

New Brunswick Highway Corporation

Annual Report
2015–2016

**New Brunswick Highway Corporation
Annual Report 2015-2016**

Province of New Brunswick
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Transmittal letters

From the Minister to the Lieutenant-Governor

The Honourable Jocelyne Roy Vienneau
Lieutenant-Governor of New Brunswick

May it please your Honour:

It is my privilege to submit the annual report of the New Brunswick Highway Corporation, Province of New Brunswick, for the fiscal year April 1, 2015, to March 31, 2016.

Respectfully submitted,



Honourable Bill Fraser
Minister
Chair, New Brunswick Highway Corporation

From the President and Chief Executive Officer to the Minister

Honourable Bill Fraser
Minister of Transportation and Infrastructure
Chair, New Brunswick Highway Corporation

Sir:

I am pleased to be able to present the annual report describing operations of the New Brunswick Highway Corporation, Province of New Brunswick, for the fiscal year April 1, 2015, to March 31, 2016.

Respectfully submitted,



Tony K. Desjardins, P. Eng., MBA
President and Chief Executive Officer

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History and objectives

The New Brunswick Highway Corporation was created as a Crown corporation, by an Act of the Legislative Assembly in 1995.

The objective of the corporation is, subject to government direction, to accelerate the upgrading of the New Brunswick Highway System, focusing on those major provincial highways that form part of the national highway system. The corporation can plan, design, finance, construct, improve, operate, maintain, acquire, hold, own, or lease highways. Construction and maintenance are to be carried out in conformity with the standards established by the Minister of Transportation and Infrastructure or as otherwise approved by the Lieutenant-Governor in Council. The corporation has been empowered to borrow and raise revenues through various means as specified and approved by the Lieutenant-Governor in Council. It may also form joint ventures with the private sector.

Fredericton – Moncton Highway

The corporation entered into agreements in 1998 with Maritime Road Development Corporation (MRDC), a private sector consortium, and the New Brunswick (F-M) Project Company Inc. (Project Company), a not-for-profit company. The agreements involved the development, design, building (DDB); and operation, management, maintenance and rehabilitation (OMM) of a four-lane toll highway between Longs Creek and Moncton. At the same time, the corporation entered into a concession agreement with the Project Company where the corporation leases the right of way it owns to the Project Company. All improvements to these lands are owned by the Project Company, which subleases the improvements back to the corporation.

Amendments to the project agreements were signed in 2000 that resulted in the replacement of tolling with traffic volume payments by the corporation to the Project Company based on a traffic counting system.

The capital cost of the Fredericton-Moncton Highway Project was recorded with the related debt reflected as a liability of the corporation and the Province of New Brunswick.

On Oct. 24, 2001, the entire highway (approximately 195 km) was officially opened for traffic.

On Jan. 1, 2009, the Hanwell Road interchange was added to the facility and MRDC assumed responsibility for the OMM of the interchange.

On March 1, 2013, amendments to the project agreements were signed that resulted in the elimination of the traffic volume payments (the shadow tolls) and the requirement for a traffic counting agreement as a mechanism to make the toll-based debt loan payments. The shadow tolls were replaced by a schedule of fixed monthly payments from the corporation to the toll-based lenders, independent of the traffic volumes.

The 20th anniversary date of the Project Company's OMM agreement is Jan. 22, 2018. Under the terms of the agreement, a fixed price proposal will be submitted by MRDC in 2017 and the OMM payment schedule will be renewed for the last 10 years of the agreement. The OMM work is for 30 years with an end date of Jan. 22, 2028.

Department of Transportation and Infrastructure employees have been assigned to the Fredericton-Moncton Highway Project to administer and manage the project. The Department of Finance provides support on financing matters.

Trans-Canada Highway

On Feb. 4, 2005, the corporation entered into agreements with the Trans-Canada Highway Project Co. Ltd., Brun-Way Construction Inc. and Brun-Way Highways Operations Inc. The agreements involved the design, construction, financing; and operation, maintenance, and rehabilitation (OMR) of the Trans-Canada Highway between the Quebec border and Longs Creek and Route 95 between the United States border at Houlton, Maine, and Woodstock.

Trans-Canada Highway Project Co. Ltd., a wholly-owned subsidiary of the corporation, was retained by the corporation to administer and manage the project in accordance with the terms of the project agreements.

The Trans-Canada Highway was fully open to traffic on Oct. 31, 2007. Brun-Way Highways Operations Inc. has been responsible for the OMR of the entire 275 km of the Trans-Canada Highway, from the Quebec border to Longs Creek, as well as Route 95 from Woodstock to the United States border, since October 2007. This work is for a period of 28 years with an end date of June 30, 2033.

Department employees have been assigned to the Trans-Canada Highway Project to manage the project. The Department of Finance provides support on financing matters.

The Trans-Canada Highway Project was jointly funded by the federal and provincial governments through the Canada-New Brunswick Agreement for the Completion of the Twinning of the highway in New Brunswick. The Government of Canada contributed \$200 million toward the entire Route 2 Corridor project from the \$2-billion Canada Strategic Infrastructure Fund.

Route 1 Gateway Project

On Nov. 14, 2007, the corporation was assigned the responsibility to complete Route 1 as a four-lane highway between Lepreau and Waweig (55 km) and for any required upgrading of existing sections of Route 1 between St. Stephen and River Glade. This included the design, construction, financing; and OMR of the Route 1 Gateway Highway Project.

Route 1 Gateway Project Company Ltd. was created as a wholly owned subsidiary of the corporation to facilitate the completion of the twinning of the Route 1 highway.

The Province of New Brunswick and the federal government signed a \$186-million agreement to cost-share the twinning of Route 1 from Murray Road to Pennfield. An additional \$234 million was cost-shared between the two governments under the Provincial-Territorial Base Funding Agreement. The two agreements allowed for a total of \$420 million of the \$541 million to be cost-shared 50/50.

The total completion of the design/build phase of the project was reached on Dec. 15, 2012, seven months ahead of the original schedule and with no claims. Transfield Dexter Gateway Services Limited is responsible for the OMR of the 235 km from St. Stephen to River Glade with the exception of Saint John Harbour Bridge which is under the responsibility of the Department of Transportation and Infrastructure. The OMR work period is for 29 years with an end date of June 30, 2040.

Department employees have been assigned to the Route 1 Gateway Highway Project to administer and manage the project. The Department of Finance provides support on financing matters.

Summary of activities

Fredericton – Moncton Highway

During the year, MRDC, as the operator, continued operating and maintaining the Fredericton-Moncton Highway, which consists of approximately 900 lane kms, 20 interchanges, and 159 structures.

The corporation made payments to MRDC under the OMM agreement for the OMM of the highway. Other obligations met under the agreement included: auditing of MRDC's OMM work; reviewing OMM standards; and reviewing requirements and the maintenance of weigh scale sites.

Semi-annual payments on lease-based debt were made in May and November 2015. This lease-based debt will be fully paid in November 2027. Further, fixed monthly toll-based debt loan payments were made according to a fixed payment schedule independent of traffic volumes. This fixed payment schedule resulted from the elimination of the shadow tolls and the requirement for a traffic counting agreement as a mechanism to make the toll-based debt loan payments. The toll based debt issue will mature in 2026.

The corporation issued a Request for Proposals for engineering advisors to conduct a condition assessment of the entire Fredericton-Moncton Highway. This assessment will be used to help the corporation prepare for its evaluation of the upcoming fixed price proposal which will be submitted by MRDC in 2017 as part of the renewal process.

Trans-Canada Highway

During the year, Brun-Way Highways Operations, as the operator, continued to be responsible for the OMR of the Trans-Canada Highway from Longs Creek to the Quebec border as well as from Woodstock to the United States border, which consists of 1,167 lane kilometres, 34 interchanges and 215 structures with the exception of the exit 19 interchange which is under the administration of the Department of Transportation and Infrastructure.

The corporation made payments to Brun-Way Highways Operations under the agreement for the OMR of the highway. Other obligations met under the agreement included: auditing of the company's OMR work; reviewing OMR standards; and reviewing requirements and the maintenance of weigh scale sites.

Route 1 Gateway Project

The total completion of the design/build phase of the project was achieved on Dec. 15, 2012, seven months ahead of schedule and with no claims.

Effective Dec. 15, 2012, OMR responsibilities for all sections of Route 1 were fully transferred to Transfield Dexter Gateway Services Limited, the operator: 235 km from St. Stephen to River Glade, which consists of 1,104 lane km, 39 interchanges and 210 structures with the exception of Saint John Harbour Bridge.

The corporation made payments to Transfield Dexter Gateway Services Limited under the agreement for the OMR of the highway. Other obligations met under the agreement include: auditing of the OMR work to ensure compliance with the OMR standards; and reviewing and revising the OMR standards to ensure they meet current conditions.

Board of directors

The ministers and deputy ministers of Transportation and Infrastructure and Finance are members of the board of directors, and the president and two other members are appointed by the Lieutenant-Governor in Council. The board of directors at March 31, 2016 consisted of:

- Hon. Roger Melanson, Minister of Transportation and Infrastructure, Chair
- Hon. Roger Melanson, Minister of Finance, Vice-Chair
- Fred Blaney, President
- Sadie Perron, Deputy Minister, Transportation and Infrastructure
- Jean-Marc Dupuis, Deputy Minister, Finance
- Mark Gaudet, Assistant Deputy Minister, Transportation and Infrastructure
- Leonard Lee-White, Assistant Deputy Minister, Finance

Audited financial statements

CONSOLIDATED FINANCIAL STATEMENTS

NEW BRUNSWICK HIGHWAY CORPORATION

31 MARCH 2016



AUDITOR GENERAL
OF NEW BRUNSWICK

INDEPENDENT AUDITOR'S REPORT

To the Chairperson and Board of Directors
New Brunswick Highway Corporation

I have audited the accompanying consolidated financial statements of the New Brunswick Highway Corporation, which comprise the consolidated statements of financial position as at March 31, 2016, and the consolidated statements of operations, cash flow, change in net debt and change in accumulated surplus for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these consolidated financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the New Brunswick Highway Corporation as at March 31, 2016, and the results of its operations, its cash flows, changes in its net debt and changes in its accumulated surplus for the year then ended in accordance with Canadian public sector accounting standards.

Kim MacPherson, CPA, CA, ICD.D
Auditor General

August 15, 2017

NEW BRUNSWICK HIGHWAY CORPORATION
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH



	2016	2015
<u>FINANCIAL ASSETS</u>		
Due from Province of New Brunswick	\$ 641,045,051	\$ 675,722,396
Accounts receivable	111,982	128,599
	<u>\$ 641,157,033</u>	<u>\$ 675,850,995</u>
<u>LIABILITIES</u>		
Accounts payable and accrued liabilities	\$ 3,714,450	\$ 3,678,263
Accrued interest payable	59,585,030	62,803,090
Accrued rehabilitation (Note 8)	18,585,094	21,328,151
Other monies held in trust	120,000	120,000
Deferred revenue (Note 4)	-	3,077,407
Capital lease obligation (Note 6)	577,793,450	609,432,818
	<u>\$ 659,798,024</u>	<u>\$ 700,439,729</u>
<u>NET DEBT</u>	<u>\$ (18,640,991)</u>	<u>\$ (24,588,734)</u>
<u>NON-FINANCIAL ASSETS</u>		
Prepaid rehabilitation (Note 7)	\$ 130,216,013	\$ 126,917,434
Prepaid expenses	55,893	3,260,582
Fredericton-Moncton highway (Note 9)	700,224,355	700,777,699
Trans -Canada highway (Note 10)	623,694,692	631,881,936
Route 1 Gateway project (Note 11)	573,635,636	582,319,823
	<u>\$ 2,027,826,589</u>	<u>\$ 2,045,157,474</u>
<u>ACCUMULATED SURPLUS</u>	<u>\$ 2,009,185,598</u>	<u>\$ 2,020,568,740</u>

Contingent Liabilities – See Note 16

Contractual Obligations/Commitments – See Note 14

The accompanying notes are an integral part of these Consolidated Financial Statements.

Approved by the Board

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Chairperson

Director

**NEW BRUNSWICK HIGHWAY CORPORATION
CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED 31 MARCH**

	2016		2015
	Budget (Schedule A)	Actual	Actual
REVENUE (Note 12)			
Province of New Brunswick	\$ 119,238,053	\$ 117,851,191	\$ 96,934,815
Other	-	27,100	44,300
	<u>\$ 119,238,053</u>	<u>\$ 117,878,291</u>	<u>\$ 96,979,115</u>
EXPENSE			
Fredericton-Moncton Highway			
New Brunswick (F-M) Project Company Inc. administrative expenditures	\$ 160,000	\$ 158,117	\$ 162,423
Operations and maintenance (Note 13)	14,252,100	14,216,318	4,389,875
Operating and administrative expense	362,400	126,852	116,239
Amortization expense (Note 9)	20,959,958	20,959,958	20,155,272
Interest expense	41,007,414	41,007,414	43,127,324
Trans-Canada Highway			
Trans-Canada Highway Project Co. Ltd administrative expenditures	126,200	145,559	138,765
Operations and maintenance (Note 13)	6,381,200	6,220,141	6,180,937
Amortization expense (Note 10)	19,455,368	19,455,368	18,882,064
Route 1 Gateway Highway			
Route 1 Gateway Project Company Ltd administrative expenditures	125,500	146,577	129,602
Operations and maintenance (Note 13)	7,619,600	7,440,906	7,447,021
Amortization expense (Note 11)	19,384,223	19,384,223	18,675,875
	<u>\$ 129,833,963</u>	<u>\$ 129,261,433</u>	<u>\$ 119,405,397</u>
ANNUAL (DEFICIT) SURPLUS	<u>\$ (10,595,910)</u>	<u>\$ (11,383,142)</u>	<u>\$ (22,426,282)</u>

The accompanying notes are an integral part of these Consolidated Financial Statements.

NEW BRUNSWICK HIGHWAY CORPORATION
CONSOLIDATED STATEMENT OF CHANGE IN NET DEBT
FOR THE YEAR ENDED 31 MARCH

	2016		2015
	Budget	Actual	Actual
NET DEBT – BEGINNING OF YEAR	\$ (24,588,734)	\$ (24,588,734)	\$ (17,975,924)
CHANGES IN YEAR			
Annual (Deficit)	\$ (10,595,910)	\$ (11,383,142)	\$ (22,426,282)
Acquisition of Tangible Capital Assets	(42,533,960)	(42,374,774)	(41,066,609)
Amortization of Tangible Capital Assets	59,799,549	59,799,549	57,713,211
Change in Prepaid Rehabilitation	(3,854,228)	(3,298,579)	1,605,502
Net Change in Prepaid Expense	0	3,204,689	(2,438,632)
CHANGE IN NET DEBT	<u>\$ 2,815,451</u>	<u>\$ 5,947,743</u>	<u>\$ (6,612,810)</u>
NET DEBT – END OF YEAR	<u>\$ (21,773,283)</u>	<u>\$ (18,640,991)</u>	<u>\$ (24,588,734)</u>

The accompanying notes are an integral part of these Consolidated Financial Statements.

NEW BRUNSWICK HIGHWAY CORPORATION
CONSOLIDATED STATEMENT OF CHANGES IN ACCUMULATED SURPLUS
FOR THE YEAR ENDED 31 MARCH

	2016	2015
BALANCE, BEGINNING OF YEAR	<u>\$ 2,020,568,740</u>	<u>\$ 2,042,995,022</u>
ANNUAL (DEFICIT) OF REVENUE OVER EXPENSE	(11,383,142)	(22,426,282)
BALANCE, END OF YEAR	<u>\$ 2,009,185,598</u>	<u>\$ 2,020,568,740</u>

The accompanying notes are an integral part of these Consolidated Financial Statements.

**NEW BRUNSWICK HIGHWAY CORPORATION
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH**

	2016	2015
CASH & CASH EQUIVALENTS GENERATED BY (USED IN)		
OPERATING ACTIVITIES		
Annual (Deficit) Surplus	\$ (11,383,142)	\$ (22,426,282)
Add: Non-Cash Items		
Amortization of capital assets	59,799,549	57,713,211
	\$ 48,416,407	\$ 35,286,929
CHANGES IN NON-CASH WORKING CAPITAL BALANCES		
Accounts Receivable	\$ 16,617	\$ 44,500
Accounts Payable	36,187	124,520
Accrued Interest payable	(3,218,060)	(3,021,292)
Accrued Rehabilitation	(2,743,057)	4,174,177
Deferred Revenue	(3,077,407)	2,255,457
Prepaid Expense	3,204,689	(2,438,632)
Prepaid Rehabilitation	(3,298,579)	1,605,502
	\$ (9,079,610)	\$ 2,744,232
CAPITAL TRANSACTIONS		
Acquisition of Tangible Capital Assets	\$ (42,374,774)	\$ (41,066,609)
FINANCING ACTIVITIES		
Capital Lease Payments	\$ (31,639,368)	\$ (29,321,552)
Decrease in Cash & Cash Equivalents	\$ (34,677,345)	\$ (32,357,000)
Cash & Cash Equivalents, beginning of year	\$ 675,722,396	\$ 708,079,396
Cash & Cash Equivalents is represented by: Due from Province of New Brunswick	\$ 641,045,051	\$ 675,722,396

The accompanying notes are an integral part of these Consolidated Financial Statements.

NEW BRUNSWICK HIGHWAY CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 MARCH 2016

1. New Brunswick Highway Corporation

The New Brunswick Highway Corporation (NBHC) is a Provincial Crown Corporation incorporated by an Act of the New Brunswick Legislature effective 29 March 1995.

NBHC is the signatory for the Province in all agreements relating to the Fredericton-Moncton Highway Project, the Trans-Canada Highway Project, and the Route 1 Gateway Project. As such, NBHC is responsible for monitoring, controlling and administering those agreements to ensure that agreement terms are respected by other signatories and that provincial commitments are met. This includes ensuring that construction of the highway and any required refurbishments are completed as required in those agreements. It also includes ensuring that the ongoing operation, management, maintenance, and rehabilitation of the Fredericton-Moncton highway, the Trans-Canada highway, and the Route 1 Gateway Highway, are conducted in accordance with terms of the respective project agreements.

2. Summary of Significant Accounting Policies

Basis of Accounting

These consolidated financial statements are prepared by management using NBHC's accounting policies stated below which are in accordance with Canadian public sector accounting standards (PSAS) as issued by the Public Sector Accounting Board of Canada.

Cash and Cash Equivalents/Due from Province of New Brunswick

Cash and cash equivalents consist of amounts due from the Province of New Brunswick ("the Province"). NBHC does not have a separate bank account; NBHC expenses and revenues flow through the Province of New Brunswick's bank accounts.

Asset Classification

Assets are classified as either financial or non-financial. Financial assets are assets that could be used to discharge existing liabilities or finance future operations and are not to be consumed in the normal course of operations. Non-financial assets are acquired, constructed or developed assets that do not provide resources to discharge existing liabilities but are employed to deliver government services, may be consumed in normal operations and are not for resale.

Tangible Capital Assets

Tangible Capital assets are recorded at gross cost and amortized on a straight-line basis over a period of 20 to 50 years, depending on the asset classification. Assets under construction are carried as work in progress until completion.

NEW BRUNSWICK HIGHWAY CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 MARCH 2016

2. Summary of Significant Accounting Policies (continued)

Leases

Long-term leases, under which NBHC, as lessee, assumes substantially all the benefits and risks of ownership of leased property, are classified as capital leases. The present value of a capital lease is accounted for as an asset and an obligation at the inception of the lease.

Financial Instruments

Financial instruments consist of a Due from Province of New Brunswick, accounts receivable, accounts payable and accrued liabilities, accrued interest payable, and accrued rehab.

Financial instruments are derecognised when the contractual rights to the cash flows from the financial asset have expired or have been transferred, and the Corporation has transferred substantially all risks and rewards of ownership, or are derecognized when the contractual obligation has been discharged, cancelled, or has expired.

The carrying value of Due from Province of New Brunswick, accounts receivable, accounts payable and accrued liabilities, accrued interest payable, and accrued rehab approximate fair value of these instruments.

Consolidation Policy

These consolidated financial statements include the accounts of NBHC and those of its wholly-owned subsidiaries, Trans-Canada Highway Project Co. Ltd and Route 1 Gateway Project Company Ltd.

Revenue Recognition

Revenues are recorded on an accrual basis. Government transfers are recognized as revenue in the period during which the transfer is authorized and all eligibility criteria are met, except when and to the extent that the transfer stipulations give rise to an obligation that meets the definition of a liability. Transfers recognized in the period include operational costs, capital transfers for assets, and prepaid rehabilitation.

Measurement Uncertainty

Measurement uncertainty is uncertainty in the determination of the amount at which an item is recognized in the financial statements. This uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount. Some items in these financial statements have been measured using estimates. The most significant areas requiring the use of management estimates relate to amortization expense and the allocation of the payment amounts to the developer as prepaid expenses or tangible capital assets. Actual results could differ from those estimates.

The Province provides funding to NBHC to meet agreement terms for the operation, management, maintenance and rehabilitation (capital improvements) of designated sections of the New Brunswick highway network. These agreements cover the Fredericton to Moncton highway, the Trans-Canada highway from Longs Creek to the Quebec border and the Route 1 Gateway highway.

NEW BRUNSWICK HIGHWAY CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 MARCH 2016

2. Summary of Significant Accounting Policies (continued)

The terms of the agreements provide for scheduled annual payments which do not necessarily reflect the expected timing of rehabilitation work. To better reflect the capital improvements, the payments to the operators are being accounted for as follows:

- as prepaid expenses when the rehabilitation work is expected to be completed after the payment has been made,
- as accrued expenditures when the rehabilitation work is expected to occur prior to the payment being made, and as the acquisition of tangible capital assets in the year the rehabilitation work is expected to be completed.

Amortization of the capital improvement work commences in the year the rehabilitation work is expected to be performed. This may not reflect when the work is actually completed by the operators.

3. Budget

The budget figures included in these financial statements have been derived from the estimates approved by the Corporation's Board of Directors. A reconciliation is provided in Schedule A between the 2016 Budget and 2016 NBHC Business Plan/Main Estimates Ordinary figures.

4. Deferred Revenue

The balance of deferred revenue at 31 March 2016 was nil (2015 - \$3,077,407). The prior year balance was payment received from the Province of New Brunswick for the April 2015 Operations, Maintenance and Management payment for the Fredericton-Moncton highway.

5. Risk Management

An analysis of significant risk from NBHC's financial instruments is provided below:

a) Credit Risk

Credit risk is the risk that one party to a financial instrument will cause financial loss for the other party by failing to discharge an obligation. Accounts receivable balances are due from related entities of the Corporations and are considered low risk due to an excellent collection history. Accounts receivable balances from external organizations are deemed insignificant to the Corporation's consolidated financial statements. The Corporation's maximum exposure to credit risk at March 31, 2016 is equal to the accounts receivable balance of \$111,982. Credit risk is not disbursed as related entities comprise a significant portion of the accounts receivable balance.

NEW BRUNSWICK HIGHWAY CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 MARCH 2016

5. Risk Management (continued)

b) Liquidity Risk

Liquidity risk is the risk of not being able to settle or meet an obligation on time or at a reasonable price. The Corporation's management considers exposure to liquidity risk to be insignificant. The Corporation manages liquidity risk through signed agreements and acts whereby the Province guarantees all obligations.

c) Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or fair values of financial instruments. As all lease contracts have fixed interest rates the Corporation's management considers exposure to interest risk to be insignificant.

d) Currency Risk

Currency risk arises on financial instruments denominated in a foreign currency. The Corporation does not have any transactions with customers in a foreign currency and therefore considers risk to be insignificant.

6. Capital Lease Obligation

Due to the elimination of tolls under the 1 March 2000 amendments to the Fredericton-Moncton highway agreements, the payment arrangements are accounted for as a capital lease in accordance with Canadian public sector accounting standards. Consequently, a capital lease obligation was accrued during the 1999-2000 fiscal year. The net present value of that capital lease obligation at 31 March 2016 was \$577.8 million (2015 \$609.4 million). Under the agreements, NBHC will be required to make total future lease payments to the New Brunswick (F-M) Project Company Inc. of approximately \$897.0 million, including principal and interest.

Capital lease obligation interest rate: 6.41%

Capital lease obligation expiry date: November 30, 2027

Annual principal and interest payments in each of the next five years are as follows:

<u>Fiscal Year</u>	<u>(millions)</u>
2016 - 2017	\$76.1
2017 - 2018	\$76.3
2018 - 2019	\$76.8
2019 - 2020	\$77.1
2020 - 2021	\$77.4

NEW BRUNSWICK HIGHWAY CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 MARCH 2016

7. Prepaid Rehabilitation

	<u>2016</u>	<u>2015</u>
F-MH		
Balance, beginning of year	\$ 45,599,349	\$ 51,555,110
(Decreases) during year	(1,542,562)	(5,955,761)
Balance, end of year	<u>\$ 44,056,787</u>	<u>\$ 45,599,349</u>
TCH		
Balance, beginning of year	\$ 81,318,085	\$ 76,967,826
Additions during year	4,841,141	4,350,259
Balance, end of year	<u>\$ 86,159,226</u>	<u>\$ 81,318,085</u>
Total prepaid rehabilitation balance, end of year	<u><u>\$130,216,013</u></u>	<u><u>\$126,917,434</u></u>

8. Accrued Rehabilitation

	<u>2016</u>	<u>2015</u>
R1G		
Balance, beginning of year	\$ 21,328,151	\$ 17,153,974
Decrease during year	(2,743,057)	4,174,177
Balance, end of year	<u>\$ 18,585,094</u>	<u>\$ 21,328,151</u>
Total accrued rehabilitation balance, end of year	<u><u>\$ 18,585,094</u></u>	<u><u>\$ 21,328,151</u></u>

9. Fredericton-Moncton Highway

In January 1998, the Province, through NBHC, entered into agreements with a private sector consortium and the New Brunswick (F-M) Project Company Inc., a not-for-profit company, to develop, design, build, operate, manage, maintain, and rehabilitate a four-lane toll highway between Longs Creek and Moncton. Effective 1 March 2000, the agreements were amended to eliminate tolling on the highway.

Collateral mortgages are held by the Toll Based Debt Lenders on the Facility Lands for the outstanding balance. The collateral mortgages will remain on the Facility Lands until such time as the debt is repaid.

NEW BRUNSWICK HIGHWAY CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 MARCH 2016

9. Fredericton-Moncton Highway (continued)

NBHC was responsible for making monthly traffic volume payments to the New Brunswick (F-M) Project Company Inc. The traffic volume payments were used to repay principal and pay interest on the toll-based debt. Any amount in excess of that required to service the debt was returned to NBHC. Effective March 1, 2013 amendments to the project agreements were signed that resulted in the elimination of the traffic volume payments and the requirement for the traffic counting agreement as a mechanism to make the toll-based debt loan payments.

NBHC leases land to the New Brunswick (F-M) Project Company Inc., which owns all improvements to these lands, in particular the four-lane highway, and subleases the improvements back to NBHC. NBHC is responsible for making the sublease payments to the New Brunswick (F-M) Project Company Inc.

The transfer of the land corridor required for the Fredericton-Moncton highway by the Province to NBHC has been treated as an equity contribution for financial statement purposes and has been recorded at the nominal amount of one dollar.

	<u>2016</u>	<u>2015</u>
Balance, beginning of year	\$ 951,269,224	\$ 939,488,408
Additions during year	20,406,614	11,780,816
Closing Balance, end of year	<u>\$ 971,675,838</u>	<u>\$ 951,269,224</u>
Accumulated amortization beginning of year	\$ 250,491,525	\$ 230,336,253
Amortization Expense	20,959,958	20,155,272
Accumulated Amortization, end of year	<u>\$ 271,451,483</u>	<u>\$ 250,491,525</u>
Net Book Value (NBV)	<u>\$ 700,224,355</u>	<u>\$ 700,777,699</u>

10. Trans-Canada Highway

NBHC was responsible for the design, construction, and financing of the Grand Falls to Aroostook and the Perth-Andover to Woodstock sections (98 km) and is responsible for the operation, maintenance, and rehabilitation of the entire Quebec border to Longs Creek section (261 km) of the Trans-Canada Highway (TCH), as well as Route 95 from Woodstock to the US border (14 km).

The Trans-Canada Highway Project Co. Ltd was created as a wholly-owned subsidiary of NBHC to facilitate the completion of the twinning of the Trans-Canada highway.

On 4 February 2005, the Province, through NBHC, entered into agreements with a private sector consortium, Brun-Way Group Joint Venture, and the Trans-Canada Highway Project Co. Ltd to develop, design, build, finance, operate, manage, maintain, and rehabilitate a four-lane highway

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10. Trans-Canada Highway (continued)

between the Quebec border and Longs Creek. Payments made for completion of the highway totalled \$541,973,620.

The Province acquired land and made improvements along the corridor. Completed sections of the highway were transferred from the Province to NBHC in a non-arm's length transaction. The initial transfer was treated as an equity contribution for financial statement purposes and has been recorded at the nominal amount of one dollar. The Grand Falls to Aroostook, the Route 95 to US Border and the Aroostook to Woodstock sections were completed in October 2007 and transferred to NBHC at a value of \$557,300,748 based on the cost of Design-Build sections plus improvements made to Route 95.

	<u>2016</u>	<u>2015</u>
Balance, beginning of year	\$ 769,672,719	\$ 758,015,244
Additions during year	11,268,124	11,657,475
Closing Balance, end of year	<u>\$ 780,940,843</u>	<u>\$ 769,672,719</u>
Accumulated amortization, beginning of year	\$ 137,790,783	\$ 118,908,719
Amortization Expense	19,455,368	18,882,064
Accumulated Amortization, end of year	<u>\$ 157,246,151</u>	<u>\$ 137,790,783</u>
Net Book Value (NBV)	<u>\$ 623,694,692</u>	<u>\$ 631,881,936</u>

11. Route 1 Gateway Project

The Route 1 Gateway Company Ltd was created June 3, 2009 as a wholly-owned subsidiary of NBHC to facilitate the completion of the twinning and upgrading of existing sections of Route 1 highway. R1GP Co. was retained by NBHC to administer and manage the Route 1 Gateway Project in accordance with the terms of the project agreements.

Land required for new sections of the highway and certain existing sections of the highway have been transferred from the Province to NBHC in a non-arm's length transaction. The transfer has been treated as an equity contribution for financial statement purposes and has been recorded at the nominal amount of one dollar. All land required to complete the twinning of Route 1 has been transferred to NBHC and such lands form part of the Facility Lands.

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11. Route 1 Gateway Project (continued)

Project agreements were entered into with Dexter Developer General Partnership, on March 31, 2010 for a guaranteed maximum construction price (GMP) of \$580,278,703. In December 2010, NBHC received direction from the province to reduce the scope of the Design-Build work. The final GMP was \$540,998,410. The total completion of the design/build phase of the project was reached December 15, 2012 seven months ahead of the original schedule.

Effective December 15, 2012, the operation, maintenance and rehabilitation responsibilities for all sections of Route 1 (235 kilometres from St. Stephen to River Glade) were transferred to Transfield Dexter Gateway Services Limited. The OMR work period is for 29 years with an end date of June 30, 2040.

	<u>2016</u>	<u>2015</u>
Balance, beginning of year	\$ 625,969,418	\$ 608,341,100
Additions during year	10,700,036	17,628,318
Closing Balance, end of year	<u>\$ 636,669,454</u>	<u>\$ 625,969,418</u>
Accumulated amortization beginning of year	\$ 43,649,595	\$ 24,973,720
Amortization Expense	19,384,223	18,675,875
Accumulated Amortization, end of year	<u>\$ 63,033,818</u>	<u>\$ 43,649,595</u>
Net Book Value (NBV)	<u>\$ 573,635,636</u>	<u>\$ 582,319,823</u>

12. Revenue

Revenue consists of government transfers from the Province of New Brunswick and other revenue. Other revenue includes Highway Usage Permits (HUP) Fees in the amount of \$27,100 (2015 - \$ 25,800) and a one-time HUP fee of nil (2015 - \$18,500) for Quispamsis.

13. Expense

Under the terms of the amended Fredericton-Moncton Highway Operation, Management, Maintenance, and Rehabilitation Agreement, NBHC is responsible to make scheduled payments for the operation, management, maintenance, and rehabilitation of the Fredericton-Moncton highway.

NEW BRUNSWICK HIGHWAY CORPORATION
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13. Expense (continued)

Of the \$33,080,370 (2015 - \$10,214,930) OMR payment, \$20,406,614 (2015 - \$11,780,816) was capitalized and \$1,542,562 reduced (2015 - \$5,955,761) the prepaid for future rehabilitation work. This has resulted in operating and maintenance expenses of \$14,216,318 (2015 - \$4,389,875). Estimated future payments can be found in Note 14 Contractual obligations/commitments. Effective March 1, 2013 the requirement for the traffic counting system was eliminated.

Under the terms of the Trans-Canada Highway Operation, Maintenance, and Rehabilitation Agreement, on 1 June 2005 NBHC became responsible to make scheduled payments for the operation, maintenance, and rehabilitation of completed sections of the Trans-Canada highway. Of the \$22,329,406 (2015 - \$22,188,671) OMR payment, \$11,268,124 (2015 - \$11,657,475) was capitalized and \$4,841,141 (2015 - \$4,350,259) was recorded as a prepaid for future rehabilitation work. This has resulted in operating and maintenance expenses of \$6,220,141 (2015 - \$6,180,937). Estimated future payments can be found in Note 14 Contractual obligations/commitments.

Under the terms of the Route 1 Gateway Project Operation, Maintenance, and Rehabilitation Agreement, effective June 1, 2011 NBHC became responsible to make scheduled payments for the operation, maintenance, and rehabilitation of the Route 1 Gateway Project. Of the \$20,883,999 (2015 - \$20,901,162) OMR payment, \$10,700,036 (2015 - \$17,628,318) was capitalized. Accrued rehabilitation was reduced by \$2,743,057 (2015 - increased by \$4,174,177). This has resulted in operating and maintenance expenses of \$7,440,906 (2015 - \$7,447,021). Estimated future payments can be found in Note 14 Contractual obligations/commitments.

	<u>2016</u>	<u>2015</u>
F-MH		
Ordinary/Maintenance	\$ 14,216,318	\$ 4,389,875
Capital/Rehab	20,406,614	11,780,816
Capitalization/Timing Adjustment	(1,542,562)	(5,955,761)
Total OMR Payment	<u>\$ 33,080,370</u>	<u>\$ 10,214,930</u>
TCH		
Ordinary/Maintenance	\$ 6,220,141	\$ 6,180,937
Capital/Rehab	11,268,124	11,657,475
Capitalization/Timing Adjustment	4,841,141	4,350,259
Total OMR Payment	<u>\$ 22,329,406</u>	<u>\$ 22,188,671</u>
RIG		
Ordinary/Maintenance	\$ 7,440,906	\$ 7,447,021
Capital/Rehab	10,700,036	17,628,318
Capitalization/Timing Adjustment	2,743,057	(4,174,177)
Total OMR Payment	<u>\$ 20,883,999</u>	<u>\$ 20,901,162</u>

NEW BRUNSWICK HIGHWAY CORPORATION
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14. Contractual Obligations/Commitments

NBHC has entered into a 20 year agreement for the OMR of the F-MH with Maritime Road Development, with adjustments for inflation and other items as per provisions of the agreement. The OMR payment is subject to negotiation with the Operator for the final ten years, (20th anniversary date is January 22, 2018).

NBHC has entered into an agreement for the OMR of the TCH from the Quebec Border to Longs Creek with Brun-way Highways Operations Inc. The agreement terminates in 2033. The annual payments are based on an annual fixed price of \$18.8 million (in 2005 dollars) with adjustments for inflation and other items as per provisions of the agreement.

NBHC has entered into an agreement for the OMR of the R1G with Transfield Dexter Gateway Services Limited. The annual OMR price is \$19.8 million (in 2010 dollars) to be adjusted annually for inflation and other items in accordance with the provisions of the OMR Agreement. Payments commenced in July 2011 and OMR payments for all sections commenced in December 2012. The OMR Agreement terminates in June 2040.

Projected OMR payments for each agreement are as follows:

(\$ Millions)	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
F-MH	\$11.5	\$ 8.3	TBD	TBD	TBD
TCH	\$22.9	\$23.4	\$23.9	\$24.5	\$25.0
R1G	\$21.4	\$21.9	\$22.4	\$22.9	\$23.4

15. Economic Dependence

NBHC is economically dependent on the Province of New Brunswick. During the fiscal year, NBHC received funding of \$117.9 million (2015 - \$96.9 million) from the Province.

NBHC has no employees. Staff support is provided by the Department of Transportation and Infrastructure and the Department of Finance. A salary allocation of \$318,040 (2015 - \$311,131) is included in administrative expenses to account for staff support. Other services such as financial, human resources and information technology are provided by the Province of New Brunswick.

16. Contingent Liabilities

NBHC has been subject to litigation in the course of its operations. In management's judgment, no material exposure exists at this time and accordingly management has not recorded a provision for loss in the financial statements.

NEW BRUNSWICK HIGHWAY CORPORATION
SCHEDULE A - RECONCILIATION OF 2015-16 BUDGET ESTIMATES

	2016 Budget per NBHC Business Plan/Main Estimates (Ordinary)	Reconciling Items	2016 Budget
REVENUE			
Province of New Brunswick	\$ 29,027,000	\$ 90,211,053 ¹	\$ 119,238,053
Other	-	-	-
	<u>\$ 29,027,000</u>	<u>\$ 90,211,053 ¹</u>	<u>\$ 119,238,053</u>
EXPENSE			
Fredericton-Moncton Highway			
New Brunswick (F-M) Project Company Inc.			
administrative expenditures	\$ 160,000	-	\$ 160,000
Operations and maintenance	14,252,100	-	14,252,100
Operating and administrative expense	362,400	-	362,400
Amortization expense	-	\$ 20,959,958 ²	20,959,958
Interest expense	-	41,007,414 ³	41,007,414
Trans-Canada Highway			
Trans-Canada Highway Project Co. Ltd administrative			
expenditures	126,200	-	126,200
Operations and maintenance	6,381,200	-	6,381,200
Amortization expense	-	19,455,368 ²	19,455,368
Route 1 Gateway Highway			
Route 1 Gateway Project Company Ltd			
administrative expenditures	125,500	-	125,500
Operations and maintenance	7,619,600	-	7,619,600
Amortization expense	-	19,384,223 ²	19,384,223
	<u>\$ 29,027,000</u>	<u>\$ 100,806,963</u>	<u>\$ 129,833,963</u>
ANNUAL (DEFICIT) SURPLUS	<u>\$ -</u>	<u>\$(10,595,910)</u>	<u>\$ (10,595,910)</u>

¹ Business Plan is intended to reflect Main Estimates Ordinary.

² Amortization is budgeted under General Government Services in Main Estimates.

³ Interest is budgeted under Service of the Public Debt in Main Estimates.