

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

Canada 

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

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Management's Responsibility for the Financial Statements

MANAGEMENT'S REPORT

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

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

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

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



Chuck Chrapko
President and CEO

Sarnia, Ontario
Canada

October 1, 2010



David Joy, BA, CGA
Chief Financial Officer



AUDITOR'S REPORT

To the Minister of Transport, Infrastructure and Communities

I have audited the balance sheet of the Blue Water Bridge Authority as at August 31, 2010 and the statements of operations, comprehensive income and equity and cash flows for the year then ended. These financial statements are the responsibility of the Blue Water Bridge Authority's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Blue Water Bridge Authority as at August 31, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

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

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

Ottawa, Canada
October 1, 2010

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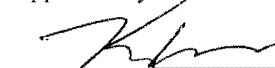
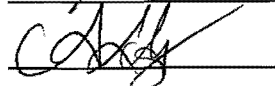
Balance Sheet

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

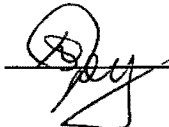
Contingencies (Note 17) and Commitments (Note 18)

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

Approved by the Board of Directors:


 _____ Director

 _____ Director

On behalf of Management:


 _____ Chief Financial Officer

**Blue Water Bridge Canada
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Statement of Operations, Comprehensive Income and Equity

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

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

Blue Water Bridge Canada
Financial Statements

Statement of Cash Flows

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

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

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Financial Statements – For the year ended August 31, 2010

Notes to the Financial Statements

1. Authority and Objective

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

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

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

2. Correction of Error

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

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

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

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

Notes to the Financial Statements

2. Correction of Error continued...

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

3. Accounting Changes

a) Adoption of new accounting standards

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

Section 3862, *Financial Instruments – Disclosures*

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

Section 3064 *Goodwill and Intangible Assets*

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

b) Future accounting changes

International financial reporting standards (“IFRS”)

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

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

Notes to the Financial Statements

4. Summary of Significant Accounting Policies

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

a) Foreign Currency Translation

Foreign currency transactions and account balances are translated to Canadian dollars as follows:

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

b) Investments

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

c) Deferred Revenues

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

d) Employee Future Benefits

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

The net cost consists of the actuarially determined benefits for the current year's service, imputed interest on projected obligations and the amortization of actuarial gains or losses over the expected average remaining service life. Actuarial gains or losses are amortized over the employees' average remaining service life (16 years; 2009 - 14 years) only if the net actuarial gain or loss at the beginning of the year is in excess of 10% of the accrued benefit obligation at that date. These benefits are not pre-funded, resulting in a deficit equal to the accrued liability benefit obligation.

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

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

Notes to the Financial Statements

4. Summary of Significant Accounting Policies continued...

e) Property, Plant and Equipment - Amortization

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

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

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

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

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

f) Intangible Assets

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

g) Revenue

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

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

Notes to the Financial Statements

4. Summary of Significant Accounting Policies continued...

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

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

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

h) Financial Instruments

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

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

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

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

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

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

Notes to the Financial Statements

4. Summary of Significant Accounting Policies continued...

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

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

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

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

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

i) Federal, Provincial and Municipal Government Assistance

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

j) Measurement Uncertainty

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

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

5. Cash

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

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Financial Statements – For the year ended August 31, 2010

Notes to the Financial Statements

6. Investments

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

a) Short-term Investments

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

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

b) Long-term Investments

The portfolio is composed of Government and corporate bonds.

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

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Financial Statements – For the year ended August 31, 2010

Notes to the Financial Statements

6. Investments continued...

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

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

7. Property, Plant, Equipment and Intangible Assets

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

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

8. Rehabilitation of the Bridge

The Blue Water Bridge is comprised of two spans. The original bridge (first span) was constructed in 1938 and underwent a major rehabilitation in 1999. The useful life of the rehabilitation is estimated to be 50 years, at which time the bridge could be demolished or rehabilitated for a second time. The second span was constructed in 1997 and has a useful life of 75 years, at which time it is estimated that a major rehabilitation could extend its useful life for 50 years. Rehabilitations of a bridge span can extend the life of the bridge indefinitely, making any eventual full demolition improbable. Such major rehabilitation projects will be considered first and undertaken to avoid future demolition of any bridge span.

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

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Notes to the Financial Statements

9. Government Funding

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

10. Restricted Assets

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

Debt Service Reserve Fund

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

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

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

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

As at August 31, 2010, the Gross Debt Service Coverage Ratio is 8.68 (2009- 11.51).

In anticipation of lower coverage ratios in the future as a result of the drawdown in investments to finance capital projects, a balance will be maintained at a level equivalent to that required as if the Gross Debt Service Coverage Ratio was greater than 2.00 but less than 3.00. This would require a minimum reserve fund of \$2,221,545. As at August 31, 2010, the Debt Service Amount is \$3,470,933 (2009 - \$5,161,365). Thus, a balance of almost \$3.5 million will be voluntarily maintained.

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

Notes to the Financial Statements

10. Restricted Assets continued...

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

Operating and Maintenance Contingency Fund

On the issuance of the bonds, BWBC established an Operating and Maintenance Contingency Reserve Fund in the amount of \$2.0 million. Thereafter the reserve must be at least equal to twenty-five percent (25%) of the Operating and Maintenance expenses incurred by BWBC. Operating and Maintenance expenses do not include amortization or the interest on any borrowings. As at August 31, 2010, the required minimum balance is established at \$1,875,482 (\$2,027,189 in 2009). The shortfall has been covered in September 2010 with an additional \$500,000 investment.

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

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

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

Notes to the Financial Statements

11. Credit Facilities

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

12. Deferred Revenue

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

13. Employee Future Benefits

a) Pension benefit

BWBC has contracted an outside life insurance firm to operate and administer an employee pension plan. Employees of BWBC may voluntarily join the pension plan, subject to eligibility requirements. The pension plan, which is a defined-contribution pension plan, is funded on a money-purchase basis with members contributing 6.5% of their annual earnings. In accordance with the plan, BWBC is required to contribute an amount equal to the member's required contribution. During the year, BWBC's pension contributions amounted to \$196,691 (2009 - \$238,180).

b) Severance Packages

BWBC initiated a cost reduction program in fiscal 2009. Nine employees accepted severance packages in 2009 totaling \$662,541 including benefits. One employee received a severance package in 2010 totaling \$61,155. As at August 31, 2010, \$121,742 (2009 - \$263,975) of the severance cost is included in accounts payable and \$22,650 (2009 - \$223,664) recognized in the employee future benefits liability.

c) Other benefits

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

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

Blue Water Bridge Canada
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Notes to the Financial Statements

13. Employee Future Benefits continued...

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

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

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

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

For the year ended August 31	2010	2009
Accrued benefit obligation	\$ 4,711,117	\$ 3,808,250
Severances Payable	22,650	223,664
Unamortized past service costs	(13,125)	-
Unamortized net actuarial loss	(580,227)	(2,487)
Accrued benefit liability	\$ 4,140,415	\$ 4,029,427

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

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Notes to the Financial Statements

13. Employee Future Benefits continued...

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

For the year ended August 31	2010	2009
Elements of defined benefit costs recognized in the year		
Current service costs	\$ 137,632	\$ 173,908
Interest cost	<u>263,773</u>	<u>246,822</u>
Elements of employee future benefit costs before adjustments to recognize the long-term nature of employee future benefit costs	401,405	420,730
Adjustments to recognize the long-term nature of employee future benefit costs		
Difference between actuarial loss recognized and actuarial loss on accrued benefit obligation	-	11,301
Special termination benefit	-	24,801
Past service cost recognized	<u>875</u>	<u>-</u>
Defined benefit costs recognized	<u>\$ 402,280</u>	<u>\$ 456,832</u>

Assumptions

For the year ended August 31	2010	2009
Weighted average assumptions as at August 31:		
Discount Rate, accrued benefit obligation	5.50%	6.75%
Discount Rate, benefit cost	6.75%	6.00%
Estimated per capita claims costs escalation rates:		
General inflation	2.70%	2.70%
Dental and vision care	3.70%	3.70%
Employee assistance program	2.70%	2.70%

The assumed health care cost trend rate for the next 8 years is 8%, 6% thereafter (2009 – 8% for the next 9 years, 6% thereafter).

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

Notes to the Financial Statements

13. Employee Future Benefits continued...

Sensitivity analysis

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

	One Percent	
	Increase	Decrease
Total of service and interest cost	\$ 102,165	\$ (78,187)
Accrued benefit obligation	915,323	(722,699)

14. Long-term Debt

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

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

Year	Principal	Interest	Total
Current			
2011	\$ 3,088,832	5,797,346	8,886,178
Long-term			
2012	3,289,999	5,596,179	8,886,178
2013	3,504,267	5,381,910	8,886,177
2014	3,732,490	5,153,687	8,886,177
2015	3,975,577	4,910,600	8,886,177
Thereafter	73,611,072	33,023,058	106,634,130
	88,113,405	54,065,434	142,178,839
	<u>\$ 91,202,237</u>	<u>\$ 59,862,780</u>	<u>\$ 151,065,017</u>

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

- a) The principal and interest will be duly paid on the due dates.
- b) Insurance will be maintained in such types and amounts in accordance with sound business practices and standards in the industry.
- c) BWBC shall maintain its corporate existence pursuant to the *Blue Water Bridge Authority Act* and maintain its existence as a parent Crown corporation under the *Financial Administration Act* subject to its right to reorganize, merge or amalgamate in accordance with the Master Trust Indenture.

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

Notes to the Financial Statements

14. Long-term Debt continued...

- d) Except for borrowings arising as a result of movements in the termination values of swap agreements and any purchase money obligations not exceeding \$2 million in the aggregate at any time, BWBC shall not create, incur, assume or otherwise become liable for any additional indebtedness unless it is pursuant to a supplemental Indenture. As at August 31, 2010 BWBC has no active swap agreement.
- e) The aggregate of all borrowings, subordinated debt and purchase money obligations does not exceed any limitations on the amount of borrowings outstanding imposed upon BWBC pursuant to the *Blue Water Bridge Authority Act*.
- f) Toll Rate Covenant – BWBC will take all lawful measures to fix and establish toll rates and other charges so that:

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

As at August 31, 2010, the Gross Debt Service Coverage Ratio (as defined in note 10) is 8.68 (2009– 11.51) and the Debt Service Ratio is 1.74 (2009 – 1.95). If the ratios do not meet the preceding guidelines BWBC shall take all steps permitted under the *Blue Water Bridge Authority Act* to increase toll rates as may be necessary to achieve such ratios in the next succeeding Fiscal Year.

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

A discounted cash flow method, using a discount rate equal to the prevailing market rate of interest for bonds having similar terms and conditions, was used to determine the fair value of the bonds. The fair value as at August 31, 2010 is \$105,593,990 (2009 - \$107,875,013).

15. Facility Rentals

BWBC has entered into a long-term operating lease with The Blue Water Bridge Duty Free Shop Inc. BWBC provides the building and the Duty Free Shop Inc. operates the commercial facility. The lease has been renewed in 2009 for 7 years with the term of the lease ending on December 31, 2015. After that, the Duty Free has the option of adopting two subsequent, consecutive renewal periods of 7 years each at the discretion of the Duty Free Shop Inc. BWBC receives a fixed rent per month and contingent revenues based on a percentage of sales.

16. Currency Exchange Department

BWBC operates a currency exchange department. The department's primary activity is to convert Canadian and American dollars for travelers. The Currency Exchange department generated net income of \$316,028 in 2010 (2009 - \$226,457).

Blue Water Bridge Canada
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Notes to the Financial Statements

17. Contingencies

In the normal course of its operations, BWBC becomes involved in various legal actions. Some of these potential liabilities may become actual liabilities when one or more future events occur or fail to occur. To the extent that the future event is likely to occur or fail to occur, and a reasonable estimate of the loss can be made, an estimated liability is accrued and an expense recorded in BWBC's financial statements. There are no outstanding legal actions against BWBC at year end (2009 - none).

18. Commitments

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

19. Capital Management

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

BWBC is not authorized to modify its financial structure without pre-approval by the Government. BWBC must obtain authorization from the Government to negotiate any borrowings. As at August 31, 2010 federal approval has been provided for: (a) its existing bond issue payable; (b) borrowings of up to \$15 million for short-term working capital requirements, and; (c) borrowings of an additional \$15 million for the purpose of funding capital expenditures that were accelerated due to funding received as part of the Gateways and Border Crossings Fund under *Budget 2009: Canada's Economic Action Plan*.

BWBC manages its equity by prudently monitoring its revenues and expenses, its assets, liabilities, investments and financial transactions to ensure BWBC achieves its goals and objectives, whilst remaining a going concern. BWBC's objectives, policies and processes for managing capital are unchanged since August 31, 2009.

20. Financial Instruments

a) Financial Risk Management

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

i. Credit risk:

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

a) Accounts receivable

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

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

Notes to the Financial Statements

20. Financial Instruments continued...

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

b) Investments

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

ii. Liquidity/Solvency risk

Liquidity/Solvency risk is the risk that funds will not be available to BWBC to honour its cash obligations as they arise. BWBC manages liquidity risk through the management of its cash and investments. BWBC has determined that the risk is not significant because of the high quality of its investments and its formal financial forecasting mechanisms.

The BWBC liabilities as at August 31, 2010 are:

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

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

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

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

Notes to the Financial Statements

20. Financial Instruments continued...

It is possible that future financial results and required federal infrastructure priorities may impinge or strain BWBC's ability to satisfy existing bond covenants and require the utilization of the existing line of credit or the utilization of additional long-term debt. However, BWBC manages this risk by maintaining detailed cash forecasts, as well as long-term operating and strategic plans. The management of liquidity requires a constant monitoring of expected cash inflows and outflows which is achieved through a forecast of BWBC's liquidity position, to ensure adequacy and efficient use of cash resources. In the event that future cash deficiencies are identified, BWBC has the authority through the *Blue Water Bridge Authority Act (Canada)* to fix and charge tolls based on a pre-set formula; negotiate with our chartered bank, and; coordinate financial remediation solutions with Transport Canada.

In September, 2010, Standard and Poor's downgraded its bond rating for BWBC to "A-/Negative".

iii. Market risk

Market risk is the risk that changes in market price, such as foreign exchange rates and interest rates, will affect BWBC's income or the value of its holdings of financial instruments. The fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual financial instrument of its issuer, or factors affecting all similar financial instruments traded in the market.

a) Interest rate risk

A variation in interest rates would not significantly affect investment income and would not have a significant affect on the financial statements as all investments are held to maturity. At this time, our bond debt interest rate is fixed and not likely to be converted. Our \$30 million in credit facilities remains unused. Thus, a variation in interest rates of 1% will have no effect on the financial statements at this time.

b) Foreign exchange risk

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

b) Fair value

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

21. Comparative Figures

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

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

Notes to the Financial Statements

22. Expenses

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

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