

**Highway 104 Western Alignment
Corporation**

Financial Statements

March 31, 2004

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, 2004, 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, 2004, 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
May 18, 2004

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Highway 104 Western Alignment Corporation

Statements of Earnings and Deficit

Year Ended March 31	Budget 2004	Actual 2004	2003
Revenue			
Facility revenue	\$ 14,294,860	\$ 14,717,403	\$ 13,864,445
Interest income	<u>390,000</u>	<u>757,746</u>	<u>409,148</u>
	<u>14,684,860</u>	<u>15,475,149</u>	<u>14,273,593</u>
Expenses			
Bondholder representative fees	164,000	103,536	100,544
Trustee fees	30,450	30,872	39,387
Salaries and benefits	154,160	118,190	166,887
Office	53,125	48,589	53,211
General and administrative	221,800	158,980	122,676
Enforcement	60,000	60,000	60,000
Independent engineer	50,000	60,172	31,686
Routine maintenance	880,600	850,849	709,594
Major maintenance	445,225	483,251	485,452
Facility operations	1,791,782	1,860,350	1,674,587
Transponders	<u>53,700</u>	<u>66,694</u>	<u>71,558</u>
	<u>3,904,842</u>	<u>3,841,483</u>	<u>3,515,582</u>
Earnings before other items	10,780,018	11,633,666	10,758,011
Other items			
Government assistance amortization (Note 2)	1,204,817	1,204,817	1,147,444
Amortization and depreciation	(2,795,240)	(2,729,806)	(2,673,954)
Interest on long term debt	<u>(8,408,201)</u>	<u>(8,443,686)</u>	<u>(8,376,608)</u>
Net earnings	\$ <u>781,394</u>	\$ <u>1,664,991</u>	\$ <u>854,893</u>
Deficit, beginning of year			
		\$ (13,573,769)	\$ (10,976,268)
Net earnings			
		1,664,991	854,893
Transfer to reserve for restricted assets (Note 9)			
		<u>(3,824,241)</u>	<u>(3,452,394)</u>
Deficit, end of year			
		\$ <u>(15,733,019)</u>	\$ <u>(13,573,769)</u>

See accompanying notes to the financial statements.

Highway 104 Western Alignment Corporation

Balance Sheet

March 31 2004 2003

Assets

Cash and cash equivalents	\$ 650,560	\$ 498,108
Inventory	12,530	7,630
Prepays (Note 3)	331,965	329,283
Receivables (Note 4)	72,180	80,907
Restricted assets (Note 5)	20,045,521	16,221,280
Facility (Note 6)	109,779,225	112,509,031
Deferred financing fees (Note 2)	<u>535,965</u>	<u>571,399</u>
	\$ 131,427,946	\$ 130,217,638

Liabilities

Payables and accruals	\$ 622,004	\$ 664,495
Deferred revenue	618,398	581,874
Long term debt (Note 7)	82,852,815	82,096,714
Payable to the Province of Nova Scotia (Note 8)	250,000	250,000
Deferred government assistance (Note 2)	<u>48,711,307</u>	<u>49,916,124</u>
	133,054,524	133,509,207

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 9)	14,106,440	10,282,199
Deficit	<u>(15,733,019)</u>	<u>(13,573,769)</u>
	(1,626,578)	(3,291,569)
	\$ 131,427,946	\$ 130,217,638

Commitments and contractual obligations (Note 12)

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

2004

2003

Increase (decrease) in cash and cash equivalents

Operating		
Net earnings	\$ 1,664,991	\$ 854,893
Government assistance amortization	(1,204,817)	(1,147,444)
Capitalized interest on bonds (Note 7)	1,652,655	1,495,320
Amortization of deferred financing fees	35,434	35,434
Amortization and depreciation	<u>2,729,806</u>	<u>2,673,954</u>
	4,878,069	3,912,157
Change in non-cash operating working capital (Note 11)	<u>(4,822)</u>	<u>406,781</u>
	4,873,247	4,318,938
Financing		
Principal repayment on bonds	<u>(896,554)</u>	<u>(806,236)</u>
Investing		
Increase in restricted assets	(3,824,241)	(3,452,394)
Construction of facility	<u>-</u>	<u>(44,940)</u>
	(3,824,241)	(3,497,334)
Net increase in cash and cash equivalents	152,452	15,368
Cash and cash equivalents, beginning of year	<u>498,108</u>	<u>482,740</u>
Cash and cash equivalents, end of year	\$ 650,560	\$ 498,108

See accompanying notes to the financial statements.

Highway 104 Western Alignment Corporation

Notes to the Financial Statements

March 31, 2004

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.

Revenue recognition

The Corporation recognizes revenue at the time a vehicle utilizes the highway.

Deferred costs - 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 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 with the exception of restricted cash balances which are included in restricted assets. Bank borrowings are considered to be financing activities.

Highway 104 Western Alignment Corporation

Notes to the Financial Statements

March 31, 2004

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. Prepays	<u>2004</u>	<u>2003</u>
Operating expenses	\$ 36,235	\$ 44,040
Advance to operator	<u>295,730</u>	<u>285,243</u>
	<u>\$ 331,965</u>	<u>\$ 329,283</u>

4. Receivables	<u>2004</u>	<u>2003</u>
Harmonized Sales Tax	\$ 45,372	\$ 52,827
Other	<u>26,808</u>	<u>28,080</u>
	<u>\$ 72,180</u>	<u>\$ 80,907</u>

5. Restricted assets			<u>2004</u>	<u>2003</u>
	<u>Cash</u>	<u>Investments</u>	<u>Total</u>	<u>Total</u>
Senior debt service reserve account	\$ 777	\$ 5,711,444	\$ 5,712,221	\$ 5,787,904
Capital reserve account	509	10,574,792	10,575,301	7,401,878
Major maintenance reserve account	<u>1,198</u>	<u>3,756,801</u>	<u>3,757,999</u>	<u>3,031,498</u>
	<u>\$ 2,484</u>	<u>\$ 20,043,037</u>	<u>\$ 20,045,521</u>	<u>\$ 16,221,280</u>

Investments are recorded at cost, have a weighted average term of 10.14 (2003 – 14.79) months to maturity and a weighted average interest rate of 3.26% (2003 – 3.69%). 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, 2004

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>2004</u>	<u>2003</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>14,888,334</u>	\$ <u>109,779,225</u>	\$ <u>112,509,031</u>

Highway 104 Western Alignment Corporation

Notes to the Financial Statements

March 31, 2004

7. Long term debt 2004 2003

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.

\$ 73,038,579 \$ 71,385,924

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.

9,814,236 10,710,790
\$ 82,852,815 **\$ 82,096,714**

Minimum principal repayments required are as follows:

2005	\$ 996,970
2006	1,108,652
2007	2,498,137
2008	2,769,342
2009	3,071,719

The combined fair value of the Corporation's long term debt, as comprised by senior and junior toll revenue bonds, is \$104,827,000 (2003 - \$100,579,000) 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, 2004

8. 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.

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.

	<u>2004</u>	<u>2003</u>
Reserve for restricted assets, beginning of year	\$ <u>10,282,199</u>	\$ <u>6,829,805</u>
Transfers from project account	11,255,000	10,920,000
Interest income	739,970	395,337
Long term debt payments, including interest	(7,652,151)	(7,652,141)
Major maintenance payments, including HST to be recovered	<u>(518,578)</u>	<u>(210,802)</u>
	<u>3,824,241</u>	<u>3,452,394</u>
Reserve for restricted assets, end of year	\$ <u>14,106,440</u>	\$ <u>10,282,199</u>

10. 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 7 to the financial statements.

Highway 104 Western Alignment Corporation

Notes to the Financial Statements

March 31, 2004

11. Supplemental cash flow information	<u>2004</u>	<u>2003</u>
Change in non-cash operating working capital		
Inventory	\$ (4,900)	\$ 14,190
Prepays	(2,682)	35,325
Receivables	8,727	121,043
Payables and accruals	(42,491)	179,530
Deferred revenue	<u>36,524</u>	<u>56,693</u>
	<u>\$ (4,822)</u>	<u>\$ 406,781</u>
Cash and cash equivalents consist of:		
Cash on hand and balances with banks	\$ <u>650,560</u>	\$ <u>498,108</u>
Interest paid	\$ <u>6,755,597</u>	\$ <u>6,845,904</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, 2004

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 was renewed for a one year term in November 2003.

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

2005	\$ 700,000
2006	700,000
2007	700,000
2008	700,000
2009	825,000

- **Annual Roadway Maintenance Agreement**

The five year agreement, renewed March 3, 2004, 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.

During the year, the Corporation incurred management fees of \$22,539 (2003 - \$35,000) from the Province of Nova Scotia.

- **Other**

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

2005	\$ 27,348
2006	18,232

13. Comparative figures

Certain of the prior year figures have been reclassified to conform with the financial statements presentation adopted for the current year.