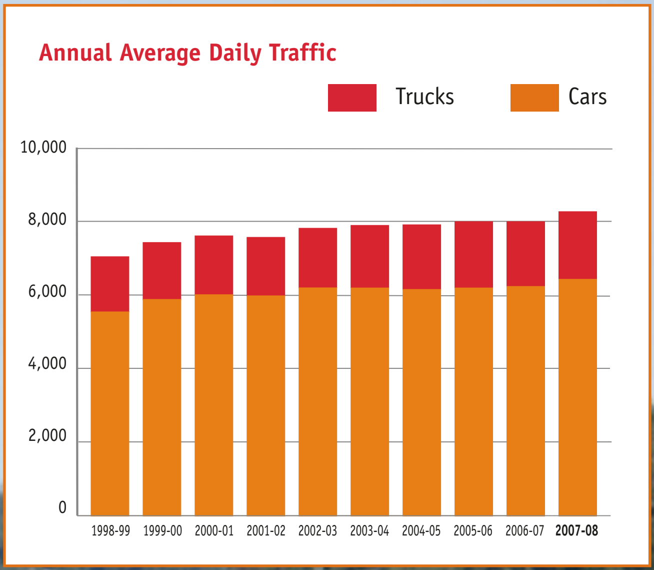
Highway 104 Western Alignment Corporation
Annual Report 2007–2008

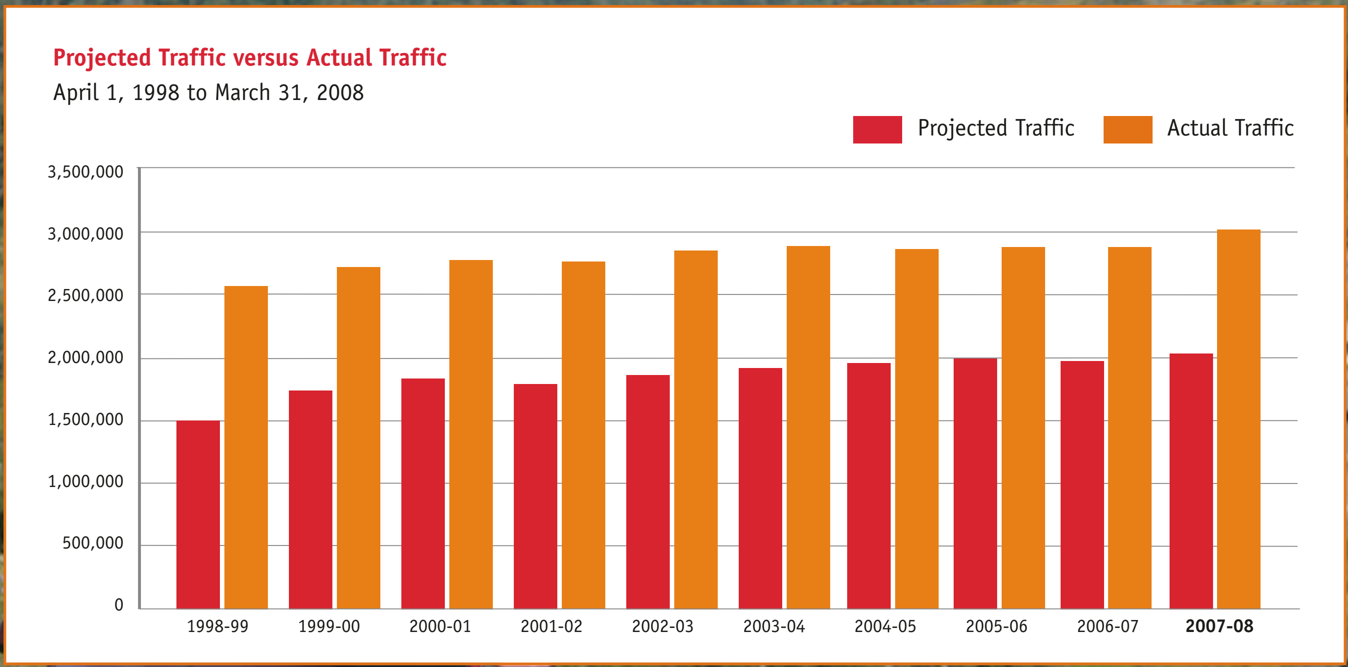



Maintaining a high standard

Facts at a Glance

- 45 kilometres between Masstown and Thomson Station
- Twinned, four-lanes
- Wide median: 22.6 metres
- 110 km/hr
- Five full interchanges
- Six major bridges
- Five large tunnels under the road for access to land parcels, snowmobile trails and wildlife passages
- 18 kilometres of access roads
- Constructed by Atlantic Highways Corporation, a subsidiary of Canadian Highways International Corporation, in just 20 months. (A national industry publication called the Cobequid Pass the fastest highway ever to be designed and constructed in Canada.)
- The Highway 104 Corporation contracts the management of the toll plaza to Atlantic Highways Management Corporation Limited
- Opened November 15, 1997
- Annual average daily traffic for 2007–08: cars – 6,430; trucks – 1,840





Letters to Stakeholders

President's Letter

The Highway 104 Western Alignment Corporation has completed its eleventh year of operation in striving to provide the highest level of highway operation and customer service, and this has been a most significant year.

As a result of amendments to the financial agreements secured with the assistance of our solicitors (McInnis Cooper) and the Bondholders' Representative (CIT Financial Ltd.), the Corporation continues to maintain toll rates at 2004 levels. During the past fiscal year the Corporation was able to retire the Junior Bonds by paying them off, in full, in September of 2007. This was 3 ½ years early, as the original maturity date was March 31, 2011.

Working with the toll plaza operator (Atlantic Highways Management Corporation Limited), the Corporation is moving forward with the Toll System Replacement Project, with an anticipated completion date in mid-2009.

The Independent Maintenance Engineer (McCormack Rankin) was commissioned to undertake an assessment of the original pavement renewal strategy and a detailed report is expected within the next fiscal year.

The Corporation and it's road maintenance contractor (Department of Transportation and Public Works) have reached a new 5 year agreement to continue providing summer and winter maintenance on the Cobequid Pass with a Department crew dedicated only to maintenance activities on the Pass. During the summer months, the Department also performs monthly audits of the roadway conditions and notifies the maintenance crew of deficiencies.

The Corporation's management team consists of the General Manager Don Stonehouse, P.Eng., Controller Eva Hislop, CMA, and Administrative Assistant Patricia Belleza. Our Government liaison and advisor Al MacRae, P.Eng. continues to provide excellent service to the traveling public maintaining the Cobequid Pass Toll Road as a first class highway facility.

As we move forward the Corporation will strive to continue to provide strong financial management and a roadway for a quality driving experience.

Lee Rankin. P.Eng.
President

General Manager's Letter

The location of the Cobequid Pass places it as a critical link in the Province's highway system, providing a portion of the TransCanada Highway that connects Nova Scotia to the rest of Canada and to the United States. In fiscal 2007-08 the Cobequid Pass Toll Plaza handled 3,018,000 vehicles, of which 78% were cars and 22% trucks. This is an increase of 3% over the total number of vehicles in the previous fiscal year. In comparison to original forecasted traffic, automobile traffic is up 76%, while truck traffic is down 1%. Tolling revenue is up 4% over fiscal 2006-07, reflecting increased traffic volume.

In fiscal 2007-08, the Corporation, with the assistance of the Operator, tendered for the "Toll System Replacement Project" contract, to replace our aging tolling system which has been utilized since the Highway opened in 1997. The detailed design phase commenced in the third quarter of 2007/08 and completion is expected in the second quarter of 2009/10.

The Corporation funded $1.4 million in Major Maintenance during the past fiscal year for median crossover remediation, 99 km of rumble strips, 17 km of microsurfacing and upgrading of the existing tolling system. The Corporation also funded the completion of the Toll Plaza building addition and emergency power upgrade.

This report provides a broad overview of the history and administrative structure of the Corporation, and the traffic and financial operation of the Cobequid Pass for fiscal 2007-08. I would recommend its reading. In regards to the financial statements, the accompanying notes are very important in explaining the financial details.

If you have any questions or comments regarding the Cobequid Pass, we would be pleased to hear from you. The contact information is printed on the back of this report.

Don Stonehouse, P.Eng.
General Manager

Administration and Accountability

Background

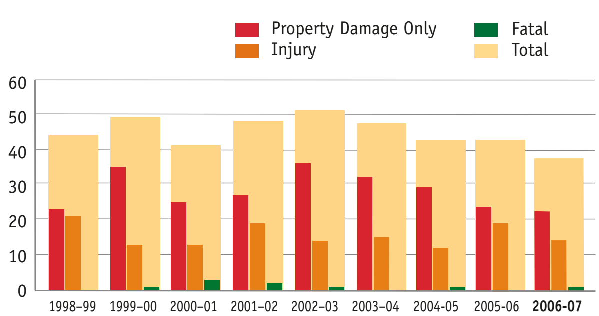
Creating the Highway 104 Western Alignment Corporation was key to constructing the Cobequid Pass Toll Highway. The Government is the sole shareholder of the Corporation, which is categorized as a Government Business Enterprise. Its sole purpose, by statute, is to oversee the financing, design, construction, operation and maintenance of the Cobequid Pass.

The Corporation's mandate is to manage toll revenue collection, to maintain the schedule to repay investors, and to fund annual and long term maintenance until the debt is fully paid in 2026. The Corporation is financially sustainable and responsible for its own debt, and does not have to rely on a Government debt guarantee. The Corporation's sole source of revenue is tolls.

Because some public monies were involved in the highway's initial financing, and because the Highway 104 Corporation is wholly owned by the Crown, its annual operations may be scrutinized by the Auditor General.

Operating independent of government, the Highway 104 Corporation is the entity that permitted non-recourse financing, meaning private investors can lay no claim on government assets or money in the unlikely event toll revenue should fail to provide a return on investment.

Cobequid Pass Collision Record 1998–2007



	Property	Injury	Fatal	Total
9 Year Totals	252	139	9	400

Data supplied by the Nova Scotia Department of Transportation and Public Works

Administration

One of the Corporation's primary administrative responsibilities is ensuring toll revenue is collected and distributed according to the agreements signed by the Government of Nova Scotia, Atlantic Highways Corporation and CIT Financial Limited, formerly Newcourt Credit Group, the Bondholders' Representative.

This responsibility includes maintaining budget control, issuing payment directives, and ensuring that parties to the agreements are meeting obligations in a timely fashion. It also means keeping communication lines open and direct between all parties.

The administration of the Highway 104 Western Alignment Corporation is led by its General Manager, Don Stonehouse, P.Eng. and by the Controller, Eva Hislop, CMA. Patricia Belleza provides administrative and accounting support.

Accountability

The financial activities of the Corporation are carefully scrutinized by CIT Financial Limited and the Department of Transportation and Public Works. In addition, the Corporation engages Grant Thornton LLP to provide audit reports in accordance with Canadian Generally Accepted Auditing Standards.

Detailed reports of the highway's operation are given to the Deputy Minister of the Department of Transportation and Public Works on a monthly basis, and he in turn informs the Minister of Transportation and Public Works as the owner. The Minister is well equipped to respond to questions from the public, Cabinet, Members of the Legislative Assembly, and the media, as is the Corporation's General Manager.

The Highway 104 Western Alignment Corporation is represented on the Department of Transportation and Public Works' Steering Committee, and meetings are scheduled regularly with Atlantic Highways Management Corporation Limited executives.

The Auditor General of Nova Scotia has the right to review the Highway 104 Corporation's activities, as it did in 1996 and 2002.

Maintenance

With a budget of $898,000 in fiscal 2007-08, the Department of Transportation and Public Works provided maintenance on Cobequid Pass under the terms of the Annual Maintenance Agreement. The majority of this work consists of snow and ice removal during the winter months. The Department of Transportation and Public Works also performs annual line painting, guardrail replacement and repair, litter removal, and other duties to ensure the highway is maintained at a high standard.

The Corporation funded $1.4 m in Major Maintenance during the past fiscal year for median crossover remediation, 99 kms of rumble strips, 17 kms of microsurfacing and upgrading the toll system. Additionally the Corporation funded the completion of the Toll Plaza building addition and emergency power upgrade. These works were funded through the Corporation's Major Maintenance Reserve Fund and involved no public monies.

Atlantic Highways Management Corporation Limited

The toll operations are run by Atlantic Highways Management Corporation Limited (AHMCL), a subsidiary of the contractor, Atlantic Highways Corporation (AHC). Both are owned by Aecon. AHC guaranteed the highway for three years, an unprecedented warranty period, and all deficiencies were repaired at their expense.

The electronic tolling system managed by AHMCL links vehicles carrying a transponder to a computerized account and automatically deducts the toll. Supplied by SIRIT Inc., the system provides for automatic toll collection and cash transactions with built-in audit capabilities. Nine hundred and sixty seven transponder units were sold this fiscal year.

AHMCL employs 42 people at the toll plaza, most from Cumberland and Colchester Counties. Aecon is an alliance of the project management and engineering firms Ambro Construction Ltd. and BFC Construction Corporation.

How Cobequid Pass and it's Ongoing Maintenance are Funded

Cobequid Pass is the only highway in Nova Scotia that required a relatively small one-time initial investment from governments for its construction. It is also the only highway that covers the cost of its annual and long-term maintenance over a 30-year period.

The terms of the agreement between the partners detail how toll revenue is used to repay investors, cover toll operations, and fund long and short term maintenance.

How the agreement works

Funding	Amount	Provided by
Senior Bond Issue	$51.0 million	CIT Financial Limited
Junior Bond Issue	$9.9 million	CIT Financial Limited
Subordinate Notes	$5.5 million	Province of Nova Scotia
Equity	$1	Province of Nova Scotia
Interest Earnings		From all investments and bank accounts
Federal Funding	$27.5 million	Government of Canada
Provincial Funding	$27.5 million	Government of Nova Scotia

Operations

The Project Account was established to:

- Pay the Highway 104 Western Alignment Corporation's ongoing administrative costs
- Pay operating and maintenance costs for Cobequid Pass.

Every month the Highway 104 Corporation transfers any cash balance from the Project Account into the Capital Reserve Account. By agreement, the Project Account keeps only a balance equal to two months of its operating/administrative budget.

The sources of cash for the Project Account are:

- Toll revenue
- Any cash not used during construction
- Interest income

The Capital Reserve account is used to:

- Pay Trustee fees
- Pay accrued unpaid interest
- Pay senior bond debt and junior bond debt as per scheduled quarterly repayment dates
- Meet the minimum funding requirements of the Debt Service Reserve Account if required. (The Debt Service Reserve Account must be funded at one full year of Senior Debt Payments, according to the amortization schedule, at any given time.)
- Meet the funding requirements of the Major Maintenance Reserve Fund
- Pre-pay the debt

The sources of cash for the Capital Reserve account are:

- The Project Account: All monies in excess of two months operating and administrative budget are deposited to the Capital Reserve Account
- All excess funds in the Debt Service Reserve Account (DSRA). The DSRA, on any given bond principal and interest payment date, can only equal the scheduled Senior Bond repayments for the upcoming 12 month period.

Senior Debt Service Coverage Ratio (DSCR)

The Senior Debt Service Coverage Ratio must be 1.2:1 at any time during the first 36 months after December 31, 1997, the Date of Acceptance, and 1.3:1 at any time after the 36th month after the Date of Acceptance.

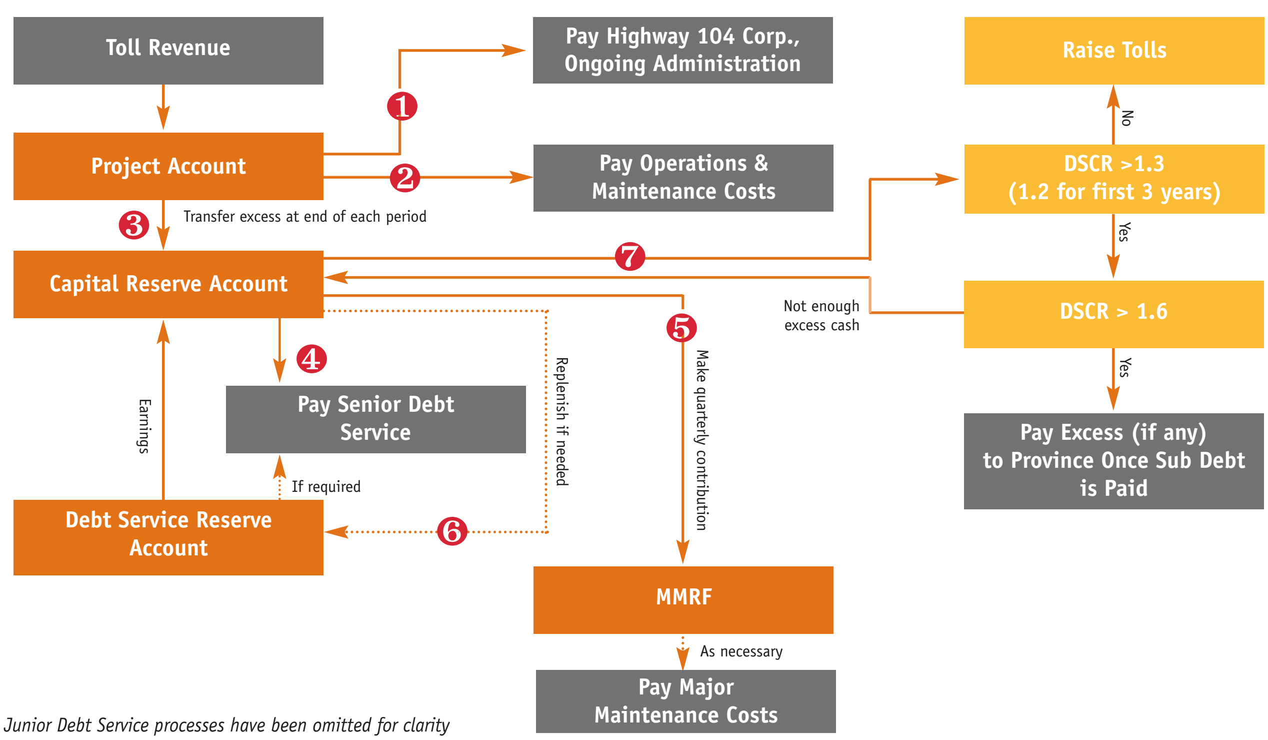
If the Senior Debt Service Ratio is larger than 1.3:1 but less than 1.6:1 then all funds in excess of expenditures and bond repayment are accumulated in the Capital Reserve Fund where they are placed in permitted investments. Since project start up the Senior Debt Service Ratio has never been less than 1.6:1.

Major Maintenance Reserve Fund (MMRF)

The Major Maintenance Reserve Fund ensures that there are funds available to pay for all major maintenance costs such as repaving.

The first contribution to the MMRF fund came from the Subordinate Notes issued in November 1997. This was a total amount of $500,000. The Financing Agreements require that specific quarterly contributions be made to the MMRF from the Capital Reserve Fund and these contributions are adjusted annually based on maintenance requirements.

Cash Flow Diagram



Junior Debt Service processes have been omitted for clarity

Auditor’s Report

To the shareholder of Highway 104 Western Alignment Corporation

We have audited the balance sheet of Highway 104 Western Alignment Corporation as at March 31, 2008 and the statements of earnings and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Grant Thornton LLP

Grant Thorton LLP
Chartered Accountants
Halifax, Nova Scotia
May 9, 2008

Highway 104 Western Alignment Corporation

Statements of earnings and deficit

Year ended March 31

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

See accompanying notes to the financial statements.

Highway 104 Western Alignment Corporation

Balance sheet

March 31

	2008	2007
Assets		
Current		
Cash and cash equivalents	$ **609,059**	$ 651,111
Inventory	**8,061**	14,137
Prepaids (note 3)	**398,172**	384,616
Receivables (note 4)	**815,669**	64,052
	1,830,961	1,113,916
Restricted assets (note 5)	**33,597,580**	32,427,057
Facility (note 6)	**97,702,643**	100,666,644
Deferred financing fees (note 2)	**-**	429,664
	$133,131,184	$ 134,637,281
Liabilities		
Current		
Payables and accruals	$ **1,471,258**	$ 1,538,155
Current portion of long term debt (note 7)	**1,526,361**	2,029,587
Deferred revenue	**861,907**	816,493
	3,859,526	4,384,235
Long term debt (note 7)	**72,348,011**	76,569,989
Payable to the Province of Nova Scotia/deferred grant (note 8)	**250,000**	250,000
Deferred government assistance (note 2)	**43,258,752**	44,723,213
	119,716,289	125,927,437
Shareholder's equity		
Capital stock, one no par value share issued and outstanding in favour of the Province of Nova Scotia	**1**	1
Reserve for restricted assets (note 9)	**27,658,498**	26,487,976
Deficit	**(14,243,604)**	(17,778,133)
	13,414,895	8,709,844
	$133,131,184	$ 134,637,281

Commitments and contractual obligations (note 11)

See accompanying notes to the financial statements.

Highway 104 Western Alignment Corporation

Statement of cash flows

Year ended March 31

	2008	2007
Increase (decrease) in cash and cash equivalents		
Operating		
Net earnings	$ **4,783,727**	$ 3,031,075
Government assistance amortization	**(1,464,461)**	(1,394,726)
Amortization of deferred financing fees	**84,164**	35,434
Amortization and depreciation	**3,487,993**	3,330,699
	6,891,423	5,002,482
Change in non-cash operating working capital (note 10)	**(780,580)**	913,121
	6,110,843	5,915,603
Financing		
Decrease in long term debt	**(4,379,710)**	(5,992,661)
Investing		
Decrease (increase) in restricted assets	**(1,170,523)**	397,591
Additions to facility	**(523,991)**	(221,899)
Changes in market value of restricted assets	**(78,671)**	-
	(1,773,185)	175,692
Net increase (decrease) in cash and cash equivalents	**(42,052)**	98,634
Cash and cash equivalents, beginning of year	**651,111**	552,477
Cash and cash equivalents, end of year	$ **609,059**	$ 651,111

See accompanying notes to the financial statements.

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

Changes in accounting policies

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

- **Section 3855, Financial Instruments – Recognition and Measurement.** This Section requires all financial assets and financial liabilities to be classified in one of five categories. Financial assets are to be classified as either held for trading, available for sale, held to maturity or loans and receivables. Financial liabilities are to be classified as either held for trading or other financial liabilities. All financial assets and financial liabilities are to be carried at fair value on the consolidated balance sheet, except held to maturity financial assets, loans and receivables and other financial liabilities which are measured at cost or amortized cost.

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

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

Balance sheet	**Increase (decrease)**
Restricted assets	$ (38,254)
Reserve for restricted assets	$ (38,254)

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

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

Pre-operating and operating periods – The pre-operating period was the twenty month construction period commencing April 1, 1996 until the date of acceptance in November 1997. Operations began December 1, 1997.

Facility – The Facility consists of the highway referred to as the Highway 104 Western Alignment and the toll plaza constructed on the highway. The costs of the Facility include certified progress payments to the Facility's contractor, independent engineer fees, professional fees and interest costs incurred during the pre-operating period. These costs are being amortized commencing at the start of the operating period until March 31, 2026 using the sinking fund method with an annual compounding rate of 5% except as described below:

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

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

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

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

Deferred financing fees – Financing, commitment and bondholder representative fees related to the establishment and placement of the senior and junior toll revenue bonds have been deferred and are being amortized to operations over the term of the related bond debt commencing at the start of the operating period.

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

Deferred government assistance – Government assistance provided by the Province of Nova Scotia has been recorded as a deferral and is being amortized to operations over thirty years commencing at the start of the operating period using the sinking fund method with an annual compounding rate of 5%.

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

Cash and cash equivalents – Cash and cash equivalents include cash on hand, balances with banks and short term deposits with original maturities of three months or less with the exception of restricted cash balances which are included in restricted assets. Bank borrowings are considered to be financing activities.

Use of estimates – In preparing the Corporation's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the year. Actual results could differ from these estimates.

Financial instruments – The Corporation's financial instruments consist of cash, receivables, restricted assets, payables and accruals, amount payable to the Province of Nova Scotia, deferred revenue and long term debt. Unless otherwise noted, it is management's opinion that the Corporation is not exposed to significant interest, currency or credit risks arising from these financial instruments.

The Corporation records restricted asset investments at fair value and estimates the fair value of its financial instruments to approximate their carrying values with the exception of long term debt as outlined in note 7 to the financial statements.

3. Prepaids

	2008	2007
Operating expenses	**$ 32,422**	$ 36,617
Advance to operator	**365,750**	347,999
	$ 398,172	$ 384,616

4. Receivables

	2008	2007
Harmonized Sales Tax	**$ 35,555**	$ 42,771
Receivable from the Province of Nova Scotia	**777,877**	-
Other	**2,237**	21,281
	$ 815,669	$ 64,052

5. Restricted assets

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

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

The following restricted accounts have been established in accordance to trust indenture agreements between the Corporation and the senior and junior bondholders and an Omnibus Agreement between the Corporation and the Province of Nova Scotia:

i) The capital reserve account has been established to provide funds to pay the interest and principal on the senior and junior bonds and the subordinated notes. These funds are also available to pay the trustee and bondholders' representative fees to the extent they are not paid out of the project account. This account provides funding to the major maintenance reserve and the senior debt reserve accounts. The capital reserve account is funded from excess funds transferred from the project bank accounts of the Corporation.

ii) The senior debt service reserve account has been established to provide a reserve of funds to be available for payments as they come due for the senior toll revenue bonds. Funds can only be transferred from this fund when funds in the capital reserve account are insufficient to pay senior toll revenue bond payments. The account should maintain sufficient reserves equal to 12 months principal and interest payments due on the senior toll revenue bonds. The replenishment of the reserve comes from the capital reserve account.

iii) The major maintenance reserve account has been established for the purpose of paying major maintenance repair and rehabilitation expenses. This reserve is funded from the capital reserve account in accordance with a maintenance budget recommended by the Independent Engineer through the terms of the major maintenance reserve fund agreement.

6. Facility

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

7. Long term debt

	2008	2007
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 $2,251,191. The amount by which the interest expense has exceeded interest payments has been capitalized as part of the principal. As security, the Corporation has provided an assignment of all the present and future property and assets, including rights to operate the Facility, a security interest in the Debt Service Reserve Account and the Major Maintenance Reserve Account.	**$ 73,874,372**	$ 75,618,312
Repaid during the year	**-**	2,981,264
	73,874,372	78,599,576
Less: principal repayments due within one year	**1,526,361**	2,029,587
	$ 72,348,011	$ 76,569,989

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

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

The fair value of the Corporation's long term debt is $97,591,506 (2007 - $103,679,553) determined using cash flows discounted at a rate equal to the prevailing market rate of interest for financial instruments having substantially the same terms and characteristics.

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.

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

10. Supplemental cash flow information

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

11. Commitments and contractual obligations

The Corporation has entered into the following agreements to finance, design, construct, operate and maintain the Highway 104 Western Alignment:

Omnibus Agreement – Agreement dated April 1, 1996, between the Corporation, the Contractor, the Operator and the Province of Nova Scotia to design, finance, construct, operate and maintain the Highway 104 Western Alignment. This agreement acknowledges that the Corporation has entered into a Design Build Agreement and an Operating Agreement to fulfill its obligations to the Province.

Under this agreement, the Province of Nova Scotia retains ownership of the Facility, however, the Corporation is granted the right to operate and collect tolls for a thirty year period, at which time this right will revert back to the Province.

The Province contributed $55,000,000 to the project.

Operating Agreement – Agreement dated May 22, 1996 between the Corporation and Atlantic Highways Management Corporation (the Operator) whereby the Operator is required to operate the Facility which includes the toll collection system, toll plaza and the administration building.

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

Operator compensation is based on the annual operating budget plus a variable fee, subject to adjustment under certain conditions, equal to 10% of the total annual budget.

Major Maintenance Reserve Fund Agreement – Agreement between the Corporation, the Trustee and the Bondholders' Representative to provide for the major maintenance work required during the operating period of the Facility. The Agreement requires the Corporation, on an annual basis, to engage an independent engineer to report on all major maintenance work to be completed in the upcoming year, as well as a major maintenance budget to determine the required annual amount to be deposited in the Major Maintenance Reserve Account. The maximum annual fee is $50,000. The agreement with the independent engineer was renewed on November 30, 2007.

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

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

Annual Roadway Maintenance Agreement – The thirty year agreement between the Corporation and the Department of Transportation and Public Works of the Province of Nova Scotia to provide annual roadway maintenance services is renewable in five year increments and was renewed in the current year. For the upcoming fiscal years, the annual fee of $1,008,000 will be adjusted annually for inflation.

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

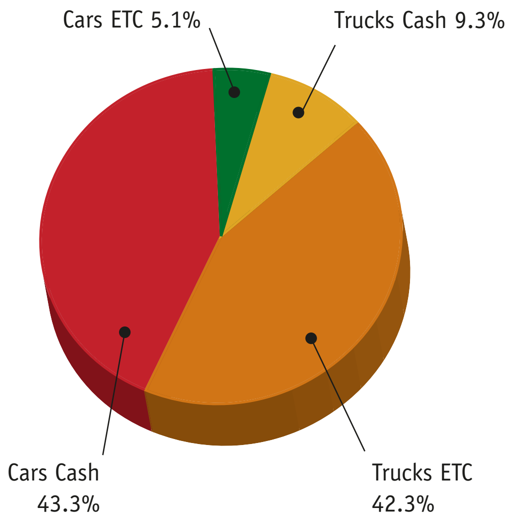
Other – The Corporation has also entered into various operating lease agreements for equipment and office space. The minimum lease payments for the next three years are as follows:

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

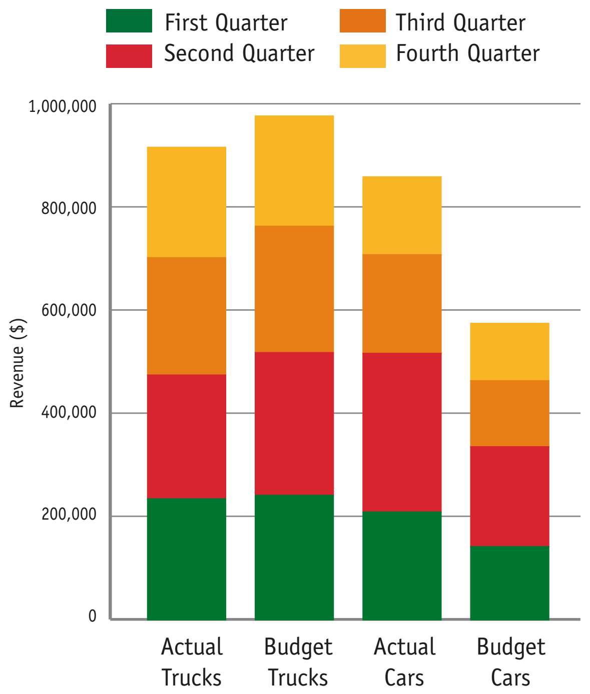
Financing

- Construction cost: $112.9 million
- Provincial contribution: $27.5 million
- Federal contribution: $27.5 million
- $5.5 million in subordinated notes invested from the provincial pension fund
- $60.9 million provided by the sale of bonds to private investors underwritten by Newcourt Credit Group of Toronto
- Toll revenues over 30 years will provide the investors a return; pay for toll operations; cover the $898,000 for annual maintenance provided by the Nova Scotia Department of Transportation and Public Works in fiscal 2007–08; and contribute to long-term maintenance.
- The money borrowed from the private sector by the Highway 104 Western Alignment Corporation through Newcourt Credit Group is borrowed on the security of tolls not on the financial guarantees of the province.
- $4.00 per car; $3.00 per axle for trucks over five tonnes, $5.25 per recreational vehicle.
- $41 to buy a transponder, an electronic device mounted on a vehicle to automatically deduct tolls from a pre-paid computerized account.

Cash Toll and ETC Revenue
April 1, 2007 to March 31, 2008 (Audited)



Revenue Versus Day 1 Projections
For the Fiscal Year Ending March 31, 2008 (Audited)



HIGHWAY 104

Highway 104 Western
Alignment Corporation

1969 Upper Water Street
Suite 1905
Halifax, Nova Scotia
B3J 3R7

T 902.422.6764
F 902.422.6401
E info@highway104.ns.ca
W www.cobequidpass.com