



Financial Statements

Highway 104 Western Alignment Corporation

March 31, 2009

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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, 2009 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, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



Halifax, Nova Scotia
May 14, 2009

Chartered Accountants

Highway 104 Western Alignment Corporation

Statements of earnings and deficit

Year ended March 31	Budget 2009 (unaudited)	Actual 2009	2008
Revenue			
Facility revenue	\$ 17,138,700	\$ 18,558,183	\$ 18,494,437
Interest income	<u>1,210,000</u>	<u>1,158,500</u>	<u>1,551,546</u>
	<u>18,348,700</u>	<u>19,716,683</u>	<u>20,045,983</u>
Expenses			
Bondholder representative fees	155,700	100,977	117,133
Trustee fees	26,700	22,720	33,222
Salaries and benefits	181,000	176,809	169,879
Office	52,400	50,588	46,280
General and administrative	238,000	133,518	182,364
Enforcement	60,000	60,000	60,000
Independent engineer	50,000	40,814	50,000
Routine maintenance	1,061,500	1,008,000	898,100
Major maintenance	1,540,400	1,184,076	1,405,636
Facility operations	2,240,624	2,290,501	2,065,903
Transponders	<u>30,576</u>	<u>16,568</u>	<u>34,790</u>
	<u>5,636,900</u>	<u>5,084,571</u>	<u>5,063,307</u>
Earnings before other items	12,711,800	14,632,112	14,982,676
Other items			
Government assistance amortization (note 2)	1,537,700	1,542,560	1,469,127
Amortization and depreciation	(3,550,300)	(3,487,759)	(3,487,993)
Interest on long term debt	<u>(7,479,200)</u>	<u>(7,483,228)</u>	<u>(8,180,083)</u>
Net earnings	<u>\$ 3,220,000</u>	<u>\$ 5,203,685</u>	<u>\$ 4,783,727</u>
Deficit, beginning of year			
		\$ (14,243,604)	\$ (17,778,133)
Net earnings			
		5,203,685	4,783,727
Transfer to reserve for restricted assets (note 9)			
		<u>(4,699,474)</u>	<u>(1,249,198)</u>
Deficit, end of year			
		<u>\$ (13,739,393)</u>	<u>\$ (14,243,604)</u>

See accompanying notes to the financial statements.

Highway 104 Western Alignment Corporation

Balance sheet

March 31 2009 2008

Assets

Current

Cash and cash equivalents	\$ 768,424	\$ 609,059
Inventory	6,577	8,061
Prepays (note 3)	427,909	398,172
Receivables (note 4)	<u>723,730</u>	<u>815,669</u>
	1,926,640	1,830,961

Restricted assets (note 5)	38,348,747	33,597,580
Facility (note 6)	<u>95,484,361</u>	<u>97,702,643</u>
	\$ 135,759,748	\$ 133,131,184

Liabilities

Current

Payables and accruals	\$ 1,903,362	\$ 1,471,258
Current portion of long term debt (note 7)	1,688,949	1,526,361
Deferred revenue	<u>867,066</u>	<u>861,907</u>
	4,459,377	3,859,526

Long term debt (note 7)	70,659,011	72,348,011
Payable to the Province of Nova Scotia/deferred grant (note 8)	250,000	250,000
Deferred government assistance (note 2)	<u>41,721,066</u>	<u>43,258,752</u>
	<u>117,089,454</u>	<u>119,716,289</u>

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)	32,409,686	27,658,498
Deficit	<u>(13,739,393)</u>	<u>(14,243,604)</u>
	<u>18,670,294</u>	<u>13,414,895</u>
	\$ 135,759,748	\$ 133,131,184

Commitments and contractual obligations (note 12)
Subsequent event (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

2009

2008

Increase (decrease) in cash and cash equivalents

Operating		
Net earnings	\$ 5,203,685	\$ 4,783,727
Government assistance amortization	(1,537,686)	(1,464,461)
Amortization of deferred financing fees	19,195	84,164
Amortization and depreciation	<u>3,487,759</u>	<u>3,487,993</u>
	<u>7,172,953</u>	<u>6,891,423</u>
Change in non-cash operating working capital (note 10)	<u>500,949</u>	<u>(780,580)</u>
	<u>7,673,902</u>	<u>6,110,843</u>
Financing		
Decrease in long term debt	<u>(1,545,607)</u>	<u>(4,379,710)</u>
Investing		
Increase in restricted assets	(4,751,168)	(1,170,523)
Additions to facility	(1,269,477)	(523,991)
Changes in market value of restricted assets	<u>51,715</u>	<u>(78,671)</u>
	<u>(5,968,930)</u>	<u>(1,773,185)</u>
Net increase (decrease) in cash and cash equivalents	159,365	(42,052)
Cash and cash equivalents, beginning of year	<u>609,059</u>	<u>651,111</u>
Cash and cash equivalents, end of year	\$ <u>768,424</u>	\$ <u>609,059</u>

See accompanying notes to the financial statements.

Highway 104 Western Alignment Corporation

Notes to the financial statements

March 31, 2009

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.

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% 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.

Deferred financing fees are reflected as a reduction in long term debt.

Highway 104 Western Alignment Corporation

Notes to the financial statements

March 31, 2009

2. Summary of significant accounting policies (continued)

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%.

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 noted below, it is management's opinion that the Corporation is not exposed to significant interest, currency, liquidity or credit risks arising from these financial instruments.

Interest rate risk

The Corporation is not exposed to interest rate risk on its long term debt as it bears interest at a fixed rate.

Credit risk

Financial instruments which potentially subject the Corporation to concentrations of credit risk consist of cash and cash equivalents and receivables. The cash equivalents consist mainly of short-term money market deposits. The Corporation has deposited the cash equivalents with reputable financial institutions, from which management believes the risk of loss is remote.

The Corporation has receivables with reputable organizations therefore believes there is no exposure to credit risk.

Liquidity risk

The Corporation feels that it has sufficient cash and cash equivalents to meet its financial obligations.

Highway 104 Western Alignment Corporation

Notes to the financial statements

March 31, 2009

2. Summary of significant accounting policies (continued)

In accordance with Section 3855, financial assets are classified as either held for trading, available for sale, held to maturity or loans and receivables. Financial liabilities are 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 were recorded as adjustments to the reserve for restricted assets.

Future accounting standards

In February 2008, the Canadian Accounting Standards Board announced that Canadian Generally Accepted Accounting Principles (GAAP) for publicly accountable enterprises will be replaced by International Financial Reporting Standards (IFRS) for fiscal years beginning on or after January 1, 2011. A final determination of publicly accountable enterprises is under consideration by the Accounting Standards Board, therefore, the applicability of these standards to the Corporation is not yet known.

3. Prepaids	<u>2009</u>	<u>2008</u>
Operating expenses	\$ 40,852	\$ 32,422
Advance to operator	<u>387,057</u>	<u>365,750</u>
	<u>\$ 427,909</u>	<u>\$ 398,172</u>

4. Receivables	<u>2009</u>	<u>2008</u>
Harmonized Sales Tax	\$ 126,355	\$ 35,555
Receivable from the Province of Nova Scotia	593,867	777,877
Other	<u>3,508</u>	<u>2,237</u>
	<u>\$ 723,730</u>	<u>\$ 815,669</u>

Highway 104 Western Alignment Corporation

Notes to the financial statements

March 31, 2009

5. Restricted assets

	<u>Cash</u>	<u>Investments</u>	<u>2009 Total</u>	<u>2008 Total</u>
Senior debt service reserve account	\$ 657	\$ 9,297,989	\$ 9,298,646	\$ 9,074,205
Capital reserve account	240	18,294,370	18,294,610	15,360,915
Major maintenance reserve account	<u>-</u>	<u>10,755,491</u>	<u>10,755,491</u>	<u>9,162,460</u>
	<u>\$ 897</u>	<u>\$ 38,347,850</u>	<u>\$ 38,348,747</u>	<u>\$ 33,597,580</u>

Investments are recorded at fair value in compliance with the new accounting standards, include accrued interest of \$42,041 (2008 – \$420,944), have a weighted average term of 2.96 (2008 – 10.14) months to maturity and a weighted average interest rate of 0.55% (2008 – 4.33%).

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, 2009

6. Facility			<u>2009</u>	<u>2008</u>
	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Total</u>	<u>Net Book Total</u>
Facility	\$ 124,918,788	\$ 31,116,096	\$ 93,802,692	\$ 97,278,429
New tolling system	1,483,307	-	1,483,307	213,830
New generator	<u>216,395</u>	<u>18,033</u>	198,362	<u>210,384</u>
Total	\$ <u>126,618,490</u>	\$ <u>31,134,129</u>	\$ <u>95,484,361</u>	\$ <u>97,702,643</u>

7. Long term debt 2009 2008

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.

\$ 72,347,960 \$ 73,874,372

Less: principal repayments due within one year

1,688,949 1,526,361

\$ 70,659,011 \$ 72,348,011

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

2010	\$ 1,688,949
2011	1,868,621
2012	2,067,164
2013	2,286,617
2014	2,529,122

The fair value of the Corporation's long term debt is \$98,389,078 (2008 - \$97,591,506) 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, 2009

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.

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>2009</u>	<u>2008</u>
Reserve for restricted assets, beginning of year	\$ <u>27,658,498</u>	\$ <u>26,487,976</u>
Transfers from project account	15,142,900	14,355,700
Interest income	1,136,808	1,509,806
Long term debt payments, including interest	(9,004,764)	(12,470,958)
Major maintenance payments, including HST to be recovered	<u>(2,575,470)</u>	<u>(2,145,350)</u>
	<u>4,699,474</u>	<u>1,249,198</u>
	<u>32,357,972</u>	<u>27,737,174</u>
Change in market value of restricted assets		
-Transition adjustment on adoption of new standards	-	(38,254)
- Change in value during the year	<u>51,714</u>	<u>(40,422)</u>
Reserve for restricted assets, end of year	\$ <u>32,409,686</u>	\$ <u>27,658,498</u>

Highway 104 Western Alignment Corporation

Notes to the financial statements

March 31, 2009

10. Supplemental cash flow information	<u>2009</u>	<u>2008</u>
Change in non-cash operating working capital		
Inventory	\$ 1,484	\$ 6,076
Prepays	(29,737)	(13,556)
Receivables	91,939	(751,617)
Payables and accruals	432,104	(66,897)
Deferred revenue	<u>5,159</u>	<u>45,414</u>
	<u>\$ 500,949</u>	<u>\$ (780,580)</u>
Cash and cash equivalents consist of:		
Cash on hand and balances with banks	\$ <u>768,424</u>	\$ <u>609,059</u>
Interest paid	<u>\$ 7,483,228</u>	<u>\$ 8,180,083</u>

11. Capital management

The Corporation's objectives when managing capital are to:

- (i) Manage investments to ensure restricted accounts are consistent with trust indenture agreements between the Corporation, bondholders and the Province of Nova Scotia as described in note 5.
 - (ii) To monitor the budget/forecast on a monthly basis to ensure optimal returns to stakeholders.
-

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.

Highway 104 Western Alignment Corporation

Notes to the financial statements

March 31, 2009

12. Commitments and contractual obligations (continued)

- **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 \$2,290,501 (2008 - \$2,057,677).

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.

- **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, 2008.

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

2010	\$	2,898,017
2011		1,600,000
2012		1,500,000
2013		1,175,000
2014		1,040,000

- **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 \$56,718 (2008 - \$75,583) 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:

2010	\$	27,895
2011		19,372
2012		2,328

Highway 104 Western Alignment Corporation

Notes to the financial statements

March 31, 2009

13. Subsequent event

Subsequent to yearend, a vehicle accident occurred at the toll plaza causing damage to the structure. Estimated costs to repair the structure are approximately \$35,000.