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**Highway 104 Western
Alignment Corporation
Financial Statements**
March 31, 2002

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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, 2002, 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 audit.

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, 2002, 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

Halifax, Canada
June 12, 2002

Chartered Accountants

Highway 104 Western Alignment Corporation

Statements of Earnings (Loss) and Deficit

Year Ended March 31	2002	2001
Revenue		
Facility revenue	\$ 13,515,205	\$ 11,565,742
Interest income	<u>510,021</u>	<u>598,041</u>
	<u>14,025,226</u>	<u>12,163,783</u>
Expenses		
Bondholder representative fees	191,407	98,015
Trustee fees	27,603	28,769
Salaries and benefits	174,158	163,211
Office	46,686	47,561
General and administrative	183,143	139,533
Enforcement	60,000	60,000
Independent engineer	29,956	33,837
Routine maintenance	689,084	776,009
Major maintenance	1,174,708	-
Facility operations	1,609,072	1,508,095
Transponders	<u>36,714</u>	<u>49,801</u>
	<u>4,222,531</u>	<u>2,904,831</u>
Earnings before other items	9,802,695	9,258,952
Other items		
Government assistance amortization (Note 2)	1,092,804	1,040,766
Amortization and depreciation	(2,576,310)	(2,455,511)
Interest on long term debt	<u>(8,315,568)</u>	<u>(8,163,047)</u>
Net earnings (loss)	\$ <u>3,621</u>	\$ <u>(318,840)</u>
<hr/>		
Deficit, beginning of year	\$ (8,671,313)	\$ (5,609,892)
Net earnings (loss)	3,621	(318,840)
Transfer to reserve for restricted assets (Note 10)	<u>(2,308,576)</u>	<u>(2,742,581)</u>
Deficit, end of year	\$ <u>(10,976,268)</u>	\$ <u>(8,671,313)</u>

See accompanying notes to the financial statements.

Highway 104 Western Alignment Corporation

Balance Sheet

March 31 2002 2001

Assets

Project bank accounts	\$ 482,740	\$ 479,609
Inventory	21,820	24,533
Prepays (Note 3)	364,608	316,518
Receivables (Note 4)	201,950	145,503
Restricted assets (Note 5)	12,768,884	10,541,555
Facility (Note 6)	115,062,126	117,521,362
Deferred costs (Note 7)	<u>682,754</u>	<u>832,069</u>
	\$ 129,584,882	\$ 129,861,149

Liabilities

Payables and accruals	\$ 484,965	\$ 328,205
Deferred revenue	525,181	497,018
Long term debt (Note 8)	81,407,630	80,779,637
Payable to the Province of Nova Scotia (Note 9)	250,000	250,000
Deferred government assistance (Note 2)	<u>51,063,568</u>	<u>52,156,372</u>
	<u>133,731,344</u>	<u>134,011,232</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)	6,829,805	4,521,229
Deficit	<u>(10,976,268)</u>	<u>(8,671,313)</u>
	<u>(4,146,462)</u>	<u>(4,150,083)</u>
	\$ 129,584,882	\$ 129,861,149

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

2002

2001

Increase (decrease) in cash and cash equivalents

Operating		
Net earnings (loss)	\$ 3,621	\$ (318,840)
Government assistance amortization	(1,092,804)	(1,040,766)
Amortization of deferred financing fees	35,433	35,434
Amortization and depreciation	<u>2,576,310</u>	<u>2,455,511</u>
	1,522,560	1,131,339
Change in non-cash operating working capital (Note 11)	<u>83,099</u>	<u>(110,790)</u>
	1,605,659	1,020,549
Financing		
Increase in long term debt, net	<u>627,993</u>	<u>2,045,661</u>
Investing		
Increase in restricted assets	(2,227,329)	(2,742,581)
Construction of facility	<u>(3,192)</u>	<u>(200,159)</u>
	(2,230,521)	(2,942,740)
Net increase in cash and cash equivalents	3,131	123,470
Cash and cash equivalents, beginning of year	<u>479,609</u>	<u>356,139</u>
Cash and cash equivalents, end of year	\$ 482,740	\$ 479,609

See accompanying notes to the financial statements.

Highway 104 Western Alignment Corporation

Notes to the Financial Statements

March 31, 2002

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 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, 2002

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>2002</u>	<u>2001</u>
Operating expenses	\$ 79,365	\$ 31,275
Advance to operator	<u>285,243</u>	<u>285,243</u>
	<u>\$ 364,608</u>	<u>\$ 316,518</u>

4. Receivables	<u>2002</u>	<u>2001</u>
Harmonized Sales Tax	\$ 53,455	\$ 44,448
Other	<u>148,495</u>	<u>101,055</u>
	<u>\$ 201,950</u>	<u>\$ 145,503</u>

5. Restricted assets			<u>2002</u>	<u>2001</u>
	<u>Cash</u>	<u>Investments</u>	<u>Total</u>	<u>Total</u>
Senior debt service reserve account	\$ 395	\$ 5,639,917	\$ 5,640,312	\$ 5,640,131
Capital reserve account	263	4,692,877	4,693,140	3,121,148
Major maintenance reserve account	<u>40,140</u>	<u>2,395,292</u>	<u>2,435,432</u>	<u>1,780,276</u>
	<u>\$ 40,798</u>	<u>\$ 12,728,086</u>	<u>\$ 12,768,884</u>	<u>\$ 10,541,555</u>

Investments are recorded at cost, have a weighted average term of 6.19 months to maturity and a weighted average interest rate of 2.84%. 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, 2002

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>2002</u>	<u>2001</u>
	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net book Total</u>	<u>Net book Total</u>
Facility	\$ <u>124,622,621</u>	\$ <u>9,560,495</u>	\$ <u>115,062,126</u>	\$ <u>117,521,362</u>

7. Deferred costs			<u>2002</u>	<u>2001</u>
	Start up		\$ <u>75,921</u>	\$ 189,803
Financing fees		\$ <u>606,833</u>	\$ <u>642,266</u>	
		\$ <u>682,754</u>	\$ <u>832,069</u>	

Highway 104 Western Alignment Corporation

Notes to the Financial Statements

March 31, 2002

8. Long term debt 2002 2001

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.

\$ 69,890,604 \$ 68,537,574

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.

11,517,026 12,242,063
\$ 81,407,630 **\$ 80,779,637**

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

2003	\$ 806,236
2004	896,554
2005	996,970
2006	1,108,652
2007	2,498,137

Highway 104 Western Alignment Corporation

Notes to the Financial Statements

March 31, 2002

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>2002</u>	<u>2001</u>
Reserve for restricted assets, beginning of year	\$ <u>4,521,229</u>	\$ <u>1,778,648</u>
Transfers from project account	10,780,000	8,690,000
Interest income	485,205	564,321
Long term debt payments, including interest	(7,652,141)	(6,081,952)
Major maintenance payments, including HST to be recovered	(1,304,488)	-
Rebate to Province	-	(429,788)
	<u>2,308,576</u>	<u>2,742,581</u>
Reserve for restricted assets, end of year	\$ <u>6,829,805</u>	\$ <u>4,521,229</u>

Highway 104 Western Alignment Corporation

Notes to the Financial Statements

March 31, 2002

11. Supplemental cash flow information	<u>2002</u>	<u>2001</u>
Change in non-cash operating working capital		
Inventory	\$ 2,713	\$ 2,112
Prepays	(48,090)	(57,164)
Receivables	(56,447)	451,763
Payables and accruals	156,760	(522,771)
Deferred revenue	<u>28,163</u>	<u>15,270</u>
	<u>\$ 83,099</u>	<u>\$ (110,790)</u>
Cash and cash equivalents consist of:		
Cash on hand and balances with banks	\$ <u>482,740</u>	\$ <u>479,609</u>
Interest paid	\$ <u>6,927,124</u>	\$ <u>6,081,952</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 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.

Highway 104 Western Alignment Corporation

Notes to the Financial Statements

March 31, 2002

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 agreement with the independent engineer is scheduled to be renewed November 15, 2002.

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

2003	\$ 700,000
2004	700,000
2005	700,000
2006	700,000
2007	700,000

- **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. The agreement with the Department of Transportation is scheduled to be renewed by March 31, 2003.

Other

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

2003	\$ 27,348
2004	27,348
2005	27,348
2006	18,232