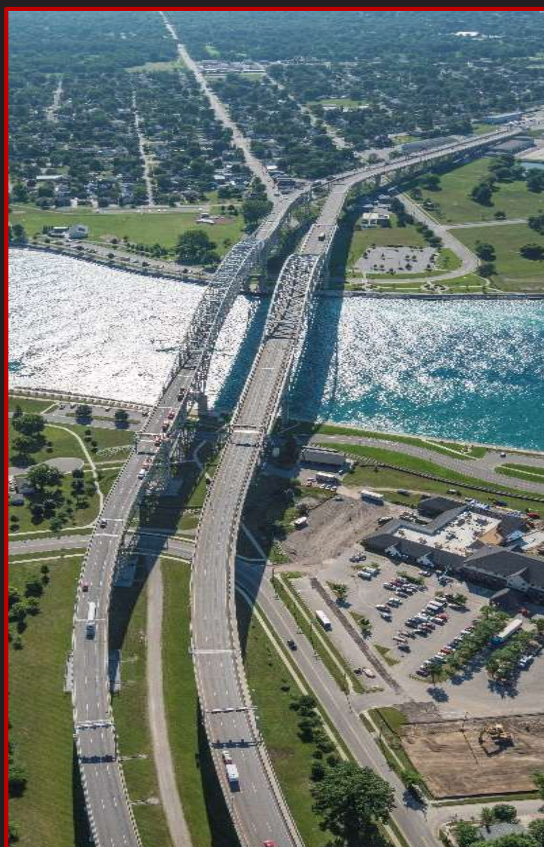
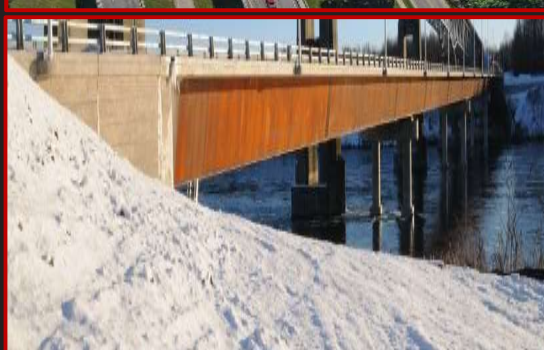
THE FEDERAL BRIDGE CORPORATION LIMITED





Quarterly Financial Report
3rd Quarter (Q3) – Unaudited
FOR THE NINE MONTHS ENDED DECEMBER 31, 2016

CANADA 150

Canada

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Cover photos:

Top left to right: *Aerial view of Blue Water Bridge in Point Edward, section of the Thousand Islands Bridge in Lansdowne and Canadian Span of the Sault Ste. Marie International Bridge,*

Bottom left: *North Channel Bridge in Cornwall.*

1.0 FBCL

The Federal Bridge Corporation Limited (FBCL) is a federal Canadian Crown Corporation operating at arm's length from the federal government. FBCL is entrusted with the oversight of select Crown assets linking the United States and Canada. These international bridge crossings provide vital trade routes and links from Ontario to Michigan and New York states. The assets that FBCL is entrusted with are located in Sault Ste. Marie, Point Edward, Lansdowne, and Cornwall, all within the province of Ontario. Its international bridges are some of the most important fixed-link crossings in Canada.

1.1 Mandate

FBCL's mandate is to provide the highest level of stewardship so that its bridge structures are safe and efficient for users. The Corporation is responsible for the proper design, construction, financing, maintenance, operation, management, development, and repair of bridges and associated structures under its control. FBCL is also in a position to be able to provide expertise to the federal government in relation to other bridges outside of FBCL's group of entrusted assets.

1.2 FBCL Group

In 2015, the corporation was amalgamated with two other federal Crown corporations to own and/or operate international bridges within a new entity. While the FBCL name was retained, its mandate has been renewed to include four international bridges that provide vital trade routes and links between Ontario, Michigan State and New York State, supporting the Canadian and the United States (U.S.) economies as a whole.

The diversity of the operations across the bridge portfolio is significant. The Blue Water Bridge has the most volume, the Seaway International Bridge Crossing has the most challenging operating environment and the demographics and traffic patterns at the Thousand Islands International Bridge and the Sault Ste. Marie International Bridge differ significantly.

Sault Ste. Marie, ON

Lansdowne, ON (Thousand Islands)

Point Edward, ON (Blue Water Bridge)

Cornwall, ON (Seaway International Bridge)

1.2 FBCL Group (Cont'd)

FBCL's new mandate provides an opportunity to align, to look at all possibilities and focus on a portfolio model for all four international bridges, where best practices are shared across all locations and forms the basis for a strong self-sustaining corporation. The primary elements of success for the corporation at creation were governance and accountability. By-laws, key policies and practices have or are in the process of a fulsome review.

These consolidated quarterly financial reports include the accounts of FBCL (as described above); including its share of the operations of the Thousand Islands International Bridge, and its proportionate share (50%) of its interest in its government partnership, The Seaway International Bridge Corporation, Ltd. (SIBC).

2.0 Q3 2016-17 in Review

This quarterly financial report has been prepared in accordance with the requirements of the *Financial Administration Act* and the Standard on Quarterly Financial Reports for Crown Corporations issued by the Treasury Board Secretariat.

This quarterly financial report assesses the operations and financial status of FBCL for the fiscal quarter ended December 31, 2016 (Q3). It should be read in conjunction with the interim unaudited condensed consolidated financial statements and related notes, included herein. Unless otherwise indicated, all amounts are expressed in Canadian dollars and have been primarily derived from FBCL's interim unaudited condensed consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS).

2.1 Summary

At December 31, 2016, FBCL is reporting a consolidated net income of $5.93 million for the first nine months of the fiscal year ($10.11 million – Q3 2015-16). The timing of government funding relating to certain aspects of on-going projects and interest expenses on bonds and loans have a great deal of influence over these reported values, and so the operating income before government funding relays a better display of the organization's effectiveness. At December 31, 2016, FBCL is reporting $6.43 million in operating income before government funding ($7.15 million – Q3 2015-16).

Toll revenue (Tolls and services, and Thousand Islands International Bridge revenue) in the first nine months of the year, for the FBCL group, amounted to $28.99 million ($26.15 million – Q3 2015-16), which is 89.1% (80.5% - Q3 2015-16) of the budgeted total for the entire fiscal year. While total traffic across the FBCL group of bridges is still lower than at this point last year, the third quarter continued to see significantly closer volumes to the prior year. The decreased volumes in the nine month period predominantly derive from passenger volumes being lower (4.1% lower than last year at December 31), while truck volumes have been consistently better than the prior year (2.5% higher than last year at December 31). Additional discussion on revenue follows in section 3.1.

Net working capital (defined as current assets minus current liabilities) continues to be strong for the corporation, as compared to the prior year-end. At the end of the prior year (March 2016), working capital was $14.77 million, and has now increased to $22.0 million, an increase of $7.23 million, largely created by income earned from operations. Cash and cash equivalents, as well as trade and other receivables have

2.1 Summary (Cont'd)

increased significantly over the end of the prior year (by $2.57 million and $7.13 million, respectively) while current investments have decreased by $2.05 million (partially offset by a non-current increase of $1.09 million). The increases in receivables are due to the three on-going government funded projects that FBCL is currently delivering. The active construction season through Q3 results in higher cash flow transactions.

Year-to-date capital acquisitions amount to $43.66 million ($25.42 million – Q3 2015-16). Spending on government funded projects account for approximately 97% of this spending. The Lansdowne Canada Border Services Agency (CBSA) Rehabilitation project has incurred $27.34 million in spending, the Sault Ste. Marie Canadian Plaza Redevelopment $10.45 million, and work to complete the road realignment in Cornwall has had $4.73 million in costs this year.

2.2 Outlook

Projects at FBCL do not take a break, even as the winter months start to appraoch. From a fixed asset point of view:

a) The demolition of the high-level North Channel Bridge in Cornwall, which began in 2014, was completed in the first quarter. The approach into Cornwall has a complete new look, now that this aging bridge has come down. FBCL has turned its sights to the roadway alignment of Brookdale Ave. in Cornwall leading to the North Channel Bridge and straightening out of the entry onto Cornwall Island. This project is scheduled to be complete in the Spring of 2017.
b) The Canadian Plaza Redevelopment in Sault Ste. Marie continues its construction, and has seen the recent opening of the traffic building for CBSA. This project is on track for completion in 2018.
c) At the Lansdowne Customs Facility Rehabilitation project, at the Thousand Islands International Bridge, construction is moving quickly along. This is despite some environmental contamination (a pre-existing condition from before FBCL, or its legacy corporations, were owners of the bridge) that was discovered earlier this year. The contamination is being remediated and early indications are that the damage is contained to one area. Further work continues to verify these early indications. This project will also be complete in 2018.
d) FBCL has received approval for $4.00 million in funding to enhance access to the international corridor on Cornwall Island that spans between the North Channel Bridge and South Channel Bridge. This will provide safety and infrastructure for the bridge operations and the Akwesasne community at large. This project will commence in the current year and continue to March 2019.

Additionally, FBCL has been reviewing the requirements at the Blue Water Bridge crossing in Pt. Edward. Works here are looking at the aging infrastructure of certain facilities and how best to let traffic flow around the plaza. This work will be funded by FBCL and planning is underway to further scope and prioritize projects.

Other projects for the organization include various internal efficiencies that are being targeted and assessed. These projects will ensure that FBCL continues to be at the forefront of its industry and a benchmark for other organizations.

2.2 Outlook (Cont'd)

FBCL's Blue Water Bridge location has approximately 69 employees, 47 of which are unionized. The unionized employees are represented by the Public Service Alliance of Canada (PSAC) Union Local 501. Local 501 had been without a contract since November 2014. After a series of negotiations, the Union and Management were unable to conclude an agreement. The Union began Strike Action on November 21, 2016, at 6:00 AM, with management and other non-union staff ensuring traffic continued to cross the Blue Water Bridge, until an agreement was reached. An agreement was reached bringing the unionized employees back to work on December 12, 2016.

Photos

a) *Pictures of the guard rails and lights installed in Cornwall as part of the final year in the completion of the North Channel Bridge Replacement Project.*

2.2 Outlook (Cont'd)

***b**) Work progress at the Canadian Plaza Redevelopment in Sault Ste. Marie. The newly installed bi-level booths (top left), ongoing excavation for storm main installation (top right), and stair towers and foundations for the commercial building nearing completion (bottom).*

2.2 Outlook (Cont'd)

c) *CBSA switchboard, new overhead gantry, high mast lighting, site aerial view, PIL lanes and new soffits at the Lansdowne Customs Facility, at the Thousand Islands International Bridge.*

3.0 Discussion of Financial Results

3.1 Results of Operations

SEASONAL TRENDS

Traffic on FBCL's portfolio of bridges has traditionally experienced seasonal variations. From a revenue perspective, a greater number of transits occur at international bridge crossings in the second and third quarters of the fiscal year and result in higher toll revenues. In the first and fourth quarters, there are historically a lower number of transits resulting in lower toll revenues. This demand pattern is principally a result of leisure travellers and climate resulting in a preference for travel during the spring and summer months. However, economic conditions in Canada and the United States also have an important influence on international vehicle traffic by way of commercial truck traffic which has a significantly higher toll rate. These economic conditions are less variable on a seasonal basis but more a result of the business climate in each country.

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

STATEMENT OF FINANCIAL POSITION

Current Assets

Total current assets for the fiscal year have increased $8.03 million, from $43.12 million at March 31, 2016, to $51.15 million at December 31, 2016. This increase comes from a $2.57 million increase in cash and cash equivalents, a $2.05 million decrease in investments and a $7.13 million increase in receivables. The increase in cash and cash equivalents is commensurate with expected operations offset by debt repayments and capital asset costs. The current investments have decreased by $2.05 as $1.01 million was invested in long-term investments with the remainder temporarily invested in cash equivalents. The increase in receivables is primarily resultant from a $6.67 million increase in project funding due from the government for on-going capital projects.

Non-Current Assets

Non-current assets have increased $34.64 million in the fiscal year so far, from $345.63 million at the end of the prior fiscal year to $380.27 million at the end of this third quarter. Capital asset additions of $43.67 million were offset by $9.66 million depreciation, resulting in the majority of the increase for non-current assets. Approximately 97% of the capital additions this year are funded by the Government of Canada. Non-current investments have increased as $1.01 million of current investments have been re-invested into longer term investments.

3.1 Results of Operations (Cont'd)

Current Liabilities

Current liabilities have increased by $0.80 million. Trade and other payables have increased by $4.63 million, due to invoices for work done on major construction projects. Current provisions have been spent in the amount of $1.75 million on environmental clean-up and demolition activities, and have also increased due to a transfer from non-current liabilities to current liabilities in the amount of $1.46 million. The current portion of loans payable has decreased by $3.68 million as a loan that came up for renewal was paid off in its entirety in the second quarter.

Non-Current Liabilities

The upward trend for non-current liabilities continues, as government funded capital projects continue to receive money. The increase in this deferred capital funding has been a net of $39.79 million, representing the explanation for the $36.09 million increase in non-current liabilities for the fiscal year.

REVENUE

International Bridges Toll Revenue

Toll revenue at FBCL's international bridge crossings for the first nine months of the fiscal year total $28.99 million ($26.15 million – Q3 2015-16). For the third quarter, toll revenue was $8.86 million ($8.68 million – Q3 2015-16). Traffic across FBCL's bridges continues to be lower for the year as compared to last year. While each crossing has its own variables that result in one type of traffic or another having changes, there are some similarities across the FBCL group of crossings.

Passenger traffic for the year at each location is lower this year than last year, ranging from 0.7% to 7.4%, by bridge, for an FBCL total decrease of 4.1%. In total the third quarter saw smaller variances to last year in terms of passenger volume variances, with two bridges actually having higher traffic. Across the FBCL group of bridges, the third quarter has only seen a 1.6% drop as compared to last year. This represents a steadying of traffic as the first quarter saw a 9.5% drop, followed by a 1.3% drop in the second quarter, and now this 1.6% decrease. FBCL, and other bridge operators, may now be seeing a new normal in terms of passenger bridge traffic, as consumers are adjusting to the lower value of the Canadian dollar.

Commercial traffic across the FBCL portfolio continues to be stronger this year. For the year, FBCL has seen an increase of 2.5% as compared to last year, with the third quarter having a 0.8% increase. This indicates that while these commercial volumes are trending higher, the growth rate is decreasing. This is still a positive for FBCL, with higher truck volumes providing more relative revenue for the organization.

3.1 Results of Operations (Cont'd)

Leases and Permits

Revenue from leases and permits in the first nine months of the fiscal year is $3.42 million ($3.35 million – Q3 2015-16). This represents 10.0% of total revenue (10.4% - Q3 2015-16). This revenue in the third quarter was $1.09 million ($1.10 million – Q3 2015-16). Much of this revenue comes from the rental of property to duty free stores who pay rent based on a percentage of their sales.

Currency Exchange

The revenue from the currency exchange facility in Pt. Edward has contributed $1.03 million ($1.11 million – Q3 2015-16) this fiscal year. This represents 3.0% of total revenue (3.4% - Q3 2015-16). The third quarter was $0.11 million ($0.25 million – Q3 2015-16). This decrease is primarily attributable to the service interruption from November 21, 2016 to December 11, 2016 as a result of a labour disruption.

EXPENSES

Operations

For the year, operations expenses amount to $5.07 million ($6.94 million – Q3 2015-16). This difference of $1.87 million to the prior year is largely the result of a reallocation of depreciation, by department, that was executed later in the prior year. The depreciation difference between years in operations was $1.73 million less allocated to the department. In terms of spending excluding depreciation, FBCL has recognized $0.14 million less in other expenses.

Operations expenses in the third quarter were $1.80 million ($2.41 million – Q3 2015-16). Of the difference of $0.61 million, $0.67 million is due to the adjustment in depreciation. Quarterly expenses were similar to the prior year as cost reductions from the Strike Action were offset by other required expenses in the department.

Thousand Islands International Bridge Expenses

Year-to-date expenses for the bridge at the Thousand Islands amount to $4.73 million ($4.40 million – Q3 2015-16) and vary by 7.5% of the expenses incurred in the prior year.

For the third quarter, expenses at the Thousand Islands International Bridge are $1.51 million ($1.03 million – Q3 2015-16).

Currency Exchange

In the first nine months of the year, expenses at the Currency Exchange in Pt. Edward were $0.51 million ($0.58 million – Q3 2015-16), a difference of less than 2.0%.

Within the quarter, expenses were slightly less than to those of last year, at $0.14 million ($0.21 million – Q3 2015-16). This was as a result of a service interruption of the currency exchange during the labour disruption.

3.1 Results of Operations (Cont'd)

Maintenance

Maintenance expenses in the first nine months of the fiscal year amount to $8.38 million ($5.11 million – Q3 2015-16). The difference of $3.27 million relates to depreciation expenses that were reallocated and increased later in the prior fiscal year.

In the third quarter, maintenance expenses amounted to $2.49 million ($1.71 million – Q3 2015-16). Depreciation, again, was the main driver behind this increase in expenses for the department, at $1.09 million, with the remaining variance representing a difference in timing of expenses between the second and third quarter when comparing this year vs. last year.

CBSA & CFIA Operations

Expenses in this category are a result of legislative requirements that facilities be made available at international bridge (and other border crossings) locations. There is no associated revenue with these expenses. Expenses for the year total $2.84 million ($2.77 million – Q3 2015-16). The variance of $0.07 million relates to depreciation.

In the third quarter, CBSA & CFIA operations expenses accounted for $0.87 million ($1.03 million – 2015-16).

Administration

Expenses in relation to administration for the year are $6.38 million ($5.26 million – Q3 2015-16). Of this variance of $1.12 million, $0.10 million results from additional depreciation charges incurred by FBCL. Significant portions of the remaining difference result from outside consultants required on a one-time basis as the corporation continues its integration of policies and procedures post-amalgamation, as well as planned staffing since the end of last year's third quarter.

In the third quarter, administration expenses were $2.24 million ($1.78 million – Q3 2015-16).

Government Funding

Total government funding recognized in the year is $44.20 million ($22.27 million – Q3 2015-16), which was split between the Interim Consolidated Statement of Financial Position and the Interim Consolidated Statement of Comprehensive Income. FBCL, as well as the legacy FBCL, has already incurred much of the expense for the decommissioning liabilities (under Canadian Public Sector Accounting Standards [PSAS] statements for the legacy FBCL it was referred to as Asset Retirement Obligation), therefore any of the government funding received to complete the various demolitions of bridges and other structures, as well as environmental remediation, is immediately recognized on the Statement of Comprehensive Income. In the fiscal year, this has amounted to $2.88 million ($6.73 million – Q3 2015-16). As far as funding relates to the new structures being built by FBCL, funding received from the Government of Canada (post-amalgamation) is recorded on the Consolidated Statement of Financial Position and when the particular assets are completed and depreciation begins, then income will be recognized from this deferred capital funding account on the same terms as depreciation is recognized. This is the case for certain completed assets representing $0.20 million ($0.41 million – Q3 2015-16) on the Consolidated Statements of comprehensive Income, denoted as amortization of deferred capital funding.

3.1 Results of Operations (Cont'd)

Government funding can be summarized as follows:

	Year-to-date			Third Quarter	
(in $000's)	**2016-17**	**2015-16**		**2016-17**	**2015-16**
Amortization of deferred capital funding	**$ 204**	$ 414		**$ 68**	$ 138
Government funding for decommissioning liability					
• Lansdowne Customs Facility Rehabilitation (Thousand Islands)	**1,113**	-		**194**	-
• North Channel Bridge	**1,726**	6,729		**-**	1,521
• Sault Ste. Marie Canadian Plaza Rehabilitation	**44**	-		**-**	-
Government funding for deferred capital funding					
• Lansdowne Customs Facility Rehabilitation (Thousand Islands)	**26,240**	6,014		**12,338**	1,822
• North Channel Bridge	**4,509**	156		**2,335**	21
• Sault Ste. Marie Canadian Plaza Rehabilitation	**10,360**	8,959		**2,461**	3,173
TOTAL	**$44,196**	$22,272		**$17,396**	$ 6,675

A schedule reporting on the details of parliamentary appropriations is included in section 3.4.

3.2 Cash Flow

FBCL is reporting an increase in cash in the first three quarters of this fiscal year representing $2.57 million (decrease of $6.62 million – Q3 2015-16). Operating activities continue to be strong, generating $11.40 million ($14.35 million – Q3 2015-16) this fiscal year. Investing activities have resulted in a net decrease in cash of $2.86 million ($18.56 million – Q3 2015-16). Financing activities in the year were related to the monthly repayment of loans, a bond payment, and the repayment of a loan in a total amount of $5.97 million ($2.41 million – Q3 2015-16).

3.3 Risk Analysis

Major Projects

FBCL and its subsidiary are currently performing major projects on the bridges and associated structures for which it is responsible. The following describes the key project accomplishments in Q3.

Canadian Customs Plaza Redevelopment (Sault Ste. Marie)

This project has approved funding of $51.60 million from the Gateways and Border Crossings Fund. The first phase of works (the maintenance garage, Duty Free facility and civil works) is complete and work has been progressing quickly on the next phase of construction. This includes the construction of the new traffic building, which is temporarily housing both traffic and commercial operations, and construction of the new commercial building for CBSA. CBSA has committed to providing a further $1.56 million in order to complete certain aspects of the construction to meet their revised requirements. This funding is in addition to the funding from the Gateways and Border Crossings Fund, and parliamentary approval for the transfer of these funds to FBCL occurred during the third quarter. The expected completion date of this project continues on track for March 2018.

New Low Level North Channel Bridge (Cornwall)

This $74.82 million project is funded through government appropriations. This project has much work already completed, including the successful opening to traffic of the new low-level bridge, completion of the SIBC permanent tolling facilities, a more permanent CBSA building on the north end of the new bridge, and the completion of demolition of the old high-level bridge in the first quarter of this fiscal year. Work during the second and third quarters of this year was spent improving Brookdale Ave., the main route leading to the international crossing, and straightening of the road leading onto Cornwall Island from the new North Channel Bridge. The remaining works on the Brookdale improvements are scheduled to be completed in the spring and summer, when final landscaping and road paving can be done in warmer weather. The full project is set to be completed in the upcoming fiscal year.

Lansdowne Customs Facility Rehabilitation (Thousand Islands)

FBCL is managing the rehabilitation project for the CBSA's Lansdowne Port of Entry. It is estimated to take four years to complete at a cost of $60.00 million, and is funded through government appropriations. There are five components to the Lansdowne Customs Facility Rehabilitation Project: planning, site investigation and design; civil works and rock removal; construction of the new commercial and traffic building; demolition of the existing facilities; and the final improvements and alignment of the roadways and landscaping. CBSA operations and security at the crossing will be maintained throughout the construction phase.

Aggressive construction timelines continue to be met by the general contractor on site. In fact, budgeted funding for the project had to be requested to be pulled forward from future years in order to keep construction progressing at its current pace. CBSA has also committed a further $1.21 million in order to complete certain aspects of the construction to meet their revised requirements. Due to an environmental issue, that pre-dated FBCL ownership of the location and was discovered at the end of the prior fiscal year, FBCL continues to review soil samples and remediate whatever soil contamination is needed. This remediation is being funded under the original project scope and the timeline for completion is unchanged at March 2018.

3.3 Risk Analysis (Cont'd)

FINANCIAL SUSTAINABILITY

Despite FBCL's portfolio model approach to its international bridge management, FBCL must continue to review its plans and operations on a bridge by bridge basis to ensure long-term financial sustainability at all international crossings. For example, in the prior year, toll rate adjustments were introduced at different locations due to circumstances in place at each crossing. These included financial pressures at the Cornwall crossing brought on by the devaluing Canadian dollar and lower volume of paying transits, regular exchange rate equalization at the Sault Ste. Marie crossing, and a similar toll rate equalization policy implementation at the Point Edward bridge. Additionally, FBCL continues to face increasing CBSA and CFIA requirements at its international crossings and must find a balance between these requirements and the funding availability.

Toll Plaza at the Seaway International Bridge with remaining piers from the old North Channel Bridge

3.4 Reporting on Use of Appropriations

FBCL parliamentary appropriations are currently only received in relation to its projects at the Cornwall and Lansdowne crossings. The project in Sault Ste. Marie is funded by the Government of Canada, but through a contribution agreement, however, certain additional CBSA requirements for this project will be funded through appropriations. Original estimates for funding for the two original projects for the fiscal year were budgeted at $31.41 million. The slight delay incurred last year and lagging into this fiscal year was due to the assumption by FBCL of the project and construction management of the CBSA facility in Cornwall resulting in most of the $2.64 million that required reprofiling. Additionally, faster than budgeted progress on the Lansdowne project is resulting in $4.51 million in funding to be drawn forward from future years to be spent in this fiscal year. Additional projects requiring funding include CBSA requirements at two locations and a further project initiated on Cornwall Island.

(in thousands)	**Nine months ended December 31, 2016** **FBCL Vote 1** Capital	**Nine months ended December 31, 2015** **FBCL Vote 1** Capital
Main Estimates	31,414	35,282
Additional Funding Requests [1]	3,221	-
Reprofiling Request		
from Prior Years	2,638	-
From/(To) Future Years [1]	4,508	(13,669)
Funding Available	**41,781**	**21,613**
Drawdown [2]		
Actual	32,767	13,281
Plan	9,014	8,332
Total Drawdown	**41,781**	**21,613**
Remaining Appropriations	**-**	**-**

(1) Approvals to be sought in future budgetary exercises.

(2) FBCL is generally allocated funding only once expenses are incurred.

4.0 FBCL INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended December 31, 2016

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

4.1 Statement of Management Responsibility

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

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

Based on our knowledge of the financial position, results of operations and cash flows of The Federal Bridge Corporation Limited and our reliance on the financial information provided and internal controls established and maintained by the wholly-owned subsidiary and international partners, these unaudited condensed consolidated financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of the corporation, as at the date of and for the periods presented in the interim unaudited condensed consolidated financial statements.

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

Ottawa, Canada
February 22, 2017

4.2 Interim Unaudited Condensed Consolidated Statement of Financial Position

as at December 31, 2016
(in thousands of Canadian dollars)

	Notes	December 31, 2016 (unaudited)	March 31, 2016
		$	$
Assets			
Current Assets			
Cash and cash equivalents		**15,808**	13,240
Investments	**5**	**21,735**	23,787
Trade and other receivables	**6**	**12,812**	5,684
Prepaids		**791**	407
Total Current Assets		**51,146**	43,118
Non-Current Assets			
Property and equipment	**7**	**354,769**	320,732
Investment properties	**8**	**19,329**	19,791
Intangible assets	**8**	**18**	25
Lessor inducement		**269**	280
Investments	**5**	**5,886**	4,800
Total Non-Current Assets		**380,271**	345,628
Total assets		**431,417**	388,746
Liabilities			
Current Liabilities			
Trade and other payables		**15,984**	11,350
Employee benefits		**512**	565
Provisions	**9**	**2,238**	2,526
Holdbacks		**2,382**	2,157
Deferred revenue		**2,807**	3,200
Current portion of loans payable		**328**	4,006
Current portion of bonds payable		**4,625**	4,269
Current portion of deferred capital funding		**272**	272
Total Current Liabilities		**29,148**	28,345
Non-Current Liabilities			
Loans payable		**13,156**	13,566
Bonds payable		**64,230**	66,471
Employee benefits		**7,776**	7,435
Deferred revenue		**1,858**	1,971
Deferred capital funding		**70,413**	30,628
Provisions	**9**	**-**	1,462
Leasee inducement		**257**	65
Total Non-Current Liabilities		**157,690**	121,598
Equity			
Share capital - 2 shares @ no par value		**-**	-
Retained earnings		**244,657**	238,723
Accumulated other comprehensive income		**(78)**	80
Total Equity		**244,579**	238,803
Total Equity and Liabilities		**431,417**	388,746

4.3 Interim Unaudited Condensed Consolidated Statement of Comprehensive Income

for the three and nine month periods ended December 31, 2016
(in thousands of Canadian dollars)

	For the three months ended		For the nine months ended	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
	$	$	$	$
Revenue				
Tolls and services	**7,407**	7,120	**23,851**	21,419
Leases and permits	**1,094**	1,100	**3,419**	3,351
Currency exchange	**107**	248	**1,027**	1,106
Thousand Islands International Bridge revenue	**1,448**	1,563	**5,140**	4,728
Interest	**100**	157	**419**	488
Foreign exchange gain	**(386)**	(72)	**169**	937
Other	**(1)**	52	**321**	182
Total Revenue	**9,769**	10,168	**34,346**	32,211
Expenses				
Operations	**1,802**	2,407	**5,071**	6,937
Thousand Islands International Bridge expenses	**1,505**	1,031	**4,734**	4,403
Currency exchange	**138**	219	**506**	580
Maintenance	**2,492**	1,712	**8,381**	5,106
Canada Border Security Agency & Canadian Food Inspection Agency operations	**870**	1,030	**2,842**	2,773
Administration	**2,236**	1,775	**6,378**	5,261
Total Expenses	**9,043**	8,174	**27,912**	25,060
Operating Income Before Government Funding	**726**	1,994	**6,434**	7,151
Government Funding				
Amortization of deferred capital funding	**68**	138	**204**	414
Funding with respect to decommissioning liability	**388**	1,531	**3,077**	6,729
Total Government Funding	**456**	1,669	**3,281**	7,143
Non-Operating Items				
Interest expense	**(1,206)**	(1,456)	**(3,781)**	(4,185)
Total Non-Operating Income	**(1,206)**	(1,456)	**(3,781)**	(4,185)
Net (Loss) Income	**(24)**	2,207	**5,934**	10,109
Other Comprehensive Income				
Items that may be reclassified subsequently to statement of income (loss)				
Investments revaluation loss on available-for-sale investments	**(277)**	(6)	**(147)**	(210)
Cumulative gain reclassified to income on sale of available-for- sale investments	**-**	(36)	**(11)**	(95)
Total Other Comprehensive Income	**(277)**	(42)	**(158)**	(305)
Total Comprehensive Income for the Period	**(301)**	2,165	**5,776**	9,804

4.4 Interim Unaudited Condensed Consolidated Statement of Changes in Equity

for the nine month period ended December 31, 2016

(in thousands of Canadian dollars)

	Retained Earnings	Accumulated Other Comprehensive Income	Total
	$	$	$
Balance, April 1, 2015	232,741	306	233,047
Total Comprehesive Income:			
Net income	10,109	-	10,109
Other Comprehesive Income:			
Cumulative gain reclassified to income on sale of available-for-sale investments	-	(95)	(95)
Investments revaluation loss on available-for-sale investments	-	(210)	(210)
Other Comprehesive Income total	-	(305)	(305)
Total Comprehesive Income	10,109	(305)	9,804
Balance at December 31, 2015	**242,850**	**1**	**242,851**
Balance, April 1, 2016	238,723	80	238,803
Total Comprehesive Income:			
Net income	5,934	-	5,934
Other Comprehesive Income:			
Actuarial gains (losses)	-	-	-
Investments revaluation loss on available-for-sale investments			-
Cumulative gain reclassified to income on sale of available-for-sale investments	-	(11)	(11)
Investments revaluation loss on available-for-sale investments	-	(147)	(147)
Other Comprehesive Income total	-	(158)	(158)
Total Comprehesive Income	5,934	(158)	5,776
Balance at December 31, 2016	**244,657**	**(78)**	**244,579**

4.5 Interim Unaudited Condensed Consolidated Statement of Cash Flows

for the three and nine month periods ended December 31, 2016

(in thousands of Canadian dollars)

	For the three months ended		*For the nine months ended*	
	December 31, 2016	**December 31, 2015**	**December 31, 2016**	**December 31, 2015**
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	$	$	**$**	$
Cash Flows from Operating Activities				
Net income	**(24)**	2,207	**5,934**	10,109
Adjustments for:				
Amoritsation of deferred capital funding	**(68)**	(138)	**(204)**	(414)
Depreciation of property and equipment	**3,037**	2,641	**9,186**	7,533
Depreciation of intangible assets	**2**	7	**7**	16
Depreciation of investment properties	**154**	136	**462**	442
Loss on disposal of property and equipment	**344**	138	**437**	150
Change in employee benefits	**131**	85	**288**	141
	3,576	5,076	**16,110**	17,977
Changes in Non-cash Working Capital:				
Trade and other receivable	**(3,171)**	2,049	**(7,128)**	4,524
Lessor inducement	**3**		**11**	
Prepaids	**17**	315	**(384)**	(40)
Trade and other payables	**(1,023)**	(668)	**4,634**	26
Provisions	**15**	(2,049)	**(1,750)**	(8,803)
Holdbacks	**(307)**	(226)	**225**	717
Leassee inducement	**64**	-	**192**	-
Deferred revenue	**(15)**	(86)	**(506)**	(52)
	(4,417)	(665)	**(4,706)**	(3,628)
Net Cash Generated by Operating Activities	**(841)**	4,411	**11,404**	14,349
Cash Flows from Investing Activities				
Payments for property and equipment	**(18,228)**	(10,256)	**(43,660)**	(25,415)
Government funding related to acquisitions of property and equipment	**17,129**	5,017	**39,989**	15,131
Payments for investment properties	**-**	(1)	**-**	(13)
Proceeds on sale of investments	**(1,579)**	4,066	**10,530**	8,784
Purchase of investments	**-**	(12,476)	**(9,722)**	(17,048)
Net Cash Generated (Used) for Investing Activities	**(2,678)**	(13,650)	**(2,863)**	(18,561)
Cash Flows from Financing Activities				
Repayment of loans payable	**(346)**	(139)	**(4,088)**	(445)
Repayment of bonds payable	**215**		**(1,885)**	(1,967)
Net Cash Used for Financing activities	**(131)**	(139)	**(5,973)**	(2,412)
Net increase/(decrease) in cash and cash equivalents	**(3,650)**	(9,378)	**2,568**	(6,624)
Cash and cash equivalents, beginning of period	**19,458**	26,316	**13,240**	23,562
Cash and Cash Equivalents, end of period	**15,808**	16,938	**15,808**	16,938

4.6 Selected Notes to the Interim Unaudited Condensed Consolidated Financial Statements

1. AUTHORITY AND ACTIVITIES

The Federal Bridge Corporation Limited (the "Corporation") is a Canada Business Corporations Act (CBCA) corporation listed in Schedule III Part 1 of the Financial Administration Act (FAA). It is an agent of Her Majesty, not subject to income tax under the provisions of the Income Tax Act. It is a parent Crown Corporation that reports to the Parliament of Canada through the Minister of Transport. The Corporation resulted, on February 1, 2015, from an amalgamation between the legacy The Federal Bridge Corporation Limited (the "legacy FBCL"), which was a parent Crown corporation, with its subsidiary, St. Mary's River Bridge Company (SMRBC), on January 27, 2015, and with another parent Crown corporation Blue Water Bridge Authority (BWBA). This was done in accordance with the authorities provided by the Economic Action Plan 2013 Act, No. 2, as amended, by the Economic Action Plan 2014 Act, No. 2. The remaining planned amalgamation in this Act, with the Corporation's wholly owned subsidiary, The Seaway International Bridge Corporation Limited (SIBC), has not been realised to date.

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

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

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

4.6 Selected Notes to the Interim Unaudited Condensed Consolidated Financial Statements (Cont'd)

(in thousands of dollars)

1. AUTHORITY AND ACTIVITIES (Cont'd)

The Corporation is subject to directives pursuant to Section 89 of the FAA. By Order in Council P.C. 2014-1382 dated December 10, 2014, the Corporation is:

(a) to ensure that the pension plans will provide

(i) a 50:50 current service cost-sharing ratio between employee and employer for pension contributions, to be phased in for all members by December 31, 2017, and,

(ii) for any employee hired on or after January 1, 2015, that the normal age of retirement is raised to 65 years and that the age at which retirement benefits are available, other than those received at the normal age of retirement, corresponds with the age at which they are available under the Public Service Pension Plan; and,

(b) to outline its implementation strategies with respect to the commitments set out in paragraph (a) in its next corporate plan and subsequent corporate plans until the commitments are fully implemented.

The Corporation is in the process of phasing in the cost-sharing ratio by the required date, and has amended its policies such that the normal age of retirement for newly hired individuals (as of January 1, 2015) has been set at 65 years.

By Order in Council P.C. 2015-1114 dated July 16, 2015, the Corporation is also directed to align its policies with the travel, hospitality, conference and event expenditure policies, directives, and other related instruments issued by the Treasury Board pursuant to Section 89 of the FAA as follows:

(a) to align its travel, hospitality, conference and event expenditure policies, guidelines and practices with Treasury Board policies, directives and related instruments on travel, hospitality, conference and event expenditures in a manner that is consistent with its legal obligations; and,

(b) to report on the implementation of this directive in its next corporate plan.

The Corporation has implemented this directive, effective December 1, 2015.

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

2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

These interim financial statements have been prepared on the same basis of presentation, and with the same significant accounting policies (unless otherwise detailed), as the most recent annual financial statements.

4.6 Selected Notes to the Interim Unaudited Condensed Consolidated Financial Statements (Cont'd)

(in thousands of dollars)

3. KEY SOURCES OF ESTIMATION UNCERTAINTY AND CRITICAL JUDGEMENTS

The preparation of the interim condensed consolidated financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on industry knowledge, consultation with experts and other factors that are considered to be relevant. Actual results may differ from these estimates.

4. FUTURE CHANGES IN ACCOUNTING POLICIES

The following accounting standards and amendments to existing standards are issued but not yet effective. Management is still assessing the potential impacts of these standards on its consolidated financial statements, and as such their impacts are not yet known at this time. However, management is expecting to implement these standards at their effective dates.

IAS 1, Presentation of Financial Statements

IAS 1, Presentation of financial statements ("IAS 1") was amended by the IASB on December 18, 2014. The amendments relate to (i) materiality, (ii) order of the notes, (iii) subtotals, (iv) accounting policies, and (v) disaggregation and are resigned to further encourage companies to apply professional judgement in determining what type of information to disclose in their financial statements. The effective date for this amendment is for annual financial periods beginning on or after January 1, 2016.

IFRS 15, Revenue from Contracts with Customers

IFRS 15, Revenue from Contracts with Customers ("IFRS 15") was issued by the IASB on May 28, 2014, and will replace IAS 18, Revenue, IAS 11, Construction Contracts, and related interpretations on revenue. IFRS 15 sets out the requirements for recognizing revenue that apply to all contracts with customers, except for contracts that are within the scope of the Standards on leases, insurance contracts and financial instruments. IFRS 15 uses a control based approach to recognise revenue which is a change from the risk and reward approach under the current standard. Companies can elect to use either a full or modified retrospective approach when adopting this standard and it is effective for annual periods beginning on or after January 1, 2018.

4. FUTURE CHANGES IN ACCOUNTING POLICIES (Cont'd)

IFRS 9, Financial Instruments

IFRS 9, Financial Instruments ("IFRS 9") was issued by the IASB on July 24, 2014, and will replace IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Two measurement categories continue to exist to account for financial liabilities in IFRS 9; fair value through profit or loss ("FVTPL") and amortised cost. Financial liabilities held-for-trading are measured at FVTPL, and all other financial liabilities are measured at amortised cost unless the fair value option is applied. The treatment of embedded derivatives under the new standard is consistent with IAS 39 and is applied to financial liabilities and non-derivative host contracts not within the scope of this standard. The effective date for this standard is for annual periods beginning on or after January 1, 2018.

IFRS 16, Leases

IFRS 16, Leases ("IFRS 16") was issued by the IASB on January 13, 2016, and will replace IAS 17, Leases, and IFRIC 4, Determining Whether an Arrangement Contains a Lease. IFRS 16 specifies how a reporting entity will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. The effective date for this standard is for annual periods beginning on or after January 1, 2019, with earlier adoption allowed if IFRS 15 is also applied.

4.6 Selected Notes to the Interim Unaudited Condensed Consolidated Financial Statements (Cont'd)

(in thousands of dollars)

5. INVESTMENTS

	December 31, 2016	March 31, 2016
	$	$
Held-to-maturity investments carried at amortized cost		
Deposit certificates	**20,875**	23,839
Total held-to-maturity investments	**20,875**	23,839
Available for sale investments carried at fair value		
Government of Canada bonds	**1,126**	753
Provincial bonds	**3,097**	1,786
Corporate bonds	**2,523**	2,209
Total available for sale investments	**6,746**	4,748
Total investments	**27,621**	28,587
Less: Current portion	**21,735**	23,787
Long term portion	**5,886**	4,800

6. TRADE AND OTHER RECEIVABLES

	December 31, 2016	March 31, 2016
	$	$
Federal departments and agencies	**11,596**	4,921
Trade receivables	**1,216**	763
	12,812	5,684

4.6 Selected Notes to the Interim Unaudited Condensed Consolidated Financial Statements (Cont'd)

(in thousands of dollars)

7. PROPERTY AND EQUIPMENT

	Land	Bridges and roads	Vehicles and equipment	Buildings	Property Improvements	Projects in progress	Total
	$	$	$	$	$	$	$
Cost							
Balance at April 1, 2016	14,126	235,419	21,014	88,425	20,359	40,293	419,636
Additions	24	132	399	285	82	42,818	43,740
Disposals	-	-	(79)	(1,136)	-	-	(1,215)
Transfers	-	-	28	261	66	(355)	-
Balance at December 31, 2016	**14,150**	**235,551**	**21,362**	**87,835**	**20,507**	**82,756**	**462,161**
Accumulated Depreciation							
Balance at April 1, 2016	-	54,751	10,428	20,186	13,539	-	98,904
Depreciation expense	-	5,249	1,237	2,207	493	-	9,186
Disposals	-	-	(57)	(641)	-	-	(698)
Balance at December 31, 2016	**-**	**60,000**	**11,608**	**21,752**	**14,032**	**-**	**107,392**
Net Book Value at December 31, 2016	**14,150**	**175,551**	**9,754**	**66,083**	**6,475**	**82,756**	**354,769**
Net Book Value at March 31, 2016	14,126	180,668	10,586	68,239	6,820	40,293	320,732

8. INTANGIBLE ASSETS AND INVESTMENT PROPERTIES

	Intangible Assets	Investment Properties
	$	**$**
Cost		
Balance at April 1, 2016	1,028	23,817
Additions	-	-
Disposals	-	-
Balance at December 31, 2016	**1,028**	**23,817**
Accumulated depreciation		
Balance at April 1, 2016	1,003	4,026
Depreciation expense	7	462
Disposals	-	-
Balance at December 31, 2016	**1,010**	**4,488**
Net book value at December, 2016	**18**	**19,329**
Net book value at March 31, 2016	25	19,791

4.6 Selected Notes to the Interim Unaudited Condensed Consolidated Financial Statements (Cont'd)

(in thousands of dollars)

9. PROVISIONS

	Cornwall[i]	Ste. Marie[ii]	Lansdowne[iii]	Total
	$	$	$	$
Balance at April 1, 2016	1,365	675	1,948	3,988
Interest accretion	-	7	18	25
Reductions arising from payments	(651)	(45)	(1,079)	(1,775)
Balance at December 31, 2016	**714**	**637**	**887**	**2,238**
Less: Current portion	714	637	887	2,238
Long-term portion	0	0	0	0

i. The Corporation has constructed a new low-level North Channel Bridge in Cornwall. This new bridge is open for circulation and the Corporation is nearing completion of the demolition of the existing high-level bridge. The estimation of this decommissioning liability costs depends on engineering estimates of timing, inflation, site conditions, availability of specialized workforce, and commodity prices for the recycling of material. The estimated cash flows of $19,620 required to settle the decommissioning liability were discounted in prior years using a rate that reflected current market assessments of the time value of money and the risks specific to the liability. Per the project schedule, the remaining cash payments for the disposal of the existing North Channel Bridge were expected to occur in the 2016-17 fiscal year and therefore no discounting was required. These cash flows will be funded from government funding to be received at the time of demolition.

ii. The Corporation has initiated construction of a new Canadian Plaza in Sault Ste. Marie. During the construction of this new plaza the existing assets will be demolished. The estimates related to this decommissioning liability depend on engineering variables such as timing, inflation, site conditions, and contractor scheduling. The estimated cash flows of $1,074 required to settle the decommissioning liability have been discounted using a rate that reflects current market assessments of the time value of money and the risks specific to the liability of 2.08% to 2.10%.

Per the current project schedule, cash payments for the demolition of existing structures are expected to occur in the 2016 and 2017 calendar years. These cash flows will be funded from government funding to be received at the time of demolition.

iii. The Corporation has initiated a project for the construction of a new Customs Plaza in Lansdowne, at the Thousand Islands International Bridge. During construction of the new plaza the existing assets will be demolished. The estimates related to this decommissioning liability depend on engineering variables such as timing, inflation, site conditions, and contractor scheduling. The estimated cash flows of $563 required to settle the decommissioning liability have been discounted using a rate that reflects current market assessments of the time value of money and the risks specific to the liability of 2.08% to 2.10%.

4.6 Selected Notes to the Interim Unaudited Condensed Consolidated Financial Statements (Cont'd)

(in thousands of dollars)

9. PROVISIONS (Cont'd)

Per the current project schedule, cash payments for the demolition of existing structures are expected to occur in the 2016 and 2017 calendar years. These cash flows will be funded from government funding to be received at the time of demolition.

Additionally, at the Lansdowne location, a provision for contaminated land has been recorded based on management's best estimate of the probable cash outflows related to the remediation of the site under redevelopment. For the estimate of non-current liability, management has considered a range of scenarios where no one outcome currently has a more likely probability than another. The estimated cash flows of $1,420 required to settle the contaminated land liability have been discounted using a rate that reflects current market assessment of the time value of money and the risks specific to the liability of 0% and 2.1%.

Per management's best estimate of the project schedule, cash payments for the remediation of the land are expected to be complete by the summer of 2017. These cash flows will be funded from government funding to be received at the time of remediation.