"One's destination is never a place, but a new way of seeing things."— Henry Miller

HIGHWAY 104 WESTERN ALIGNMENT CORPORATION | ANNUAL REPORT 2010–2011

HIGHWAY
104
COBEQUID PASS

CONTENTS

FACTS AT A GLANCE

45 kilometres between Masstown and Thomson Station

Twinned, four lanes

Wide median: 22.6 metres

110 km/hour speed limit

Five full interchanges

Six major bridges

Five large tunnels under the road for access to land parcels, snowmobile trails and wildlife passages

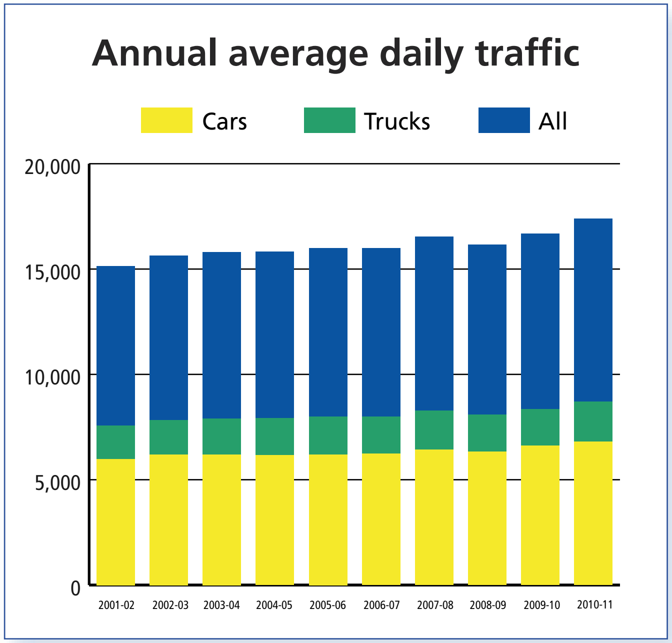
18 kilometres of access roads

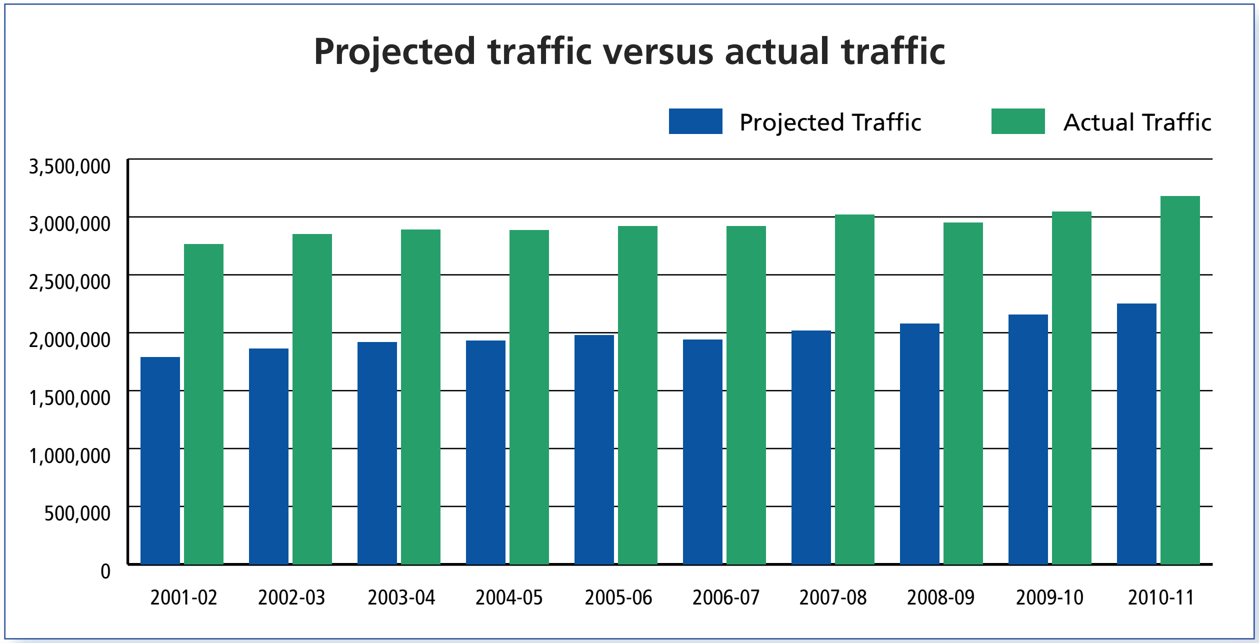
Constructed by Atlantic Highways Corporation, a subsidiary of Canadian Highways International Corporation, in 20 months (A national industry publication called Cobequid Pass the fastest highway ever to be designed and constructed in Canada.)

The Highway 104 Corporation contracts the management of the toll plaza to Atlantic Highways Management Corporation Limited

Opened November 15, 1997

Average daily traffic for 2010-11: cars – 6,800; trucks – 1,900





LETTERS TO STAKEHOLDERS

President

The Highway 104 Western Alignment Corporation has completed its fourteenth year of operation in striving to provide the highest level of highway operation and customer service.

The toll amounts paid by our customers, both passenger and commercial, have not increased for the last seven years, since 2004. This can be attributed to a combination of sound financial management and strong traffic volumes on the Cobequid Pass.

The Independent Maintenance Engineer (IME), of Delphi-MRC, continues to monitor and update the original pavement renewal strategy and major maintenance contracts are tendered based on this strategy. The IME also plays a vital role in monitoring the condition of the roadway and reviewing the contracts called for maintenance activities, such as micro surfacing, structural repairs and shouldering contracts.

The law firm of McInnis-Cooper supports Corporation activities through sound legal advice and CIT Financial, the Bondholder's representative, provide financial oversight on behalf of the Bondholders. Grant Thornton provides audit services to the Corporation, along with other financial advice.

The Corporation and its road maintenance contractor, the Department of Transportation & Infrastructure Renewal (NSTIR), are in the fourth year of a 5 year agreement to provide summer and winter maintenance on the Cobequid Pass with a Department crew dedicated only to maintenance activities on the Pass. The Corporation pays NSTIR $1.2 million annually for these services.

The Corporation's management team consists of General Manager Paul Richard, P.Eng, Controller Eva Hislop, CMA, and Administrative Assistant Patricia Belleza.

The Corporation works with NS TIR's Government liaison, Kevin Caines, P.Eng., as the Transportation Department continues to provide excellent service to the traveling public by maintaining the Cobequid Pass Toll Road as a first class highway facility.

Moving forward, the Corporation strives to continue to provide strong financial management and a well maintained roadway for a quality driving experience.

Lee Rankin. P.Eng.
President

General Manager

The Cobequid Pass is a vital link in the Province's highway system, providing a modern, well maintained highway that is part of the TransCanada Highway which connects Nova Scotia to the rest of the Country.

Traffic volumes reached an all time high, as just under 3.2 million vehicles passed through the Toll Plaza in fiscal 2010-11, of which 78% were cars and 22% trucks. This is an increase of 4.4% over the previous fiscal year.

In comparison to original forecasted traffic, automobile traffic is up 61%, while truck traffic is down 3%. Tolling revenue is up 5.6% over fiscal 2009-10, reflecting the increased traffic volume.

The Corporation funded $1.33 million for capital improvements and major maintenance work during this fiscal year. The capital project was the replacement of the concrete pad in the Toll Plaza area. The major maintenance work was for 9 kms of micro-surfacing on three sections of the Toll Highway.

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 2010-11. Regarding 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 or the Highway 104 Corporation, I would welcome hearing from you. My contact information is printed on the back of this report.

Paul E. Richard, P.Eng.
General Manager

ADMINISTRATION AND ACCOUNTABILITY

Background

Creating the Highway 104 Western Alignment Corporation was key to creating 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 revenue collection, to maintain the schedule to repay investors, and to fund annual and long term maintenance until the debit is fully paid in 2026.

The Highway 104 Corporation is financially sustainable and responsible for its own debt, and does not have to rely on a Government debt guarantee. The Corporation’s main 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 of Nova Scotia. The Auditor General conducted audits of the Highway 104 Corporation in 1996 and again in 2002.

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.

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 Highway Corporation Limited, and CIT Financial Limited, formerly Newcourt Credit Group, the Bondholder's Representative.

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

The administration of Highway 104 Western Alignment Corporation is led by its General Manager, Paul Richard, P.Eng. and by the Controller, Eva Hislop, CMA. Patricia M. Belleza, PCP 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 Infrastructure Renewal (NS TIR). In addition, the Corporation engages Grant Thornton LLP to provide audit reports in accordance with Generally Accepted Auditing Standards.

Detailed monthly reports of the highway's financial operations are sent the Executive Director Highway Engineering & Construction, who is the Department’s liaison with the Corporation. This liaison keeps the Deputy Minister and the Minister informed of the Corporation’s activities. 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 Corporation, NS TIR, AHMCL and the Independent Maintenance Engineer are represented on a Joint Advisory Committee, which meets on a quarterly basis to review and discuss the operations of the Corporation.

The Corporation's Annual General Meeting is generally held in October of each year.

Maintenance

With a budget of $1,128,000 in fiscal 2010-11, NS TIR provided maintenance on the Cobequid Pass Toll Highway 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 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 expended $472,000 in Major Maintenance work on the Cobequid Pass facility this fiscal year for three sections of micro surfacing, which totaled 9 kms. For Capital projects, the Corporation expended $855,000 to remove and replace the concrete slab at the Toll Plaza. This job had a length of 600 metres and included all six of the Plaza travel lanes.

These works were funded through the Corporation's Major Maintenance Reserve Fund, and involved no public monies.

Atlantic Highway Management Corporation

The toll operations are run by Atlantic Highway Management Corporation Limited (AHMCL), a subsidiary of Aecon.

The new electronic tolling system managed by AHMCL was installed by the IBI Group of Toronto in 2009-10 and links vehicles carrying transponders to a computerized account and automatically deducts the toll. Black & McDonald was the sub-contractor for the electrical work on the new tolling system which provides for automatic toll collection and cash transactions with built-in audit capabilities.

AHMCL currently employs about 40 people at the Toll Plaza, mostly from Cumberland and Colchester Counties. Aecon is an alliance of the project management and engineering firms Ambro Construction Limited and BFC Construction Company.


Tolls
Cars $ 4.00
with trailer $ 5.25
RVs $ 5.25
Cobequid Pass Collision Record 1998–2007
2007-08 to 2010-11 data not available
Property Damage Only
Injury
Fatal
Total
60
50
40
30
20
10
0
1998-99
1999-00
2000-01
2001-02
2002-03
2003-04
2004-05
2005-06
2006-07

MAINTENANCE FUNDING

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 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	Issued by
Senior Bond Issue	$51.0 million	CIT Structured Finance
Junior Bond Issue[1]	$9.9 million	CIT Structured Finance
Subordinate Notes[2]	$5.5 million	Province of Nova Scotia
Total Borrowed	$66.4 million	
Equity	$1	Province of Nova Scotia
Interest Earning		Amount Based on Interest rates From all investments and bank accounts
Federal Funding	$27.5 million	Government of Canada
Provincial Funding	$27.5 million	Government of Nova Scotia

Notes:

[1] Junior Bond Issue was retired September 30, 2007

[2] Subordinate Notes were retired September 30, 1999

Operations

The Project Account was established:

- Pay the 104 Western Alignment's ongoing administrative cost.
- 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
- Subsidy Income

The Capital Reserve account is used to:

- Pay Trustee fees
- Pay accrued unpaid interest
- Pay senior 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 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

MAINTENANCE FUNDING

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 hold the scheduled Senior bond repayments for the following 12 month period.

Senior Debt Service Coverage Ratio (DSCR)

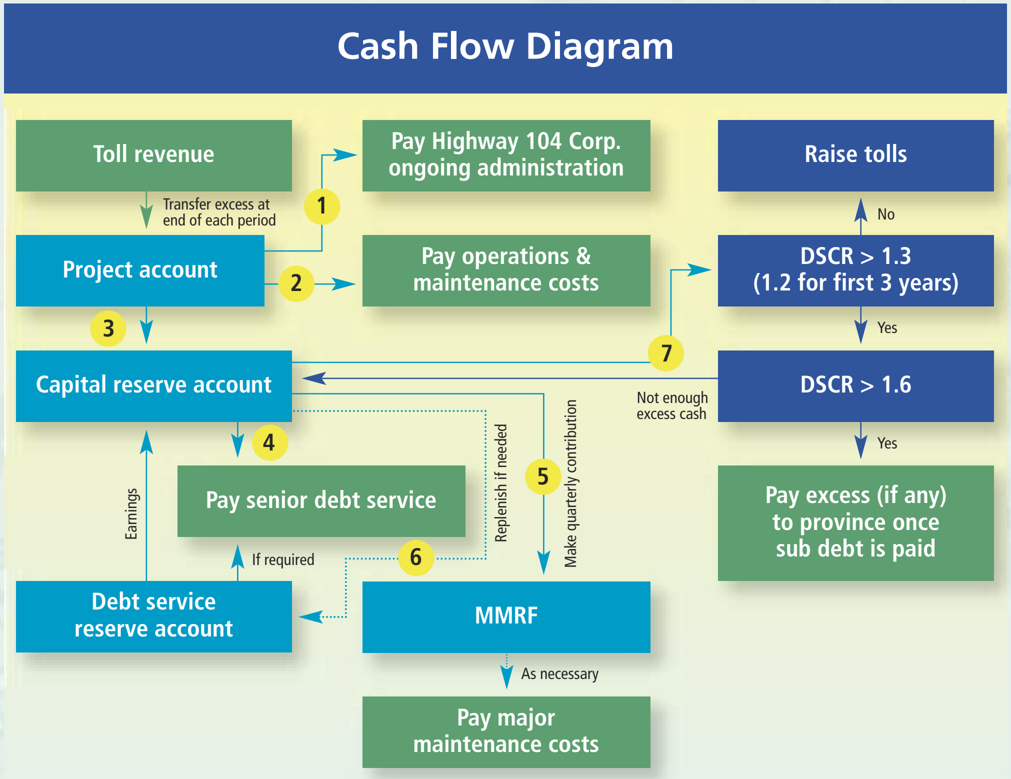
The Senior Debt Service Coverage Ratio must be 1.2:1 at any time during the first 36 months after December 31, 1997, the Date of Acceptance, and 1.3:1 at any time after the 36th month after the Date of Acceptance.

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 place in permitted investments. If the Senior Debt Service Ratio is larger than 1.6:1, provisions in the agreements allow for some of the funds to be paid to the Province. The Province has declined to exercise this option, and has directed the Corporation to reduce the debt or to forego toll increases when possible.

Major Maintenance Reserve Fund (MMRF)

The Major Maintenance Reserve Fund ensures that once the three-year warranty runs out on the highway there are funds available to pay for major maintenance costs such as repaving.

The first contribution to the MMRF fund came from the Subordinate Notes, which were 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.



FINANCING

Cobequid Pass was built as a public-private partnership that allowed the government to make an affordable financial contribution to build this much-needed highway.

Construction cost: $112.9 million

Provincial contribution: $27.5 million

Federal contribution: $27.5 million

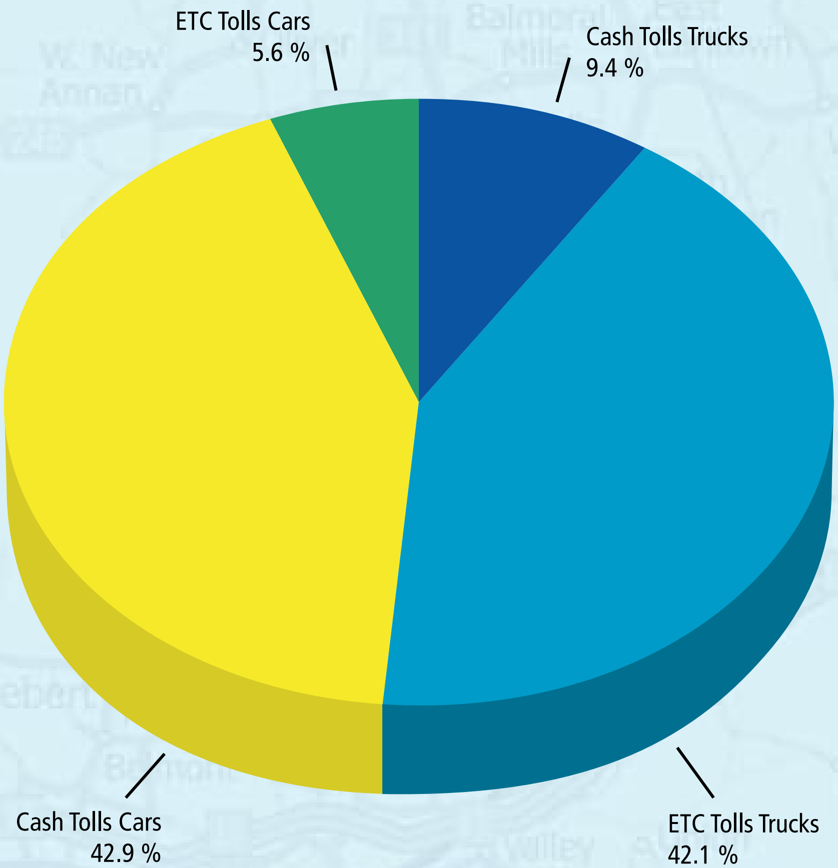
$5.5 million in subordinated notes invested from the provincial pension fund

$60.9 million provided by the sale of bonds to private investors underwritten by CIT Financial of Toronto

Toll revenues over 30 years will provide the investors a return; pay for toll operations; cover annual maintenance and contribute to long-term maintenance.

The money borrowed from the private sector by the Highway 104 Western Alignment Corporation through CIT Financial is borrowed on the security of tolls and on the financial guarantees of the province.

Cash toll and ETC revenue




Revenue versus day 1 projections for fiscal 2011
First Quarter
Third Quarter
Second Quarter
Fourth Quarter
12,000,000
10,000,000
8,000,000
6,000,000
4,000,000
2,000,000
0
Revenue ($)
Actual Trucks
Projections Trucks
Actual Cars
Projections Cars

AUDITOR'S REPORT

To the shareholder of Highway 104 Western Alignment Corporation

We have audited the accompanying financial statements of Highway 104 Western Alignment Corporation, which comprise the balance sheet as at March 31, 2011, and the statements of earnings, deficit and cash flow statement for the year then ended, and a summary of significant accounting policies.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Highway 104 Western Alignment Corporation as at March 31, 2011, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Halifax, Canada
June 1, 2011

Grant Thornton LLP

Chartered Accountants

Highway 104 Western Alignment Corporation
Statements of earnings and deficit

Year ended March 31	Budget 2011 (unaudited)	Actual 2011	2010
Revenue			
Facility revenue	$ 19,632,200	$ 19,837,528	$ 19,346,098
Interest income	181,000	356,397	172,023
	19,813,200	20,193,925	19,518,121
Expenses			
Bondholder representative fees	186,800	99,828	97,874
Trustee fees	26,700	28,078	25,187
Salaries and benefits	200,300	202,098	193,037
Office	58,400	56,571	64,535
General and administrative	385,200	362,350	252,015
Enforcement	60,000	60,000	60,000
Independent engineer	50,000	61,635	29,390
Routine maintenance	1,283,900	1,160,409	1,261,626
Major maintenance	1,082,000	701,634	415,336
Facility operations	2,167,600	2,273,183	2,234,448
	5,500,900	5,005,786	4,633,448
Earnings before other items	14,312,300	15,188,139	14,884,673
Other items			
Government assistance amortization (note 2)	1,700,600	1,700,621	1,619,663
Amortization and depreciation	(4,302,200)	(4,294,152)	(3,412,805)
Interest on long term debt	(9,582,300)	(9,660,052)	(7,320,910)
Unrealized gain on investments	–	26,135	11,753
Net earnings	$ 2,128,400	$ 2,960,691	$ 5,782,374
Deficit, beginning of year		$(11,066,602)	$ (13,739,393)
Net earnings		2,960,691	5,782,374
Transfer from (to) reserve for restricted assets (note 9)		3,279,100	(3,109,583)
Deficit, end of year		$ (4,826,811)	$ (11,066,602)

See accompanying notes to the financial statements.

Highway 104 Western Alignment Corporation
Balance sheet

March 31	2011	2010
Assets		
Current		
Cash and cash equivalents	$ 752,336	$ 486,139
Inventory	10,357	8,733
Prepaids (note 3)	419,467	426,761
Receivables (note 4)	928,577	970,161
	2,110,737	1,891,794
Restricted assets (note 5)	38,179,185	41,458,286
Facility (note 6)	91,196,464	94,470,628
	$ 131,486,386	$ 137,820,708
Liabilities		
Current		
Payables and accruals	$ 532,684	$ 1,467,459
Current portion of long term debt (note 7)	1,919,228	1,786,163
Deferred revenue	987,100	885,072
	3,439,012	4,138,694
Long term debt (note 7)	61,972,816	68,872,849
Payable to the Province of Nova Scotia/deferred grant (note 8)	250,000	250,000
Deferred government assistance (note 2)	38,411,199	40,106,497
	104,073,027	113,368,040
Shareholder's equity		
Capital stock, one no par value share issued and outstanding in favour of the Province of Nova Scotia	1	1
Reserve for restricted assets (note 9)	32,240,169	35,519,269
Deficit	(4,826,811)	(11,066,602)
	27,413,359	24,452,668
	$ 131,486,386	$ 137,820,708

Commitments and contractual obligations (note 12). See accompanying notes to the financial statements.

On behalf of the Board ____________________ President

Highway 104 Western Alignment Corporation
Statement of cash flows

Year ended March 31	2011	2010
(Decrease) increase in cash and cash equivalents		
Operating		
Net earnings	$ 2,960,691	$ 5,782,374
Government assistance amortization	(1,695,298)	(1,614,569)
Amortization of deferred financing fees	19,195	19,195
Amortization and depreciation	4,294,152	3,412,805
Unrealized gain on investments	(26,135)	(11,753)
	5,552,605	7,588,052
Change in non-cash operating working capital (note 10)	(785,493)	(665,336)
	4,767,112	6,922,716
Financing		
Repayment of long term debt	(6,786,164)	(1,708,143)
Investing		
Decrease (increase) in restricted assets	3,305,235	(3,097,786)
Additions to facility	(1,019,986)	(2,399,072)
	2,285,249	(5,496,858)
Net increase (decrease) in cash and cash equivalents	266,197	(282,285)
Cash and cash equivalents, beginning of year	486,139	768,424
Cash and cash equivalents, end of year	$ 752,336	$ 486,139

See accompanying notes to the financial statements.

AUDITOR'S REPORT

Notes to the financial statements

March 31, 2011

1. Nature of operations

The Corporation has been established for the purpose of financing, designing, constructing, operating and maintaining the Facility consisting mainly of a 45 km stretch of highway (referred to as the Highway 104 Western Alignment) between Masstown and Thomson Station in the Counties of Colchester and Cumberland, Nova Scotia. The Corporation has been designated a Government Business Enterprise by the Nova Scotia Provincial Finance Act. The Corporation follows generally accepted accounting policies for profit-oriented enterprises.

2. Summary of significant accounting policies

Pre-operating and operating periods

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

Facility

The Facility consists of the highway referred to as the Highway 104 Western Alignment and the toll plaza constructed on the highway. The costs of the Facility include certified progress payments to the Facility's contractor, independent engineer fees, professional fees and interest costs incurred during the pre-operating period. These costs are being amortized commencing at the start of the operating period using the sinking fund method with an annual compounding rate of 5%. Subsequent purchases of equipment and upgrades to the Facility are being amortized over the useful lives of the assets, ranging between 8 years and the expiry of the project.

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 toll revenue bonds have been deferred and are being amortized to operations over the term of the related bond debt commencing at the start of the operating period.

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

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 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.

The most significant estimates include: useful life of the facility, assumptions used in the determination of the fair value of investments and debt, and amortization of deferred government assistance. Actual results may differ from these estimates.

Financial instruments

Financial assets and liabilities are initially recognized at fair value and are subsequently accounted for based on their classification as described below.

Financial assets must be classified as held for trading, available for sale, held to maturity or loans and receivables. Financial liabilities are required to be classified as held for trading or other financial liabilities. All financial instruments are measured at fair value on the balance sheet with the exception of loans and receivables, held to maturity investments and other financial liabilities which are measured at amortized cost.

Changes in fair values of financial assets and financial liabilities classified as held for trading are reported in earnings.

The Corporation has classified its financial instruments as follows:

Held for trading
• Cash, restricted assets

Other financial liabilities
• Payables and accruals, amount payable to the Province of Nova Scotia and long term debt

Loans and receivables
• Receivables

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

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

Credit risk

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

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

Liquidity risk

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

Financial Instruments are categorized into three levels of hierarchy that reflect the significance of input used in making the fair value measurements. The three levels of the fair value hierarchy are as follows:

Level 1
Inputs that reflect unadjusted publicly quoted prices in active markets for identical assets or liabilities.

Level 2
Inputs other than quoted prices that is observable for the assets or liabilities either directly or indirectly, including inputs in markets that are not considered to be active.

Level 3
Inputs that are unobservable. There is little, if any, market activity. Inputs into the determination of fair value require significant management judgment or estimation.

The additional disclosures as required under this section are disclosed in note 5 to the financial statements.

International financial reporting standards ("IFRS")

In March 2009, the Canadian Accounting Standards Board ("AcSB") reconfirmed in its second omnibus Exposure Draft that IFRS will replace Canadian Generally Accepted Accounting Principles ("GAAP") for publicly accountable enterprises for interim and annual periods beginning on or after January 1, 2011, including the restatement of the comparative period financial statements on the same basis. As a government business enterprise, the Corporation is specifically scoped into the definition of a publicly accountable enterprise. As such, the Corporation is required to prepare its 2012 financial statements including comparative information for 2011 in compliance with IFRS.

Management's analysis of changes and policy decisions reflects their expectations regarding the accounting standards that they anticipate will be effective at the time of the Corporation's transition. Significant changes to IFRS accounting standards are expected to be issued by the International Accounting Standards Board ("IASB"). As a result, there is uncertainty regarding the expected accounting standards that will ultimately be in place and therefore applicable to the Corporation's first IFRS financial statements, including comparatives and opening IFRS balance sheet. The determination on future financial reporting requirements continues to be under review.

3. Prepaids	**2011**	**2010**
Operating expenses	$ 31,810	$ 39,104
Advance to operator	387,657	387,657
	$419,467	$ 426,761

4. Receivables	**2011**	**2010**
Harmonized Sales Tax	$ 92,310	$ 159,883
Receivable from the Province of Nova Scotia	828,950	418,836
Other	7,317	391,442
	$928,577	$ 970,161

5. Restricted assets (continued)

Investments are recorded at fair value and include accrued interest of $83,447 (2010 – $35,160), have a weighted average term of 5.75 (2010 – 7.12) months to maturity and a weighted average interest rate of 1.27% (2010 – 0.66%).

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

(i) 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.

(ii) The capital reserve account has been established to provide funds to pay the interest and principal on the senior 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.

(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.

The Corporation's restricted assets are recorded at fair value and have been categorized based upon a fair value hierarchy as Level 1 for cash and Level 2 for investments. There were no transfers between the three levels of hierarchy between March 31, 2010 and March 31, 2011.

5. Restricted assets	**Cash**	**Investments**	**Total 2011**	**Total 2010**
Senior debt service reserve account	$ 993	$ 8,421,844	$ 8,422,837	$ 9,034,633
Capital reserve account	36	18,993,522	18,993,558	21,867,044
Major maintenance reserve account	1,269	10,761,521	10,762,790	10,556,609
	$ 2,298	$ 38,176,887	$38,179,185	$ 41,458,286

6. Facility	**Cost**	**Accumulated Depreciation**	**Net Book Total 2011**	**Net Book Total 2010**
Facility	$ 124,464,692	$ 37,689,426	$ 86,775,266	$ 90,607,265
Equipment and upgrades	5,118,760	697,562	4,421,198	3,863,363
Total	$ 129,583,452	$ 38,386,988	$ 91,196,464	$ 94,470,628

7. Long term debt	**2011**	**2010**
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. The bonds are payable in equal quarterly instalments of interest and principal of $2,091,558. 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.	$ 68,892,044	$ 70,659,012
Less: prepayment on June 30, 2010	5,000,000	
Less: principal repayments due within one year	1,919,228	1,786,163
	$ 61,972,816	$ 68,872,849

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

2012	$ 1,919,228
2013	2,123,125
2014	2,348,471
2015	2,597,520
2016	2,872,766

The fair value of the Corporation's long term debt is $96 million, 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.

AUDITOR'S REPORT

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 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.

	2011	2010
Reserve for restricted assets, beginning of year	**$35,519,269**	$ 32,409,686
Transfers from project account	**15,676,200**	15,476,200
Interest income	**352,676**	172,023
Long term debt payments, including interest	**(16,421,697)**	(9,004,764)
Major maintenance payments, including HST to be recovered	**(2,912,424)**	(3,545,629)
Change in market value of restricted assets	**26,145**	11,753
	(3,279,100)	3,109,583
Reserve for restricted assets, end of year	**$32,240,169**	$ 35,519,269

10. Supplemental cash flow information	2011	2010
Change in non-cash operating working capital		
Inventory	**$ (1,624)**	$ (2,156)
Prepaids	**7,294**	1,148
Receivables	**41,584**	(246,431)
Payables and accruals	**(934,775)**	(435,903)
Deferred revenue	**102,028**	18,006
	$ (785,493)	$ (665,336)
Cash and cash equivalents consist of:		
Cash on hand and balances with banks	**$ 752,336**	$ 486,139
Interest paid	**$ 9,660,052**	$ 7,320,910

11. Capital management

The Corporation's objectives when managing capital are to:

(i) Manage investments to ensure restricted accounts are consistent with trust indenture agreements between the Corporation, bondholders and the Province of Nova Scotia as described in note 5.

(ii) To monitor the budget/forecast on a monthly basis to ensure optimal returns to stakeholders.

Currently, the Corporation relies on cash flows from operations to fund its capital management objectives. The Corporation's capital is comprised of the reserve for restricted assets, described in note 9. Capital under management for the year totalled $32,240,169 (2010 - $35,519,269). There have been no changes to the Corporation's approach to capital management during the period, and the Corporation was in compliance with applicable capital management contractual requirements during the reporting period.

12. Commitments and contractual obligations

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

- **Omnibus Agreement**

  Agreement dated April 1, 1996, between the Corporation, the Contractor, the Operator and the Province of Nova Scotia to design, finance, construct, operate and maintain the Highway 104 Western Alignment. This agreement acknowledges that the Corporation has entered into a Design Build Agreement and an Operating Agreement to fulfil 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 $2,273,183 (2010 - $2,234,448).

  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, 2010.

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

2012	$ 1,500,000
2013	1,175,000
2014	1,040,000
2015	1,167,500
2016	1,730,000

- **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 prior year. For the current fiscal year, the base annual fee of $1,117,096 for 2010 was adjusted for inflation and totalled $1,131,617 for 2011.

  During the year, the Corporation incurred management fees of $70,069, (2010 - $76,605) 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 five years are as follows:

2012	$ 31,008
2013	30,617
2014	29,229
2015	29,253
2016	19,614

13. Comparative figures

Certain of the comparative figures for the prior year have been reclassified to conform to the financial statement presentation adopted for the current year.

Port Philip
Wallace
North Shore
Malagash Point
Mount Pleasant
Pugwash Jct
Wallace Sta
Seafoam
Cape John
Little River
Kolbec
Wallace Ridge
Malagash
Conns Mills
Middleboro
Sand Point
Marshville
OXFORD
Hansford
South Victoria
Bayhead
Brule
River John
Welsford
Oxford Jct
Streets Ridge
Tatamagouche
Dunmark
Meadowville
Thomson Station
Mahoneys Corner
Wentworth Centre
River Philip
W. New Annan
Oliver
Balmoral Mills
East Earltown
Westchester Sta
Wentworth
The Falls
Collingwood Corner
Annandale
Central New Annan
West Branch River John
North Earltown
Rose
Wentworth Valley
Earltown
CUMBERLAND
COLCHESTER
Folly Lake
Salt Springs
Nuttby
McCallum Settlement
Mount Thom
Lornevale
Londonderry
Kemptown
Debert
Onslow Mountain
North River
Montrose
Great Village
Bass River
Belmont
Cove Road
Portapique
Glenholme
Riversdale
Valley
Union
Economy
Upper Economy
Masstown
Bible Hill
Greenfield
Onslow
Salmon River
Old Barns
Cobequid Bay
Truro Heights
TRURO
Clifton
Noel Shore
Selma
Harmony
Burntcoat
Densmore Mills
Beaver Brook
Camden
Maitland
Hilden

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