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## *Letter from the Chief Operating Officer*



Although I have officially retired as the Chief Executive Officer effective June 30<sup>th</sup>, 2006, I have accepted the interim position of Chief Operating Officer to bridge the time required to select the next CEO of the Bridge Authority.

While my tenure here is soon to be complete, I look back over the past ten years with a nostalgic appreciation of the tremendous accomplishments and significant progress made by all the employees of the Bridge Authority. I take great pride knowing that upon my departure implementation of the master plan is well underway. Over the past few years we have witnessed the construction of the maintenance and currency exchange buildings, the world class duty free store, the state-of-the-art tourist information building and the near completion of the truck ramp. My successor will have the benefit of overseeing the completion of this master plan which will include the widening and expansion of our toll and customs plaza as well as the construction of the customs and administration buildings. The architectural drawings of the plaza are impressive and will demonstrate our commitment to proactively build for the future increase in car and truck volumes.

However, of all these more concrete projects listed above, another unexpected accomplishment occurred over my years here at the Bridge Authority for which I am extremely proud. I am both humbled and gratified with the development of the excellent working relationship with the Aamjiwnaang First Nation. Along the way we have signed a formal Memorandum of Understanding with the Aamjiwnaang; erected the Soul's Memorial on our waterfront property to pay tribute to this relationship, and; provided retail space for the Ojibwe Legends Trading company within the new tourist information centre building.

I cannot take any credit for the success I have had with the Bridge Authority without acknowledging the "can-do" attitude of our senior management team and the invaluable guidance of our Board of Directors. My deepest thanks are to our employee workforce which is second-to-none, demonstrating on a daily basis a customer focused, proactive and motivated quality which has served not only the public well, but has made my job so much easier and more pleasant.

On a final note, I could not have imagined having been fortunate enough to have finished my professional career with as fine a corporation as the Blue Water Bridge Authority. I am completely confident in the strategies and plans formally in place which will prove to make us not only the finest international transportation facility on the Great Lakes but across Canada.

A handwritten signature in black ink, appearing to read "Dan Elash". The signature is fluid and cursive, with a long horizontal stroke at the end.

Dan Elash  
Chief Operating Officer

## *Letter from the Chairman of the Board*



At times, it is appropriate not only to reflect over the past year's accomplishments but to also reflect over the past 10 years or more. From where I live, my residence looks out over the horizon to where the two Blue Water Bridge spans rise from the St. Clair River shores. As much as Sarnia has provided me with an excellent quality of life – running a successful private business and raising a family - the Blue Water Bridge Authority has certainly provided me with an additional sense of accomplishment during my retirement years.

Over the past decade, in leadership and partnership with Dan Elash, the Board of Directors and a dynamic senior management team, we have been a part of a dazzling decade of activity:

- Raised \$110 million to build the second bridge span, refurbished the original bridge and provided funding for the 10-year capital master plan;
- Increased annual revenues from nearly \$7 million in 1996 to \$25 million in 2006;
- Became the second-busiest truck crossing in North America;
- Piloted the NEXUS and F.A.S.T. (Free and Secure Trade) programs;
- Helped build the world's best duty free shop (awarded in 2004 & 2005);
- Converted a “small” business into a “large” professional parent Crown corporation, requiring no grants nor appropriations from the federal government.

During the current year the Board has supported the development of a pandemic preparedness plan as well as a business continuity plan. It is important to have in place infrastructure and procedures to ensure the business of the Bridge Authority will continue if or when confronted by emergencies or disasters and that any disruptions will be minimized as much as humanly possible.

In the area of governance, the Board's Audit Committee is working with the internal auditor to ensure policies and procedures are being correctly applied and where necessary, improved. The first official audit report was received in May and the second report will be delivered in September, 2006.

I have enjoyed working alongside Dan Elash and I am extremely proud of all we have accomplished together. Upon the announcement of his retirement, the Board is looking forward to working with the new CEO to oversee the plans and groundwork so ably developed under his leadership. Time never stands still and change is always ever-present. I believe the Bridge Authority has developed a culture of proactive planning in the areas of security, governance and logistics which will carry on beyond Mr. Elash's departure and prepare it well for any eventuality as may present itself in the years ahead.

A handwritten signature in dark ink, appearing to read "Doug Keddy".

Doug Keddy  
Chairman of the Board of Directors

## Executive Management Team



**Dan Elash**, BA.Sc., P.Eng., C.I.M., is the Chief Operating Officer (formerly Chief Executive Officer) and has been leading the Bridge Authority for the past 11 years.



**Stan Korosec**, B.Comm., is the Vice President, Operations and joined BWBA 3 years ago bringing with him extensive experience with security issues from his former career as a supervisor with the Ontario Provincial Police.



**Gordon Reed**, CMA, has been the Controller / Treasurer for the past 10 years. He has over 40 years of professional experience in various accounting positions in the construction, distribution and petrochemical industries.



**Ed Teft** is the Manager of Capital Projects responsible for all construction and has been with BWBA for 25 years in progressive positions.



**Mary Teft**, CHRP, as the Human Resources and Office Manager, is our longest serving employee with 30 years experience exclusively with the Bridge Authority.



**Joe Lopetrone** has been the Operations Manager since 1996 and has over 35 years of management experience.



**Cathy Gardiner** is the Currency Exchange Manager and has been with the Authority for the past 17 years all within the same department.



**Dan Daamen** assumed the position of Maintenance Manager in 1997 and has over 14 years experience in various aspects of civil engineering.



## Board of Directors



**Doug Keddy**  
Chairman of the Board  
Retail business owner for 40 years  
Past Chairman, Sarnia Hydro  
Past City of Sarnia Alderman, 2 terms



**James Phair**  
Vice Chairman  
Past General VP & Executive Director for Canadian  
Affairs for the International Association of  
Bridge, Structural, Ornamental and Reinforcing Ironworkers



**Liz Kenny**  
Secretary  
Executive Director Bluewater Health Foundation,  
Recipient of the Chamber of Commerce Business Mentor Award  
Canadian Association of Health Care Philanthropy Newsletter Award  
Past Director of Habitat for Humanity, Chamber of Commerce and Toastmasters



**Barry Hogan**  
Director  
CEO, Gamble & Associates Insurance Ltd.  
Board Member, Roman Catholic Diocese of London Finance Committee  
Past President, Current Member, St. Joseph's Health Care Society, London  
Past Chair, Investment Centre Financial Group, London  
Past Director, Zenith Insurance Company, Toronto

## Background, Legislative Authority and Compliance

The Blue Water Bridge Authority (BWBA) 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.

The BWBA qualifies as a “parent Crown corporation” under the *Financial Administration Act* (Canada) and regulations. As such, BWBA is required to submit an annual corporate plan outlining its business activities and investments, set BWBA’s objectives for the relevant period and the strategy to achieve such objectives. The *Financial Administration Act* (Canada) also requires that BWBA 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. BWBA is obliged to prepare annual reports including audited financial statements for submission to Parliament via the Minister of Transport.

The *Blue Water Bridge Authority Act* (Canada), and the *Customs Act*, section 6, require BWBA 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.

The Authority is currently taking active measures to ensure compliance with the *Official Languages Act* and is also planning to review its obligations with the Treasury Board of Canada Secretariat to ensure compliance with the *Federal Identity Program*.

The BWBA 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*, the Authority is limited to charging tolls which provide for current revenues in an amount sufficient to pay the Authority’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 the Authority 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.



## PERFORMANCE AGAINST KEY STRATEGIC OBJECTIVES

As a Crown corporation, the Blue Water Bridge Authority complies to the *Financial Administration Act* and the Treasury Board Secretariat guidelines in the preparation of its corporate plans and annual reports. Objectives identified in the 2005-2006 BWBA Corporate Plan and performance results are summarized below, followed by the key strategic objectives for the year 2007.

Managerial prudence, due diligence and comprehensive corporate governance are inherent in the Authority's strategic objectives. Employees' performance objectives are linked to corporate goals and business plans. Through its representation on various governmental and community boards and committees, the BWBA ensures proper communication and action is taken with regards to all management and operation activities, so that the interests of the Government of Canada are adequately protected especially in the areas of risk assessment, terrorism and environmental matters.

The BWBA has been self-sufficient since its inception in 1964. We are not only self-sufficient on an operational basis but also on a capital basis wherein we will be able to fund an aggressive master capital plan with current cash and investment levels coupled with continued positive financial performance.

<b>Business / Financial</b>		
<b>2005-2006 OBJECTIVES</b>	<b>PERFORMANCE TARGETS</b>	<b>PERFORMANCE ASSESSMENT</b>
Optimize financial results to fully fund capital projects & maintain facilities	Achieve net income of \$2.2 million	Net Income of \$4.5 million
To ensure that cash flows will support the obligations incurred in the bond financing master trust indenture	Gross Debt Service Ratio = 10.01  Debt Service Coverage Ratio = 2.11  Standard & Poor's bond rating = AA-	GDSR = 13.48  DSCR = 2.48  S & P rating = AA-
To invest 100% of the cash available from operating activities to "Provide the finest international transportation facilities on the Great Lakes".	Cash available from Operating Activities = \$7.7 million  Capital Expenditures = \$14.2 million	Cash available from Operating Activities = \$8.7 million  Capital Expenditures = \$ 8.1 million Long-term forecast indicates that non-restricted investments will be 100% depleted by 2014.



<b>Due Diligence and Security</b>		
<b>2005-2006 OBJECTIVES</b>	<b>PERFORMANCE TARGETS</b>	<b>PERFORMANCE ASSESSMENT</b>
To develop and maintain a Business Continuity Plan	BCP Manual	BCP manual has been drafted and is awaiting final approval from senior management.  BCP infrastructure is in the development stages.
Compliance with the Proceeds of Crime (Money Laundering) and Terrorist Financing Act.	Attendance by Toll and Currency Exchange employees on continuing professional development courses and seminars.	Training received re: Privacy Act, About Business Crime,

<b>Governance and Federal Regulations</b>		
<b>2005-2006 OBJECTIVES</b>	<b>PERFORMANCE TARGETS</b>	<b>PERFORMANCE ASSESSMENT</b>
To review the Authority's Governance options.	The directors and CEO have continued to work with the Minister, Transport Canada and Treasury Board to review the Authority's long-term governance options.	The governance structure of BWBA is consistent with the other federally-owned international crossings.
Compliance with the Official Languages Act.	To have 3.5% of workforce bilingual, mirroring the francophone composition in the Sarnia-Lambton area.	Currently have 8.7% of workforce bilingual. (3 fulltime, 4 temporary and summer students)
To review and implement any changes required to ensure compliance with the Federal Identity Program.	Several changes are pending a decision on a resolution of the governance issues.	Identified website as non-compliant and will be re-designed in 2008.

<b>Construction</b>		
<b>2005-2006 OBJECTIVES</b>	<b>PERFORMANCE TARGETS</b>	<b>PERFORMANCE ASSESSMENT</b>
To continue to work on the Master Plan and to implement Phase 1; in particular, the truck ramp.	Truck Ramp should be 85% complete by August 31 <sup>st</sup> , 2006.	Truck ramp is 80% complete and is still on budget and on schedule for completion in the Spring, 2007.

<b>Operations and Safety</b>		
<b>2005-2006 OBJECTIVES</b>	<b>PERFORMANCE TARGETS</b>	<b>PERFORMANCE ASSESSMENT</b>
To maintain the two bridge spans in a good to very good level of repair.	Recommendations from the 2003 and 2004 bridge inspection reports will be 100% implemented.	All recommendations from the 2003 and 2004 reports have been implemented. Recommendations from the 2005 inspection report are almost 100% implemented.
To maintain an injury free workplace.	To achieve 500,000 injury free hours.	Two reportable incidents occurred during the summer months. Up to this point, 432,983 injury free hours had been achieved. Investigations ensued and no formal recommendations were required to be made.

<b>Key Strategic Objectives 2007</b>	<b>Performance Measurement</b>
To invest 100% of the cash available from operating activities to "Provide the finest international transportation facilities on the Great Lakes".	Capital expenditures are expected to be \$14,952M in 2007 while cash produced for reinvestment during the same period is expected to amount to \$7,664M. The resulting deficit balance will be financed from short-and-long-term investments.
To ensure that cash flows will support the obligations incurred in the bond financing master trust indenture.	Gross Debt Service Coverage Ratio = 11.82 Debt Service Coverage Ratio = 2.87 To maintain Standard and Poor's bond rating at AA-.
To maintain and further develop the Business Continuity Plan (disaster recovery plan).	Infrastructure to accommodate these plans is in the development stages and expected to be completed by March, 2007.
To maintain the two spans of the bridge in a good to very good level of repair.	To fully implement the recommendations from the 2005 inspection report. To conduct the 2006 inspection.
To maintain an injury free work place.	To attain a passing grade of 75% from the next WSIB work-well audit planned for 2006/2007.
Compliance with the Official Languages Act.	Employment ratio equal to or greater than the francophone composition in the Sarnia-Lambton area which is currently 3.5%.
Compliance with the Proceeds of Crime (Money Laundering) and Terrorist Financing Act.	Continuing professional development courses and seminars have been attended by Currency Exchange and Toll department staff.
To review the Authority's Governance Options.	The directors and CEO have continued to work with the Minister, Transport Canada and Treasury Board to review the Authority's long-term governance options.
To review and implement any changes required to ensure compliance with the Federal Identity Program.	Several changes are pending a decision on a resolution of the governance issues.
To continue to work on the Master Plan and to implement Phase 1; in particular, the truck ramp project.	100% completion of the Truck Ramp and commencement of the construction for the Customs, Brokers & Agricultural Complex.

## Highlights – 2006

Construction on the truck ramp is scheduled for completion in the Spring, 2007. Capital projects related to additional security and safety are well underway such as the closed circuit television system upgrade for the highway and the variable message sign improvements for the bridge spans.

The Aamjiwnaang First Nation opened their native craft and gift store in the Tourist Information Centre during July, 2006. This completes the additional renovations and provides 100% occupancy to the TIC building.

Car and truck volumes have decreased due to a combination of: (a.) the strengthening of the Canadian dollar; (b.) the dampening effects caused by more stringent U.S. Customs inspections, and; (c.) the downsizing of the auto industry on both sides of the border.

The Pandemic Preparedness Plan has been developed. The Business Continuity Plan has been drafted and the required infrastructure to ensure continuity is in the development stages.





## The Issue of Traffic Flow, Congestion and Safety

While several improvements to reduce traffic congestion have been implemented and have resulted in the desired effect, there have nonetheless been long truck and car lineups during the summer months. This is primarily due to an increased sensitivity from U.S. customs and an inefficient U.S. plaza and design, resulting in more detailed and time consuming inspections of both cars and trucks on the American plaza.

No major traffic accidents occurred during fiscal 2006 as it appears that the reduced speed limits, better signage and an increased police presence have improved driver awareness.

The increase in traffic lineups has occurred in spite of the overall decrease in west-bound traffic volumes by 26,607 vehicles, (2,773,801 – 2005), (2,747,194 – 2006).

The Bridge Authority continues to take a lead role in coordinating regular communication between the Ontario Provincial Police, Sarnia Police, Ontario Trucking Association and the Provincial Ministry of Transportation.

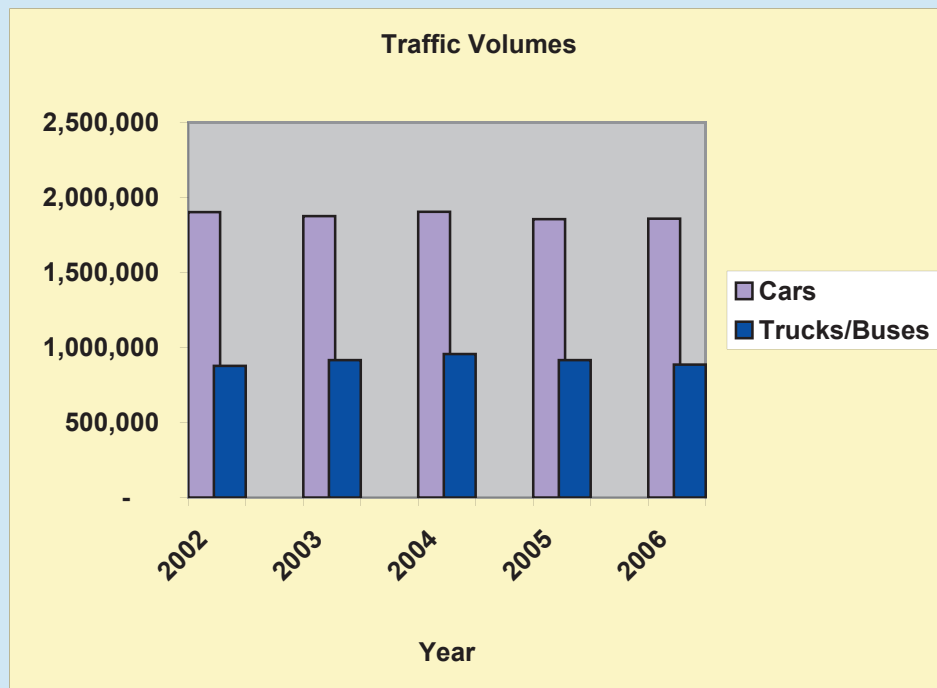
The progression of the master plan will further assist in the long-term reduction of overall congestion. The Ontario Ministry of Transportation is in the process of installing surveillance cameras for monitoring traffic flow and variable message signs along Highway 402 so that drivers can get up-to-date warnings about backups and other traffic problems. This is part of the \$115.5 million in improvements that 3 levels of government are funding to tackle traffic congestion approaching the bridge. The widening of the 402 highway is also underway in order to better streamline traffic as it approaches the BWBA plaza.





<b>Total Two-Way Traffic Crossings (United States - Canada)</b>					
<i>Traffic Report (September to August)</i>		2005	2006	Change	Percent
Blue Water Bridge (Traffic going to U.S.)	Cars	1,857,347	1,860,097	2,750	0.15%
	Trucks	912,718	883,421	(29,297)	(3.21%)
	Buses & Misc.	3,736	3,676	(60)	(1.61%)
	<b>TOTAL</b>	<b>2,773,801</b>	<b>2,747,194</b>	<b>(26,607)</b>	<b>(0.96%)</b>
Blue Water Bridge (Traffic going to Canada)	Cars	1,842,005	1,846,887	4,882	0.27%
	Trucks	857,027	843,095	(13,932)	(1.63%)
	Buses & Misc.	4,635	4,730	95	2.05%
	<b>TOTAL</b>	<b>2,703,667</b>	<b>2,694,712</b>	<b>(8,955)</b>	<b>(0.33%)</b>
Blue Water Bridge (2-Way Traffic)	Cars	3,699,352	3,706,984	7,632	0.21%
	Trucks	1,769,745	1,726,516	(43,229)	(2.44%)
	Buses & Misc.	8,371	8,406	35	0.42%
	<b>TOTAL</b>	<b>5,477,468</b>	<b>5,441,906</b>	<b>(35,562)</b>	<b>(0.65%)</b>
<b>ALL OTHER ONTARIO CROSSINGS</b>		<b>37,134,511</b>	<b>36,923,028</b>	<b>(211,483)</b>	<b>(0.57%)</b>

<b>TRAFFIC VOLUMES - Past 5 Years</b>					
	2002	2003	2004	2005	2006
Cars	1,904,600	1,877,387	1,907,019	1,857,347	1,860,097
Trucks/Buses	878,027	916,695	957,006	916,454	887,097
	<b>2,782,627</b>	<b>2,794,082</b>	<b>2,864,025</b>	<b>2,773,801</b>	<b>2,747,194</b>

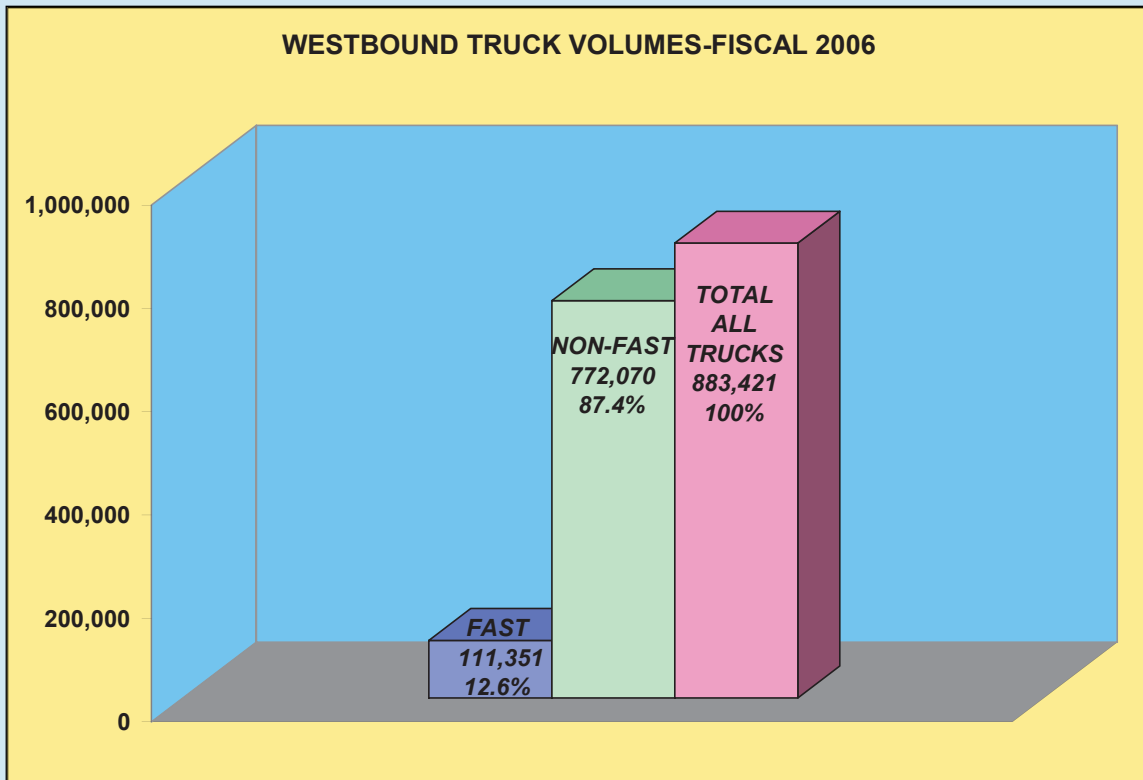


## Free and Secure Trade Program



The Free and Secure Trade (F.A.S.T) program at the Bridge Authority continues to be a success. Designated lanes for F.A.S.T. trucks on highway 402 and on both bridge spans allow drivers to bypass other queued vehicles. The BWBA, in conjunction with MDOT, continues to

actively promote the F.A.S.T. program in an effort to increase participation. MDOT also completed access ramp improvements from I94 and I69 to the American plaza. The additional lanes are expected to be in operation by November, 2006, along with the new variable message signs.



## The Master Plan

In keeping with its proactive management style, the Authority has completed a renewable long-term plan for the Canadian Plaza. The plan is intended to guide development over a twenty-year period. The plan includes a staged implementation scheme responsive to forecasted growth and financial resources in order to ensure the Authority's ability to meet future traffic demand.

A consulting team headed by McCormick Rankin Corporation, in association with MIG Consulting Engineers, is carrying out the project under the direction of the BWBA. The purpose of the plan is to continually review operations, assess future needs, determine necessary improvements, and devise an integrated plan for the entire Canadian Plaza. As part of this planning process, the Authority has formed a Plaza Users Group, which includes members from the Aamjiwnaang First Nations Band, Custom Brokers, Citizenship and Immigration Canada, Canadian Food Inspection Agency, Canada Border Services Agency, Duty Free Shop, BWBA Currency Exchange, management staff, MDOT and other key stakeholders.

Work during 2006 has focused on the construction of the Truck Ramp which is

scheduled for completion in the Spring 2007. Once the commercial traffic has been re-routed the Authority will be able to proceed with the next major project – the Customs, Commercial, Brokers and Administration building complex. The Master Plan, which provides for a major redesign of the plaza, involves the demolition and relocation of buildings and the shifting of traffic flows. This will affect many stakeholders. In the planning process, the Authority acts as a manager, facilitator and expeditor of those stakeholders to ensure their needs and expectations are met as best as can be accomplished within our own Master Plan constraints and objectives.

The overall future site strategy is one which will provide the bridge users with the easiest transition from paying a toll to cross the bridge; going through the primary inspection line (PIL) and perhaps to the secondary inspection area; stopping at the duty free shop or at the currency exchange building. The buildings, canopies, bridges, toll and PIL lines have been developed and located in such a manner as to allow phased construction, enabling the border crossing to operate 24/7 year-round without any interruption.



## Human Resources

The Project Management Department has expanded to handle the increased workload as Phase One of the Border Efficiency Improvements rolls out. As a result of the increase in construction, an additional full time site supervisor was added to the project management department. As part of the solution to ease traffic congestion an additional fulltime toll collector was hired.

It is projected that staffing will grow by only 1% in fiscal year 2007. It is anticipated that this growth will be in the toll operations area to correspond with the completion of the Highway 402 widening program and the commitment to reduce traffic congestion as much as possible. We continue to maintain a voluntary turnover rate of less than 2%.

<b>5-Year Employment Composition History</b>					
	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
<b>Full-Time</b>					
Administration	2	2	2	2	2
Accounting	4	4	4	4	4
Currency Exchange	6	6	6	6	6
Janitorial	4	4	4	4	4
Maintenance	8	9	10	10	10
Office	4	4	4	4	4
Project Management			3	4	5
Tolls	20	21	21	22	23
<b>Full-Time</b>	<b>48</b>	<b>50</b>	<b>54</b>	<b>56</b>	<b>58</b>
<b>Part-Time</b>					
Administration	1	1			
Currency Exchange	9	9	9	9	9
Janitorial	2	3	3	4	5
Maintenance	1	1			
Project Management			1	1	
Tolls	7	7	8	8	8
<b>Total Part-Time</b>	<b>20</b>	<b>21</b>	<b>21</b>	<b>22</b>	<b>22</b>
<b>Total</b>	<b>68</b>	<b>71</b>	<b>75</b>	<b>78</b>	<b>80</b>

We take particular pride in the quality of the Bridge Authority employee group who have continually gone 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 (ie. Customs, commercial brokers, etc...)

Both our organizational strengths and social responsibilities appear to be ingrained in the actions taken by our employees. Over the last couple of years we have instituted an employee recognition program to show our appreciation for their many "random acts of kindness".



## **Organizational Strengths**

From the inception of their employment at the Bridge Authority, employees go through a rigorous orientation and continuous education program in the form of information sessions, mandatory and voluntary seminars and professional education. Our performance review process focuses on constructive feedback and future-oriented goals and objectives. The result is a well motivated, responsive and customer-focused workforce.

### ***“Customer Focused”***

- *Provide customer-friendly and customer-appreciated facilities within the plaza;*
- *Provide a readily understandable system of access/egress to both frequent and non-frequent travelers;*
- *Readily assist travelers in distress and provide additional services as may be helpful to them.*
- *Provide a clean, attractive property free from inconveniences.*

### ***“Future Oriented”***

- *Anticipate future capacity challenges by proactively acquiring property, constructing facilities and improving access through the plaza.*

### ***“Financially Responsible”***

- *Generate profits specifically for the purpose of maintaining the bridge spans, plaza and facilities and to fully fund the current and future capital projects.*
- *Ensure that short-and-long-term cash flows will support the obligations incurred in the bond financing master trust indenture.*

### ***“Motivated Employees”***

- *Maintain a positive and healthy environment for our employees based on mutual respect.*
- *Provide challenging employee goals and objectives directly linked to current corporate plans.*
- *Encourage and reward actions that exceed merely “meeting requirements”.*

### ***“Health and Safety Conscious”***

- *Satisfy and, in some cases, go beyond the minimum, legislated health and safety provincial and federal requirements.*
- *Provide all the necessary courses and seminars to our employees on a yearly basis.*

### ***“Prepared”***

- *Develop and maintain a pandemic preparedness and a dynamic business continuity plan and process for dealing with catastrophic events to ensure traffic flow will be uninterrupted or, at least, fully recovered within the shortest period of time.*

## **Social Responsibility – *T.E.A.C.H.***

Safety, concern for the health and well-being of our employees, concern for the environment, and participation in the community are not treated as side issues at the Blue Water Bridge Authority. Teaching ourselves and others and constantly learning and developing along the way....This is at the core of how we do business.

### **T** **Training and Awareness**

All our employees are subject to comply with a voluntary and mandatory training schedule on an annual basis which flows into their annual performance review process. The Bridge Authority also fully supports our professional staff who are required to attend professional development courses and seminars to maintain their respective certifications.

### **E** **Environmental Stewardship**

The BWBA ensures that there is full compliance with regulatory requirements for all environmental material impacts as legislated under Canadian federal and provincial law. The Authority has in place standard operational procedures for emergencies and evacuations for all buildings, structures and plaza adhering to applicable statutes.

The Authority's storm water management plan includes a Ministry of Environment and Energy Certificate of Approval for the storm water holding pond with an amendment to include a containment spill compartment (Water Resources Act (Ontario)). All capital projects are subject to an environmental and archaeological assessment pre-design where applicable statutes apply.

### **A** **Aboriginal & Archaeological Commitment**

The Bridge Authority values the culture and heritage of the Aamjiwnaang First Nation and the contributions they have made to the history of our local community. We signed a Memorandum of Understanding with them in 2002 due to the archaeological significance of the BWBA lands and the Authority's sensitivity to aboriginal concerns. In 2004 we commissioned the Souls Memorial sculpture and the surrounding landscaping to increase the Aamjiwnaang community profile. We are also assisting the Aamjiwnaang with a bid to have the site declared a national historic site and to repatriate the artifacts sitting in London and Toronto. Within the new Tourist Information Building we have created an Aamjiwnaang center featuring arts and crafts available to be purchased by the general public.

### **C** **Communications and Public Consultation**

A large part of the Bridge Authority's success is due to balancing the interest of multiple stakeholders and identifying solutions that benefit all. Our proactive approach in meeting stakeholders in a variety of forums has ensured public support for the 20-year Master Plan in general, within which the continuing construction of the \$11-million truck ramp is a part.

### **H** **Health and Safety Regulatory Compliance**

The changing federal and provincial regulatory regime continues to provide challenges. The Bridge Authority emphasizes responsibility for protecting the health and safety of our workforce and the public with each of our employees, from the executive level to the frontline worker, including contractors. To ensure that we meet or exceed our responsibilities our health, safety and environmental systems and processes are constantly updated. The Bridge Authority is continually improving its policies and practices to comply with and anticipate regulatory changes.

## FIVE YEAR REVIEW

<b>Statement of Operations</b>					
for the year ended August 31st					
	2006	2005	2004	2003	2002
( In Thousands )	\$	\$	\$	\$	\$
<b>Revenue</b>					
Tolls and Services	18,297	18,450	19,067	18,540	17,093
Facility Rentals	3,277	3,500	3,694	3,868	3,363
Currency Exchange Department	1,099	1,106	1,154	1,027	1,140
Interest and Sundry Revenues	2,489	2,358	2,216	2,027	442
Total Revenue	25,162	25,414	26,131	25,462	22,038
<b>Expenses</b>					
General and administrative	3,019	2,846	2,022	1,546	2,405
Human Resources	5,658	5,051	4,824	4,176	3,695
Interest on long-term debt	6,612	6,751	6,882	7,004	4,938
Interest on line of credit	-	-	-	10	104
Maintenance & other expenses	1,586	1,602	2,344	2,049	1,275
Amortization	3,767	3,566	3,437	2,761	2,529
(Gain) loss on disposal of property, plant and equipment	29	130	(3)	153	105
	20,671	19,946	19,506	17,699	15,051
Excess of revenues before non-recurring items	4,491	5,468	6,625	7,763	6,987
Less: Non-recurring item					
Loan breakage costs	-	-	-	-	7,881
Excess (short-fall) of revenues over expenses	4,491	5,468	6,625	7,763	(894)
<b>Balance Sheet</b>					
<b>Assets</b>					
<b>Current</b>					
Cash	13,882	18,974	15,328	13,895	12,356
Short-term investments	12,245	12,687	8,999	12,966	10,571
Accrued Interest Receivable	1,000	1,142	715	425	105
Accounts receivable	1,738	1,414	616	514	592
Prepaid expenses	382	392	389	465	376
	29,247	34,609	26,047	28,265	24,000
<b>Deferred Charges</b>	606	635	664	693	722
<b>Long-term investments</b>	31,320	28,114	34,651	28,419	27,906
<b>Property, plant and equipment</b>	117,386	113,084	110,079	109,504	108,032
<b>Restricted assets</b>	8,019	7,676	7,237	6,759	6,531
	186,578	184,118	178,678	173,640	167,191
<b>Liabilities and Equity</b>					
<b>Current</b>					
Bank indebtedness	-	-	-	-	-
Accounts payable and accrued liabilities	2,519	3,706	1,946	1,638	1,557
Holdbacks payable	1,048	119	-	82	-
Deferred Revenue	1,476	1,411	1,426	1,471	1,268
Current portion of long-term debt	2,400	2,253	2,115	1,986	1,865
	7,443	7,489	5,487	5,177	4,690
<b>Employee future benefits liability</b>	2,537	2,122	1,899	1,681	1,496
<b>Long-term debt</b>	99,381	101,781	104,034	106,149	108,135
	109,361	111,392	111,420	113,007	114,321
<b>Equity</b>	77,217	72,726	67,258	60,633	52,870
	186,578	184,118	178,678	173,640	167,191

## Corporate Plan Evaluation

For the Years Ending August 31	2007 Plan	2006 Actual	2006 Plan	2006 Actual vs. 2006 Plan
( In Thousands )	\$	\$	\$	\$
<b>Statement of Operations</b>				
Revenue				
Tolls and Services	21,113	18,297	18,101	196
Other	6,938	6,865	6,614	251
	<u>28,051</u>	<u>25,162</u>	<u>24,715</u>	<u>447</u>
Expenses	<u>21,521</u>	<u>20,671</u>	<u>22,471</u>	<u>1,800</u>
Excess of revenues over expenses	6,530	4,491	2,244	2,247
<b>Balance Sheet</b>				
Assets				
Current	32,362	29,247	19,418	9,829
Deferred Charges	576	606	606	-
Long-term investments	19,432	31,320	27,051	4,269
Property, Plant, Equipment	128,387	117,386	126,399	(9,013)
Restricted Assets	8,362	8,019	8,020	(1)
Total Assets	<u>189,119</u>	<u>186,578</u>	<u>181,494</u>	<u>5,084</u>
Liabilities and Equity				
Current	5,688	7,443	5,401	(2,042)
Long Term	99,000	101,918	101,579	(339)
Equity	84,431	77,217	74,514	(2,703)
Total Liabilities and Equity	<u>189,119</u>	<u>186,578</u>	<u>181,494</u>	<u>(5,084)</u>
<b>Statement of Cash Flows</b>				<b>Incr. (Decr.)</b>
Operating Activities				
Net Income	6,530	4,491	2,244	2,247
Non-Cash Items	4,887	4,212	5,495	(1,283)
Changes in Working Capital Items	(12,175)	77	5,833	(5,756)
	<u>(758)</u>	<u>8,780</u>	<u>13,572</u>	<u>(4,792)</u>
Investing Activities				
Net acquisition of Capital Assets	(14,952)	(8,070)	(14,181)	6,111
Increase in Reserve Funds	10,744	(3,549)	716	(4,265)
Financing Activities	<u>(2,400)</u>	<u>(2,253)</u>	<u>(2,253)</u>	<u>-</u>
	<u>(6,608)</u>	<u>(13,872)</u>	<u>(15,718)</u>	<u>1,846</u>
Cash and Cash Equivalents				
Increase ( Decrease ) in Cash	(7,366)	(5,092)	(2,146)	(2,946)
Balance at Beginning of Year	13,090	18,974	12,609	6,365
Balance at End of Year	<u>5,724</u>	<u>13,882</u>	<u>10,463</u>	<u>3,419</u>



## **CORPORATE PLAN DISCUSSION**

### **Comparison of 2006 Actuals with 2006 Corporate Plan**

#### **Tolls and Service Revenue**

Car volume was higher than expected by almost 45 thousand vehicles (\$192 fav) and truck volume was lower than budgeted by 9 thousand (\$4 unfav). While the toll rate adjustment added \$493 thousand in revenue, it was partially offset by the strengthening of the Canadian dollar which had a negative effect of \$266 thousand on the foreign exchange premium received. While the corporate plan employed a mix of 80% Canadian to 20% American volume mix, the actual results for American car and truck traffic was 29% and 24%, respectively.

#### **Other Revenue**

Consumer spending and rental revenue at plaza facilities was lower than expected due to lower American traffic volumes. Interest income was favourable due to higher than expected rates of return on investment balances.

#### **Expenses**

##### **Major Expenses:**

##### **General and Administrative**

Expenses were within 0.01% of corporate plan with lower than anticipated insurance costs offset by an increase in software application upgrades.

##### **Human Resources**

Salaries and wages were only 0.5% higher than corporate plan with severance and retroactive payments offset by delays in hiring additional administrative and toll department positions. Benefits were 9.3% higher than expected due to an increase in employee future liability requirements.

##### **Maintenance and Other**

Property related expenses were lower by 14.5% due to a postponement in maintenance on the bridge spans, plaza paving and bridge inspection requirements. There were also lower than expected utility costs and less snow removal required due to a milder winter.

##### **Amortization**

Depreciation expenses were lower than budgeted by 13.7% due to lower than anticipated capital spending by \$5.9 million under corporate plan.

##### **Loss on Disposal**

The loss on disposal of assets was 97.3% less than budgeted due to the delay in the demolition of the local “old” tourism building for the purpose of construction site facilities for local contractors during the truck ramp construction.

##### **Balance Sheet & Cash Flow Items:**

Cash decreased more than expected due to the additional purchases of non-restricted investments partially offset by lower than anticipated capital spending.

## **Comparison of 2007 Corporate Plan with 2006 Actuals**

### **Tolls and Service Revenue**

Traffic volume forecast for 2007 is projected to increase by more than 153 thousand vehicles. Both passenger vehicle volumes are expected to increase by 5.4% and commercial vehicle volumes to increase by 5.9%. A toll adjustment will be implemented September, 2007.

### **Other Revenue**

Other Revenues are expected to increase by 1.1% due to favourable results from the Duty Free Store and Currency Exchange operations partially offset by a decline in interest income from investments as a result of significant capital expenditures in 2007.

### **Expenses**

#### **Major Expenses:**

##### **General and Administrative**

Expenses are expected to decrease 7.3% in 2007 primarily as a result of a decrease in the demand for consulting services.

##### **Human Resources**

These costs, coupled with normal annual wage increases and increased benefit costs will result in human resource expenditures increasing by 3.6% over the previous year.

##### **Maintenance and Other**

Maintenance expenses are forecast to decrease by 1.5% over year 2006.

##### **Interest Expense**

Will decrease by 2.2% as a result of debt repayment during the previous fiscal year.

##### **Amortization**

Expense will increase by 17.8% due to the depreciation against the new truck ramp and normal increases to the capital base for equipment, property improvements and miscellaneous capital purchases.

##### **Loss on Disposal**

The provincial Ministry of Ontario reimbursement of \$1 million will not cover the full cost of the construction of the East portion of the Truck Ramp creating a potential loss of \$0.4 million.

Overall expenses are estimated to increase by 4.1% over 2006 Actual.

#### **Balance Sheet and Cash Flow Items:**

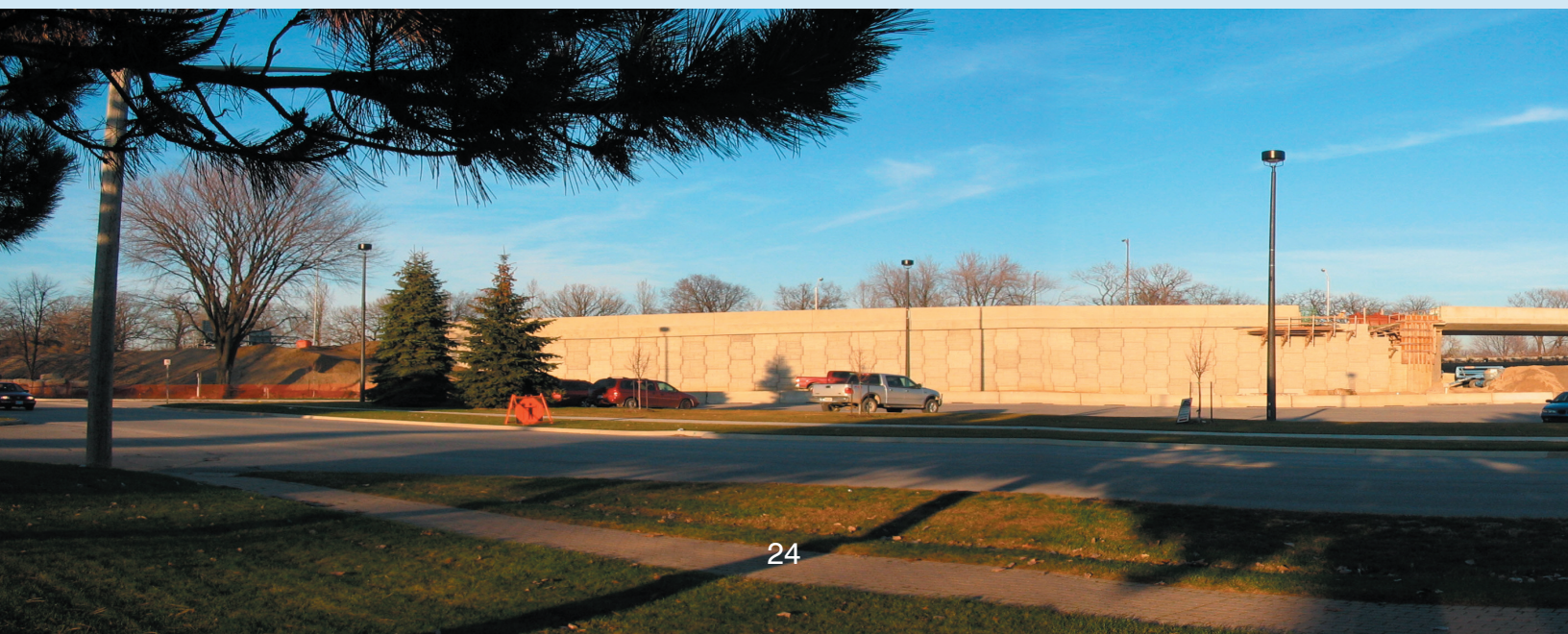
The increase in construction, planned for 2007, will be funded from existing cash and investments and continued positive net income expectations.

## Corporate Plan 2007 - 2011

For the Years Ended August 31st	Act	Act	Corporate Plan				
	2005	2006	2007	2008	2009	2010	2011
( In Thousands )	\$	\$	\$	\$	\$	\$	\$
<b>Statement of Operations</b>							
Revenue							
Tolls and Services	18,450	18,297	21,113	20,604	23,742	23,665	23,955
Other	6,964	6,865	6,938	5,728	5,947	6,084	5,698
	25,414	25,162	28,051	26,332	29,689	29,749	29,653
Expenses	19,946	20,671	21,521	21,950	22,511	22,618	22,746
Net Income	<b>5,468</b>	<b>4,491</b>	<b>6,530</b>	<b>4,382</b>	<b>7,178</b>	<b>7,131</b>	<b>6,907</b>
<b>Balance Sheet</b>							
Assets							
Current	34,609	29,247	32,362	10,773	16,157	8,751	10,399
Deferred Charges	635	606	576	547	518	489	460
Investments	35,790	39,339	27,794	32,489	23,412	30,333	16,711
Property, Plant, Equipment	113,084	117,386	128,387	147,061	155,290	160,091	175,968
Total Assets	<b>184,118</b>	<b>186,578</b>	<b>189,119</b>	<b>190,870</b>	<b>195,377</b>	<b>199,664</b>	<b>203,538</b>
Liabilities and Equity							
Current	7,489	7,443	5,688	5,726	5,899	6,087	6,284
Long Term	103,903	101,918	99,000	96,331	93,487	90,455	87,225
Equity	72,726	77,217	84,431	88,813	95,991	103,122	110,029
Total Liabilities and Equity	<b>184,118</b>	<b>186,578</b>	<b>189,119</b>	<b>190,870</b>	<b>195,377</b>	<b>199,664</b>	<b>203,538</b>
<b>Statement of Cash Flows</b>							
Operating Activities							
Net Income	5,468	4,491	6,530	4,382	7,178	7,131	6,907
Non-Cash Items	3,918	4,212	4,887	5,091	5,339	5,065	4,889
Changes in Working Capital Items	(3,051)	77	(12,175)	24,580	(7,674)	6,475	(43)
	6,335	8,780	(758)	34,053	4,843	18,671	11,753
Investing Activities							
Net acquisition of Capital Assets	(6,671)	(8,070)	(14,952)	(23,682)	(13,483)	(9,780)	(20,678)
Increase in Long-Term Investments	6,097	(3,549)	10,744	(4,695)	9,076	(6,920)	13,623
Financing Activities	(2,115)	(2,253)	(2,400)	(2,556)	(2,723)	(2,900)	(3,089)
	(2,689)	(13,872)	(6,608)	(30,933)	(7,130)	(19,600)	(10,144)
Cash and Cash Equivalents							
Increase ( Decrease ) in Cash	3,646	(5,092)	(7,366)	3,120	(2,287)	(929)	1,609
Balance at Beginning of Year	15,328	18,974	13,090	5,724	8,844	6,557	5,628
Balance at End of Year	<b>18,974</b>	<b>13,882</b>	<b>5,724</b>	<b>8,844</b>	<b>6,557</b>	<b>5,628</b>	<b>7,237</b>
* Note: Beginning balances presented in the 2007 Corporate Plan section are based on forecasts and may differ from the 2006 actual ending balances.							

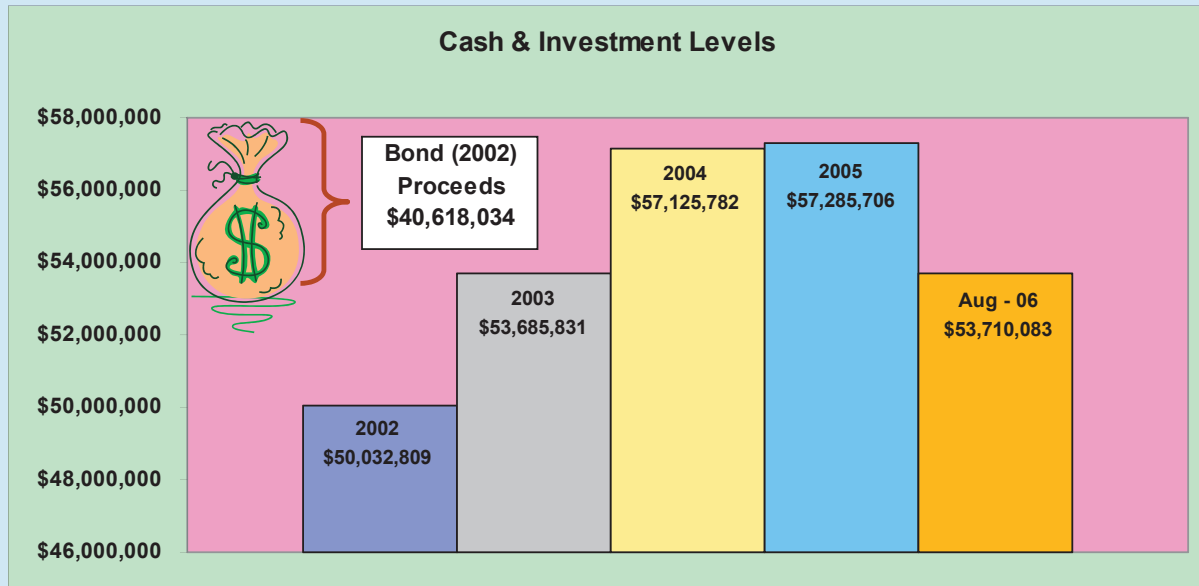
# CAPITAL EXPENDITURES PLAN

PROJECTS	Future Projects and Projects in Process	2007	2008	2009	2010	2011	Total	Future Years
( In Thousands )	\$	\$	\$	\$	\$	\$	\$	\$
<b>Land</b>	3,743	326	2,947				3,273	470
<b>Buildings</b>								
Administration - Admin/CBSA	23,033			1,500	7,500	10,000	19,000	4,033
CBA Complex ( Customs/Brokers/Agriculture)	30,153	7,000	13,950	9,203			30,153	
Curr. Exchange/Public Washrooms/Customs Inquiries	3,142							3,142
Residential Purchases - Houses	750	250			250		500	250
Toll Building	6,803					1,000	1,000	5,803
<b>Buildings-Booths</b>								
Customs Passenger Primary Inspection Lanes ( PILs)	600							600
Customs Passenger Primary Lane - Canopy	2,334					1,500	1,500	834
Customs Secondary	6,558					6,558	6,558	
Toll Booths	550							550
Toll Booths-Canopy	3,201							3,201
Truck Primary Inspection Lanes	840		840				840	
Truck Primary Inspection Lanes-Canopy	3,268	1,000	2,268				3,268	
<b>Equipment</b>								
Autos & Construction	720	30	260	180	130	120	720	
Computer Hardware & Software	785	160	100				260	525
Security-CCTV Camera Upgrade	700	600	100				700	
Signage VMS Electronic ( Bridge/Hwy/Plaza)	1,084	330	104	250			684	400
Toll System Upgrade	200	200					200	
<b>Property Improvements</b>								
Ancestral Aboriginal Cemetery	150	150					150	
Security-Bldgs-Access Control	200	200					200	
Security-Perimeter / Decorative Fence	750			350	400		750	
Storm Water Management Pond West	760	500	260				760	
St. Clair Parking Expansion	500			500			500	
Village Issues	2,000	1,500	500				2,000	
<b>Roads</b>								
Plaza Return Road System	1,700							1,700
Truck Ramp & Front Street Ramp Configuration	1,206	1,206					1,206	
Hwy 402 - Dedicated Passenger Vehicle Lane	853		853				853	
<b>Miscellaneous</b>	7,500	1,500	1,500	1,500	1,500	1,500	7,500	
	<u>104,083</u>	<u>14,952</u>	<u>23,682</u>	<u>13,483</u>	<u>9,780</u>	<u>20,678</u>	<u>82,575</u>	<u>21,508</u>





## Cash & Investment Availability for Fully-Funding Master Plan



Our 2002 bond issue raised funds to pay for the completion of the 2<sup>nd</sup> bridge span, the rehabilitation of the original span and provided the Bridge Authority 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 rapidly as the capital projects are completed. Over the next 5 years (2007-2011), in tandem with continued, expected positive financial performances, the existing cash and investment balances will fully fund approximately \$83 million of capital projects.

As a federal parent Crown corporation, we operate on a not-for-profit basis yet we do 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 (100%) spent to fulfill our federal mandate.



## **Risk Management**

### **Business Risk**

... is the potential for loss relating to BWBA's external environment or to its relations with stakeholders. BWBA has policies and procedures in place to manage and monitor the possibility of adverse effects as a result of business risk.

Over the past five years, three security assessments have been conducted at the bridge facilities. Well over \$2 million has been spent on various physical enhancements to improve the safety and security of the bridges, and plaza area. Many more millions will be spent over the next 5 years and beyond to continue to add security equipment all the while improving existing security measures.

However, it is more likely that there are risks related to normal bridge operations. When conducting normal bridge operations, the Authority must assume a certain risk relating to accidents and, ultimately, compensation resulting from lawsuits. This may lead to important disbursements for the Authority. Traffic accidents, minor chemical leaks from trucks, storm weather and other miscellaneous incidents would all cause traffic flow to be disrupted. The Authority is fortunate to have two bridge spans. If one is damaged or if there is a major traffic incident, vehicles can be diverted to the other bridge. This scenario has been successfully practiced during emergency response exercises. The BWBA is a contributing member of the Early Response Team and many of its staff are routinely trained in emergency response and participate in simulation exercises to remain ever-alert and ready for any situation.

While the Bridge Authority does have a broad contingency plan for emergencies and disasters in place, management is in the process of developing a comprehensive Disaster Recovery Plan (Continuity Plan).

### **Market Risk**

... is the likelihood of loss to BWBA as a result of movements in interest and foreign exchange rates and the risk that funds will not be available to meet corporate obligations. BWBA has an investment policy in place to limit its exposure to interest rate movements and to ensure sufficient liquidity is retained to meet capital requirements.

Investments generated from the remaining proceeds of the 2002 bond issue and, from the positive financial results from the past five years, are invested in short-term and long-term Government of Canada provincial government bonds. BWBA has an investment policy in place to ensure that funds are invested in conservative financial instruments both in the short and long term maturities. As the existing long-term investments mature they will be converted to short-term investments as required to match the capital outlay requirements within the next 5 years. As the risk of these financial instruments are deemed to be very low, there is only the interest rate risk remaining when these investments mature and are rolled over into possibly lower interest bearing investments. Currently, the average rate of return on short-term investments is 3.92% and for long-term investments, 4.48%. This risk is minimal as recent economic forecasts are indicating higher interest rates in the future.

With the strengthening of the Canadian dollar during 2005 and 2006, coupled with the significant fluctuations throughout the year, enhanced hardware and software improvements within currency exchange operations, set to be in place during fiscal year 2007, will provide greater productivity and improved financial controls.

### **Solvency Risk**

...is the risk of loss incurred if the BWBA fails to meet its financial commitments. The Authority has credit risk management policies in place to manage and continuously monitor its bond exposure as well as its operational and capital commitments.

The Blue Water Bridge Authority is responsible for the retirement of \$110 million, 6.41% Revenue Bonds, due July 9<sup>th</sup>, 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 \$20 million Line of Credit is in place. The Authority'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.

Barring unforeseen catastrophic events, based on our previous 10 year performance history and coupled with the 5-year corporate plan, it is improbable that future financial results will deteriorate sufficiently to contravene existing bond covenants nor require the utilization of the line of credit. However, management employs financial modeling to proactively identify short-and-long-term potential for cash deficiencies for up to 5 years into the future. In the event that future cash deficiencies are identified, the BWBA has the authority through the *Blue Water Bridge Authority Act* (Canada) to fix and charge tolls. BWBA has maintained its "AA-/Stable" bond rating. The ratings are supported by the Authority's solid business and financial performance.

### **Event Risk**

...is the risk of loss to the company of events beyond its control such as economic downturns, security alerts and emergencies and other unforeseen events.

The ratings are constrained by potential event risk such as general provincial economic weakness, medical and security alerts. Overall traffic could be more demand-sensitive to economic conditions during a prolonged downturn, which could curtail growth in cross-border trade and passenger vehicle crossings. Volume can also be affected by the public's perception of security and medical alerts; the custom agencies' (U.S. and Canadian) stringent application of conducting more time consuming inspections, and the public's aversion to the resulting long lineups and traffic congestion.

It is BWBA's expectation that our prior and current financial position and results as well as our positive, future financial expectations coupled with historical traffic resiliency to rate increases will continue. We also believe that any future temporary variances to budget expectations can be managed from liquidity sources and/or by toll adjustments.

### **Competitive Risk**

...is the risk that changes and improvements made by our competitors or by changes in government policy that might significantly affect traffic volumes.

The main risks to the BWBA's strong volume trends include:

- Improved transportation access and additional capacity at the Ambassador Bridge (either in bridge twinning or a separate span) to alleviate notable congestion at the busiest cross-border bridge crossing between Canada and the U.S.;
- A reversal of free trade policy between Canada and the U.S.;
- Prolonged economic weakness in the Canadian and American economies, and a strengthening Canadian currency, as a stronger Canadian dollar could reduce Canadian export demand in the U.S. and lower cross-border shopping and gaming in Canada.

The probability of any of these risks materializing, let alone all of them simultaneously, are reasonably remote.

Increases in the usage of alternate forms of transportation, such as rail or air, and the construction of expansion of nearby competing alternatives could have an adverse impact on BWBA traffic, toll revenue and debt service coverage levels. The risk of meaningful encroachment by competing transport mode alternatives is deemed to be low given the current superior BWBA ability of commercial truck operations to meet delivery and just-in-time inventory demands. Meaningful encroachment risk is also low because the incremental capacity at the Detroit-Windsor border crossing is unlikely to be realized before 2013, at the earliest.

The FAST program has been implemented at six U.S.-Canada border crossings with the goal of facilitating the free flow of goods between the two countries. Given the importance of bilateral trade flows to both countries, it would not be expected that the Canadian or the U.S. governments would implement policies that would adversely impact trade movements in a material way.

### **Organizational Risk**

...is the risk of loss or cost to the company due to the organizational environment (people and skills, incentives, culture and values). BWBA has policies and procedures in place to manage and monitor its organizational environment.

The Bridge Authority secured a 4-year contract with its union employees early in the 2003 fiscal year. Historically, the BWBA has had a very good relationship with the union. Salaries and benefits are reviewed and compared with industry and other border crossings on a regular basis. A comprehensive compensation plan for all employees ensuring parity based on responsibility has been officially documented and is regularly administered. Policies and procedures are regularly reviewed, updated and communicated with all employees. Developmental and professional training is encouraged and paid for by the Bridge Authority upon successful completion. All these efforts have resulted in a dedicated, skilled workforce trained to meet current and future operational requirements.

## **Corporate Governance**

The Bridge Authority is guided by a Board of four members. New members are recruited by the BWBA nominating committee and forwarded to the Minister of Transport who 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, the Authority is accountable to Parliament through the Minister of Transport. The Board members are knowledgeable individuals from the local community who are sensitive to the Authority's business needs. They understand the FAA requirements for Corporate Plans and Annual Reports and they work earnestly with management to ensure that the Bridge Authority'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 the Bridge Authority. A formal governance report has been approved by the Board and submitted to the Minister of Transport.

The Board engaged a chartered accounting firm to prepare an internal audit plan. The internal auditor has reported directly to the Audit Committee with its findings and recommendations. Governance issues and practices continue to evolve and the Board is anticipating that further changes will be made in the near future to address management practices and appointments; accountabilities of federal agencies and amendments to the *Financial Administration Act*.



**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 reviews the operations for the financial years ended August 31, 2006 and 2005.

<b>FINANCIAL RESULTS</b>	<b>2006</b>	<b>2005</b>
	\$	\$
Revenues	25,162	25,414
Operating Expenses	20,671	19,946
Excess of Revenues over Expenses	4,491	5,468
Excess of Revenues over Expenses/Revenues	18%	22%

**Operating Results**

The operating income of \$4,491 for the fiscal year ended August 31, 2006 decreased by approximately 17.9% from the 2005 fiscal year operating income of \$5,468.

**Revenues**

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

*Tolls and Services Revenues*

Tolls and services revenues decreased by \$153 or 0.8% for the year compared with 2005 revenues. Car volumes increased by 2,750 vehicles or 0.1% for the year and truck/bus volume decreased by 29,357 or 3.2%.

Tolls and services revenues from commercial vehicles represented approximately 75.3% of all tolls and services revenues in financial 2006, with revenue from passenger vehicles making up the balance. In the 2005 financial year commercial vehicles represented 75.9% of all tolls and services revenues.

## ASSESSMENT OF RESULTS, Continued

### *Rental Revenues*

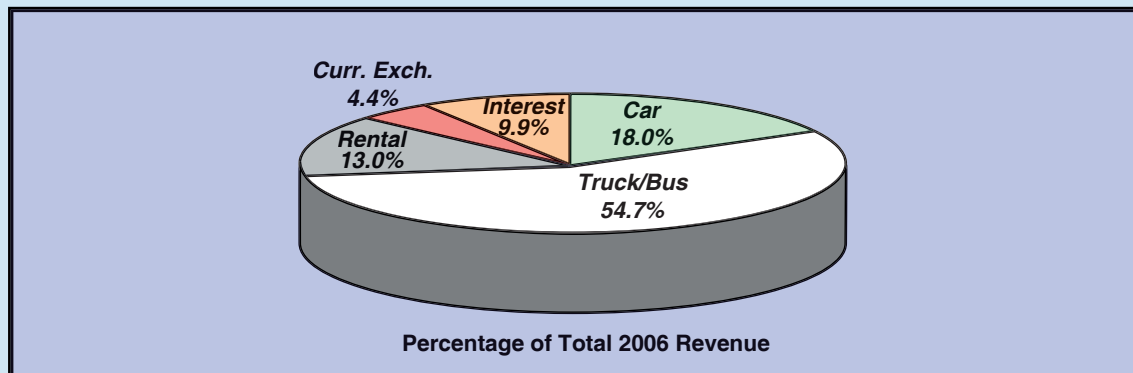
Rental property revenues accounted for approximately 13.0 per cent of all revenues in 2006 (13.8% in 2005).

### *Currency Exchange Operations*

The Authority operates a currency exchange, with its primary customers being travelers coming from and going to the United States. Revenue from currency exchange operations approximated 4.4 per cent of total income in 2006 (4.4% in 2005).

### *Interest and Sundry Revenue*

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



## Expenses

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

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

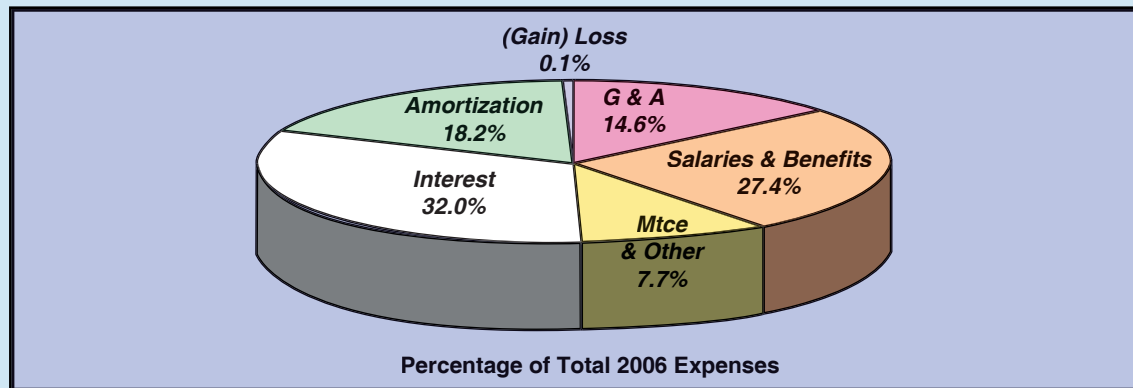
Human resources include salaries and wages paid to toll collectors, accounting, administrative, currency exchange, maintenance, janitorial and project management staff. Employee benefits include statutory benefits and employee pension and life insurance.

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

For the year ended August 31, 2006, interest expense was derived solely from the bond debt of \$101,781. For the year ended August 31, 2005, interest was derived from bond debt of \$104,034.

## ASSESSMENT OF RESULTS, Continued

Amortization is derived from bond agency fees and from depreciation on fixed assets.



### Factors Affecting Operating Income

The profitability of the Authority 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 in more recent years, tourism in the Point Edward and Sarnia areas.

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

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

When the activity at the Blue Water Bridge increases, there tends 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 the Authority, 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.

### Period over Period Comparisons

*Years ended August 31, 2006 and 2005*

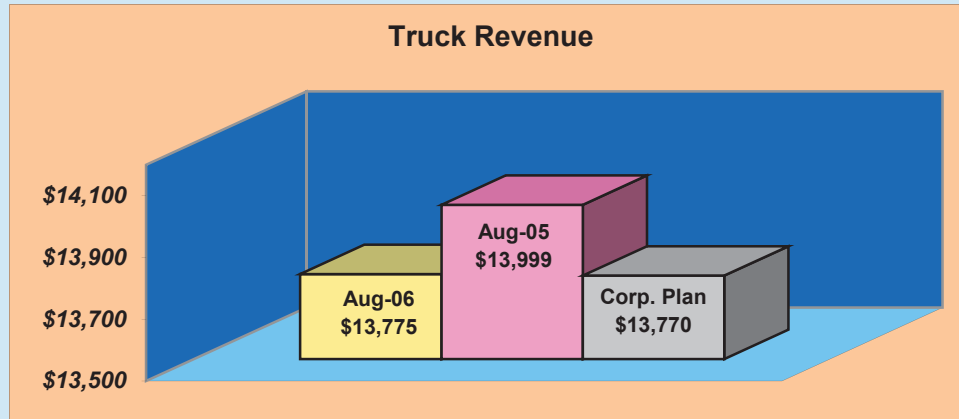
#### **Revenues**

Revenues from tolls and services decreased to \$18,297 in fiscal 2006 from \$18,450 in the preceding year.

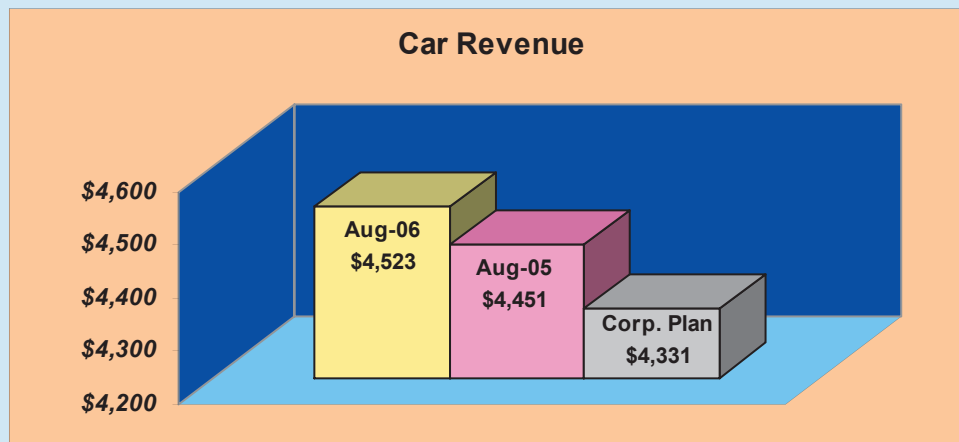
A portion of the decrease came from decreased truck toll revenue, going from \$13,999 in 2005 to \$13,775 in 2006. This represents a decrease of 1.6 per cent and comes from a decreased volume of trucks by 3.2 per cent (\$299 unfav). There was a toll adjustment (U.S. exchange) implemented

## ASSESSMENT OF RESULTS, Continued

in January, 2006 (\$330 fav) but this was partially offset by the dampening effect of a continued strengthening of the Canadian dollar against U.S. toll receipts (\$255 unfav).



Revenue from passenger car tolls increased from \$4,451 in 2005 to \$4,523 in 2006. The volume of cars increased by 0.1 per cent (\$8 fav). The continued strengthening of the Canadian dollar (\$105 unfav) was more than offset by the positive effects of the toll rate adjustment (\$168 fav).



Rental revenue decreased from \$3,500 in fiscal 2005 to \$3,277 in 2006, affected by the decrease in traffic volume and shift in mix between American and Canadian travelers.

### ***Expenses***

Total expenses increased from \$19,946 in fiscal 2005 to \$20,672 in 2006. General and administrative expenses increased by \$173 primarily due to the increased usage of consultants (\$91 unfav), software upgrades and report development (\$79 unfav).

Human Resources increased by \$607 due to severance and retroactive payments (\$148 unfav), additional employees (\$55 unfav) and annual salary and wage increases. Benefit costs were also impacted by increased group insurance expenses (\$115 unfav) and by the effect of the annual salary and wage increases.



## ASSESSMENT OF RESULTS, Continued

Maintenance and other expenses decreased by \$17 in fiscal 2006. There were higher repair requirements in 2006 for buildings (\$171 unfav) due to roof repair which were more than offset by the postponement of paving requirements (\$64 fav) and an overall reduction in all areas for other repairs and maintenance.

Interest on long-term debt decreased from \$6,751 in fiscal 2005 to \$6,612 in 2006 as a result of the lower bond principal outstanding as at August 31<sup>st</sup>, 2006 of \$102 million compared to \$104 million at the end of fiscal year 2005.

Amortization expense increased by \$139 due to effect of a full year's depreciation of the Tourist Information Centre (\$131 incr), and the overall increase of other miscellaneous depreciable assets.

### *Cash Flow*

There was a net decrease in cash of \$5,092 for the year 2006 as compared to an increase for 2005 of \$3,646. While there were positive cash flows from operating activities of \$8,740 funds were applied to the purchase of property, plant and equipment of \$8,070 and to the net increase in investments of \$3,151 and reduction of the bond debt \$2,253. Payables decreased by \$1,187 primarily due to the reduction accrued charges and payables related to the construction deposits almost fully offset by an increase in construction holdbacks payables \$928.

### *Capital Program*

Capital additions in the 2006 fiscal year amounted to \$8,070 million, of which the major contributor was the construction of the Truck Ramp (\$6,810). Additional projects were: currency exchange accounting system (\$324), CCTV Camera upgrades (\$219) and the Tourist Information building renovations (\$183).



# Financial STATEMENTS





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**Management's Responsibility for the Financial Statements**

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**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 Commissioners of the Authority. 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 the Authority 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 the Blue Water Bridge Authority.

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

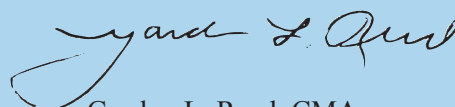
The Board of Directors' Audit Committee, which consists of four members, none of whom is an officer of the Authority, reviews and advises the Board on the financial statements and the Auditor General's report thereto. The Audit Committee meets with management and the Auditor General on a regular basis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



Dan M. Elash, P.Eng., C.I.M.  
Chief Operating Officer

Sarnia, Ontario  
Canada

October 6, 2006



Gordon L. Reed, CMA  
Controller / Treasurer



## 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, 2006 and the statements of operations and equity and cash flows for the year then ended. These financial statements are the responsibility of the 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 Authority as at August 31, 2006 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 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 Authority.

Alain Boucher, CA  
Principal  
for the Auditor General of Canada

Ottawa, Canada  
October 6, 2006



**Blue Water Bridge Authority  
Financial Statements**



## Balance Sheet

As at August 31	2006	2005
<b>Assets</b>		
<b>Current</b>		
Cash (Note 3)	\$ 13,882,380	\$ 18,974,042
Short-term investments (Note 5)	12,244,473	12,687,382
Accrued interest receivable (Note 5)	999,918	1,142,329
Accounts receivable	1,738,424	1,413,825
Prepaid expenses	381,797	391,608
	<b>29,246,992</b>	<b>34,609,186</b>
<b>Deferred charges (Note 4)</b>		
Bond agency fees	605,450	634,514
<b>Long-term investments (Note 5)</b>	<b>31,320,089</b>	<b>28,114,203</b>
<b>Property, plant and equipment (Note 6)</b>	<b>117,386,375</b>	<b>113,084,108</b>
<b>Restricted assets (Note 8)</b>		
Debt service reserve fund	5,321,739	5,094,957
Operating and maintenance contingency fund	2,697,251	2,581,266
	<b>8,018,990</b>	<b>7,676,223</b>
	<b>\$ 186,577,896</b>	<b>\$ 184,118,234</b>
<b>Liabilities and Equity</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 2,518,889	\$ 3,705,616
Holdbacks payable	1,047,568	119,136
Deferred revenue (Note 10)	1,475,985	1,411,076
Current portion of long-term debt (Note 12)	2,399,874	2,253,133
	<b>7,442,316</b>	<b>7,488,961</b>
<b>Employee future benefits liability</b>		
Non-pension related liability (Note 11)	2,537,243	2,122,047
<b>Long-term debt (Note 12)</b>	<b>99,381,020</b>	<b>101,780,894</b>
	<b>109,360,579</b>	<b>111,391,902</b>
<b>Equity</b>	<b>77,217,317</b>	<b>72,726,332</b>
	<b>\$ 186,577,896</b>	<b>\$ 184,118,234</b>

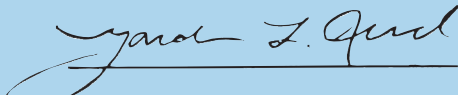
Contingencies (Note 15) and Commitments (Note 16)

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

On behalf of the Board:

 Commissioner  
 Commissioner

On behalf of Management:

 Controller/Treasurer

**Blue Water Bridge Authority  
Financial Statements**

**Statement of Operations and Equity**

<b>For the year ended August 31</b>	<b>2006</b>	<b>2005</b>
<b>Revenues</b>		
Tolls and services	\$ 18,297,443	\$ 18,450,063
Facility rentals (Note 13)	3,276,890	3,499,771
Currency exchange department (Note 14)	1,098,919	1,106,168
Interest and sundry revenues	2,489,234	2,358,303
	<u>25,162,486</u>	<u>25,414,305</u>
<b>Expenses</b>		
General and administrative (Note 20)	3,018,953	2,846,405
Human resources (Note 20)	5,657,955	5,050,577
Interest on long - term debt	6,612,244	6,751,283
Maintenance and other expenses (Note 20)	1,585,620	1,602,263
Amortization-property, plant and equipment	3,738,281	3,536,551
Amortization-bond agency fees	29,064	29,064
Loss on disposal of property, plant and equipment	29,384	129,752
	<u>20,671,501</u>	<u>19,945,895</u>
<b>Excess of revenues over expenses</b>	<b>\$ 4,490,985</b>	<b>\$ 5,468,410</b>
<b>Equity, beginning of year</b>	<b>\$ 72,726,332</b>	<b>\$ 67,257,922</b>
<b>Excess of revenues over expenses</b>	<b>4,490,985</b>	<b>5,468,410</b>
<b>Equity, end of year</b>	<b>\$ 77,217,317</b>	<b>\$ 72,726,332</b>

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

**Blue Water Bridge Authority**  
**Financial Statements**

**Statement of Cash Flows**

<b>For the year ended August 31</b>	<b>2006</b>	<b>2005</b>
<b>Cash Flows from operating activities</b>		
Excess of revenues over expenses	\$ 4,490,985	\$ 5,468,410
Adjustments for items not affecting cash		
Amortization of property, plant and equipment	3,738,281	3,536,551
Amortization of bond agency fees	29,064	29,064
Employee future benefits liability (non-pension related)	415,196	222,932
Loss on disposal of property, plant and equipment	29,384	129,752
Foreign exchange loss	37,135	47,524
	<u>8,740,045</u>	<u>9,434,233</u>
Changes in non-cash working capital items		
Accrued interest receivable	142,411	(426,659)
Accounts receivable	(324,599)	(797,974)
Short-term investments	442,909	(3,688,263)
Prepaid expenses	9,811	(2,998)
Accounts payable and accrued liabilities	(1,186,727)	1,760,119
Holdbacks payable	928,432	119,136
Deferred Revenue	64,909	(14,935)
	<u>77,146</u>	<u>(3,051,574)</u>
<b>Net cash provided by operating activities</b>	<u>8,817,191</u>	<u>6,382,659</u>
<b>Cash Flows from investing activities</b>		
Proceeds on disposal of property, plant and equipment	-	17,500
Purchase of property, plant and equipment	(8,069,932)	(6,688,585)
Increase (Decrease) in long-term investments	(3,205,886)	6,536,409
Increase in restricted assets	(342,767)	(438,682)
<b>Net cash (used in) investing activities</b>	<u>(11,618,585)</u>	<u>(573,358)</u>
<b>Cash Flows from financing activities</b>		
Increase in long-term debt - bond principal - current portion	146,741	137,767
Decrease in long-term debt - bond principal	(2,399,874)	(2,253,132)
<b>Net cash (used in) financing activities</b>	<u>(2,253,133)</u>	<u>(2,115,365)</u>
<b>Foreign exchange loss on cash held in foreign currency</b>	<u>(37,135)</u>	<u>(47,524)</u>
<b>(Decrease) Increase in cash during the year</b>	<u>(5,091,662)</u>	<u>3,646,412</u>
<b>Cash, beginning of year</b>	<u>18,974,042</u>	<u>15,327,630</u>
<b>Cash, end of year</b>	<u>\$ 13,882,380</u>	<u>\$ 18,974,042</u>
<b>Interest paid</b>	<u>\$ 6,633,044</u>	<u>\$ 6,770,812</u>

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

**Blue Water Bridge Authority**  
**Financial Statements – For the year ended August 31, 2006**

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## **Notes to Financial Statements**

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### **1. Authority and Objective**

The Blue Water Bridge Authority (the “Authority”) was established by the *Blue Water Bridge Authority Act (Canada)* on May 21, 1964; as per Section 22, the Authority is not an agent of Her Majesty in right of Canada. On April 26, 2002 the Authority 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*.

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

The *Blue Water Bridge Authority Act* and the *Customs Act*, Section 6, require the Authority 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.

The Authority’s mission statement is:

“To provide the finest international transportation facilities on the Great Lakes”

### **2. Summary of Significant Accounting Policies**

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

#### **a) Foreign Currency Translation**

Foreign currency accounts are translated to Canadian dollars as follows:

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

#### **b) Deferred Charges**

The bond agency fees are amortized over the life of the bonds (25 years) on a straight-line basis.

#### **c) Deferred Revenues**

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

**Blue Water Bridge Authority**  
**Financial Statements – For the year ended August 31, 2006**

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**Notes to Financial Statements**

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**d) Employee Future Benefits Liability (Non-pension Related)**

The Authority provides, other than pension benefits, 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. The Authority 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 employee average remaining service life (12 years; 2005 - 13 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.

**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	2%	Straight line for 50 years
Bridge – second span	1%	Straight line for 75 years
Buildings	5%	Diminishing balance basis
Buildings-booths	10%	Diminishing balance basis
Buildings-leased Duty Free	5%	Diminishing balance basis
Buildings – residential (including land)	-	No amortization
Equipment	10%	Diminishing balance basis
Equipment – computer	20%	Straight line for 5 years
Property improvements	10-20%	Diminishing balance basis
Vehicles and construction equipment	30%	Diminishing balance basis

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 substantially completed the costs are transferred to the appropriate asset account and amortization is initiated.



**Blue Water Bridge Authority**  
**Financial Statements – For the year ended August 31, 2006**

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**Notes to Financial Statements**

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**f) Revenue**

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

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

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

***Interest and sundry revenues*** are recognized and recorded in the period in which they are earned. The primary component of revenue in this category is bond interest.

**g) Government Assistance**

Government assistance is recorded as a reduction of the cost of the asset acquired when there is a reasonable assurance that the requirements for the approved grants are met.

**h) Measurement Uncertainty**

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

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

**3. Cash**

The Authority's bank accounts are held at one Canadian chartered bank. Cash (including on hand) includes US \$760,544 (2005 - US \$1,297,528) which has been translated to \$841,618 (2005 - \$1,542,631).

**4. Deferred Charges**

The Authority issued \$110 million in revenue bonds on July 9, 2002. The bonds are due in 2027. The agency fees amounted to \$726,550 of which \$29,064 (2005 - \$29,064) is applicable to fiscal 2006 expense. The remaining balance of \$605,450 will be amortized over the bond's life on a straight-line basis.

**Blue Water Bridge Authority**  
**Financial Statements – For the year ended August 31, 2006**

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**Notes to Financial Statements**

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**5. Investments**

**a) Short-term Investments**

The portfolio is composed of Provincial bonds and Government of Canada Treasury bills maturing in the 2007 financial year.

<b>As at August 31</b>	<b>2006</b>	<b>2005</b>
<b>Book Value</b>		
Investments		
Province of Nova Scotia	\$ 999,865	\$ -
Province of Ontario	3,269,503	7,690,040
Government of Canada	7,975,105	4,997,342
	<b>\$ 12,244,473</b>	<b>\$ 12,687,382</b>
Accrued Interest Receivable	999,918	1,142,329
	<b>\$ 13,244,391</b>	<b>\$ 13,829,711</b>
<b>Fair Value</b>	<b>\$ 13,229,231</b>	<b>\$ 13,864,060</b>
<b>Average Rate of Return - %</b>	<b>3.92</b>	<b>4.14</b>

**b) Long-term Investments**

The portfolio is composed of Provincial bonds and Government of Canada Treasury bills.

<b>As at August 31</b>	<b>2006</b>	<b>2005</b>
<b>General Investments (Book Value)</b>		
Province of Alberta	\$ -	\$ 288,184
Province of British Columbia	5,468,562	385,443
Province of Newfoundland and Labrador	5,025,353	487,938
Province of Nova Scotia	1,256,931	2,254,658
Province of Ontario	1,381,965	4,853,412
Government of Canada	13,444,367	16,206,007
	<b>26,577,178</b>	<b>24,475,642</b>
<b>Bridge Painting Fund (Book Value)</b>		
Province of Nova Scotia	841,147	798,786
Province of Ontario	1,921,723	939,870
Government of Canada	1,980,041	1,899,905
	<b>4,742,911</b>	<b>3,638,561</b>
	<b>\$ 31,320,089</b>	<b>\$ 28,114,203</b>
<b>Fair Value</b>		
	<b>\$ 26,494,116</b>	<b>\$ 24,785,679</b>
	<b>4,754,633</b>	<b>3,766,518</b>
	<b>\$ 31,248,749</b>	<b>\$ 28,552,197</b>
<b>Average Rate of Return - %</b>	<b>4.48</b>	<b>4.47</b>
<b>Average Term to Maturity - Years</b>	<b>2.19</b>	<b>2.77</b>

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

**Blue Water Bridge Authority**  
**Financial Statements – For the year ended August 31, 2006**

## **Notes to Financial Statements**

The Bridge Painting Fund was established voluntarily by the Authority in 2002 in order to provide funds for the major restoration cost of recoating and painting of the bridges. Current estimates indicate that the first project will begin in 2024 and the second in 2026-2031 at a total future cost of approximately \$25 million. Current year deposits amounted to \$900,000 (2005 - \$900,206). The fund generated interest income in the amount of \$204,350 (2005 - \$162,344).

### **c) Investment Policy**

The Authority invests in treasury bills, promissory notes, bills of exchange or other debt securities that are unconditionally guaranteed or accepted by the Government of Canada or by a Bank or by any province of Canada; Central Government Obligations of any other country which has a bond rating of AAA or AA or equivalent; interest bearing deposits or certificates of deposit or similar arrangements with, or discount debt obligations issued, accepted or guaranteed by any bank, trust company or other deposit taking institution in Canada, which is rated in one of the highest categories of debt by one of the Rating Agencies: Commercial Paper, R-1 high, Banker's Acceptance (minimum R-1 low or higher); indebtedness of any other issuer (including any corporation) with a remaining term to maturity not to exceed one year, the long-term debt of which is rated one of the three highest categories for long-term debt by one of the Rating Agencies.

## **6. Property, Plant and Equipment**

	2006			2005
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	\$ 7,315,975	\$ -	\$ 7,315,975	\$ 7,315,975
Bridges	86,792,730	9,325,493	77,467,237	78,604,265
Buildings	18,150,951	6,365,550	11,785,401	12,798,522
Buildings-booths	3,123,217	2,166,775	956,442	1,077,604
Buildings-leased Duty Free	5,281,899	1,084,387	4,197,512	4,418,434
Buildings-residential ( including land)	1,129,626	-	1,129,626	1,129,626
Equipment	4,380,316	2,224,647	2,155,669	2,348,964
Equipment-computer	636,927	388,526	248,401	233,491
Construction in process	9,420,915	-	9,420,915	1,872,126
Property improvements	6,387,910	4,153,843	2,234,067	2,721,685
Vehicles and construction equipment	1,828,276	1,353,146	475,130	563,416
	<u>\$ 144,448,742</u>	<u>\$ 27,062,367</u>	<u>\$ 117,386,375</u>	<u>\$ 113,084,108</u>

Included in construction in process is an amount of \$1,171,157 for a portion of a truck ramp that will be transferred to the Ministry of Transportation of Ontario in fiscal year 2007 for \$1. It is anticipated that a portion of the construction costs will be recovered from the Ministry.

Cost and accumulated amortization of property, plant and equipment as at August 31, 2005 amounted to \$137,103,161 and \$24,019,053 respectively.

**Blue Water Bridge Authority**  
**Financial Statements – For the year ended August 31, 2006**

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**Notes to Financial Statements**

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**7. Asset Retirement Obligations**

The Blue Water Bridge is comprised of two spans. The original bridge (first span) was constructed in 1938 and underwent a major rehabilitation in 1999. The useful life of the rehabilitation is estimated to be 50 years, at which time the bridge could be demolished or rehabilitated. The second span was constructed in 1997 and has a useful life of 75 years, at that time it is estimated that a major rehabilitation could extend its useful life for 50 years. The Authority will eventually be obligated to demolish the Canadian half of both spans. Due to the uncertainty relating to the potential rehabilitation of both spans, the Authority cannot determine a reasonable estimate of the fair value of the asset retirement obligation and therefore has not recognized any liability in the balance sheet as at August 31, 2006.

**Blue Water Bridge Authority**  
**Financial Statements – For the year ended August 31, 2006**

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**Notes to Financial Statements**

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**8. Restricted Assets**

**Debt Service Reserve Fund**

In accordance with the Master Trust Indenture, on the closing date of the issuance of the bonds, the Authority established a Debt Service Reserve Fund in the amount of \$4.5 million. Thereafter the reserve must be at least equal to: (i) fifty percent (50%) of the Debt Service Amount, if the Gross Debt Service Coverage Ratio is less than 2.00:1.00; (ii) twenty-five (25%) of the Debt Service Amount if the Gross Debt Service Coverage Ratio is 2.00:1.00 or greater, but less than 3.00:1.00. In the event the Gross Debt Service Coverage Ratio is 3.00:1.00 or greater, the Authority is not required to maintain a balance in the Reserve Fund.

**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 of such date.

**Gross Debt Service Coverage Amount** means, on any date, the sum of free cash flow for the twelve month period ending on the last day of the most recently completed month and the revenue account balance on the last day of the month divided by the sum of the net interest amount and the total principal reduction amount for the twelve month period ending on the last day of the most recently completed month.

**Debt Service Reserve Fund**

	2006	2005
<b>Book Value</b>		
Cash	\$ 164	\$ 164
Investments		
Province of British Columbia	2,548,169	2,439,880
Province of Manitoba	867,828	829,646
Province of Newfoundland and Labrador	1,587,086	1,520,143
Province of Ontario	318,492	305,124
	<u>\$ 5,321,739</u>	<u>\$ 5,094,957</u>
<b>Fair Value</b>		
Cash	\$ 164	\$ 164
Investments	5,346,546	5,208,322
	<u>\$ 5,346,710</u>	<u>\$ 5,208,486</u>
 Average Rate of Return - %	 4.72	 4.72
 Average Term to Maturity - Years	 3.32	 5.76

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**Blue Water Bridge Authority**  
**Financial Statements – For the year ended August 31, 2006**

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**Notes to Financial Statements**

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**Operating and Maintenance Contingency Fund**

In accordance with the Master Trust Indenture, on the closing date of the issuance of the bonds, the Authority 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 the Authority over the previous twelve (12) month period ending on the last day of the most recently completed month. Operating and Maintenance expenses do not include amortization or non-recurring items arising from the early retirement of Borrowings or Subordinated Debt, or the interest on any Borrowings.

	2006	2005
<b>Book Value</b>		
Cash	\$ 198	\$ 198
Investments		
Province of Newfoundland and Labrador	1,767,632	1,695,821
Province of Ontario	253,005	239,943
Province of Prince Edward Island	676,416	645,304
	<u>\$ 2,697,251</u>	<u>\$ 2,581,266</u>
<b>Fair Value</b>		
Cash	\$ 198	\$ 198
Investments	2,697,064	2,636,509
	<u>\$ 2,697,262</u>	<u>\$ 2,636,707</u>
 Average Rate of Return - %	 4.88	 4.88
 Average Term to Maturity - Years	 3.96	 4.96

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

**9. Credit Facility**

The Authority has a revolving credit facility with a Canadian chartered bank in the amount of \$20 million. The facility is secured by a pari-passu (ranked equally as to asset entitlement) Pledge of Revenues as contained in the Master Trust Indenture and the Master Trust Second Supplemental Indenture to a Pledged Bond. Interest is payable monthly based on the Bank's Prime Lending Rate. The maximum amount that the Authority can borrow is \$125 million. There is no outstanding balance as at August 31, 2006.

**Blue Water Bridge Authority**  
**Financial Statements – For the year ended August 31, 2006**

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**Notes to Financial Statements**

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**10. Deferred Revenue**

Deferred revenue of \$1,475,985 (\$1,411,076 - 2005) represents the balance, at year end, for tolls paid in advance by passenger vehicles and commercial trucking companies.

**11. Employee Future Benefits Liability (Non-pension Related)**

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

**Blue Water Bridge Authority**  
**Financial Statements – For the year ended August 31, 2006**

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**Notes to Financial Statements**

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

<b>For the year ended August 31</b>	<b>2006</b>	<b>2005</b>
<b>Change in accrued benefit obligation</b>		
Accrued benefit obligation, beginning of year	\$ 3,601,044	\$ 2,319,474
Current service cost	184,301	109,671
Interest cost	206,663	155,515
Actuarial losses	0	1,070,630
Cost for the year	390,964	1,335,816
Benefits paid	(55,689)	(54,246)
Accrued benefit obligation, end of year	\$ 3,936,319	\$ 3,601,044

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

<b>For the year ended August 31</b>	<b>2006</b>	<b>2005</b>
<b>Unamortized net actuarial loss</b>		
Unamortized net actuarial loss, beginning of year	\$ 1,478,997	\$ 420,359
Actuarial losses for the year	-	1,070,630
	1,478,997	1,490,989
Amortization of actuarial losses for the year	(79,921)	(11,992)
Unamortized net actuarial loss, end of year	\$ 1,399,076	\$ 1,478,997

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

<b>For the year ended August 31</b>	<b>2006</b>	<b>2005</b>
Accrued benefit obligation	\$ 3,936,319	\$ 3,601,044
Unamortized net actuarial loss	(1,399,076)	(1,478,997)
Accrued benefit liability	2,537,243	2,122,047

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The last actuarial valuation was performed as at August 31, 2006. The Authority intends to have its next valuation performed as at August 31, 2007. The accrued benefit liability is reported on the Balance Sheet as: Non-pension related liability.

**Blue Water Bridge Authority**  
**Financial Statements – For the year ended August 31, 2006**

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**Notes to Financial Statements**

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

<b>For the year ended August 31</b>	<b>2006</b>	<b>2005</b>
<b>Elements of defined benefit costs recognized in the year</b>		
Current service costs	\$ 184,301	\$ 109,671
Interest cost	206,663	155,515
Actuarial losses	-	1,070,630
<b>Elements of employee future benefit costs before adjustments to recognize the long-term nature of employee future benefit costs</b>	<b>390,964</b>	<b>1,335,816</b>
<b>Adjustments to recognize the long-term nature of employee future benefit costs</b>		
Difference between actuarial loss recognized and actuarial loss on accrued benefit obligation	79,921	(1,058,638)
Subtotal	79,921	(1,058,638)
<b>Defined benefit costs recognized</b>	<b>\$ 470,885</b>	<b>277,178</b>

Assumptions

<b>For the year ended August 31</b>	<b>2006</b>	<b>2005</b>
Weighted average assumptions as at August 31:		
Discount Rate, accrued benefit obligation	5.50%	5.50%
Discount Rate, benefit cost	5.50%	6.50%
Estimated per capita claims costs escalation rates:		
General inflation	2.70%	2.70%
Dental and vision care	3.70%	3.70%
Employee assistance program	2.70%	2.70%

The assumed health care cost trend rate for the next 12 years is 8%, 6% thereafter (2005 – 8% for the next 13 years, 6% thereafter).

**Blue Water Bridge Authority**  
**Financial Statements – For the year ended August 31, 2006**

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**Notes to Financial Statements**

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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	\$ 109,998	\$ (82,395)
Accrued benefit obligation	943,087	(723,280)

**12. Long-term Debt**

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

The proceeds were used to: repay all outstanding bank loans, pay loan breakage fees, agency, subscription, and legal fees and establish the required reserve funds. The balance is to be used for future capital spending and general working capital purposes.

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

	Year	Principal	Interest	Total
<b>Current</b>				
	2007	\$ 2,399,874	\$ 6,486,304	\$ 8,886,178
<b>Long-term</b>				
	2008	2,556,171	6,330,007	8,886,178
	2009	2,722,647	6,163,530	8,886,177
	2010	2,899,965	5,986,212	8,886,177
	2011	3,088,832	5,797,346	8,886,177
	Thereafter	88,113,405	54,065,435	142,178,841
		99,381,020	78,342,530	177,723,550
		<u>\$ 101,780,894</u>	<u>\$ 84,828,834</u>	<u>\$ 186,609,728</u>

The Authority 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.



**Blue Water Bridge Authority**  
**Financial Statements – For the year ended August 31, 2006**

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**Notes to Financial Statements**

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- c) The Authority shall maintain its corporate existence pursuant to the *BWBA Act* and maintain its existence as a parent Crown corporation under the *Financial Administration Act* subject to its right to reorganize, merge or amalgamate in accordance with the terms of Section 6.7 of the Master Trust Indenture.
- d) Except for borrowings arising as a result of movements in the termination values of swap agreements and any purchase money obligations not exceeding in the aggregate at any time \$2 million, the Authority 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, 2006 the Authority has no active swap agreements.
- 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 the Authority pursuant to the *BWBA Act*.
- f) Toll Rate Covenant – The Authority will take all lawful measures to fix and establish toll rates and other charges so that:

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

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

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

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, 2006 is \$116,768,813 (2005 - \$122,283,314).

**13. Blue Water Bridge Duty Free Shop Inc. – Operating Lease**

The Authority has entered into a long-term operating lease with The Blue Water Bridge Duty Free Shop Inc. The Authority provides the building, completed in 2002 and the Duty Free Shop Inc., operates the commercial facility. The lease has an initial term of 7 years ending on March 2, 2009, and has three consecutive renewal periods of 7 years each at the discretion of the Duty Free Shop Inc. The Authority receives a fixed rent per month and contingent revenues based on a percentage of sales.

**14. Currency Exchange Department Operations**

The Authority operates a currency exchange department on the plaza. The operation's primary activity is to convert Canadian and American dollars for travelers. Net income for the year amounted to \$246,801 (2005 - \$254,342).

**Blue Water Bridge Authority**  
**Financial Statements – For the year ended August 31, 2006**

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**Notes to Financial Statements**

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**15. Contingencies**

In the normal course of its operations, the Authority 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 the Authority's financial statements. At this time, there are no outstanding legal actions against the Authority.

**16. Commitments**

The Authority has awarded a contract to construct a truck ramp which connects the bridge plaza to Highway 402. The contract includes the construction of an associated eastbound ramp for the Ministry of Transportation of Ontario. Work not yet completed amounts to \$3,728,435. The project is expected to be completed in the Spring of 2007.

The Authority has engaged a consulting firm to provide civil engineering services for plaza improvements. Work not yet completed amounts to \$369,664.

The Authority has engaged an architectural firm for design work related to the new Customs Commercial/Custom Brokers/Canadian Food Inspection Agency building (CBA) and 7 primary truck lanes. The contract value is estimated at \$1,505,253.

**17. Pension Plan**

The Authority has contracted an outside life insurance firm to operate and administer an employee pension plan. Employees of the Authority 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, the Authority is required to contribute an amount equal to the member's required contribution. During the year, the Authority's pension contributions amounted to \$203,763 (2005 - \$187,877).

**18. Financial Instruments**

The Authority's financial instruments consist of cash, restricted assets, accounts receivable, short-term and long-term investments, accounts payable and accrued liabilities, holdbacks payable, tolls paid in advance, short-term and long-term debt. Unless otherwise noted, it is management's opinion that the Authority is not exposed to significant interest, currency or credit risks arising from these financial instruments. Unless otherwise disclosed in Notes 5, 8 and 12, management believes that the carrying values of the financial instruments approximate their fair value.

**19. Comparative Figures**

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

**Blue Water Bridge Authority**  
**Financial Statements – For the year ended August 31, 2006**

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**Notes to Financial Statements**

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**20. Expenses**

<b>For the year ended August 31</b>	<b>2006</b>	<b>2005</b>
<b>General and Administrative</b>		
Audit and legal	\$ 73,997	\$ 84,973
Bond Rating Fees	40,174	39,726
Consultants	1,437,799	1,347,284
Insurance	486,380	496,304
Interest and bank charges	77,261	61,683
Meetings and memberships	53,872	70,193
Municipal Taxes	139,468	135,464
Office and miscellaneous	449,474	351,478
Public relations	80,008	89,325
Security	19,174	26,165
Telephone	69,801	72,493
Travel and entertainment	91,545	71,317
	<b>\$ 3,018,953</b>	<b>\$ 2,846,405</b>
<b>Human Resources</b>		
<b>Salaries and wages</b>		
Administrative and office	\$ 937,812	\$ 744,771
Currency Exchange Department	519,155	502,310
Janitorial	236,776	197,076
Maintenance	568,721	554,934
Project Management	280,526	263,093
Toll collectors	1,448,112	1,368,551
	<b>3,991,102</b>	<b>3,630,735</b>
<b>Benefits</b>		
Employee pension and life insurance	1,224,882	985,173
Employee health taxes	80,044	70,011
Employment insurance	74,673	70,466
Other	63,940	68,713
Uniforms and cleaning	46,259	48,992
Vacation pay	142,950	136,624
Workplace Safety and Insurance Board	34,105	39,863
	<b>1,666,853</b>	<b>1,419,842</b>
	<b>\$ 5,657,955</b>	<b>\$ 5,050,577</b>
<b>Maintenance and Other Expenses</b>		
Equipment repairs	\$ 48,062	\$ 33,248
Fuel and other vehicle costs	73,503	77,787
Heating, hydro and water	389,049	392,420
Janitorial supplies & waste disposal	71,380	76,774
Maintenance-supplies and services	769,851	779,872
Snow removal and landscaping	233,775	242,162
	<b>\$ 1,585,620</b>	<b>\$ 1,602,263</b>