March 31, 2005

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Grant Thornton LLP Chartered Accountants Management Consultants



Auditors' Report

To the Shareholder of Highway 104 Western Alignment Corporation

We have audited the balance sheet of **Highway 104 Western Alignment Corporation** as at March 31, 2005, and the statements of earnings and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2005, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Halifax, Nova Scotia May 13, 2005 Grant Thornton LLP Chartered Accountants

Grant Thornton LLP

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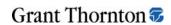
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Highway 104 Western Alignment Corporation Statements of Earnings and Deficit

Year Ended March 31	Budget 2005	Actual 2005	2004
Revenue Facility revenue Interest income	\$ 16,630,000 465,000	\$ 16,954,490 <u>711,759</u>	\$ 14,717,403 <u>757,746</u>
	<u>17,095,000</u>	17,666,249	15,475,149
Expenses			
Bondholder representative fees	165,500	107,910	103,536
Trustee fees	33,617	32,052	30,872
Salaries and benefits	147,100	135,358	118,190
Office	49,100	48,690	48,589
General and administrative	238,600	195,032	158,980
Enforcement	60,000	60,000	60,000
Independent engineer	50,000	36,379	60,172
Routine maintenance	900,700	883,874 240,278	850,849 483,251
Major maintenance Facility operations	357,600 1,904,335	249,378 1,920,430	1,860,350
Transponders	63,074	57,958	66,694
Transponders	03,074	<u> </u>	00,094
	3,969,626	3,727,061	3,841,483
Earnings before other items	13,125,374	13,939,188	11,633,666
Other items			
Government assistance			
amortization (Note 2)	1,265,058	1,265,057	1,204,817
Amortization and depreciation	(2,889,250)	(2,865,547)	(2,729,806)
Interest on long term debt	<u>(8,516,966)</u>	(8,517,068)	(8,443,686)
microsi on long tomi dost		(0,011,000)	<u>(0,110,000)</u>
Net earnings	\$ 2,984,216	\$ 3,821,630	\$ 1,664,991
	<u> </u>	<u> </u>	1,001,001
Deficit, beginning of year		\$ (15,733,019)	\$ (13,573,769)
Net earnings		3,821,630	1,664,991
Transfer to reserve for restricted assets (Note 9)		(6,111,137)	(3,824,241)
Deficit, end of year		\$ (18,022,526)	\$ <u>(15,733,019)</u>

See accompanying notes to the financial statements.

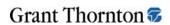


Highway 104 Western Alignment Corporation Balance Sheet

March 31		2005		2004
Assets Current				
Cash and cash equivalents	\$	553,033	\$	650,560
Inventory		6,501		12,530
Prepaids (Note 3)		359,012		331,965
Receivables (Note 4)	•	106,745 1,025,291		72,180 1,067,235
Restricted assets (Note 5)		26,156,658		20,045,521
Facility (Note 6)		106,913,678		109,779,225
Deferred financing fees (Note 2)	•	500,531		535,965
	\$	134,596,158	\$	131,427,946
Liabilities				
Current Payables and accruals	\$	306,295	\$	622,004
Current portion of long term debt	•	1,108,652	Ψ	996,969
Deferred revenue		716,252		618,398
		2,131,199		2,237,371
Long term debt (Note 7)		82,573,657		81,855,846
Payable to the Province of Nova Scotia (Note 8)		250,000		250,000
Deferred government assistance (Note 2)		47,446,250		48,711,307
		132,401,106		133,054,524
Shareholder's Equity (Deficiency) 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) Deficit		20,217,577		14,106,440
Delicit	•	(18,022,526)		(15,733,019)
		2,195,052		(1,626,578)
	\$	134,596,158	\$	131,427,946
Commitments and contractual obligations (Note 12)				
On behalf of the Board				

See accompanying notes to the financial statements.

President



Highway 104 Western Alignment Corporation Statement of Cash Flows

Year Ended March 31	2005	2004
Increase (decrease) in cash and cash equivalents		
Operating Net earnings Government assistance amortization Capitalized interest on bonds (Note 7) Amortization of deferred financing fees Amortization and depreciation	\$ 3,821,630 (1,265,057) 1,826,463 35,434 2,865,547 7,284,017	\$ 1,664,991 (1,204,817) 1,652,655 35,434 2,729,806 4,878,069
Change in non-cash operating working capital (Note 11)	<u>(273,438)</u> <u>7,010,579</u>	(4,822) 4,873,247
Financing Principal repayment on bonds	(996,969)	(896,554)
Investing Increase in restricted assets	<u>(6,111,137)</u>	_(3,824,241)
Net (decrease) increase in cash and cash equivalents	(97,527)	152,452
Cash and cash equivalents, beginning of year	650,560	498,108
Cash and cash equivalents, end of year	\$ 553,033	\$ 650,560

See accompanying notes to the financial statements.

March 31, 2005

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 until March 31, 2026 using the sinking fund method with an annual compounding rate of 5%.

Also included in the Facility are computer equipment costs of \$44,940. These costs are being amortized over three years under the straight line method.

Revenue recognition

The Corporation recognizes revenue at the time a vehicle utilizes the highway.

Deferred costs - financing fees

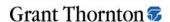
Financing, commitment and bondholder representative fees related to the establishment and placement of the senior and junior toll revenue bonds have been deferred and are being amortized to operations over the term of the related bond debt commencing at the start of the operating period.

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%.

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.



March 31, 2005

2. Summary of significant accounting policies (continued)

Use of estimates

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

3.	Prepaids				<u>2005</u>		<u>2004</u>
	erating expenses rance to operator		\$; _	34,487 <u>324,525</u>	\$	36,235 295,730
			\$	-	359,012	\$	331,965
4.	Receivables				<u>2005</u>		2004
Har Oth	monized Sales Tax er		\$	· _	72,575 34,170	\$	45,372 26,808
			\$	· _	106,745	\$	72,180
5.	Restricted assets	<u>Cash</u>	Investments		2005 <u>Total</u>		2004 <u>Total</u>
a Cap	count oital reserve account	\$ 614 875	\$ 5,651,491 16,531,912	•	5 5,652,105 16,532,787	\$	5,712,221 10,575,301
-	or maintenance reserve ccount	1,145	3,970,621		3,971,766	_	3,757,999
		\$ 2,634	\$ 26,154,024	9	26,156,658	\$ _	20,045,521

Investments are recorded at cost, have a weighted average term of 9.21 (2004 - 10.14) months to maturity and a weighted average interest rate of 2.80% (2004 - 3.26%). The market value of the investments approximates the carrying value.

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

March 31, 2005

5. Restricted assets (continued)

- (i) The capital reserve account has been established to provide funds to pay the interest and principal on the senior and junior bonds and the subordinated notes. These funds are also available to pay the trustee and bondholders' representative fees to the extent they are not paid out of the project account. This account provides funding to the major maintenance reserve and the senior debt reserve accounts. The capital reserve account is funded from excess funds transferred from the project bank accounts of the Corporation.
- (ii) The senior debt reserve account has been established to provide a reserve of funds to be available for payments as they come due for the senior toll revenue bonds. Funds can only be transferred from this fund when funds in the capital reserve account are insufficient to pay senior toll revenue bond payments. The account should maintain sufficient reserves equal to 12 months principal and interest payments due on the senior toll revenue bonds. The replenishment of the reserve comes from the capital reserve account.
- (iii) The major maintenance reserve account has been established for the purpose of paying major maintenance repair and rehabilitation expenses. This reserve is funded from the capital reserve account in accordance with a maintenance budget recommended by the Independent Engineer through the terms of the major maintenance reserve fund agreement.

6.	Facility			<u>2005</u>	2004
		Cost	Accumulated <u>Depreciation</u>	Net Book <u>Total</u>	Net Book <u>Total</u>
Facili	ty	\$ <u>124,667,559</u>	\$ 17,753,881	\$ 106,913,678	\$ 109,779,225

March 31, 2005

7	Long term debt	2005	2004
1.	Long term debt	2005	2004

Senior toll revenue bonds bearing interest at 10.13%, maturing March 31, 2026, repayable in partial interest payments from June 30, 1998 until March 31, 2006 and then 80 equal blended quarterly payments of interest and principal of \$2,251,191. The amount by which the interest expense has exceeded interest payments has been capitalized as part of the principal. As security, the Corporation has provided an assignment of all the present and future property and assets, including rights to operate the Facility, a security interest in the Debt Service Reserve Account and the Major Maintenance Reserve Account.

\$ 74,865,042 \$ 73,038,579

Junior toll revenue bonds bearing interest at 10.76%, maturing March 31, 2011, repayable in interest payments only from June 30, 1998 until March 31, 2001 and then 40 equal blended quarterly payments of principal and interest of \$503,395. As security, the Corporation has assigned a second charge security interest in all security pledged to senior toll revenue bondholders.

8,817,267 9,814,236

Less: principal repayments due within one year

(1,108,652) (996,969)

\$ 82,573,657

\$ 81,855,846

Minimum principal repayments required are as follows:

2006	\$ 1,108,652
2007	2,498,137
2008	2,769,342
2009	3,070,036
2010	3,403,379

The combined fair value of the Corporation's long term debt, as comprised by senior and junior toll revenue bonds, is \$107,072,500 (2004 - \$104,827,000) and is 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.

March 31, 2005

8. Payable to the Province of Nova Scotia

On the date of acceptance, the Province advanced \$250,000 to the Corporation to facilitate the Provincial subsidy. Under the First Amendment to the Omnibus Agreement, the Province reduced the tolls for transponder users and created a Provincial subsidy payable to the Corporation to offset the reduction. The advance is to be repaid to the Province on the earlier of the date when the toll rates are reinstated to the original rates as laid out in the Omnibus Agreement or when the Corporation has fully extinguished its obligations under the Senior and Junior Bond Indentures.

9. Reserve for restricted assets

The capital reserve account is to be funded from excess funds in the Project Bank Account. In addition, any interest earned on restricted assets forms part of the reserve account.

	<u>2005</u>	<u>2004</u>
Reserve for restricted assets, beginning of year	\$ <u>14,106,440</u>	\$ <u>10,282,199</u>
Transfers from project account Interest income Long term debt payments, including interest Major maintenance payments, including HST to	13,723,500 639,488 (7,652,141)	11,255,000 739,970 (7,652,151)
be recovered	<u>(599,710)</u> 6,111,137	<u>(518,578)</u> <u>3,824,241</u>
Reserve for restricted assets, end of year	\$ 20,217,577	\$ 14,106,440

10. Financial instruments

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

The Corporation estimates the fair value of its financial instruments to approximate their carrying values with the exception of long term debt as outlined in Note 7 to the financial statements.

March 31, 2005

11. Supplemental cash flow information	<u>2005</u>	<u>2004</u>
Change in non-cash operating working capital Inventory Prepaids Receivables Payables and accruals Deferred revenue	\$ 6,029 (27,047) (34,565) (315,709)	\$ (4,900) (2,682) 8,727 (42,491)
Cash and cash equivalents consist of:	97,854 \$ (273,438)	36,524 \$ (4,822)
Cash on hand and balances with banks Interest paid	\$ <u>553,033</u> \$ <u>6,655,171</u>	\$ 650,560 \$ 6,759,597

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 fulfill its obligations to the Province.

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

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

Operating Agreement

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

Facility operations expenses paid to the Operator during the year totalled \$1,920,430 (2004 - \$1,860,530).

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.

March 31, 2005

12. Commitments and contractual obligations (continued)

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 for a one year term in November 2004.

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

2006	\$ 700,000
2007	700,000
2008	700,000
2009	825,000
2010	1,180,000

Annual Roadway Maintenance Agreement

The five year agreement, renewed March 3, 2004, between the Corporation and the Department of Transportation and Public Works of the Province of Nova Scotia to provide annual roadway maintenance services for an annual fee of \$847,200 and subsequently adjusted thereafter for inflation.

During the year, the Corporation incurred management fees of \$16,373, (2004 - \$22,539) from the Province of Nova Scotia.

Other

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

2006	\$ 28,101
2007	27,102

13. Comparative figures

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