

**Highway 104 Western Alignment
Corporation
Financial Statements**

March 31, 2003

Grant Thornton 

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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, 2003, 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, 2003, 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, Nova Scotia
June 19, 2003

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Highway 104 Western Alignment Corporation

Statements of Earnings and Deficit

Year Ended March 31	Budget 2003	Actual 2003	2002
Revenue			
Facility revenue	\$ 13,279,714	\$ 13,864,445	\$ 13,515,205
Interest income	<u>390,000</u>	<u>409,148</u>	<u>510,021</u>
	<u>13,669,714</u>	<u>14,273,593</u>	<u>14,025,226</u>
Expenses			
Bondholder representative fees	168,000	100,544	191,407
Trustee fees	28,450	39,387	27,603
Salaries and benefits	174,913	166,887	174,158
Office	56,560	53,211	46,686
General and administrative	288,451	122,676	183,143
Enforcement	60,000	60,000	60,000
Independent engineer	50,000	31,686	29,956
Routine maintenance	706,468	709,594	689,084
Major maintenance	609,400	485,452	1,174,708
Facility operations	1,723,426	1,674,587	1,609,072
Transponders	<u>-</u>	<u>71,558</u>	<u>36,714</u>
	<u>3,865,668</u>	<u>3,515,582</u>	<u>4,222,531</u>
Earnings before other items	9,804,046	10,758,011	9,802,695
Other items			
Government assistance amortization (Note 2)	1,147,444	1,147,444	1,092,804
Amortization and depreciation	(2,661,471)	(2,673,954)	(2,576,310)
Interest on long term debt	<u>(8,376,608)</u>	<u>(8,376,608)</u>	<u>(8,315,568)</u>
Net earnings	\$ <u>(86,589)</u>	\$ <u>854,893</u>	\$ <u>3,621</u>
Deficit, beginning of year			
		\$ (10,976,268)	\$ (8,671,313)
Net earnings			
		854,893	3,621
Transfer to reserve for restricted assets (Note 10)			
		<u>(3,452,394)</u>	<u>(2,308,576)</u>
Deficit, end of year			
		\$ <u>(13,573,769)</u>	\$ <u>(10,976,268)</u>

See accompanying notes to the financial statements.

Highway 104 Western Alignment Corporation

Balance Sheet

March 31 2003 2002

Assets

Cash and cash equivalents	\$ 498,108	\$ 482,740
Inventory	7,630	21,820
Prepays (Note 3)	329,283	364,608
Receivables (Note 4)	80,907	201,950
Restricted assets (Note 5)	16,221,280	12,768,884
Facility (Note 6)	112,509,031	115,062,126
Deferred costs (Note 7)	<u>571,399</u>	<u>682,754</u>
	\$ 130,217,638	\$ 129,584,882

Liabilities

Payables and accruals	\$ 664,495	\$ 484,965
Deferred revenue	581,874	525,181
Long term debt (Note 8)	82,096,714	81,407,630
Payable to the Province of Nova Scotia (Note 9)	250,000	250,000
Deferred government assistance (Note 2)	<u>49,916,124</u>	<u>51,063,568</u>
	<u>133,509,207</u>	<u>133,731,344</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)	10,282,199	6,829,805
Deficit	<u>(13,573,769)</u>	<u>(10,976,268)</u>
	<u>(3,291,569)</u>	<u>(4,146,462)</u>
	\$ 130,217,638	\$ 129,584,882

Commitments and contractual obligations (Note 13)

On behalf of the Board

_____ President

See accompanying notes to the financial statements.

Highway 104 Western Alignment Corporation

Statement of Cash Flows

Year Ended March 31

2003

2002

Increase (decrease) in cash and cash equivalents

Operating		
Net earnings	\$ 854,893	\$ 3,621
Government assistance amortization	(1,147,444)	(1,092,804)
Amortization of deferred financing fees	35,434	35,433
Amortization and depreciation	<u>2,673,954</u>	<u>2,576,310</u>
	2,416,837	1,522,560
Change in non-cash operating working capital (Note 12)	<u>406,781</u>	<u>83,099</u>
	<u>2,823,618</u>	<u>1,605,659</u>
Financing		
Increase in long term debt, net	<u>689,084</u>	<u>627,993</u>
Investing		
Increase in restricted assets	(3,452,394)	(2,227,329)
Construction of facility	<u>(44,940)</u>	<u>(3,192)</u>
	<u>(3,497,334)</u>	<u>(2,230,521)</u>
Net increase in cash and cash equivalents	15,368	3,131
Cash and cash equivalents, beginning of year	<u>482,740</u>	<u>479,609</u>
Cash and cash equivalents, end of year	\$ <u>498,108</u>	\$ <u>482,740</u>

See accompanying notes to the financial statements.

Highway 104 Western Alignment Corporation

Notes to the Financial Statements

March 31, 2003

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%.

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

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, 2003

2. Summary of significant accounting policies (continued)

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.

3. Prepaids	<u>2003</u>	<u>2002</u>
Operating expenses	\$ 44,040	\$ 79,365
Advance to operator	<u>285,243</u>	<u>285,243</u>
	<u>\$ 329,283</u>	<u>\$ 364,608</u>

4. Receivables	<u>2003</u>	<u>2002</u>
Harmonized Sales Tax	\$ 52,827	\$ 53,455
Other	<u>28,080</u>	<u>148,495</u>
	<u>\$ 80,907</u>	<u>\$ 201,950</u>

5. Restricted assets			<u>2003</u>	<u>2002</u>
	<u>Cash</u>	<u>Investments</u>	<u>Total</u>	<u>Total</u>
Senior debt service reserve account	\$ 864	\$ 5,787,040	\$ 5,787,904	\$ 5,640,312
Capital reserve account	775,493	6,626,385	7,401,878	4,693,140
Major maintenance reserve account	<u>(174,354)</u>	<u>3,205,852</u>	<u>3,031,498</u>	<u>2,435,432</u>
	<u>\$ 602,003</u>	<u>\$ 15,619,277</u>	<u>\$ 16,221,280</u>	<u>\$ 12,768,884</u>

Investments are recorded at cost, have a weighted average term of 14.79 (2002 - 6.19) months to maturity and a weighted average interest rate of 3.69% (2002 - 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, 2003

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>2003</u>	<u>2002</u>
	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Total</u>	<u>Net Book Total</u>
Facility	\$ <u>124,667,559</u>	\$ <u>12,158,528</u>	\$ <u>112,509,031</u>	\$ <u>115,062,126</u>

7. Deferred costs			<u>2003</u>	<u>2002</u>
Start up			\$ -	\$ 75,921
Financing fees			<u>571,399</u>	<u>606,833</u>
			\$ <u>571,399</u>	\$ <u>682,754</u>

Highway 104 Western Alignment Corporation

Notes to the Financial Statements

March 31, 2003

8. Long term debt 2003 2002

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.

\$ 71,385,924 \$ 69,890,604

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.

10,710,790 11,517,026

\$ 82,096,714 **\$ 81,407,630**

Minimum principal repayments required are as follows:

2004	\$ 896,554
2005	996,970
2006	1,108,652
2007	2,498,137
2008	2,750,909

The combined fair value of the Corporation's long term debt, as comprised by senior and junior toll revenue bonds, is \$100,579,000 (2002 - \$97,159,000) and is 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.

Highway 104 Western Alignment Corporation

Notes to the Financial Statements

March 31, 2003

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>2003</u>	<u>2002</u>
Reserve for restricted assets, beginning of year	\$ <u>6,829,805</u>	\$ <u>4,521,229</u>
Transfers from project account	10,920,000	10,780,000
Interest income	395,337	485,205
Long term debt payments, including interest	(7,652,141)	(7,652,141)
Major maintenance payments, including HST to be recovered	<u>(210,802)</u>	<u>(1,304,488)</u>
	<u>3,452,394</u>	<u>2,308,576</u>
Reserve for restricted assets, end of year	\$ <u>10,282,199</u>	\$ <u>6,829,805</u>

11. Financial instruments

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

The Corporation estimates the fair value of its financial instruments to approximate their carrying values with the exception of long term debt as outlined in Note 8 to the financial statements.

Highway 104 Western Alignment Corporation

Notes to the Financial Statements

March 31, 2003

12. Supplemental cash flow information	<u>2003</u>	<u>2002</u>
Change in non-cash operating working capital		
Inventory	\$ 14,190	\$ 2,713
Prepays	35,325	(48,090)
Receivables	121,043	(56,447)
Payables and accruals	179,530	156,760
Deferred revenue	<u>56,693</u>	<u>28,163</u>
	<u>\$ 406,781</u>	<u>\$ 83,099</u>
Cash and cash equivalents consist of:		
Cash on hand and balances with banks	\$ <u>498,108</u>	\$ <u>482,740</u>
Interest paid	\$ <u>6,845,904</u>	\$ <u>6,927,124</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 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, 2003

13. 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 was renewed for a five year term in November 2002.

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

2004	\$ 700,000
2005	700,000
2006	700,000
2007	700,000
2008	700,000

- **Annual Roadway Maintenance Agreement**

The five year agreement, renewed March 3, 2003, 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 \$830,600 and subsequently adjusted thereafter for inflation.

- **Facility Upgrade**

At year end, the Corporation had entered into an agreement to upgrade the existing lane controllers for the facility. The Agreement will expire August 31, 2003 and has an estimated cost of \$80,000.

- **Other**

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

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