



Right this way



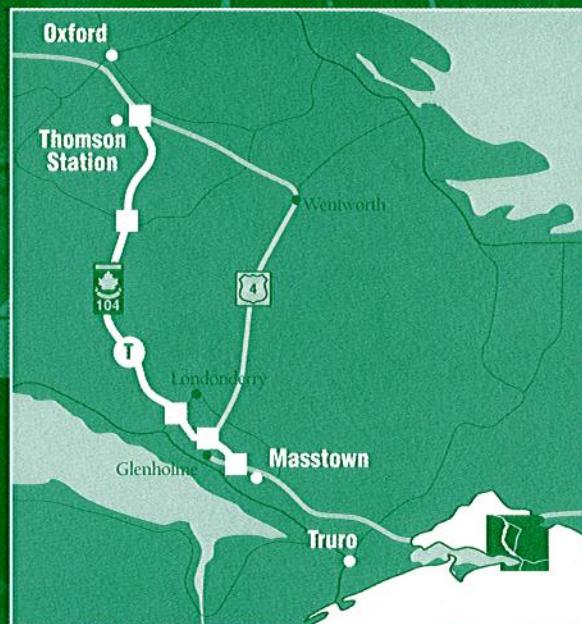
“Smooth, swift, scenic ...
It is a joy to drive.”

Chronicle Herald, November 15, 1997

Highway 104 Western Alignment Corporation
Annual Report 1997/1998

The Overview

- 45 kilometres between Masstown and Thomson Station
- Twinned, four-lane
- Wide median: 22.6 metres
- 110 km/hour
- Five full interchanges
- Six major bridges
- Five large tunnels under the road for access to land parcels, snowmobile trails and wildlife passages
- 18 kilometres of access roads
- Constructed by Atlantic Highways Corporation, a subsidiary of Canadian Highways International Corporation, in 20 months
- Opened November 15, 1997, two weeks ahead of schedule (A national industry publication called Cobequid Pass the fastest highway ever to be designed and constructed in Canada.)
- Average daily traffic, cars: 4000, 125 per cent over forecasts
- Average daily traffic, trucks: 1700



- Alignment location
- Interchange locations
- Ⓢ Toll Plaza location



Lee Rankin, President,

Highway 104 Western Alignment Corporation

Cobequid Pass was built for safety, and although its existence is a remarkable achievement for many reasons, the fact no major accidents have occurred on either the old or new road after six months in operation is evidence the highway is proving itself.

Creating the Highway 104 Western Alignment Corporation was key to creating Cobequid Pass. Unique to infrastructure financing in Canada, the Corporation is neither a Crown corporation, nor an agent of the Crown. Its sole purpose is to manage the financing, design, construction, operation and maintenance of Cobequid Pass.

With the design and construction complete, the Corporation moved into new quarters last January, and added financial staff and capabilities. The work of managing toll revenues over the next 30 years, the schedule set to repay investors and fund annual and long term maintenance, began. The Corporation's sole source of revenue are tolls.

Because the funding for Cobequid Pass flows only through the 104 Corporation, the highway's debt does not belong to the province of Nova Scotia, nor does the province guarantee the debt. However, because public monies are involved in the highway's financing, and because the 104 Corporation is wholly owned by the Crown, its operations may be scrutinized annually by the Auditor General.

Operating independent of government, the 104 Corporation is the entity that permitted non-recourse financing, meaning private investors can lay no claim on government assets or money in the unlikely event toll revenue should fail to provide a return on investment.

This annual report outlines the structure of the Corporation, its operations and accountability and its relation to other partners. From all perspectives, the past fiscal year has been successful.

Don Piercey, General Manager,

Highway 104 Western Alignment Corporation

Cobequid Pass opened for traffic on November 15, 1997, two weeks ahead of schedule after just 20 months of construction.

After six months in operation, traffic volumes for cars are steady at 4,000 a day, 1,500 more than forecast, and truck traffic remains on target at 1,700 a day. Over 9,000 transponders, the electronic devices that automatically deduct tolls from a pre-paid account, have been sold, close to triple the number anticipated.

For business, Cobequid Pass is providing a tangible benefit: a fast, efficient and safe route to bring goods and services in and out of Nova Scotia, east to international shipping lines and west to major markets. For others, there are now two safe routes through the Wentworth Valley, making the drive relaxed and offering some of the province's best scenery.



In addition to financial statements, this annual report provides a detailed explanation of where toll revenue goes (see pages 4 and 5) to meet the obligations of the bondholders, the noteholders, the province of Nova Scotia, and to fund maintenance.

Staff of the 104 Corporation are happy to answer questions. Please feel free to contact us at the numbers listed on the back.



Administration and Accountability

Administration

One of the Corporation's primary administrative responsibilities is ensuring toll revenue is collected and distributed according to the agreements signed by the government of Nova Scotia, Atlantic Highways Corporation, Newcourt Credit Group, the bondholders' representative, the Nova Scotia Department of Finance as the noteholders' representative, and the 104 Corporation.

This responsibility includes maintaining budget control, issuing payment directives, and ensuring that parties to the agreements are meeting obligations in a timely fashion. It also means keeping communication lines open and direct between all parties.

The administration of the Highway 104 Western Alignment Corporation is led by its General Manager, Don Piercey, who has operated in this capacity since construction began, and by the Financial Services Officer, Athena Galatis, an employee of the Corporation since the highway opened. Catherine Istchenko provides support.

Accountability

The financial activities of the Corporation are carefully scrutinized by its auditors Grant Thornton (formerly Doane Raymond) and by Newcourt Credit.

Detailed reports of the highway's operation are given to the Deputy Minister of the Department of Transportation and Public Works, and he in turn informs the Minister of Transportation and Public Works as the owner. The Minister is well equipped to respond to questions from the public, Cabinet, the Priorities and Planning Committee, Members of the Legislative Assembly, and the media, as is the Corporation's General Manager.

The Highway 104 Western Alignment Corporation is represented on the Department of Transportation and Public Works Steering Committee, and meetings are scheduled regularly with Atlantic Highways Management Corporation executives at the toll plaza.

The Auditor General of Nova Scotia has the right to review the 104 Corporation's activities annually.

Maintenance

With a budget of \$650,000, the Department of Transportation and Public Works provides maintenance on Cobequid Pass under the terms of the Annual Maintenance Agreement. To date, most work on Cobequid Pass has been snow and ice removal, and line painting.

As with all major projects, the first few months in operation exposed some problems, most related to snowplowing. A series of earlier-than-normal snowstorms gave the Department an opportunity to review the location of its snow berms and make improvements where necessary, as well as meet the unexpected need for an additional snowplow in the Cobequid Pass fleet.

Other minor repairs to Cobequid Pass — fixing break-ups and one major bump in the Truro-bound lane — were made under the Atlantic Highways Management Corporation's three-year warranty at no cost to the province.

Five large tunnels under the highway provide access for landowners, snowmobilers and wildlife.



The Highway 104 Western Alignment project represents one of the government's first major experiences with public-private partnering. We have observed that there are advantages in the use of this approach, including the sharing of project risk, the leveraging of private-sector expertise, and the mobilization of greater amounts of physical and financial resources towards a project.

Report of the Auditor General, Nova Scotia, 1996

Atlantic Highways Management Corporation

The toll operations are run by Atlantic Highways Management Corporation (AHMC), a subsidiary of the contractor, Atlantic Highways Corporation (AHC). Both are owned by Canadian Highways International

Corporation (CHIC). AHC has guaranteed the highway for three years, an unprecedented warranty period, and any deficiencies will be repaired at their expense.

The toll plaza, located close to the highway's mid-point, employs 23 people, most from the Cumberland-Colchester vicinity. The electronic tolling system links vehicles carrying a

transponder to a computerized account and automatically deducts the toll. Manufactured by SIRIT Inc., the system provides for automatic toll collection and cash transactions with built-in audit capabilities.

CHIC is a consortium of four project management, engineering and construction companies: AGRA Moneco Inc., Ambro Construction Ltd., BFC Construction Corporation, and Dufferin Construction Company, a division of St. Lawrence Cement Inc.



**ATLANTIC
HIGHWAYS
CORPORATION**



**CANADIAN
HIGHWAYS
INTERNATIONAL
CORPORATION**



The toll plaza employs 23 people, most, like Pauline Kenny and Dan Bedard shown here, are from the Cumberland-Colchester area.





How Cobequid Pass and its ongoing maintenance are

The terms of the agreement between the partners detail how toll revenue is used to repay investors, cover toll operations, and fund long and short term maintenance.

Cobequid Pass is the only highway in Nova Scotia that required only a relatively small initial investment from governments, and that covers the cost of its own maintenance over a 30-year period.

During Construction

During construction, in the absence of toll revenue, investors paid for much of the cost under a detailed plan to defer return until the highway opened and toll collection began.

The sources of funding during the \$112.9 million construction phase were:

Funding	Amount	Provided by
Senior Bond Issue	\$51.0 million	Newcourt Credit
Junior Bond Issue	\$9.9 million	Newcourt Credit
Subordinate Notes	\$5.5 million	Province of Nova Scotia
Equity	\$1	Province of Nova Scotia
Interest Earnings		From all investments and bank accounts
Federal Funding	\$27.5 million	Government of Canada
Provincial Funding	\$27.5 million	Government of Nova Scotia

During construction, all sources of funding, except the Subordinate Note proceeds, were deposited into the Construction Trust Account.

The Construction Trust Account was used:

- To pay AHMC's construction costs
- To pay interest on the provincial line of credit established to help finance the project
- To pay professional and consulting fees as required, and only as related to the construction phase of the project
- To establish the Debt Service Reserve Account with an initial contribution of \$500,000 (see below)

After Construction

The Project Account was established near the completion of the construction phase to:

- Pay the 104 Western Alignment's ongoing administrative costs
- Pay operating and maintenance costs for Cobequid Pass

Every month, the 104 Corporation transfers any cash balance from the Project Account into the Capital Reserve Account. By agreement, the Project Account keeps only a balance equal to two months of its operating/administrative budget.

The sources of cash for the Project Account are:

- Toll revenue
- Any cash not used during construction
- Other revenue generated during the regular course of the project

The Capital Reserve account is used to:

- Pay Trustee fees
- Pay accrued unpaid interest
- Pay senior bond debt and junior bond debt as per scheduled quarterly repayment dates
- Meet the minimum funding requirements of the Debt Service Reserve Account if required. (The Debt Service Reserve Account must be funded at one full year of Senior Debt Payments, according to the amortization schedule, at any given time.)
- Meet the funding requirements of the Major Maintenance Reserve Fund (see page 5)
- Pay the principal and interest on the Subordinate Notes once the project's Senior Debt Coverage Ratio exceeds 1.6:1 (see page 5)
- Pay the Province, once the Noteholders are paid in full.

The sources of cash for the Capital Reserve account are:

- The Project Account: All monies in excess of two months operating and administrative budget are deposited to the Capital Reserve Account
- All excess funds in the Debt Service Reserve Account (DSRA). The DSRA, on any given bond principal and interest payment date, can only hold the scheduled Senior bond repayments for the following 12 month period.

funded

Subordinate Notes

The Subordinate Notes are also a source of revenue for expenditures incurred after construction. The proceeds of this issue were used to fund:

1. Major Maintenance Reserve Fund (MMRF)	\$ 500,000
2. Debt Service Reserve Account (DSRA)	
Additional contribution	<u>\$5,000,000</u>
Subordinate Notes = MMRF + DSRA	\$5,500,000

Senior Debt Service Coverage Ratio (DSCR)

The Senior Debt Service Coverage Ratio must be 1.2:1 at any time during the first 36 months after December 31, 1997, the Date of Acceptance, and 1.3:1 at any time after the 36th month after the Date of Acceptance.

If the Senior Debt Service Ratio is larger than 1.3:1 but less than 1.6:1 then all funds in excess of expenditures and bond repayment are accumulated in the Capital Reserve Fund where they are placed in permitted investments.

If the Debt Service Ratio is greater than 1.6:1 then the Subordinate Noteholders can begin to receive payment on a pro

rata basis. Once the Subordinate Noteholders are paid in full and the Debt Service Coverage Ratio is maintained at greater than 1.6:1 then excess cash would be paid to the province.

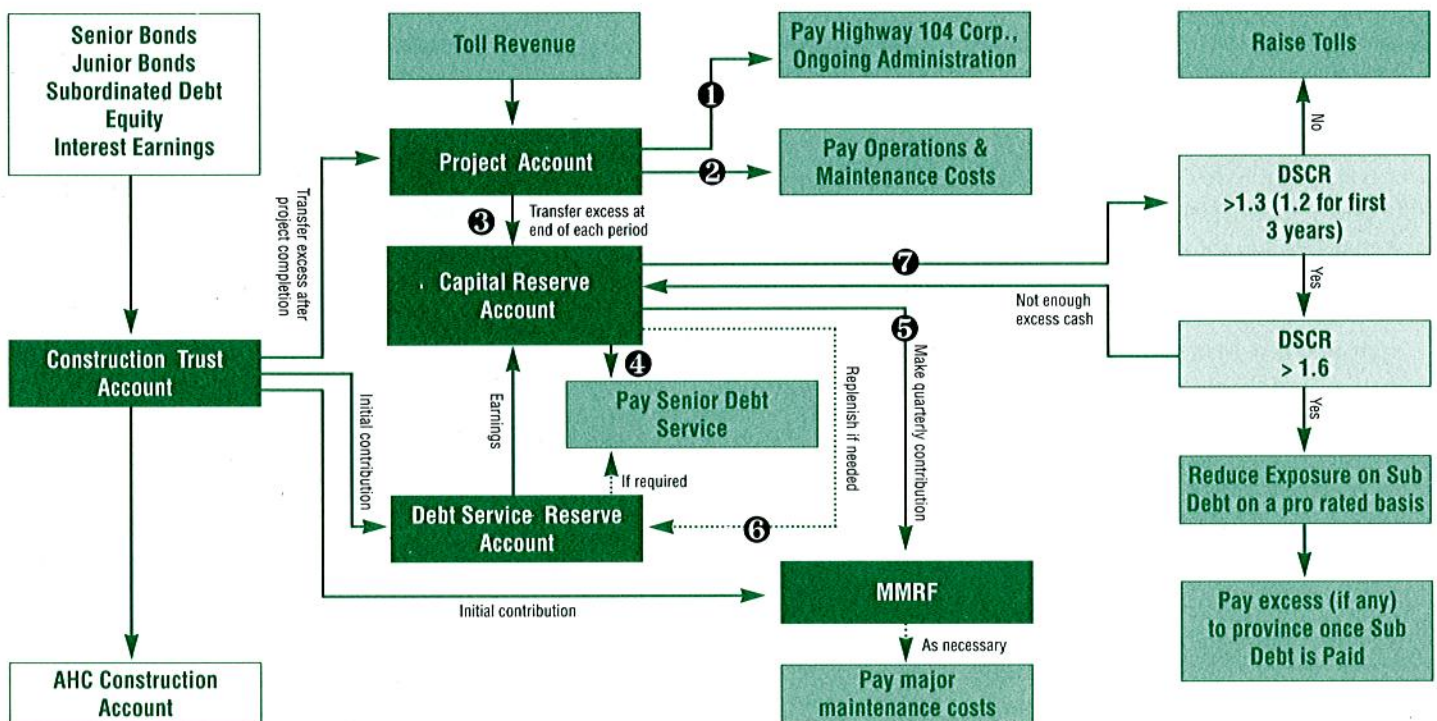
Major Maintenance Reserve Fund (MMRF)

The Major Maintenance Reserve Fund ensures that once the three-year warranty runs out on the highway there are funds available to pay for major maintenance costs.

The first contribution to the MMRF fund came from the Subordinate Notes which were issued in November 1997. This was a total amount of \$500,000. The next contribution is scheduled for the first quarter in 1999 and will continue quarterly. Future contributions to the MMRF will come from the Capital Reserve Fund.

This project has been lauded nationally and internationally for its innovative financing and risk-sharing design. *Privatization International Infrastructure Yearbook*, London, England, called it the North American Deal of the Year, and articles praising the financing ran in the publications *Infrastructure Finance*, and *Project and Trade Finance*.

Cash Flow Diagram



Junior Debt Service processes have been omitted for clarity

Auditor's Report

To the Shareholder of Highway 104
Western Alignment Corporation

We have audited the balance sheet of Highway 104 Western Alignment Corporation as at March 31, 1998, and the statements of loss and deficit and changes in financial position for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as explained in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards. Those standards require that we 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.

As a result of system deficiencies with the Tolling System, we were unable to obtain sufficient evidence with respect to the completeness of operating revenue and the customer account balances for the four month period ended March 31, 1998. Consequently, we were unable to determine whether any adjustments might be necessary to the operating revenue and customer account balances presented in the financial statements.

In our opinion, except for the effect of adjustments, if any, which we might have determined to be necessary had we been able to obtain sufficient evidence regarding the completeness of operating revenue and customer account balances as explained in the previous paragraph, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 1998, and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Grant Thornton

Chartered Accountants
Halifax, Canada
August 14, 1998

Highway 104 Western Alignment Corporation Statements of Loss and Deficit Four Months Ended March 31

	1998
Revenue	
Facility revenue	\$ 2,705,173
Interest income	<u>166,391</u>
	<u>2,871,564</u>
Expenses	
Bondholder representative fees	13,333
Trustee fees	13,118
Salaries and benefits	51,682
Office	18,786
General and administrative	54,146
Enforcement	20,000
Independent engineer	1,753
Routine maintenance	216,668
Facility operations	430,902
Transponders	<u>225,563</u>
	<u>1,045,951</u>
Earnings before other items	1,825,613
Other items	
Government assistance amortization (Note 2)	277,450
Amortization and depreciation	(660,894)
Interest on line of credit	(389,260)
Interest on long term debt	<u>(2,727,547)</u>
Net loss	<u>\$ (1,674,638)</u>
Retained earnings, beginning of period	\$ Nil
Net loss	(1,674,638)
Transfer to reserve for restricted assets (Note 12)	<u>(1,908,808)</u>
Deficit, end of period	<u>\$ (3,583,446)</u>

See accompanying notes to the financial statements.

Highway 104 Western Alignment Corporation

Balance Sheet

March 31 1998 1997

Assets

Project bank account	\$ 1,095,535	\$
Inventory	12,137	
Prepays (Note 3)	214,029	
Receivables (Note 4)	1,198,583	196,962
Loan receivable (Note 5)		3,507,612
Restricted assets (Note 6)	7,929,146	8,102,788
Facility (Note 7)	123,585,732	84,761,733
Deferred costs (Note 8)	<u>1,280,017</u>	<u>900,978</u>
	<u>\$ 135,315,179</u>	<u>\$ 97,470,073</u>

Liabilities

Payables and accruals	\$ 1,168,717	\$ 1,096,616
Deferred revenue	260,090	
Long term debt (Note 10)	80,288,098	67,373,456
Payable to the Province of Nova Scotia (Note 11)	250,000	
Deferred government assistance (Note 2)	<u>55,022,911</u>	<u>29,000,000</u>
	<u>136,989,816</u>	<u>97,470,072</u>

Shareholder's Deficiency

Capital stock, one no par value share issued and outstanding in favour of the Province of Nova Scotia	1	1
Reserve for restricted assets (Note 12)	1,908,808	
Deficit	<u>(3,583,446)</u>	
	<u>(1,674,637)</u>	<u>1</u>
	<u>\$ 135,315,179</u>	<u>\$ 97,470,073</u>

Commitments and contractual obligations (Note 15)
See accompanying notes to the financial statements.

Highway 104 Western Alignment Corporation

Statement of Changes in Financial Position

Year Ended March 31 1998 1997

Cash derived from (applied to)

Operating

Net loss	\$ (1,674,638)	\$
Government assistance		
amortization	(277,450)	
Amortization of deferred financing fees	11,800	
Amortization and depreciation	<u>660,894</u>	
	(1,279,394)	

Change in non-cash

operating working capital (Note 13)	<u>2,612,016</u>	<u>(2,607,958)</u>
	<u>1,332,622</u>	<u>(2,607,958)</u>

Financing

Issue of common share		1
Increase in long term debt	12,914,642	67,373,456
Government assistance	26,300,361	29,000,000
Advance from Province of Nova Scotia	<u>250,000</u>	
	<u>39,465,003</u>	<u>96,373,457</u>

Investing

Decrease (increase) in restricted assets	173,642	(8,102,788)
Construction of facility	(39,446,933)	(84,761,733)
Deferred costs - financing fees		(760,368)
Deferred costs - start up	<u>(428,799)</u>	<u>(140,610)</u>
	<u>(39,702,090)</u>	<u>(93,765,499)</u>

Net increase in cash 1,095,535

Cash

Beginning of year	<u>Nil</u>	
End of year	<u>\$ 1,095,535</u>	<u>\$ Nil</u>

See accompanying notes to the financial statements.

Highway 104 Western Alignment Corporation Notes to the Financial Statements

March 31, 1998

1. Nature of operations

The Corporation has been established for the purpose of financing, design, construction, operation and maintenance of the Facility consisting mainly of a 45 km stretch of highway (referred to as the Highway 104 Western Alignment) between Masstown and Thomson Station in the Counties of Colchester and Cumberland, Nova Scotia.

2. Summary of significant accounting policies

Pre-operating and operating periods - The pre-operating period was the twenty month construction period commencing April 1, 1996 until the date of acceptance in November 1997. Operations began December 1, 1997.

Facility - The Facility consists of the highway referred to as the Highway 104 Western Alignment and the toll plaza constructed on the highway. The costs of the facility include certified progress payments to the Facility's contractor, independent engineer fees, professional fees and interest costs incurred during the pre-operating period. These costs are being amortized over thirty years commencing at the start of the operating period using the sinking fund method with an annual compounding rate of 5%.

Deferred costs - start up - Administrative expenses incurred during the pre-operating period have been deferred as start-up costs and are being amortized to operations, on a pro-rata basis, over a five year period commencing at the start of the operating period.

Deferred costs - financing fee - Financing, commitment and bondholder representative fees related to the establishment and placement of the senior and junior toll revenue bonds have been deferred and are being amortized to operations over the term of the related bond debt commencing at the start of the operating period.

Deferred government assistance - Government assistance provided by the Province of Nova Scotia has been recorded as a deferral and is being amortized to operations over thirty years commencing at the start of the operating period using the sinking fund method with an annual compounding rate of 5%.

3. Prepaids	1998	1997
Operating expenses	\$ 50,421	\$
Advance to operator	163,608	
	<u>\$ 214,029</u>	<u>\$</u>

4. Receivables	1998	1997
Final contract adjustments	\$ 174,795	\$
Provincial contribution (Note 9)	675,637	
Provincial supplemental payments	214,052	
Interest		196,962
Harmonized Sales Tax	<u>134,099</u>	
	<u>\$ 1,198,583</u>	<u>\$ 196,962</u>

5. Loan receivable

Mobilization loan advanced to Atlantic Highway Corporation, non-interest bearing and repayable at a rate of 10% of certified progress payments repaid during the year.

6. Restricted assets

Investments are recorded at cost, have a weighted average term of 8.46 months to maturity and a weighted average interest rate of 4.94%. The market value of the investments approximates the carrying value.

	Cash	Investments	1998 Total	1997 Total
Construction account	\$ 20,338	\$	\$ 20,338	\$ 7,602,498
Senior debt service reserve account	337	5,636,429	5,636,766	500,290
Capital reserve account	319	1,763,989	1,764,308	
Major maintenance reserve account	622	507,112	5,07,734	
	<u>\$ 21,616</u>	<u>\$ 7,907,530</u>	<u>\$ 7,929,146</u>	<u>\$ 8,102,788</u>

The following restricted accounts have been established in accordance to trust indenture agreements between the Corporation and the senior and junior bondholders and an Omnibus Agreement between the Corporation and the Province of Nova Scotia:

(i) The construction trust account included funds held in trust, in accordance with the Construction Trust Agreement, for the benefit of the Corporation and were eligible for withdrawal based on approved payment directives and certified progress payment requests. The residual funds will be transferred to the project bank account.

(ii) The capital reserve account has been established to provide funds to pay the interest and principal on the senior and junior bonds and the subordinated notes. These funds are also available to pay the trustee and bondholders' representative fees to the extent they are not paid out of the project account. This account provides funding to the major maintenance reserve and the senior debt reserve accounts. The capital reserve account is funded from excess funds transferred from the project bank account of the Corporation.

(iii) The senior debt reserve account has been established to provide a reserve of funds to be available for payments as they come due for the senior toll revenue bonds. Funds can only be transferred from this fund when funds in the capital reserve account are insufficient to pay senior toll revenue bond payments. The account should maintain sufficient reserves equal to 12 months principal and interest payments due on the senior toll revenue bonds. The replenishment of the reserve comes from the capital reserve account.

(iv) The major maintenance reserve account has been established for the purpose of paying major maintenance repair and rehabilitation expenses. This reserve is funded from the capital reserve account in accordance with a maintenance budget recommended by the Independent Engineer through the terms of the major maintenance reserve fund agreement.

7. Facility	1998	1997
	Accumulated	Net book
	Cost	Total
Facility	\$124,208,666	\$ 622,934
		<u>\$123,585,732</u>
		\$ 84,761,733

8. Deferred costs

	1998	1997
Start up	\$ 531,449	\$ 140,610
Financing fees	<u>748,568</u>	<u>760,368</u>
	<u>\$ 1,280,017</u>	<u>\$ 900,978</u>

9. Offset of asset and liability

Pursuant to the Omnibus Agreement with the Province of Nova Scotia, the Corporation has drawn on the Provincial line of credit. The outstanding balance on the line of credit has been repaid on April 15, 1998, with a contribution receivable from the Province of Nova Scotia. The Provincial contribution receivable has been offset by the outstanding balance of the Provincial line of credit in the financial statements. The values of the offset amounts at March 31, 1998 are as follows:

	1998
Provincial contribution receivable	\$ 26,000,000
Provincial line of credit	<u>(23,324,363)</u>
	<u>\$ 2,675,637</u>

The Provincial line of credit bears interest at a rate of 4.5% per annum.

10. Long term debt

Senior toll revenue bonds bearing interest at 10.13%, maturing March 31, 2026, repayable in partial interest payments from June 30, 1998 until March 31, 2006 and then 80 equal blended quarterly payments of interest and principal of \$2,251,191. Interest from the date of issue has been capitalized as part of the principal and will continue to be capitalized until June 30, 1998. As security, the Corporation has provided an assignment of all the present and future property and assets, including rights to operate the Facility, a security interest in the Debt Service Reserve Account and the Major Maintenance Reserve Account.

	1998	1997
Junior toll revenue bonds bearing interest at 10.76%, maturing March 31, 2011, repayable in interest payments only from June 30, 1998 until March 31, 2001 and then 40 equal blended quarterly payments of principal and interest of \$503,395. Interest from the date of issue has been capitalized as part of the principal and will continue to be capitalized until June 30, 1998. As security, the Corporation has assigned a second charge security interest in all security pledged to senior toll revenue bondholders.	\$ 62,293,389	\$ 56,364,537
	<u>12,242,063</u>	<u>11,008,919</u>

Subordinated notes bearing interest at 13.4%, interest only is payable monthly out of excess cash, to the extent it is not paid, it will be compounded semi-annually in arrears, quarterly principal repayments are to begin when surplus cash is available. The notes are expressly subordinated and postponed in right of payment to the senior toll revenue bonds and the junior toll revenue bonds.

	1998	1997
	\$ 5,732,646	
	<u>\$ 80,288,098</u>	<u>\$ 67,373,456</u>

Principal repayments will begin in year 2002 and are as follows:

2002	\$ 725,000
2003	\$ 806,000

11. Payable to the Province of Nova Scotia

On the date of acceptance, the Province advanced \$250,000 to the Corporation to facilitate the Provincial subsidy. Under the First Amendment to the Omnibus Agreement, the Province reduced the tolls for transponder users and created a Provincial subsidy payable to the Corporation to offset the reduction. The advance is to be repaid to the Province on the earlier of the date when the toll rates are increased back to the original rates laid out in the Omnibus Agreement or when the Corporation has fully extinguished its obligations under the Senior and Junior Bond Indentures.

12. Reserve for restricted assets

The capital reserve account is to be funded from excess funds in the Project Bank Account. In addition, any interest earned on restricted assets should form part of the reserve account. To date, \$1,908,808 has been transferred from operations of the Corporation.

13. Change in non-cash operating working capital

	1998	1997
Inventory	\$ (12,137)	\$
Prepaids	(214,029)	
Receivables	(1,001,621)	(196,962)
Loan receivable	3,507,612	(3,507,612)
Payables and accruals	72,101	1,096,616
Deferred revenue	<u>260,090</u>	
	<u>\$ 2,612,016</u>	<u>\$ (2,607,958)</u>

14. Uncertainty due to the Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date.

The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the entity, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

15. Commitments and contractual obligations

The Corporation has entered into the following agreements to finance, design, construct, operate and maintain the Highway 104 Western Alignment:

Omnibus Agreement - Agreement dated April 1, 1996, between the Corporation, the Contractor, the Operator and the Province of Nova Scotia to design, finance, construct, operate and maintain the Highway 104 Western Alignment. This agreement acknowledges that the Corporation has entered into a Design Build Agreement and an Operating Agreement to fulfill its obligations to the Province.

Under this agreement, the Province of Nova Scotia retains ownership of the Facility; however, the Corporation is granted the right to operate and collect tolls for a thirty year period, at which time this right will revert back to the Province.

The Province will contribute \$55,000,000 payable as follows: the first \$29,000,000 available April 1, 1996 was released for payment of progress payments; and, the second \$26,000,000 will be available after April 15, 1998 and will be paid to the Corporation only for purposes of repaying the Credit Facility detailed in Note 9 or for paying costs of construction.

Operating Agreement - Agreement dated May 22, 1996 between the Corporation and Atlantic Highways Management Corporation (the Operator) whereby the Operator is required to operate the Facility which includes the toll collection system, toll plaza and the administration building.

Operator compensation is based on the annual operating budget plus a variable fee, subject to adjustment under certain conditions, equal to 10% of the total annual budget.

Major Maintenance Reserve Fund Agreement - Agreement between the Corporation, the Trustee and the Bondholders' Representative to provide for the major maintenance work required during the operating period of the Facility. The Agreement requires the Corporation, on an annual basis, to engage an independent engineer to report on all major maintenance work to be completed in the upcoming year, as well as a major maintenance budget to determine the required annual amount to be deposited in the Major Maintenance Reserve Account.

Annual Roadway Maintenance Agreement - Five year agreement between the Corporation and the Department of Transportation and Public Works of the Province of Nova Scotia to provide annual roadway maintenance services for an annual fee of \$650,000 commencing April 1, 1998 and subsequently adjusted thereafter for inflation.

Financing

Cobequid Pass was built as a public-private partnership that allowed the government to make an affordable financial contribution to build this much-needed highway.

- Construction cost: \$112.9 million
- Provincial contribution: \$27.5 million
- Federal contribution: \$27.5 million
- \$5.5 million in subordinated notes invested from the provincial pension fund
- \$60.9 million provided by the sale of bonds to private investors underwritten by Newcourt Credit Group of Toronto
- Toll revenues over 30 years will provide the investors a return; pay for toll operations; cover the \$650,000 for annual maintenance provided by the Nova Scotia Department of Transportation and Public Works; and contribute to long-term maintenance.
- The money borrowed from the private sector by the Highway 104 Western Alignment Corporation through Newcourt Credit Group is borrowed on the security of tolls and on the financial guarantees of the province.

- \$3 per car; \$2 per axle for trucks over five tonnes, \$4 per recreational vehicle.
- \$40 to buy a transponder, an electronic device mounted on a vehicle to automatically deduct tolls from a pre-paid computerized account.



Top photo: toll plaza during construction May 1997.

Bottom photo is the toll plaza July 1998

Getting to Moncton from Halifax is much faster now — with a full load you can save ten minutes, coming back empty there's a 20 minute saving, enough time to sometimes allow for a local load. There's definitely less wear and tear on your trucks. Overall, it's a positive, particularly when the safety issue is considered. It's hard to gauge costs when you weigh them against human lives.

Paul Bowie, Sales and Marketing Manager, Coastal Bulk Transport



HIGHWAY 104

**Highway 104 Western Alignment
Corporation**

1969 Upper Water St.
Suite 1308
Halifax
Nova Scotia

PO Box 182
Halifax NS B3J 2M4

T 902.422.6764

F 902.422.6401

E western.alignment@ns.sympatico.ca

