunities CIB has reviewed to date, we anticipate continued requirements to grow both the front office and corporate support teams to maintain high standards of governance and internal controls in all our activities.

# Governance

The CIB is governed by the *Canada Infrastructure Bank Act* and is subject to other legislation and policies that apply generally to Crown corporations, including the *Financial Administration Act* (“FAA”), the *Official Languages Act*, the *Privacy Act*, the *Access to Information Act*, the *Conflict of Interest*

*Act*, and the *Canada Labour Code*. As a Crown corporation, the CIB is subject to Part X of the *FAA* and it reports to Parliament through the Minister of Infrastructure and Communities (the designated Minister).

## Board of Directors

The CIB is overseen by an independent, professional board of directors. The board is responsible for the oversight and strategic direction of the CIB. It approves corporate objectives and direction, ensures good governance, monitors financial performance, approves corporate plans and financial statements, policies and by-laws, and ensures that risks are identified and managed.

As of March 31, 2019, the board was composed of 11 directors, including the Chair.

The Chair is appointed by the Governor in Council for a term that the Governor in Council considers appropriate. Directors are appointed by the Governor in Council in accordance with the *Canada Infrastructure Bank Act* for terms not to exceed four years. Directors are eligible for reappointment on the expiration of their term.

The following table sets out the members of the board and their respective appointment date and term of office. Biographies are available on the CIB website: <http://cib-bic.ca/en/governance/board-of-directors/>

Director	Appointment Date	Term
Janice Fukakusa Chair of the board	July 4, 2017	4 years
Kimberley Baird	November 16, 2017	2 years
Jane Bird	November 16, 2017	4 years
David Bronconnier	November 16, 2017	3 years
James Cherry	November 16, 2017	2 years
Michèle Colpron	November 16, 2017	4 years
Bruno Guilmette	June 1, 2018*	4 years
Christopher Hickman	November 16, 2017	3 years
Poonam Puri	November 16, 2017	3 years
Stephen Smith	November 16, 2017	4 years
Patricia Youzwa	November 16, 2017	3 years

\*Bruno Guilmette was originally appointed on November 16, 2017, and stepped down temporarily to serve as interim Chief Investment Officer from January 1, 2018 to May 31, 2018. He was reappointed as a director on June 1, 2018

The board’s primary responsibility with respect to the appointment of directors is to identify the knowledge, skills and core competencies required by individual directors and the board as a whole. To this end, the board has adopted a skills matrix designed to articulate the desired mix of attributes. The board works closely with the Minister of Infrastructure and Communities and Privy Council Office to seek and recommend candidates who possess the skills

and experience needed, as identified in the skills matrix, and who also address the board’s commitment to reflect gender, linguistic, cultural and regional diversity.

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## Skills Matrix

The board, through the Governance Committee, regularly reviews both desirable and actual skills and core competencies of the board. This ensures that appointments maintain a well-rounded board that can provide the effective oversight necessary for CIB to achieve its objectives. The Governance Committee has identified the following skills and experience needed for the board as a whole:

**Accounting:** Knowledge of and experience with financial accounting and reporting, corporate finance and familiarity with internal controls and International Financial Reporting Standards.

**Board Experience:** Prior or current board of director experience with a major organization with mature governance practices.

**Compensation:** Experience as a senior executive or board member overseeing executive compensation plan design and performance management.

**Financing, Treasury and Investments:** Experience in leading or overseeing complex financial transactions with investors and other entities in both the private and public sectors.

**Governance:** Experience in corporate governance principles and practices at a major organization.

**Human Resources:** Knowledge of or experience with leadership development and talent management, succession planning, organizational design, and human resources principles and practices generally.

**Infrastructure and Development:** Experience in, or strong understanding of, all aspects of infrastructure projects.

**Legal:** Training and experience as a lawyer, either in private practice or in-house with a major organization ensuring compliance with laws and regulations.

**Organizational Leadership:** Broad business experience as a senior executive of a major public, private or not-for-profit organization.

**Public Sector / Government / Indigenous Partners:** Experience in, or understanding of, the workings of government and the public sector, and in stakeholder engagement or management.

**Risk Management:** Experience in, or understanding of, internal risk controls, risk assessment, risk management and/or reporting.

**Strategic Planning:** Experience in the development and implementation of a strategic direction of a major organization.

**Information Technology & Management:** Experience or knowledge relating to the information technology and management of a major organization.

At a personal level, Board members should demonstrate trust and accountability, informed judgment, tact and discretion, excellent interpersonal skills, independence, high ethical standards and integrity.

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## Board Committees

The board is supported in its role and responsibilities by the following four committees. A charter has been established for each standing committee. The board may establish other committees as required to assist the board in meeting its responsibilities.

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### Investment Committee

**Mandate:** The Investment Committee's role is to consider and make recommendations to the board on all investment proposals, proposed investment strategies, and review the CIB's investment activities, performance, capital requirements and usage, and investment policies, standards and procedures and evaluate the effectiveness thereof.

**Membership:** The Investment Committee is composed of all of the members of the board. Bruno Guilmette is the Chair of the Investment Committee.

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## Finance and Audit Committee

**Mandate:** The Finance and Audit Committee (FAC) provides oversight and makes recommendations to the board on the reporting of financial information, management control practices, risk management and insurance needs, and has the duties outlined in the FAA. The FAC is responsible for advising the board on matters related to financial statements, any internal audit of the CIB and the annual joint auditors' report. It is also responsible for reviewing and advising the

board with respect to any special examination, and any resulting plans and reports.

**Membership:** The FAC is composed of five directors appointed by the board. Michèle Colpron is the Chair of the FAC; other members are Janice Fukakusa, David Bronconnier, Christopher Hickman and Poonam Puri.

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## Human Resources and Compensation Committee

**Mandate:** The Human Resources & Compensation Committee (HRCC) considers and makes recommendations to the board with respect to human resource-related principles, organizational structure and compensation that will guide the management of CIB's human capital and promote the achievement of CIB objectives. It approves compensation matters, including goals and objectives, relevant comparison groups and target compensation levels.

It also makes recommendations to the board regarding hiring of executive officers, employee pension plans and benefits, and succession and contingency planning.

**Membership:** The HRCC is composed of five directors appointed by the board. Janice Fukakusa is the Chair of the HRCC; other members are Jane Bird, James Cherry, Michèle Colpron and Stephen Smith.

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## Governance Committee

**Mandate:** The Governance Committee considers and makes recommendations to the board regarding corporate governance trends and best practices applicable to the CIB, including recommended changes to corporate governance policies, practices and procedures; board succession planning; the composition of Board committees; director orientation and continuing education; board and director evaluations;

and the CIB's director and employee codes of conduct and conflict of interest policies, guidelines and procedures.

**Membership:** The Governance Committee is composed of five directors appointed by the Board. Stephen Smith is the Chair of the Governance Committee; other members are Janice Fukakusa, Kimberley Baird, Jane Bird and Patricia Youzwa.

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## Code of Conduct and Conflict of Interest Policy for Directors

The board adopted the Code of Conduct and Conflict of Interest Policy for Directors, which integrate various legislative requirements relating to ethical conduct and conflicts of interest, including the *Financial Administration Act* and the *Conflict of Interest Act*. In particular, they are intended to assist directors in identifying, minimizing and resolving real, potential or perceived conflicts of interest, so they can effectively exercise their duties while maintaining their independence and integrity. Each year, directors must confirm in writing their commitment to complying with the Code of Conduct and Conflict of Interest Policy. There is a separate Code of Conduct and Conflict of Interest Policy for employees and consultants.



## Director Attendance

Attendance at board and committee meetings during the fiscal year ending March 31, 2019, is shown below.

In addition to regularly scheduled board and sub-committee meetings, several special meetings were held to meet various legislative and other reporting requirements.

Director	Board	Investment	FAC	HRCC	Governance	Investment Sub-Committee	Board Sub-Committee
Janice Fukakusa	11/11	5/5	9/9	8/8	3/3	1/1	1/1
Kimberley Baird	9/11	4/5			3/3		
Jane Bird	10/11	5/5		8/8	3/3		
David Bronconnier	11/11	5/5	9/9				
James Cherry	11/11	5/5		7/8		1/1	1/1
Michèle Colpron	9/11	5/5	9/9	7/8		1/1	
Bruno Guilmette*	7/7*	4/5					0/1
Christopher Hickman	8/11	3/5	7/9				
Poonam Puri	9/11	4/5	8/9				
Stephen Smith	8/11	4/5		8/8	3/3	1/1	1/1
Patricia Youzwa	10/11	5/5			3/3		

\*Bruno Guilmette was originally appointed on November 16, 2017, and stepped down temporarily to serve as interim Chief Investment Officer from January 1, 2018 to May 31, 2018. He was reappointed as a director on June 1, 2018

## Board Compensation

Remuneration rates for board members are as follows:

- Directors: \$50,000 per annum
- Chair: \$100,000 per annum

# Compensation Discussion and Analysis

Recruiting and developing the right talent in a competitive marketplace is crucial to our success. There is a limited pool of infrastructure investment talent with the skill sets that the CIB needs, coupled with high demand from a variety of financial market players. Our corporate support functions require broader skill sets, which allows us to hire from a wider range of industries and backgrounds. The CIB's compensation principles and program were developed in 2018-19 and take these market characteristics into account.

The HRCC makes recommendations to the board with respect to human resource-related principles, organizational structure and compensation philosophy that will guide the management of CIB's human capital and promote the achievement of CIB objectives. It also makes recommendations to the board regarding hiring of executive officers, employee pension plans and benefits, and succession and contingency planning.

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## Compensation Principles

The following core principles guide the CIB's approach to compensation:

- Market-competitive compensation, with a focus on total compensation
- Two compensation structures – one for functional (corporate support) groups, and another for the Investment and Project Development teams
- One benefit package for all employees
- Use of externally validated benchmarks and targets as input to compensation bands
- Variable incentives to reward strong performers
- Minimal complexity

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## Compensation Program

CIB engaged third-party compensation and benefits consultants in 2018-19 to assist in designing the compensation and benefits structure for employees and evaluating benefits providers and solutions.

The compensation structure was approved by the HRCC, as delegated by the board in November 2018. CIB management will continuously review the structure with the HRCC to determine its effectiveness in hiring appropriate talent, and we expect to formally review compensation structures with external advisors every three years.

CIB offers market-competitive compensation, with a focus on total compensation: a mix of salary and

variable performance incentive. An individual employee's compensation package is based on his or her skills and experience, historical compensation and competition in the market.

Benchmarks are based on a third-party provider's proprietary database of entities in financial services, investment management and the public sector.

Compensation benchmarks are based on where CIB competes for talent, and for the Investment and Project Development roles the focus is on attracting and retaining individuals with prior infrastructure and investing experience.

# Financial Statements of Canada Infrastructure Bank

For the year ended March 31, 2019

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# Management's Responsibility For Financial Information

Management is responsible for the preparation of the statement of financial position, statement of income and comprehensive income, statement of changes in shareholder's equity, statement of cash flows and related notes (collectively the "Financial Statements") of Canada Infrastructure Bank ("CIB" or the "Corporation") in accordance with International Financial Reporting Standards; and for ensuring compliance with applicable authorities. The information contained therein normally includes amounts requiring estimations that have been made based upon informed judgement as to the expected results of current transactions and events. Management is responsible for ensuring consistency of the financial information presented elsewhere in this annual report, with the Financial Statements. In discharging its responsibility for the integrity, fairness and quality of the Financial Statements and for the accounting systems from which they are derived, management maintains a system of internal control designed to provide reasonable assurance that transactions are authorized, assets are safeguarded, proper records are maintained, and compliance with applicable authorities. The external auditors have full and free access to the Finance and Audit Committee of the Board of Directors,

which is responsible for overseeing and reviewing management's internal control and reporting responsibilities. The Board of Directors, through the Finance and Audit Committee, which is entirely composed of independent directors, is responsible for reviewing and approving the audited Financial Statements. CIB's independent auditors, BDO Canada LLP, Chartered Professional Accountants, and the Auditor General of Canada have audited CIB's Financial Statements and their report indicates the scope of their audit and their opinion on the Financial Statements.



Pierre Lavallée  
President & CEO



Annie Ropar  
Chief Financial Officer & Chief Administrative Officer

June 27, 2019



# Independent Auditors' Report

To the Minister of Infrastructure and Communities

## Report on the Audit of the Financial Statements

### Opinion

We have audited the financial statements of Canada Infrastructure Bank (the “Corporation”), which comprise the statement of financial position as at March 31, 2019, and the statement of income and comprehensive income, statement of changes in shareholder’s equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

### Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditors’ Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Corporation in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Other Information

Management is responsible for the other information. The other information comprises the information included in the 2018-19 Annual Report, but does not include the financial statements and our auditors’ report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. We obtained the 2018-19 Annual Report prior to the date of this auditors’ report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditors’ report. We have nothing to report in this regard.

### Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Corporation’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation’s financial reporting process.

### Auditors’ Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors’ report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be

expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

## Report on Compliance with Specified Authorities

### Opinion

In conjunction with the audit of the financial statements, we have audited transactions of Canada Infrastructure Bank coming to our notice for compliance with specified authorities. The specified authorities against which compliance was audited are Part X of the *Financial Administration Act* and regulations, the *Canada Infrastructure Bank Act* and the by-laws of Canada Infrastructure Bank.

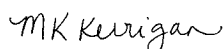
In our opinion, the transactions of Canada Infrastructure Bank that came to our notice during the audit of the financial statements have complied, in all material respects, with the specified authorities referred to above. Further, as required by the *Financial Administration Act*, we report that, in our opinion, the accounting principles in IFRSs have been applied on a basis consistent with that of the preceding year.

### Responsibilities of Management for Compliance with Specified Authorities

Management is responsible for Canada Infrastructure Bank's compliance with the specified authorities named above, and for such internal control as management determines is necessary to enable Canada Infrastructure Bank to comply with the specified authorities.

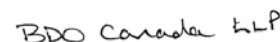
### Auditors' Responsibilities for the Audit of Compliance with Specified Authorities

Our audit responsibilities include planning and performing procedures to provide an audit opinion and reporting on whether the transactions coming to our notice during the audit of the financial statements are in compliance with the specified authorities referred to above.



Mary Katie Kerrigan,  
CPA, CA  
Principal  
for the Interim Auditor  
General of Canada

Ottawa, Canada  
June 27, 2019



Chartered Professional  
Accountants  
Licensed Public  
Accountants

Mississauga, Canada  
June 27, 2019

## Canada Infrastructure Bank

### Statement of Financial Position

As at March 31 (in thousands)

	2019	2018
<b>Assets</b>		
Current assets:		
Cash	\$ 956	\$ 9,682
Government funding receivable related to operating expenditures (note 3(e))	1,362	-
HST receivable	715	205
Prepaid expenses and advances	25	-
	3,058	9,887
Non-current assets:		
Loan receivable (note 9)	550,914	-
Property and equipment (note 10)	1,604	18
	<b>\$ 555,576</b>	<b>\$ 9,905</b>
<b>Liabilities and Shareholder's Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities (note 11)	\$ 2,039	\$ 646
Deferred government funding related to operating expenditures	-	7,107
	2,039	7,753
Non-current liabilities:		
Deferred liabilities (note 3(c))	862	99
Deferred government funding related to capital expenditures	1,604	2,011
	2,466	2,110
Equity	551,071	42
	<b>\$ 555,576</b>	<b>\$ 9,905</b>

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

On behalf of the Board:



Michèle Colpron,  
Chair, Finance and Audit Committee



Janice Fukakusa,  
Chair

June 27, 2019

## Canada Infrastructure Bank

### Statement of Income and Comprehensive Income

For the year ended March 31, 2019 and 283 day period ended March 31, 2018 (in thousands)

	2019	2018
Revenue:		
Interest income	\$ 2,029	\$ 42
Expenses:		
Compensation	5,975	389
Professional fees (note 16)	3,254	1,275
Travel and communications	761	153
Premises and equipment	647	404
Administration	405	11
Information Technology	183	11
Depreciation	151	5
	11,376	2,248
Net loss before government funding	(9,347)	(2,206)
Government funding:		
Investment appropriations	549,000	-
Operating appropriations	11,225	2,243
Capital appropriations	151	5
	560,376	2,248
<b>Net income and comprehensive income</b>	<b>\$ 551,029</b>	<b>\$ 42</b>

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



## Canada Infrastructure Bank

### Statement of Changes in Shareholder's Equity

For the year ended March 31, 2019 and 283 day period ended March 31, 2018 (in thousands)

	Share Capital	Retained Earnings	Total Equity
Balance, April 1, 2018	\$ -	\$ 42	\$ 42
Net income and comprehensive income	-	551,029	551,029
Balance, March 31, 2019	\$ -	\$ 551,071	\$ 551,071

	Share Capital	Retained Earnings	Total Equity
Balance, June 22, 2017	\$ -	\$ -	\$ -
Issue of common shares (note 1)	-	-	-
Net income and comprehensive income	-	42	42
Balance, March 31, 2018	\$ -	\$ 42	\$ 42

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

## Canada Infrastructure Bank

### Statement of Cash Flows

For the year ended March 31, 2019 and 283 day period ended March 31, 2018 (in thousands)

	2019	2018
<b>Cash provided by (used in):</b>		
<b>Operating activities:</b>		
Net income	\$ 551,029	\$ 42
Items not involving cash:		
Interest income accrued on loan receivable (note 9)	(1,914)	-
Depreciation	151	5
Capital appropriations	(151)	-
Change in deferred liabilities	763	99
Changes in non-cash working capital:		
Increase in government funding receivable related to operating expenditures	(1,362)	-
Increase in HST receivable	(510)	(205)
Increase in prepaid expenses and advances	(25)	-
Increase in accounts payable and accrued liabilities	1,393	646
(Decrease)/increase in deferred government funding related to operating expenditures	(7,107)	7,107
Decrease in deferred government funding related to capital expenditures used in operating activities	(256)	-
Loan disbursements (note 9)	(549,000)	-
<b>Total cash (used in) provided by operating activities</b>	<b>\$ (6,989)</b>	<b>\$ 7,694</b>
<b>Investing activities:</b>		
Acquisition of property and equipment	(1,737)	(23)
Deferred government funding related to capital expenditures	-	2,011
<b>Total cash (used in) provided by investing activities</b>	<b>\$ (1,737)</b>	<b>\$ 1,988</b>
Net (decrease) increase in cash during the period	(8,726)	9,682
Cash, beginning of the period	9,682	-
<b>Cash, end of the period</b>	<b>\$ 956</b>	<b>\$ 9,682</b>

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

## Notes to the Financial Statements

For the year ended March 31, 2019 and 283 day period ended March 31, 2018 (in thousands)

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### 1. Act of Incorporation, Objective and Operations of the Corporation:

Canada Infrastructure Bank (“CIB” or the “Corporation”) is a Crown corporation established by an Act of Parliament (the *Canada Infrastructure Bank Act* (the “CIB Act”)) on June 22, 2017. CIB is incorporated in Canada and wholly owned by the Government of Canada. CIB was nominally capitalized with 10 shares issued at a par value of \$10 (actual dollars) per share, or total share capital of \$100 (actual dollars).

CIB’s head office is located at 150 King Street West, Suite 2309, Toronto, Ontario M5H 1J9, Canada.

CIB’s purpose is to invest, and seek to attract investment from private sector investors and institutional investors, in infrastructure projects in Canada or partly in Canada that will generate revenue and that will be in the public interest by, for example, supporting conditions that foster economic growth or by contributing to the sustainability of infrastructure in Canada.

CIB currently receives appropriations from the Government of Canada. Parliament has authorized up to \$35 billion over 11 years (to fiscal year-end 2027-28), and the requisite authorities to participate in infrastructure transactions. Of the \$35 billion, the Government of Canada anticipates allocating \$15 billion against the fiscal framework. In delivering this \$15 billion in federal support, CIB will deliver a wide breadth of financial instruments, including loans, equity investments, and where appropriate, loan guarantees to projects that will mobilize private investment where otherwise no investment would occur. The decision on the use of different types of financial instruments will depend on a transaction’s unique characteristics. CIB’s model is aimed at mobilizing and leveraging private sector and institutional investment and attaching the financial returns to the usage and revenue risk of infrastructure projects. To crowd-in private sector and institutional investment, support will be provided at below market rates, more flexible terms or on a subordinated basis. Separately, over the 11 years, CIB is expected to make at least \$5 billion in investments in projects that are in the public interest in each of the three priority areas: public transit; trade and transportation; and green infrastructure. It can also invest in other areas of infrastructure if they are supported by government policy and pursue investments in projects across the country.

CIB is not an agent of Her Majesty, the Queen in Right of Canada, except when, (i) giving advice about investments in infrastructure projects to ministers of Her Majesty in right of Canada, to departments, boards, commissions and agencies of the Government of Canada and to Crown corporations as defined in subsection 83(1) of the *Financial Administration Act* (Canada) (the “FAA”); (ii) collecting and disseminating data in accordance with the CIB Act; (iii) acting on behalf of the Government of Canada in the provision of services or programs, and the delivery of financial assistance, as provided under the CIB Act; and (iv) carrying out any activity conducive to the carrying out of its purpose that the Governor in Council may, by order, specify. CIB is also named in Part I of Schedule III to the FAA.

CIB is exempt from Federal Income Tax under Section 149(1)(d) of the *Income Tax Act*.

CIB is accountable for its affairs to Parliament through the Minister of Infrastructure and Communities.

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### 2. Basis of preparation:

CIB has prepared its Financial Statements in compliance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (the “IASB”), interpreted by the International Financial Reporting Interpretations Committee (“IFRIC”) and adopted by the Accounting Standards Board (the “AcSB”).

The Financial Statements have been prepared on a historical cost basis except when a specific IFRS requires fair value measurement, as explained in the accounting policies below.

The Financial Statements and notes are presented in thousands of Canadian dollars, which is CIB’s functional currency, unless otherwise stated.

The Financial Statements were approved by the Board of Directors on June 27, 2019.

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### 3. Significant accounting policies:

The principal accounting policies applied in the preparation of these Financial Statements are set out below.

#### a. Financial assets and financial liabilities:

The Corporation early adopted IFRS 9, Financial Instruments (“IFRS 9”) including consequential amendments to IAS 1, Presentation of Financial Statements and IFRS 7, Financial Instruments: Disclosures, with a date of initial application of June 22, 2017.

IFRS 9 replaces the guidance in IAS 39, Financial Instruments: Recognition and Measurement (“IAS 39”) on the classification and measurement of financial assets. However, because CIB did not transition from IAS 39 to IFRS 9, there is no transition impact from the application of IFRS 9.

#### Classification and subsequent measurement

##### *Financial assets:*

On initial recognition, a financial asset is classified as measured at: amortized cost, fair value through other comprehensive income (“FVOCI”) or fair value through profit or loss (“FVTPL”).

A financial asset is classified as measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (“SPPI”).

All of CIB’s financial assets are classified as measured at amortized cost at the reporting date.

A financial asset is classified as measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

On initial recognition of an equity investment that is not held for trading, CIB may irrevocably elect to present subsequent changes in FVOCI. This election is made on an investment-by-investment basis.

CIB did not hold any assets classified as measured at FVOCI as at the reporting date.

All other financial assets are classified as measured at FVTPL. CIB did not hold any assets classified as measured at FVTPL as at the reporting date.

In addition, on initial recognition, CIB may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

#### Business model assessment:

Business model assessment involves determining whether financial assets are held and managed by CIB for generating and collecting contractual cash flows, selling the financial assets or both. CIB assesses the business model at a portfolio level using judgment that is supported by relevant objective evidence including:

- how the performance of the asset is evaluated and reported to CIB’s management;
- the frequency, volume, reason and timing of sales in prior periods and expectations about future sales activity;
- whether the assets are held for trading purposes i.e., assets that are acquired by CIB principally for the purpose of selling or repurchase in the near term, or held as part of a portfolio that is managed together for short term profits; and
- the risks that affect the performance of assets held within a business model and how those risks are managed.

### **Assessment of whether contractual cash flows are solely payments of principal and interest:**

The contractual cash flow characteristics assessment involves assessing the contractual features of an instrument to determine if they give rise to cash flows that are consistent with a basic lending arrangement, i.e. if they represent cash flows that are SPPI.

Principal is defined as the fair value of the instrument at initial recognition. Principal may change over the life of the instruments due to repayments. Interest is defined as consideration for the time value of money and the credit risk associated with the principal amount outstanding and for other basic lending risks and costs (liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are SPPI, CIB considers the contractual terms of the instrument. This includes assessing whether the financial asset contains any contractual terms that could change the timing or amount of contractual cash flows such that the financial asset would not meet the SPPI criteria. In making the assessment CIB considers:

- contingent events that would change the amount and/or timing of cash flows;
- leverage features;
- prepayment and extension terms;
- associated penalties relating to prepayments;
- terms that limit CIB's claim to cash flows from specified assets; and
- features that modify consideration of the time value of money.

### **Reclassifications**

Financial assets are not reclassified subsequent to their initial recognition, except in a period after CIB changes its business model for managing financial assets.

CIB did not have any reclassifications during the year.

### **Financial liabilities:**

CIB classifies its financial liabilities, other than loan commitments, as measured at amortized cost.

Loan commitments are firm commitments to provide credit under pre-specified terms and conditions. Commitments to provide a loan at a below-market interest rate are subsequently measured at the higher of:

- the loss allowance determined in accordance with IFRS 9; and
- the amount initially recognized less, when appropriate, the cumulative amount of income recognized in accordance with the principles of IFRS 15, Revenue from Contracts with Customers ("IFRS 15").

Refer to note 8 for a summary table outlining the classification and measurement of CIB's financial instruments.

### **Recognition and initial measurement**

A loan receivable is initially recognized when it is either originated or drawn under a loan commitment. All other financial assets and financial liabilities are recognized when CIB becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an instrument not at FVTPL, transaction costs that are directly attributable to the acquisition or issue.

If the fair value of the financial asset or financial liability at initial recognition differs from the transaction price, then:

- the initially recognized amount is adjusted for the difference if the fair value of the instrument is not evidenced by either a quoted price in an active market for an identical instrument or based on a valuation technique that uses only data from observable markets. The difference is deferred and recognized as a gain or loss only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the asset or liability.
- in all other cases – i.e. when the fair value of the financial asset or financial liability at initial recognition differs from the transaction price and the fair value of the instrument is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets – no adjustment is made for the difference. This difference is recognized as a gain or loss.

CIB views a loan receivable drawn under an irrevocable loan commitment as continuation of the commitment, and assesses the classification and measurement of the loan receivable based on conditions at the loan commitment date. For a loan receivable that will be subsequently measured at amortized cost, the loan commitment date is also used in assessing whether there has been a significant increase in credit risk since initial recognition. The loan receivable is assessed with reference to the credit risk as at the date of the commitment, with the discount rate used to measure expected credit losses (“ECL”) on the loan commitment being the same as the effective interest rate of the resulting loan.

### Impairment Loss

CIB recognizes allowances for ECL on financial assets that are not measured at FVTPL and loan commitments issued.

The allowance for expected credit loss is measured using a three-stage impairment model:

- i. *Stage 1 – 12-month ECL*: The loss allowance is measured at an amount equal to the 12-month expected credit losses if there is no significant increase in credit-risk since initial recognition and the loan is not considered credit-impaired. 12-month ECLs are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.
- ii. *Stage 2 – lifetime ECL*: The loss allowance is measured at an amount equal to the lifetime expected credit losses if there is a significant increase in credit risk since initial recognition and the loan is not considered credit-impaired. Lifetime ECLs result from all possible default events over the expected life of the financial instrument.
- iii. *Stage 3 – lifetime ECL*: The loss allowance is measured at an amount equal to the lifetime expected credit losses if the loan is considered credit-impaired and interest revenue is calculated based on the carrying amount of the instrument, net of the loss allowance, rather than on its gross carrying amount. Financial instruments that are considered to be in default are included in this stage.

### Measurement of ECL

ECL are estimates of credit losses based on inputs of probability of default (PD), exposure at default (EAD), loss given default (LGD), and macroeconomic factors that are relevant to the respective loan facility, and are probability-weighted using different scenarios. The LGD is measured as follows:

- *financial assets that are not credit-impaired at the reporting date*: the present value of all cash shortfalls – i.e. the difference between the cash flows due to CIB under the contract and the cash flows that CIB expects to receive;
- *financial assets that are credit-impaired at the reporting date*: the difference between the gross carrying amount and the present value of estimated future cash flows; and
- *undrawn loan commitments*: the present value of the difference between the contractual cash flows that are due to CIB if the commitment is drawn down and the cash flows that CIB expects to receive.

### Macroeconomic factors and forward-looking scenarios

The measurement of ECL for each stage and assessment of significant increase in credit risk considers information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information requires significant judgment.

CIB relies on a broad range of forward-looking macroeconomic factors, such as expected inflation, population growth and GDP growth. The inputs used in calculating ECL may not always capture all characteristics of the market as at the date of the Financial Statements. To capture relevant characteristics and risks, significant qualitative adjustments or overlays are made using management judgment. CIB determines ECL using probability-weighted forward-looking scenarios, which are constructed based on forward looking macroeconomic factors and consideration of risks related to key project drivers. See note 14.

### Assessment of significant increase in credit risk

The determination of whether the ECL on a financial instrument is calculated on a 12-month period or lifetime basis is dependent on the stage the financial asset falls into at the reporting date. A financial instrument moves across stages based on an increase or decrease in its risk of default at the reporting date compared to its risk of default at initial recognition, as measured by changes to borrower level information and macroeconomic outlook. See note 14.

### Credit-impaired financial assets and definition of default

At each reporting date, for financial assets carried at amortized cost, CIB assesses whether they are credit impaired.

CIB considers a financial instrument to be in default and thus credit impaired (stage 3) when one or both of these criteria are met representing objective evidence of impairment:

- the borrower is unlikely to pay its credit obligations to CIB in full, without recourse by CIB to actions such as realizing collateral (if any is held); or
- the borrower is past due more than 90 days on any material credit obligation to CIB.

## **Derecognition**

### **Financial assets:**

CIB derecognizes a financial asset when:

- the contractual rights to receive the cash flows from the asset have expired; or
- CIB has transferred its rights to receive future cash flows of the financial asset, or it retains the contractual rights to receive the cash flows of the financial asset but assumes a contractual obligation to pay the cash flows to one or more recipients and either:
  - CIB has transferred substantially all the risks and rewards of ownership of the financial asset; or
  - CIB has neither retained nor transferred substantially all the risks and rewards of ownership in the financial asset, but has transferred control of the asset.

### **Financial liabilities:**

A financial liability is derecognized when the related contractual obligation is extinguished – i.e. discharged or cancelled, or expired.

## **b. Property and equipment:**

Property and equipment are carried at cost less accumulated depreciation, and accumulated impairment losses, if any.

The cost of an item of property and equipment includes its purchase price and any costs directly attributable to bringing the asset to the location and condition necessary for it to operate in the manner intended by management.

Property and equipment are depreciated over their estimated useful lives, as follows:

Asset	Depreciation method	Rate
Leasehold improvements	straight-line	< of lease term & useful life
Computer hardware	declining balance	55%
Furniture and equipment	declining balance	20%

The residual values and depreciation methods are reviewed, and adjusted if appropriate, at least at each financial reporting date.

These assets are also reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. When significant indicators are identified, an impairment test is performed. If the carrying amount of an asset (or group of assets) is greater than its estimated recoverable amount, the carrying amount is written down immediately to its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use.

## **c. Deferred liabilities:**

Deferred liabilities consist of (i) accrued rent recognized on a rent-free period embedded in the lease for office space amortized over the term of the lease and (ii) accrued long-term performance incentives.

## **d. Interest income:**

Interest income includes interest on the loan receivable recognized based on the carrying value of the loan using the effective interest rate method and interest derived from cash balances recognized in the Statement of Income and Comprehensive Income in the year it is earned.

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating the interest income over the relevant period in financing and investment revenue in the Statement of Income and Comprehensive Income. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset. When calculating the effective interest rate, we estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but do not consider future credit losses. The calculation includes all fees paid or received that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

#### **e. Government funding:**

CIB's primary source of funding is parliamentary appropriations received from the Government of Canada. Parliamentary appropriations are recognized as government funding in the Statement of Income and Comprehensive Income on a systematic basis over the periods in which CIB recognizes, as expenses or assets, the related balances for which the appropriations are intended to compensate.

Unused parliamentary appropriations at year end can exist because of delayed timing of expenditures or timing of investment drawdowns to which those appropriations relate, and therefore the amounts are recorded as deferred government funding on the Statement of Financial Position and are carried forward to future periods. The appropriations relating to investments are recognized as income as investments are made and appropriations relating to operating and capital expenditures are recognized in income as the corresponding expenditures or depreciation are incurred.

A government funding receivable is recorded for parliamentary appropriations – authorized via the corporate plan and enabling legislation – to cover expenditures that have been incurred but for which funds have not yet been transferred.

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## **4. Changes to accounting standards:**

Revenue and contracts with customers:

On May 28, 2014, the IASB issued a new standard, IFRS 15 replacing IAS 18, Revenue. The new standard is effective for annual periods beginning on or after January 1, 2018. The core principle of the standard is that an entity will recognize revenue when it transfers promised goods or services to customers, in an amount that reflects the consideration to which the entity is expected to be entitled in exchange for those goods or services.

This standard is now effective, however application of this standard has no impact on CIB's financial statements.

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## **5. Future accounting changes:**

At the date of authorization of these Financial Statements, certain new standards, amendments and interpretations to existing standards had been published by the IASB but were not yet effective and had not been early adopted by CIB. These standards include IFRS 16, Leases, described below. Certain other new standards, amendments and interpretations have been issued but are not expected to have a material impact on CIB's Financial Statements.

### **IFRS 16, Leases**

On January 13, 2016, the IASB issued a new standard, IFRS 16, Leases, which supersedes IAS 17, Leases and related interpretations. The new standard is effective for annual periods beginning on or after January 1, 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both the lessee and the lessor. The standard provides a single lessee accounting model requiring lessees to recognize assets and liabilities for all leases, unless the lease term is 12 months or less, or if the underlying asset has a low value. Lessors will continue classifying leases as operating or finance, since IFRS 16's approach to lessor accounting is substantially unchanged from IAS 17.

CIB will be adopting IFRS 16 on a modified retrospective basis starting April 1, 2019. CIB has assessed the Statement of Financial Position impact of adopting this standard on its current operating leases (note 15). The estimated Statement of Financial Position impact is the recognition of a right-of-use asset and a lease liability of approximately \$4 million.



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## 6. Significant accounting judgments, estimates and assumptions:

In preparing the Financial Statements management has made judgments, and used estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

Significant changes in the underlying assumptions could result in significant changes to these estimates. Consequently, management reviews these assumptions regularly. Revisions to accounting estimates are recognized prospectively – i.e. in the period in which the estimates are revised and in any future period affected.

### Judgments

Information about judgments made in applying accounting policies that have the most significant effects on the amounts recognized in the Financial Statements is included in the following notes.

- Note 14 - Establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of ECL and selection and approval of models used to measure ECL.
- Note 7 and 9- In establishing the appropriate accounting for financial assets, management is required to use judgement, including but not limited to its determination of fair value of assets, whether the asset meets the definition of being held solely for the collection of principal and interest.

### Assumptions and estimation uncertainties

Information about significant assumptions and estimates is included in the following notes:

- Note 14 - Impairment of financial instruments: determining inputs into the ECL measurement model, including incorporation of forward-looking information and associated probabilities.
- Notes 7 and 9 - Determination of the fair value of financial instruments with significant unobservable inputs.

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## 7. Fair value of financial Instruments:

Financial asset and financial liabilities measured at fair value are categorized into one of three hierarchy levels, described below. Each level reflects the significance of the inputs used to measure the fair values of assets and liabilities:

Level 1 – inputs are based on unadjusted quoted prices in active markets for identical instruments.

Level 2 – inputs, other than quoted prices in Level 1, that are observable for the instruments, either directly or indirectly. This category may include instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

Level 3 – inputs that are unobservable. This category includes instruments for which the valuation technique includes inputs that are not observable, and the unobservable inputs have a significant effect on the instrument's valuation.

As of the reporting date, there were no financial instruments measured at fair value.

### Loan receivable and loan commitment

CIB disclosed but did not measure its loan receivable and loan commitment at fair value. Although the loan commitment is initially recognized at fair value, the difference between the fair value at initial recognition and the transaction price is not recognized in profit or loss immediately but is deferred as part of the carrying amount of the loan commitment and loan receivable.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

In determining the fair value of the loan receivable and loan commitment, CIB used net present value and discounted cash flow techniques, and included a comparison of yields of similar project finance instruments for which observable market data existed. Management applied judgment and estimation for the selection of the valuation model, determination of

expected future cash flows on the instruments, determination of the probability of counterparty default and prepayments, determination of expected volatilities and correlations, and selection of appropriate discount rates.

Model inputs and values were calibrated for any historical data and published forecasts and, where appropriate and possible, against similar recently observed transactions. This calibration process is inherently subjective and it yields ranges of possible inputs and estimates of fair value, therefore management used judgment to select the most appropriate point in the range.

CIB used observable yields on similar large-scale infrastructure project finance loans in fair valuing the instruments. Although the availability of observable market prices and model inputs partially reduced the need for management judgment and estimation, there were significant unobservable inputs that could have a material impact on the financial statements. These unobservable inputs include, but are not limited to, determination of a borrower-specific credit spread and an assessment of risk factors used for comparable, but not necessarily equivalent, instruments which are then applied in determining an estimate for credit and liquidity spreads in the fair value calculation.

Fair value estimates obtained from models were then adjusted for any other factors, such as project specific risks, to the extent that CIB believed that a third-party market participant would take them into account in pricing a transaction.

#### Financial instruments not measured at fair value

The following table sets out the fair values of financial instruments not subsequently measured at fair value and analyzes them by the level in the fair value hierarchy into which each is categorized.

March 31, 2019	Note	Level	Fair value	Carrying amount
Loan receivable	9	3	338,447	550,914
Loan commitment	9	3	(283,390)	-

These instruments did not exist in the prior year.

The fair value of all other financial instruments, not measured at fair value, approximates their carrying value.

## 8. Classification and measurement of financial instruments:

The following table summarizes the classification of CIB's financial instruments:

	Note	Measurement basis	March 31, 2019	March 31, 2018
Cash	-	Amortized Cost	956	9,682
Government funding receivable related to operating expenditures	3	Amortized Cost	1,362	-
Loan receivable	9	Amortized Cost	550,914	-
Accounts payable and accrued liabilities	11	Amortized Cost	2,039	646

Refer to note 3 for measurement of the loan commitment

## 9. Loan receivable and loan commitments:

On September 28, 2018, CIB entered into a credit agreement with Réseau express métropolitain Inc. (the “REM Agreement”). As per the agreement, CIB agreed to provide debt of \$1.283 billion as part of the financing of a fully automated, electric light rail transit system connecting downtown Montreal, the South Shore, the West Island, the North Shore and Pierre-Elliott Trudeau Airport. The debt is to be drawn down between fiscal 2019 and fiscal 2021 and is repayable 15 years from the first drawdown date. The interest on the loan is concessionary in nature at a 1% annual rate compounded quarterly for the first 10 years and will be paid in cash quarterly at a 3% annual rate for years 11 to 15. The debt will be drawn down in 5 installments and be repayable in 15 years from the first drawdown date. The first drawdown for \$279 million was made on November 30, 2018 and the second drawdown for \$270 million was made on March 1, 2019, and the remaining drawdown schedule is as follows:

F2020	F2021	Total
\$ 513,000	\$ 221,000	\$ 734,000

### Valuation differences on initial recognition

Given CIB’s mandate to support and invest in large infrastructure projects in Canada, or partly in Canada that cannot be fully financed privately, CIB extends loans at a below market rate. Consequently the loan commitment and loan receivable have a fair value that is lower than would otherwise be the result if transacted at market rates in the infrastructure project financing market, which is CIB’s principal market.

On initial recognition, CIB estimated the fair value of the loan commitment issued through the REM agreement using valuation techniques. While certain inputs were from similar recently observed transactions in the principal market, not all the significant inputs into the valuation techniques were wholly observable. The difference between the fair value at initial recognition and the transaction price is not recognized in profit or loss immediately but is deferred as part of the carrying amount of the loan commitment and loan receivable. As loan receivable balances drawn under the commitment are viewed as a continuation of the commitments issued, the unamortized deferred balance resulting from individual loan commitment tranches form part of the loan receivable as the amounts are drawn. The deferred amounts are amortized on an effective interest rate basis over the life of the loan receivable.

The following table sets out the aggregate difference yet to be recognized in profit or loss at the beginning and end of the year and a reconciliation of the changes of the balance during the year.

### Unrecognized valuation difference (day 1 loss)

	F2019
Opening balance at April 1, 2018	-
Increase due to the REM Agreement	496,136
Reduction of deferred valuation difference due to passage of time	(2,256)
Closing balance at March 31, 2019	\$ 493,880

Comprised of:	F2019
Unrecognized valuation difference relating to loan commitment	\$283,838
Unrecognized valuation difference relating to loan receivable	210,042
Closing balance at March 31, 2019	\$ 493,880

### Loan receivable - amortized cost

The following table presents the changes in the REM loan:

	F2019
Opening balance at April 1, 2018	-
Draw downs	549,000
Interest accrued	1,914
Valuation transfer from loan commitment provision	(212,298)
Valuation transfer from loan commitment – deferred	212,298
Release of valuation provision due to passage of time	2,256
Reduction of deferred valuation difference due to passage of time	(2,256)
Closing balance at March 31, 2019	\$ 550,914

### Loan commitments (provision):

	F2019
Opening balance at April 1, 2018	-
Loan commitment recorded during the year	496,136
Valuation transfer related to loan receivable funded during the year	(212,298)
	283,838
Unrecognized valuation difference relating to loan commitment	(283,838)
Closing balance at March 31, 2019	\$ -

### Expected credit loss:

Based on the 12-month (stage 1) expected credit loss review completed by CIB, there were no significant changes in credit risk. A 12-month expected credit losses of \$ nil (2018 - \$ nil) was reported on the loan receivable and loan commitment as at the reporting date. See note 3 and 14.

## 10. Property and equipment:

	F2019				F2018		
	Leasehold improvements	Computer hardware	Furniture & equipment	Total	Computer hardware	Furniture & equipment	Total
<b>Cost:</b>							
Balance at beginning of year	-	18	5	23	-	-	-
Additions	1,239	178	320	1,737	18	5	23
Balance at end of year	1,239	196	325	1,760	18	5	23
<b>Accumulated depreciation:</b>							
Balance at beginning of year	-	5	-	5	-	-	-
Depreciation expense	62	56	33	151	5	-	5
Balance at end of year	62	61	33	156	5	-	5
Carrying amount	\$1,177	\$135	\$292	\$1,604	\$13	\$5	\$18

No property and equipment was impaired as at March 31, 2019 (2018 – nil).

## 11. Accounts payable and accrued liabilities:

	F2019	F2018
Accrued compensation	\$ 1,660	\$ 250
Accrued professional fees	201	307
Accounts payable	158	22
Other	20	67
	\$ 2,039	\$ 646

## 12. Capital management:

CIB defines capital that it manages as the aggregate of its equity, which is comprised of retained earnings and its share capital.

The Corporation's objectives in managing capital are as follows:

- To safeguard its ability to continue as a going concern;
- To fund its asset base; and
- To fulfil its mission and objectives for the Government of Canada to the benefit of Canadians.

CIB manages its capital by reviewing formally, on a regular basis, the actual results against set budgets, and shares this information with its Finance and Audit Committee and Board of Directors. CIB's overall strategy with respect to capital management includes the balancing of its operating, capital and investing activities with its funding on an annual basis. CIB makes adjustments to its capital management strategy in light of general economic conditions, the risk characteristics of the underlying assets and working capital requirements. CIB is subject to an annual limit on its appropriations to amounts in its corporate plan as approved by the Treasury Board of Canada on an annual basis.

### 13. Related party transactions:

The Corporation is related in terms of common ownership to all Government of Canada departments, agencies and Crown corporations. CIB's transactions with government related entities that were individually significant are government funding (note 3(e)) which are approved in the form of a statutory authority, as well as CIB's annual corporate plan, and obtained through drawdown requests made to the Department of Finance.

Other related parties of CIB consist mainly of key management personnel of the Corporation or close members of these individuals over which the Corporation has significant influence.

#### Key management personnel compensation

Key management personnel are defined as those officers having authority and responsibility for planning, directing and controlling the activities of CIB, including members of the Board of Directors.

The following table presents the compensation expense of key management personnel.

	F2019	F2018
Salaries and short-term employee benefits	\$ 3,154	\$ 385
Post-employment benefits	74	-
Other-long term benefits	640	-
	\$ 3,868	\$ 385

### 14. Financial instruments and risk management:

CIB is exposed to a variety of financial risks: market risk, liquidity risk and credit risk. CIB's overall risk management program focuses on the unpredictability of financial and economic markets and seeks to minimize potential effects on the Corporation's financial performance.

CIB's Board of Directors has overall responsibility for the establishment and oversight of the Corporation's risk management framework and approves the Corporation's risk management policies. The Corporation's enterprise risk management framework is established to identify the risks faced by the Corporation.

The Corporation's Finance and Audit Committee oversees how management monitors compliance with the Corporation's enterprise risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Corporation.

#### a. Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. CIB's key market risk relates to interest rate risk. The loan receivable is a fixed interest rate loan and therefore CIB is not currently exposed to any significant market risk as at the end of the period.

The following table summarizes the loan receivable's and the loan commitment's sensitivity to an increase or decrease in market interest rates of 100 basis points (bps) at the reporting date assuming no asymmetrical movement in yield curves and a constant financial position.

	100 bps parallel increase	100 bps parallel decrease
Loan receivable	(45,757)	53,106
Loan commitment	(60,921)	70,705

The loan receivable is measured at amortized cost and the loan commitment is subsequently measured at the greater of the loss allowance and the amount initially recognized. Thus the above market interest rate movements are not expected to have any effect on CIB's income and equity.

The fair value of the other financial instruments held by CIB are not sensitive to the above market interest rate movements.

### b. Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are to be settled by delivering cash or another financial asset. Liquidity risk is low since CIB does not have debt instruments to service and receives regular funding from the Government of Canada. CIB manages its liquidity risk by preparing and monitoring forecasts of cash flows for anticipated operating, capital, and investing activities. Also, the Board of Directors reviews and approves CIB's operating, capital, and investment budgets.

The following table sets out the contractual maturities (representing undiscounted contractual cash flows) of financial liabilities:

	F2019						
	Carrying amount	Contractual cash flow	F2020	F2021	F2022	F2023	F2024
Accounts payable and accrued liabilities	\$2,039	\$2,039	\$2,039	\$-	\$-	\$-	\$-
Long-term incentives	732	732	244	244	244	-	-
	\$2,771	\$2,771	\$2,283	\$244	\$244	\$-	\$-

### c. Credit risk

Credit risk is the risk that a counterparty will default on its contractual obligations resulting in financial loss to CIB. As CIB's business is to invest in project financing structures (which normally involves a limited liability special purpose vehicle), CIB endeavours to mitigate risk of financial loss from defaults by including contractual terms and conditions which attempt to protect CIB's interest to the extent possible and monitoring the credit risk on projects on a continuous basis.

Monitoring of credit risk typically involves credit risk analysis which is performed by the management of CIB using best practices, including the principle of expected loss, for each transaction considered for financing by CIB. Qualitative and quantitative risk factors are taken into consideration for each infrastructure project, both, during the construction and the operations phase, as well as specific legal and financial structure risk factors. Risk factors include the following data:

Risks	Risk Exposure	Mitigating Factors
Construction risk	Construction cost overruns	Liquidity facilities
Operating risk	Additional debt exposure	Covenant tests, ratios and contingencies
Financial structure risk	CIB takes subordinated positions in investments	CIB ranks above equity

Subsequent to closing of a transaction by CIB, the credit exposures are regularly monitored by assessing the above-mentioned factors. This monitoring also provides inputs for expected loss assumptions or fair value estimations of the related exposures. Monitoring of each credit is performed at least annually via a credit review process, with more regular monitoring warranted in the event of covenant breaches or any other issues impacting the transaction.

### Credit quality analysis and credit exposures

CIB is exposed to credit risk through its investments in loan receivable and loan commitment.

The following table sets out information about the credit quality and credit exposures of loan receivable and loan commitments. For loan receivable, the amounts in the table represent gross carrying amounts. For loan commitments, the amounts in the table represent the total amounts committed.

Explanation of the terms 'Stage 1', 'Stage 2' and 'Stage 3' is included in note 3.

		F2019	F2018
		Stage 1	Stage 1
Loan receivable	Low-fair risk	550,914	-
Loan commitment	Low-fair risk	734,000	-

CIB holds security over the future revenues from the financed project related to its loan receivable.

CIB held cash of \$ 956 as at March 31, 2019 (2018: \$9,682). The cash is held with financial institutions that are highly rated in Canada.

CIB held a government funding receivable related to operating expenditures of \$1,362 (2018 – \$ nil). The counter-party is the Government of Canada.

All the above instruments are current – i.e. nothing is overdue.

#### Amounts arising from ECL

- Inputs, assumptions and techniques used for estimating impairment. See accounting policy in note 3(a) and the below.
- Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, CIB considers expert credit assessments, analysis of delinquency, monitoring, and macroeconomic outlook including forward-looking information. With regards to delinquency and monitoring, there is a rebuttable presumption that the risk of default of the financial instrument has significantly increased since initial recognition when contractual payments are more than 30 days overdue.

In determining whether there has been a significant increase in credit risk, CIB uses the following three considerations:

- Change in credit spreads of the financed project;
- Qualitative indicators; and
- A backstop of 30 days past due.

The qualitative indicators which CIB uses in assessing the credit risk of an exposure mainly includes analysis of the finance project for:

- Construction cost overrun and delays
- Operating maintenance and lifecycle risk
- Reduction in expected current or future revenue, as the case may be
- Leverage and any breaches of loan covenants
- Market risk factors
- Incorporating forward looking information

CIB incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL.

CIB develops economic scenarios in which an exposure could default based on certain key credit risk assessment indicators. CIB applies expert management judgment in developing these scenarios. The management judgment is informed by certain economic data and forecasts published by government bodies or authorities. Once the scenarios are identified, CIB assigns probabilities to those scenarios based on certain forward-looking economic factors – inflation, population growth and GDP growth. In determining the probabilities, CIB considers predictive relationships between the key indicators.



- Definition of default and measurement of ECL

See accounting policy in note 3(a).

- Expected credit loss

See note 9.

### ECL Sensitivity

As the project financed by CIB is at initial phase, CIB is not expecting any reasonably possible changes in the inputs and assumptions used to result in a significant increase in credit risk and material movement in the ECL measurement. See note 3(a) for information about the inputs and assumptions used by CIB at the end of the reporting period.

### Concentrations of credit risk

As the prime objective of CIB is to invest in infrastructure projects in Canada or partly in Canada, it finances large projects and is subject to significant concentration of credit risk by borrower, sector and geographic location.

CIB's credit risk exposure at March 31, 2019 is concentrated in a loan receivable and loan commitment which relate to a single project borrower in Quebec as per the REM agreement (see note 9). In 2018, the credit risk concentration was reflected through cash amounts at banks in Canada.

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## 15. Lease commitments:

On August 31, 2017, CIB entered into long term leases for both office and storage space located at 150 King Street West. The term of each lease is 10 years and commences on June 1, 2018, with combined future commitments as follows:

F2020	F2021	F2022	F2023	F2024	Thereafter	Total
\$ 308	\$ 308	\$ 308	\$ 308	\$ 324	\$ 3,332	\$ 4,888

CIB has the option to extend the office lease for two further consecutive terms of five years each. The commitment schedule above assumes one extension of five years and reflects undiscounted amounts owed.

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## 16. Expenses:

Professional fees for the year include a credit of \$1.53 million for the reimbursement, by Réseau express métropolitain Inc., of third party fees incurred by CIB, prior to financial close, in connection with the loan facility.

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## 17. Subsequent events:

Subsequent to year-end CIB announced its participation of up to \$2 billion in financing in Ontario's GO Expansion – On Corridor project. CIB's partnership with Infrastructure Ontario and Metrolinx will add to the transformation of the GO rail network in the Greater Toronto and Hamilton Area. CIB will finalize a credit agreement with the preferred proponent selected by Infrastructure Ontario and Metrolinx when the project reaches financial close.

## Board of Directors



**Janice Fukakusa, Chair**  
Corporate Director  
*Member of the Finance and Audit, Governance, and Human Resources and Compensation\* committees*



**Kimberley Baird**  
Corporate Director  
*Member of the Governance Committee*



**Jane Bird**  
Corporate Director; Senior Business Advisor with the Vancouver office of Bennett Jones LLP  
*Member of the Governance, and Human Resources and Compensation committees*



**David Bronconnier**  
Corporate Director; President and CEO of Interloq Capital Inc.  
*Member of the Finance and Audit Committee*



**James Cherry**  
Corporate Director  
*Member of the Human Resources and Compensation Committee*



**Michèle Colpron**  
Corporate Director  
*Member of the Finance and Audit\*, and Human Resources and Compensation committees*



**Bruno Guilmette <sup>(1)</sup>**  
Corporate Director; Vice President and CFO of Boralex Inc.



**Christopher Hickman**  
Corporate Director; Chairman and Chief Executive Officer of Marco Group of Companies  
*Member of the Finance and Audit Committee*



**Poonam Puri**  
Corporate Director; Professor of Business Law at Osgoode Hall Law School  
*Member of the Finance and Audit Committee*



**Stephen Smith**  
Corporate Director; Co-Founder, Chair and Chief Executive Officer of First National Financial LP  
*Member of the Governance\*, and Human Resources and Compensation committees*



**Patricia Youzwa**  
Corporate Director  
*Member of the Governance Committee*

*An asterisk denotes chairs of the Board's standing committees. All Board members participate on the Investment Committee.*

*<sup>(1)</sup> Mr. Guilmette was appointed to the Board of Directors in November 2017 and served as interim Chief Investment Officer from January 1 to May 31, 2018. He stepped down from his Board position while serving in this role and returned to the Board on June 1, 2018.*

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## Executive Team



**Pierre Lavallée**  
President & Chief Executive Officer, effective June 18, 2018  
Mr. Lavallée is the former Senior Managing Director & Global Head, Investment Partnerships for Canada Pension Plan Investment Board and held previous senior leadership roles.



**Annie Ropar**  
Chief Financial Officer and Chief Administrative Officer, effective June 1, 2018  
Ms. Ropar is the former CFO of Aequitas Innovations, operator of the NEO Exchange.



**Nicholas Hann**  
Head, Investments  
Mr. Hann was previously Senior Managing Director of Macquarie Capital Markets Canada Ltd. and Finance Director for HSBC Investment Bank Asia Limited.



**François Lecavalier**  
Head, Project Development  
Most recently, François Lecavalier was Senior Vice President at the Business Development Bank of Canada, Vice President of SNC-Lavalin Capital and worked for the European Bank for Reconstruction and Development.



**David Morley**  
Head, Public Affairs  
Prior to joining CIB, Mr. Morley was Senior Vice President, Strategy and Communications at Infrastructure Ontario and provided advice to the governments of Ontario, Manitoba and Canada.

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CANADA 

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