

Chartered Accountants
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**Highway 104 Western
Alignment Corporation
Financial Statements**

March 31, 1999

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Auditors' 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.

Halifax, Canada
June 18, 1999

Grant Thornton

Chartered Accountants

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	<u>588,722</u>	<u>166,391</u>
	<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	<u>123,923</u>	<u>225,563</u>
	<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	<u>(8,509,337)</u>	<u>(2,727,547)</u>
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)	<u>(2,575,077)</u>	<u>(1,908,808)</u>
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

March 31 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)	<u>1,130,701</u>	<u>1,280,017</u>
	\$ 134,436,524	\$ 135,315,179

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)	<u>54,188,344</u>	<u>55,022,911</u>
	137,481,706	136,989,816

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	<u>(7,529,068)</u>	<u>(3,583,446)</u>
	(3,045,182)	(1,674,637)
	\$ 134,436,524	\$ 135,315,179

Commitments and contractual obligations (Note 13)

Uncertainty due to the Year 2000 Issue (Note 14)

On behalf of the Board

_____ Director

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	<u>2,013,831</u>	<u>660,894</u>
	(167,502)	(1,279,394)
Change in non-cash operating working capital (Note 12)	<u>2,008,617</u>	<u>2,612,016</u>
	<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	26,011,655	26,300,361
Advance from Province of Nova Scotia	<u> </u>	<u>250,000</u>
	<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	<u> </u>	<u>(428,799)</u>
	<u>(2,797,149)</u>	<u>(39,702,090)</u>
Net (decrease) increase in cash	(583,432)	1,095,535
Cash		
Beginning of year	<u>1,095,535</u>	<u>Nil</u>
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 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%.

Highway 104 Western Alignment Corporation

Notes to the Financial Statements

March 31, 1999

3. Prepays	<u>1999</u>	<u>1998</u>
Operating expenses	\$ 27,840	\$ 50,421
Advance to operator	<u>164,408</u>	<u>163,608</u>
	<u>\$ 192,248</u>	<u>\$ 214,029</u>

4. Receivables	<u>1999</u>	<u>1998</u>
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	<u>81,429</u>	
	<u>\$ 175,180</u>	<u>\$ 1,198,583</u>

5. Restricted assets			<u>1999</u>	<u>1998</u>
	<u>Cash</u>	<u>Investments</u>	<u>Total</u>	<u>Total</u>
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	<u>50,773</u>	<u>531,297</u>	<u>582,070</u>	<u>507,734</u>
	<u>\$ 51,766</u>	<u>\$ 10,452,445</u>	<u>\$ 10,504,211</u>	<u>\$ 7,929,146</u>

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:

Highway 104 Western Alignment Corporation

Notes to the Financial Statements

March 31, 1999

5. Restricted assets (continued)

(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.

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

7. Deferred costs			<u>1999</u>	<u>1998</u>
	Start up		\$ <u>417,567</u>	\$ 531,449
Financing fees		<u>713,134</u>	<u>748,568</u>	
		\$ <u>1,130,701</u>	\$ <u>1,280,017</u>	

Highway 104 Western Alignment Corporation

Notes to the Financial Statements

March 31, 1999

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:

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

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

9. Long term debt

	<u>1999</u>	<u>1998</u>
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.	\$ 64,406,982	\$ 62,293,389

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
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Highway 104 Western Alignment Corporation

Notes to the Financial Statements

March 31, 1999

9. Long term debt (continued) 1999 1998

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.

<u>4,000,000</u>	<u>5,752,646</u>
\$ <u>80,649,045</u>	\$ <u>80,288,098</u>

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.

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

Highway 104 Western Alignment Corporation

Notes to the Financial Statements

March 31, 1999

12. Change in non-cash operating working capital	<u>1999</u>	<u>1998</u>
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	<u>187,862</u>	<u>260,090</u>
	\$ <u>2,008,617</u>	\$ <u>2,612,016</u>

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 fulfil 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.

Highway 104 Western Alignment Corporation

Notes to the Financial Statements

March 31, 1999

13. Commitments and contractual obligations (continued)

- **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
2001		18,574
2002		14,780
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.