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**Highway 104 Western
Alignment Corporation
Financial Statements**
March 31, 2001

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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, 2001, 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, 2001, and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting principles.

Halifax, Canada
June 15, 2001

Chartered Accountants

Highway 104 Western Alignment Corporation

Statements of Loss and Deficit

Year Ended March 31	2001	2000
Revenue		
Facility revenue	\$ 11,565,742	\$ 11,004,086
Interest income	<u>598,041</u>	<u>465,247</u>
	<u>12,163,783</u>	<u>11,469,333</u>
Expenses		
Bondholder representative fees	98,015	95,345
Trustee fees	28,769	29,442
Salaries and benefits	163,211	157,197
Office	47,561	38,921
General and administrative	139,533	142,923
Enforcement	60,000	60,000
Independent engineer	33,837	39,028
Routine maintenance	776,009	656,504
Facility operations	1,508,095	1,421,901
Transponders	<u>49,801</u>	<u>52,669</u>
	<u>2,904,831</u>	<u>2,693,930</u>
Earnings before other items	9,258,952	8,775,403
Other items		
Government assistance amortization (Note 2)	1,040,766	991,206
Amortization and depreciation	(2,455,511)	(2,347,437)
Interest on long term debt	<u>(8,163,047)</u>	<u>(8,205,233)</u>
Net loss	\$ <u>(318,840)</u>	\$ <u>(786,061)</u>
Deficit, beginning of year	\$ (5,609,892)	\$ (7,529,068)
Net loss	(318,840)	(786,061)
Transfer (to) from reserve for restricted assets (Note 10)	<u>(2,742,581)</u>	<u>2,705,237</u>
Deficit, end of year	\$ <u>(8,671,313)</u>	\$ <u>(5,609,892)</u>

See accompanying notes to the financial statements.

Highway 104 Western Alignment Corporation

Balance Sheet

March 31 2001 2000

Assets

Project bank accounts	\$ 479,609	\$ 356,139
Inventory	24,533	26,645
Prepays (Note 3)	316,518	259,354
Receivables (Note 4)	145,503	597,266
Restricted assets (Note 5)	10,541,555	7,798,974
Facility (Note 6)	117,521,362	119,662,832
Deferred costs (Note 7)	<u>832,069</u>	<u>981,385</u>
	\$ 129,861,149	\$ 129,682,595

Liabilities

Payables and accruals	\$ 328,205	\$ 850,976
Deferred revenue	497,018	481,748
Long term debt (Note 8)	80,779,637	78,733,976
Payable to the Province of Nova Scotia (Note 9)	250,000	250,000
Deferred government assistance (Note 2)	<u>52,156,372</u>	<u>53,197,138</u>
	<u>134,011,232</u>	<u>133,513,838</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 10)	4,521,229	1,778,648
Deficit	<u>(8,671,313)</u>	<u>(5,609,892)</u>
	<u>(4,150,083)</u>	<u>(3,831,243)</u>
	\$ 129,861,149	\$ 129,682,595

Commitments and contractual obligations (Note 12)

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

2001

2000

Increase (decrease) in cash and cash equivalents

Operating		
Net loss	\$ (318,840)	\$ (786,061)
Government assistance amortization	(1,040,766)	(991,206)
Amortization of deferred financing fees	35,434	35,434
Amortization and depreciation	<u>2,455,511</u>	<u>2,347,437</u>
	1,131,339	605,604
Change in non-cash operating working capital (Note 11)	<u>(110,790)</u>	<u>(1,563,217)</u>
	<u>1,020,549</u>	<u>(957,613)</u>
Financing		
Increase (decrease) in long term debt, net	<u>2,045,661</u>	<u>(1,915,069)</u>
Investing		
(Increase) decrease in restricted assets	(2,742,581)	2,705,237
Warranty settlement	-	362,668
Construction of facility	<u>(200,159)</u>	<u>(351,187)</u>
	<u>(2,942,740)</u>	<u>2,716,718</u>
Net increase (decrease) in cash and cash equivalents	123,470	(155,964)
Cash and cash equivalents, beginning of year	<u>356,139</u>	<u>512,103</u>
Cash and cash equivalents, end of year	\$ <u>479,609</u>	\$ <u>356,139</u>

See accompanying notes to the financial statements.

Highway 104 Western Alignment Corporation

Notes to the Financial Statements

March 31, 2001

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 commencing at the start of the operating period until March 31, 2026 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%.

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. Bank borrowings are considered to be financing activities.

Highway 104 Western Alignment Corporation

Notes to the Financial Statements

March 31, 2001

2. Summary of significant accounting policies (continued)

Use of estimates

In preparing the Company'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.

3. Prepaids	<u>2001</u>	<u>2000</u>
Operating expenses	\$ 31,275	\$ 29,946
Advance to operator	<u>285,243</u>	<u>229,408</u>
	<u>\$ 316,518</u>	<u>\$ 259,354</u>

4. Receivables	<u>2001</u>	<u>2000</u>
Harmonized Sales Tax	\$ 44,448	\$ 61,305
Other	<u>101,055</u>	<u>535,961</u>
	<u>\$ 145,503</u>	<u>\$ 597,266</u>

5. Restricted assets	<u>Cash</u>	<u>Investments</u>	<u>2001 Total</u>	<u>2000 Total</u>
Senior debt service reserve account	\$ 701	\$ 5,639,430	\$ 5,640,131	\$ 4,770,505
Capital reserve account	(1,524,734)	4,645,882	3,121,148	1,818,293
Major maintenance reserve account	<u>142,924</u>	<u>1,637,352</u>	<u>1,780,276</u>	<u>1,210,176</u>
	<u>\$ (1,381,109)</u>	<u>\$ 11,922,664</u>	<u>\$ 10,541,555</u>	<u>\$ 7,798,974</u>

Investments are recorded at cost, have a weighted average term of 6.04 months to maturity and a weighted average interest rate of 5.57%. 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, 2001

5. Restricted assets (continued)

(i) 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.

(ii) 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.

(iii) 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>2001</u>	<u>2000</u>
	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net book Total</u>	<u>Net book Total</u>
Facility	\$ <u>124,619,429</u>	\$ <u>7,098,067</u>	\$ <u>117,521,362</u>	\$ <u>119,662,832</u>

7. Deferred costs			<u>2001</u>	<u>2000</u>
	Start up		\$ <u>189,803</u>	\$ 303,685
Financing fees		\$ <u>642,266</u>	\$ <u>677,700</u>	
		\$ <u>832,069</u>	\$ <u>981,385</u>	

Highway 104 Western Alignment Corporation

Notes to the Financial Statements

March 31, 2001

8. Long term debt 2001 2000

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.

\$ 68,537,574 **\$ 66,491,913**

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

\$ 80,779,637 **\$ 78,733,976**

Minimum principal repayments required will begin in year 2002 and are as follows:

2002	\$ 725,017
2003	806,236
2004	896,554
2005	996,970
2006	1,108,652

Highway 104 Western Alignment Corporation

Notes to the Financial Statements

March 31, 2001

9. 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 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.

10. 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>2001</u>	<u>2000</u>
Reserve for restricted assets, beginning of year	\$ <u>1,778,648</u>	\$ <u>4,483,885</u>
Transfers from project account	8,690,000	8,405,000
Interest income	564,321	440,335
Long term debt payments, including interest	(6,081,952)	(10,084,868)
Rebate to Province	<u>(429,788)</u>	<u>(1,465,704)</u>
	<u>2,742,581</u>	<u>(2,705,237)</u>
Reserve for restricted assets, end of year	\$ <u>4,521,229</u>	\$ <u>1,778,648</u>

Highway 104 Western Alignment Corporation

Notes to the Financial Statements

March 31, 2001

11. Supplemental cash flow information	<u>2001</u>	<u>2000</u>
Change in non-cash operating working capital		
Inventory	\$ 2,112	\$ (12,431)
Prepays	(57,164)	(67,106)
Receivables	451,763	(422,086)
Payables and accruals	(522,771)	(1,095,390)
Deferred revenue	<u>15,270</u>	<u>33,796</u>
	<u>\$ (110,790)</u>	<u>\$ (1,563,217)</u>
 Cash and cash equivalents consist of:		
Cash on hand and balances with banks	\$ <u>479,609</u>	\$ <u>356,139</u>
 Interest paid	\$ <u>6,081,952</u>	\$ <u>6,084,868</u>

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 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.

Highway 104 Western Alignment Corporation

Notes to the Financial Statements

March 31, 2001

12. Commitments and contractual obligations (continued)

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

2002	\$ 582,500
2003	620,000
2004	620,000
2005	620,000
2006	620,000

- **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, 1999 and subsequently adjusted thereafter for inflation.

Other

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

2002	\$ 27,265
2003	27,265
2004	27,265
2005	27,265
2006	18,177