

Annual Report 2009

Blue Water Bridge Canada

Canada 

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Letter from the President and Chief Executive Officer



The downturn in the global economy has impacted our operations in ways that are unprecedented in the 44-year history of Blue Water Bridge Canada (BWBC). Despite the dramatic shift in our business environment, I am proud to report that we remain operationally secure and financially sound, serving in the best interests of our customers, stakeholders and our partner, the Government of Canada.

As the nation's second busiest commercial land crossing, we felt a direct impact from cutbacks by North America's manufacturers. Within 100 days, commercial vehicle volumes dropped by 20 percent, while car traffic declined by more than 10 percent. With firm direction from our board of directors and decisive action at the operations level, we quickly adjusted our entire organization to adapt to the dramatic decline in revenues. Our employees responded with dignity and purpose, applying every needed adjustment, including a workforce reduction, to meet our extraordinary challenge.

Despite the economic adversities, we accomplished much. We welcomed the Right Honourable Stephen Harper, Prime Minister of Canada, who announced \$13.5 million in federal infrastructure funding for BWBC. With our matching share we launched our Canadian plaza improvement program. The plaza work will dovetail with an adjoining Highway 402 expansion project, initiated mid-year by the Ontario Ministry of Transportation. Concurrently, construction progressed on our \$60-million customs, brokers and agriculture centre. When completed in 2010, the *Leadership in Energy and Environmental Design (LEED)*-certified administration building will provide a state-of-the-technology business environment, offering occupants a higher level of security and efficiency. Our ambitious development plans will demand much progress over a relatively short time span. Yet, through the work, we are eager to demonstrate our commitment to maintaining a high-quality crossing, gaining the greatest value from available resources on behalf of our customers, tenants and many other stakeholders.

The many partnerships we continue to foster have also contributed to our progress. Ongoing cooperation with our bridge co-owner, the Michigan Department of Transportation, has gained us both traffic flow efficiencies and operational cost savings. Improved communications protocols have allowed us to help Canada Border Services (CBSA) and U.S. Customs Border Protection (CBP) to better accommodate traffic volume fluctuations. Although our relationship and communication with local CBSA management is strong, we have great concerns with CBSA understaffing of primary inspection lanes, during peak demand periods, due to budget constraints.

Locally, joint initiatives with local governments, emergency responders and service organizations have yielded us improved working relations and beneficial community projects. For example, in co-operation with the Village of Point Edward, we transformed a portion of BWBC buffer land into four sports fields for local soccer teams. As a positive spin-off, the many soccer enthusiasts have also patronized local businesses. Additionally, BWBC contributed \$10,000 to the YMCA's Community Bridges Program to ensure that team registration fees are not a barrier to participation for local young people.

Looking to the future, our focus remains on making our customers' gateway experience safe, efficient and enjoyable. As in the past, we will accomplish our mission by continuing to explore and embrace innovative approaches and productive partnerships.

A handwritten signature in dark ink, appearing to read 'Chuck Chrapko', written in a cursive, flowing style.

Chuck Chrapko
President and Chief Executive Officer

Letter from the Chairman of the Board



We are all pulling together to have the “Bridge” remain a dynamic, financially stable entity during this time of economic downturn. I want to thank the members of the Board of Directors, the senior staff and, of course, all of our employees for their diligence in this time of uncertainty. At this same time we are experiencing a questionable U.S.A. attitude of near paranoia re: border security. This is scaring off commercial and domestic travel that is stifling our income.

The challenges noted above are big and we are responding with a three-pronged approach:

- Thinking outside the box to initiate intelligent operating cost reductions in all departments;
- Examining possibilities of new revenue streams in addition to our main streams of toll collection and rental income, and;
- Prevailing upon our federal government to address the thickening of the border evidenced by manpower deficiencies, increased security, regulation enactment and enforcement.

On any one day, CBP border inspectors are taking more time and subjecting trusted travelers to more questions. Meanwhile, CBSA inspection booths are not being manned due to manpower budget considerations. I want to reiterate, the challenges we face are big and it is going to take some big thinking to meet the challenges.

I am very happy and impressed with the construction of the soccer fields on the “Bridge” buffer land properties. We worked lock-step with the Village of Point Edward on this project and it is hoped that creative cooperative efforts can be enacted with our other municipal neighbours.

The environmental statement has not been finalized as I reported it would be in my last year’s letter. I am confident that it will be finalized during this coming year. The Customs-Brokers-Agriculture building (CBA Complex) is being built as we speak. Environmentally, this building complex will be a “Leadership in Energy and Environmental Design” (LEED) certified building. This building will be one of three buildings of its kind currently being built in Sarnia-Lambton. I am pleased that an electrical plug-in vehicle has now received the necessary provincial approvals. We will experience its use on our plaza in the immediate future.

The Board of Directors, individually and collectively, continue to practice good corporate governance. Setting the direction of our organization is paramount and our management team respects, accepts and implements that direction. CEO Chuck Chrapko is a decisive leader and works closely with myself as Chairman of the Board.

Infrastructure enhancement is important to facilitate traffic and improve safety on the plaza. The new CBA building plus the Canadian Plaza Improvement Program projects will result in \$87 million being spent on infrastructure. These initiatives, coupled with the expansion of Highway 402 are the basic building blocks for a futuristic, efficient and safe plaza. All of this is evolving through the direction of our master capital plan.

To build upon this strong physical foundation, there must be a very concentrated effort by the Canadian and U.S. governments to “unthicken” the border soup that has gone from broth to stew.

Our mission statement “to make your gateway experience safe, efficient and enjoyable” and our vision statement “to be recognized by our customers as an essential part of their travel experience” will be our guide as we all go about our business of operating the “Bridge”.

A handwritten signature in dark ink, appearing to read 'Ken James'.

Ken James
Chairman of the Board of Directors

Executive Management Team



Chuck Chrapko: *President and Chief Executive Officer*, with a business background involving marketing and previous owner of a successful information technology company.



Stan Korosec: *Vice President, Operations*, overseeing the toll and currency exchange operations and responsible for government affairs and customer service; has extensive experience with security issues from his former career as a supervisor with the Ontario Provincial Police.



David Joy: *Chief Financial Officer*, had been the accounting supervisor 4 years prior to being promoted to CFO. He has had 30 years of progressive accounting/finance experience across manufacturing, petrochemical, financial, tollway and government industries.



Ed Teft: *Manager of Capital Projects*, responsible for all construction and maintenance activities and has been with BWBA for 28 years in progressive positions.



Joe Lopetrone: *Operations Manager*, since 1996 and has over 38 years of management experience.



Cathy Gardiner: *Customer Services Manager*, and has been with the corporation for the past 20 years all within the same department.

Board of Directors



Ken James

Chairman of the Board
Former federal MP, 1984 to 1993
Former Councilor and Reeve of Township of Sarnia, 10 years



Barry Hogan

Vice Chairman
CEO, Gamble & Associates Insurance Ltd.
Chair, Roman Catholic Diocese of London Finance Committee
Past President, Current Member, St. Joseph's Health Care Society, London



Rina Mukherjee

Director
Member, Sarnia Environmental Advisory Committee
Former Chair, Lambton Rural Childcare



Ann Gray

Director
Freelance Lambton County law clerk
Member, Ontario Association of Professional Searchers of Records
Board Member, Fraternal Fellowship Association
Chair, Board of Managers, St. Giles Presbyterian Church

Corporate Governance

BWBC is guided by a Board of four members. The Board receives some health insurance benefits but does not receive other remuneration. The Minister of Transport, Infrastructure and Communities will recommend the nominee(s) to the Governor-in-Council for final approval and appointment, traditionally for a term of up to 3 years. As a parent Crown corporation, BWBC is accountable to Parliament through the Minister of Transport, Infrastructure and Communities. The Board members are knowledgeable individuals from the local community who are sensitive to BWBC's business needs. They understand the *Financial Administration Act* (FAA) requirements for Corporate Plans and Annual Reports and they work earnestly with management to ensure that BWBC's financial obligations are met within the guidelines of our mandate.

The Board takes an active role in the stewardship of the overall future direction in addition to addressing internal and external issues currently affecting Blue Water Bridge Canada. The Board engaged a chartered accounting firm to act as the internal auditor and to prepare an internal audit plan. The internal auditor will have reported directly to the Audit Committee with its final findings and recommendations by October 2009. Governance issues and practices continue to evolve and the Board is anticipating that further changes will be made in accordance with the recommendations made. Succession planning for the management team is reviewed annually.

Background, Legislative Authority and Compliance

Blue Water Bridge Canada (BWBC) was created by a 1964 Act of Parliament (*Blue Water Bridge Authority Act*) to own (under federal control), operate and maintain the Canadian half of the highway toll bridge over the St. Clair River between Point Edward, Ontario and Port Huron Michigan.

In accordance with the provisions of a 1928 Special Act of Parliament authorizing construction and operation of the Blue Water Bridge, ownership of the Canadian portion reverted, at no cost or expense, to the Federal Government from the State of Michigan in 1962. The Michigan Department of Transportation (MDOT) owns, operates and maintains the U.S. half of the bridge.

BWBC qualifies as a “parent Crown corporation” under the *Financial Administration Act* and regulations. As such, BWBC is required to submit an annual corporate plan outlining its business activities and investments, set BWBC’s objectives for the relevant period and the strategy to achieve such objectives. The *Financial Administration Act* (Canada) also requires that BWBC prepare and file annual operating and capital budgets, each of which require the approval of the Treasury Board on the recommendation of the Minister of Transport, Infrastructure and Communities. BWBC is obliged to prepare annual reports including audited financial statements for submission to Parliament via the Minister of Transport, Infrastructure and Communities.

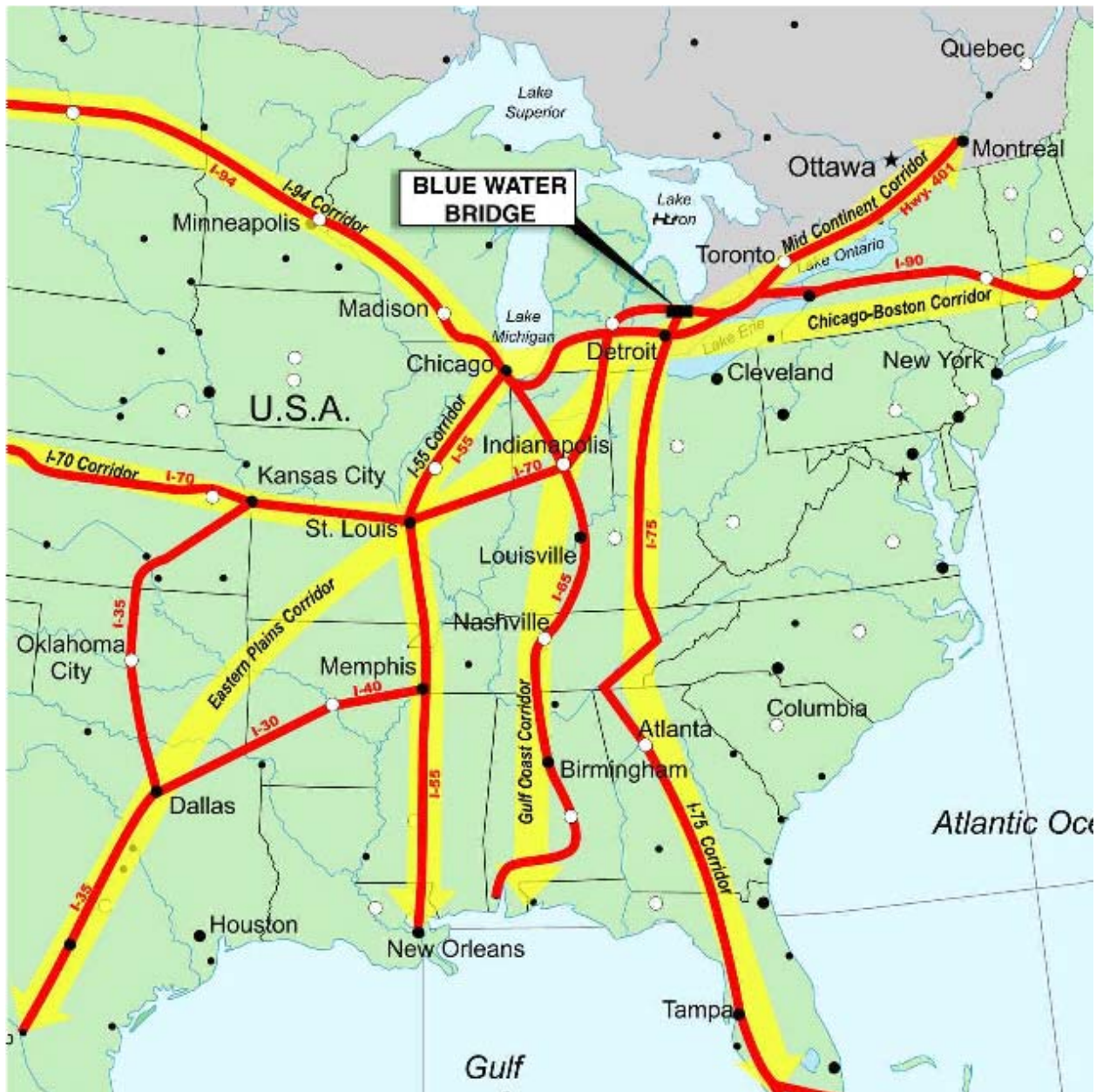
The *Blue Water Bridge Authority Act*, and the *Customs Act*, section 6, require BWBC to provide, equip and maintain free of charge adequate buildings or other facilities for the proper interviewing, examination and detention of persons and goods by customs officers.

BWBC has taken active measures to ensure compliance with the *Official Languages Act* and continues to implement its obligations with the Treasury Board of Canada Secretariat to ensure compliance with the *Federal Identity Program*. As part of that compliance, The President of the Treasury Board and the Minister of Transport, Infrastructure and Communities agreed on an applied title for the organization – from Blue Water Bridge Authority to Blue Water Bridge Canada – effective September 2007. We have received confirmation from the Canada Public Service Agency that we have been successfully meeting our official languages obligations.

BWBC has operational relationships with: Ontario provincial authorities and particularly with the Ministry of Transportation; the Ontario Provincial Police, and; local municipalities, in particular Point Edward, Ontario upon which the bridge’s Canadian assets are sited.

Pursuant to the *Blue Water Bridge Authority Act*, BWBC is limited to charging tolls which provide for current revenues in an amount sufficient to pay BWBC’s reasonable current costs; to establish prudent reserve funds; to provide or replenish sinking funds in respect of outstanding bonds, and; to pay other expenses properly incurred by BWBC in its performance of duties under the Act. The *Canada Transportation Act* regulates the means of setting and publishing toll rates.

Major Trade Routes



The Bridge is a major commercial traffic access point to the south-central United States. The Bridge connects Highway 402 in Ontario to I-94 and I-69 in Michigan, which provides southerly access to the following metropolitan areas: Detroit, Michigan; Indianapolis, Indiana; Madison, Wisconsin; Minneapolis, Minnesota, and; St. Louis, Missouri, covering the Gulf Coast Corridor and extending down through Florida.

Highlights – 2009

With reference to the Corporate Plan for 2009, Blue Water Bridge Canada's primary focus for fiscal 2009 had intended to be towards the commencement of the construction for the \$60 million Customs, Brokers, Administration Complex (CBA) building project, substantial completion of the actions required to satisfy all the recommendations from the 2007 Special Examination report and the upgrading of various software programs. However, two major events occurred during the Fall of 2009 which required management to re-focus some of its attention to other areas – the severe recession and the implementation of the \$27.0 million in federal infrastructure projects of which \$13.5 million will be received from the federal government.

Federal Infrastructure Program

BWBC agreed to undertake eight capital projects totaling \$27 million as part of the federal infrastructure program. As of August 31st, 2009, three projects are underway; a meeting to discuss the coordination and scheduling of the other five projects is being held at the end of September 2009.

With the economic downturn and its effect on our toll revenue, coupled with the requirement to finance up-front the federal infrastructure projects, BWBC is projecting that additional long-term debt financing will be required. However, the Bridge welcomes this opportunity to expedite projects that have been part of our long-term Master Capital Plan at approximately 50% of the cost. With the construction of the CBA Complex building and the infrastructure projects we will be spending up to \$87 million over the next 2 years. We will be well-positioned to take full advantage of the excess capacity required to efficiently and safely expedite the anticipated increase in volumes that will be experienced once the economy recovers and when the American expansion of their side of the bridge is completed.

A brief description and cost status of each infrastructure project (excluding GST) is listed below:

Plaza Widening to Highway 402 Widening

{Budget \$3.1M covering years 2009-2010; Actual Spent \$0.2M}

To broaden the BWBC plaza to accommodate the widening of Highway 402 which is being done by the Ontario Ministry of Transportation (MTO). With the provincial portion of the highway leading to the BWBC plaza being widened, for ease of future traffic flow, efficiency and safety, BWBC needs to match the widening through to the toll booths.

Dynamic Message Signs Plaza

{Budget \$3.9M covering years 2009-2010; Actual Spent \$0.3M}

Dynamic Message signs on overhead gantries and canopy roofs will be installed in various locations on the plaza to provide real time information to commercial and passenger traffic. These signs will be programmed to provide information in real time conditions to assist with traffic control management and lane allocations. These signs will also be programmed for various scenarios to include emergency

and incident information to the public, delay times by allowing motorists to take alternate travel routes, change departure times, or otherwise modify their travel plans to avoid incidents.

Bridge Span2 Infrastructure & Systems Upgrade

{Budget \$6.2M covering years 2009-2010; Actual Spent \$0.1M}

To relocate the electrical and communication duct bank presently located in the concrete sidewalk on Span 2 to the underside of the bridge structure. BWBC maintenance department and operations department have experienced several system failures due to the existing infrastructure. The electrical component includes a plan to relocate the existing bridge electrical system from the existing Administration Building to under Span 2. The plan also included an emergency back up generator and new feeders to the adjacent buildings.

Customs Primary Inspection Booths- Passenger and Commercial

{Budget \$1.6M covering year 2010; Actual Spent nil}

With the redesign of the plaza, new booths are required to be purchased to satisfy Canada Border Services Agency (CBSA) Statement of Requirements specifications. These booths are required for a future phase of the Master Plan but can be ordered and installed in the interim period. The new primary inspection booths will be designed to provide improved efficiency in order to facilitate trade and tourism.

Eastbound Truck Ramp Realignment

{Budget \$3.7M covering year 2010; Actual Spent nil}

Required to secure roadway for commercial vehicles ordered to return to the USA by CBSA and accommodate out-bound inspections by CBSA. The roadway will provide increased levels of security.

Plaza Electrical/Communication Infrastructure

{Budget \$7.6M covering year 2010; Actual Spent nil}

Required underground electrical/communication infrastructure to accommodate future phases of master plan which include improved facilities for both commercial and passenger vehicle traffic.

Alternate Nexus Lane

{Budget \$0.6M covering year 2009; Actual Spent nil}

Required for CBSA to provide 24/7 Nexus coverage for inbound traffic.

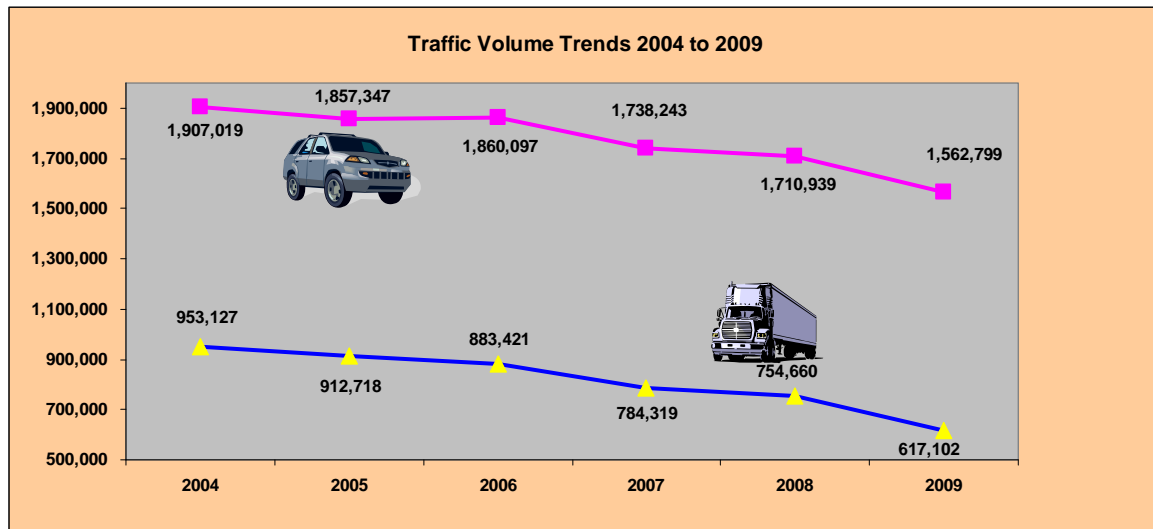
Fall Arrest System – Both Bridge Spans

{Budget \$0.5M covering year 2009; Actual Spent nil}

Purchase and install fall prevention system on both bridge spans.

Effect of the Economic Climate on BWBC

Historically, since becoming a parent Crown corporation, traffic volume peaked in fiscal 2004 and has been in decline every year since. As noted in previous annual reports, some of the decline was related to increased security inspections, resulting in traffic congestion lasting from 30 minutes to 3 hours. In 2009 it was related to the decrease in manufacturing and we were experiencing monthly decreases of ranging from 9% to 32% throughout the year for trucks.



At the direction of the Board, management undertook a marketing effort to determine the types of commodities crossing our border and the trucking companies crossing this plaza versus other crossings. Our customers were surveyed with the objective of identifying anything BWBC could do to attract more trucks across our border.

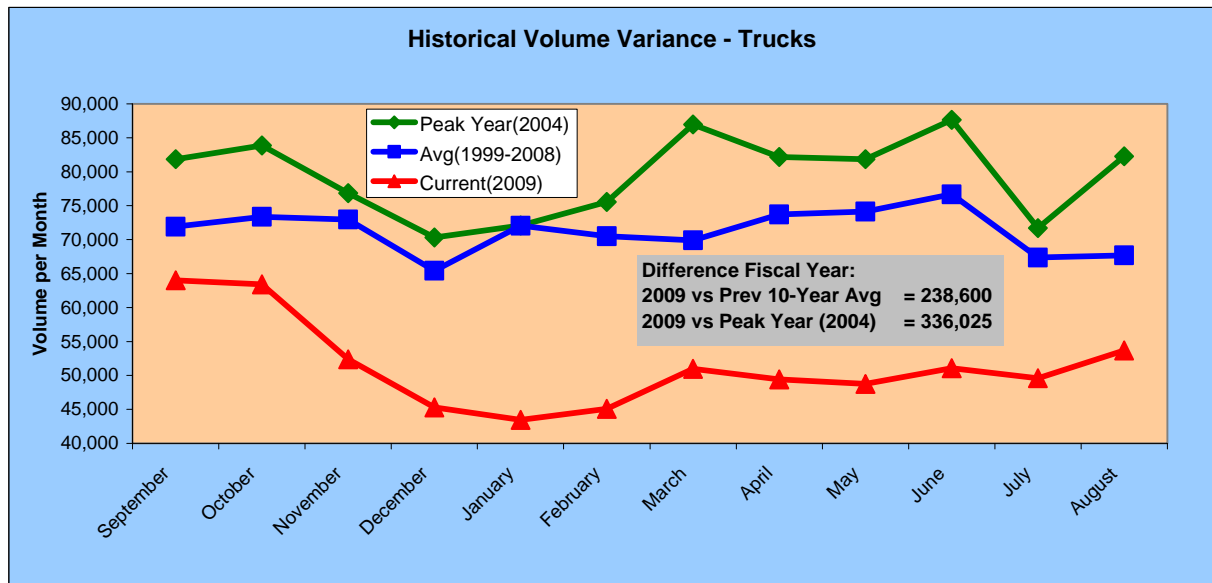
To encourage more car traffic, the Vice President and customer service manager attended a booth in the local mall and at other community events and high customer-volume locations several times during the year to educate and enroll citizens into the NEXUS program. Due to BWBC's efforts, we continue to have success with the NEXUS enrolment and experienced a 51% increase over the past year. More Canadians are signing up than Americans and BWBC sees an opportunity to further expand overall enrolment next year by actively promoting NEXUS in Port Huron, Michigan, our neighbouring community state-side.

BWBC communicates frequently with the American Customs Border Patrol and the Canadian Border Security Agency to encourage both parties to adequately man the custom booths in relation to the daily spikes in demand to prevent long lineups which discourage the general public and trucking companies from attempting to cross our border.

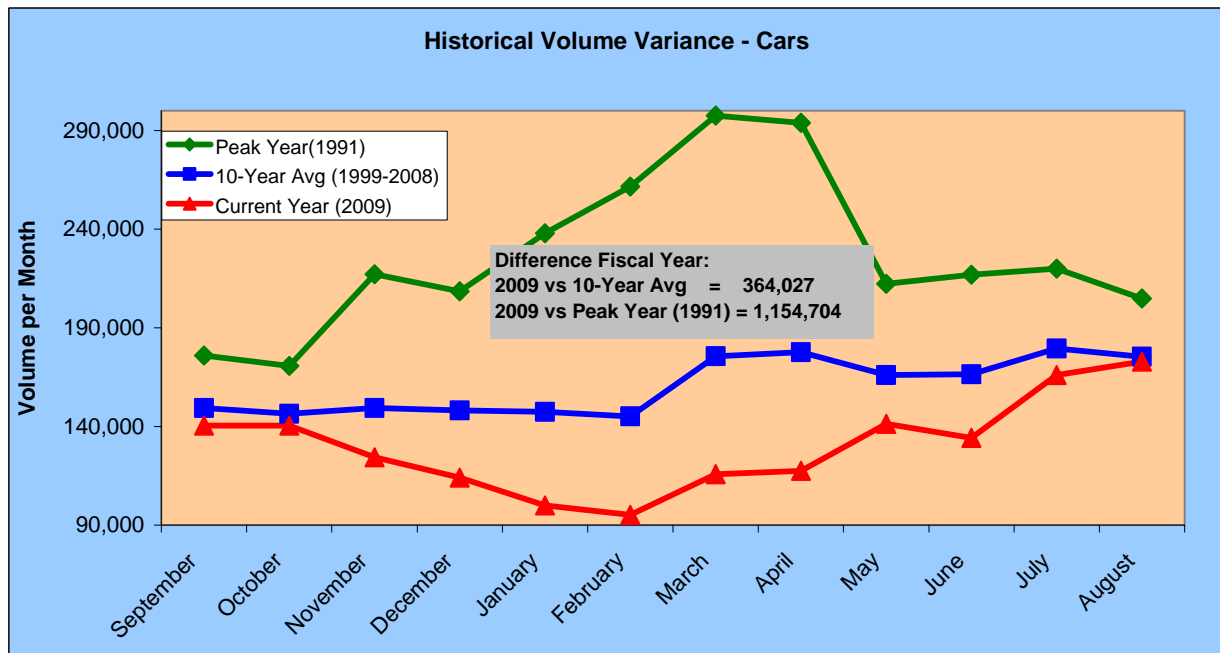
In spite of all of our efforts, there has been a steady decline in traffic volume from 2004 to 2008 and then a steep decline with the severe recession which commenced during the Fall of 2008. This has had a significant impact on cash flow in 2009 and required that

management either find additional revenue or cut expenses and become more cost efficient and productive.

As demonstrated below, the traffic volume for 2009 was consistently and significantly well below the previous 10-year monthly average. On an annual basis, 2009 volumes were 238,600 trucks lower than the previous 10-year annual average. At an average toll rate of \$17.90 per truck this translates into \$4.3 million foregone annually, now and possibly into the future.

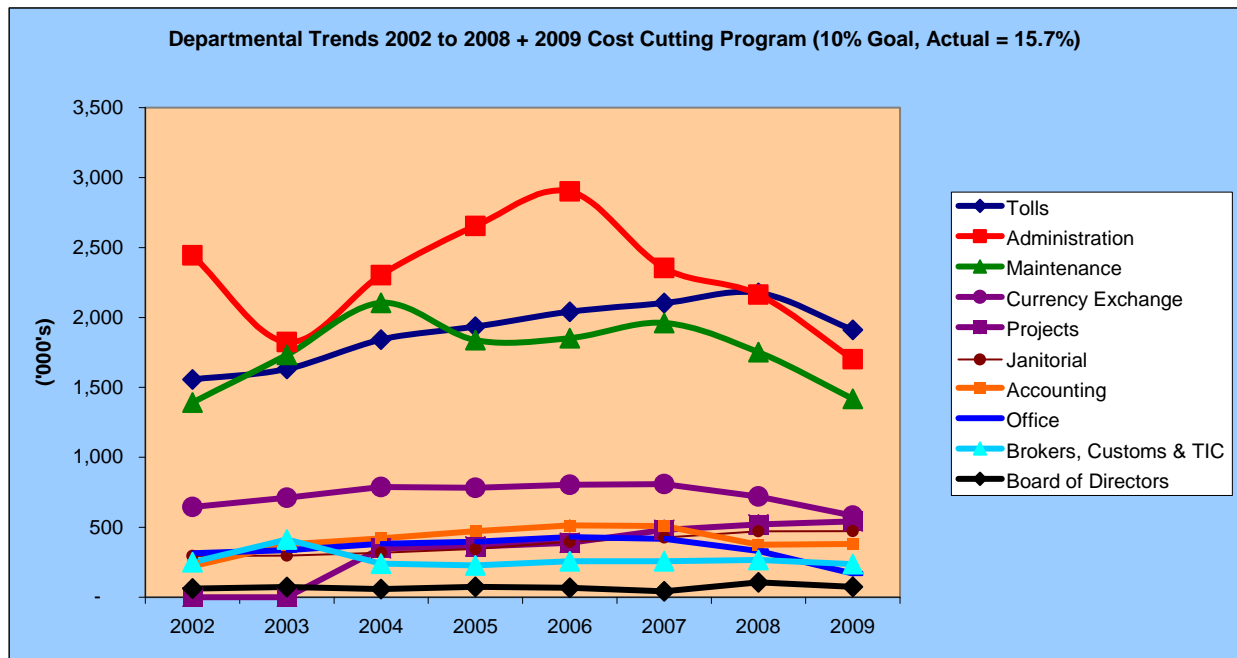


Coupled with a similar, but less dramatic trend in car traffic, at an average \$2.80 per car, the decrease of approximately 364,027 translates into an average \$1.0 million foregone annually.



Both charts indicate that, it is not likely traffic will increase over the next few years, to reach their respective peak levels nor the 10-year historical average. The steady month-to-month and year-to-year decline and the lack of volume “spiking” in any particular month has encouraged management since 2006 to cut overhead costs. In 2009, management reviewed all expenses and a “controllable overhead” target was established. During fiscal 2009, controllable overhead costs were reduced by 15.8%, exceeding the Board’s target of 10%.

The historical departmental trends and success of this cost-cutting program are as per below:



Overall, total controllable overhead was reduced to fiscal 2003 levels with some of the departments reducing their costs to pre-Crown Corporation era (2002) levels.

	2002	2003	2004	2005	2006	2007	2008	2009	Fiscal Level
Tolls	1,558	1,632	1,842	1,934	2,040	2,102	2,175	1,911	2005
Administration	2,445	1,824	2,302	2,653	2,901	2,354	2,164	1,701	prior 2002
Maintenance	1,391	1,733	2,104	1,838	1,852	1,961	1,753	1,418	2002
Currency Exchange	646	711	787	783	804	808	720	583	prior 2002
Projects	-	-	350	363	390	482	521	543	CBA &
Janitorial	295	296	319	344	396	426	471	472	Infrastructure
Accounting	222	376	422	473	514	508	375	381	2003
Office	314	336	382	397	430	417	330	169	prior 2002
Brokers, Customs & TIC	251	413	240	228	258	257	267	236	2005
Board of Directors	62	72	59	74	68	43	106	74	2005
Controllable Overhead	7,184	7,393	8,807	9,087	9,653	9,358	8,882	7,488	2003

Increased productivity, technological improvements and cost efficiencies will continue to be a focus of management in the years ahead.

Performance Against Fiscal 2008/2009 Strategic Objectives

Pursuit of Business and Financial Efficiencies			
2008-2009 OBJECTIVES	PERFORMANCE TARGETS	MEASUREMENTS	Status
Upgrading of current software	Toll System Upgrade	Completion by August, 2008	Deferred indefinitely; some coordination with MDOT is being considered on a common toll system
Implementation of new software	Project Accounting Module	Completion August, 2009	Deferred to Q4 2012/2013 due to time constraints of CFO and Projects manager
Impact study on the feasibility of new technologies on operations	Impact study identifying software modules & hardware equipment to improve operational efficiency and safety	Formal impact study document	Deferred to the Fall 2009
Explore with MDOT opportunities for joint efficiencies	Semi-annual meetings with MDOT Documented reports identifying the efficiencies and the plans & schedules to implement	Minutes from semi-annual meetings	MOU signed outlining commitment to work cooperatively. Joint bridge inspection will occur in the Fall 2009.
Formalize purchasing and contracting policies and procedures	Purchasing Policy Contracting/Tendering Policy	Policy documents by September 2008	Deferred to 2011/2012 Due to time constraints- other projects.
Conduct a salaries and benefits audit	Documented independent studies	Consultant report by March 2009	Completed
Develop an asset acquisition plan	Approved document	Plan document by December 2009	Satisfied with Capital Master Plan which is reviewed annually. Therefore an asset acquisition plan will not be developed.
Develop a policy on electronic devices and information management	Approved policy	Policy document by December 2009	In progress, expected completion October 2009

Encouraging Employee Development & Enhancing a Positive Work Environment			
2008-2009 OBJECTIVES	PERFORMANCE TARGETS	MEASUREMENTS	Status
Develop an employee relations plan	Approved policy	Plan document by December 2008	Management will complete review of policy by the Fall 2009

Due Diligence and Security			
2008-2009 OBJECTIVES	PERFORMANCE TARGETS	MEASUREMENTS	Status
Completion of Business Continuity Plan and Testing	Construction of “Hot” computer/server site. Replication of IT data and development of disaster protocols for software applications. Completion of Business Continuity Manual. Full “Disaster” test of IT system.	Completion by September, 2007 Protocol documentation by October, 2007 Completed manual by December, 2007 August, 2008	Completed Deferred to fiscal 2010 Deferred to fiscal 2010 Deferred to fiscal 2010 and will be a series of smaller tests versus entire system
Receive and review the reports (MDOT & BWBC) on the engineering/structural integrity of the bridge spans	Receipt of report documents.	Receipt of report documents; submission to insurance companies and Transport Canada	This represents part of the formally documented MOU with MDOT. The inspection reports are being received annually.

Improving Corporate Governance			
2008-2009 OBJECTIVES	PERFORMANCE TARGETS	MEASUREMENTS	Status
Develop Director job descriptions and time requirements	Job descriptions	Job Description documents by March 2008	Completed
Formalize the employment policy	Documented employment policy	Policy document completion by June 2008	Deferred to 2009/2010
Develop Board self-evaluation process	Documented self-evaluation	Documentation by March 2008	Completed and will continue to be done at the annual Board retreat
Development of a charter for the Board	- identification of its roles & responsibilities - identification of the roles & responsibilities of the Audit Committee	Completion of a formal, documented charter by August, 2009 Completion by August, 2009	Completed Deferred to 2009/2010

Enhancing Environmental Stewardship			
2008-2009 OBJECTIVES	PERFORMANCE TARGETS	MEASUREMENTS	Status
Master Plan, new CBSA (Customs) achieve LEED accreditation	Decisions on CBA design which will likely be compliant with attaining LEED (Leadership in Energy & Environmental Design) certification; August, 2008	Documented identification of the intended infrastructure pieces to attain LEED certification	Completed
To conduct a comprehensive evaluation of overall environmental risks	Development of formal environmental evaluation document by August, 2008	Addressing the risks related to hazardous waste or fuel tank storage	Deferred to Q3 2009/2010 due to time constraints- other projects
Develop an environmental policy	Approved environmental policy	Policy document by March 2010	Deferred to Q3 2009/2010 due to time constraints- other projects

Increase and Improve Customer Service, Marketing & Community Profile			
2008-2009 OBJECTIVES	PERFORMANCE TARGETS	MEASUREMENTS	Status
Raise Public Awareness of NEXUS	Combined marketing campaign with the Duty Free Store and OLGC;	Statistical growth chart - NEXUS growth 50% in 2009	Fiscal 2008 growth = 81.5% Fiscal 2009 growth = 51.2%

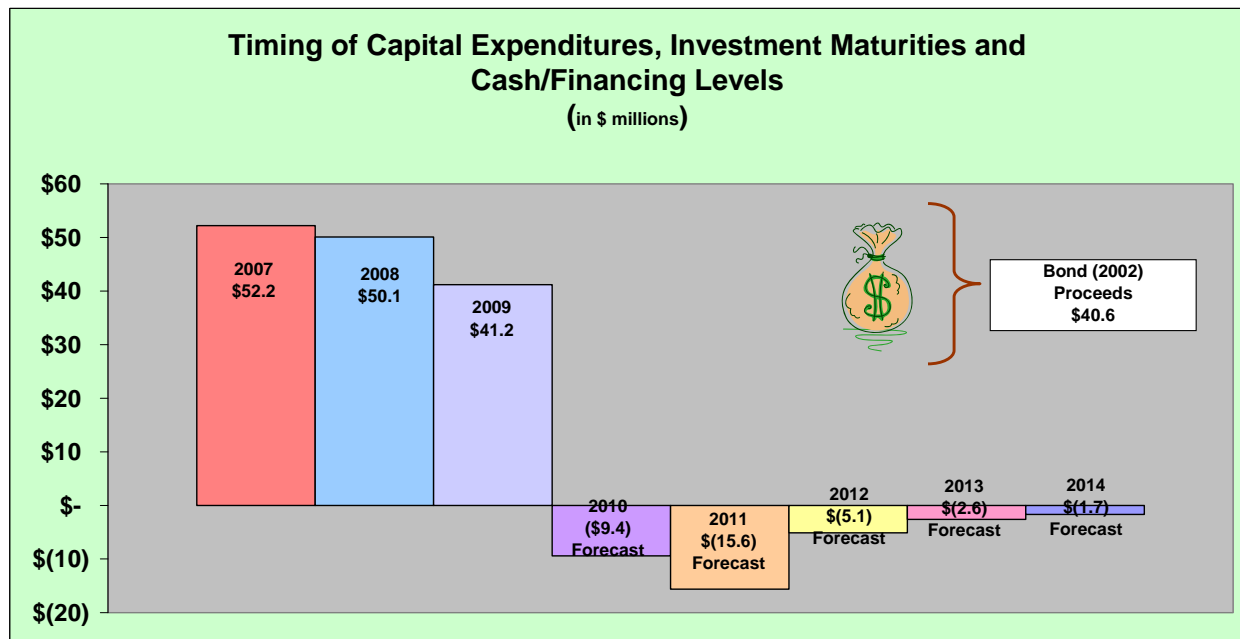
Deferral of Projects for Prior, Current & Future Years

While there has been the successful completion of many strategic objectives generated from the internal audit, special examination and Board/Management strategic direction, a number of projects have had to be deferred due to:

- The start-up of the CBA Complex;
- The federal infrastructure program;
- Major cost-cutting (expenses and employee workforce) programs;

The intent is to complete such “deferred” projects and review of the expected timelines will be undertaken at the annual Board and management strategic direction sessions.

Cash & Investment Availability for Fully-Funding Master Plan



Our 2002 bond issue raised funds to pay for the completion of the 2nd bridge span; the rehabilitation of the original span; the set up for the debt service reserve fund and the operating and maintenance reserve fund, and; provided BWBC with \$40.6 million of additional funds for implementing some of the capital projects identified in the master plan.

Although our current working capital position looks exceptionally healthy, our cash and investment balances will diminish even more rapidly than previously anticipated due to the economic recession and due to the required financing for the federal infrastructure program. In order to mitigate the anticipated additional long-term debt requirements, we find it necessary to deplete the investments previously reserved for our major maintenance fund. Over the next 5 years (2010-2014), in tandem with continued, expected positive cash generated from operations, the existing cash and investment balances will partially finance the planned capital projects, with the balance covered by a long-term capital loan. As a federal parent Crown corporation, we generate profits specifically for the purpose of maintaining the bridge spans, plaza and facilities and to fully fund other capital projects. As such, over the long-term, all cash generated and invested will be fully spent to fulfill our federal mandate.

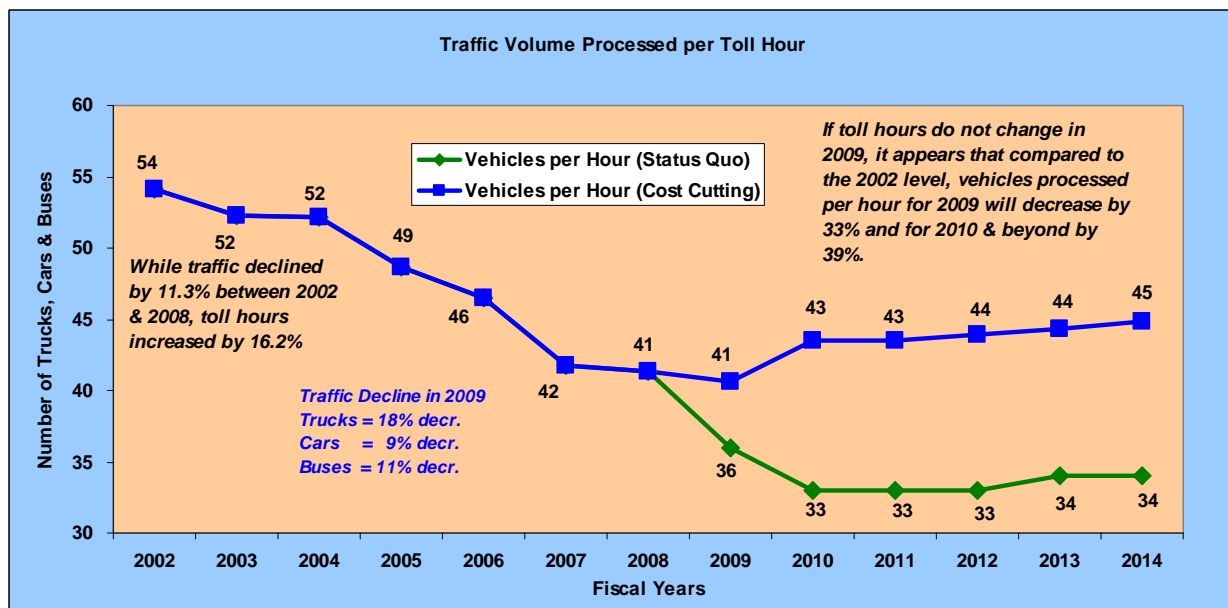
As we approach the negative cash and investment levels of 2010 and proactively react to the significant decline in toll revenue due to the current recession, the Board can direct management to further decrease expenses; delay construction on other projects, and; increase revenue through toll rate adjustments. We have the option of transferring or borrowing funds from our non-restricted major maintenance fund and replenishing at a later date. While we have planned for the possibility of a negative cash position with an aggressive construction schedule and conservative traffic flow projections, historically, construction schedules have been expanded and traffic volumes have usually come in higher than expected (2009 being the exception), resulting in better than expected cash flows.

Human Resources

On November 7, 2007 Blue Water Bridge Canada and the Public Service Alliance of Canada (PSAC) signed their first 3-year contract with PSAC as the new bargaining agent. BWBC continues to have a good working relationship with the employees and the representing union. Strategies are in place to maintain this harmonious relationship which includes the continuation of regular Union/Management meetings as well as Union input into the development and revision of policies and procedures.

During the Fall of 2008, management recognized that the Toll department needed to improve its average throughput of vehicles per toll employee. Productivity had been trending down since 2002 due to the increase in the number of toll employees and the steady decrease in westbound traffic crossing the bridge. Compared to our counterparts on the American side and with similar operations at other Ontario crossings we appeared to be more labour-intensive. If we maintained the status quo in the face of this prolonged economic downturn, productivity would continue to worsen.

For the first time in its 45 year history, BWBC instituted a formal downsizing program. A Voluntary Separation Package (VSP) was offered to all Toll employees. Four full-time and two part-time employees accepted the offer. Instead of manning 3 toll booths at all times 24/7, only 2 booths will be manned with an additional booth opened only upon peak demand periods. The intention is not only to decrease the fulltime toll complement but also to eliminate as many part-time hours as possible.



Management also considered and accepted to include one currency employee into the VSP program. Since January 2007, as employees resigned or retired, their positions have not been replaced. There were two Office/HR employees in 2009 and another three – 1 in accounting, 1 in HR and the other in maintenance (a managerial position) – in 2007 and 2008 – who retired and resigned, for a total of 5 overhead positions that have not been replaced during this three year period. The Chief Financial Officer has absorbed the responsibilities of the human resource portfolio and office administration.

	Actual				Plan		
	2008	2009	2010	2011	2012	2013	2014
Full-Time							
Administration	4	3	3	3	3	3	3
Accounting	3	3	3	3	3	3	3
Currency Exchange	5	4	4	4	4	4	4
Janitorial	5	5	5	6	6	6	6
Maintenance	8	9	9	9	9	9	9
Office	3	2	1	1	1	1	1
Project Management	5	6	6	6	6	6	6
Tolls	24	20	19	19	19	19	19
Total Full-Time	57	52	50	51	51	51	51
Part-Time							
Administration	-	-	-	-	-	-	-
Accounting	-	-	-	-	-	-	-
Currency Exchange	8	7	7	7	7	7	7
Janitorial	5	7	7	7	7	7	7
Maintenance	-	-	-	-	-	-	-
Project Management	-	-	-	-	-	-	-
Office	-	-	-	-	-	-	-
Tolls	7	4	4	4	4	4	4
Total Part-Time	20	18	18	18	18	18	18
Total Employees	77	70	68	69	69	69	69

Other than within the janitorial department we do not anticipate increasing resources. As major capital projects are completed and the fruition of the Master Capital Plan realized, some rationalization of project department positions will be considered.

Salary administration and job descriptions have been subjected to a formal review by an independent salary administration consultant. Job descriptions have been re-written and re-evaluated to ensure that job responsibilities correspond with equitable pay both internally and externally.

We take particular pride in our employees who continually go beyond the scope of their jobs to provide an efficient and customer-friendly plaza, well appreciated by the many people who have crossed the bridge spans and by the many people who work on the plaza. These employees are recognized quarterly through our Recognition Program. As well, BWBC continues to provide mandatory, voluntary and personal training including higher education to our employees.

FIVE YEAR REVIEW

Statement of Operations, Comprehensive Income and Equity

	2007				
for the year ended August 31st	2009	2008	(Restated)	2006	2005
(In Thousands)	\$	\$	\$	\$	\$
Revenue					
Tolls and Services	15,465	17,100	17,872	18,297	18,450
Interest and Sundry Revenues	2,586	2,710	2,634	2,489	2,358
Facility Rentals	2,106	2,618	2,937	3,277	3,500
Currency Exchange Department	1,101	1,202	941	1,099	1,106
Gain on disposal of property, plant and equipment	67	-	-	-	-
Total Revenue	21,325	23,630	24,384	25,162	25,414
Expenses					
Interest on long-term debt	6,138	6,306	6,464	6,612	6,751
Human Resources	6,065	5,515	5,763	5,658	5,051
Amortization	4,154	3,983	3,633	3,767	3,566
General and administrative	1,576	2,142	2,109	3,019	2,846
Maintenance & other expenses	1,242	1,458	1,620	1,586	1,602
Loss on disposal of property, plant and equipment	-	-	1,018	29	130
	19,175	19,404	20,607	20,671	19,946
Excess of revenues over expenses and comprehensive income	2,150	4,226	3,777	4,491	5,468
Balance Sheet					
Assets					
Current					
Cash	8,890	16,116	20,629	13,882	18,974
Short-term investments	32,671	17,778	22,844	13,245	13,829
Accounts receivable	1,109	1,678	1,224	1,738	1,414
Prepaid expenses	381	369	300	382	392
	43,051	35,941	44,997	29,247	34,609
Deferred Charges	-	-	576	606	635
Long-term investments	8,118	23,389	14,593	31,320	28,114
Property, plant and equipment	132,764	120,522	119,858	117,386	113,084
Restricted assets	8,177	8,682	8,362	8,019	7,676
	192,110	188,534	188,386	186,578	184,118
Liabilities and Equity					
Current					
Accounts payable and accrued liabilities	4,641	2,278	2,890	2,519	3,706
Holdbacks payable	1,356	-	439	1,048	119
Deferred Revenue	1,303	1,483	1,694	1,476	1,411
Current portion of long-term debt	2,900	2,723	2,556	2,400	2,253
	10,200	6,484	7,579	7,443	7,489
Employee future benefits liability	4,029	3,419	2,987	2,537	2,122
Long-term debt	91,202	94,102	96,825	99,381	101,781
	105,431	104,005	107,391	109,361	111,392
Equity	86,679	84,529	80,995	77,217	72,726
	192,110	188,534	188,386	186,578	184,118

Corporate Plan Evaluation

For the Year Ending August 31	2009 Actual	2009 Plan	2009 Actual vs. 2009 Plan
(In Thousands)			
Statement of Operations, Comprehensive Income and Equity	\$	\$	\$
Revenue			
Tolls and Service Revenue	15,465	16,665	(1,200)
Other	5,860	6,129	(269)
	<u>21,325</u>	<u>22,794</u>	<u>(1,469)</u>
Expenses	<u>19,175</u>	<u>20,177</u>	<u>1,002</u>
Excess of revenues over expenses and comprehensive income	2,150	2,617	(467)
Balance Sheet			
Assets			
Current	43,051	21,134	21,917
Deferred Charges	-	-	-
Long-term investments	8,118	14,253	(6,135)
Property, Plant, Equipment	132,764	142,933	(10,169)
Restricted Assets	8,177	8,492	(315)
Total Assets	<u>192,110</u>	<u>186,812</u>	<u>5,298</u>
Liabilities and Equity			
Current	10,200	5,871	(4,329)
Long Term	95,231	95,136	(95)
Equity	86,679	85,805	(874)
Total Liabilities and Equity	<u>192,110</u>	<u>186,812</u>	<u>(5,298)</u>
Statement of Cash Flows			Incr. (Decr.)
Operating Activities			
Net Income	2,150	2,617	(467)
Non-Cash Items	4,697	4,577	120
Changes in Working Capital Items	4,635	16,101	(11,466)
	<u>11,482</u>	<u>23,295</u>	<u>(11,813)</u>
Investing Activities			
Net acquisition of Capital Assets	(16,329)	(24,530)	8,201
Decrease in Reserve Funds	344	6,162	(5,818)
Financing Activities	(2,723)	(2,723)	-
	<u>(18,708)</u>	<u>(21,091)</u>	<u>2,383</u>
Cash and Cash Equivalents			
Increase (Decrease) in Cash	(7,226)	2,204	(9,430)
Balance at Beginning of Year	16,116	8,909	7,207
Balance at End of Year	<u>8,890</u>	<u>11,113</u>	<u>(2,223)</u>

CORPORATE PLAN DISCUSSION

(in thousands of dollars)

Comparison of 2009 Actual with 2009 Corporate Plan

Tolls and Service Revenue

Car volume was lower than expected by approximately 46 thousand vehicles and truck volume was lower than budgeted by 104 thousand (\$1,897 unfav) partially offset by the effect on the weakening of the Canadian dollar against U.S. Tolls collected (\$573 fav) and on U.S. cash balances (\$22 fav). The change in mix of truck axles and Canadian-to-American car traffic had a further positive effect on revenue (\$95 fav).

Other Revenue

Commercial broker leases were revised to offer lower square footage rates more competitive with the local commercial retail market (\$75 unfav); over-budgeted for chip trucks (\$37 unfav), and; Duty Free store revenue improved (\$52 fav). Interest income was lower due to redemptions to match construction schedule and lower interest being received for shorter-term investments when re-invested (\$56 unfav).

Expenses

Major Expenses:

General and Administrative

Expenses were \$576 or 26.8% lower than corporate plan due to a concerted effort to reduce overall expenses due to the deteriorating economic climate. Considerable savings were found in travel and conferences, consultants, advertising and public relations, meetings, bank charges and insurance.

Human Resources

2009 costs were \$53 or 0.9% lower than corporate plan. A voluntary separation package and other severances valued at \$662 were recognized in fiscal 2009 and were more than offset by the resulting savings in the reduction of employees in tolls, currency exchange and overhead departments along with a reduction in overtime, stat pay and shift premium.

Maintenance and Other

Property related expenses were lower by \$467 or 17.3%. While some maintenance work was deferred to 2010, there were savings experienced across almost all individual maintenance accounts.

Amortization

Amortization expenses were higher than budgeted by 2.3% due to the full fiscal 2009 year effect of depreciation of assets activated during fiscal 2008.

Balance Sheet & Cash Flow Items:

Combined cash and investment levels decreased due to the commencement of the CBA Complex capital project and the winding down of investments to match the timing of the capital expenditures.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**
(in thousands of dollars)

Except where otherwise indicated, all financial information reflected herein is expressed in Canadian dollars and determined on the basis of Canadian generally accepted accounting principles.

Introduction

The following analysis and prior year comparison reviews the operations for the financial years ended August 31, 2009 and 2008.

FINANCIAL RESULTS	2009	2008
	\$	\$
Revenues	21,325	23,630
Operating Expenses	19,175	19,404
Excess of Revenues over Expenses	2,150	4,226
Excess of Revenues over Expenses/Revenues	10%	18%

Operating Results

The operating income of \$2,150 for the fiscal year ended August 31, 2009 decreased by approximately \$2,076 or 49.1% from the 2008 fiscal year operating income of \$4,226.

Period over Period Comparisons

Years ended August 31, 2009 and 2008

Revenues

Revenues are derived from four sources: tolls and services, rents, currency exchange operations and interest and sundry income.

Tolls and Services Revenues

Tolls and services revenues decreased by \$1,635 or 9.6% for the year compared with 2008 revenues. Car volumes decreased by 148,140 vehicles or 8.7% for the year and truck/bus volume decreased by 137,912 or 18.2%.

Tolls and services revenues from commercial vehicles represented approximately 71.7% of all tolls and services revenues in financial 2009, with revenue from passenger vehicles making up the balance. In the 2008 financial year commercial vehicles represented 73.1% of all tolls and services revenues.

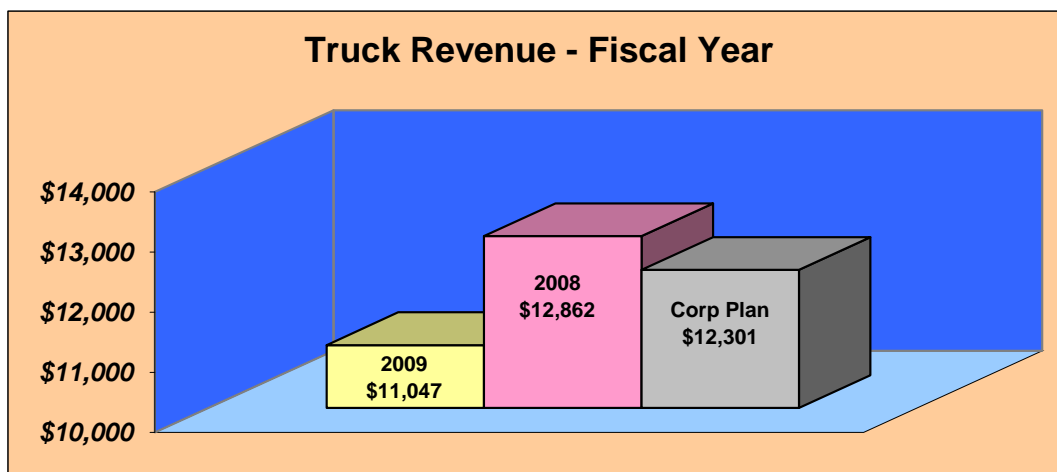
ASSESSMENT OF RESULTS, Continued

(in thousands of dollars)

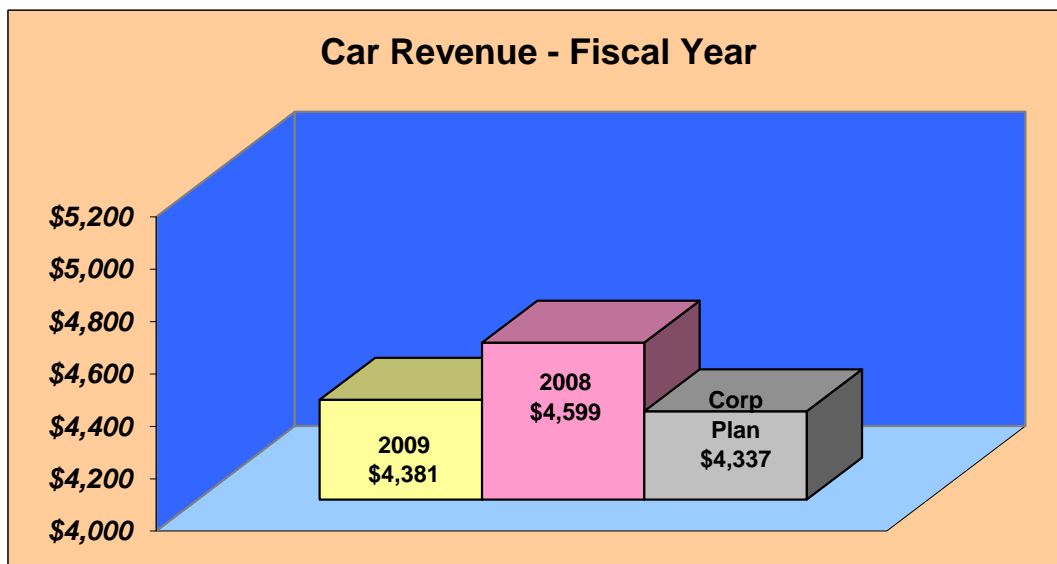
Revenues

Revenues from tolls and services decreased to \$15,465 in fiscal 2009 from \$17,100 in the preceding year.

A portion of the decrease came from decreased truck toll revenue, going from \$12,862 in 2008 to \$11,047 in 2009. This represents a decrease of 14.1 per cent and comes from a decreased volume of trucks by 18.2 per cent (\$2,198 unfav); the positive effect of an overall weakening of the Canadian dollar against U.S. toll receipts (\$354 fav) and a change in mix of Canadian-to-American trucks and truck sizes (axles) (\$29 fav). Additional revenue was created with a significant increase in the wide-load truck fees (\$32 fav).



Revenue from passenger car tolls decreased from \$4,599 in 2008 to \$4,381 in 2009. While the volume of cars decreased by 8.7 per cent (\$350 unfav), this was partially offset by the effect of the weakening Canadian dollar on tolls (\$159 fav) and the change in proportion of Canadian-to-American westbound traffic (\$26 unfav).



ASSESSMENT OF RESULTS, Continued

(in thousands of dollars)

Rental Revenues

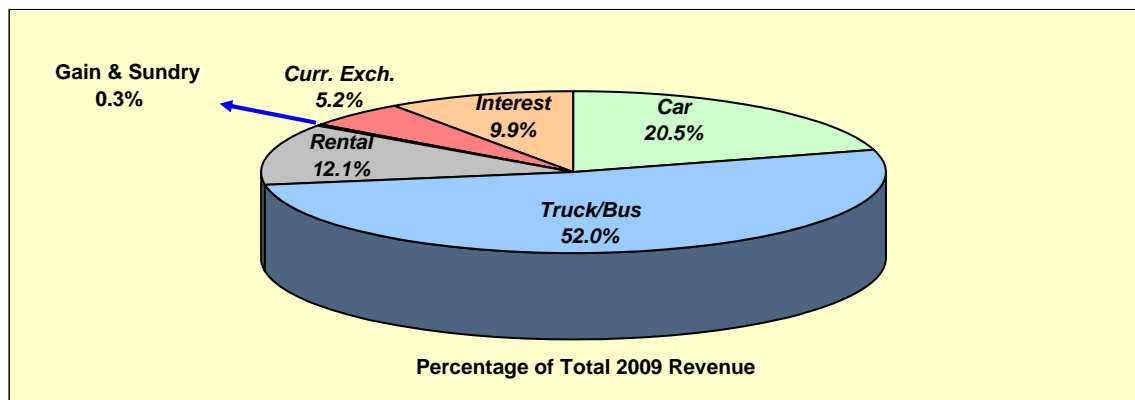
Rental property revenues accounted for approximately 12.1 per cent of all revenues in 2009 (11.1% in 2008). Rental revenue decreased from \$2,618 in fiscal 2008 to \$2,586 in 2009 primarily due an across-the-board decrease in commercial lease rates (\$63 unfav) partially offset by an increase in Duty Free Store variable rent revenue (\$36 fav).

Currency Exchange Operations

BWBC operates a currency exchange, with its primary customers being travelers coming from and going to the United States. Revenue from currency exchange operations approximated 5.2 per cent of total income in 2009 (5.1% in 2008).

Interest Revenue

The balance of revenue is derived from investment of surplus cash and monies set aside in restricted funds and other investments.



Gain on Disposal of Assets

Gain on disposal of assets related to the reduction of the maintenance department fleet of trucks (\$67 fav).

Factors Affecting Operating Income

The profitability of BWBC is affected by a number of factors, including seasonality, the strength of both the U.S. and Canadian economies, toll rate increases, the fluctuating foreign exchange rates and tourism in the Point Edward and Sarnia areas.

Profitability is largely dependent upon strong economies in both the U.S. and Canada. When the U.S. economy is expanding, exports of Canadian products tend to rise. With the Blue Water Bridge being one of the major international crossings in North America, its revenues and thus its profitability improves with the increase in activity.

ASSESSMENT OF RESULTS, Continued

(in thousands of dollars)

Seasonality is also a factor in the profitability of BWBC. While truck traffic tends to be steady, car traffic is at its heaviest during the months of May to October, which is traditionally the vacation period in North America.

When the activity at the Blue Water Bridge increases, there tend to be increases in the activities at both the duty-free shop and currency exchange. Increased activity at the duty-free shop results in additional rental income to BWBC, as the amount of rent is affected by the amount of sales. Similarly, increased activity at the currency exchange results in additional revenues, and with expenses relatively fixed, an increase in net income.

However, we have come to learn that the public's experience and perceptions with traffic congestion will have a significant negative effect, not only on toll revenues but also on currency exchange and duty free store revenues. With traffic congestion, people and commercial trucks will either not bother to attempt to cross the bridge spans or not bother to pull out of the traffic lines to exchange their money or buy products at the Duty Free Store.

Expenses

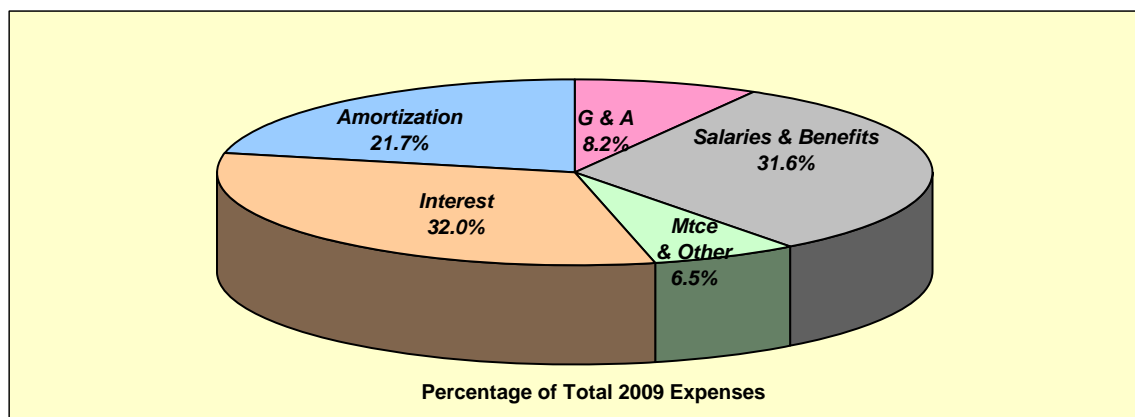
Operating expenditures are incurred in five main areas: general and administrative expense, human resources, maintenance and other, interest on long-term debt and amortization.

General and administrative expenses include consulting and other professional fees, public relations, office, municipal taxes and miscellaneous expenses. Amortization includes amortization on property, plant and equipment and on deferred bond financing charges.

Human resources include salaries and wages paid to toll collectors, accounting, administrative, currency exchange, maintenance, janitorial and project management staff. Employee benefits include statutory benefits and employee pension and life insurance.

Maintenance and Other expenses include maintenance supplies and services and snow removal and landscaping.

For the year ended August 31, 2009, interest expense was derived solely from the bond debt of \$96,825 existing as at September 1st, 2008. For the year ended August 31, 2008, interest was derived from bond debt of \$99,381 existing as at September 1st, 2007.



ASSESSMENT OF RESULTS, Continued
(in thousands of dollars)

Total expenses decreased from \$19,404 in fiscal 2008 to \$19,175 in 2009.

General and administrative expenses decreased by \$566 primarily due to a reduction in the use of consultants (\$424 fav), advertising and public relations (\$156 fav), travel and conferences (\$111 fav), software service and support (\$155 fav) partially offset by the 2008 PST rebate received (\$249 unfav), accounting reporting fees (\$73 unfav) and municipal taxes (\$43 unfav).

Human Resources increased by \$550 primarily due to the recognition of the value of the severance packages offered and accepted during fiscal year 2009 (\$513 unfav).

Maintenance and other expenses decreased by \$216 in fiscal 2009 with reductions in maintenance work related to paving (\$175 fav), bridge spans (\$119 fav), and buildings (\$62 fav), partially offset by the 2008 PST rebate received (\$96 unfav).

Interest on long-term debt decreased from \$6,306 in fiscal 2008 to \$6,138 in 2009 as a result of the lower bond principal outstanding as at August 31st, 2009 of \$94.1 million compared to \$96.8 million at the end of fiscal year 2008.

Amortization expense increased by \$171 due to the full year effect of assets put in use part way through fiscal 2008.

Cash Flow

There was a net decrease in cash of \$7,226 for the year 2009 as compared to a decrease for 2008 of \$4,513 primarily due to the commencement of the CBA Complex project and the reduction of the bond principle.

Capital Program

Capital additions in the 2009 fiscal year amounted to \$16,434, of which the major contributor was the Canadian Plaza Improvement – CBA building project (\$15,593); the purchase of a snow plow (\$216), the 402 Highway Widening (\$212) and the Storm Water Management project (\$105).

**Blue Water Bridge Canada
Financial Statements
For the year ended August 31, 2009**

Canada 

Management's Responsibility for the Financial Statements

MANAGEMENT'S REPORT

The financial statements and all other information contained herein are the responsibility of management and have been reviewed and approved by the Directors of Blue Water Bridge Canada. These financial statements, which include amounts based on management's best estimates as determined through experience and judgment, have been properly prepared and are in accordance with Canadian generally accepted accounting principles.

Management of Blue Water Bridge Canada maintains books of account, records, financial and management control, and information systems, which are designed for the provision of reliable and accurate financial information on a timely basis. These controls provide reasonable assurance that assets are safeguarded, that resources are managed economically and efficiently in the attainment of corporate objectives, that operations are carried out effectively and that transactions are in accordance with Part X of the *Financial Administration Act* and regulations, the *Blue Water Bridge Authority Act* and the by-laws of Blue Water Bridge Canada.

The Auditor General of Canada conducts an independent audit of the annual financial statements and reports on the audit to the Minister of Transport, Infrastructure and Communities.

The Board of Directors' Audit Committee, which consists of four members, none of whom is an officer of Blue Water Bridge Canada, reviews and advises the Board on the financial statements and the Auditor General's report thereto. The Audit Committee meets with management on a regular basis and occasionally with the Office of the Auditor General of Canada to discuss the financial reporting process as well as auditing, accounting and reporting issues.



Chuck Chrapko
President and CEO

Sarnia, Ontario
Canada

October 2, 2009



David Joy, BA, CGA
Chief Financial Officer



AUDITOR'S REPORT

To the Minister of Transport, Infrastructure and Communities

I have audited the balance sheet of the Blue Water Bridge Authority as at August 31, 2009 and the statements of operations, comprehensive income and equity and cash flows for the year then ended. These financial statements are the responsibility of the Blue Water Bridge Authority's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Blue Water Bridge Authority as at August 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Blue Water Bridge Authority that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Blue Water Bridge Authority Act* and the by-laws of the Blue Water Bridge Authority.

John Rossetti, CA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada
October 2, 2009

**Blue Water Bridge Canada
Financial Statements**

Balance Sheet

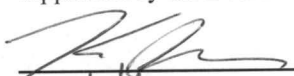
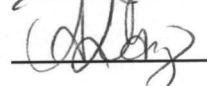
As at August 31	2009	2008
Assets		
Current		
Cash (Note 4)	\$ 8,890,041	\$ 16,116,325
Short-term investments (Note 5a)	32,671,348	17,778,446
Accounts receivable	1,108,211	1,677,920
Prepaid expenses	381,200	368,949
	<u>43,050,800</u>	<u>35,941,640</u>
Long-term investments (Note 5b)	8,117,999	23,388,767
Property, plant and equipment (Note 6)	132,764,408	120,521,544
Restricted assets (Note 8)		
Debt service reserve fund	5,161,365	5,755,860
Operating and maintenance contingency fund	3,016,115	2,926,188
	<u>8,177,480</u>	<u>8,682,048</u>
	<u>\$ 192,110,687</u>	<u>\$ 188,533,999</u>
Liabilities		
Current		
Accounts payable and accrued liabilities	\$ 4,640,883	\$ 2,277,987
Holdbacks payable	1,355,877	-
Deferred revenue (Note 10)	1,303,013	1,482,561
Current portion of long-term debt (Note 12)	2,899,965	2,722,647
	<u>10,199,738</u>	<u>6,483,195</u>
Employee future benefits liability (Note 11)	4,029,427	3,419,236
Long-term debt (Note 12)	91,202,237	94,102,202
	<u>105,431,402</u>	<u>104,004,633</u>
Equity		
Retained Earnings	86,679,285	84,529,366
	<u>\$ 192,110,687</u>	<u>\$ 188,533,999</u>

Contingencies (Note 15) and Commitments (Note 16)

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

Approved by the Board of Directors:

On behalf of Management:

 Director
 Director

Chief Financial Officer

Blue Water Bridge Canada
Financial Statements

Statement of Operations, Comprehensive Income and Equity

For the year ended August 31 **2009** 2008

Revenues

Tolls and services	\$ 15,465,230	\$ 17,100,472
Facility rentals (Note 13)	2,586,117	2,617,937
Interest	2,105,321	2,709,593
Currency exchange department (Note 14)	1,101,260	1,202,185
Gain on disposal of property, plant and equipment	67,188	-
	21,325,116	23,630,187

Expenses

Interest on long-term debt	6,138,396	6,306,409
Human resources (Note 20)	6,065,104	5,514,802
Amortization of property, plant and equipment	4,153,767	3,983,393
General and administrative (Note 20)	1,576,419	2,141,610
Maintenance and other expenses (Note 20)	1,241,511	1,457,643
	19,175,197	19,403,857

Excess of revenues over expenses and comprehensive income **\$ 2,149,919** **\$ 4,226,330**

Retained Earnings, beginning of year	\$ 84,529,366	\$ 80,994,729
Transition adjustment - Financial instruments	-	(691,693)
Retained Earnings, beginning of year, as adjusted	84,529,366	80,303,036

Excess of revenues over expenses and comprehensive income **2,149,919** 4,226,330

Retained Earnings, end of year **\$ 86,679,285** **\$ 84,529,366**

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

Blue Water Bridge Canada
Financial Statements

Statement of Cash Flows

For the year ended August 31	2009	2008
Cash Flows from operating activities		
Excess of revenues over expenses and comprehensive income	\$ 2,149,919	\$ 4,226,330
Adjustments for items not affecting cash		
Amortization of property, plant and equipment	4,153,767	3,983,393
Employee future benefits liability	610,191	431,799
Gain on disposal of property, plant and equipment	(67,188)	-
Effective bond yield adjustment	-	(115,308)
Foreign exchange loss	21,853	387,484
	<u>6,868,542</u>	<u>8,913,698</u>
Changes in non-cash working capital items		
Interest on short and long-term investments	538,330	1,152,480
Accounts receivable	569,709	(453,912)
Prepaid expenses	(12,251)	(69,408)
Accounts payable and accrued liabilities	2,362,896	(611,964)
Holdbacks payable	1,355,877	(439,452)
Deferred revenue	(179,548)	(210,959)
	<u>4,635,013</u>	<u>(633,215)</u>
Net cash provided by operating activities	<u>11,503,555</u>	<u>8,280,483</u>
Cash Flows from investing activities		
Proceeds on disposal of property, plant and equipment	104,340	-
Purchase of property, plant and equipment	(16,433,783)	(4,646,634)
Investments		
Matured investments	41,850,304	21,298,932
Investments purchased	(42,010,768)	(26,181,425)
Restricted assets		
Matured investments	3,003,239	1,200,928
Investments purchased	(2,498,671)	(1,521,219)
Net cash used in investing activities	<u>(15,985,339)</u>	<u>(9,849,418)</u>
Cash Flows from financing activities		
Increase in long-term debt - bond principal - current portion	177,318	166,476
Decrease in long-term debt - bond principal	(2,899,965)	(2,722,647)
Net cash used in financing activities	<u>(2,722,647)</u>	<u>(2,556,171)</u>
Foreign exchange loss on cash held in foreign currency	<u>(21,853)</u>	<u>(387,484)</u>
Decrease in cash during the year	<u>(7,226,284)</u>	<u>(4,512,590)</u>
Cash, beginning of year	<u>16,116,325</u>	<u>20,628,915</u>
Cash, end of year	<u>\$ 8,890,041</u>	<u>\$ 16,116,325</u>

Supplemental disclosure of cash flow information:

Interest paid	<u>\$ 6,163,531</u>	<u>\$ 6,330,007</u>
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The accompanying notes form an integral part of the financial statements.

Blue Water Bridge Canada
Financial Statements – For the year ended August 31, 2009

Notes to the Financial Statements

1. Authority and Objective

Blue Water Bridge Canada (BWBC), legally known as the Blue Water Bridge Authority, as established by the *Blue Water Bridge Authority Act* (Canada) on May 21, 1964; as per Section 22, BWBC is not an agent of Her Majesty in right of Canada. On April 26, 2002 BWBC became a Crown corporation, and as such, is listed under Schedule III, Part I of the *Financial Administration Act* and is not subject to income tax under the provisions of the *Income Tax Act*. In October 2007 the Minister of Transport, Infrastructure and Communities confirmed that the new operating title of Blue Water Bridge Canada was approved and registered by the *Federal Identity Program*.

The Blue Water Bridge complex includes the Canadian portion of two international toll bridges connecting Sarnia, Ontario, Canada with Port Huron, Michigan, USA. The westbound bridge was completed in October, 1938 and the eastbound bridge in July, 1997. Under the direction and guidance of the Minister of Transport, Infrastructure and Communities, the mandate of Blue Water Bridge Canada is to operate, maintain and repair the Canadian halves of the two bridges, approaches and structures.

The *Blue Water Bridge Authority Act* and section 6 of the *Customs Act*, require Blue Water Bridge Canada to provide, equip and maintain, free of charge, adequate buildings, accommodations or other facilities for the proper detention and examination of imported goods or for the proper search of persons by customs and immigration officers.

2. Accounting Changes

a) Adoption of new accounting standards

Effective September 1st, 2008, BWBC adopted the following new sections of the Canadian Institute of Chartered Accountants' Handbook:

Section 1535: Capital Disclosures

Capital Disclosures establishes standards for disclosing information about an entity's capital and how it is managed. This section specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity manages as capital; (iii) whether the entity has complied with any externally imposed capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. Disclosure requirements pertaining to this section are contained in Note 17.

Sections 3862 and 3863: Financial Instruments – Disclosures and Presentation

These sections specify the information that must be disclosed to enable financial statement users to evaluate the significance of financial instruments for the entity's financial position and performance, the nature and extent of risk arising from financial instruments, as well as how the Corporation manages those risks. It also provides guidance for the presentation of financial instruments and non-financial derivatives. This helps financial statement users to assess the nature, classification and cash flows from financial instruments. Disclosure requirements pertaining to these sections are contained in Note 18.

Blue Water Bridge Canada
Financial Statements – For the year ended August 31, 2009

Notes to the Financial Statements

2. Accounting Changes continued...

b) Future accounting changes

Goodwill and intangible assets

In February 2008, the CICA issued new Handbook Section 3064, Goodwill and Intangible Assets, that supersedes Section 3062, Goodwill and Other Intangible Assets, and Section 3450, Research and Development Costs. This Section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from standards included in the previous Section 3062. The new standards are effective for the BWBC's year ending August 31, 2010. BWBC will determine the impact that these standards will have on its financial statements, specifically on its reporting of computer software.

International financial reporting standards ("IFRS")

In February 2008, the Canadian Accounting Standards Board ("AcSB") confirmed that GAAP, as used by publicly accountable enterprises, will be superseded by IFRS for fiscal years beginning on or after January 1, 2011. BWBC is currently preparing its IFRS conversion plan. The plan will be aimed in particular at identifying the differences between IFRS and BWBC's accounting policies, assessing their impact on BWBC's financial statements and where necessary, analyzing the various policies that BWBC could elect to adopt. At this time, it is not possible to reasonably determine the impact of this anticipated accounting change on BWBC's financial results and position.

3. Summary of Significant Accounting Policies

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Significant accounting policies are set out below:

a) Foreign Currency Translation

Foreign currency accounts are translated to Canadian dollars as follows:

At the transaction date, each asset, liability, revenue or expense is translated through the use of the exchange rate in effect at that date. At the year-end date, monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at that date and the resulting foreign exchange gains and losses are included in the Statement of Operations, Comprehensive Income and Equity in the current period.

b) Investments

Investments are held-to-maturity. The carrying amount for both short-term and long-term investments is amortized cost calculated using the effective interest rate method.

Blue Water Bridge Canada
Financial Statements – For the year ended August 31, 2009

Notes to the Financial Statements

3. Summary of Significant Accounting Policies continued...

c) Deferred Revenues

Deferred revenues are comprised of tolls paid in advance by passenger vehicle users and commercial trucking companies as well as rent received in advance from the Ojibwe Legends Trading Company Ltd for the arts and craft store in the Tourist Information Centre building.

d) Employee Future Benefits

BWBC provides post-retirement benefits including health care, dental care, employee assistance, and life insurance to eligible employees and their dependents upon meeting certain requirements. The obligation and the cost of these benefits are determined on an actuarial basis using the projected unit credit method prorated on service and management's best estimate assumptions. The discount rate used to determine the accrued benefit obligation is based on market rates for long-term high quality bonds. BWBC uses an August 31 measurement date.

The net cost consists of the actuarially determined benefits for the current year's service, imputed interest on projected obligations and the amortization of actuarial gains or losses over the expected average remaining service life. Actuarial gains or losses are amortized over the employees' average remaining service life (14 years; 2008 - 14 years) only if the net actuarial gain or loss at the beginning of the year is in excess of 10% of the accrued benefit obligation at that date. These benefits are not pre-funded, resulting in a deficit equal to the accrued liability benefit obligation.

BWBC also provides defined contribution pension benefits to its employees. BWBC's contributions reflect the full benefit cost of the employer and they are charged to operations during the year in which the services are rendered.

e) Property, Plant and Equipment - Amortization

The net value of property, plant and equipment as presented on the Balance Sheet is cost less accumulated amortization. Replacements and major improvements which extend the useful lives of existing assets are capitalized.

Amortization rates based on the estimated useful life of an asset are as follows:

Bridge – first span		Straight line for 50 years
Bridge – second span		Straight line for 75 years
Truck Ramp		Straight line for 50 years
Buildings	5%	Diminishing balance basis
Buildings & Booths identified for demolition		Remaining life, straight line, 1 to 10 years
Buildings – leased Duty Free	5%	Diminishing balance basis
Buildings – residential (including land)		No amortization
Equipment	10%	Diminishing balance basis
Equipment – computer		Straight line for 5 years
Property improvements	10-20%	Diminishing balance basis
Vehicles and construction equipment	30%	Diminishing balance basis

Blue Water Bridge Canada
Financial Statements – For the year ended August 31, 2009

Notes to the Financial Statements

3. Summary of Significant Accounting Policies continued...

e) Property, Plant and Equipment - Amortization continued...

Ten buildings and all booths are identified for demolition in accordance with the master capital plan. Amortization has been accelerated to amortize the remaining net book value, respective of the planned date of demolition. Buildings-Residential and the land on which they are situated are purchased for their land values. No amortization on buildings-residential is recorded. The total acquisition cost will be transferred to the land account when these buildings are demolished.

Construction in process is not amortized. When projects are significantly completed and put in use, the costs are transferred to the appropriate asset account and amortization is initiated.

f) Revenue

Toll and services revenues are recognized and recorded at the time the tolls are collected when the vehicles pass through the toll lanes. Payments received in U.S. dollars are translated into Canadian dollars based on daily exchange rates.

Facility rentals revenues are recognized and recorded in the periods in which they are earned. These revenues include lease payments received from tenants such as commercial custom brokers, private coffee shops, and a duty free store.

Currency exchange department revenues are recorded and recognized at the time the currency exchange transaction is completed. Payments received in U.S. dollars are translated into Canadian dollars based on daily exchange rates.

Interest is recognized and recorded in the period in which it is earned. The primary component of revenue in this category is bond interest.

g) Financial Instruments

Financial instruments are measured at fair value on initial recognition. The measurement of financial instruments in subsequent periods depends on their classification. The classification of BWBC's financial instruments is presented in the following table:

Categories	Financial Instruments
Financial assets held for trading	Cash
Financial assets held to maturity	Short-term investments Long-term investments Restricted assets
Loans and receivables	Accounts receivable
Other Financial liabilities	Accounts payable Holdbacks payable Deferred revenue Long-term debt

Blue Water Bridge Canada
Financial Statements – For the year ended August 31, 2009

Notes to the Financial Statements

3. Summary of Significant Accounting Policies continued...

g) Financial Instruments continued...

Financial assets held for trading are recognized at fair value on the balance sheet. Gains and losses arising from the change in fair value are recognized in the revenues and the expenses for the period in which they arise.

Financial assets held to maturity are measured at amortized cost. Interest is recognized using the effective interest rate method and recognized in the Statement of Operations, Comprehensive Income and Equity.

Assets classified as loans and receivables are recorded at amortized cost using the effective interest rate method, which usually corresponds to the amount initially recorded less any allowance for doubtful accounts.

Other financial liabilities are measured at amortized cost using the effective interest method.

h) Federal, Provincial and Municipal Government Assistance

Federal, provincial and municipal government assistance is recorded as a reduction of the cost of the asset acquired when there is a reasonable assurance that the requirements for the approved grants are met.

i) Measurement Uncertainty

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the year.

Employee-related liabilities and the useful life expectancy predictions for property, plant and equipment are the most significant items where estimates are used. Actual results could differ significantly from management's best estimates as additional information becomes available in the future.

4. Cash

BWBC's bank accounts are held at one Canadian chartered bank. Cash (including on hand) includes US \$886,190 (2008 - US \$1,574,131) which has been translated to \$971,884 (2008 - \$1,672,672).

5. Investments

BWBC invests in the money market. The investments are mainly composed of secure and low-risk government and corporate bonds, guaranteed investment certificates, treasury bills, and banker's acceptances. These investments are held-to-maturity in four separate investment accounts.

Blue Water Bridge Canada
Financial Statements – For the year ended August 31, 2009

Notes to the Financial Statements

5. Investments continued...

a) Short-term Investments

The portfolio is composed of Government and corporate bonds maturing in the 2010 financial year.

As at August 31	2009	2008
General Investments (Carrying amount)		
Cash	\$ -	\$ 834
Government	-	8,853,786
Financial Institutions	29,578,889	8,903,768
	<u>29,578,889</u>	<u>17,758,388</u>
Major Maintenance Fund (Carrying amount)		
Cash	-	20,058
Government	2,003,671	-
Financial Institutions	1,088,788	-
	<u>3,092,459</u>	<u>20,058</u>
	<u>\$ 32,671,348</u>	<u>\$ 17,778,446</u>
Fair Value		
General Investments	\$ 29,697,174	\$ 17,767,439
Major Maintenance Fund	3,155,492	20,058
	<u>\$ 32,852,666</u>	<u>\$ 17,787,497</u>
Average Rate of Return - %	<u>2.96</u>	<u>4.31</u>
Average Term to Maturity - days	<u>116.8</u>	<u>138.7</u>

b) Long-term Investments

The portfolio is composed of Government and corporate bonds.

As at August 31	2009	2008
General Investments (Carrying amount)		
Financial Institutions	\$ 2,761,144	\$ 16,244,056
Major Maintenance Fund (Carrying amount)		
Government	3,198,662	3,972,340
Financial Institutions	2,158,193	3,172,371
	<u>5,356,855</u>	<u>7,144,711</u>
	<u>\$ 8,117,999</u>	<u>\$ 23,388,767</u>
Fair Value		
General Investments	\$ 2,854,089	\$ 16,084,367
Major Maintenance Fund	5,635,295	7,212,378
	<u>\$ 8,489,384</u>	<u>\$ 23,296,745</u>
Average Rate of Return - %	<u>4.32</u>	<u>4.54</u>
Average Term to Maturity - Years	<u>2.92</u>	<u>2.25</u>

Blue Water Bridge Canada
Financial Statements – For the year ended August 31, 2009

Notes to the Financial Statements

5. Investments continued...

The fair value of the investments was determined using quoted market prices.

The Major Maintenance Fund (formerly the Bridge Painting Fund) was established voluntarily by BWBC in 2002 in order to provide funds for the major restoration cost of recoating and painting of the bridges. The Fund's purpose had been expanded to provide a reserve for any major restorative bridge repair work as determined and approved by the Board of Directors. With respect to the eventual Bridge Painting project, current estimates indicate that the first project will begin in 2024 and the second in 2026-2031 at a total estimated future cost of approximately \$28 million. Current year deposits amounted to \$1,020,100 (2008 - \$989,553). The fund generated interest income in the amount of \$349,907 (2008 - \$305,468).

6. Property, Plant and Equipment

	2009			2008
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	\$ 7,963,429	\$ -	\$ 7,963,429	\$ 7,315,975
Bridges & Truck Ramp	98,530,117	13,259,715	85,270,402	86,661,739
Buildings	18,534,587	9,598,260	8,936,327	9,992,807
Buildings-booths	3,123,218	2,511,934	611,284	725,419
Buildings-leased Duty Free	5,281,899	1,686,672	3,595,227	3,788,255
Buildings-residential (including land)	621,729	-	621,729	1,269,183
Equipment	5,709,332	3,407,754	2,301,578	2,314,603
Equipment-computer	1,127,794	678,649	449,145	497,393
Construction in process	20,021,713	-	20,021,713	4,517,863
Property improvements	8,237,357	5,660,783	2,576,574	3,088,911
Vehicles and construction equipment	1,764,801	1,347,801	417,000	349,396
	<u>\$ 170,915,976</u>	<u>\$ 38,151,568</u>	<u>\$ 132,764,408</u>	<u>\$ 120,521,544</u>

Cost and accumulated amortization of property, plant and equipment as at August 31, 2008 amounted to \$155,002,721 and \$34,481,177 respectively.

7. Rehabilitation of the Bridge

The Blue Water Bridge is comprised of two spans. The original bridge (first span) was constructed in 1938 and underwent a major rehabilitation in 1999. The useful life of the rehabilitation is estimated to be 50 years, at which time the bridge could be demolished or rehabilitated. The second span was constructed in 1997 and has a useful life of 75 years, at that time it is estimated that a major rehabilitation could extend its useful life for 50 years. BWBC will eventually be obligated to demolish the Canadian half of both spans.

The replacement cost for both Canadian halves of the bridge spans is estimated by an independent engineering firm to total \$161 million.

Blue Water Bridge Canada
Financial Statements – For the year ended August 31, 2009

Notes to the Financial Statements

8. Restricted Assets

In accordance with the Master Trust Indenture, BWBC has established a Debt Service Reserve Fund and an Operating and Maintenance Fund.

Debt Service Reserve Fund

On the issuance of the bonds, BWBC established the Debt Service Reserve Fund in the amount of \$4.5 million. The bond covenant requires that the Debt Service Reserve Fund be established at the level according to the following:

Gross Debt Service Coverage Ratio	Debt Service Reserve Fund amount
> 3.00	No amount
> 2.00 and < 3.00	25% of the Debt Service Amount
< 2.00	50% of the Debt Service Amount

Gross Debt Service Coverage Ratio means, on any date, the sum of free cash flow for a twelve month period and the revenue account balance (cash plus all investments plus credit facilities) divided by the sum of the net interest amount and the total principal reduction amount for the twelve month period.

Debt Service Amount means, on any date, the sum of the projected net interest amount and the projected total principal reduction amount for the twelve month period commencing on the first day of the month.

As at August 31, 2009, the Gross Debt Service Coverage Ratio is 11.51 (2008- 13.05).

In anticipation of lower coverage ratios in the future as a result of the drawdown in investments to finance capital projects, a balance will be maintained at a level equivalent to that required as if the Gross Debt Service Coverage Ratio was less than 2.00. As at August 31, 2009 the Debt Service Amount is \$ 6,760,045 (2008 - \$6,159,594). Thus, a balance of \$3.4 million will be voluntarily maintained.

Debt Service Reserve Fund

	<u>2009</u>	<u>2008</u>
Carrying amount		
Cash	\$ -	\$ 159
Investments		
Government	<u>5,161,365</u>	5,755,701
	<u>\$ 5,161,365</u>	<u>\$ 5,755,860</u>
Fair Value		
Cash	\$ -	\$ 159
Investments	<u>5,226,966</u>	5,817,511
	<u>\$ 5,226,966</u>	<u>\$ 5,817,670</u>
 Average Rate of Return - %	 <u>3.49</u>	 4.30
 Average Term to Maturity - Years	 <u>1.63</u>	 1.32

Blue Water Bridge Canada
Financial Statements – For the year ended August 31, 2009

Notes to the Financial Statements

8. Restricted Assets continued...

Operating and Maintenance Contingency Fund

On the issuance of the bonds, BWBC established an Operating and Maintenance Contingency Reserve Fund in the amount of \$2.0 million. Thereafter the reserve must be at least equal to twenty-five percent (25%) of the Operating and Maintenance expenses incurred by BWBC. Operating and Maintenance expenses do not include amortization or the interest on any borrowings. As at August 31, 2009, the required minimum balance is established at \$2,027,189 (\$2,247,506 in 2008).

Operating and Maintenance Contingency Fund

	<u>2009</u>	<u>2008</u>
Carrying amount		
Cash	\$ -	\$ 13,960
Investments		
Government	1,532,245	1,464,329
Financial Institutions	1,483,870	1,447,899
	<u>\$ 3,016,115</u>	<u>\$ 2,926,188</u>
Fair Value		
Cash	\$ -	\$ 13,961
Investments	3,085,343	2,957,534
	<u>\$ 3,085,343</u>	<u>\$ 2,971,495</u>
 Average Rate of Return - %	 <u>4.06</u>	 <u>4.69</u>
 Average Term to Maturity - Years	 <u>1.78</u>	 <u>1.96</u>

The fair value of the investments was determined using quoted market prices.

9. Credit Facilities

BWBC maintains credit facilities with a Canadian chartered bank in the amount of \$15 million. There is no outstanding balance as at August 31, 2009.

Interest is payable monthly based on the Bank's Prime Lending Rate. The maximum amount that BWBC can borrow is \$125 million with Ministerial approval.

10. Deferred Revenue

Deferred revenue of \$1,303,013 (\$1,482,561 - 2008) represents the balance, at year end, for tolls paid in advance by passenger vehicles of \$415,450 (\$384,478 - 2008); commercial trucking companies of \$887,563 (\$1,075,166 - 2008), and; rent received in advance, nil (\$22,917 - 2008).

Blue Water Bridge Canada
Financial Statements – For the year ended August 31, 2009

Notes to the Financial Statements

11. Employee Future Benefits

a) Pension benefit

BWBC has contracted an outside life insurance firm to operate and administer an employee pension plan. Employees of BWBC may voluntarily join the pension plan, subject to eligibility requirements. The pension plan, which is a defined-contribution pension plan, is funded on a money-purchase basis with members contributing 6.5% of their annual earnings. In accordance with the plan, BWBC is required to contribute an amount equal to the member's required contribution. During the year, BWBC's pension contributions amounted to \$238,180 (2008 - \$212,001).

b) Severance Packages

BWBC initiated a cost reduction program in fiscal 2009. Nine employees accepted severance packages in 2009 totaling \$662,541 including benefits. As at August 31, 2009, \$263,975 of the severance cost is included in accounts payable and \$223,664 recognized in the employee future benefits liability.

c) Other benefits

Other than the pension plan, BWBC provides post-retirement benefits to its eligible employees through health, dental, life insurance and an employee assistance program. Benefit costs related to current service are charged to income as services are rendered.

The following table sets forth the status of the post-retirement non-pension related benefit plan:

For the year ended August 31	2009	2008
Change in accrued benefit obligation		
Accrued benefit obligation, beginning of year	<u>\$ 3,974,949</u>	<u>\$ 4,188,831</u>
Current service cost	173,908	200,321
Interest cost	246,822	239,642
Special termination benefits	24,801	-
Actuarial gain	<u>(541,925)</u>	<u>(589,787)</u>
Net cost for the year	(96,394)	(149,824)
Benefits paid	<u>(70,305)</u>	<u>(64,058)</u>
Accrued benefit obligation, end of year	<u>\$ 3,808,250</u>	<u>\$ 3,974,949</u>

Blue Water Bridge Canada
Financial Statements – For the year ended August 31, 2009

Notes to the Financial Statements

11. Employee Future Benefits continued...

The following table reconciles the unamortized net actuarial loss at the end of the year:

For the year ended August 31	2009	2008
Unamortized net actuarial loss		
Unamortized net actuarial loss, beginning of year	\$ 555,713	\$ 1,201,394
Actuarial gain arising during the year	(541,925)	(589,787)
Amortization of actuarial loss for the year	(11,301)	(55,894)
Unamortized net actuarial loss, end of year	<u>\$ 2,487</u>	<u>\$ 555,713</u>

The following table reconciles the accrued benefit obligation of the benefit plan to the accrued benefit liability recorded in the financial statements:

For the year ended August 31	2009	2008
Accrued benefit obligation	\$ 3,808,250	\$ 3,974,949
Severances Payable	223,664	-
Unamortized net actuarial loss	(2,487)	(555,713)
Accrued benefit liability	<u>\$ 4,029,427</u>	<u>\$ 3,419,236</u>

The last actuarial valuation was performed as at August 31, 2009. BWBC intends to have its next valuation performed as at August 31, 2010. The accrued benefit liability is reported on the Balance Sheet as: Employee future benefits liability.

The following table shows the elements of defined benefits cost recognized during the year:

For the year ended August 31	2009	2008
Elements of defined benefit costs recognized in the year		
Current service costs	\$ 173,908	\$ 200,321
Interest cost	<u>246,822</u>	<u>239,642</u>
Elements of employee future benefit costs before adjustments to recognize the long-term nature of employee future benefit costs	420,730	439,963
Adjustments to recognize the long-term nature of employee future benefit costs		
Difference between actuarial loss recognized and actuarial loss on accrued benefit obligation	11,301	55,894
Special termination benefit	<u>24,801</u>	<u>-</u>
Defined benefit costs recognized	<u>\$ 456,832</u>	<u>\$ 495,857</u>

Blue Water Bridge Canada
Financial Statements – For the year ended August 31, 2009

Notes to the Financial Statements

11. Employee Future Benefits continued...

Assumptions

For the year ended August 31	2009	2008
Weighted average assumptions as at August 31:		
Discount Rate, accrued benefit obligation	6.75%	6.00%
Discount Rate, benefit cost	6.00%	5.50%
Estimated per capita claims costs escalation rates:		
General inflation	2.70%	2.70%
Dental and vision care	3.70%	3.70%
Employee assistance program	2.70%	2.70%

The assumed health care cost trend rate for the next 9 years is 8%, 6% thereafter (2008 – 8% for the next 11 years, 6% thereafter).

Sensitivity analysis

A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	One Percent	
	Increase	Decrease
Total of service and interest cost	\$ 111,945	\$ (84,853)
Accrued benefit obligation	837,328	(653,112)

Blue Water Bridge Canada
Financial Statements – For the year ended August 31, 2009

Notes to the Financial Statements

12. Long-term Debt

On July 9, 2002 BWBC issued at a face value of \$110 million, 6.41% Revenue Bonds, payable semi-annually, Series 2002-1, due July 9, 2027.

Principal and interest payments for the next five years and thereafter are shown as follows:

	Year	Principal	Interest	Total
Current				
	2010	\$ 2,899,965	\$ 5,986,212	\$ 8,886,177
Long-term				
	2011	3,088,832	5,797,346	8,886,178
	2012	3,289,999	5,596,179	8,886,178
	2013	3,504,267	5,381,910	8,886,177
	2014	3,732,490	5,153,687	8,886,177
	Thereafter	77,586,649	37,933,659	115,520,308
		91,202,237	59,862,781	151,065,018
		<u>\$ 94,102,202</u>	<u>\$ 65,848,993</u>	<u>\$ 159,951,195</u>

BWBC maintains a covenant with the Trustee and Bondholders that so long as there is any amount payable under the Master Trust Indenture, or any Bonds outstanding or any obligations under the indenture that:

- a) The principal and interest will be duly paid on the due dates.
- b) Insurance will be maintained in such types and amounts in accordance with sound business practices and standards in the industry.
- c) BWBC shall maintain its corporate existence pursuant to the *BWBA Act* and maintain its existence as a parent Crown corporation under the *Financial Administration Act* subject to its right to reorganize, merge or amalgamate in accordance with the Master Trust Indenture.
- d) Except for borrowings arising as a result of movements in the termination values of swap agreements and any purchase money obligations not exceeding \$2 million in the aggregate at any time and BWBC shall not create, incur, assume or otherwise become liable for any additional indebtedness unless it is pursuant to a supplemental Indenture. As at August 31, 2009 BWBC has no active swap agreement.
- e) The aggregate of all borrowings, subordinated debt and purchase money obligations does not exceed any limitations on the amount of borrowings outstanding imposed upon BWBC pursuant to the *BWBA Act*.

Blue Water Bridge Canada
Financial Statements – For the year ended August 31, 2009

Notes to the Financial Statements

12. Long-term Debt continued...

- f) Toll Rate Covenant – BWBC will take all lawful measures to fix and establish toll rates and other charges so that:

The Gross Debt Service Coverage Ratio is equal to or greater than 1.25 with respect to each Fiscal Year and that the projected Debt Service Ratio is equal to or greater than 1.00 with respect to each Fiscal Year.

As at August 31, 2009, the Gross Debt Service Coverage Ratio (as defined in note 8) is 11.51 (2008 – 13.05) and the Debt Service Ratio is 1.95 (2008 – 2.45).

If the ratios do not meet the preceding guidelines BWBC shall take all steps permitted under the *BWBA Act* to increase toll rates as may be necessary to achieve such ratios in the next succeeding Fiscal Year.

As a result of the provisions of Section 13 of the *Blue Water Bridge Authority Act*, the Government of Canada is not liable for any borrowings by BWBC.

A discounted cash flow method, using a discount rate equal to the prevailing market rate of interest for bonds having similar terms and conditions, was used to determine the fair value of the bonds. The fair value as at August 31, 2009 is \$107,875,013 (2008 - \$110,185,819).

13. Facility Rentals

BWBC has entered into a long-term operating lease with The Blue Water Bridge Duty Free Shop Inc. BWBC provides the building and the Duty Free Shop Inc. operates the commercial facility. The lease has an initial term of 7 years ending on March 2, 2009, and has been renewed in 2009 for another 7 years with the option of adopting two subsequent, consecutive renewal periods of 7 years each at the discretion of the Duty Free Shop Inc. BWBC receives a fixed rent per month and contingent revenues based on a percentage of sales.

14. Currency Exchange Department

BWBC operates a currency exchange department. The department's primary activity is to convert Canadian and American dollars for travelers. The Currency Exchange department generated net income of \$226,457 (2008 - \$320,690).

15. Contingencies

In the normal course of its operations, BWBC becomes involved in various legal actions. Some of these potential liabilities may become actual liabilities when one or more future events occur or fail to occur. To the extent that the future event is likely to occur or fail to occur, and a reasonable estimate of the loss can be made, an estimated liability is accrued and an expense recorded in BWBC's financial statements. There are no outstanding legal actions against BWBC at year end.

Blue Water Bridge Canada
Financial Statements – For the year ended August 31, 2009

Notes to the Financial Statements

16. Commitments

BWBC has awarded construction contracts for the Customs/Brokers/Agricultural (CBA) Complex totaling \$61,560,799 (outstanding commitment \$46,408,149) and for federal infrastructure projects totaling \$3,862,276 (outstanding commitment \$3,632,438). Maintenance and other awarded contracts total \$746,302 (outstanding commitment \$482,931). The outstanding commitment amounts will be paid in full within the next 2 years.

17. Capital Management

BWBC defines its capital structure as its retained earnings. BWBC is governed by the *Financial Administration Act* and is not subject to any external capital restriction.

BWBC is not authorized to modify its financial structure without pre-approval by the Government. BWBC must obtain authorization from the Government to negotiate any borrowings. As at August 31, 2009 federal approval has been provided for: (a) its existing bond issue payable; (b) borrowings of up to \$15 million for short-term working capital requirements, and; (c) borrowings of an additional \$15 million for the purpose of funding capital expenditures that were accelerated due to funding received as part of the Gateways and Border Crossings Fund under *Budget 2009: Canada's Economic Action Plan*.

BWBC manages its equity by prudently monitoring its revenues and expenses, its assets, liabilities, investments and financial transactions to ensure BWBC achieves its goals and objectives, whilst remaining a going concern.

18. Financial Instruments

a) Financial Risk Management

All the following risks have no significant impact on BWBC's financial statements.

i. Liquidity/Solvency risk

Liquidity/Solvency risk is the risk that funds will not be available to BWBC to honour its cash obligations as they arise.

BWBC is responsible for the retirement of \$110 million, 6.41% Revenue Bonds, due July 9th, 2027. Bond covenants are in place to ensure adequate liquidity over the duration of the bond issue. During this period of time, in the event temporary operating cash deficiencies occur, resulting from the timing of capital expenditure payments, a \$15 million line of credit is in place. BWBC's borrowing may not exceed \$125 million. As per the Minister of Finance's approval of the borrowing plan, this line of credit is not to be used to cover cash shortages resulting from operating losses.

It is possible that future financial results and required federal infrastructure priorities may impinge or strain our ability to satisfy existing bond covenants and require the utilization of the existing line of credit or the utilization of additional long-term debt. However, BWBC manages this risk by maintaining detailed cash forecasts, as well as long-term operating and strategic plans. The management of liquidity requires a constant monitoring of expected cash inflows and outflows which is achieved through a forecast of BWBC's liquidity position, to ensure adequacy and efficient use of cash resources. In the event that

Blue Water Bridge Canada
Financial Statements – For the year ended August 31, 2009

Notes to the Financial Statements

18. Financial Instruments continued...

future cash deficiencies are identified, BWBC has the authority through the *Blue Water Bridge Authority Act* (Canada) to fix and charge tolls based on a pre-set formula; negotiate with our chartered bank, and; coordinate financial remediation solutions with Transport Canada.

In September, 2009, Standard and Poor's lowered it's BWBC bond rating from "AA-/Stable" to "A".

ii. Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual financial instrument of its issuer, or factors affecting all similar financial instruments traded in the market. The only market risk to which BWBC is exposed is interest rate risk.

A variation in interest rates would not significantly affect investment income and would not have a significant affect on the financial statements as all investments are held to maturity. A variation in interest rates of 1% would affect the fair value of the long-term debt by \$941,022.

b) Fair value

The carrying amounts of BWBC's cash and cash equivalents, accounts receivable, restricted cash, cash equivalents and receivables, and accounts payable and accrued liabilities approximate their fair values due to their short term maturity.

19. Comparative Figures

Certain of the comparative figures have been reclassified to conform to the current year's presentation.

Blue Water Bridge Canada
Financial Statements – For the year ended August 31, 2009

Notes to the Financial Statements

20. Expenses

For the year ended August 31	2009	2008
Human Resources		
Salaries and wages		
Toll collectors	\$ 1,569,096	\$ 1,558,819
Administrative and office	1,054,877	730,712
Maintenance	536,250	530,888
Currency Exchange Department	410,572	422,986
Project Management	402,002	379,154
Janitorial	273,485	279,123
	<u>4,246,282</u>	<u>3,901,682</u>
Benefits		
Employee pension and life insurance	\$ 1,394,851	\$ 1,164,368
Vacation pay	144,450	149,128
Employee health taxes	80,133	82,048
Employment insurance	66,092	66,422
Sick Pay	42,171	54,091
Uniforms and cleaning	40,736	33,383
Workplace Safety and Insurance Board	36,031	49,012
Other	14,358	14,669
	<u>1,818,822</u>	<u>1,613,121</u>
	<u>\$ 6,065,104</u>	<u>\$ 5,514,803</u>
General and Administrative		
Insurance	\$ 350,369	\$ 244,137
Municipal Taxes	275,693	232,886
Accounting, Audit and Legal	195,628	117,915
Public relations and advertising	133,910	290,008
Stationary	97,507	57,245
Consultants	89,842	514,200
Computer services and supplies	72,347	139,593
Travel and entertainment	66,594	154,101
Telephone	58,033	51,380
Bank charges	57,618	72,041
Office and miscellaneous	44,287	51,629
Bond fees	41,754	41,208
Meetings	37,094	54,131
Conferences, seminars and training	28,763	43,562
Memberships	22,188	28,394
Service agreements	4,792	49,180
	<u>\$ 1,576,419</u>	<u>\$ 2,141,610</u>
Maintenance and Other Expenses		
Utilities	\$ 399,957	\$ 392,757
Landscaping and snow removal	246,444	199,341
Bridges	152,727	260,089
Janitorial	128,881	141,525
Buildings	98,472	155,636
Shop supplies	78,082	43,012
Other	77,992	35,599
Fuel and vehicle costs	58,956	55,129
Paving	-	174,555
	<u>\$ 1,241,511</u>	<u>\$ 1,457,643</u>