
New Brunswick Highway Corporation

Annual Report 2019-2020

New Brunswick Highway Corporation

ANNUAL REPORT 2019-2020

Province of New Brunswick

PO Box 6000, Fredericton NB E3B 5H1 CANADA

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TRANSMITTAL LETTERS

From the Minister to the Lieutenant-Governor

The Honourable Louise Imbeault
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, 2019, to March 31, 2020.

Respectfully submitted,



Honourable Chuck Chiasson
Minister
Chair, New Brunswick Highway Corporation

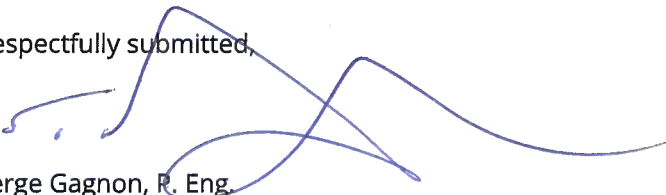
From the President and Chief Executive Officer to the Minister

Honourable Chuck Chiasson
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, 2019, to March 31, 2020.

Respectfully submitted,



Serge Gagnon, R. Eng.
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 OMM work is for 30 years with an end date of Jan. 22, 2028. The 20th anniversary date of the OMM agreement is Jan. 22, 2018. The renewal process to establish a fixed price for the final 10 years as outlined in the OMM agreement commenced in fiscal 2017-18 and formal arbitration commenced in 2018-19.

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. Gateway Operations 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 2016. 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.

As part of the 30-year agreement for the OMM of the F-MH with MRDC Operations Corporation, a fixed price for the first twenty years ended on January 22, 2018. In fiscal 2017-18 a fixed price renewal process commenced which has resulted in formal arbitration in fiscal 2018-19. Under the agreement, the OMM price for the final year (2017) shall remain in effect until a fixed price for the final 10 years is established.

Trans-Canada Highway

During the year, Brun-Way Highways Operations Inc., 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.

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 Gateway Operations 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, 2020 consisted of:

- Honourable Bill Oliver, Minister of Transportation and Infrastructure, Chair
- Honourable Ernie L. Steeves, Minister of Finance, Vice-Chair
- Tony K. Desjardins, President
- John Logan, Deputy Minister, Transportation and Infrastructure,
- Cheryl Hansen, Deputy Minister, Finance
- Mark Gaudet, Assistant Deputy Minister, Transportation and Infrastructure
- Leonard Lee-White, Assistant Deputy Minister, Finance

INDEPENDENT AUDITOR'S REPORT

To the Chairperson and Board of Directors of New Brunswick Highway Corporation

Report on the Audit of the Consolidated Financial Statements

Opinion

I have audited the consolidated financial statements of New Brunswick Highway Corporation (the Entity), which comprise the consolidated statement of financial position as at March 31, 2020, and the consolidated statements of operations, change in net debt, change in accumulated surplus, and cash flow for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Entity as at March 31, 2020, and the results of its operations, changes in its net debt, changes in its accumulated surplus, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

I conducted my audit in accordance with Canadian generally accepted auditing standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated financial statements* section of my report. I am independent of the Entity in accordance with the ethical requirements that are relevant to my audit of the consolidated financial statements in Canada, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of Matter

I draw attention to Note 13 – Contractual Obligations/Commitments, Note 14 – Contingent Liabilities, and Note 16 – Subsequent Events describing the potential impacts on the consolidated financial statements as a result of the arbitration decision concerning the Fredericton-Moncton Highway operation, management, maintenance and rehabilitation price negotiations, currently under appeal. My opinion is not modified in respect of this matter.

Responsibilities of Management and Those Charged with Governance for the Consolidated financial statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the consolidated financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

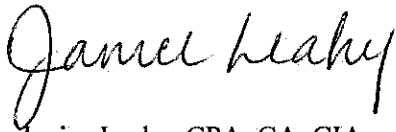
Auditor's Responsibilities for the Audit of the Consolidated financial statements

My objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

A handwritten signature in black ink that reads "Janice Leahy". The signature is written in a cursive, flowing style.

Janice Leahy, CPA, CA, CIA
Acting Auditor General

Fredericton, New Brunswick, Canada
September 22, 2021

CONSOLIDATED FINANCIAL STATEMENTS

NEW BRUNSWICK HIGHWAY CORPORATION

31 MARCH 2020



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

	2020	2019
<u>FINANCIAL ASSETS</u>		
Due from Province of New Brunswick	\$ 475,592,628	\$ 521,199,335
Accounts receivable	4,690	4,690
	<u>\$ 475,597,318</u>	<u>\$ 521,204,025</u>
<u>LIABILITIES</u>		
Accounts payable and accrued liabilities	\$ 5,158,184	\$ 4,423,771
Accrued interest payable	44,475,956	48,617,861
Accrued rehabilitation (Note 7)	13,132,972	10,332,412
Other monies held in trust	120,000	120,000
Capital lease obligation (Note 5)	425,976,479	468,101,462
	<u>\$ 488,863,591</u>	<u>\$ 531,595,506</u>
<u>NET DEBT</u>	<u>\$ (13,266,273)</u>	<u>\$ (10,391,481)</u>
<u>NON-FINANCIAL ASSETS</u>		
Prepaid rehabilitation (Note 6)	\$ 72,183,296	\$ 89,305,759
Prepaid expenses	133,299	59,065
Fredericton-Moncton highway (Note 8)	672,792,153	685,129,993
Trans -Canada highway (Note 9)	620,791,886	616,903,149
Route 1 Gateway project (Note 10)	541,720,353	545,939,144
	<u>\$ 1,907,620,987</u>	<u>\$ 1,937,337,110</u>
<u>ACCUMULATED SURPLUS</u>	<u>\$ 1,894,354,714</u>	<u>\$ 1,926,945,629</u>

Contingent Liabilities – See Note 14
Contractual Obligations/Commitments – See Note 13
Subsequent Events – See Note 16

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

Approved by the Board

Chairperson

Director

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

	2020		2019
	Budget	Actual	Actual
REVENUE (Note 11)			
Province of New Brunswick	\$ 90,163,900	\$ 90,008,578	\$ 92,078,611
Other	-	98,453	59,100
	<u>\$ 90,163,900</u>	<u>\$ 90,107,031</u>	<u>\$ 92,137,711</u>
EXPENSE			
Fredericton-Moncton Highway			
New Brunswick (F-M) Project Company Inc. administrative expenditures	\$ 160,000	\$ 163,443	\$ 160,017
Operations and maintenance (Note 12)	6,402,400	6,415,193	4,646,479
Operating and administrative expense	149,700	170,960	158,677
FMHP Renewal expenses	365,300	323,145	392,042
Amortization expense (Note 8)	24,238,000	24,543,096	24,238,562
Interest expense	30,840,400	30,840,348	33,661,065
Trans-Canada Highway			
Trans-Canada Highway Project Co. Ltd administrative Expenditures	161,000	132,523	135,559
Operations and maintenance (Note 12)	6,847,700	6,803,344	6,704,074
Amortization expense (Note 9)	23,167,800	23,184,871	21,662,001
Route 1 Gateway Highway			
Route 1 Gateway Project Company Ltd administrative expenditures	157,000	127,139	135,203
Operations and maintenance (Note 12)	8,238,900	8,185,757	8,058,178
Amortization expense (Note 10)	21,815,500	21,808,127	21,181,973
	<u>\$ 122,543,700</u>	<u>\$ 122,697,946</u>	<u>\$ 121,133,830</u>
ANNUAL (DEFICIT)	<u>\$ (32,379,800)</u>	<u>\$ (32,590,915)</u>	<u>\$ (28,996,119)</u>

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

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

	2020		2019
	Budget	Actual	Actual
NET DEBT – BEGINNING OF YEAR	\$ (10,391,481)	\$ (10,391,481)	\$ (17,481,037)
CHANGES IN YEAR			
Annual (Deficit)	\$ (32,379,800)	\$ (32,590,915)	\$ (28,996,119)
Acquisition of Tangible Capital Assets	(45,052,980)	(56,868,200)	(41,298,070)
Amortization of Tangible Capital Assets	69,221,300	69,536,094	67,082,536
Change in Prepaid Rehabilitation	5,330,900	17,122,463	10,313,081
Net Change in Prepaid Expense	0	(74,234)	(11,872)
CHANGE IN NET DEBT	\$ (2,880,580)	\$ (2,874,792)	\$ 7,089,556
NET DEBT – END OF YEAR	\$ (13,272,061)	\$ (13,266,273)	\$ (10,391,481)

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

	2020	2019
ACCUMULATED SURPLUS, BEGINNING OF YEAR	\$ 1,926,945,629	\$ 1,955,941,748
ANNUAL (DEFICIT) OF REVENUE OVER EXPENSE	(32,590,915)	(28,996,119)
ACCUMULATED SURPLUS, END OF YEAR	\$ 1,894,354,714	\$ 1,926,945,629

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

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

	<u>2020</u>	<u>2019</u>
CASH & CASH EQUIVALENTS GENERATED BY (USED IN)		
OPERATING ACTIVITIES		
Annual Deficit	\$ (32,590,915)	\$(28,996,119)
Add: Non-Cash Items		
Amortization of capital assets	69,536,094	67,082,536
	<u>\$ 36,945,179</u>	<u>\$ 38,086,417</u>
CHANGES IN NON-CASH WORKING CAPITAL BALANCES		
Accounts Receivable	\$ 0	\$ 21,936
Accounts Payable and Accrued Liabilities	734,413	338,507
Accrued Interest payable	(4,141,905)	(3,888,648)
Accrued Rehabilitation	2,800,560	(7,101,428)
Prepaid Expense	(74,234)	(11,872)
Prepaid Rehabilitation	17,122,463	10,313,081
	<u>\$ 16,441,297</u>	<u>\$ (328,424)</u>
CAPITAL TRANSACTIONS		
Acquisition of Tangible Capital Assets	\$ (56,868,200)	\$(41,298,070)
FINANCING ACTIVITIES		
Capital Lease Payments	<u>\$ (42,124,983)</u>	<u>\$(39,307,752)</u>
Decrease in Cash & Cash Equivalents	\$ (45,606,707)	\$(42,847,829)
Cash & Cash Equivalents, beginning of year	<u>\$ 521,199,335</u>	<u>\$ 564,047,164</u>
Cash & Cash Equivalents is represented by: Due from Province of New Brunswick	<u>\$ 475,592,628</u>	<u>\$ 521,199,335</u>
Supplemental information:		
Interest paid ¹	<u>\$ 34,982,253</u>	<u>\$ 37,549,713</u>

¹Interest paid is reported under Service of the Public Debt in Public Accounts. Interest paid includes interest expense from the statement of operations in the amount of \$30.84 million (2019 - \$33.66 million) plus the change in interest payable in the amount of \$4.14 million (2019 - \$3.89 million)

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

NEW BRUNSWICK HIGHWAY CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 MARCH 2020

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 the 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.

NEW BRUNSWICK HIGHWAY CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 MARCH 2020

2. Summary of Significant Accounting Policies (continued)

Tangible Capital Assets (continued)

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.

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 rehabilitation costs.

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.

NEW BRUNSWICK HIGHWAY CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 MARCH 2020

2. Summary of Significant Accounting Policies (continued)

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. Management does not expect these estimates to change by a material amount in the near term.

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.

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 completed by the operators. Management does not expect amortization to change by a material amount in the near term.

3. Budget

The budget figures included in these financial statements have been derived from the estimates approved by the Corporation's Board of Directors.

NEW BRUNSWICK HIGHWAY CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 MARCH 2020

4. 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, 2020 is equal to the accounts receivable balance of \$4,690. Credit risk is not disbursed as related entities comprise a significant portion of the accounts receivable balance.

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 flow 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 as described in Note 5.

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.

5. 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 2020 was \$426.0 million (2019 \$468.1 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 \$591.7 million, including principal and interest.

Capital lease obligation interest rate: 6.41%

Capital lease obligation expiry date: November 30, 2027

NEW BRUNSWICK HIGHWAY CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 MARCH 2020

5. Capital Lease Obligation (continued)

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

<u>Fiscal Year</u>	<u>(millions)</u>
2020 - 2021	\$77.4
2021 - 2022	\$77.9
2022 - 2023	\$78.2
2023 - 2024	\$78.5
2024 - 2025	\$79.1

6. Prepaid Rehabilitation

	<u>2020</u>	<u>2019</u>
F-MH		
Balance, beginning of year	\$ 7,668,534	\$ 1,502,985
Increases (Decreases) during year	(7,668,534)	6,165,549
Balance, end of year	<u>\$ 0</u>	<u>\$ 7,668,534</u>
TCH		
Balance, beginning of year	\$ 81,637,225	\$ 98,115,855
Increases (Decreases) during year	(9,453,929)	(16,478,630)
Balance, end of year	<u>\$ 72,183,296</u>	<u>\$ 81,637,225</u>
Total prepaid rehabilitation balance, end of year	<u>\$ 72,183,296</u>	<u>\$ 89,305,759</u>

7. Accrued Rehabilitation

	<u>2020</u>	<u>2019</u>
R1G		
Balance, beginning of year	\$ 10,332,412	\$ 17,433,840
Increases (Decreases) during year	2,800,560	(7,101,428)
Total accrued rehabilitation balance, end of year	<u>\$ 13,132,972</u>	<u>\$ 10,332,412</u>

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8. 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.

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>2020</u>	<u>2019</u>
Balance, beginning of year	\$ 1,027,050,569	\$ 1,027,050,569
Additions during year	12,205,256	0
Closing Balance, end of year	\$ 1,039,255,825	\$ 1,027,050,569
Accumulated amortization beginning of year	\$ 341,920,576	\$ 317,682,014
Amortization Expense	24,543,096	24,238,562
Accumulated Amortization, end of year	\$ 366,463,672	\$ 341,920,576
Net Book Value (NBV)	\$ 672,792,153	\$ 685,129,993

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9. 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 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>2020</u>	<u>2019</u>
Balance, beginning of year	\$ 836,363,335	\$ 802,522,123
Additions during year	27,073,608	33,841,212
Closing Balance, end of year	\$ 863,436,943	\$ 836,363,335
Accumulated amortization, beginning of year	\$ 219,460,186	\$ 197,798,185
Amortization Expense	23,184,871	21,662,001
Accumulated Amortization, end of year	\$ 242,645,057	\$ 219,460,186
Net Book Value (NBV)	<u>\$ 620,791,886</u>	<u>\$ 616,903,149</u>

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10. 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.

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>2020</u>	<u>2019</u>
Balance, beginning of year	\$ 671,014,578	\$ 663,557,720
Additions during year	17,589,336	7,456,858
Closing Balance, end of year	<u>\$ 688,603,914</u>	<u>\$ 671,014,578</u>
Accumulated amortization beginning of year	\$ 125,075,434	\$ 103,893,461
Amortization Expense	21,808,127	21,181,973
Accumulated Amortization, end of year	<u>\$ 146,883,561</u>	<u>\$ 125,075,434</u>
Net Book Value (NBV)	<u>\$ 541,720,353</u>	<u>\$ 545,939,144</u>

11. 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 \$98,453 (2019 – \$ 59,100) including HST input tax credits of \$4,700.

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12. 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 (see below). Estimated future payments can be found in Note 13 Contractual obligations/commitments. Effective March 1, 2013 the requirement for the traffic counting system was eliminated. As part of the 30-year agreement for the OMM of the F-MH with MRDC Operations Corporation, a fixed price for the first 20 years of the agreement was established and the OMM price for the first twenty years ended on January 22, 2018. In fiscal 2017-18 a fixed-price renewal process commenced and has resulted in a formal arbitration being commenced in fiscal 2018-19 (see Note 14 Contingent Liabilities). Under the agreement, the OMM price for the final year (2017) shall remain in effect until a fixed price for the final 10 years is established.

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 (see below). Estimated future payments can be found in Note 13 (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 (see below). Estimated future payments can be found in Note 13 (Contractual obligations/commitments).

	<u>2020</u>	<u>2019</u>
F-MH		
Ordinary/Maintenance	\$ 6,415,193	\$ 4,646,479
Capital/Rehab	12,205,256	0
Capitalization/Timing Adjustment	(7,668,534)	6,165,548
Total OMM Payment	<u>\$ 10,951,915</u>	<u>\$ 10,812,027</u>
TCH		
Ordinary/Maintenance	\$ 6,803,344	\$ 6,704,074
Capital/Rehab	27,073,608	33,841,212
Capitalization/Timing Adjustment	(9,453,929)	(16,478,630)
Total OMR Payment	<u>\$ 24,423,023</u>	<u>\$ 24,066,656</u>
R1G		
Ordinary/Maintenance	\$ 8,185,757	\$ 8,058,178
Capital/Rehab	17,589,336	7,456,858
Capitalization/Timing Adjustment	(2,800,560)	7,101,428
Total OMR Payment	<u>\$ 22,974,533</u>	<u>\$ 22,616,464</u>

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13. Contractual Obligations/Commitments

NBHC has entered into a 30-year agreement for the OMM of the F-MH with Maritime Road Development, with adjustments for inflation and other items as per provisions of the agreement. Under this agreement a 20-year fixed OMM price was established ending January 22, 2018. The OMM payment is subject to negotiation with the Operator for the final ten years and has resulted in arbitration panel decisions (see Note 16).

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 OMM/OMR payments in 2019-20 dollars for each agreement are as follows:

(\$ Millions)	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>
F-MH	\$26.6	\$14.1	\$16.0	\$61.1	\$34.1
TCH	\$25.0	\$25.6	\$26.1	\$26.7	\$27.3
R1G	\$23.4	\$24.0	\$24.5	\$25.0	\$25.6

14. Contingent Liabilities

The F-MH OMM Agreement obligated the parties to negotiate a fixed price at the twentieth anniversary or January 22, 2018 for the final 10 years through a renewal process which commenced in fiscal 2017-18. This process resulted in subsequent events and legal matters which are further described under Note 16.

NBHC has been subject to litigation in the course of its operations. Management is unable to determine the likelihood it will be successful in these claims. Accordingly, management has not recorded a provision for loss in the financial statements.

15. Related Party Disclosures

NBHC is economically dependent on the Province of New Brunswick. During the fiscal year, NBHC received funding of \$90.0 million (2019 - \$92.1 million) from the Province.

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15. Related Party Disclosures (continued)

NBHC has no employees. Staff support is provided by the Province's Department of Transportation and Infrastructure and Department of Finance and Treasury Board. A salary allocation of \$322,773 (2019 - \$349,696) for staff support is included in administrative expenses and is based on historical cost. Other services such as financial, human resources and information technology are provided by the Province at no cost and no amount has been recognized in the financial statements for these services.

NBHC does not have a separate bank account. The Due from the Province of New Brunswick account allows funds to flow from the Province to NBHC to fund NBHC's obligations to the New Brunswick (F-M) Project Company Inc. At March 31, 2020 the Due from the Province of New Brunswick balance was \$475.6 million (2019 - \$521.2 million). There are no fixed terms or conditions of repayment associated with this balance.

NBHC is also related to the New Brunswick (F-M) Project Company Inc. as a member of the project company under the *Companies Act* and by agreement with the project company for the purposes of operating, managing, maintaining and rehabilitating the four-lane highway between Longs Creek and Moncton. Further, NBHC has a contractual obligation to the project company which is disclosed in Note 13. Expenses in the financial statements relating to payments made to the project company are disclosed in Note 12 and NBHC has a capital lease obligation to the project company. Details on this capital lease obligation, including the balance, terms, conditions and payments are disclosed in Note 5.

16. Subsequent Events

As part of the 30-year F-MH OMM agreement with MRDC Operations Corporation, the parties established a 20-year fixed OMM price which ended on January 22, 2018. Formal arbitration commenced in fiscal 2018-19 and arbitration decisions were issued July 15, 2020 and September 18, 2020. The July decision included a fixed price schedule for the final 10 years with retroactive payments of approximately \$11 million shown in 2020-21 commitments. The September decision resulted in an award for additional net costs of \$4.4 million shown in 2020-21 commitments and which included adjustments to the fixed price schedule issued in the July decision for the final 10 years. The Corporation has appealed portions of the July and September Awards and this appeal is ongoing.