Grant Thornton

Financial Statements

Highway 104 Western Alignment Corporation

March 31, 2011

Contents

Grant Thornton

Independent auditor's report

Grant Thornton LLP
Suite 1100
2000 Barrington Street
Halifax, NS
B3J 3K1

T (902) 421-1734
F (902) 420-1068
www.GrantThornton.ca

To the shareholder of
Highway 104 Western Alignment Corporation

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

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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

Grant Thornton LLP

Halifax, Canada
June 1, 2011

Chartered Accountants

Highway 104 Western Alignment Corporation
Statements of earnings and deficit

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

Deficit, beginning of year		**$ (11,066,602)**	$ (13,739,393)
Net earnings		**2,960,691**	5,782,374
Transfer from (to) reserve for restricted assets (note 9)		**3,279,100**	(3,109,583)
Deficit, end of year		**$ (4,826,811)**	$ (11,066,602)

See accompanying notes to the financial statements.

Highway 104 Western Alignment Corporation
Balance sheet

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

Commitments and contractual obligations (note 12)

On behalf of the Board

____________________________ President

See accompanying notes to the financial statements.

Highway 104 Western Alignment Corporation
Statement of cash flows

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

See accompanying notes to the financial statements.

1. Nature of operations

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

2. Summary of significant accounting policies

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

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

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

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

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

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

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

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.

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

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

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

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

The Corporation has classified its financial instruments as follows:

Held for trading	Cash, restricted assets
Other financial liabilities	Payables and accruals, amount payable to the Province of Nova Scotia and long term debt
Loans and receivables	Receivables

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

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

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

2. Summary of significant accounting policies (continued)

Financial instruments (continued)

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

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

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

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

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

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

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

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

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

3. Prepaids

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

4. Receivables

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

5. Restricted assets

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

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

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

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

5. Restricted assets (continued)

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

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

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

6. Facility

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

7. Long term debt

	2011	2010
Senior toll revenue bonds bearing interest at 10.13%, maturing March 31, 2026, repayable in partial interest payments from June 30, 1998 until March 31, 2006. The bonds are payable in equal quarterly instalments of interest and principal of $2,091,558. The amount by which the interest expense has exceeded interest payments has been capitalized as part of the principal. As security, the Corporation has provided an assignment of all the present and future property and assets, including rights to operate the Facility, a security interest in the Debt Service Reserve Account and the Major Maintenance Reserve Account.	**$ 68,892,044**	$ 70,659,012
Less: prepayment on June 30, 2010	**5,000,000**	-
Less: principal repayments due within one year	**1,919,228**	1,786,163
	$ 61,972,816	$ 68,872,849

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

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

The fair value of the Corporation's long term debt is $96 million, determined using cash flows discounted at a rate equal to the prevailing market rate of interest for financial instruments having substantially the same terms and characteristics.

8. Payable to the Province of Nova Scotia/deferred grant

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

9. Reserve for restricted assets

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

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

10. Supplemental cash flow information

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

11. Capital management

The Corporation's objectives when managing capital are to:

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

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

11. Capital management (continued)

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

12. Commitments and contractual obligations

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

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

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

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

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

  Facility operations expenses paid to the Operator during the year totalled $2,273,183 (2010 - $2,234,448).

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

- **Major Maintenance Reserve Fund Agreement**
  Agreement between the Corporation, the Trustee and the Bondholders' Representative to provide for the major maintenance work required during the operating period of the Facility. The Agreement requires the Corporation, on an annual basis, to engage an independent engineer to report on all major maintenance work to be completed in the upcoming year, as well as a major maintenance budget to determine the required annual amount to be deposited in the Major Maintenance Reserve Account. The maximum annual fee is $50,000. The Agreement with the independent engineer was renewed on November 30, 2010.

12. Commitments and contractual obligations (continued)

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

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

- **Annual Roadway Maintenance Agreement**
  The thirty year Agreement between the Corporation and the Department of Transportation and Public Works of the Province of Nova Scotia to provide annual roadway maintenance services is renewable in five year increments and was renewed in the prior year. For the current fiscal year, the base annual fee of $1,117,096 for 2010 was adjusted for inflation and totalled $1,131,617 for 2011.

  During the year, the Corporation incurred management fees of $70,069, (2010 - $76,605) from the Province of Nova Scotia.

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

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

13. Comparative figures

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