Purchase of our Property for Bridge Plaza Re-Development

Concern and Issue

Assistance and intervention is needed from the Honorable Dennis Lebel, Minister for Transport and the Honorable Stephen Fletcher, Minister of State for Transport and the senior level of government to continue negotiations for a fair and comprehensive agreement on all matters regarding the purchase of our property and relocation to replacement premises to continue operating our duty free business.

In over 2 years, no written comprehensive offer on all matters has ever been presented by the St. Marys River Bridge Company(SMRBC), a wholly owned subsidiary of the Federal Bridge Corporation Limited(FBCL), a federal crown corporation. The property owner, 1415492 Ontario Inc. and 659855 Ontario Inc., the duty free business operator, have submitted two comprehensive proposals for consideration(July 7, 2010 and May 6, 2011).

The property owner, the duty free business operator and we personally are concerned regarding the manner of negotiations with the SMRBC and FBCL for the purchase of our lands and buildings and the relocation of our business to replacement premises, and the threat to not renew our access rights agreement as previously committed to and eliminating the duty free store from the re-development project. The threat, if followed through, to not renew our right to access the international bridge and elimination of the duty free store from the bridge plaza is considered an unfair tactic and in our view not necessary at all, and detrimental to everyone.

We are told that an alternate plan has been developed by the decision to not acquire three remaining residential properties, that reduces the size of the bridge plaza, and as our property is still required for the re-development, eliminates the duty free store from the plaza. The ”holdout” residential properties are located between our property and properties already acquired by the bridge company, that now cannot be used unless the 3 residential properties are acquired.

We respectfully ask that negotiations continue in order to arrive at a fair comprehensive agreement for the purchase of our lands and buildings and the relocation to a replacement building to continue our duty free business that we established from its infancy some 23 years ago. It is reasonable to expect to be treated fairly and in a businesslike manner.

We believe that the federal government wants to foster and promote private investment and involvement in its stimulus projects initiated across the country, including the re-development of the Bridge plaza at Sault Ste. Marie.

It would be shocking, inappropriate and damaging to the interests of both parties, our employees, the travelling public, the community, the generation of Revenue for Canada, etc. if access was interfered with for the Canadian Duty Free Store or the Canadian Duty Free Store

was eliminated from the bridge plaza. It is important to note that a duty free store (Duty Free of Americas) operates on the U.S. side of the bridge plaza and today there exists 29 Canadian duty free shops at virtually every crossing into the U.S. from Canada.

We have asked that the Honorable MP Bryan Hayes help resolve the matter.

Sincerely,

Jeffery Law and Ralph Caria

Federal Bridge Corporation Limited(FBCL)- federal crown corporation responsible for Canadian portion of international bridge

St Marys River Bridge Company Limited (SMRBC)- subisidiary of FBCL

659855 Ontario Inc.- duty free licence operator
- Shareholders are Jeffrey Law and Ralph Caria

1415492 Ontario Inc.- owner of lands and buildings that duty free operator occupies
- Shareholders are Jeffrey Law, Ralph Caria, Rosa Celetti, 1415493 Ontario Inc., 1415494 Ontario Inc.

1415493 Ontario Inc.- family holding company, shareholders are Ralph Caria, Shirley Caria, Kristin Caria, Laura Caria, Melissa Caria and Matthew Caria

1415494 Ontario Inc.- family holding company , shareholders are Jeffrey Law, Mickie Law, Jennifer Law and John Jeffrey Law

The Canadian Duty Free Industry

Under the Customs Act, the CBSA licenses duty free shops
29 Duty Free Shops

Mandate

Increased Economic Activity for Canada

As the Last Point of Contact, provide a
Positive impression to Departing Travelers

(Our Employee Awarded 2011 Outstanding
Customer Service Award from the FDFA)

Economic Benefits

Generation of Revenue for Canada

Attract U.S. Tourists/promote tourism

Sale of Canadian Products

Balance of Trade Impacts

Employment, Investment, Spending, etc.

Public Popularity (low prices, amenities)

Repatriate Sales

Attract sales away from U.S. duty free shops
& U.S. retailers

Legal & Regulatory Safeguards

Strategic Review on-going Consultations

Ease CBSA administration

More industry autonomy

Investment

Over the past 23 years we have invested much time, resources and monies to establish and develop our duty free business. We took the risk when the industry was in its infancy and have stayed the course during the good and bad times.

Investment in lands & building	$3.0 million
Investment in equipment and operating business	.8 million
Total investment	$3.8 million
Present outstanding loans	$1.8 million

Access Fee

To date, we have paid a total of $4.2 million as reflected on the attached schedule for the right to access the international bridge.
The access fee is based on incremental percentages of sales volumes. Accordingly, the more traffic that uses the international bridge the more that is paid in access fees.
With the challenging economic conditions in the U.S. the past 4-5 years, bridge traffic has declined and accordingly our sales have decreased. However, the construction and expansion of a new bridge plaza indicates confidence about the future and that traffic will increase once the economy recovers.

Background

1. We have operated our duty free business since 1987.
2. Our present 5 year duty free licence is valid until December 31, 2013 and its reasonable to expect renewal at that time.
3. Included with the Applicant Guide in 1986 was the International Bridge Authority's requirement that the lands they specified adjacent to the International Bridge were the only lands allowed to operate an on-site sterile cash and carry duty free operation.
4. These specified lands were acquired to facilitate an on-site duty free operation.
5. At every other international bridge crossing in Canada, the bridge authority provided the land to the operator. In some cases, the bridge authority even provided the building, and in other cases, the building was financed by the bridge authority and the operator repaid the cost of the building over an agreed period of time (i.e. 20 years etc) At the Sault Ste. Marie International Bridge, there was no land on the bridge, thus we had to acquire the land adjacent to the bridge as specified by the International Bridge Authority.
   Accordingly, our subject property is unique, in that it is the only duty free store at an international bridge crossing in Canada that <u>is not located</u> on property owned by a Bridge Authority.
   This unique aspect results in an extra cost burden for us.
   Sault Ste. Marie: operator pays for building <u>and land</u> and % access
   Other Bridges: operator pays for building and % access
   For example, at Pennisula Duty Free, at Niagara Falls, Ontario, after the re-development of the bridge plaza is completed, the operator pays an <u>agreed</u> cost for the building over 20 years and % access.
   It is an agreed cost as the operator was given a $1 million credit since the operator had invested in renovations in the year 2000.

6. The duty free operator has been provided ingress and egress rights to the international bridge for our customers to enter and exit from our property. This access was included in the original application and provided to the successful applicant.
7. The duty free operator can not conduct its duty free business without access to the international bridge from its private property.
8. Our property has a site specific special zoning provision that permits the present duty free operations usage.
   No other property has this zoning, nor can have this zoning under the <u>existing bridge</u> plaza set-up.

Time Line July 2007 to Present

July 2007 – We request the Access Renewal for the 10 year access licence expiring December 31, 2007 of International Bridge Authority's General Manager, Phil Becker. We also request that consideration be given to adjusting our access percentages so it recognizes the decline in bridge traffic volume in a depressed economy.
The Operator would welcome an appraisal to determine a fair and equitable access fee given the depressed economic conditions.

August 2007 – International Bridge Authority's General Manager informs operator that the Board will not consider any adjustment in access percentages at this time and a 5 year renewal lease will be provided at the existing access percentages.

September 2007 – A 5 year (January 1, 2008-December 31, 2013) Right of Access Licence Agreement is finalized by the International Bridge Authority and forwarded to operator, with comment it was sent to Ottawa so FBCL can do a final review.

September, 2007
October, 2007 – We are provided a one-year renewal (January 1, 2008-December 31, 2008) agreement with an option for a one-year renewal, since there will likely be a redevelopment of the Canadian Bridge Plaza
In addition, we are provided an agreement that if redevelopment of the Canadian Plaza is deferred beyond the two years, the existing lease will be extended for one-year terms until redevelopment is completed.

November, 2007 – Canada Border Services Agency renews the licence for a duty free shop to 659855 Ontario Inc. for the period November 25, 2007 to December 31, 2008.

December, 2008 – Canada Border Service Agency renews the licence for a duty free shop to 659855 Ontario Inc. for 5 years (January 1, 2009 – December 31, 2013)

September, 2009
to
April, 2010 – Meeting held with Phil Becker, General Manager of International Bridge Authority and Judy Luzzi, Appraiser, both representatives of the SMRBC. Phil Becker provides that they want to maintain on-going business relationship with us into the future in the new Bridge Plaza. SMRBC will "buy our property and build a new building to lease to us."

Phil Becker provides that a “turn-key store to be handed to us” and “they will make it simple for us” and “all relocation costs will be covered”.

Judy Luzzi provides her Current Value Opinion report.
We inform Phil Becker and Judy Luzzi that our corporate investment in land, buildings, equipment is some $3.4 million and the corporate liability remaining is some $2.0 million.

Judy Luzzi in phone conversations indicated we have made some useful points in our discussions to date and she has had further discussions with an Expropriation lawyer. Accordingly, Judy states she is going to revalue the land and building. She further states that her initial value was a “low ball” offer.

May 14, 2010 – Judy Luzzi at meeting attended by Phil Becker, Jeff law, Ralph Caria and Lincoln North (Advisor) informs us that “she has been authorized and instructed by the SMRBC Board to offer $2.2 million for our land and building and $100,000 for our house” (warehouse)

We agreed to accept the offer provided we receive a fair agreement going forward with a long-term lease renewal since we are incurring a loss on our investment and we are giving up the benefits enjoyed from ownership of our property.

May 21, 2010 – Meeting attended by Phil Becker, Judy Luzzi, Peter Petainen(Accountant for International Bridge Authority), Glen Hewus, Jeff Law, Ralph Caria, Lincoln North

Judy Luzzi re-affirms the $2.2 million offer for our land and building and that the SMRBC Board is agreeable to a 20 year term with renewal options.

Glen Hewus indicates that due to delays in acquiring the required residential houses, we may have to operate the duty free business in temporary premises (trailer) for a period of time.

Glen Hewus indicated that we still need to pay for the right of way fee and a rent for the building.

Glen Hewus suggests an alternative option would be for us to pay for the building and turn it over after 25 years.

Glen Hewus and Phil Becker confirm that the separate kiosk can be worked into the plan. They will send us an updated layout of the planned project.

Glen Hewus requests that we outline our position and what we expect and get back to Judy Luzzi.

July 7, 2010 – The letter that was requested outlining our position in a comprehensive proposal is forwarded to Glen Hewus and Judy Luzzi.

November 30, 2010 – We have initial discussions with Stephen Waque (contacted November 24, 2010 as we had not heard back in regards to our July 7, 2010 letter)

December 6, 2010 – Letter from Micheline Dube, President of FBCL acknowledges the receipt and review of our July 7, 2010 submission.

December 14, 2010 - Access Licence provided for only three-month term (January 1, 2011 – March 31, 2011), with possible quarterly renewals, notwithstanding the fact that commitments of one-year renewals were made until redevelopment was completed.

December 16, 2010 – First meeting with Mr. Larry Seary, new representative for SMRBC and James MacIntyre, Board member and negotiator for SMRBC. Larry Seary indicates that he is here for fact-finding to help facilitate a negotiated settlement on all matters.

January 27, 2011 – Second meeting with Mr. Larry Seary and James MacIntyre. Larry Seary re-iterates he is continuing his fact finding and clarifies that he has not been authorized to negotiate but just to fact find.

February 16, 2011 – Stephen Waque meets with Larry Seary, James MacIntyre, Bob Brick and John Hammond, both with Public Works and Government Services Canada . Informed that negotiations will occur between Stephen Waque and Public Works and Government Services Canada officials Bob Brick and John Hammond, both representing SMRBC and FBCL, going forward.

May 6, 2011 - Stephen Waque provides a comprehensive proposal to try and reach a negotiated agreement pursuant to the request from John Hammond.

June 22, 2011 – Meeting scheduled in Sault Ste. Marie with SMRBC and FBCL Board members, Bob Brick, John Hammond, Stephen Waque, Ian Mathany, Ralph Caria, however, SMRBC & FBCL officials did not attend.

July 2011- The Operator provides additional answers and information on specific questions on certain costs (interior fitting costs, relocation costs, professional costs to date, temporary shutdown costs).

August 2011- SMRBC and FBCL forward a partial offer with some qualifications. The offer is not comprehensive as it does not address all the issues.

November 8, 2011- Stephen Waque writes a letter to the Honourable MP Bryan Hayes seeking assistance in the direction to take.

December 19, 2011- Stephen Waque meets with the Honorable MP Bryan Hayes to convey his concerns on behalf of the property owners and follows up with a letter.

Mr. John Hammond verbally advises Stephen Waque that an alternative plan has been developed that reduces the number of properties required for the re-development and eliminates the duty free store from the plaza. Mr. Hammond verbally offers $1.1 million for our lands, buildings, professional fees, value of our business on the condition the SMRBC is able to acquire a 3rd property that is also required. Furthermore, he verbally states that the SMRBC will not renew the right of access licence agreement beyond March 31, 2012.

December 20, 2011- Ralph Caria speaks with the Honorable MP Bryan Hayes to express personally the concern regarding the manner of negotiations with the SMRBC and FBCL for the purchase of our lands and buildings and the relocation of our business to replacement premises and the SMRBC and FBCL 's threat to not renew the access rights licence agreement beyond March 31, 2012, and the elimination of the duty free from the redeveloped bridge plaza. We ask that he become involved and intervene on our behalf and help resolve the matter.