

Highway 104 Western Alignment Corporation Annual Report 1998/1999



“Cobequid Pass is a fine highway doing exactly what it was intended to do — move volumes of traffic efficiently and safely. Places like Wentworth can now rediscover a sense of community.”

Wentworth resident, Dianne Powell, Coastal Communities News

Facts at a glance

- 45 kilometres between Masstown and Thomson Station
- Twinned, four-lanes
- Wide median: 22.6 metres
- 110 km/h
- 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. (A national industry publication called Cobequid Pass the fastest highway ever to be designed and constructed in Canada.)
- The 104 Corporation contracts the management of the toll plaza to Atlantic Highways Management Corporation
- Opened November 15, 1997
- Average daily traffic: cars - 5,546; commercial vehicles - 1,515

Oxford

Thomson Station

Wentworth

Londonderry

Glenholm

Masstown

Truro

- Alignment location
- Interchange locations
- Toll Plaza location

Letters to Stakeholders

Lee Rankin, President

Highway 104 Western Alignment Corporation

For the first full fiscal year Cobequid Pass was in operation — the period covered in this annual report — there were no fatalities or serious injuries on the highway.

I remain convinced Cobequid Pass has saved lives. In the last ten years of Highway 104's operation through the Wentworth Valley, 50 people were killed, four in the year before Cobequid Pass opened.

On March 4, the 3 millionth vehicle crossed the toll plaza at Cobequid Pass. This highway was built for safety, and despite the unexpected high volume of traffic, its accident rate remains remarkably low.

Because of Cobequid Pass, there are now two safe roads in and out of the province.

The old highway 104, Trunk 4, has become a quiet, rural road. Several Wentworth residents have commented on the relief they feel waking up to the sound of birds rather than the roar of trucks. Wentworth resident, Dianne Powell, echoed this in Coastal Communities News when she wrote of the "safe road..., quiet classrooms in the school, and children who can bike or walk to work along the road without fearing for life and limb."

The two roads that now lead in and out of the province have not only improved the safety of the drive, but helped restore a community's sense of security.



Don Piercey, General Manager

Highway 104 Western Alignment Corporation

As Cobequid Pass approaches its second anniversary this November, the 104 Corporation continues to receive letters from drivers praising the highway's beauty, efficiency, and safety.

These endorsements are substantiated by traffic statistics: In the past year, passenger traffic averaged 5,546 vehicles per day; commercial vehicles 1,515 vehicles per day.

This is an 11 per cent increase in total traffic over the 1997-98 fiscal year, and a 108 per cent increase over original baseline traffic predictions.

The exceptional performance of the highway has resulted in increased revenue. However, increased revenues also mean additional operational costs for extra toll collection shifts and the administrative costs associated with handling large numbers of customer accounts. Nonetheless, such increased costs are more than met by the increased revenue.

The additional revenues have allowed the Corporation to reduce its exposure to subordinate debt at a rate significantly ahead of projections. The 1998-99 revenues have also meant capital improvements such as modifications to the toll plaza — better advance signing, lighting, fencing and video surveillance — all designed to enhance safety. It is expected that the capital improvements will be completed early in the next fiscal year.

Transponder sales increased from 9,000 units to 13,000 this fiscal year. These accounts now number 8,000 of which 856 are commercial. The Corporation continues to work with other tolling agencies (such as the Halifax Dartmouth Bridge Commission) to explore the use of one transponder and account for most tolling facilities in the Maritimes.

This annual report provides the Corporation's financial statements as well as a detailed explanation of where toll revenues go to meet financial obligations.

Staff of the 104 Corporation are happy to answer any questions you may have. The numbers are listed on the back.




The toll plaza, located at the mid-point of Cobequid Pass, employs 37 people. Most, like Andy Williamson, are from the Cumberland-Colchester area.

Administration and Accountability

Background

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, by statute, is to manage the financing, design, construction, operation and maintenance of Cobequid Pass.

The Corporation's mandate is to manage toll revenues until the year 2026, and maintain the schedule set to repay investors and fund annual and long term maintenance. The Corporation's sole source of revenue is 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.

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 Koros, CMA, an employee of the Corporation since the highway opened. Patricia Belleza provides support.

Accountability

The financial activities of the Corporation are carefully scrutinized by its auditors Grant Thornton and by Newcourt Credit. There should be no impact on any of the agreements if ownership of Newcourt Credit is changed.

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.

Maintenance

With a budget of \$650,000, adjusted annually for inflation, 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.

Repairs made to Cobequid Pass over the past fiscal year include three areas of settlement and pavement rutting at the toll plaza. These were made under the Atlantic Highways Management Corporation's three-year warranty at no cost to the province.

AHMC emphasizes youth activities in its support of local communities. Of note is a mural, painted by the children of Wentworth Elementary School to commemorate their community's history. The mural, billboard size and shown here behind the students, won first prize at the Nova Scotia Heritage Fair in 1999, and was later presented at the National Heritage Fair in Edmonton. Principal Dale Nogler says, "We wouldn't have been able to do this project without the toll plaza's help."

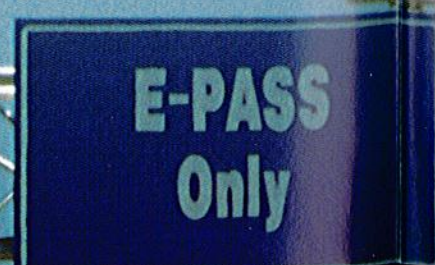
Atlantic Highways Management Corporation

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 are repaired at their expense.

The electronic tolling system managed by AHMC links vehicles carrying a transponder to a computerized account and automatically deducts the toll. Developed by SIRIT Inc., the system provides for automatic toll collection and cash transactions with built-in audit capabilities. Four thousand transponder units were sold this fiscal year.

AHMC employs 37 people at the toll plaza, most from Cumberland-Colchester. The Corporation actively supports local non-profit organizations, particularly those involved in youth activities. AHMC has provided funding to softball and hockey teams, a local school and the Great Village Fire Department.

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.



Higher-than-expected toll revenues have allowed the 104 Corporation to make several capital improvements over the past year. These include new lighting, fencing, signing and, pictured here, additional gantries for better visibility from a distance.

How Cobequid Pass and its ongoing maintenance are funded

Cobequid Pass is the only highway in Nova Scotia that required a relatively small one-time initial investment from governments for its construction. It is also the only highway that covers the cost of its annual and long-term maintenance over a 30-year period.

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.

It's a complex agreement. Here's how it works:

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

Operations

The **Project Account** was established to:

- Pay the Highway 104 Western Alignment Corporation'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
- Investment interest

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) (\$5.5 million in subordinated notes was invested from the provincial pension fund)
- Pre-pay the debt

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.

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 pay down the debt.

Major Maintenance Reserve Fund (MMRF)

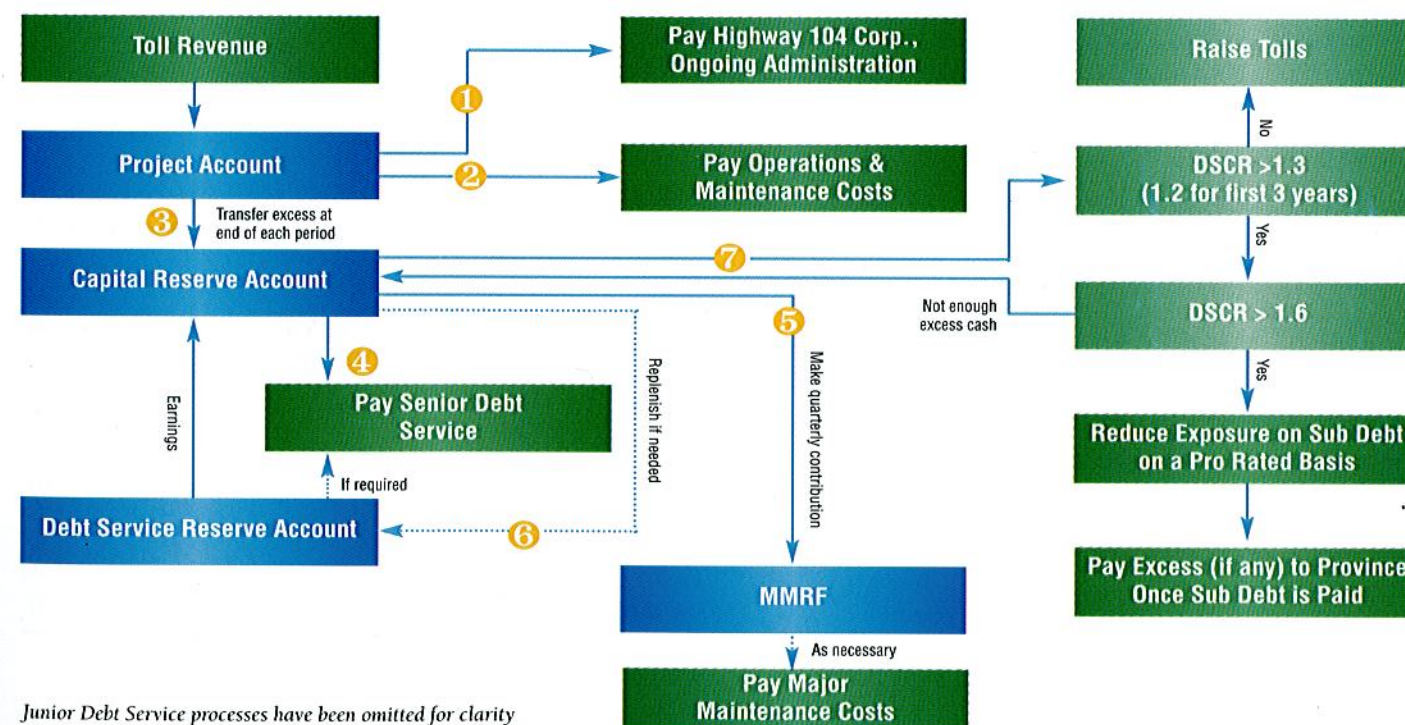
The Major Maintenance Reserve Fund ensures that once the three-year warranty runs out on the highway there are funds available to pay for major maintenance costs such as repaving.

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.



Transponder sales at the toll plaza increased from 9,000 units to 13,000 this fiscal year. The Corporation continues to work with other tolling agencies to explore the use of the of one transponder and account for most tolling facilities in the Maritimes.

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, 1999, and the statements of loss and deficit and cash flows 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.

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.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 1999, and the results of its operations and cash flows for the year then ended in accordance with generally accepted accounting principles.

Grant Thornton

Chartered Accountants
Halifax, Canada
June 18, 1999

Highway 104 Western Alignment Corporation Statements of Loss and Deficit

	Year Ended March 31, 1999	Four Months Ended 1998
Revenue		
Facility revenue	\$ 10,452,829	\$ 2,705,173
Interest income	588,722	166,391
	<u>11,041,551</u>	<u>2,871,564</u>
Expenses		
Bondholder representative fees	110,343	13,333
Trustee fees	43,181	13,118
Salaries and benefits	149,909	51,682
Office	30,669	22,759
General and administrative	121,741	50,173
Enforcement	60,000	20,000
Independent engineer	37,277	1,753
Routine maintenance	650,004	216,668
Facility operations	1,361,015	430,902
Transponders	123,923	225,563
	<u>2,688,062</u>	<u>1,045,951</u>
Earnings before other items	8,353,489	1,825,613
Other items		
Government assistance amortization (Note 2)	846,222	277,450
Amortization and depreciation	(2,013,831)	(660,894)
Interest on line of credit	(47,088)	(389,260)
Interest on long term debt	(8,509,337)	(2,727,547)
Net loss	<u>\$ (1,370,545)</u>	<u>\$ (1,674,638)</u>
Deficit, beginning of period	\$ (3,583,446)	\$ Nil
Net loss	(1,370,545)	(1,674,638)
Transfer to reserve for restricted assets (Note 11)	(2,575,077)	(1,908,808)
Deficit, end of period	<u>\$ (7,529,068)</u>	<u>\$ (3,583,446)</u>

See accompanying notes to the financial statements.

Highway 104 Western Alignment Corporation Balance Sheet

	1999	1998
Assets		
Project bank accounts	\$ 512,103	\$ 1,095,535
Inventory	14,214	12,137
Prepays (Note 3)	192,248	214,029
Receivables (Note 4)	175,180	1,198,583
Restricted assets (Note 5)	10,504,211	7,929,146
Facility (Note 6)	121,907,867	123,585,732
Deferred costs (Note 7)	1,130,701	1,280,017
	<u>\$ 134,436,524</u>	<u>\$ 135,315,179</u>
Liabilities		
Payables and accruals	\$ 1,946,365	\$ 1,168,717
Deferred revenue	447,952	260,090
Long term debt (Note 9)	80,649,045	80,288,098
Payable to the Province of Nova Scotia (Note 10)	250,000	250,000
Deferred government assistance (Note 2)	54,188,344	55,022,911
	<u>137,481,706</u>	<u>136,989,816</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 11)	4,483,885	1,908,808
Deficit	(7,529,068)	(3,583,446)
	<u>(3,045,182)</u>	<u>(1,674,637)</u>
	<u>\$ 134,436,524</u>	<u>\$ 135,315,179</u>

Commitments and contractual obligations (Note 13)
Uncertainty due to the Year 2000 Issue (Note 14)

See accompanying notes to the financial statements.

Highway 104 Western Alignment Corporation Statement of Cash Flows

	Year Ended March 31, 1999	Four Months Ended 1998
Cash derived from (applied to)		
Operating		
Net loss	\$ (1,370,545)	\$ (1,674,638)
Government assistance amortization	(846,222)	(277,450)
Amortization of deferred financing fees	35,434	11,800
Amortization and depreciation	2,013,831	660,894
	<u>(167,502)</u>	<u>(1,279,394)</u>
Change in non-cash operating working capital (Note 12)		
	2,008,617	2,612,016
	<u>1,841,115</u>	<u>1,332,622</u>
Financing		
Repayment of provincial line of credit	(26,000,000)	
Increase in long term debt	360,947	12,914,642
Government assistance Advance from Province of Nova Scotia	26,011,655	26,300,361
		250,000
	<u>372,602</u>	<u>39,465,003</u>
Investing		
(Increase) decrease in restricted assets	(2,575,065)	173,642
Construction of facility	(222,084)	(39,446,933)
Deferred costs - start up		(428,799)
	<u>(2,797,149)</u>	<u>(39,702,090)</u>
Net (decrease) increase in cash	(583,432)	1,095,535
Cash		
Beginning of year	1,095,535	Nil
End of year	<u>\$ 512,103</u>	<u>\$ 1,095,535</u>

See accompanying notes to the financial statements.

Highway 104 Western Alignment Corporation
Notes to the Financial Statements

March 31, 1999

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 Masttown 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%.

	1999	1998
Operating expenses	\$ 27,840	\$ 50,421
Advance to operator	164,408	163,608
	\$ 192,248	\$ 214,029

	1999	1998
Final contract adjustments	\$	\$ 174,795
Provincial contribution (Note 8)		675,637
Provincial supplemental payments	5,855	214,052
Interest	2,724	
Harmonized Sales Tax	85,172	134,099
Other	81,429	
	\$ 175,180	\$ 1,198,583

	Cash	Investments	1999	1998
Construction account	\$	\$	\$	\$ 20,338
Senior debt service reserve account	218	4,515,953	4,516,171	5,636,766
Capital reserve account	775	5,405,195	5,405,970	1,764,308
Major maintenance reserve account	50,773	531,297	582,070	507,734
	\$ 51,766	\$10,452,445	\$10,504,211	\$ 7,929,146

Investments are recorded at cost, have a weighted average term of 3.48 months to maturity and a weighted average interest rate of 4.91%. The market value of the investments approximates the carrying value.

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 were 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 accounts 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.

Facility		1999	1998	
	Cost	Accumulated Depreciation Net book Total	Net book Total	
Facility	\$124,430,751	\$2,522,884	\$121,907,867	\$123,585,732

	1999	1998
Start up	\$ 417,567	\$ 531,449
Financing fees	713,134	748,568
	\$ 1,130,701	\$ 1,280,017

8. Offset of asset and liability

Pursuant to the Omnibus Agreement with the Province of Nova Scotia, the Corporation had drawn on the Provincial line of credit. The outstanding balance on the line of credit was 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, 1999 are as follows:

	1999	1998
Provincial contribution receivable	\$ -	\$ 26,000,000
Provincial line of credit	-	(25,324,363)
	\$ Nil	\$ 675,637

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

9. 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 continued to be fully 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.

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 continued 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.

	12,242,063	12,242,063
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.	4,000,000	5,752,646
	\$ 80,649,045	\$ 80,288,098

Minimum principal repayments required will begin in year 2002 and are as follows:
2002 \$ 725,000 2003 \$ 806,000 2004 \$ 897,000

10. 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.

11. 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 forms part of the reserve account.

	1999	1998
Reserve for restricted assets, beginning of year	\$ 1,908,808	\$
Transfers from project account	10,129,646	1,750,000
Interest income	558,387	158,808
Long term debt payments, including interest	(8,112,956)	
	2,575,077	1,908,808
Reserve for restricted assets, end of year	\$ 4,483,885	\$ 1,908,808

12. Change in non-cash operating working capital

	1999	1998
Inventory	\$ (2,077)	\$ (12,137)
Prepays	21,781	(214,029)
Receivables	1,023,403	(1,001,621)
Loan receivable		3,507,612
Payables and accruals	777,648	72,101
Deferred revenue	187,862	260,090
	\$ 2,008,617	\$ 2,612,016

13. 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 contributed \$55,000,000 to the project.

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. The maximum annual fee is \$50,000.

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 to March 31, 2003, and subsequently adjusted thereafter for inflation.

Other - The Corporation has also entered into various lease agreements for equipment and office space. The minimum lease payments for each of the next four years are as follows:
2000 \$ 19,385 2002 \$ 14,780
2001 \$ 18,574 2003 \$ 4,181

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. Comparative figures

Certain of the amounts presented for comparative purposes have been restated to conform with the financial statement presentation adopted for the current year.

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 not on the financial guarantees of the province.



On March 4, toll plaza staff were poised expectantly to heap prizes on the 3 millionth vehicle on the Pass, only to find two cars arriving in opposite directions at exactly the same time. More surprising, the drivers of each vehicle knew each other from their days in Cape Breton. Both cars received the recognition. Shown here accepting his free transponder is driver Pat Carroll, top left, coach of the North Margaree High School basketball team, with travelling team members. Andrew Hill, bottom, right, accepts congratulations from toll plaza Systems Technician, Bob Myers.



HIGHWAY 104

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