Highway 104 Western Alignment Corporation

Financial Statements

March 31, 2006

Grant Thornton

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Grant Thornton LLP
Chartered Accountants
Management Consultants

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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, 2006, 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, 2006, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Grant Thornton LLP

Halifax, Nova Scotia
May 4, 2006

Grant Thornton LLP
Chartered Accountants

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Highway 104 Western Alignment Corporation
Statements of Earnings and Deficit

Year Ended March 31	Budget 2006	Actual 2006	2005
Revenue			
Facility revenue	$ 17,294,091	$ 17,199,316	$ 16,954,490
Interest income	624,974	905,383	711,759
	17,919,065	18,104,699	17,666,249
Expenses			
Bondholder representative fees	168,250	192,623	107,910
Trustee fees	34,228	41,791	32,052
Salaries and benefits	157,000	153,246	135,358
Office	48,900	46,208	48,690
General and administrative	242,700	250,149	195,032
Enforcement	60,000	60,000	60,000
Independent engineer	50,000	39,333	36,379
Routine maintenance	918,500	929,174	883,874
Major maintenance	480,000	417,300	249,378
Facility operations	2,038,220	2,037,898	1,920,430
Transponders	62,700	45,835	57,958
	4,260,498	4,213,557	3,727,061
Earnings before other items	13,658,567	13,891,142	13,939,188
Other items			
Government assistance amortization (Note 2)	1,328,310	1,328,310	1,265,057
Amortization and depreciation	(3,002,172)	(3,138,232)	(2,865,547)
Interest on long term debt	(8,597,452)	(8,597,503)	(8,517,068)
Net earnings	$ 3,387,253	$ 3,483,717	$ 3,821,630
Deficit, beginning of year		$ (18,022,526)	$ (15,733,019)
Net earnings		3,483,717	3,821,630
Transfer to reserve for restricted assets (Note 9)		(6,667,990)	(6,111,137)
Deficit, end of year		$ (21,206,799)	$ (18,022,526)

See accompanying notes to the financial statements.

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Highway 104 Western Alignment Corporation
Balance Sheet

March 31		**2006**		2005
Assets				
Current				
Cash and cash equivalents	**$**	**552,477**	$	553,033
Inventory		**8,898**		6,501
Prepaids (Note 3)		**365,071**		359,012
Receivables (Note 4)		**106,391**		106,745
		1,032,837		1,025,291
Restricted assets (Note 5)		**32,824,648**		26,156,658
Facility (Note 6)		**103,775,444**		106,913,678
Deferred financing fees (Note 2)		**465,098**		500,531
	$	**138,098,027**	$	134,596,158
Liabilities				
Current				
Payables and accruals	**$**	**698,785**	$	306,295
Current portion of long term debt		**2,498,137**		1,108,652
Deferred revenue		**760,297**		716,252
		3,957,219		2,131,199
Long term debt (Note 7)		**82,094,100**		82,573,657
Payable to the Province of Nova Scotia (Note 8)		**250,000**		250,000
Deferred government assistance (Note 2)		**46,117,939**		47,446,250
		132,419,258		132,401,106
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)		**26,885,567**		20,217,577
Deficit		**(21,206,799)**		(18,022,526)
		5,678,769		2,195,052
	$	**138,098,027**	$	134,596,158

Commitments and contractual obligations (Note 12)

On behalf of the Board

______________________________ President

See accompanying notes to the financial statements.

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Highway 104 Western Alignment Corporation
Statement of Cash Flows

Year Ended March 31	**2006**	2005
Increase (decrease) in cash and cash equivalents		
Operating		
Net earnings	**$ 3,483,717**	$ 3,821,630
Government assistance amortization	**(1,328,310)**	(1,265,057)
Capitalized interest on bonds (Note 7)	**2,018,580**	1,826,463
Amortization of deferred financing fees	**35,434**	35,434
Amortization and depreciation	**3,138,232**	2,865,547
	7,347,653	7,284,017
Change in non-cash operating working capital (Note 11)	**428,433**	(273,438)
	7,776,086	7,010,579
Financing		
Principal repayment on bonds	**(1,108,652)**	(996,969)
Investing		
Increase in restricted assets	**(6,667,990)**	(6,111,137)
Net decrease in cash and cash equivalents	**(556)**	(97,527)
Cash and cash equivalents, beginning of year	**553,033**	650,560
Cash and cash equivalents, end of year	**$ 552,477**	$ 553,033

See accompanying notes to the financial statements.

1. Nature of operations

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

2. Summary of significant accounting policies

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 have been amortized over three years under the straight line method.

The Corporation plans to purchase a new tolling computer system. Accordingly, the useful life of the existing tolling computer system will expire in 2008. The remaining value of the tolling system at April 1, 2005 will be amortized over three years under the straight line method. In the current year, amortization costs have increased by $142,638 as a result of the change in amortization period.

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%.

2. Summary of significant accounting policies (continued)

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

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

3. Prepaids

	2006	2005
Operating expenses	**$ 32,349**	$ 34,487
Advance to operator	**332,722**	324,525
	$ 365,071	$ 359,012

4. Receivables

	2006	2005
Harmonized Sales Tax	**$ 106,391**	$ 72,575
Other	**-**	34,170
	$ 106,391	$ 106,745

5. Restricted assets

	Cash	Investments	2006 Total	2005 Total
Senior debt service reserve account	$ -	$ 9,162,292	**$ 9,162,292**	$ 5,652,105
Capital reserve account	847	18,875,758	**18,876,605**	16,532,787
Major maintenance reserve account	489	4,785,262	**4,785,751**	3,971,766
	$ 1,336	$ 32,823,312	**$ 32,824,648**	$ 26,156,658

Investments are recorded at cost, have a weighted average term of 11.15 (2005 – 9.21) months to maturity and a weighted average interest rate of 4.28% (2005 – 2.80%). The market value of the investments approximates the carrying value.

5. Restricted assets (continued)

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

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

(ii) The senior debt 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

			2006	2005
	Cost	Accumulated Depreciation	**Net Book Total**	Net Book Total
Facility	$ 124,667,560	$ 20,892,116	**$ 103,775,444**	$ 106,913,678

7. **Long term debt**	**2006**	2005
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 $2,251,191. The amount by which the interest expense has exceeded interest payments has been capitalized as part of the principal. As security, the Corporation has provided an assignment of all the present and future property and assets, including rights to operate the Facility, a security interest in the Debt Service Reserve Account and the Major Maintenance Reserve Account.	**$ 76,883,622**	$ 74,865,042
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.	**7,708,615**	8,817,267
	84,592,237	83,682,309
Less: principal repayments due within one year	**2,498,137**	1,108,652
	$ 82,094,100	$ 82,573,657

Minimum principal repayments required are as follows:

2007	$ 2,498,137
2008	2,769,342
2009	3,070,036
2010	3,403,379
2011	3,772,944

The combined fair value of the Corporation's long term debt, as comprised by senior and junior toll revenue bonds, is $109,706,839 (2005 - $107,072,500) 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.

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.

	2006	2005
Reserve for restricted assets, beginning of year	**$ 20,217,577**	$ 14,106,440
Transfers from project account	**13,540,673**	13,723,500
Interest income	**882,413**	639,488
Long term debt payments, including interest	**(7,652,141)**	(7,652,141)
Major maintenance payments, including HST to be recovered	**(18,828)**	(599,710)
Payments made to bondholders	**(84,127)**	-
	6,667,990	6,111,137
Reserve for restricted assets, end of year	**$ 26,885,567**	$ 20,217,577

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.

11. Supplemental cash flow information		2006		2005
Change in non-cash operating working capital				
Inventory	**$**	**(2,397)**	$	6,029
Prepaids		**(6,059)**		(27,047)
Receivables		**354**		(34,565)
Payables and accruals		**392,490**		(315,709)
Deferred revenue		**44,045**		97,854
	$	**428,433**	$	(273,438)
Cash and cash equivalents consist of:				
Cash on hand and balances with banks	**$**	**552,477**	$	553,033
Interest paid	**$**	**6,543,489**	$	6,655,171

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 $2,037,898 (2005 - $1,920,430).

  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.

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 2005.

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

2007	$ 3,064,500
2008	4,379,200
2009	825,000
2010	1,442,500
2011	1,120,000

- **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 last renewed March 3, 2005. The annual fee of $865,200 is adjusted annually for inflation.

  During the year, the Corporation incurred management fees of $27,300, (2005 - $16,373) 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 four years are as follows:

2007	$ 26,694
2008	26,694
2009	26,694
2010	26,694

13. Subsequent event

Subsequent to year end, the Corporation has given notice to the Junior Bondholders that they plan to pre-pay $4 million of debt on June 30, 2006. In addition, they will pay the associated market makewhole premium of $630,396.