

# Highway 104 Western Alignment Corporation Annual Report 2008-2009



*Maintaining a high standard*



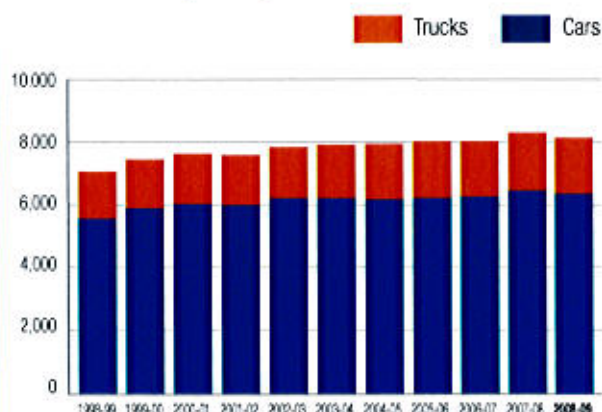
# Facts at A Glance

- 45 kilometres between Masstown and Thomson Station
- Twinned, four-lanes
- Wide median: 22.6 metres
- 110 km/hr
- 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 just 20 months. (A national industry publication called the Cobequid Pass the fastest highway ever to be designed and constructed in Canada.)



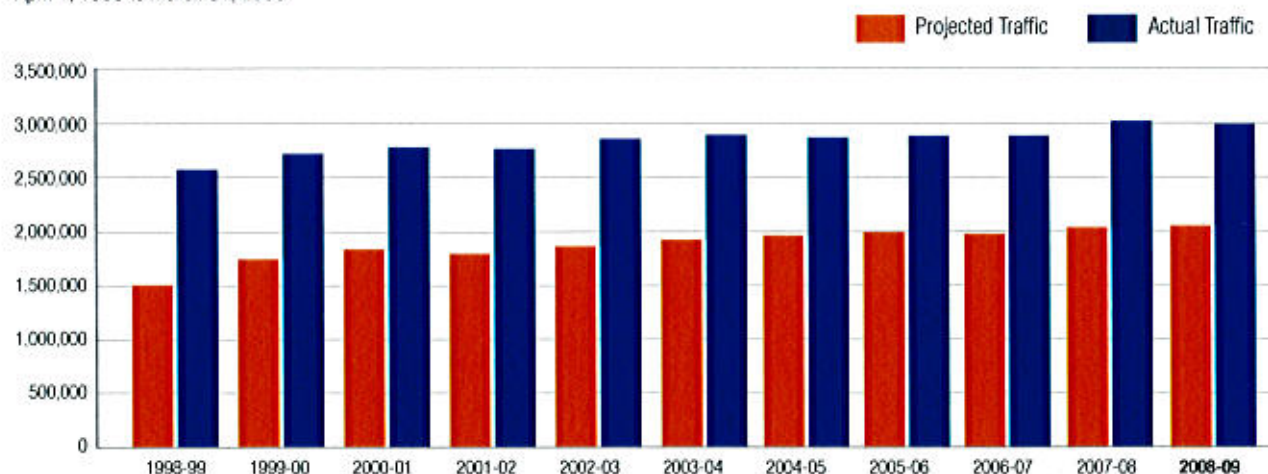
- The Highway 104 Corporation contracts the management of the toll plaza to Atlantic Highways Management Corporation Limited
- Opened November 15, 1997
- Annual average daily traffic for 2008-09: cars – 6,320; trucks – 1,760

**Annual Average Daily Traffic**



**Projected Traffic versus Actual Traffic**

April 1, 1998 to March 31, 2008





# Letters to Stakeholders

## President's Letter

The Highway 104 Western Alignment Corporation has completed its twelfth year of operation in striving to provide the highest level of highway operation and customer service, and this has been a most significant year.

Sound financial management, along with strong traffic volumes on the Pass, has allowed the Corporation to continue to maintain toll rates at 2004 levels.

Working with the toll plaza operator, Atlantic Highways Management Corporation Limited, the Corporation is moving forward with the Toll System Replacement Project, with an anticipated completion date in mid-2009.

The Independent Maintenance Engineer (Delphi-MRC) continues to monitor and update the original pavement renewal strategy and major maintenance contracts are tendered based on this strategy. The law firm of McInnis Cooper support Corporation activities through sound legal advice and CIT Financial, the Bondholder's representative, provide financial oversight on behalf of the Bondholders.

The Corporation and its road maintenance contractor, the Department of Transportation & Infrastructure Renewal (NSTIR), are in the second year of a five year agreement to continue providing summer and winter maintenance on the Cobequid Pass with a Department crew dedicated only to maintenance activities on the Pass.

In September of 2008, the Corporation's management team welcomed a new General Manager Paul Richard, P.Eng. joining Controller Eva Hislop, CMA, and Administrative Assistant Patricia Belleza.

We also welcome a new Government liaison, Bruce Fitzner, P.Eng., as NSTIR continues to provide excellent service to the traveling public by maintaining the Cobequid Pass Toll Road as a first class highway facility.

I wish to thank Don Stonehouse for his support and dedication to the Corporation during his tenure as General Manager. Don made many operational improvements, including development of the Tolling System replacement.

I would like to also thank Al MacRae for his many years of involvement in the planning and operational development of the Corporation and the Cobequid Pass.

Moving forward, the Corporation strives to continue to provide strong financial management and a well maintained roadway for a quality driving experience.

Lee Rankin, P.Eng.  
President

## General Manager's Letter

The Cobequid Pass is a vital link in the Province's highway system, providing a portion of the TransCanada Highway that connects Nova Scotia to the rest of Canada and to the United States. 2.9 million vehicles passed through the Toll Plaza in fiscal 2008-09, of which 78% were cars and 22% trucks. This is a decrease of 2.3% over the previous fiscal year. In comparison to original forecasted traffic, automobile traffic is up 63%, while truck traffic is down 4%. Tolling revenue is down 3.6% over fiscal 2007-08, reflecting decreased traffic volume.

In fiscal 2008-09, the Corporation, with the assistance of the Operator, awarded the tender for the "Toll System Replacement Project" to the IBI Group of Toronto. Detailed system design was completed in the last quarter of 2008/09 with implementation of the system to commence in April 2009. Handover of the new tolling system to the Corporation is scheduled for July 2009.

The Corporation funded \$1.2 million in Major Maintenance during the past fiscal year which covered 14 km of microsurfacing, 50 kms of shoulder graveling and some upgrading of the existing tolling system.

On November 19, 2008 there was an early season snowstorm on the Cobequid Pass which resulted in tractor trailers blocking the roadway leading to approximately 1,100 motorists being stranded on the Pass for most of the night. NSTIR engaged the consulting firm Opus International to review the incident and the resulting Opus report included sixty recommendations to both prevent a recurrence and put measures in place to deal with any future closures of the Pass. The Highway 104 Corporation and NSTIR are working together to implement these recommendations.

This report provides a broad overview of the history and administrative structure of the Corporation, and the traffic and financial operation of the Cobequid Pass for fiscal 2008-09. Regarding the financial statements, the accompanying notes are very important in explaining the financial details.

If you have any questions or comments regarding the Cobequid Pass, we would be pleased to hear from you. The contact information is printed on the back of this report.

Paul E. Richard, P.Eng.  
General Manager





# Administration and Accountability

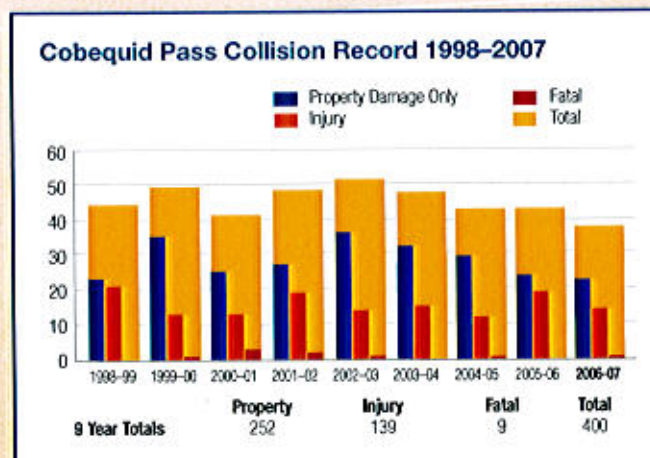
## Background

Creating the Highway 104 Western Alignment Corporation was key to constructing the Cobequid Pass Toll Highway. The Government is the sole shareholder of the Corporation, which is categorized as a Government Business Enterprise. Its sole purpose, by statute, is to oversee the financing, design, construction, operation and maintenance of the Cobequid Pass.

The Corporation's mandate is to manage toll revenue collection, to maintain the schedule to repay investors, and to fund annual and long term maintenance until the debt is fully paid in 2026. The Corporation is financially sustainable and responsible for its own debt, and does not have to rely on a Government debt guarantee. The Corporation's sole source of revenue is tolls.

Because some public monies were involved in the highway's initial financing, and because the Highway 104 Corporation is wholly owned by the Crown, its annual operations may be scrutinized by the Auditor General.

Operating independent of government, the Highway 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.



Data supplied by the Nova Scotia Department of Transportation and Public Works

## 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 and CIT Financial Limited, formerly Newcourt Credit Group, the Bondholders' Representative.

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, Paul Richard, P.Eng. and by the Controller, Eva Hislop, CMA. Patricia Belleza provides administrative and accounting support.

## Accountability

The financial activities of the Corporation are carefully scrutinized by CIT Financial Limited and NSTIR. In addition, the Corporation engages Grant Thornton LLP to provide audit reports in accordance with Canadian Generally Accepted Auditing Standards.

Detailed reports of the highway's operation are given to the Deputy Minister of the Department of Transportation and Infrastructure Renewal on a monthly basis, and he in turn informs the Minister of Transportation and Infrastructure Renewal as the owner. The Minister is well equipped to respond to questions from the public, Cabinet, 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 Infrastructure Renewal's Steering Committee, and meetings are scheduled regularly with Atlantic Highways Management Corporation Limited executives.

The Auditor General of Nova Scotia has the right to review the Highway 104 Corporation's activities, as it did in 1996 and 2002.







## Maintenance

With a budget of \$1,008,000 in fiscal 2008-09, the Department of Transportation and Infrastructure Renewal provided maintenance on Cobequid Pass under the terms of the Annual Maintenance Agreement. The majority of this work consists of snow and ice removal during the winter months. The Department of Transportation and Infrastructure Renewal also performs annual line painting, guardrail replacement and repair, litter removal, and other duties to ensure the highway is maintained at a high standard.

The Corporation funded \$1.2 m in Major Maintenance during the past fiscal year for 14.2 kms of microsurfacing, 50 kms of shoulder gravelling and upgrading the toll system. These works were funded through the Corporation's Major Maintenance Reserve Fund and involved no public monies.

## Atlantic Highways Management Corporation Limited

The toll operations are run by Atlantic Highways Management Corporation Limited (AHMCL), a subsidiary of the contractor, Atlantic Highways Corporation (AHC). Both are owned by Aecon. AHC guaranteed the highway for three years, an unprecedented warranty period, and all deficiencies were repaired at their expense.

The electronic tolling system managed by AHMCL links vehicles carrying a transponder to a computerized account and automatically deducts the toll. Supplied by SIRIT Inc., the system provides for automatic toll collection and cash transactions with built-in audit capabilities.

AHMCL employs 42 people at the toll plaza, most from Cumberland and Colchester Counties. Aecon is an alliance of the project management and engineering firms Ambro Construction Ltd. and BFC Construction Corporation.



# 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.

## 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 Highway 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
- Interest income

### How the agreement works

Funding	Amount	Issued by
Senior Bond Issue	\$51.0 million	CIT Financial Limited
Junior Bond Issue <sup>1</sup>	\$9.9 million	CIT Financial Limited
Subordinate Notes <sup>2</sup>	\$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

Notes:

<sup>1</sup> Junior Bond Issue was retired Sept. 30, 2007

<sup>2</sup> Subordinate Notes were retired Sept. 30, 1999

The Capital Reserve account is used to:

- Pay Trustee fees
- Pay accrued unpaid interest
- Pay senior 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
- 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 equal the scheduled Senior Bond repayments for the upcoming 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. Since project start up the Senior Debt Service Ratio has never been less than 1.6:1.

## Major Maintenance Reserve Fund (MMRF)

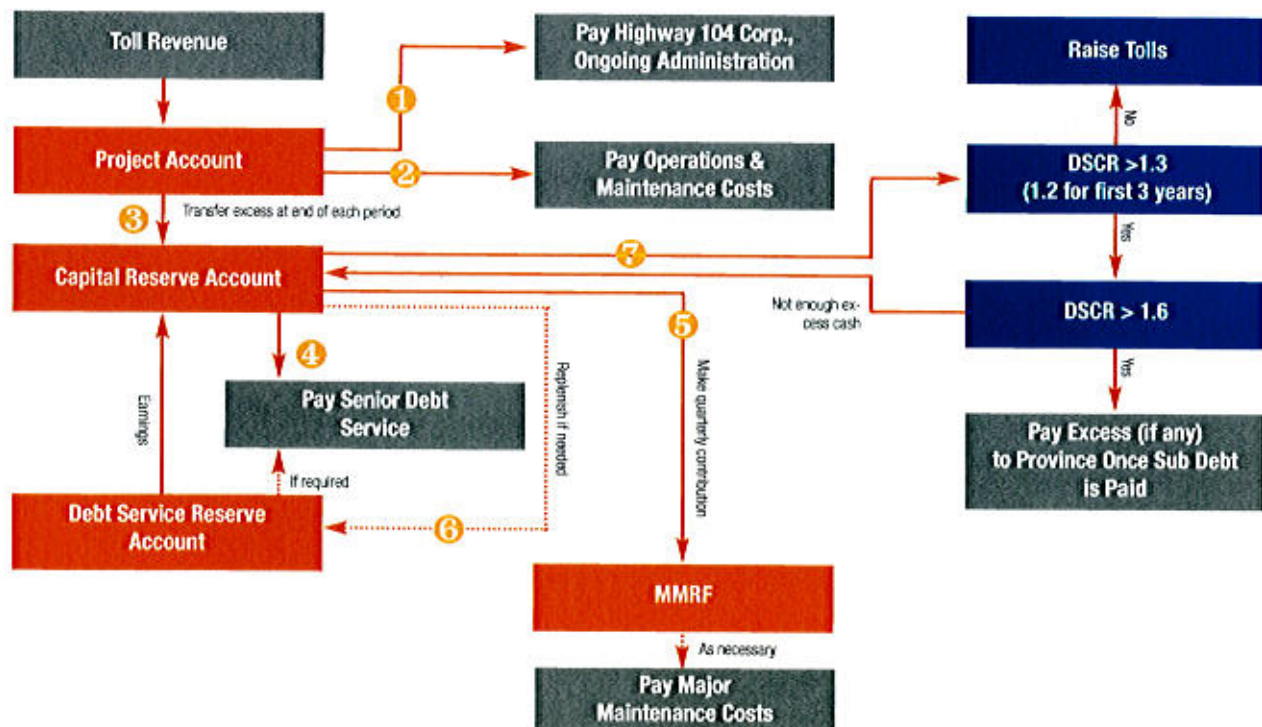
The Major Maintenance Reserve Fund ensures that there are funds available to pay for all major maintenance costs such as repaving.

The first contribution to the MMRF fund came from the Subordinate Notes issued in November 1997. This was a total amount of \$500,000. The Financing Agreements require that specific quarterly contributions be made to the MMRF from the Capital Reserve Fund and these contributions are adjusted annually based on maintenance requirements.





### Cash Flow Diagram





# 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, 2009 and the statements of earnings 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 audits.

We conducted our audit in accordance with Canadian 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, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

*Grant Thornton LLP*

Grant Thornton LLP  
Chartered Accountants  
Halifax, Nova Scotia  
May 14, 2009

## Highway 104 Western Alignment Corporation Statements of earnings and deficit

Year ended March 31

	Budget 2009 (unaudited)	Actual 2009	2008
<b>Revenue</b>			
Facility revenue	\$ 17,138,700	\$ 18,558,183	\$ 18,494,437
Interest income	1,210,000	1,158,500	1,551,546
	<b>18,348,700</b>	<b>19,716,683</b>	<b>20,045,983</b>
<b>Expenses</b>			
Bondholder representative fees	155,700	100,977	117,133
Trustee fees	26,700	22,720	33,222
Salaries and benefits	181,000	176,809	169,879
Office	52,400	50,588	46,280
General and administrative	238,000	133,518	182,364
Enforcement	60,000	60,000	60,000
Independent engineer	50,000	40,814	50,000
Routine maintenance	1,061,500	1,008,000	898,100
Major maintenance	1,540,400	1,184,076	1,405,636
Facility operations	2,240,624	2,290,501	2,065,903
Transponders	30,576	16,568	34,790
	<b>5,636,900</b>	<b>5,084,571</b>	<b>5,063,307</b>
Earnings before other items	<b>12,711,800</b>	<b>14,632,112</b>	<b>14,982,676</b>
<b>Other items</b>			
Government assistance			
amortization (note 2)	1,537,700	1,542,560	1,469,127
Amortization and depreciation	(3,550,300)	(3,487,759)	(3,487,993)
Interest on long term debt	(7,479,200)	(7,483,228)	(8,180,083)
Net earnings	<b>\$ 3,220,000</b>	<b>\$ 5,203,685</b>	<b>\$ 4,783,727</b>
<b>Deficit, beginning of year</b>			
Deficit, beginning of year		\$ (14,243,604)	\$ (17,778,133)
Net earnings		5,203,685	4,783,727
Transfer to reserve for restricted assets (note 9)		(4,699,474)	(1,249,198)
Deficit, end of year		<b>\$ (13,739,393)</b>	<b>\$ (14,243,604)</b>

See accompanying notes to the financial statements.



Highway 104 Western Alignment Corporation  
**Balance sheet**

March 31

	2009	2008
<b>Assets</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 768,424	\$ 609,059
Inventory	6,577	8,061
Prepays (note 3)	427,909	398,172
Receivables (note 4)	723,730	815,669
	<u>1,926,640</u>	<u>1,830,961</u>
Restricted assets (note 5)	38,348,747	33,597,580
Facility (note 6)	95,484,361	97,702,643
	<u>\$ 135,759,748</u>	<u>\$ 133,131,184</u>
<b>Liabilities</b>		
<b>Current</b>		
Payables and accruals	\$ 1,903,362	\$ 1,471,258
Current portion of long term debt (note 7)	1,688,949	1,526,361
Deferred revenue	867,066	861,907
	<u>4,459,377</u>	<u>3,859,526</u>
Long term debt (note 7)	70,659,011	72,348,011
Payable to the Province of Nova Scotia/deferred grant (note 8)	250,000	250,000
Deferred government assistance (note 2)	41,721,066	43,258,752
	<u>117,089,454</u>	<u>119,716,289</u>
<b>Shareholder's equity</b>		
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 9)	32,409,686	27,658,498
Deficit	(13,739,393)	(14,243,604)
	<u>18,670,294</u>	<u>13,414,895</u>
	<u>\$ 135,759,748</u>	<u>\$ 133,131,184</u>

Commitments and contractual obligations (note 12)  
Subsequent event (note 13)

Highway 104 Western Alignment Corporation  
**Statement of cash flows**

Year ended March 31

	2009	2008
Increase (decrease) in cash and cash equivalents		
<b>Operating</b>		
Net earnings	\$ 5,203,685	\$ 4,783,727
Government assistance amortization	(1,537,686)	(1,464,461)
Amortization of deferred financing fees	19,195	84,164
Amortization and depreciation	3,487,759	3,487,993
	<u>7,172,953</u>	<u>6,891,423</u>
Change in non-cash operating working capital (note 10)	500,949	(780,580)
	<u>7,673,902</u>	<u>6,110,843</u>
<b>Financing</b>		
Decrease in long term debt	(1,545,607)	(4,379,710)
<b>Investing</b>		
Increase in restricted assets	(4,751,168)	(1,170,523)
Additions to facility	(1,269,477)	(523,991)
Changes in market value of restricted assets	51,715	(78,671)
	<u>(5,968,930)</u>	<u>(1,773,185)</u>
Net increase (decrease) in cash and cash equivalents	159,365	(42,052)
Cash and cash equivalents, beginning of year	609,059	651,111
Cash and cash equivalents, end of year	<u>\$ 768,424</u>	<u>\$ 609,059</u>

See accompanying notes to the financial statements.



# 1. Nature of operations

The Corporation has been established for the purpose of financing, designing, constructing, operating and maintaining the facility consisting mainly of a 45 km stretch of highway (referred to as the Highway 104 Western Alignment) between Massdown and Thomson Station in the Counties of Colchester and Cumberland, Nova Scotia. The Corporation has been designated a Government Business Enterprise by the Nova Scotia Provincial Finance Act. The Corporation follows generally accepted accounting policies for profit-oriented enterprises.

# 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 commencing at the start of the operating period until March 31, 2026 using the sinking fund method with an annual compounding rate of 5% except as described below.

Included in the Facility are computer equipment costs of \$44,940 which are being amortized over three years under the straight line method.

A new generator put into operation in 2008 is being amortized over the remaining life of the project, ending March 31, 2026.

The Corporation plans to purchase a new tolling system, and new tolling booths. Accordingly, the useful life of those existing assets is being amortized using the straight line method, over the remaining useful life of those assets. The new tolling system is currently under development and therefore no depreciation has been recorded in the year.

**Revenue recognition** – The Corporation recognizes toll revenue at the time a vehicle utilizes the highway. Provincial subsidies, net of rebates in accordance with the First Amendment to the Omnibus Agreement are recognized as facility revenue.

**Deferred financing fees** – 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 financing fees are reflected as a reduction in long term debt.

**Deferred government assistance** – Government assistance provided by the Province of Nova Scotia has been recorded as a deferred 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%.

**Deferred government grant** – Government grant provided by the Province of Nova Scotia has been recorded as a deferred and is being amortized to operations over twenty years commencing April 1, 2007 using the effective interest rate method at an annual rate of 4.5% in accordance with CICA Handbook Section 3855.

**Cash and cash equivalents** – Cash and cash equivalents include cash on hand, balances with banks and short term deposits with original maturities of three months or less with the exception of restricted cash balances which are included in restricted assets. Bank borrowings are considered to be financing activities.

**Use of estimates** – In preparing the Corporation's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the year. Actual results could differ from these estimates.

**Financial instruments** – The Corporation's financial instruments consist of cash, receivables, restricted assets, payables and accruals, amount payable to the Province of Nova Scotia, deferred revenue and long term debt. Unless noted below, it is management's opinion that the Corporation is not exposed to significant interest, currency, liquidity or credit risks arising from these financial instruments.

**Interest rate risk** – The Corporation is not exposed to interest rate risk on its long term debt as it bears interest at a fixed rate.

**Credit risk** – Financial instruments which potentially subject the Corporation to concentrations of credit risk consist of cash and cash equivalents and receivables. The cash equivalents consist mainly of short-term money market deposits. The Corporation has deposited the cash equivalents with reputable financial institutions, from which management believes the risk of loss is remote.

The Corporation has receivables with reputable organizations therefore believes there is no exposure to credit risk.

**Liquidity risk** – The Corporation feels that it has sufficient cash and cash equivalents to meet its financial obligations.

In accordance with Section 3855, financial assets are classified as either held for trading, available for sale, held to maturity or loans and receivables. Financial liabilities are classified as either held for trading or other financial liabilities. All financial assets and financial liabilities are to be carried at fair value on the consolidated balance sheet, except held to maturity financial assets, loans and receivables and other financial liabilities which are measured at cost or amortized cost.

Changes in the fair value of restricted assets were recorded as adjustments to the reserve for restricted assets.

**Future accounting standards** – In February 2008, the Canadian Accounting Standards Board announced that Canadian Generally Accepted Accounting Principles (GAAP) for publicly accountable enterprises will be replaced by International Financial Reporting Standards (IFRS) for fiscal years beginning on or after January 1, 2011. A final determination of publicly accountable enterprises is under consideration by the Accounting Standards Board, therefore, the applicability of these standards to the Corporation is not yet known.

# 3. Prepaids

	2009	2008
Operating expenses	\$ 40,852	\$ 32,422
Advance to operator	387,067	365,750
	<u>\$ 427,919</u>	<u>\$ 398,172</u>

# 4. Receivables

	2009	2008
Harmonized Sales Tax	\$ 126,355	\$ 35,555
Receivable from the Province of Nova Scotia	593,867	777,877
Other	3,508	2,237
	<u>\$ 723,730</u>	<u>\$ 815,669</u>

# 5. Restricted assets

	Cash	Investments	Total	2008 Total
Senior debt service reserve account	\$ 657	\$ 9,297,989	\$ 9,298,646	\$ 9,074,205
Capital reserve account	240	18,294,370	18,294,610	15,360,915
Major maintenance reserve account	-	10,755,491	10,755,491	9,162,460
	<u>\$ 897</u>	<u>\$ 28,347,850</u>	<u>\$ 29,244,747</u>	<u>\$ 23,597,580</u>

Investments are recorded at fair value in compliance with the new accounting standards. Includes accrued interest of \$42,041 (2008 – \$420,944), have a weighted average term of 2.96 (2008 – 10.14) months to maturity and a weighted average interest rate of 0.55% (2008 – 4.33%).

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:

- 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 service reserve accounts. The capital reserve account is funded from excess funds transferred from the project bank accounts of the Corporation.
- The senior debt service 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.
- 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.

# 6. Facility

	Cost	Accumulated Depreciation	2009 Net Book Total	2008 Net Book Total
Facility	\$ 124,918,788	\$ 31,116,096	\$ 93,802,692	\$ 97,278,429
New tolling system	1,483,307	-	1,483,307	213,630
New generator	216,395	18,033	198,362	210,384
Total	<u>\$ 126,618,490</u>	<u>\$ 31,134,129</u>	<u>\$ 95,484,361</u>	<u>\$ 97,702,643</u>

# 7. Long term debt

	2009	2008
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, 2026 and then 80 equal blended quarterly payments of interest and principal of \$2,251,191. The amount by which the interest expense has exceeded interest payments has been capitalized as part of the principal. 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.	\$ 72,347,960	\$ 73,874,372
Less: principal repayments due within one year	<u>1,688,949</u>	<u>1,526,361</u>
	<u>\$ 70,659,011</u>	<u>\$ 72,348,011</u>

Minimum principal repayments for the next five years, net of deferred financing fees, are as follows:

	2010	2011	2012	2013	2014
	\$ 1,688,949	1,868,621	2,067,164	2,266,617	2,529,122

The fair value of the Corporation's long term debt is \$96,389,078 (2008 – \$97,591,506) determined using cash flows discounted at a rate equal to the prevailing market rate of interest for financial instruments having substantially the same terms and characteristics.

# 8. Payable to the Province of Nova Scotia/deferred grant

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 reinstated to the original rates as laid out in the Omnibus Agreement or when the Corporation has fully extinguished its obligations under the Senior and Junior Bond Indentures.

# 9. 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.

	2009	2008
Reserve for restricted assets, beginning of year	\$ 27,658,498	\$ 26,487,976
Transfers from project account	15,142,900	14,355,700
Interest income	1,136,808	1,509,806
Long term debt payments, including interest	(8,004,764)	(12,470,958)
Major maintenance payments, including HST to be recovered	<u>(2,975,470)</u>	<u>(2,145,350)</u>
	<u>4,699,474</u>	<u>1,249,198</u>
	<u>\$ 32,357,972</u>	<u>\$ 27,737,174</u>
Change in market value of restricted assets	-	(38,254)
- Transition adjustment on adoption of new standards	-	(40,422)
- Change in value during the year	<u>51,714</u>	<u>(40,422)</u>
Reserve for restricted assets, end of year	<u>\$ 32,409,686</u>	<u>\$ 27,658,498</u>

# 10. Supplemental cash flow information

	2009	2008
Change in non-cash operating working capital		
Inventory	\$ 1,484	\$ 6,076
Prepaids	(29,737)	(13,556)
Receivables	91,839	(751,617)
Payables and accruals	432,104	(66,897)
Deferred revenue	5,159	45,414
	<u>\$ 500,949</u>	<u>\$ (70,580)</u>
Cash and cash equivalents consist of:		
Cash on hand and balances with banks	\$ 768,424	\$ 609,059
Interest paid	<u>\$ 7,483,228</u>	<u>\$ 8,180,083</u>

# 11. Capital management

The Corporation's objectives when managing capital are for:

- Manage investments to ensure restricted accounts are consistent with trust indenture agreements between the Corporation, bondholders and the Province of Nova Scotia as described in note 5.
- To monitor the budget/forecast on a monthly basis to ensure optimal returns to stakeholders.

# 12. 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.

Facility operations expenses paid to the Operator during the year totalled \$2,290,501 (2008 – \$2,057,677).

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. The agreement with the independent engineer was renewed on November 30, 2008.

The estimated deposits required to fund anticipated major maintenance for the next five years are as follows:

	2010	2011	2012	2013	2014
	\$ 2,898,017	1,600,000	1,500,000	1,175,000	1,040,000

**Annual Roadway Maintenance Agreement** – The thirty 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 is renewable in five year increments and was renewed in the current year. For the upcoming fiscal years, the annual fee of \$1,008,000 will be adjusted annually for inflation.

During the year, the Corporation incurred management fees of \$56,718 (2008 – \$75,583) from the Province of Nova Scotia.

**Other** – The Corporation has also entered into various operating lease agreements for equipment and office space. The minimum lease payments for the next three years are as follows:

	2010	2011	2012
	\$ 27,856	19,372	2,328

# 13. Subsequent event

Subsequent to year-end, a vehicle accident occurred at the toll plaza causing damage to the structure. Estimated costs to repair the structure are approximately \$35,000.

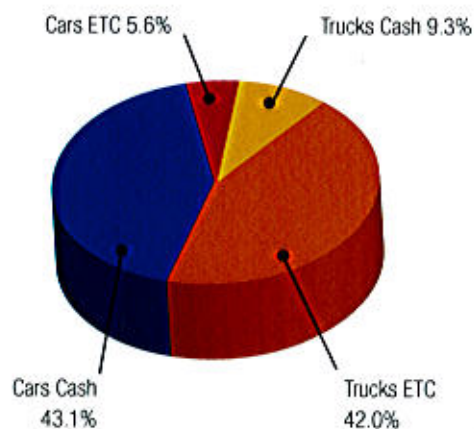


# Financing

- 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 annual maintenance provided by the Nova Scotia Department of Transportation and Infrastructure Renewal in fiscal 2008–09; 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.
- \$4.00 per car; \$3.00 per axle for trucks over five tonnes, \$5.25 per recreational vehicle.
- \$41 to buy a transponder, an electronic device mounted on a vehicle to automatically deduct tolls from a pre-paid computerized account.

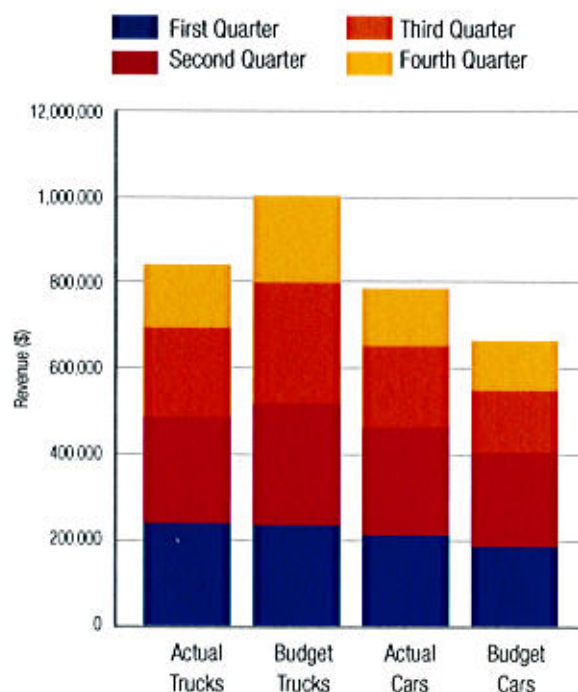
## Cash Toll and ETC Revenue

April 1, 2008 to March 31, 2009 (Audited)



## Revenue Versus Day 1 Projections

For the Fiscal Year Ending March 31, 2009 (Audited)







## **HIGHWAY 104**

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