

Annual Report 2010

Blue Water Bridge Canada

Canada 

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Letter from the President and Chief Executive Officer



The Canadian economic rollercoaster ride we experienced last year is slowing down, although the lessons learned will stay with us well into the future.

Never before have such overriding business controls been required at Blue Water Bridge Canada, as those required in response to last year's dramatic decline in toll traffic and revenue. But, with guidance from our Board of Directors and a commitment by all employees to make the necessary accommodations, we have emerged operationally fit and financially solid, still focused on our customers' needs.

In facing the recession, we learned that efficiencies come in all shapes and sizes, as we acquired an all-electric maintenance truck. The subcompact vehicle is highly versatile for plaza duties and runs at a fraction of the cost of the 4x4 pick-up it replaced. As well, we discovered new opportunities for improvements in cooperation with our U.S. counterpart, the Michigan Department of Transportation. We completed our first shared engineering bridge inspection under a single, three-year contract and will harmonize our winter maintenance programs. Travelers perceive the bridge crossing as one entity and do not perceive nor care that it is being operated by two government agencies from two separate countries. Improving service to our customers and optimizing our efficiency are recurring themes of our joint efforts.

A 10-percent increase in commercial traffic and a three-percent improvement in auto volumes over 2009 are positive signs of recovery, and more in keeping with the spirit of our property development activities. Last year's Canadian government infrastructure funding enabled us to implement our largest-ever capital development program. The centrepiece of the \$80-million program, our CBA building, is on budget and due to be occupied in the spring of 2011. In addition, our Projects team continues to do an outstanding job advancing eight other projects, including: the widening to four lanes of our approach from Hwy 402; a new energy distribution network for Span 2 and the plaza; and new electronic billboards, now in operation, which offer travellers information and BWBC a source of ad revenue.

Following a June meeting involving BWBC, Canada Border Services Agency President Stephen Rigby delivered solidly on his promise to improve the efficiency of officer vehicle inspections. But, while we experienced fewer delays inbound to Canada, the number of back-ups doubled year over year for summer traffic to the U.S. Increased inspection times by U.S. Customs and Border Protection officers held commercial vehicles and many vacationing families on the Hwy 402 approach to the bridge for up to three hours. With delays occurring on a near daily basis throughout August, BWBC had portable comfort stations placed along the highway, offering travellers some relief during the unpredictable holdups. BWBC and other Ontario crossings are working with federal agencies on both sides of the border in adopting an approach to introducing security controls, which also encompasses the efficiency of delivery. Through such cooperative steps, we can all contribute to achieving our common goal: providing for the safe, secure and productive movement of people and products between our two neighbouring nations.

A handwritten signature in black ink, appearing to read 'Chuck Chrapko'.

Chuck Chrapko
President and Chief Executive Officer

Letter from the Chairman of the Board



The remnants of the global recession continue to worry business and citizens across North America, prompting the Board of Directors to take a double-edged approach to our business during the past year.

From one perspective, we have conducted our oversight responsibilities with a measure of caution, since traffic volumes and the associated toll revenues are still recovering from the full force of the recession. The Board has appreciated the decisiveness and responsiveness of CEO Chuck Chrapko and his staff during these unpredictable times, as we continued to serve our customers and retain our solid financial footing.

Despite our economic challenges, our organization has been preparing for further growth and continued success in the future. I am extremely pleased with the progress that we have made in the areas of strategic planning and governance. Consistent with the Board's strategic direction, our CEO and his team have developed comprehensive, multi-year action plans for our major programs. Subsequently, the Board considered and approved the priorities and direction staff recommended for our Marketing/Customer Service, Community Relations and Government Relations programs. The guides represent a major milestone in our collective efforts to determine and advance progressively along a common course of action. Combined with the Board's audit function, the regular and standardized dashboard-style performance reports defined in each plan will enable current and future Boards to focus more efficiently and effectively on our governance role. In addition to the action plans, the Board approved the framework and timetable for the development of a comprehensive Environmental Sustainability Program. Our new CBA complex, which is being built for certification under the Canada Green Building Council's *Leadership in Energy and Environmental Development (LEED)* green building rating system, is an early example of how our Sustainable Development Program will influence everything we do.

Unfortunately, solutions to minimize delays for honest and law-abiding travelers continued to elude border control agencies for another, consecutive year. While recent discussions suggest a more positive attitude by U.S. Customs and Border Protection towards the introduction of measures that could help maintain national security *and* cut wait times for legitimate travelers, our customers grow increasingly impatient at the lack of real progress on this important matter.

On a very positive note, the Board's endorsement of a staff initiative to continue working cooperatively with the Michigan Department of Transportation, owner of the U.S. side of the bridge, is already leading to joint projects that will advance customer service and operational efficiencies.

Improvements to further strengthen the Blue Water Bridge's outlook for the future can be expected throughout the upcoming year. Whether involving the completion of infrastructure developments assisted by federal government funding, or the introduction of new service offerings created by our employees, all of our improvements will remain centred on the needs of our customers and the well-being of our host communities. As in the past, we will continue to honour these important obligations only through the dedication of our Board and staff, and with the generous support of our many local, national and international partners.

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

Ken James, Chair
Board of Directors

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



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



Cathy Newman

Regional Accountant
Nova Chemicals

Corporate Governance

BWBC is guided by a Board of four members appointed by the Governor in Council. The Board does not receive remuneration but is entitled to be reimbursed for travel, living and other necessary expenses incurred by them in the performance of the duties of BWBC under the Bridge Authority Act. 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. A chartered accounting firm, acting as the internal auditor, reports directly to the Audit Committee. Governance issues and practices continue to evolve and the Board strives to improve its due diligence and governance processes throughout the year. Board members regularly attend annual governance and stewardship sessions to keep up-to-date on the various issues.

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.

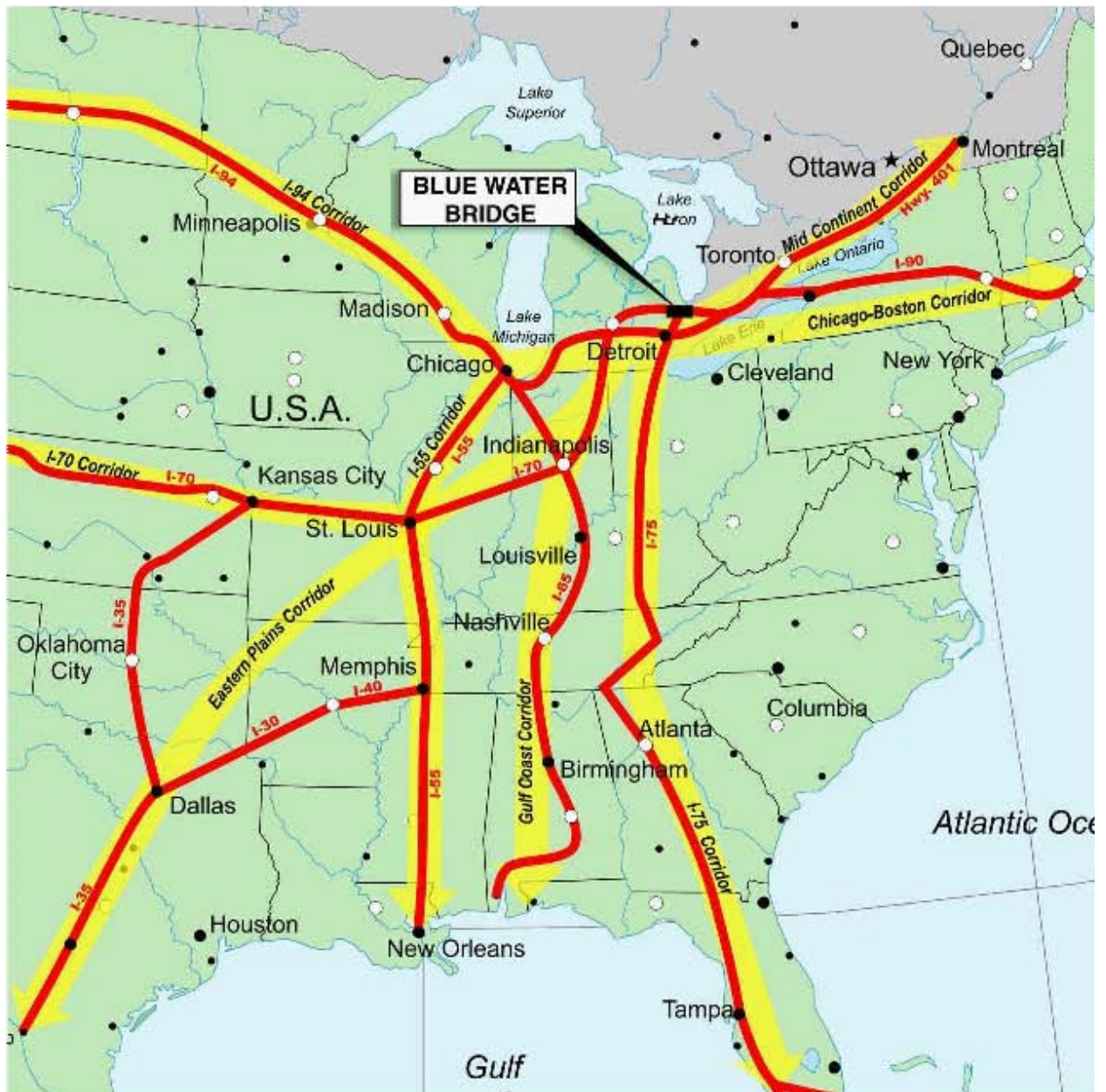
The *Blue Water Bridge Authority Act*, and the *Customs Act*, section 6, require BWBC to provide, equip and maintain free of charge adequate buildings or other facilities for the proper interviewing, examination and detention of persons and goods by customs officers.

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 for Fiscal 2010

With reference to the Corporate Plan for 2010, Blue Water Bridge Canada's (BWBC) primary focus for fiscal 2010 has been its "showcase" capital project - the \$68 million Customs, Brokers, Administration Complex (CBA) building project – and the commencement of the Federal Infrastructure Program projects (\$20 million) for completion by March 31st, 2011.

By December 2010, the centerpiece and cornerstone of our capital master plan, the CBA Complex building, will be substantially completed. This building will fulfill and house the most up-to-date Statement of Requirements (SOR) of the Canadian Border Services Agency (CBSA). It will also house the commercial brokers and the administration of BWBC in a building that will be an accredited Leadership in Energy and Environmental Design (LEED) structure; visually impressive with its size and "blue water" theme to the local community and to the travelers crossing the bridge spans.

Once completed and, with the move-in date set for April 2011, this will allow BWBC to plan for the demolition of the old building and begin the process of widening the plaza, adding fourteen additional primary inspection booths. It will also begin the process of redeveloping the plaza into a preferred place of travel-through destination for both trucks and car travelers with its increased capacity and improved customer service facilities.

Federal Infrastructure Program

At the inception of this program, BWBC agreed to undertake eight capital projects totaling \$27 million as part of the federal infrastructure program. During the Spring 2010 it was apparent that BWBC would reasonably complete only \$20 million of infrastructure projects by March 31st, 2011. As of August 31st, 2010, almost \$4.9 million of eligible expenditures has been incurred by BWBC on infrastructure projects; claims have been submitted and federal funds received in the amount of approximately \$1.2 million. Infrastructure work totaling \$2.4 million has been accrued up to August 31st for which a \$1.2 million account receivable has been set up in advance of a claim to be processed during the Fall 2010.

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. We will be well-positioned to take full advantage of the excess capacity required to efficiently and safely expedite the anticipated increase in volume 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 HST) is listed below:

Plaza Widening to Highway 402 Widening

{Budget \$3.1M covering years 2009-2010; Claims submitted \$1.2M}

To broaden the BWBC plaza to accommodate the widening of Highway 402 which is being constructed 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 Overhead Gantry 402 Approach to Plaza

{Budget \$2.8M covering years 2009-2010; Claims submitted \$0.9M}

Dynamic Message signs on overhead gantries, pylon, cantilever supports 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 Span 2 Infrastructure & Systems Upgrade

{Budget \$5.4M covering years 2009-2010; Claims submitted \$0.2M}

To relocate and enhance the electrical and communication equipment that has experienced several system failures to the existing infrastructure and to install a new electrical distribution system for the plaza. 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 Bi-Level and Traffic PIL Booths

{Budget \$1.7M covering year 2010; Claims submitted \$0.0M}

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. Seven new primary inspection booths will be designed, constructed and delivered to the plaza for future installation. Four by-level booths will be installed in the CBA-Complex phase 1 project.

Plaza Electrical / Communication Infrastructure

{Budget \$3.0M covering year 2010; Claims submitted \$0.04M}

Includes the expansion of the existing CBSA traffic parking lot, parking lot lighting, high water storm water outlet to the east storm water pond, and duct infrastructure connecting the south side of the plaza to the north side (under 402 highway approach to toll booths).

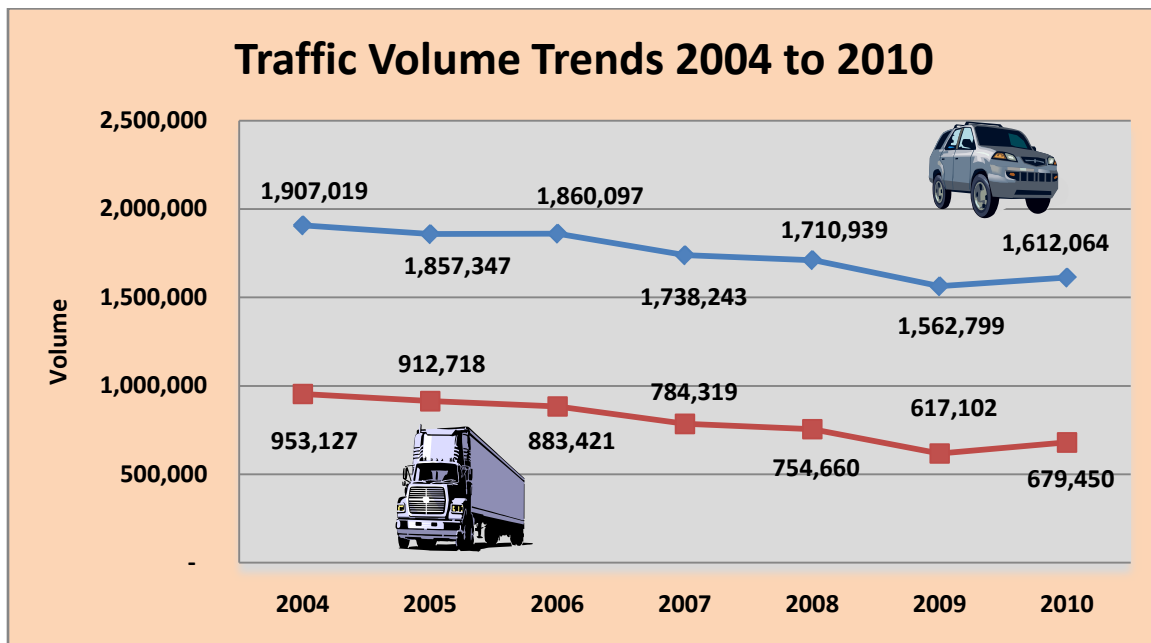
Eastbound Ramp Realignment

{Budget \$4.0M covering year 2010; Claims submitted \$0.1M}

Existing operations must be relocated and facilities demolished in order to complete the realignment of the truck ramp, allowing Canada-bound trucks to access Highway 402 eastbound.

Effect of the Economic Climate on BWBC

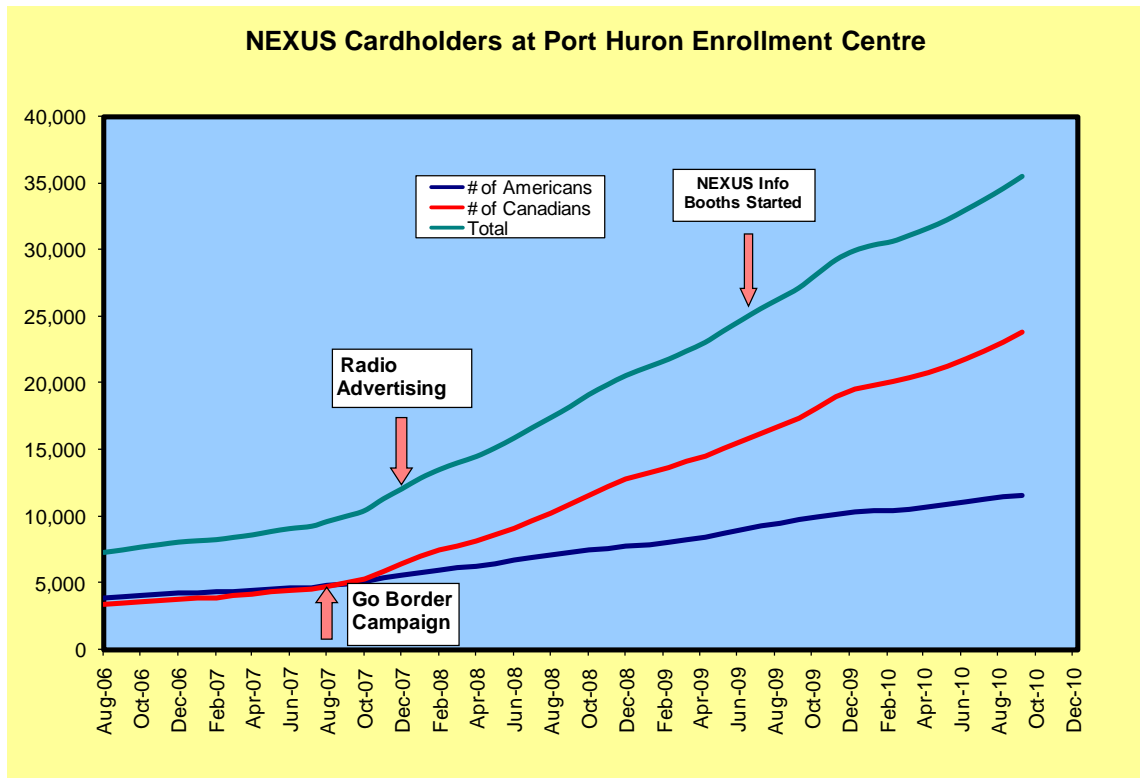
Historically, since becoming a parent Crown corporation traffic volume peaked in fiscal 2004 and has been in decline every year since, except for fiscal 2010. As noted in previous annual reports, some of the decline was related to increased security inspections, resulting in traffic congestion lasting from 30 minutes to 3 hours. In 2009 it was related to the decrease in manufacturing and we were experiencing monthly decreases ranging from 9% to 32% throughout the year for trucks. After 5 straight years of truck traffic declines – with fiscal 2009 being the most significant decline at 18.2%, it was encouraging to have experienced a 10.1% increase in truck volume in 2010. Car traffic has had a more moderate increase in 2010 of 3.2%.



While the effects of the downturn in the economy experienced over the past few years is out of the control of BWBC, management has been very active in promoting the bridge, encouraging enrolment in NEXUS and contacting customers, specifically the trucking companies to encourage their willingness to route their trucks through to our border. Management has documented and the Board has approved our formal customer service, marketing and government relations strategic plans which are aimed at working with all of our stakeholders to make this border efficient, safe and enjoyable for all travelers thereby encouraging their willingness to cross the border without any hesitation.

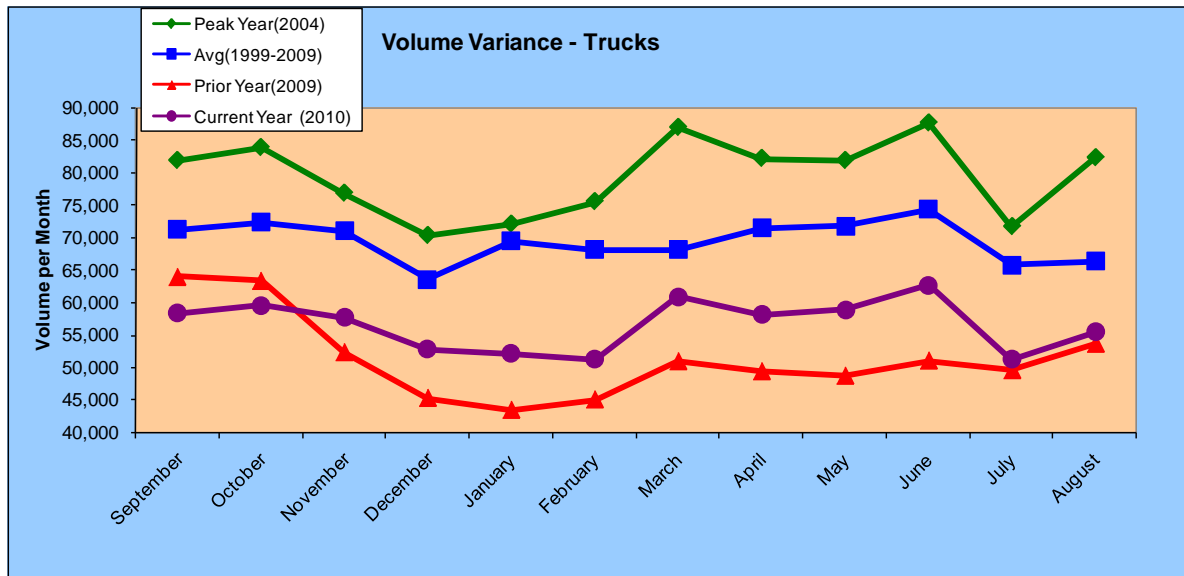
Due to BWBC's efforts, we continue to have success with the NEXUS enrolment and have experienced a 31% increase over the past year. More Canadians are signing up than

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.

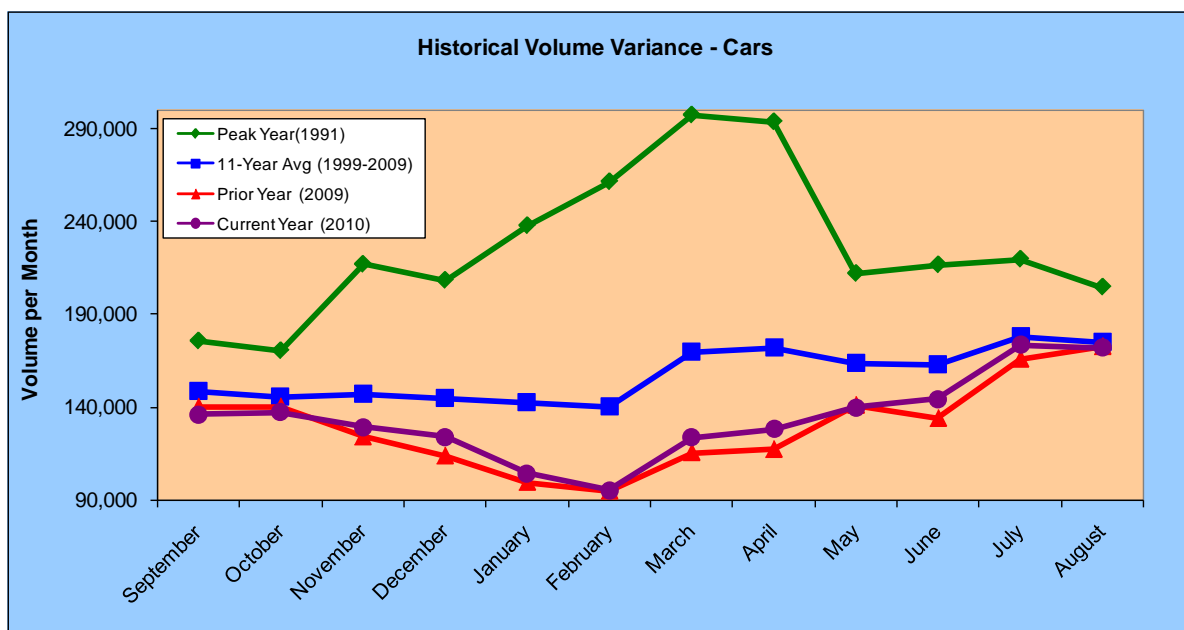


BWBC communicates frequently with the U.S. Customs Border Protection and the Canadian Border Security Agency to encourage both parties to adequately man the primary inspection lanes in relation to the daily spikes in demand to prevent long lineups which discourage the general public and trucking companies from attempting to cross our border.

As demonstrated below, the truck volume for 2010 was consistently and significantly well below the previous 11-year monthly average. On an annual basis, 2010 volumes were 154,560 trucks lower than the previous 11-year annual average. At an average toll rate of \$17.89 per truck this translates into \$2.8 million foregone annually, now and possibly into the future.



Coupled with a similar, but less dramatic trend in car traffic, at an average \$2.88 per car, the decrease of approximately 281,670 translates into an average \$0.8 million foregone annually.



Both charts indicate that, it is still not likely traffic will increase sufficiently over the next few years to reach their respective peak levels nor the 11-year historical average. While there were some significant truck increases from November 2009 through June 2010 ranging from 10% to 23% monthly over the prior year, it is of some concern that there were only 3-4% increases in the last two months of fiscal 2010. The economy appears to not be recovering as quickly as expected.

Controlling Costs

While the outlook is hopeful, management will continue to be fiscally prudent with its overhead costs. In 2009, management reviewed all expenses and a “controllable overhead” target was established for comparative purposes which removed such items as interest expense, depreciation, municipal taxes, severances and non-cash accruals from total expenses identified in the financial statements. During fiscal 2009, controllable overhead costs were reduced by 15.7%. The historical departmental trends and success of this cost-cutting program are as per below:

	2002	2003	2004	2005	2006	2007	2008	2009	2010
Tolls	1,558	1,632	1,842	1,934	2,040	2,102	2,175	1,911	1,645
Administration	2,445	1,824	2,302	2,653	2,901	2,354	2,164	1,657	1,591
Maintenance	1,391	1,733	2,104	1,838	1,852	1,961	1,759	1,418	1,685
Currency Exchange	646	711	787	783	804	808	720	583	537
Projects	-	-	350	363	390	482	521	543	619
Janitorial	295	296	319	344	396	426	558	472	544
Accounting/Office	536	712	804	870	944	925	705	634	652
Brokers, Customs & TIC	251	413	240	228	258	257	267	236	189
Board of Directors	62	72	59	74	68	43	106	44	72
Controllable Overhead	7,184	7,393	8,807	9,087	9,653	9,358	8,975	7,498	7,534

Overall, total controllable overhead in 2010 was just slightly more than 2009 levels with some of the departments reducing their costs to pre-Crown Corporation era (2002) levels. With a significant surge in construction, maintenance and janitorial activity and an increase in traffic, controllable costs have nonetheless held steady to 2009 expenditures.

Controllable Overhead				
	Aug-10 Year-end	Aug-09 Year-end	CY vs. PY Increase (Decrease)	% vs. PY
Board of Directors	\$ 72,510	\$ 43,601	\$28,909	66.30%
Accounting/HR/Office	\$ 651,755	\$ 633,848	\$17,907	2.83%
Administration	\$ 1,590,605	\$ 1,656,652	(\$66,047)	(3.99%)
	\$ 2,314,870	\$ 2,334,101	(\$19,231)	(0.82%)
Janitorial	\$ 543,461	\$ 472,183	\$71,278	15.10%
Maintenance	\$ 1,685,213	\$ 1,418,111	\$267,102	18.84%
Project Management	\$ 618,889	\$ 542,835	\$76,054	14.01%
	\$ 2,847,563	\$ 2,433,129	\$414,434	17.03%
Currency Exchange	\$ 536,870	\$ 582,971	(\$46,101)	(7.91%)
Tolls	\$ 1,645,459	\$ 1,911,156	(\$265,697)	(13.90%)
	\$ 2,182,329	\$ 2,494,127	(\$311,798)	(12.50%)
TIC/Brokers/Customs	\$ 188,987	\$ 236,166	(\$47,179)	(19.98%)
Total Controllable Overhead	\$ 7,533,749	\$ 7,497,523	\$36,226	0.48%

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

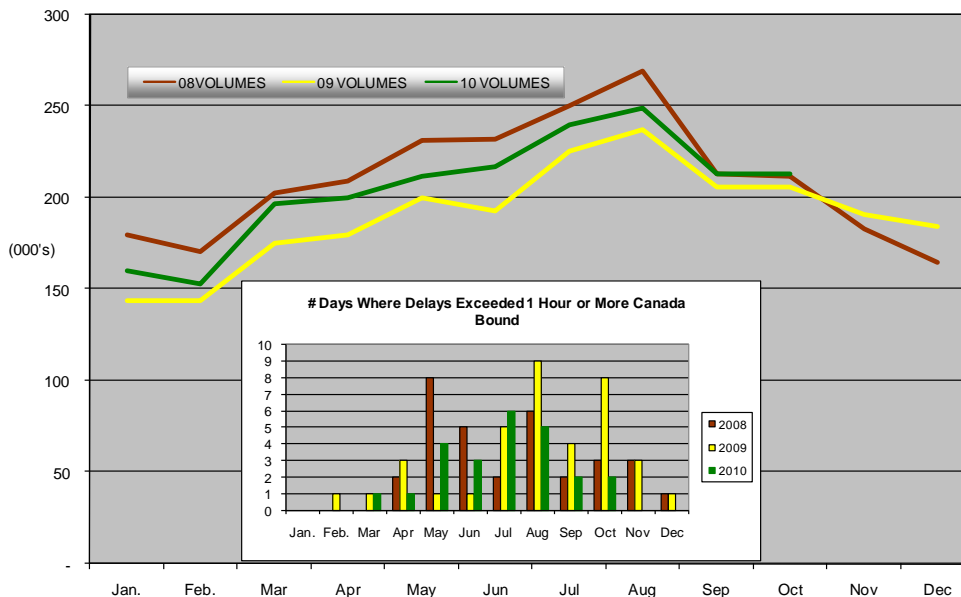
Issues with the Canada Border Services Agency (CBSA) and U.S. Customs Border Protection (CBP)

During the summer of 2007, the general public and commercial traffic endured excessive traffic congestion along the border and long delays to be processed through the U.S. Customs Border Protection (CBP). There was considerable criticism coming from Canadian border users, both from the traveling public and commercial users, criticizing CBP for their lack of staffing and scheduling. BWBC's government affairs efforts lead to a creation of a task force to address these issues with CBP. As a result we are pleased to report a tremendous improvement since that summer.

However the summer of 2010 saw an increase in delays once again for US bound traffic due to an increase in documentation verification. Recent meetings between CBP and BWBC and MDOT have been held regarding interim capacity improvements which will greatly reduce border wait times. These discussions continue into early Fiscal 2011 with the hope of improvements in place by summer 2011. We continue to work closely with CBP through our Government Relations program to ensure border wait times are minimized.

Similarly in fiscal 2009, excessive traffic delays (congestion) of more than one hour were even worse. On the Canadian side, CBSA fully staffed all ten primary inspection lanes (PILs) only once in spite of the fact that there were fourteen days in July and August where delays were measured at one hour or more. Again, through our Government Relations efforts BWBC was asked to be a part of a task force with CBSA to address these excessive wait times, particularly with the pending elimination of the summer student program and budget constraints within the CBSA.

**BLUE WATER BRIDGE-CANADA BOUND DELAYS OF 1 HOUR OR MORE vs. VOLUMES
2008,2009,2010**

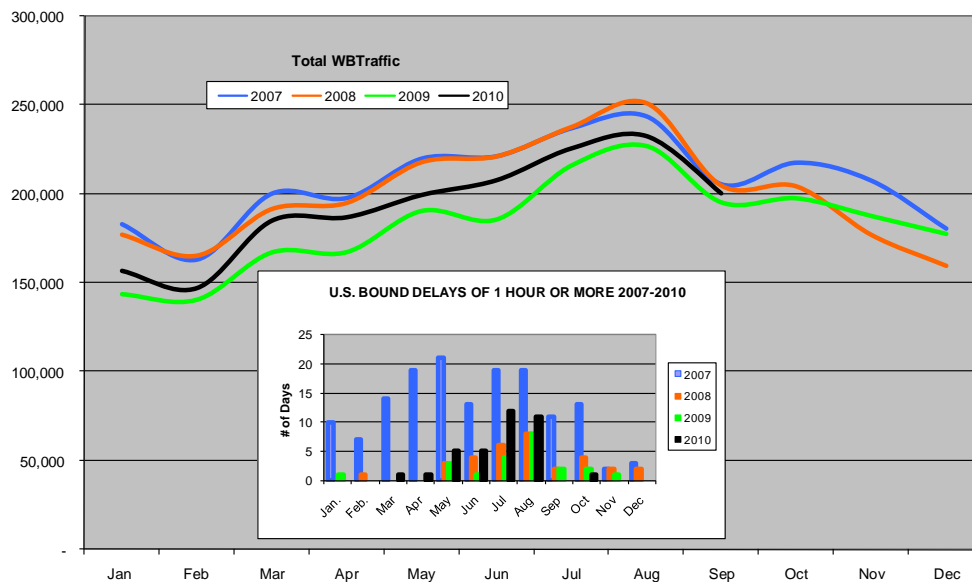


We were extremely pleased with the efforts of CBSA in summer 2010. They made some adjustments to scheduling and increased the use of overtime which effectively reduced delays during the peak summer travel periods. BWBC continues to be a member of the task force and

meets regularly with CBSA in a cooperative effort in finding new solutions to ensure border wait times are kept to a minimum.

BWBC is also in discussions with CBSA to expand/adjust the Canadian NEXUS hours of operations which were originally set in 2002. With increasing enrollment and feedback received from customers we are suggesting NEXUS hours be adjusted so that they open earlier in the morning on weekends and close later in the day at 9pm which better reflects customer usage. CBP adjusted their NEXUS hours of operation in December 2009 at the request of BWBC.

Blue Water Bridge- US Bound One Hour Delays vs Volumes



The need for increased capacity in inspection lanes on the Port Huron Plaza is clearly indicated in the chart below. The heaviest traffic across Canada per PIL booth is experienced at the Port Huron / Sarnia border. The U.S. bridge plaza project which includes 20 PIL booths with room for another 10 will help to alleviate this capacity issue but it will not be completed until at least 2017. Thus, the discussions with CBP regarding interim capacity improvements as mentioned earlier are crucial.

PORT	2009 US Bound Volumes		Total U.S. Bound	Total Number of Annual Vehicles	
	Cars	Trucks		CBP Pils	Per Pil
BLUE WATER BRIDGE	1,571,472	620,482	2,191,954	13	168,612
PEACE BRIDGE	2,371,828	580,370	2,952,198	18	164,011
QUEENSTON LEWISTON			1,590,409	10	159,041
PAC HIGHWAY	1,350,196	310,000	1,660,196	15	110,680
AMBASSADOR BRIDGE	2,123,212	1,174,614	3,297,826	32	103,057
DETROIT WINDSOR TUNNEL	1,221,485	12,267	1,233,752	13	94,904
PEACE ARCH	1,492,435	-	1,492,435	16	93,277
RAINBOW BRIDGE	1,461,426	-	1,461,426	17	85,966
WHIRLPOOL BRIDGE	169,409		169,409	2	84,705
THOUSAND ISLANDS	667,703	176,268	843,971	11	76,725
CHAMPLAIN	1,040,154	294,970	1,335,124	19	70,270
SAULT STE MARIE			-	5	-
SEAWAY INTL			-	9	-

BWBC is constructing at its expense, a \$68 million state-of-the-art building to CBSA's up-to-date and stringent Statement of Requirements (SOR). As part of the Master Capital Plan and the

Federal Infrastructure Program, we are constructing seven (7) additional primary inspection booths for CBSA costing \$1.6 million. BWBC is concerned that the additional new booths will not be fully staffed when traffic conditions warrant extra staffing.

BWBC maintains a good relationship with the local CBSA and CBP management teams and we fully realize the constraints through which both agencies must operate. BWBC wishes to diplomatically advocate on behalf of CBSA. Based on our own experience with toll operations we have made several constructive suggestions which we believe should improve the safety, customer service and efficiency for all stakeholders here at the Blue Water Bridge plaza without interfering with the security mandate of CBSA. We believe it would be helpful to:

1. Allow front-line CBSA supervisors to authorize the use of overtime when required. All primary inspection lanes should be open during peak volume periods.
2. Examine the scheduling of shifts and assignments so that sufficient resources are available for peak volume periods.
3. Introduce proximity card technology, as was installed by the U.S. CBP, which assists in expediting vehicle processing.
4. Contribute to the marketing of “Trusted Traveler” programs, such as NEXUS, which require extensive marketing efforts, proper staffing at processing and enrolment centres.
5. Increase the NEXUS lane operating hours to a minimum twelve (12) hours per day to start to approach the effort put forth by the U.S. CBP. U.S. Nexus is open 15 hours a day during the week. BWBC would prefer CBSA to staff the Nexus lane 12 hours a day from 9am to 9pm, seven days a week.

Section 6 of the Customs Act

BWBC’s obligation under subsection 6(1) of the *Customs Act*, is to provide “adequate buildings, accommodation or other facilities for the proper detention and examination of imported goods and the proper search of persons by customs officers.” However, over the years we have been providing additional services for which we have not received compensation such as maintenance, snow removal, utilities, janitorial and other miscellaneous day-to-day services.

The Public Border Operators Association (PBOA) received a legal opinion March 2010 which has stated that we “are not obligated to provide services to the Crown, each (border operation)...being limited to providing space/premises adapted to suit (CBSA’s) intended purpose...and does not extend to or include any obligation to provide services. That is, we are of the opinion that there is no obligation...to provide air conditioning, heating or lighting services...but rather it is limited to providing base building systems capable of allowing CBSA to achieve, at CBSA’s cost, the standards as prescribed by the *Canada Labour Code*.”

BWBC is very concerned with the Human Resources and Skills Development Canada (HRSDC) ruling to the Peace Bridge on January 12, 2010, that bridge crossings are “liable for damages arising” out of a CBSA employee’s injuries caused by CBSA premises. This adds to the risk of providing facilities for free to CBSA.

In coordination with the PBOA, BWBC may pursue relief of our annual general administrative, maintenance and janitorial expenditures in the years ahead. CBSA has been made aware of this issue and has responded to the PBOA’s retained law firm in the hope of achieving a common understanding and agreement for the future.

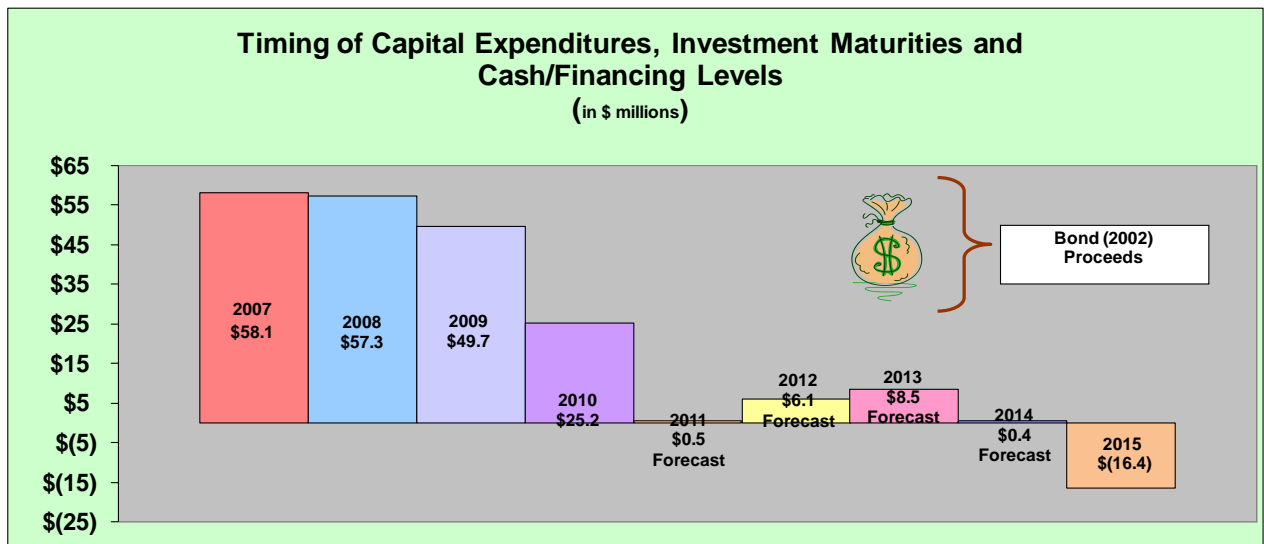
Fiscal 2009/2010 Strategic Objectives

2009/2010 Goals			
2009-2010 OBJECTIVES	PERFORMANCE TARGETS	MEASUREMENTS	Status
Incorporate improvements into the employee management program by the end of Q1, 2009-2010, that will strengthen and augment the measures currently being implemented and address specific areas of interest to the Board	Hay Compensation Structure Review with Board by Fall 2009	Review at September or October 2009 Board meeting	Completed
	Management review of HR policies by September 2009	Documented review	Completed
	Development of Values statement by May 2009	Document	Completed
	Development of 5-year personnel resources plan	Document & discussion at a Board meeting	Completed
	Development of an employee relations plan	Document & discussion at a Board meeting	Completed
Implementation of new software	Project Accounting Module	Completion August, 2009	Deferred to Q4 2012/2013 due to time constraints- other projects.
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	Completed; implementation of Sharepoint completed with enhancements on an ongoing basis.

2009-2010 OBJECTIVES	PERFORMANCE TARGETS	MEASUREMENTS	Status
Formalize purchasing and contracting policies and procedures	Purchasing Policy Contracting/Tendering Policy	Policy document by September 2008 Policy document by September 2008	Both documents Deferred to 2011/2012 due to time constraints-other projects.
Develop an asset acquisition plan	Approved document	Plan document by December 2009	Satisfied with Capital Master Plan which is reviewed annually.
Develop a policy on electronic devices and information management	Approved policy	Policy document by December 2009	Deferred to 2011/2012.
Develop a marketing and customer service program plan	Increase prepaid toll accounts	Survey trucking companies	Completed March 2010
Develop a government relations program plan	Identify key stakeholders, collect and analyze field information to determine attitudes, interests, concerns & involvement regarding BWBC Multi-year action plan	Documented report 25% challenge Wait time metrics NEXUS expanded hours	Completed March 2010
Develop a community relations program plan	Implementation strategy Budgeted action plan Measurable targets	To be established	Completed March 2010
Develop an Integrated Environmental Sustainability Program	Environmental Policy Current situation analysis	To be established	Further clarification from the Board required

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 due to the recent 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 (2011-2015), 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.

While management continues to decrease its “controllable” costs, the Board can direct management to further decrease expenses; delay construction on other projects, and/or; 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 stretched out and traffic volumes have usually come in higher than expected (2010 being a prime example), 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. Negotiations for the new contract will be undertaken during the Fall of 2010.

For the first time in its 45 year history, BWBC instituted a formal downsizing program during 2009. A Voluntary Separation Package (VSP) was offered to all Toll employees. Four full-time and two part-time employees accepted the offer.

Since January 2007, as employees resigned or retired, their positions were not replaced. In fiscal 2010, the office receptionist position was eliminated; in fiscal 2009, with the retirement of the HR manager, the CFO and HR manager positions were combined; in fiscal 2007 and 2008 the accounting supervisor position and the maintenance manager positions were eliminated.

For the year ended August 31	2010	2009	Increase (Decrease)	% Incr (Decr)
Human Resources				
Salaries and wages				
Toll collectors	\$ 1,162,157	\$ 1,569,096	\$ (406,939)	(25.93%)
Administrative and office	752,598	1,054,877	(302,279)	(28.66%)
Maintenance	599,679	536,250	63,429	11.83%
Project Management	475,875	402,002	73,873	18.38%
Currency Exchange Department	337,097	410,572	(73,475)	(17.90%)
Janitorial	336,008	273,485	62,523	22.86%
	<u>3,663,414</u>	<u>4,246,282</u>	<u>(582,868)</u>	<u>(13.73%)</u>
Benefits				
Health Insurance	\$ 704,427	\$ 1,006,286	\$ (301,859)	(30.00%)
Employee pension	335,075	388,565	(53,490)	(13.77%)
Vacation pay	135,309	144,450	(9,141)	(6.33%)
Employee health taxes	79,297	80,133	(836)	(1.04%)
Sick Pay	72,217	42,171	30,046	71.25%
Employment insurance	52,087	66,092	(14,005)	(21.19%)
Workplace Safety and Insurance Board	45,489	36,031	9,458	26.25%
Uniforms and cleaning	32,802	40,736	(7,934)	(19.48%)
Other	14,446	14,358	88	0.61%
	<u>1,471,149</u>	<u>1,818,822</u>	<u>(347,673)</u>	<u>(19.12%)</u>
	<u>\$ 5,134,563</u>	<u>\$ 6,065,104</u>	<u>\$ (930,541)</u>	<u>(15.34%)</u>

During fiscal 2010 a part-time corporate secretary position was added to administration.

	Actual				Plan		
	2009	2010	2011	2012	2013	2014	2015
Full-Time							
Administration	3	3	3	3	3	3	3
Accounting/HR/Office	4	5	5	5	5	5	5
Currency Exchange	4	5	4	4	4	4	4
Janitorial	5	6	6	6	6	6	6
Maintenance	9	9	9	9	9	9	9
Project Management	6	6	6	6	6	6	6
Tolls	20	17	19	19	19	19	19
Total Full-Time	51	51	52	52	52	52	52
Part-Time							
Administration	-	1	1	1	1	1	1
Currency Exchange	7	6	6	6	6	6	6
Janitorial	7	6	7	7	7	7	7
Tolls	4	6	4	4	4	4	4
Total Part-Time	18	19	18	18	18	18	18
Total Employees	69	70	70	70	70	70	70

The recent Treasury Board directive to keep salary cost increases to no more than 1.50% will be part of the collective bargaining position as negotiations with the union are underway during the Fall 2010. All staff will be subject to the same limits.

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. 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					
for the year ended August 31st (In Thousands)	2010	2009	2008	2007	2006
	\$	(Restated)	\$	(Restated)	\$
Revenue					
Tolls and Services	16,910	15,465	17,100	17,872	18,297
Interest and Sundry Revenues	919	2,106	2,710	2,634	2,489
Facility Rentals	2,462	2,586	2,618	2,937	3,277
Currency Exchange Department	1,025	1,101	1,202	941	1,099
Gain on disposal of property, plant and equipment	-	67	-	-	-
Total Revenue	21,316	21,325	23,630	24,384	25,162
Expenses					
Interest on long-term debt	5,959	6,138	6,306	6,464	6,612
Human Resources	5,135	6,065	5,515	5,763	5,658
Amortization	4,438	4,204	3,983	3,633	3,767
General and administrative	1,699	1,576	2,142	2,109	3,019
Maintenance & other expenses	1,462	1,242	1,458	1,620	1,586
Amortization of intangible assets	149	149	-	-	-
Loss on disposal of property, plant and equipment	-	-	-	1,018	29
	18,842	19,374	19,404	20,607	20,671
Excess of revenues over expenses and comprehensive income	2,474	1,951	4,226	3,777	4,491
Balance Sheet					
Assets					
Current					
Cash	13,961	8,890	16,116	20,629	13,882
Short-term investments	7,920	32,671	17,778	22,844	13,245
Accounts receivable	1,515	1,109	1,678	1,224	1,738
Prepaid expenses	319	381	369	300	382
	23,715	43,051	35,941	44,997	29,247
Deferred Charges	-	-	-	576	606
Long-term investments	3,341	8,118	23,389	14,593	31,320
Property, plant and equipment	161,801	129,876	120,522	119,858	117,386
Intangible assets	368	486	-	-	-
Restricted assets	5,160	8,177	8,682	8,362	8,019
	194,385	189,708	188,534	188,386	186,578
Liabilities and Equity					
Current					
Accounts payable and accrued liabilities	6,374	4,641	2,278	2,890	2,519
Holdbacks payable	4,394	1,356	-	439	1,048
Deferred Revenue	1,524	1,303	1,483	1,694	1,476
Current portion of long-term debt	3,089	2,900	2,723	2,556	2,400
	15,381	10,200	6,484	7,579	7,443
Employee future benefits liability	4,140	4,029	3,419	2,987	2,537
Long-term debt	88,113	91,202	94,102	96,825	99,381
	107,634	105,431	104,005	107,391	109,361
Equity	86,751	84,277	84,529	80,995	77,217
	194,385	189,708	188,534	188,386	186,578

Corporate Plan Evaluation

For the Year Ending August 31	2010 Actual	2010 Plan	2010 Actual vs. 2010 Plan
(In Thousands)			
Statement of Operations, Comprehensive Income and Equity	\$	\$	\$
Revenue			
Tolls and Service Revenue	16,910	14,194	2,716
Other	4,406	4,695	(289)
	<u>21,316</u>	<u>18,889</u>	<u>2,427</u>
Expenses	<u>18,842</u>	<u>17,684</u>	<u>(1,158)</u>
Excess of revenues over expenses and comprehensive income	2,474	1,205	1,269
Balance Sheet			
Assets			
Current	23,715	9,471	14,244
Long-term investments	3,341	-	3,341
Property, Plant, Equipment	161,801	183,430	(21,629)
Intangible Assets	368	-	368
Restricted Assets	<u>5,160</u>	<u>6,845</u>	<u>(1,685)</u>
Total Assets	194,385	199,746	(5,361)
Liabilities and Equity			
Current	15,381	7,016	(8,365)
Long Term	92,253	104,685	12,432
Equity	<u>86,751</u>	<u>88,045</u>	<u>1,294</u>
Total Liabilities and Equity	194,385	199,746	5,361
Statement of Cash Flows			Incr. (Decr.)
Operating Activities			
Net Income	2,474	1,205	1,269
Non-Cash Items	4,699	4,273	426
Changes in Working Capital Items	5,395	30,125	(24,730)
	<u>12,568</u>	<u>35,603</u>	<u>(23,035)</u>
Investing Activities			
Net acquisition of Capital Assets	(36,363)	(50,668)	14,305
Purchase of Intangible Assets	(32)	-	(32)
Decrease in Investments	31,798	1,555	30,243
Financing Activities	<u>(2,900)</u>	<u>(2,900)</u>	<u>-</u>
	(7,497)	(52,013)	44,516
Cash and Cash Equivalents			
Increase (Decrease) in Cash	5,071	(16,410)	21,481
Balance at Beginning of Year	<u>8,890</u>	<u>4,060</u>	<u>4,830</u>
Balance at End of Year	13,961	(12,350)	26,311

CORPORATE PLAN DISCUSSION

(in thousands of dollars)

Comparison of 2010 Actual with 2010 Corporate Plan

Tolls and Service Revenue

Truck volume was higher than budgeted by 121 thousand and car volume was higher than expected by approximately 215 thousand vehicles (\$2,816 increase); toll rate adjustment (\$883 increase); Escort fees for wide loads (\$80 increase); CAD/US travelers and axle mix (\$268 decrease); the CAD was stronger than estimated (\$799 decrease).

Other Revenue

Currency exchange revenue was down by \$295.

Expenses

Major Expenses:

General and Administrative

Expenses were \$159 or 10.3% higher than corporate plan due to a revised agreement with the duty free store concerning the relief of municipal taxes (\$94 increase); consultants (\$53 increase); software and support (\$36 increase); internal audit fees (\$23 increase); legal fees (\$19 increase) and bank charges (\$16 increase). Partially offset with a decrease in spending for IFRS (\$72 decrease) and insurance (\$40 decrease).

Human Resources

2010 costs were \$215 or 4.3% higher than corporate plan. Salaries and wages were up by \$183 with additional requirements in maintenance (\$122 increase) and projects department (\$127 increase) related to the increased construction activity; cancellation of the out-sourced janitorial contract (\$33 increase); partially offset with further savings from the Toll department (\$54 decrease) and Administration (\$52 decrease). Overall benefits exceeded corporate plan by \$32 with offsetting differences of \$23 between group insurance and sick pay, higher than expected CPP premiums (\$12 increase) and smaller across-the-board increases in most other benefits (\$20 increase).

Maintenance and Other

Property related expenses were higher by \$113 or 8.3% due to higher than expected bridge inspection costs (\$153 increase), paving requirements (\$99 increase) partially offset with less maintenance than expected related to the CBA building site (\$165 decrease).

Amortization

Amortization expenses were higher than budgeted by \$775 or 20.4% due to the acceleration of depreciation for buildings being demolished sooner than expected (\$248 increase) and the adjustment for the 2nd bridge span (\$199). The remaining difference is related to an under-estimation of the asset aggregate within the corporate plan.

Balance Sheet & Cash Flow Items:

Net cash generated from operating activities of \$12,568 and net investments redemption of \$31,798 were applied against the net acquisition of capital assets and intangible assets of \$36,395 and the pay down on the bond principle of \$2,900 to create an overall increase of cash for the year of \$5,071. When added to the beginning cash balance of \$8,890 this resulted in a total yearend cash position of \$13,961.

**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, 2010 and 2009.

FINANCIAL RESULTS	2010	2009
	\$	(Restated) \$
Revenues	21,316	21,325
Operating Expenses	18,842	19,374
Excess of Revenues over Expenses	<u>2,474</u>	<u>1,951</u>
Excess of Revenues over Expenses/Revenues	12%	9%

Operating Results

The operating income of \$2,474 for the fiscal year ended August 31, 2010 increased by approximately \$523 or 26.8% from the 2009 fiscal year operating income of \$1,951.

Period over Period Comparisons

Years ended August 31, 2010 and 2009

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 increased by \$1,445 or 9.3% for the year compared with 2009 revenues. Car volumes increased by 53,774 vehicles or 3.4% for the year and truck/bus volume increased by 62,348 or 10.1%.

Tolls and services revenues from commercial vehicles represented approximately 72.5% of all tolls and services revenues in fiscal 2010, with revenue from passenger vehicles making up the balance. In the 2009 fiscal year commercial vehicles represented 71.7% of all tolls and services revenues.

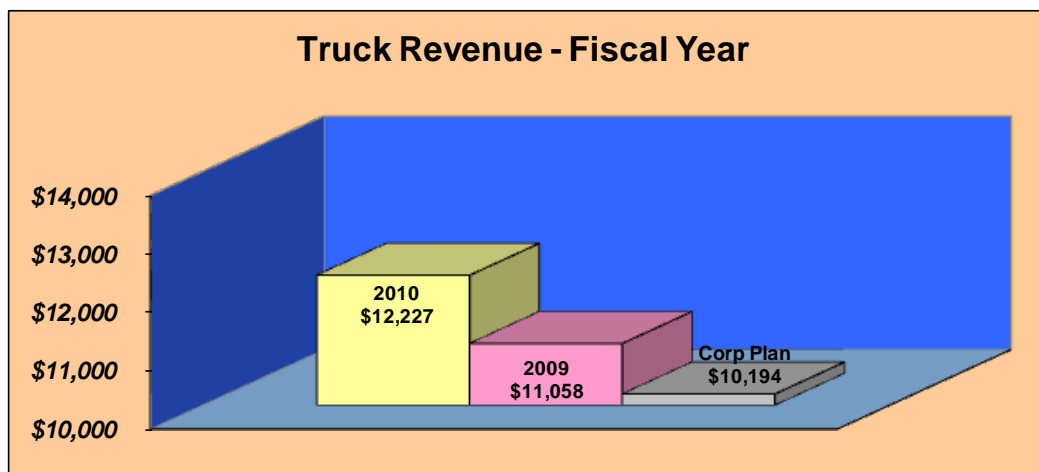
ASSESSMENT OF RESULTS, Continued

(in thousands of dollars)

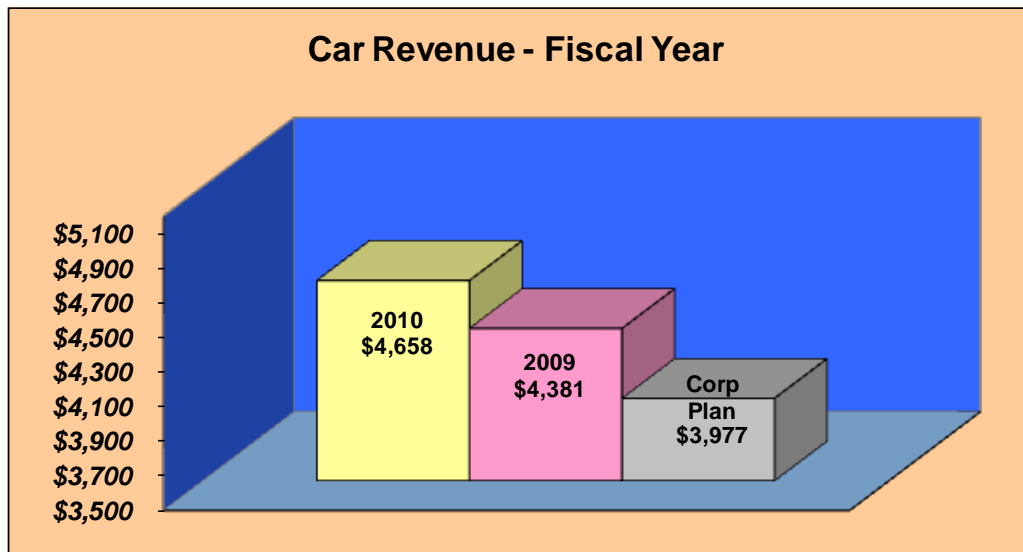
Revenues

Revenues from tolls and services increased to \$16,910 in fiscal 2010 from \$15,465 in the preceding year.

A portion of the increase came from increased truck toll revenue, going from \$11,048 in 2009 to \$12,227 in 2010. This represents an increase of 10.0 per cent and comes from an increased volume of trucks by 10.1 per cent (\$1,116 fav); a toll rate adjustment (\$513 fav); the negative effect of an overall strengthening of the Canadian dollar against U.S. toll receipts (\$445 unfav) and a change in mix of Canadian-to-American trucks and truck sizes (axles) (\$77 unfav). Additional revenue was created with a significant increase in the escort and wide-load truck fees (\$49 fav).



Revenue from passenger car tolls increased from \$4,381 in 2009 to \$4,658 in 2010. While the volume of cars increased by 3.4 per cent (\$151 fav) and there was a toll rate adjustment (\$342 fav), this was partially offset by the effect of the strengthening Canadian dollar on tolls (\$161 unfav) and the change in CAD / U.S. mix of vehicles (\$55 unfav).



ASSESSMENT OF RESULTS, Continued

(in thousands of dollars)

Rental Revenues

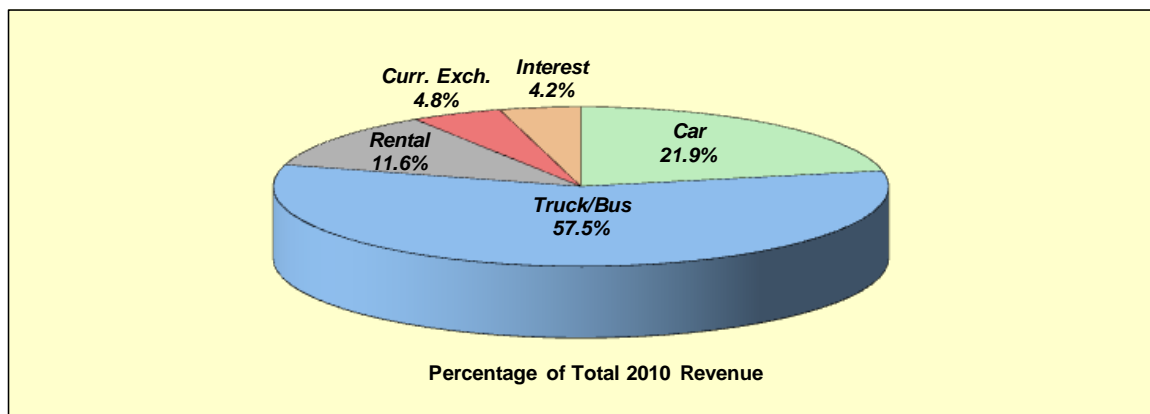
Rental property revenues accounted for approximately 11.6 per cent of all revenues in 2010 (12.1% in 2009). Rental revenue decreased from \$2,586 in fiscal 2009 to \$2,461 in 2010 primarily due the full year effect of an across-the-board decrease in commercial lease rates (\$82 unfav) and a decrease in Duty Free Store variable rent revenue (\$46 unfav).

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 4.8 per cent of total income in 2010 (5.2% in 2009).

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 in 2009. There were no gains or losses in 2010 (\$67 unfav).

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 Ontario.

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 commercial 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)

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

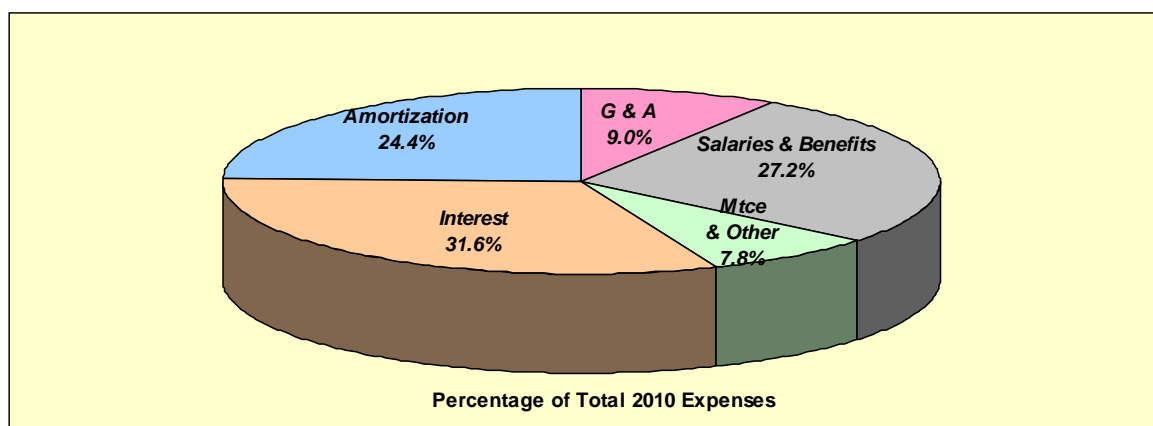
Operating expenditures are incurred in five main areas: general and administrative expense, human resources, maintenance and other, interest on long-term debt and amortization.

General and administrative expenses include insurance, consulting and other professional fees, public relations, office, municipal taxes and miscellaneous expenses. Amortization includes amortization on: property, plant and equipment, intangible assets and 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. It also includes severance packages providing both salaries and benefits to former employees.

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

For the year ended August 31, 2010, interest expense was derived solely from the bond debt of \$94,102 existing as at September 1st, 2009. For the year ended August 31, 2009, interest was derived from bond debt of \$96,825 existing as at September 1st, 2008.



ASSESSMENT OF RESULTS, Continued
(in thousands of dollars)

Total expenses decreased from \$19,374 in fiscal 2009 to \$18,842 in 2010.

General and administrative expenses increased by \$122 primarily due to an increase in municipal taxes (\$63k unfav), software service and support (\$56k unfav), increased travel (\$23k unfav), bank charges increased due to additional credit, debit card, and ATM usage (\$20k unfav); partially offset with lower accounting consultant charges (\$24 fav) and lower public relations and advertising costs (\$22k fav).

Human Resources decreased by \$931 primarily due to the effect of the 2009 severance packages, including benefits (\$663k fav) and other downsizing. The reduction in employees decreased costs in 2010 for the following departments: Tolls (\$296k fav), Currency Exchange (\$73k fav), Admin/HR/ (\$59k fav), Janitorial (\$62k unfav), and Maintenance (\$63k unfav).

Maintenance and other expenses increased by \$220 in fiscal 2010 due to plaza paving (\$120k unfav), bridge inspections (\$80k unfav). Waste disposal increased due to reversal of 2008 environmental spill receivable (\$90k unfav). Partially offset by cancellation of janitorial contract (\$67 fav).

Interest on long-term debt decreased from \$6,138 in fiscal 2009 to \$5,959 in 2010 as a result of the lower bond principal outstanding as at August 31st, 2010 of \$91.2 million compared to \$94.1 million at the end of fiscal year 2009.

Total amortization expense for property, plant, equipment and intangible assests increased by \$235.

Cash Flow

There was a net increase in cash of \$5,071 for the year 2010 as compared to a net decrease for 2009 of \$7,226. This is primarily the result of liquidating investments when they matured to finance the CBA building complex and federal infrastructure projects.

Capital Program

Capital additions in the 2010 fiscal year amounted to \$38,790, of which the major contributor was the Canadian Plaza Improvement – CBA building project (\$33,606); the 402 Highway Widening (\$2,092), Span 2 Infrastructure (\$1,198), Dynamic Message Signs (\$1,011) and other infrastructure projects (\$553).

**Blue Water Bridge Canada
Financial Statements
For the year ended August 31, 2010**

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 1, 2010



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, 2010 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, 2010 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 1, 2010

**Blue Water Bridge Canada
Financial Statements**

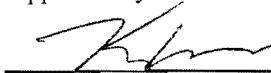
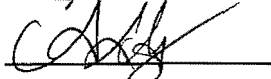
Balance Sheet

As at August 31	2010	2009 (Restated - Note 2)
Assets		
Current		
Cash (Note 5)	\$ 13,960,797	\$ 8,890,041
Short-term investments (Note 6a)	7,920,167	32,671,348
Accounts receivable	1,514,750	1,108,211
Prepaid expenses	318,940	381,200
	<u>23,714,654</u>	<u>43,050,800</u>
Long-term investments (Note 6b)	3,340,906	8,117,999
Property, plant and equipment (Note 7)	161,801,357	129,876,281
Intangible Assets (Note 7)	368,292	485,504
Restricted assets (Note 10)		
Debt service reserve fund	3,470,933	5,161,365
Operating and maintenance contingency fund	1,689,381	3,016,115
	<u>5,160,314</u>	<u>8,177,480</u>
	<u>\$ 194,385,523</u>	<u>\$ 189,708,064</u>
Liabilities		
Current		
Accounts payable and accrued liabilities	\$ 6,373,813	\$ 4,640,883
Holdbacks payable	4,394,015	1,355,877
Deferred revenue (Note 12)	1,524,167	1,303,013
Current portion of long-term debt (Note 14)	3,088,832	2,899,965
	<u>15,380,827</u>	<u>10,199,738</u>
Employee future benefits liability (Note 13)	4,140,415	4,029,427
Long-term debt (Note 14)	88,113,405	91,202,237
	<u>107,634,647</u>	<u>105,431,402</u>
Equity		
Retained Earnings	86,750,876	84,276,662
	<u>\$ 194,385,523</u>	<u>\$ 189,708,064</u>

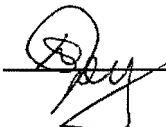
Contingencies (Note 17) and Commitments (Note 18)

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

Approved by the Board of Directors:

 Director
 Director

On behalf of Management:

 Chief Financial Officer

Blue Water Bridge Canada
Financial Statements

Statement of Operations, Comprehensive Income and Equity

	2010	2009
For the year ended August 31		(Restated - Note 2)
Revenues		
Tolls and services	\$ 16,910,416	\$ 15,465,230
Facility rentals (Note 15)	2,461,474	2,586,117
Currency exchange department (Note 16)	1,024,573	1,101,260
Interest and Sundry	919,472	2,105,321
Gain on disposal of property, plant and equipment	-	67,188
	<u>21,315,935</u>	<u>21,325,116</u>
Expenses		
Interest on long-term debt	5,959,440	6,138,396
Human resources (Note 22)	5,134,563	6,065,104
Amortization of property, plant and equipment	4,438,298	4,203,712
General and administrative (Note 22)	1,698,410	1,576,419
Maintenance and other expenses (Note 22)	1,461,821	1,241,511
Amortization of intangible assets	149,189	149,216
	<u>18,841,721</u>	<u>19,374,358</u>
Excess of revenues over expenses and comprehensive income	\$ 2,474,214	\$ 1,950,758
Retained Earnings, beginning of year	\$ 84,276,662	\$ 84,529,366
Correction of prior period errors (Note 2)	-	(2,203,462)
Excess of revenues over expenses and comprehensive income	<u>2,474,214</u>	<u>1,950,758</u>
Retained Earnings, end of year	\$ 86,750,876	\$ 84,276,662

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	2010	2009 (Restated - Note 2)
Cash Flows from operating activities		
Excess of revenues over expenses and comprehensive income	\$ 2,474,214	\$ 1,950,758
Adjustments for items not affecting cash		
Amortization of property, plant and equipment	4,438,298	4,203,712
Amortization of intangible assets	149,189	149,216
Employee future benefits liability	110,987	610,191
Gain on disposal of property, plant and equipment	-	(67,188)
Foreign exchange loss	8,092	21,853
	<u>7,180,780</u>	<u>6,868,542</u>
Changes in non-cash working capital items		
Interest on short and long-term investments	746,989	538,330
Accounts receivable	(406,539)	569,709
Prepaid expenses	62,260	(12,251)
Accounts payable and accrued liabilities	1,732,930	2,362,896
Holdbacks payable	3,038,138	1,355,877
Deferred revenue	221,154	(179,548)
	<u>5,394,932</u>	<u>4,635,013</u>
Net cash provided by operating activities	<u>12,575,712</u>	<u>11,503,555</u>
Cash Flows from investing activities		
Proceeds on disposal of property, plant and equipment	-	104,340
Purchase of property, plant and equipment	(38,789,823)	(16,426,458)
Purchase of intangible assets	(31,978)	(7,325)
Investments		
Matured investments	50,772,002	41,850,304
Investments purchased	(21,990,717)	(42,010,768)
Restricted assets		
Matured investments	4,137,679	3,003,239
Investments purchased	(1,120,513)	(2,498,671)
Net cash used in investing activities	<u>(7,023,350)</u>	<u>(15,985,339)</u>
Cash Flows from financing activities		
Funding received from federal government - infrastructure	2,426,451	-
Increase in long-term debt - bond principal - current portion	188,867	177,318
Decrease in long-term debt - bond principal	(3,088,832)	(2,899,965)
Net cash used in financing activities	<u>(473,514)</u>	<u>(2,722,647)</u>
Foreign exchange loss on cash held in foreign currency	<u>(8,092)</u>	<u>(21,853)</u>
Increase (decrease) in cash during the year	<u>5,070,756</u>	<u>(7,226,284)</u>
Cash, beginning of year	<u>8,890,041</u>	<u>16,116,325</u>
Cash, end of year	<u>\$ 13,960,797</u>	<u>\$ 8,890,041</u>
Supplemental disclosure of cash flow information:		
Interest paid	<u>\$ 5,986,212</u>	<u>\$ 6,163,531</u>

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

Blue Water Bridge Canada
Financial Statements – For the year ended August 31, 2010

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 Point Edward, 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. Correction of Error

During the preparation of the financial statements for the year ended August 31, 2010, BWBC determined that an incorrect amortization rate had been used to calculate the amortization expense for the Bridge-second span. BWBC had been using an amortization rate of 1% of the cost since the Bridge-second span started being depreciated in the financial statements for the year ended August 31, 1997. The amortization should have been taken straight line over the Bridge-second span's estimated useful life of 75 years. The result was that BWBC was found to be applying an amortization rate which was 0.3333% lower than required for each year that the bridge has been available for use. As a result, BWBC has amended its financial statements for the year ended August 31, 2009 as follows:

	Previously Reported	Adjustments	Amended
Balance Sheet as at August 31, 2009			
Property, plant and equipment	\$ 132,278,904	\$ (2,402,623)	\$ 129,876,281
Retained Earnings	\$ 86,679,285	\$ (2,402,623)	\$ 84,276,662
Statement of Operations, Comprehensive Income and Equity for the year ended August 31, 2009			
Amortization of property, plant and equipment	\$ 4,004,551	\$ 199,161	\$ 4,203,712
Excess of revenues over expenses and comprehensive income	\$ 2,149,919	\$ (199,161)	\$ 1,950,758

Note that the property, plant and equipment net book value and amortization expense as at August 31, 2009 were recorded as \$132,764,408 and \$4,153,767, respectively. In order to conform to the current year's presentation which show the intangible assets as a separate line item, the property, plant and equipment net book value and amortization expense as at August 31, 2009 are

Blue Water Bridge Canada
Financial Statements – For the year ended August 31, 2010

Notes to the Financial Statements

2. Correction of Error continued...

\$132,278,904 and \$4,004,551, respectively. The effect of the increased amortization expense on the Statement of Operations, Comprehensive Income and Equity for the year ended August 31, 2009 amounts to \$199,161. The cumulative effect on the increased amortization expense for prior years of \$2,203,462 has been charged to Retained Earnings.

3. Accounting Changes

a) Adoption of new accounting standards

Effective September 1, 2009 BWBC adopted the following new sections of the Canadian Institute of Chartered Accountants Handbook:

Section 3862, *Financial Instruments – Disclosures*

This section requires expanded disclosure requirements regarding fair value measurements including the relative reliability of the inputs used in those measurements and the liquidity risk of financial instruments. The standard also requires disclosure of a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The applicable disclosures required under this standard are included in Note 4(h). The accounting policy on financial instruments, as presented in Note 4(h), was updated to include additional information on the three-level hierarchy.

Section 3064 *Goodwill and Intangible Assets*

Adoption of this standard replaces Section 3062, *Goodwill and Other Assets*. This standard defines the recognition and measurement criteria for intangible assets and, in particular, for intangible assets that are internally generated. The standard provides guidance for the recognition of intangible assets including computer software that is not an integral part of the related hardware.

b) Future accounting changes

International financial reporting standards (“IFRS”)

In February 2008, the Canadian Accounting Standards Board (“AcSB”) confirmed that publicly accountable enterprises will prepare their financial statements in accordance with IFRS for fiscal years beginning on or after January 1, 2011. Since BWBC is considered a Government Business Enterprise for the reason that it has the ability to sustain its current operations and generate additional revenue as it deems necessary, then it will move to IFRS. With this in mind, BWBC is set for an IFRS changeover date at September 1, 2011 with the first IFRS statements being issued at August 31, 2012. At this time, a conversion plan has been finalized to reasonably determine the impact of this anticipated accounting change on BWBC’s financial results and position. BWBC intends to restate beginning balances of September 1, 2010 accordingly.

Blue Water Bridge Canada
Financial Statements – For the year ended August 31, 2010

Notes to the Financial Statements

4. 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 transactions and account balances 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.

c) Deferred Revenues

Deferred revenues are comprised of tolls paid in advance by passenger vehicle users and commercial trucking companies.

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 (16 years; 2009 - 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.

Blue Water Bridge Canada
Financial Statements – For the year ended August 31, 2010

Notes to the Financial Statements

4. Summary of Significant Accounting Policies continued...**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

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) Intangible Assets

BWBC's intangible assets are comprised mainly of acquired software. The software is recorded at cost at the acquisition date, and it is subsequently carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over the estimated useful lives (five years). The estimated useful life and amortization method are reviewed at the end of each fiscal year, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets are assessed for impairment during the annual review of intangible assets' useful lives.

g) 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.

Blue Water Bridge Canada
Financial Statements – For the year ended August 31, 2010

Notes to the Financial Statements

4. Summary of Significant Accounting Policies continued...

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.

h) 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 Long-term debt

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 under Interest and Sundry 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.

Blue Water Bridge Canada
Financial Statements – For the year ended August 31, 2010

Notes to the Financial Statements

4. Summary of Significant Accounting Policies continued...

All financial instruments measured at fair value will be categorized into one of three hierarchy levels as described for disclosure below. Each level is based on the transparency of the inputs used to measure the fair values of assets and liabilities:

Level 1 – inputs are unadjusted quoted prices of identical instruments in active markets.

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 – one or more significant inputs used in a valuation technique are unobservable in determining fair values of the instruments.

The BWBC financial instruments are for the most part categorized at Level 1 as the fair value is measured at prices identical to instruments in active markets except for some accounts receivables and payables which are valued at their stated invoiced or contractual dollar amounts.

i) 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 funding are met.

j) 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 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.

5. Cash

BWBC's bank accounts are currently held at two Canadian chartered banks but will be transitioned to one bank early in fiscal 2011. Cash (including on hand) includes US \$2,041,724 (2009 - US \$886,190) which has been translated to its Canadian equivalent of \$2,172,191 as at August 31, 2010 (2009 - \$971,884).

Blue Water Bridge Canada
Financial Statements – For the year ended August 31, 2010

Notes to the Financial Statements

6. 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.

a) Short-term Investments

The portfolio is composed of Government and corporate bonds maturing in the 2011 financial year.

As at August 31	2010	2009
General Investments (Carrying amount)		
Cash	\$ 62	\$ -
Financial Institutions	5,764,733	29,578,889
	<u>5,764,795</u>	<u>29,578,889</u>
Major Maintenance Fund (Carrying amount)		
Cash	11	-
Government	-	2,003,671
Financial Institutions	2,155,361	1,088,788
	<u>2,155,372</u>	<u>3,092,459</u>
	<u>\$ 7,920,167</u>	<u>\$ 32,671,348</u>
Fair Value		
General Investments	\$ 5,770,056	\$ 29,697,174
Major Maintenance Fund	2,197,389	3,155,492
	<u>\$ 7,967,445</u>	<u>\$ 32,852,666</u>
Average Rate of Return - %	<u>2.84</u>	<u>2.96</u>
Average Term to Maturity - days	<u>109.5</u>	<u>116.8</u>

b) Long-term Investments

The portfolio is composed of Government and corporate bonds.

As at August 31	2010	2009
General Investments (Carrying amount)		
Financial Institutions	\$ -	\$ 2,761,144
Major Maintenance Fund (Carrying amount)		
Government	3,340,906	3,198,662
Financial Institutions	-	2,158,193
	<u>3,340,906</u>	<u>5,356,855</u>
	<u>\$ 3,340,906</u>	<u>\$ 8,117,999</u>
Fair Value		
General Investments	\$ -	\$ 2,854,089
Major Maintenance Fund	3,574,673	5,635,295
	<u>\$ 3,574,673</u>	<u>\$ 8,489,384</u>
Average Rate of Return - %	<u>4.42</u>	<u>4.32</u>
Average Term to Maturity - Years	<u>3.08</u>	<u>2.92</u>

Blue Water Bridge Canada
Financial Statements – For the year ended August 31, 2010

Notes to the Financial Statements

6. Investments continued...

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

The Major Maintenance Fund was established voluntarily by BWBC in order to provide funds for the major restoration cost of recoating and painting of the bridges and to provide funds for any major restorative bridge repair work. However, this portfolio has been and will continue to be wound down as the investments mature in order to finance the more immediate projects and priorities within the master capital plan.

7. Property, Plant, Equipment and Intangible Assets

	2010			2009
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Property, Plant, and Equipment				
Land	\$ 7,963,429	\$ -	\$ 7,963,429	\$ 7,963,429
Bridges & Truck Ramp	98,778,548	17,272,521	81,506,027	82,867,779
Buildings	18,434,220	10,883,178	7,551,042	8,936,327
Buildings-booths	3,123,218	2,626,054	497,164	611,284
Buildings-leased Duty Free	5,281,899	1,877,997	3,403,902	3,595,227
Buildings-residential (including land)	621,729	-	621,729	621,729
Equipment	6,101,456	4,214,932	1,886,524	2,265,219
Construction in process	55,490,964	-	55,490,964	20,021,713
Property improvements	8,813,665	6,226,034	2,587,631	2,576,574
Vehicles and construction equipment	1,766,069	1,473,124	292,945	417,000
	206,375,197	44,573,840	161,801,357	129,876,281
Intangible Assets				
Computer Software	936,130	567,838	368,292	485,504
	\$ 207,311,327	\$ 45,141,678	\$ 162,169,649	\$ 130,361,785

Cost and accumulated amortization of property, plant and equipment as at August 31, 2009 amounted to \$170,011,823 and \$40,135,542 respectively and, for intangible assets it was \$904,153 and \$418,649 respectively.

8. 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 for a second time. The second span was constructed in 1997 and has a useful life of 75 years, at which time it is estimated that a major rehabilitation could extend its useful life for 50 years. Rehabilitations of a bridge span can extend the life of the bridge indefinitely, making any eventual full demolition improbable. Such major rehabilitation projects will be considered first and undertaken to avoid future demolition of any bridge span.

The replacement cost for both Canadian halves of the bridge spans is estimated by an independent engineering firm to total \$154 million.

Blue Water Bridge Canada
Financial Statements – For the year ended August 31, 2010

Notes to the Financial Statements

9. Government Funding

The federal government, a related party, announced funding for BWBC through the Economic Action Plan initiative. BWBC receives funding for infrastructure projects from the federal government which will reimburse BWBC 50% of the costs for the infrastructure projects up to \$10 million (for total spending of \$20 million). As at August 31st, 2010, \$4,853,900 of eligible expenditures has been incurred by BWBC on infrastructure projects; claims have been submitted and federal funds received in the amount of \$1,207,716 (for \$2,415,432 expended). Infrastructure work in the amount of \$2,438,468 has been accrued up to August 31st, 2010 and an amount of \$1,219,234 is included in accounts receivable at fiscal year end for claims to be submitted for work completed up to August 31, 2010.

10. 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, 2010, the Gross Debt Service Coverage Ratio is 8.68 (2009- 11.51).

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 greater than 2.00 but less than 3.00. This would require a minimum reserve fund of \$2,221,545. As at August 31, 2010, the Debt Service Amount is \$3,470,933 (2009 - \$5,161,365). Thus, a balance of almost \$3.5 million will be voluntarily maintained.

Blue Water Bridge Canada
Financial Statements – For the year ended August 31, 2010

Notes to the Financial Statements

10. Restricted Assets continued...

	<u>2010</u>	<u>2009</u>
Carrying amount		
Investments		
Government	\$ 3,470,933	5,161,365
	<u>\$ 3,470,933</u>	<u>\$ 5,161,365</u>
Fair Value		
Investments	3,510,839	5,226,966
	<u>\$ 3,510,839</u>	<u>\$ 5,226,966</u>
Average Rate of Return - %	<u>2.53</u>	3.49
Average Term to Maturity - Years	<u>1.39</u>	1.63

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, 2010, the required minimum balance is established at \$1,875,482 (\$2,027,189 in 2009). The shortfall has been covered in September 2010 with an additional \$500,000 investment.

	<u>2010</u>	<u>2009</u>
Carrying amount		
Investments		
Government	\$ 300,397	\$ 1,532,245
Financial Institutions	1,388,984	1,483,870
	<u>\$ 1,689,381</u>	<u>\$ 3,016,115</u>
Fair Value		
Investments	\$ 1,712,588	\$ 3,085,343
	<u>\$ 1,712,588</u>	<u>\$ 3,085,343</u>
Average Rate of Return - %	<u>2.97</u>	4.06
Average Term to Maturity - Years	<u>3.10</u>	1.78

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

Blue Water Bridge Canada
Financial Statements – For the year ended August 31, 2010

Notes to the Financial Statements

11. Credit Facilities

BWBC maintains two separate credit facilities with a Canadian chartered bank in the total amount of \$30 million (2009 - \$15 million). There is no outstanding balance as at August 31, 2010. The maximum amount that BWBC can borrow is \$125 million with Ministerial approval.

12. Deferred Revenue

Deferred revenue of \$1,524,167 (\$1,303,013 - 2009) represents the balance, at year end, for tolls paid in advance by passenger vehicles of \$551,156 (\$415,450 - 2009); and commercial trucking companies of \$973,011 (\$887,563 - 2009).

13. 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 \$196,691 (2009 - \$238,180).

b) Severance Packages

BWBC initiated a cost reduction program in fiscal 2009. Nine employees accepted severance packages in 2009 totaling \$662,541 including benefits. One employee received a severance package in 2010 totaling \$61,155. As at August 31, 2010, \$121,742 (2009 - \$263,975) of the severance cost is included in accounts payable and \$22,650 (2009 - \$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 the Statement of Operations, Comprehensive Income and Equity as services are rendered.

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

Blue Water Bridge Canada
Financial Statements – For the year ended August 31, 2010

Notes to the Financial Statements

13. Employee Future Benefits continued...

For the year ended August 31	2010	2009
Change in accrued benefit obligation		
Accrued benefit obligation, beginning of year	\$ 3,808,250	\$ 3,974,949
Current service cost	137,632	173,908
Interest cost	263,773	246,822
Amendments (elimination of health care deductible)	14,000	-
Special termination benefits	-	24,801
Actuarial loss (gain)	577,740	(541,925)
Net cost for the year	993,145	(96,394)
Benefits paid	(90,278)	(70,305)
Accrued benefit obligation, end of year	\$ 4,711,117	\$ 3,808,250

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

For the year ended August 31	2010	2009
Unamortized net actuarial loss		
Unamortized net actuarial loss, beginning of year	\$ 2,487	\$ 555,713
Actuarial loss (gain) arising during the year	577,740	(541,925)
Amortization of actuarial loss for the year	-	(11,301)
Unamortized net actuarial loss, end of year	\$ 580,227	\$ 2,487

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	2010	2009
Accrued benefit obligation	\$ 4,711,117	\$ 3,808,250
Severances Payable	22,650	223,664
Unamortized past service costs	(13,125)	-
Unamortized net actuarial loss	(580,227)	(2,487)
Accrued benefit liability	\$ 4,140,415	\$ 4,029,427

The last actuarial valuation was performed as at August 31, 2010. BWBC intends to have its next valuation performed as at August 31, 2011. The accrued benefit liability is reported on the Balance Sheet as: Employee future benefits liability.

Blue Water Bridge Canada
Financial Statements – For the year ended August 31, 2010

Notes to the Financial Statements

13. Employee Future Benefits continued...

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

For the year ended August 31	2010	2009
<hr/>		
Elements of defined benefit costs recognized in the year		
Current service costs	\$ 137,632	\$ 173,908
Interest cost	<u>263,773</u>	<u>246,822</u>
Elements of employee future benefit costs before adjustments to recognize the long-term nature of employee future benefit costs	401,405	420,730
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
Special termination benefit	-	24,801
Past service cost recognized	<u>875</u>	<u>-</u>
Defined benefit costs recognized	<u>\$ 402,280</u>	<u>\$ 456,832</u>

Assumptions

For the year ended August 31	2010	2009
<hr/>		
Weighted average assumptions as at August 31:		
Discount Rate, accrued benefit obligation	5.50%	6.75%
Discount Rate, benefit cost	6.75%	6.00%
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 8 years is 8%, 6% thereafter (2009 – 8% for the next 9 years, 6% thereafter).

Blue Water Bridge Canada
Financial Statements – For the year ended August 31, 2010

Notes to the Financial Statements

13. Employee Future Benefits continued...

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	\$ 102,165	\$ (78,187)
Accrued benefit obligation	915,323	(722,699)

14. 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			
2011	\$ 3,088,832	5,797,346	8,886,178
Long-term			
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
2015	3,975,577	4,910,600	8,886,177
Thereafter	73,611,072	33,023,058	106,634,130
	88,113,405	54,065,434	142,178,839
	<u>\$ 91,202,237</u>	<u>\$ 59,862,780</u>	<u>\$ 151,065,017</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 *Blue Water Bridge Authority 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.

Blue Water Bridge Canada
Financial Statements – For the year ended August 31, 2010

Notes to the Financial Statements

14. Long-term Debt continued...

- 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, 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, 2010 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 *Blue Water Bridge Authority Act*.
- 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, 2010, the Gross Debt Service Coverage Ratio (as defined in note 10) is 8.68 (2009– 11.51) and the Debt Service Ratio is 1.74 (2009 – 1.95). If the ratios do not meet the preceding guidelines BWBC shall take all steps permitted under the *Blue Water Bridge Authority 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, 2010 is \$105,593,990 (2009 - \$107,875,013).

15. 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 been renewed in 2009 for 7 years with the term of the lease ending on December 31, 2015. After that, the Duty Free has 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.

16. 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 \$316,028 in 2010 (2009 - \$226,457).

Blue Water Bridge Canada
Financial Statements – For the year ended August 31, 2010

Notes to the Financial Statements

17. 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 (2009 - none).

18. Commitments

BWBC has awarded construction contracts for the Customs/Brokers/Agricultural (CBA) Complex totaling \$64,798,794 (outstanding commitment \$17,734,995) and for federal infrastructure projects totaling \$13,032,747 (outstanding commitment \$8,178,847). Maintenance and other awarded contracts total \$1,498,018 (outstanding commitment \$989,713). The outstanding commitment amounts will be paid in full within the next year.

19. 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, 2010 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. BWBC's objectives, policies and processes for managing capital are unchanged since August 31, 2009.

20. Financial Instruments

a) Financial Risk Management

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

i. Credit risk:

Credit risk is the risk of financial loss to BWBC associated with the counterparty's failure to fulfill its financial obligations and arises principally from BWBC's accounts receivable and its investments in money market funds. BWBC is subject to credit risk on the value of its accounts receivable \$1,514,750 and on its investments \$11,261,073. BWBC has determined that the risk is not significant.

a) Accounts receivable

BWBC is exposed to credit risk from customers in the normal course of business. The accounts receivable are net of applicable allowance for doubtful accounts, which is

Blue Water Bridge Canada
Financial Statements – For the year ended August 31, 2010

Notes to the Financial Statements

20. Financial Instruments continued...

established based on specific risk associated with individual client and other relevant information. Of the accounts receivable, \$1,219,235 relates to funds expected to be received from the federal government under the infrastructure program; \$254,263 relates to receivables from BWBC tenants and other receivables \$41,252.

b) Investments

BWBC manages its exposure to credit risk arising from investments by following its investment policy which limits BWBC's investments to cash equivalents thereby significantly lowering credit risk. The cash equivalents consist of units in money market funds whose objective is to earn interest income while preserving capital and maintaining liquidity. The sums are invested in treasury bills or other debt obligations of, or guaranteed by the Canadian federal or provincial governments, Canadian chartered banks, Canadian loan or trust companies or Canadian corporations.

ii. 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 manages liquidity risk through the management of its cash and investments. BWBC has determined that the risk is not significant because of the high quality of its investments and its formal financial forecasting mechanisms.

The BWBC liabilities as at August 31, 2010 are:

	Carrying Amount of Liability at August 31, 2010	Less than 3 months	3 to 6 Months	6 months to 1 year	Greater than 1 year
Accounts Payable	741,610	741,610			
Accrued Charges	4,364,501	4,364,501			
Accrued Bond Interest Payable	841,960	841,960			
Accrued Salaries and Benefits	425,742	425,742			
Construction Holdbacks	4,394,015	4,394,015			
Bond Debt	91,202,237			3,088,832	88,113,405
	101,970,065	10,767,828	-	3,088,832	88,113,405

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 credit facility 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.

Due to the requirement to finance the federal infrastructure program coupled with the current decline in traffic volumes, BWBC was granted permission by the Minister of Finance to put into place another credit facility for \$15 million on a fixed rate, long-term basis with periodic payments of interest and principal not to exceed a maturity of 25 years.

Blue Water Bridge Canada
Financial Statements – For the year ended August 31, 2010

Notes to the Financial Statements

20. Financial Instruments continued...

It is possible that future financial results and required federal infrastructure priorities may impinge or strain BWBC's 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 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, 2010, Standard and Poor's downgraded its bond rating for BWBC to "A-/Negative".

iii. Market risk

Market risk is the risk that changes in market price, such as foreign exchange rates and interest rates, will affect BWBC's income or the value of its holdings of financial instruments. 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.

a) 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. At this time, our bond debt interest rate is fixed and not likely to be converted. Our \$30 million in credit facilities remains unused. Thus, a variation in interest rates of 1% will have no effect on the financial statements at this time.

b) Foreign exchange risk

A variation in exchange rates from year-to-year would significantly affect toll revenue income. The 12.5 per cent average strengthening of the Canadian dollar over the duration of fiscal year 2010 produced a decrease in toll revenue income of \$607,449 (2009 - \$515,492 increase in income). For BWBC's USD cash holdings (Note 5) a one per cent change in exchange rate would produce \$20,417 gain or loss.

b) Fair value

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

21. 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, 2010

Notes to the Financial Statements

22. Expenses

For the year ended August 31	2010	2009
Human Resources		
Salaries and wages		
Toll collectors	\$ 1,162,157	\$ 1,569,096
Administrative and office	752,598	1,054,877
Maintenance	599,679	536,250
Project management	475,875	402,002
Currency exchange department	337,097	410,572
Janitorial	336,008	273,485
	<u>3,663,414</u>	<u>4,246,282</u>
Benefits		
Health Insurance	\$ 704,427	\$ 1,006,286
Employee pension	335,075	388,565
Vacation pay	135,309	144,450
Employee health taxes	79,297	80,133
Sick pay	72,217	42,171
Employment insurance	52,087	66,092
Workplace Safety and Insurance Board	45,489	36,031
Uniforms and cleaning	32,802	40,736
Other	14,446	14,358
	<u>1,471,149</u>	<u>1,818,822</u>
	<u>\$ 5,134,563</u>	<u>\$ 6,065,104</u>
General and Administrative		
Insurance	\$ 347,360	\$ 350,369
Municipal taxes	338,474	275,693
Accounting, audit and legal	171,761	195,628
Computer services and supplies	128,411	72,347
Stationary	99,441	97,507
Public relations	98,552	113,853
Consultants	89,109	89,842
Travel and entertainment	89,185	66,594
Bank charges	77,310	57,618
Telephone	60,165	58,033
Meetings	48,823	37,094
Bond fees	44,371	41,754
Conferences, seminars and training	31,608	28,763
Office and miscellaneous	29,177	42,615
Shipping and handling	28,017	26,521
Memberships	16,646	22,188
	<u>\$ 1,698,410</u>	<u>\$ 1,576,419</u>
Maintenance and Other Expenses		
Utilities	\$ 407,641	\$ 399,957
Bridge maintenance and inspections	243,938	152,727
Landscaping	180,910	198,738
Paving	119,612	-
Waste disposal	118,614	28,897
Buildings and booths	83,682	100,185
Other	74,856	8,104
Janitorial	61,541	128,881
Equipment	61,409	39,278
Fuel and vehicle costs	49,548	58,956
Shop supplies	37,920	78,082
Snow removal	22,150	47,706
	<u>\$ 1,461,821</u>	<u>\$ 1,241,511</u>

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