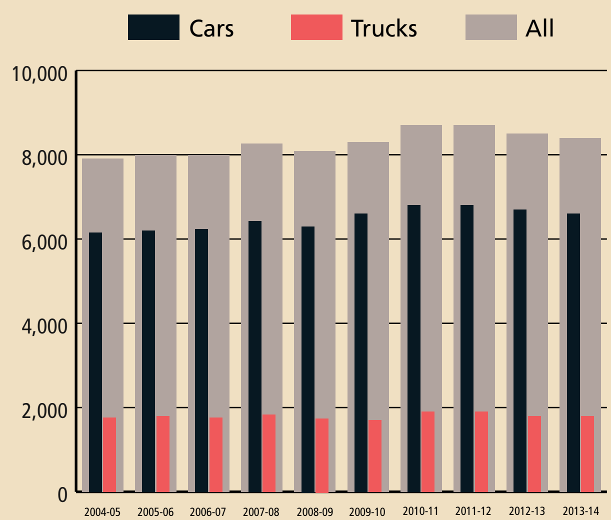
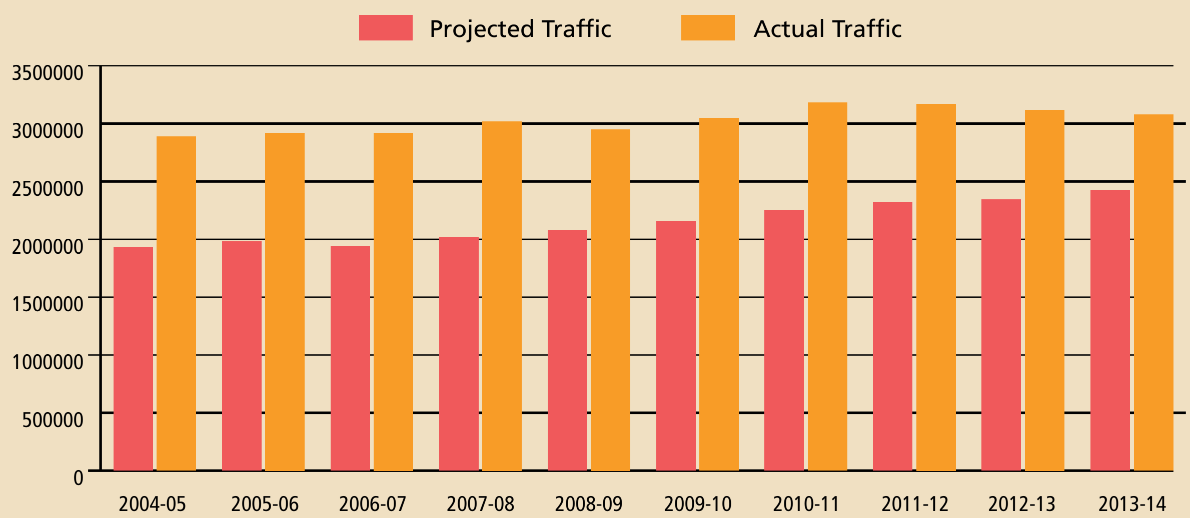
"Paving our way"

HIGHWAY 104
COBEQUID PASS

Annual average daily traffic



Projected traffic versus actual traffic



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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 2013-14: cars – 6,600; trucks – 1,800


YOUR SPEED
71

LETTERS TO STAKEHOLDERS

President

The Highway 104 Western Alignment Corporation has completed its sixteenth year of operation providing a high level of highway operation and customer service.

Our customers continue to pay the same amount at the tolls, unchanged since 2004.

We attribute this to a combination of sound financial management and higher than forecast traffic volumes on the Cobequid Pass.

The Independent Maintenance Engineer (IME), MMM Group Ltd, 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 paving 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. KPMG provides audit service and other financial advice to the Corporation.

The Corporation's road maintenance contractor, the Department of Transportation & Infrastructure Renewal (NSTIR), provides summer and winter maintenance on the Cobequid Pass. The Corporation pays NSTIR an annual fee for highway maintenance activities. NSTIR also provides project management services to the Corporation for any capital contracts that are called for highway projects such as re-paving, micro surfacing and structure repairs.

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

The Corporation works with NSTIR's Government liaison, Peter Hackett, 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.

The Corporation will continue to provide strong financial management and a well maintained roadway for a quality driving experience.

Lee V. 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 remained strong, as 3.1 million vehicles passed through the Toll Plaza in fiscal 2013-14, of which 78% were cars and 22% commercial vehicles. This is a decrease of 1.3% over the previous fiscal year.

In comparison to original forecasted traffic, automobile traffic is up 45%, while truck traffic is down 13%. Tolling revenue is down 1.1% over fiscal 2012-13, reflecting the decrease in traffic volume.

The Corporation funded $4.8 million for major maintenance work during this fiscal year. This major project was the repaving of 17.4 kms, consisting of cold planing, repaving, shouldering and guardrail repair. The paved roadway was also widened to meet current Department standards. This repaving effort was the first year of a five year project to completely repave the Cobequid Pass.

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 2013-14. The financial statements are in accordance with International Financial Reporting Standards. The accompanying notes provide a thorough explanation of the financial details of the Corporation's operations.

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 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 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 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 a 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 (NSTIR). In addition, the Corporation engages KPMG LLP to provide audit reports in accordance with International Financial Reporting Standards.

Detailed monthly reports of the highway's financial operations are sent to 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, NSTIR, 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 held in the Fall of each year.

Maintenance

With a budget of $1,194,900 in fiscal 2013-14, NSTIR 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 routine maintenance activities to ensure the highway is maintained at a high standard.

The Corporation expended $4,800,000 in Major Maintenance work on the Cobequid Pass facility this fiscal year for resurfacing 17.4 kilometres of the Cobequid Pass.

For Capital projects, the Corporation expended $80,000 to upgrade the tolling system hardware.

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

Atlantic Highways Management Corporation

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

AHMCL currently employs about 40 people at the Toll Plaza, mostly from Cumberland and Colchester Counties.


ROADTEC

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 to:

- Pay the 104 Western Alignment's ongoing administrative cost.
- Pay operating and maintenance costs for the 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 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.

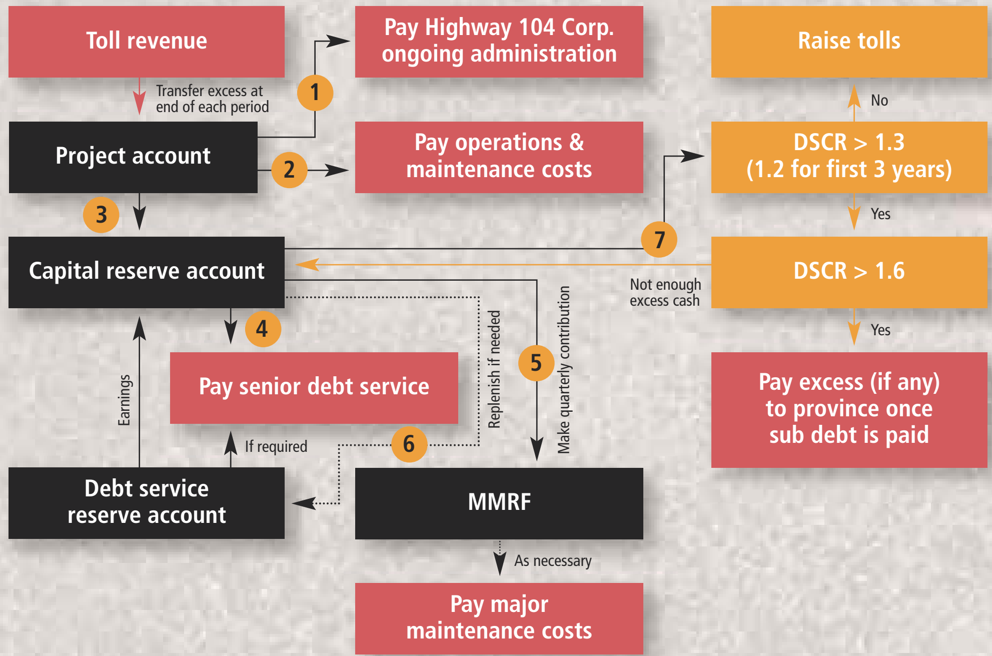
If the Senior Debt Service Ratio is larger than 1.3:1 but less than 1.6:1 then all funds in excess of expenditures and bond repayment are accumulated in the Capital Reserve Fund where they are placed in permitted investments. If the Senior Debt Service Ratio is larger than 1.6:1, provisions in the agreements 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.

Cash Flow Diagram




Great Village
River

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

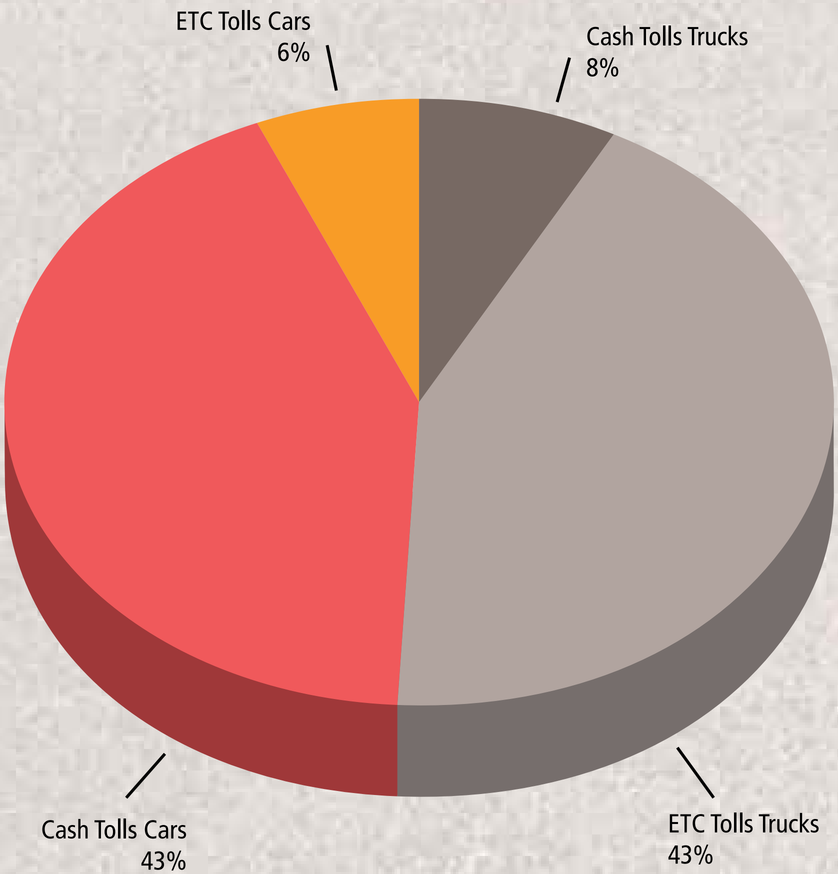
$5.5 million in subordinate notes invested from the provincial pension fund

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

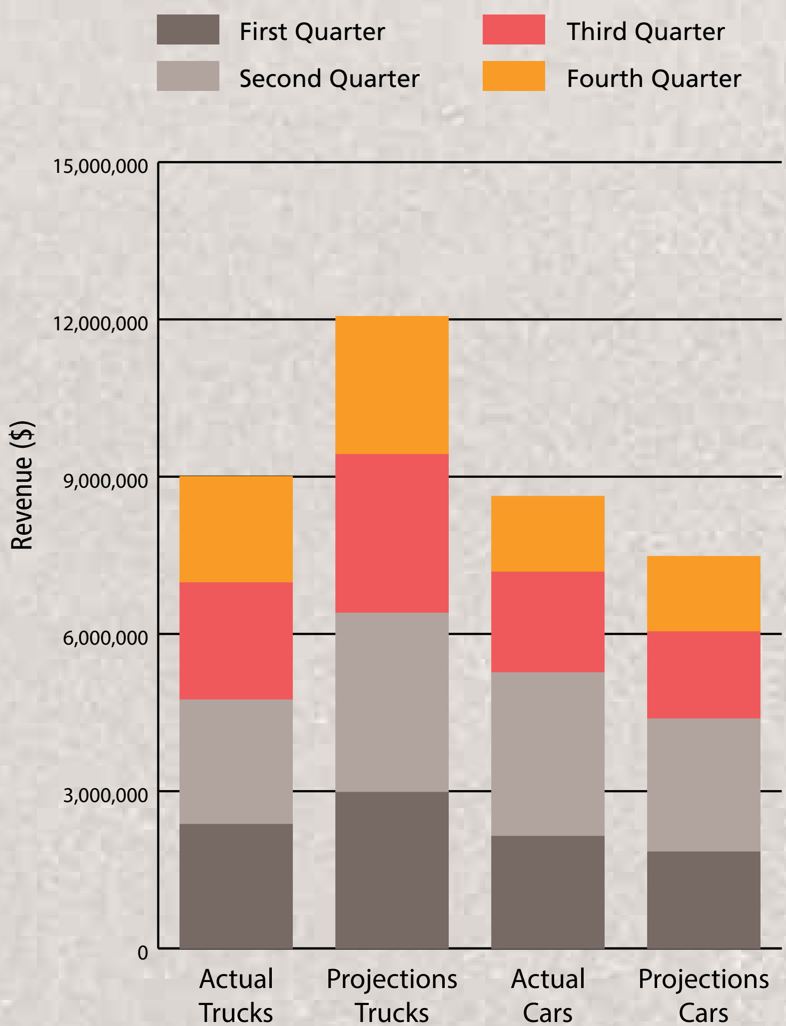
Toll revenues over 30 years will provide the investors a return; pay for toll operations; cover annual maintenance and contribute to long-term maintenance.

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

Cash toll and ETC revenue



Revenue versus day 1 projections for fiscal 2014



FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' 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 statement of financial position as at March 31, 2014, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, 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.

Auditors' 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 our 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, we consider internal control relevant to the Corporation'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 Corporation'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, 2014, and its results of operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

KPMG LLP

Chartered Accountants
June 12, 2014
Halifax, Canada

Statement of Financial Position

March 31, 2014, with comparative figures for 2013

		2014		2013
Assets				
Current assets:				
Cash	$	684,614	$	659,256
Prepaids and other (note 4)		488,514		481,109
Receivables (note 5)		1,593,123		953,544
		2,766,251		2,093,909
Non-current assets:				
Restricted assets (note 6)		34,311,063		38,901,988
Property, plant and equipment (note 7)		36,534,031		40,002,742
		70,845,094		78,904,730
	$	73,611,345	$	80,998,639
Liabilities and Equity				
Current liabilities:				
Accounts payable and accrued liabilities (note 8)	$	679,728	$	1,684,524
Current portion of-long-term debt (note 9)		1,955,266		1,965,719
Deferred revenue		1,104,288		1,054,786
		3,739,282		4,705,029
Non-current liabilities:				
Long-term debt (note 9)		41,598,520		48,402,788
Deferred government grant		6,535,456		7,792,548
		48,133,976		56,195,336
Equity:				
Share capital		1		1
Reserve for restricted assets		28,369,951		32,962,972
Deficit		(6,631,865)		(12,864,699)
		21,738,087		20,098,274
	$	73,611,345	$	80,998,639

The accompanying notes are an integral part of these financial statements.
Approved on behalf of the Board:

Director

Statement of Comprehensive Income

Year ended March 31, 2014, with comparative figures for 2013

	2014	2013
Revenue:		
Facility revenue	$ 20,496,558	$ 20,649,149
Expenses:		
Fees and banking services	364,043	346,117
Wages and benefits (note 10)	650,824	653,455
Toll collection	1,065,670	1,023,904
Facility maintenance, materials and supplies (note 11)	1,695,605	1,743,600
Engineering and professional fees (note 11)	123,302	139,706
Insurance	158,578	170,831
Other costs (note 11)	578,084	565,313
	4,636,106	4,642,926
Earnings from operations before the following items	15,860,452	16,006,223
Finance income (note 12)	353,199	504,061
Finance costs (note 12)	(7,521,702)	(8,810,507)
Net finance costs	(7,168,503)	(8,306,446)
Depreciation and loss on disposal	(8,315,508)	(7,006,588)
Government grant amortization	1,263,372	1,263,189
Net income, being comprehensive income	$ 1,639,813	$ 1,956,378

The accompanying notes are an integral part of these financial statements.

Statement of Changes in Equity

Year ended March 31, 2014, with comparative figures for 2013

	2014	2013
Common shares (1 share)	$ 1	$ 1
Deficit:		
Beginning of year	$ (12,864,699)	$ (13,952,780)
Net earnings for the year	1,639,813	1,956,378
Transfer to (from) restricted assets	4,593,021	(868,297)
End of year	(6,631,865)	(12,864,699)
Reserve for restricted assets:		
Beginning of year	32,962,972	32,094,675
Transfers from project account	16,065,600	16,136,000
Interest income	444,886	450,472
Long-term debt payments, including interest	(14,330,141)	(15,622,490)
Change in market value of restricted assets	(99,136)	46,071
Major maintenance payments, including HST to be recovered	(6,674,230)	(141,756)
End of year	28,369,951	32,962,972
Total equity	$ 21,738,087	$ 20,098,274

The accompanying notes are an integral part of these financial statements.

FINANCIAL STATEMENTS

Statement of Cash Flows

Year ended March 31, 2014, with comparative figures for 2013

	2014	2013
Increase (decrease) in cash:		
Operating activities:		
Comprehensive income	$ 1,639,813	$ 1,956,378
Items not affecting cash:		
Government grant amortization	(1,263,372)	(1,263,189)
Depreciation and loss on disposal	8,315,508	7,006,588
Net finance costs	7,168,503	8,306,446
Change in prepaids and other	(7,405)	(14,981)
Change in receivables	(639,579)	3,788
Change in accounts payable and accrued liabilities	(1,004,796)	1,129,302
Change in deferred revenue	49,502	67,755
	14,258,174	17,192,087
Investing:		
Interest received	475,954	441,087
Net cash (increase) decrease in restricted assets	4,468,168	(805,323)
Purchase of property, plant and equipment	(4,846,796)	(1,074,660)
	97,326	(1,438,896)
Financing:		
Interest paid	(7,491,070)	(8,780,057)
Payment on long-term debt principal	(6,839,072)	(6,842,434)
	(14,330,142)	(15,622,491)
Increase in cash	25,358	130,700
Cash, beginning of year	659,256	528,556
Cash, end of year	$ 684,614	$ 659,256

The accompanying notes are an integral part of these financial statements.

Notes to Financial Statements

Year ended March 31, 2014

1. Reporting entity

The Highway 104 Western Alignment Corporation (the "Corporation") is a company domiciled in Canada. The registered office is located at 1969 Upper Water Street, Halifax, in the Province of Nova Scotia. The Corporation has been established for the purpose of financing, designing, constructing, operating and maintaining a 45km stretch of highway (referred to as the Cobequid Pass) between Masstown and Thomson Station in the Counties of Colchester and Cumberland, Nova Scotia (the "Facility"). The Corporation has been designated a Government Business Enterprise in accordance with the Nova Scotia Provincial Finance Act. The Highway 104 Western Alignment Corporation Act, which authorizes the collection of tolls, states that toll collection will cease upon complete payment of all costs and liabilities relating to the Facility. This includes financing, design, construction, operation and maintenance, and any repair, improvement, replacement, alteration or extension. The forecasted repayment date of all cost and liabilities relating to the Facility is in 2019.

2. Basis of preparation

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

The financial statements were authorized for issue by the Board of Directors on June 12 2014.

(b) Basis of measurement

These financial statements have been prepared on the historical cost basis except for restricted assets that are measured at fair value through profit and loss.

(c) Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the functional currency for the Corporation.

(d) Use of estimates and judgments:

The preparation of the Corporation's financial statements in conformity with IFRS requires the use of accounting estimates and management's judgment to determine the appropriate application of accounting policies. Estimates and assumptions are required to determine the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Any revisions to accounting estimates are recognized in the period in which the estimate was revised and any future periods affected.

The following judgments and estimates are those deemed by management to be material to the Corporation's financial statements:

Judgments:

(i) Capitalization and componentization

Judgment is used when determining if components of a construction project are for a capital or repair nature and as to what components constitute a significant cost in relation to the total cost of an asset and whether these components have similar or dissimilar patterns of consumption and useful lives for purposes of calculating depreciation. Among other factors, these judgments are based on past experience, as well as information obtained from the Corporation's internal and consulting engineers.

Estimates

(i) Depreciation and amortization

Depreciation and amortization are calculated to write off the cost, less estimated residual value, of assets on a systematic and rational basis over their expected useful lives. Estimates of residual value and useful lives are based on past experience, as well as information obtained from the internal and consulting engineers. Expected useful lives and residual values are reviewed annually for any change to estimates and assumptions.

(ii) Debt repayment

The contractual maturities and estimated interest payments on the long-term debt outlined in note 9 are impacted by the estimates and assumptions regarding the forecasted repayment dates. In addition, the forecasted repayment date impacts the estimated useful life of the components of property, plant and equipment as outlined in note 3(b) as the useful life of each asset is based on the utility of the asset to the Corporation.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(a) Financial instruments

The Corporation's financial instruments are comprised of the following:

Financial instrument	Classification
Cash	Loans and receivables
Receivables	Loans and receivables
Restricted assets	At fair value through profit or loss
Accounts payable and accrued liabilities	Other financial liabilities
Long-term debt	Other financial liabilities

(i) Financial assets

The Corporation initially recognizes loans and receivables and deposits on the date that they originate. All other financial assets (including assets designated at fair value through profit or loss) are recognized initially on the trade date at which the Corporation becomes a party to the contractual provisions of the instrument.

The Corporation derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Corporation is recognized as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Corporation has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Financial assets at fair value through profit or loss

A financial asset is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Corporation manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Corporation's documented risk management or investment strategy. Upon initial recognition, attributable transaction costs are recognized in profit or loss when incurred.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Cash

Cash includes cash on hand, balances with banks and short-term deposits with original maturities of three months or less..

(ii) Financial liabilities

The Corporation initially recognizes debt securities issued and subordinated liabilities on the date that they originated. All other financial liabilities are recognized initially on the trade date at which the Corporation becomes a party to the contractual provisions of the instrument.

The Corporation derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Corporation has a legal right to offset the amounts and intends either to settle on a net basis or to realize the assets and settle the liability simultaneously.

(iii) Other financial liabilities

Other financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

(iv) Share capital

Common shares

Common shares are classified as equity.

(b) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located. Borrowing costs related to the acquisition, construction or production of qualifying assets are capitalized as a part of the asset.

When the parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

An item of property, plant and equipment is derecognized upon disposal or when no economic benefits are expected to arise from the continued use of the asset.

FINANCIAL STATEMENTS

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognized net within other income in profit or loss.

(ii) Repairs and maintenance

Repairs and maintenance costs are charged to expense as incurred, except when these repairs significantly extend the life of the asset or result in an operating improvement. In these instances the portion of these repairs relating to the betterment is capitalized as part of plant and equipment.

(iii) Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. This method of depreciation most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

The estimated useful lives for the current period are as follows:

• Highway and surface treatments	6 years
• Tolling system	3 to 9 years
• Toll plaza structure	13 years
• Other assets	10 years

The Highway 104 Western Alignment Corporation Act, which authorizes the collection of tolls, states that toll collection will cease upon complete payment of all cost and liabilities relating to the facility. As such, the useful life of each asset is estimated based on the utility of each asset to the Corporation.

(c) Impairment

(i) Financial assets (including receivables)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Corporation on terms that the Corporation would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, or the disappearance of an active market for a security.

The Corporation considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables and held-to-maturity investment securities are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(ii) Non-financial assets

The carrying amounts of the Corporation's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The Corporation consists of a single CGU (cash generating unit), as the Corporation's assets do not generate separate cash inflows.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the CGU.

An impairment loss is recognized if the carrying amount of the CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the CGU's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(d) Facility revenue

Facility revenue is recognized at the time a vehicle utilizes the highway. Customer prepayments of their electronic toll collection crossings are initially recorded as deferred revenue. When the customer utilizes the highway, revenue is recognized and the deferred revenue is reduced accordingly. Provincial subsidies, net of rebates, are recognized as facility revenue per the First Amendment to the Omnibus Agreement.

(e) Government grants

Government grants are recognized initially as deferred income at fair value when there is reasonable assurance that they will be received and the Corporation will comply with the conditions associated with the grant. Grants that compensate the Corporation for expenses incurred are recognized in profit or loss on a systematic basis in the same periods in which the expenses are recognized. Grants that compensate the Corporation for the cost of an asset are deferred and amortized to operations over the expected project life or useful life of the asset commencing at the start of the operating period using the straight-line method.

(f) Finance income and finance costs

Finance income comprises interest income on funds invested, and changes in the fair value of financial assets at fair value through profit or loss. Interest income is recognized as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings and changes in the fair value of financial assets at fair value through profit or loss. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method.

(g) Changes in accounting policies:

IFRS 13, Fair Value Measurement, is a single source of fair value measurement guidance under IFRS. This new IFRS clarifies the definition of fair value, provides a clear framework for measuring fair value, and enhances the disclosures about fair value measurements. IFRS 13 is not only limited to financial instruments, but also applies to fair value measurement in other IFRS, such as impairment and employee future benefits. The Corporation's financial statements reflect the required disclosures.

(h) Future changes in accounting policies:

The International Accounting Standards Board ("IASB") and International Financial Reporting Interpretation Committee ("IFRIC") issued the following standards that have not been applied in preparing these financial statements as their effective dates fall within annual periods beginning subsequent to the current reporting period. This listing is of standards and interpretations issued which the Corporation reasonably expects to be applicable at a future date. The Corporation intends to adopt these standards when they become effective. The extent of the impact of these standards on the financial statements has not been determined.

The IASB has issued IFRS 9, Financial Instruments, which will replace IAS 39, Financial Instruments: Recognition and Measurement, and some of the requirements of IFRS 7, Financial Instrument Disclosures. The date IFRS 9 becomes effective is still being finalized by the International Accounting Standards Board. The objective of IFRS 9 is to establish principles for the financial reporting of financial assets and financial liabilities that will present relevant information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows.

The Corporation intends to adopt IFRS 9 but does not expect IFRS 9 to have a material impact on the financial statements.

4. Prepaids and other

	2014	2013
Advance to facility operator	$ 425,784	$ 425,784
Operating expenses	55,230	51,380
Inventory	7,500	3,945
	$ 488,514	$ 481,109

5. Receivables

	2014	2013
Due from the Province of Nova Scotia	$ 637,302	$ 638,367
HST receivable	918,508	265,333
Other trade receivables	37,313	49,844
	$ 1,593,123	$ 953,544

6. Restricted assets

	2014	2013
Capital reserve account	$ 16,113,833	$ 19,247,854
Major maintenance reserve account	11,839,794	12,480,110
Debt service reserve account	6,357,436	7,174,024
	$ 34,311,063	$ 38,901,988

Restricted assets are comprised of bank bearer deposit notes and bankers acceptances which are recorded at fair value and include accrued interest of $67,810 (2013 - $91,436), have a weighted average term of 6.86 (2013 - 6.77) months to maturity and a weighted average interest rate of 1.16 % (2013 - 1.20%).

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 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 account of the Corporation.

(ii) 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.

(iii) The 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 accounts 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.

7. Property, plant and equipment

	Toll Plaza	Tolling System	Toll Highway	Road surface Treatments	Other Assets	Total
Cost						
Balance, April 1, 2013	$5,457,898	$2,768,594	$122,639,932	$7,059,097	$50,498	$137,976,019
Additions	–	83,270	–	4,763,526	–	4,846,796
Disposals	–	–	(2,819,983)	–	–	(2,819,983)
Balance, March 31, 2014	$5,457,898	$2,851,864	$119,819,949	$11,822,623	$50,498	$140,002,832
Balance, April 1, 2012	$5,423,390	$2,768,594	$122,639,932	$6,018,945	$50,498	$136,901,359
Additions	34,508	–	–	1,040,152	–	1,074,660
Balance, March 31, 2013	$5,457,898	$2,768,594	$122,639,932	$7,059,097	$50,498	$137,976,019
Depreciation						
Balance, April 1, 2013	$2,805,674	$1,313,154	$88,926,313	$4,894,950	$33,186	$97,973,277
Depreciation for the year	448,832	246,043	5,630,159	1,218,501	2,886	7,546,421
Disposals	–	–	(2,050,897)	–	–	(2,050,897)
Balance, March 31, 2014	$3,254,506	$1,559,197	$92,505,575	$6,113,451	$36,072	$103,468,801
Balance, April 1, 2012	$2,361,098	$1,035,580	$83,303,959	$4,235,752	$30,300	$90,966,689
Depreciation for the year	444,576	277,574	5,622,354	659,198	2,886	7,006,588
Balance, March 31, 2013	$2,805,674	$1,313,154	$88,926,313	$4,894,950	$33,186	$97,973,277
Carrying amounts:						
At March 31, 2013	$2,652,224	$1,455,440	$33,713,619	$2,164,147	$17,312	$40,002,742
At March 31, 2014	2,203,392	1,292,667	27,314,374	5,709,172	14,426	36,534,031

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8. Accounts payable and accrued liabilities

	2014	2013
Trade payables	$ 644,210	$ 1,625,375
Accrued expenses	35,518	59,149
	$ 679,728	$ 1,684,524

9. Long-term debt

This note provides information about the contractual terms of the Corporations interest-bearing loans and borrowings, which are measured at amortized cost and denominated in Canadian dollars.

	Nominal interest rate	Year of maturity	Face value	2014 Carrying amount	Face value	2013 Carrying amount
Senior toll revenue bonds	10.251%	2026	$51,000,000	$43,553,786	$51,000,000	$50,368,507

	2014	2013
Senior toll revenue bonds carrying amount	$ 43,651,188	$ 50,490,260
Deferred finance fees	(97,402)	(121,753)
	43,553,786	50,368,507
Current portion of long-term debt	1,955,266	1,965,719
	$ 41,598,520	$ 48,402,788

The senior toll revenue bonds are secured by a first charge and security interest over 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.

The following are the contractual maturities of financial liabilities, including estimated interest payments.

	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
Non-derivative financial liabilities:							
Secured bond issues	$43,553,786	$75,951,501	$3,164,646	$3,164,646	$6,329,292	$18,987,875	$44,305,042
Accounts payables and accrued liabilities	679,728	679,728	679,728	–	–	–	–

The contractual cash flows included above are based on agreements in place with the secured bond issues. These contractual cash flows do not include the impact of possible prepayments.

10. Personnel expenses

	2014	2013
Wages and salaries	$ 640,013	$ 644,664
Canadian Pension Plan (CPP) and EI remittances	10,811	8,791
	$ 650,824	$ 653,455

Wages and salaries include costs related to contract employees.

11. Expenses

(a) Facility maintenance, materials and supplies

	2014	2013
Highway improvements	$ 18,765	$ 25,500
Maintenance services	1,478,596	1,484,197
Maintenance materials and supplies	101,084	127,062
Technical services and warranties	97,160	106,841
	$ 1,695,605	$ 1,743,600

(b) Engineering and professional fees

	2014	2013
Legal fees	$ 400	$ 3,722
Audit fees	38,711	17,962
Consulting fees	17,981	67,771
Engineering fees	66,210	50,251
	$ 123,302	$ 139,706

(c) Other costs

	2014	2013
Training	$ 9,353	$ 1,602
Office supplies and stationery	11,405	14,211
Office equipment	80,722	79,487
Utilities	66,069	61,190
Travel and transportation costs	24,030	18,329
Enforcement	60,000	60,000
Security	37,744	37,666
Facility operator management fee	223,047	223,343
Meeting costs	20,060	25,191
Administrative costs	45,654	44,294
	$ 578,084	$ 565,313

12. Finance income and finance costs

	2014	2013
Interest income on restricted assets	$ 444,886	$ 450,472
Interest income on bank deposits	7,449	7,518
Net change in fair value of financial assets at fair value through profit or loss	(99,136)	46,071
Finance income	353,199	504,061
Interest expense on financial liabilities	(7,521,702)	(8,810,507)
Finance costs	(7,521,702)	(8,810,507)
Net finance costs recognized in profit or loss	$ (7,168,503)	$ (8,306,446)

13. Financial risk management

Overview

The Corporation has exposure to the following risks from its use of financial instruments:

- Operational risk
- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Corporation's exposure to each of the above risks, its risk management framework and the Corporation's management of capital. Further quantitative disclosures are included throughout these financial statements.

Risk management

Management has overall responsibility for the establishment and oversight of the Corporation's risk management framework.

The Corporation's policies are established to minimize the risks faced by the Corporation, to set appropriate controls and to monitor risks. Management policies and systems are reviewed regularly to reflect changes in market conditions and the Corporation's activities. The Corporation, through its management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Corporation's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the Corporation's operations.

The Corporation's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Corporation's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management. This responsibility is supported by the development of overall Corporation standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, when possible
- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- development of contingency plans
- training and professional development
- ethical and business standards
- risk mitigation, including insurance when this is effective

Credit risk

Exposure to credit risk

The carrying amount of the financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Carrying amount	
	Year ended March 31, 2014	Year ended March 31, 2013
Restricted assets	$ 34,311,063	$ 38,901,988
Receivables	1,593,123	953,544
Cash	684,614	659,256
	$ 36,588,800	$ 40,514,788

The maximum exposure to credit risk for receivables at the reporting date by type of counterpart is outlined in note 5.

The aging of receivables at the reporting date was:

	2014	2013
Not past due	$ 694,307	$ 903,700
Past due 30-60	816,911	7,759
Past due 60-90	52,793	24,701
Over 90 days	29,112	17,384
	$ 1,593,123	$ 953,544

There is no allowance for impairment in respect to receivables and no write offs of receivable balances within the past three fiscal years. The Corporation has receivables with reputable organizations and therefore believes there is no significant exposure to credit risk.

Restricted asset investments consist mainly of short-term money market deposits. The Corporation has deposited these investments with reputable Canadian financial institutions, from which management believes the risk of loss is remote.

The Corporation's cash is held with a top tier commercial Canadian bank.

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Liquidity risk

Liquidity risk is the risk that the Corporation will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Corporation's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Corporations' reputation.

Typically the Corporation ensures that it has sufficient cash and investments on demand to meet expected operational expenses for a period in excess of 365 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

Market risk

The Corporation is not exposed to interest rate risk on its long-term debt as it bears interest at a fixed rate. Interest rate risk on cash flows associated with investments and cash fluctuate due to changes in market interest rates. The Corporation manages this risk exposure by using a mix of fixed and variable rate investments.

14. Financial instruments

Fair value versus carrying amounts

The fair value of financial assets and liabilities, together with the carrying amounts shown in the Statement of Financial Position are as follows:

		March 31, 2014		March 31, 2013	
	Note	Carrying amount	Fair value	Carrying amount	Fair value
Assets carried at fair value:					
Restricted assets	6	$34,311,063	$34,311,063	$38,901,988	$38,901,988
Receivables	5	1,593,123	1,593,123	953,544	953,544
Cash		684,614	684,614	659,256	659,256
Liabilities carried at amortized cost:					
Secured bond issues	9	43,553,786	70,806,610	50,368,507	84,525,100
Trade and other payables	8	679,728	679,728	1,684,524	1,684,524

	March 31, 2014			March 31, 2013		
	Fair value			Fair value		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets						
Cash	$ 684,614	$ –	$ –	$ 659,256	$ –	$ –
Receivables	–	1,593,123	–	–	953,544	–
Restricted assets	34,311,063	–	–	38,901,988	–	–
Liabilities						
Trade and other payables	–	679,728	–	–	1,684,524	–
Long-term debt	–	–	70,806,610	–		84,525,100

There have been no transfers between the levels within the year. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

15. Capital commitments

During the year, the Corporation entered into a contract to purchase property, plant and equipment for $4,846,796.

16. Related party transactions

Included in these financial statements are transactions with various Crown corporations, ministries, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Nova Scotia (the Corporation's controlling shareholder).

The Corporation has applied the modified disclosure requirements under IAS 24, Related Party Disclosures, which exempt government-related entities from providing all of the disclosures about related party transactions with government or other government-related entities.

All other transactions with parties under the control of the government are routine operating transactions carried out as part of the Corporation's normal day-to-day operations. These routine transactions are individually insignificant and include maintenance services ($1,224,237; 2013 - $1,185,623), enforcement, costs ($60,000; 2013 - $60,000), purchases of inventory ($25,788; 2013 - $25,785) and property, plant and equipment ($253,955; 2013 - $94,560).

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