



Financial Statements

Highway 104 Western Alignment Corporation

March 31, 2008

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Grant Thornton

## Auditors' report

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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, 2008 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 audits.

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, 2008 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 9, 2008

Chartered Accountants

# Highway 104 Western Alignment Corporation

## Statements of earnings and deficit

Year ended March 31	Budget 2008 (unaudited)	Actual 2008	2007
<b>Revenue</b>			
Facility revenue	\$ 16,823,900	\$ 18,494,437	\$ 17,076,909
Interest income	<u>1,200,000</u>	<u>1,551,546</u>	<u>1,228,476</u>
	<u>18,023,900</u>	<u>20,045,983</u>	<u>18,305,385</u>
<b>Expenses</b>			
Bondholder representative fees	172,200	117,133	110,129
Trustee fees	37,500	33,222	34,320
Salaries and benefits	171,400	169,879	158,749
Office	47,400	46,280	50,573
General and administrative	244,100	182,364	157,529
Enforcement	60,000	60,000	60,000
Independent engineer	50,000	50,000	37,625
Routine maintenance	951,600	898,100	893,704
Major maintenance	1,597,000	1,405,636	892,635
Facility operations	2,066,431	2,065,903	2,029,617
Transponders	<u>27,569</u>	<u>34,790</u>	<u>36,916</u>
	<u>5,425,200</u>	<u>5,063,307</u>	<u>4,461,797</u>
Earnings before other items	12,598,700	14,982,676	13,843,588
<b>Other items</b>			
Government assistance amortization (note 2)	1,464,500	1,469,127	1,394,726
Amortization and depreciation	(3,605,000)	(3,487,993)	(3,330,699)
Interest on long term debt	<u>(8,150,600)</u>	<u>(8,180,083)</u>	<u>(8,876,540)</u>
Net earnings	\$ <u>2,307,600</u>	\$ <u>4,783,727</u>	\$ <u>3,031,075</u>
<b>Deficit, beginning of year</b>			
		\$ (17,778,133)	\$ (21,206,799)
<b>Net earnings</b>			
		4,783,727	3,031,075
<b>Transfer from (to) reserve for restricted assets (note 9)</b>			
		<u>(1,249,198)</u>	<u>397,591</u>
<b>Deficit, end of year</b>			
		\$ <u>(14,243,604)</u>	<u>(17,778,133)</u>

See accompanying notes to the financial statements.

# Highway 104 Western Alignment Corporation

## Balance sheet

March 31 2008 2007

### Assets

#### Current

Cash and cash equivalents	\$ 609,059	\$ 651,111
Inventory	8,061	14,137
Prepays (note 3)	398,172	384,616
Receivables (note 4)	<u>815,669</u>	<u>64,052</u>
	<b>1,830,961</b>	<b>1,113,916</b>

Restricted assets (note 5)	33,597,580	32,427,057
Facility (note 6)	97,702,643	100,666,644
Deferred financing fees (note 2)	<u>-</u>	<u>429,664</u>
	<b>\$ 133,131,184</b>	<b>\$ 134,637,281</b>

### Liabilities

#### Current

Payables and accruals	\$ 1,471,258	\$ 1,538,155
Current portion of long term debt (note 7)	1,526,361	2,029,587
Deferred revenue	<u>861,907</u>	<u>816,493</u>
	<b>3,859,526</b>	<b>4,384,235</b>

Long term debt (note 7)	72,348,011	76,569,989
Payable to the Province of Nova Scotia/deferred grant (note 8)	250,000	250,000
Deferred government assistance (note 2)	<u>43,258,752</u>	<u>44,723,213</u>
	<b><u>119,716,289</u></b>	<b><u>125,927,437</u></b>

### Shareholder's equity

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)	27,658,498	26,487,976
Deficit	<u>(14,243,604)</u>	<u>(17,778,133)</u>
	<b><u>13,414,895</u></b>	<b><u>8,709,844</u></b>
	<b>\$ 133,131,184</b>	<b>\$ 134,637,281</b>

Commitments and contractual obligations (note 11)

On behalf of the Board

\_\_\_\_\_ President

See accompanying notes to the financial statements.

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## Highway 104 Western Alignment Corporation

### Statement of cash flows

Year ended March 31

2008

2007

Increase (decrease) in cash and cash equivalents

<b>Operating</b>		
Net earnings	\$ 4,783,727	\$ 3,031,075
Government assistance amortization	(1,464,461)	(1,394,726)
Amortization of deferred financing fees	84,164	35,434
Amortization and depreciation	<u>3,487,993</u>	<u>3,330,699</u>
	6,891,423	5,002,482
Change in non-cash operating working capital (note 10)	<u>(780,580)</u>	<u>913,121</u>
	<u>6,110,843</u>	<u>5,915,603</u>
<b>Financing</b>		
Decrease in long term debt	<u>(4,379,710)</u>	<u>(5,992,661)</u>
<b>Investing</b>		
Decrease (increase) in restricted assets	(1,170,523)	397,591
Additions to facility	(523,991)	(221,899)
Changes in market value of restricted assets	<u>(78,671)</u>	<u>-</u>
	<u>(1,773,185)</u>	<u>175,692</u>
Net increase (decrease) in cash and cash equivalents	(42,052)	98,634
Cash and cash equivalents, beginning of year	<u>651,111</u>	<u>552,477</u>
Cash and cash equivalents, end of year	\$ <u>609,059</u>	\$ <u>651,111</u>

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See accompanying notes to the financial statements.

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# Highway 104 Western Alignment Corporation

## Notes to the financial statements

March 31, 2008

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### 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. The Corporation has been designated a Government Business Enterprise by the Nova Scotia Provincial Finance Act. The Corporation follows generally accepted accounting policies for profit-oriented enterprises.

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### 2. Summary of significant accounting policies

#### Changes in accounting policies

Effective April 1, 2007, the Corporation prospectively adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants (CICA):

- **Section 3855, Financial Instruments – Recognition and Measurement**

This Section requires all financial assets and financial liabilities to be classified in one of five categories. Financial assets are to be classified as either held for trading, available for sale, held to maturity or loans and receivables. Financial liabilities are to be classified as either held for trading or other financial liabilities. All financial assets and financial liabilities are to be carried at fair value on the consolidated balance sheet, except held to maturity financial assets, loans and receivables and other financial liabilities which are measured at cost or amortized cost.

Changes in the fair value of restricted assets are recorded as adjustments to the reserve for restricted assets.

The following table summarizes the reclassification adjustments resulting from the adoption of this new standard:

<b>Balance sheet</b>		<b>Increase (decrease)</b>
Restricted assets	\$	(38,254)
Reserve for restricted assets	\$	(38,254)

In addition, deferred financing costs are reported net of the related long term debt.

The adoption of these new standards has had no impact on prior period financial statements.

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# Highway 104 Western Alignment Corporation

## Notes to the financial statements

March 31, 2008

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### 2. Summary of significant accounting policies continued

#### 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% except as described below:

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

A new generator put into operation in 2008 is being amortized over the remaining life of the project, ending March 31, 2026.

The Corporation plans to purchase a new tolling system, and new tolling booths. Accordingly, the useful life of those existing assets is being amortized using the straight line method, over the remaining useful life of those assets. The new tolling system is currently under development and therefore no depreciation has been recorded in the year.

#### Revenue recognition

The Corporation recognizes toll revenue at the time a vehicle utilizes the highway. Provincial subsidies, net of rebates in accordance with the First Amendment to the Omnibus Agreement are recognized as facility revenue.

#### Deferred 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.

Effective April 1, 2007, deferred financing fees are reflected as a reduction in long term debt.

#### 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%.



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# Highway 104 Western Alignment Corporation

## Notes to the financial statements

March 31, 2008

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### 2. Summary of significant accounting policies continued

#### Deferred government grant

Government grant provided by the Province of Nova Scotia has been recorded as a deferral and is being amortized to operations over twenty years commencing April 1, 2007 using the effective interest rate method at an annual rate of 4.5% in accordance with CICA Handbook Section 3855.

#### 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.

#### 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.

#### Financial instruments

The Corporation's financial instruments consist of cash, 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 records restricted asset investments at fair value and 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.

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<b>3. Prepaids</b>	<b><u>2008</u></b>	<b><u>2007</u></b>
Operating expenses	\$ 32,422	\$ 36,617
Advance to operator	<u>365,750</u>	<u>347,999</u>
	<b>\$ <u>398,172</u></b>	<b>\$ <u>384,616</u></b>

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<b>4. Receivables</b>	<b><u>2008</u></b>	<b><u>2007</u></b>
Harmonized Sales Tax	\$ 35,555	\$ 42,771
Receivable from the Province of Nova Scotia	<u>777,877</u>	-
Other	<u>2,237</u>	<u>21,281</u>
	<b>\$ <u>815,669</u></b>	<b>\$ <u>64,052</u></b>

# Highway 104 Western Alignment Corporation

## Notes to the financial statements

March 31, 2008

5. Restricted assets			2008	2007
	Cash	Investments	Total	Total
Senior debt service reserve account	\$ 173	\$ 9,074,032	\$ 9,074,205	\$ 9,505,938
Capital reserve account	83	15,360,832	15,360,915	14,805,401
Major maintenance reserve account	<u>611</u>	<u>9,161,849</u>	<u>9,162,460</u>	<u>8,115,718</u>
	\$ <u>867</u>	\$ <u>33,596,713</u>	\$ <u>33,597,580</u>	\$ <u>32,427,057</u>

Current year investments are recorded at fair value in compliance with the new accounting standards, include accrued interest of \$420,944 (2007 – \$208,360), have a weighted average term of 10.14 (2007 – 12.06) months to maturity and a weighted average interest rate of 4.33 % (2007 – 4.47%). Prior year investments have not been restated and are recorded at carrying value which approximates market 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:

- (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 service 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.

# Highway 104 Western Alignment Corporation

## Notes to the financial statements

March 31, 2008

6. Facility			<u>2008</u>	<u>2007</u>
	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Total</u>	<u>Net Book Total</u>
Facility	\$ 124,983,225	\$ 27,704,796	\$ <b>97,278,429</b>	\$ 100,444,747
New tolling system	213,830	-	<b>213,830</b>	102,095
New generator	<u>216,395</u>	<u>6,011</u>	<u><b>210,384</b></u>	<u>119,802</u>
Total	\$ <u>125,413,450</u>	\$ <u>27,710,807</u>	\$ <u><b>97,702,643</b></u>	\$ <u>100,666,644</u>

7. Long term debt	<u>2008</u>	<u>2007</u>
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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. The amount by which the interest expense has exceeded interest payments has been capitalized as part of the principal. 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.

	\$ <b>73,874,372</b>	\$ 75,618,312
Repaid during the year	<u>-</u>	<u>2,981,264</u>
	<b>73,874,372</b>	78,599,576
Less: principal repayments due within one year	<u>1,526,361</u>	<u>2,029,587</u>
	\$ <u><b>72,348,011</b></u>	\$ <u>76,569,989</u>

Minimum principal repayments for the next five years, net of deferred financing fees, are as follows:

2009	\$ 1,526,361
2010	1,688,948
2011	1,868,621
2012	2,067,164
2013	2,286,617

The fair value of the Corporation's long term debt is \$97,591,506 (2007 - \$103,679,553) 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.

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# Highway 104 Western Alignment Corporation

## Notes to the financial statements

March 31, 2008

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### 8. Payable to the Province of Nova Scotia / deferred grant

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.

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### 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>2008</u>	<u>2007</u>
Reserve for restricted assets, beginning of year	\$ <u>26,487,976</u>	\$ <u>26,885,567</u>
Transfers from project account	14,355,700	13,556,899
Interest income	1,509,806	1,189,352
Long term debt payments, including interest	(12,470,958)	(14,833,767)
Major maintenance payments, including HST to be recovered	<u>(2,145,350)</u>	<u>(310,075)</u>
	<u>1,249,198</u>	<u>(397,591)</u>
	27,737,174	26,487,976
Change in market value of restricted assets		
-Transition adjustment on adoption of new standards	(38,254)	-
- Change in value during the year	<u>(40,422)</u>	<u>-</u>
Reserve for restricted assets, end of year	\$ <u>27,658,498</u>	\$ <u>26,487,976</u>

# Highway 104 Western Alignment Corporation

## Notes to the financial statements

March 31, 2008

10. Supplemental cash flow information	<u>2008</u>	<u>2007</u>
<b>Change in non-cash operating working capital</b>		
Inventory	\$ 6,076	\$ (5,239)
Prepays	(13,556)	(19,545)
Receivables	(751,617)	42,339
Payables and accruals	(66,897)	839,370
Deferred revenue	<u>45,414</u>	<u>56,196</u>
	<u>\$ (780,580)</u>	<u>\$ 913,121</u>
Cash and cash equivalents consist of:		
Cash on hand and balances with banks	\$ <u>609,059</u>	\$ <u>651,111</u>
Interest paid	<u>\$ 8,180,083</u>	<u>\$ 8,876,540</u>

### 11. 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.

Facility operations expenses paid to the Operator during the year totalled \$2,057,677 (2007 - \$2,029,617).

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.

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# Highway 104 Western Alignment Corporation

## Notes to the financial statements

March 31, 2008

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### 11. 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 on November 30, 2007.

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

2009	\$	3,492,000
2010		1,795,000
2011		1,120,000
2012		1,020,000
2013		695,000

- **Annual Roadway Maintenance Agreement**

The thirty 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 is renewable in five year increments and was renewed in the current year. For the upcoming fiscal years, the annual fee of \$1,008,000 will be adjusted annually for inflation.

During the year, the Corporation incurred management fees of \$75,583 (2007 - \$40,850) from the Province of Nova Scotia.

- **Other**

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

2009	\$	26,694
2010		26,412
2011		17,044