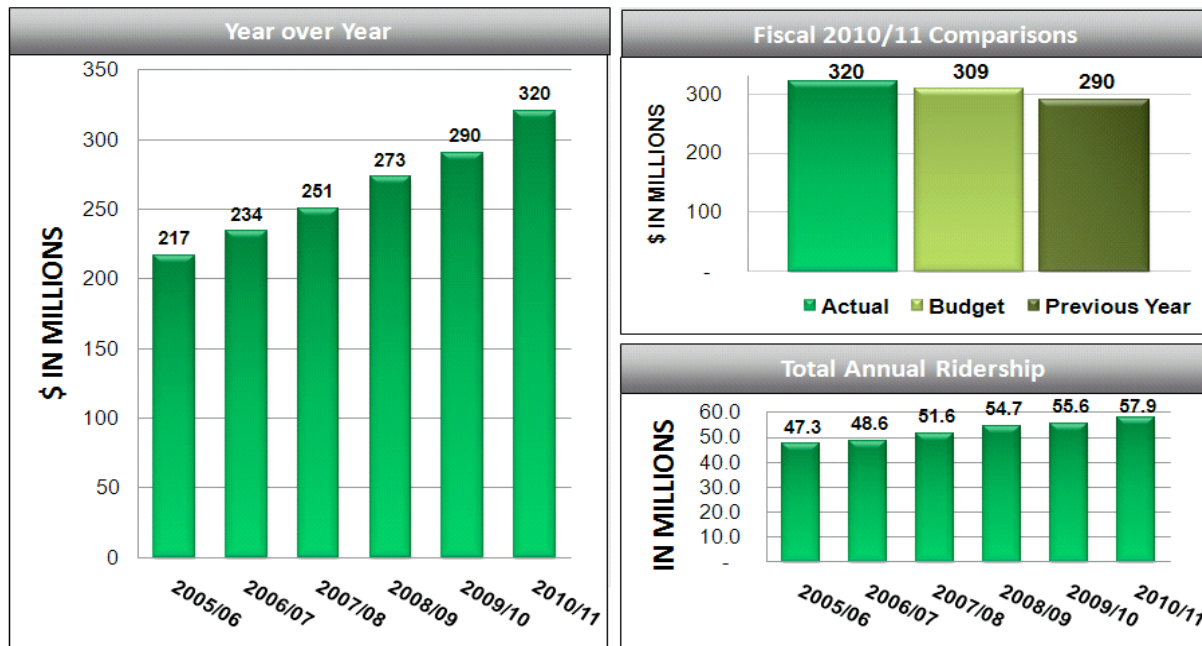


# The Year in Review

## Operating Results

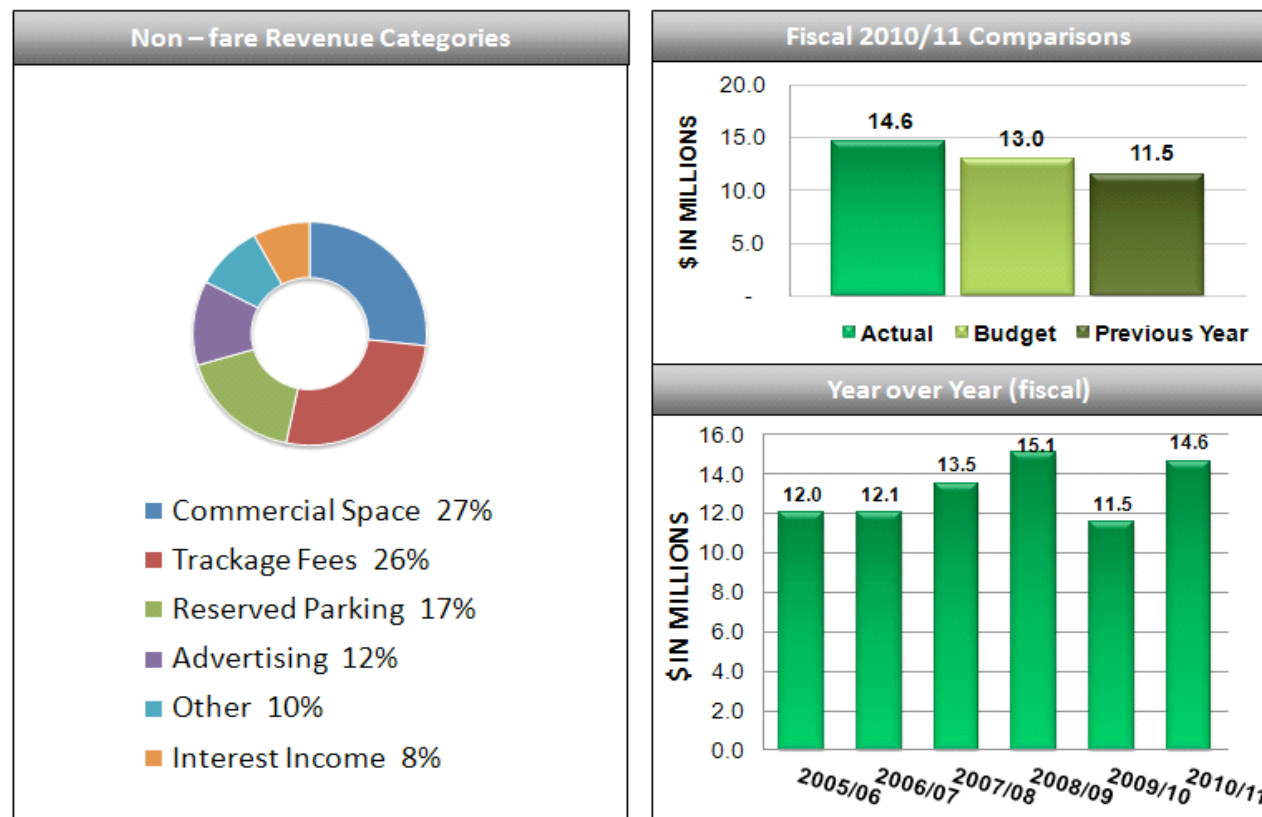
Ridership growth gained momentum in fiscal 2010/11 with an increase of 4.1% or 2.29 million rides. As the economy continues to improve and gasoline prices remain high, ridership is expected to continue its upward trend. In fiscal 2010/11, Bus ridership represented 24.5% of total ridership and has become an increasingly significant component of GO operations. Total commuter revenue for fiscal 2010/11 made significant gains with a 10.4% or \$30 million increase over the previous year. Compared to budget, commuter revenue came in 3.8% or \$11.7 million better than budget. Fiscal 2010/11 experienced the largest year over year gain in the past six years with commuter fare revenue reaching approximately \$320.3 million. This increase was driven by an increase in ridership and a higher average fare per passenger.

## Commuter Revenue



Metrolinx' fiscal 2010/11 non-fare revenue of \$14.6 million (not including gain/loss on sale of capital assets) represented 4.4 per cent of total operating revenue. Total non-fare revenues were up \$3.1 million from the previous year with the biggest gains coming from track fees, advertising and commercial space rental and interest income. Compared to budget, non-fare revenue came in better by 12.7% or \$1.6 million. Commercial space revenue has become the largest component of non-fare revenue representing 26.8% of total. As Metrolinx continues to expand its real estate portfolio, advertising revenue is expected to increase. Reserved parking has continued its steady increase and is expected to continue as parking capacity is increased. In addition, the divestment of non-core assets added another \$3.2 million.

## Non-fare Revenue



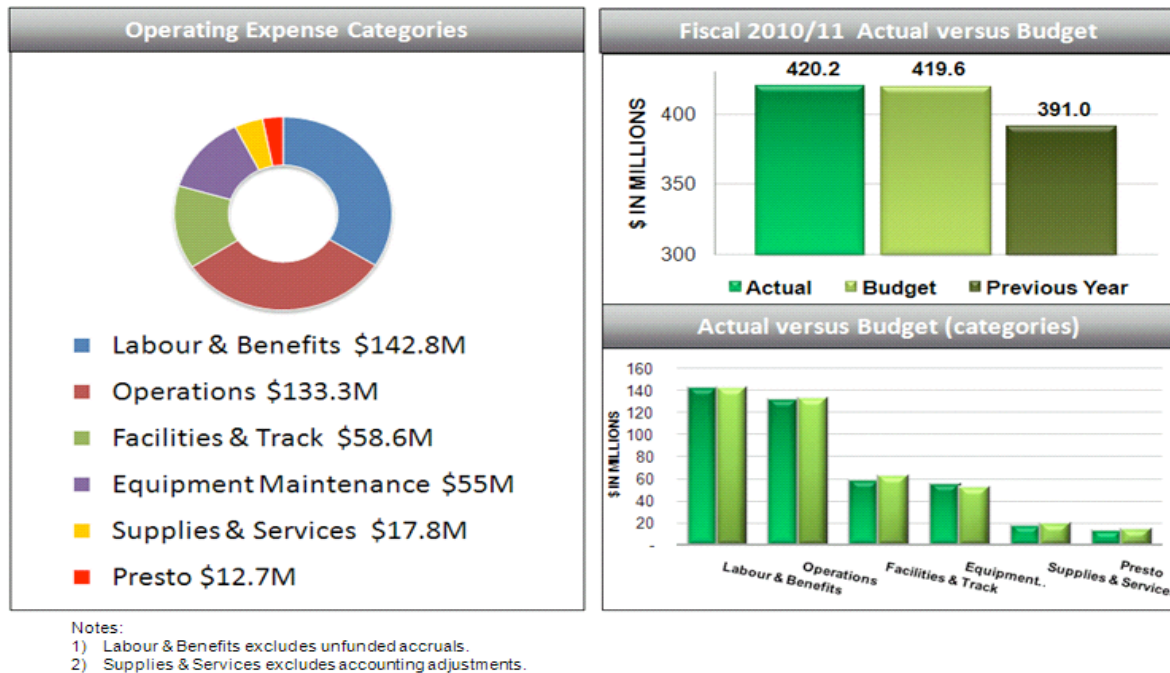
Metrolinx' operations are broken down into three major areas of activity:

- GO Transit Division - an operating division providing bus and rail service to the public on a daily basis;
- Effective June 30, 2011, PRESTO Division – a division operating the fare card system for GO Transit and eventually for systems across the GTHA and Ottawa.
- Corporate Division – providing services and support such as planning and policy, infrastructure investment, financial services, and other administrative activities supporting the GO Transit Division, PRESTO, and *The Big Move* mandate for the GTHA.

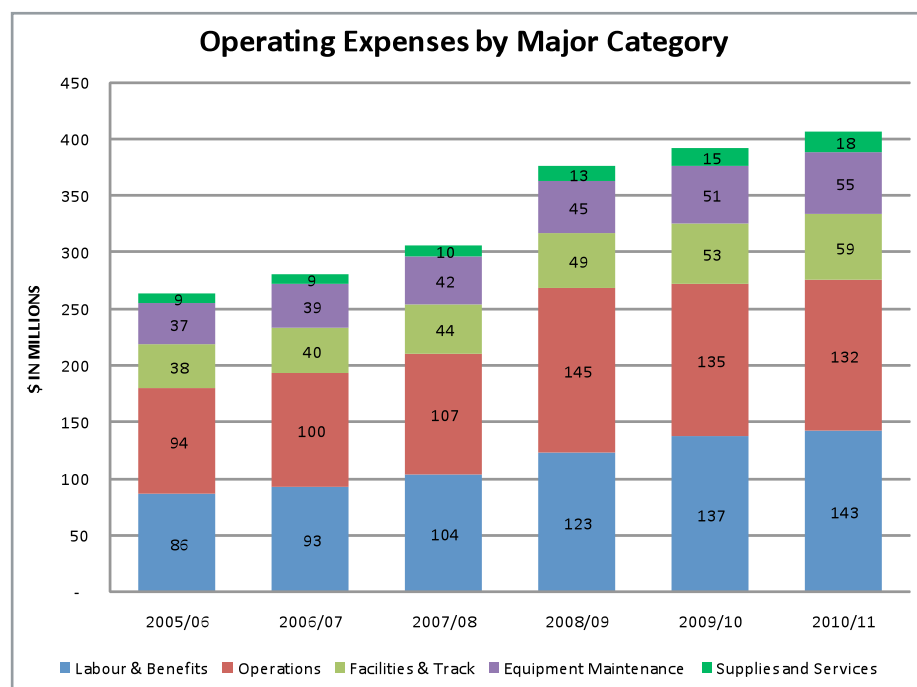
Over the next year, the Air Rail Link will grow to become another major operating division.

Fiscal 2010/11 operating expenses came in very close to budget at \$420.2 million. Primary drivers of total operating expenses being over budget were increases in expenses such as rail access fees and equipment maintenance costs required to support the increase in revenues and ridership. These increases were offset by actual expenses coming in better than budget for PRESTO operations, Labour & Benefits, Operations, and Equipment Maintenance.

## Operation Expenses



Metrolinx uses its operating cost recovery ratio as a key financial performance measure. Metrolinx cost recovery ratio compares favourably with those of other public transit authorities in Canada and the United States. Metrolinx has been able to maintain this favourable cost recovery ratio through effective management of key cost drivers, GO's fleet of high capacity bi-level rail coaches and double-decker buses, and efficient complementary bus and rail service design. Metrolinx budgeted a 79.4 per cent operating cost recovery ratio (excluding PRESTO operations) for fiscal 2010/11. The actual operating cost recovery ratio came in at 82.2 per cent (excluding PRESTO operations). Driving this gain was increased ridership and revenues while keeping operating expense close to budget.



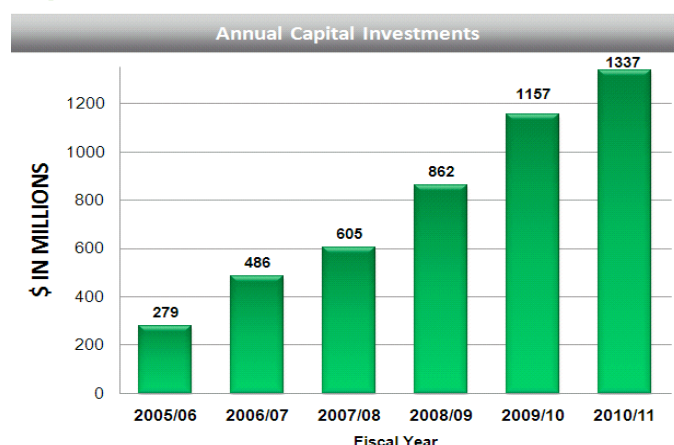
# Capital Investments

In fiscal 2010/11, Metrolinx continued working towards the Province's mandate to significantly increase its investment in public transit infrastructure. A large portion of the capital budget was used for the rehabilitation of existing infrastructure in order to maintain and improve safety, and towards planned growth and expansion. Capital expenditure in 2010/11 was close to budget at \$1.337 billion.

Major capital projects that moved forward during the year included:

- \$305.7 million was invested in the purchase of Lakeshore East corridor between Union Station and Pickering;
- \$217.4 million was invested in the York VIVA BRT project, progress payments towards Light Rail Vehicles, and the TTC LRT projects;
- Progress payments of \$87.9 million were made for 70 bi-level coaches that are expected to be delivered over the next two fiscal years.
- Progress payments of \$68.1 million were made for 57 more powerful and fuel efficient MP40 locomotives all of which were delivered by March 31, 2011.
- \$13.3 million to complete the purchase of 21 buses required to maintain the current capacity and grow GO Transit's bus operations to service more riders. In addition, 29 new buses were ordered in early 2011 and are expected to be delivered by August 31, 2011.
- \$48.7 million was invested for the work in progress of the revitalization of Union Station, replacement of the train shed, and creating a new concourse at Union Station.
- \$103.7 million was invested on the Georgetown South and West Toronto Diamond projects expected to accommodate more train service for the Pan Am Games in 2015.
- \$79.2 million was invested for the incremental implementation of the PRESTO fare card system to be used as the key method of fare revenue payment in the GTHA and Ottawa region.

## Capital Investments



Service Levels and Infrastructure as at March 2011	
<b>Train Service:</b>	
Lines	7
Stations	59
Route kilometres	391
Weekday train trips	180
Fleet size (number of trainsets)	42
Locomotives	65
Bi-level passenger railcars	497
<b>Bus Service:</b>	
Terminals	17
(plus numerous stops & ticket agencies)	
Route kilometres	2,619
Weekday Union Station bus trips	508
Weekday bus trips, total system	2,075
Single-level buses	376
Double decker buses	22
<b>Across our system:</b>	
Parking spaces	60,648
Parking structures	3
Wind turbines	1
Stations/terminals with bike shelters	46
Stations with bike lockers	4
(or reserved bike parking)	



# Enterprise Risk Management

## Building a Risk Aware Culture at Metrolinx

As part of its continued focus on good corporate governance, Metrolinx has implemented a robust enterprise-wide risk management (ERM) process under the direction of the Chief Financial Officer to support effective decision making.

The key accomplishments to date in this area include:

- Development of an ERM policy that
  - o Specifies objectives of ERM;
  - o Defines Roles and Responsibilities;
  - o Describes the risk assessment process;
  - o Defines communication protocols and awareness training;
  - o Outlines the reporting and management oversight protocols.
- Implementation of regular reporting to Board, Audit, Finance and Risk Management (AFaRM) committee and senior management.
- Awareness training through status update meetings with management.
- An external consulting firm is currently doing an assessment of the implementation of the Enterprise Risk Management framework and the Enterprise Risk Management group will be working with them to address their recommendations.

Metrolinx will continue to refine its risk management practices over the next three years by:

- Providing training to all management staff on the benefits of a formal risk management process in supporting decision making across Metrolinx and all its divisions;
- Further refine its risk reporting to the AFaRM committee, senior management and staff responsible for managing risks;
- Developing risk registers for all key infrastructure projects, then monitoring and taking actions as risk become occurrences;
- Integrating risk management practices with other key management tools such as strategic and business planning, priority setting, customer services, budgeting and forecasting and performance management.



Metrolinx has identified key risks that may impact on its objectives and reports on a quarterly basis to the Board of the corporation which includes the key actions expected to mitigate these risks:

**Sustained Funding** – Metrolinx requires continued sufficient funding to support its operations and future capital programs.

**Supplier Failure** – Metrolinx relies on key suppliers to meet their contractual obligations in order to meet the corporation's objectives.

**Stakeholder Management and Governance** – Effective corporate governance processes with clearly defined stakeholder roles and accountabilities to meet Metrolinx's objectives.

**Service Reliability** – Effective Rail services management to minimize significant and recurring delays/cancellations.

**Scope Control** – Project scope articulation and documentation to avoid scope creep which may impact on project cost and delivery.

**Public Credibility** – Maintaining the corporation's public image and the resulting impact on public or political support while delivering on Metrolinx's mandate.

**Political/Government Relations/Regulatory** – Changes to government regulations under which the corporation operates or significant change in policy direction will impact on Metrolinx's mandate.

**Cost Estimates** – Political announcements made prior to cost certainty being reasonably established may lead to cost overruns or damage to reputation for the corporation.

**Customer Service-Construction** – Proper communication and construction protocols during planned construction to manage customer expectations.

**Third Party Corridors** – Sharing third party-owned corridors will impact on service reliability and customer service.

**PRESTO Implementation** – Project governance to effectively manage the supplier of the PRESTO fare card system to deliver on budget and to the publicly announced dates.

**Project Quality** – Effective project quality management processes to manage all prescribed project activities to deliver on projects' stated requirements.

**Recruitment, Retention, Succession Planning, Skills and Capabilities** – Proper recruiting and retention strategy for qualified personnel and grow sufficient in-house expertise to effectively implement and manage Metrolinx's vision/plan.

**Processing Capacity** – Effective resource and capacity management to handle volume of work and processing capacity.

**IT Project Prioritization** – Proper IT governance process for effective prioritization of IT systems projects.

**Employee Morale** – Managing employee morale to foster a healthy working environment that will impact on Metrolinx's vision/plan.

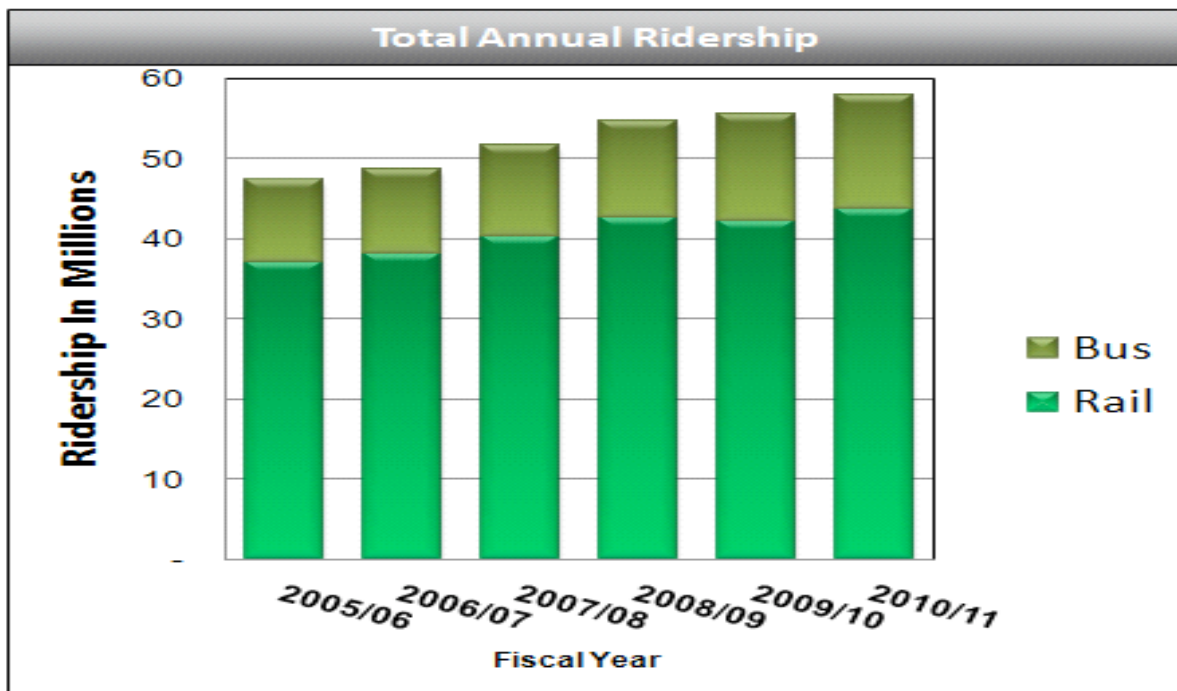
## Performance Management

Metrolinx has developed performance management measures and targets to ensure results are achieved against its goals and objectives, especially in the area of customer service. Its mission, vision and value statements drive its business plans towards the effective and efficient achievement of these goals and objectives.

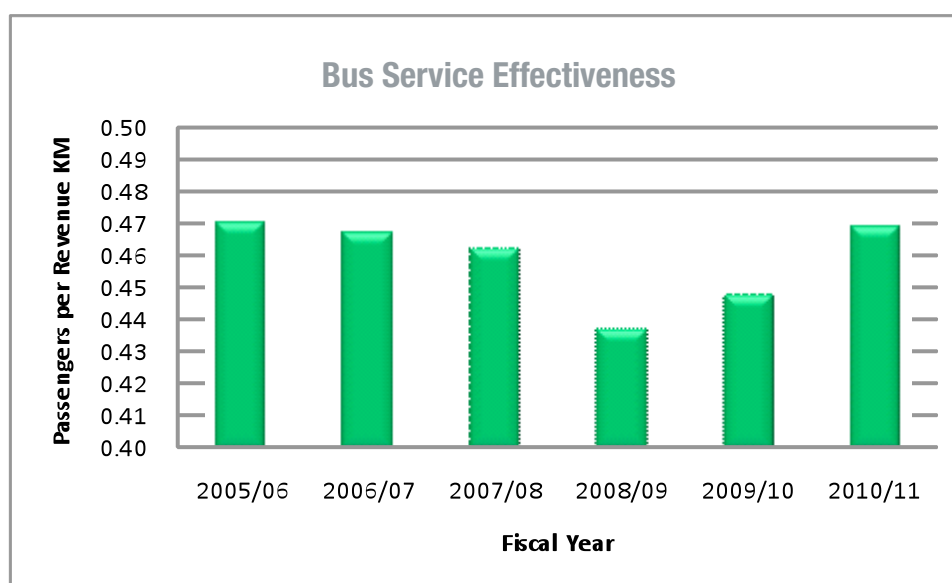
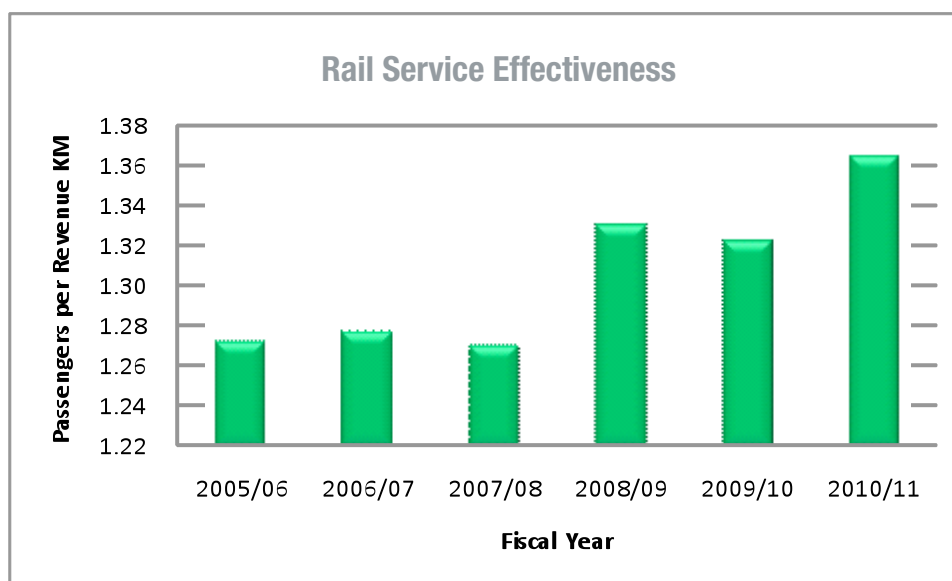
Metrolinx measures GO Transit performance against its prior years' performance to help it strive toward continuous improvement.

GO Transit's key performance indicator for operations is its reliability factor for on-time service. This measure is tracked on a daily, weekly, and monthly basis, and is reported to the public on a monthly basis and to the Board on a quarterly basis. GO rail service's fiscal year 2010/11 on-time reliability performance was 94% compared to the previous year's 91%. GO bus services continued its strong on-time performance record by achieving a 98.8% on-time percentage.

In fiscal year 2010/11, Rail ridership gained momentum with an increase in ridership of 1,550,000 or 3.7% while Bus ridership increased by 740,000 or 5.5%. Bus ridership has had continual year over year gains since 2006. Total ridership in 2010/11 reached 57,900,000 making GO Transit one of the top five largest commuter rail operations for both Canada and the USA.

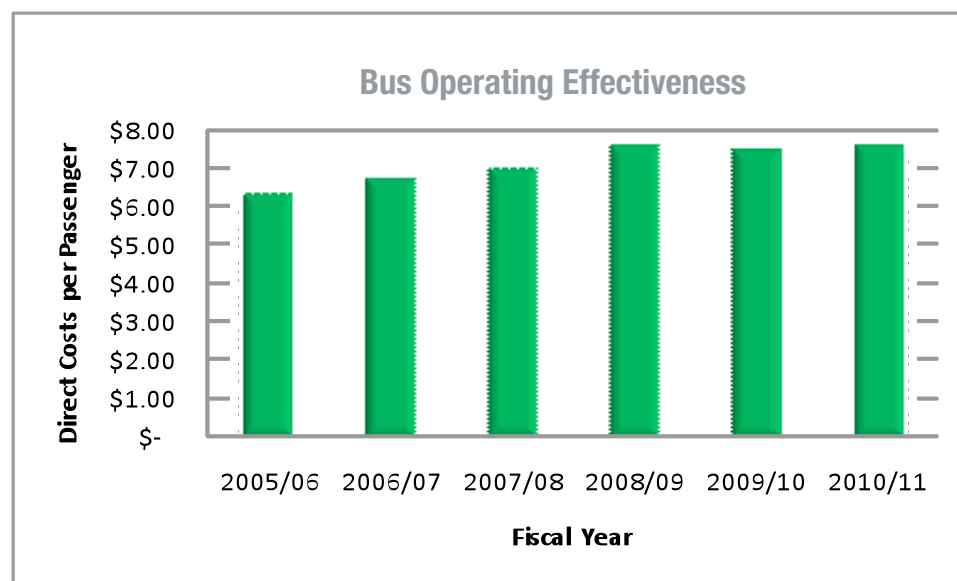
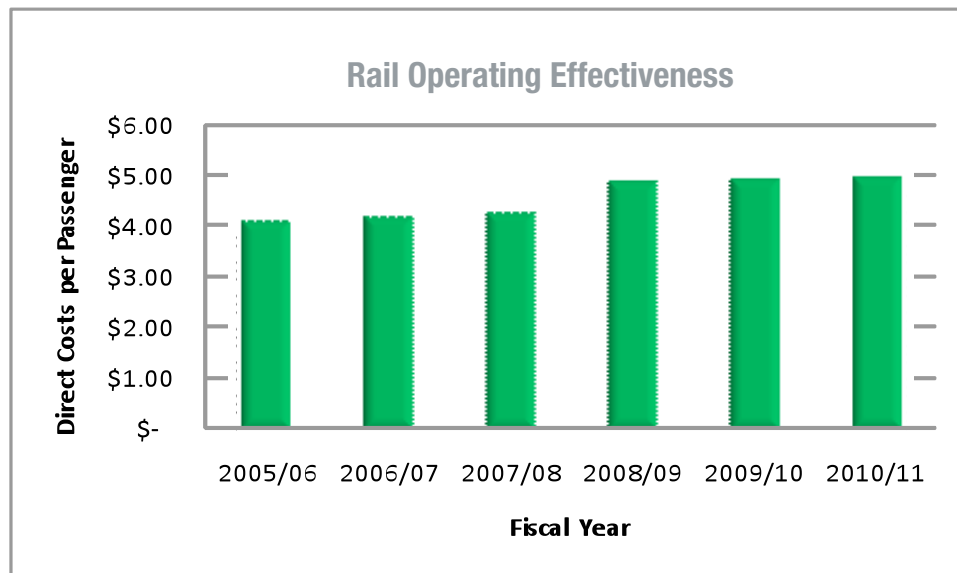


Service effectiveness, measured as the number of passengers per revenue mile or kilometre, is a key performance measure for GO Transit. GO Transit uses this metric to measure against its year over year performance. In fiscal year 2010/11, rail services reached a six year best with a passenger per revenue km ratio of 1.36 (2.2 in miles) and bus services reached close to its six year high with a passenger per revenue km ratio of .47(.75 in miles). Driving this improvement is the increase in ridership, investment in double deck coaches and buses, operating 12 car trains, and effective management of service levels offered.





Operating effectiveness, measured as direct operating costs per passenger, is another key performance indicator that GO Transit uses in its ongoing improvement process. In fiscal year 2010/11, rail service's direct costs per passenger increased .9% while bus service's direct costs per passenger increased 1.1% over the previous year. Drivers of these increases were the effects of inflation, and the additional costs required to provide service to an increase in ridership level in rail of 3.7% and in bus of 5.5%.



# Financial Statements of Metrolinx

March 31, 2011

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# Independent Auditor's Report

To the Members of Metrolinx

We have audited the accompanying financial statements of Metrolinx, which comprise the statement of financial position as at March 31, 2011, and the statements of operations, changes in net assets and of cash flows for the year then ended, and 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 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.

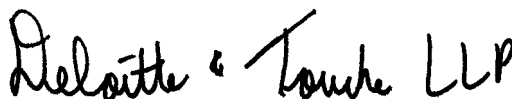
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Metrolinx 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.

## Other Matter

The financial statements of the prior period, which are included for comparative purposes, were audited by a predecessor auditor who issued an unmodified opinion dated June 18, 2010.



Chartered Accountants

Licensed Public Accountants

July 7, 2011

# Audited Financial Statements

## Metrolinx

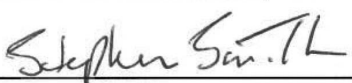
### Statement of financial position as at March 31, 2011

(In thousands of dollars)

	2011	2010
	\$	\$
<b>Assets</b>		
Current assets		
Cash and cash equivalents	158,432	120,454
Accounts receivable (Note 6 (c))	167,094	41,189
Contributions due from Province of Ontario	21,332	59,480
Contributions due from Municipalities	2,736	20,000
Contributions due from Government of Canada	49,153	47,733
Spare parts and supplies	3,699	4,377
Prepaid expenses	9,799	5,434
	412,245	298,667
Funds being held for Province of Ontario (Note 5)	46,667	46,667
Long-term receivable	-	800
Capital assets (Note 6 (a))	4,943,774	3,803,277
Deposit on land	2,665	56,485
Advances on capital projects (Note 7)	72,843	47,421
Long-term lease (Note 8)	29,188	29,515
	5,507,382	4,282,832
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued liabilities	365,118	251,914
Unearned revenue in respect of tickets sold and not used	9,299	10,024
	374,417	261,938
Advance from Province of Ontario (Note 5)	46,667	46,667
Deferred capital contributions (Note 9)	3,821,176	3,083,736
Pension plan top-up benefits payable (Note 11)	26,464	23,281
Other employee future benefits payable (Note 12)	45,631	41,777
	4,314,355	3,457,399
Commitments (Note 15)		
Contingencies (Note 16)		
<b>Net assets</b>		
Net assets invested in capital assets (Note 13)	1,198,107	823,447
Net assets invested in long-term lease	29,188	29,515
Net assets internally restricted (Note 14)	26,332	26,332
Deficiency of net assets	(60,600)	(53,861)
	1,193,027	825,433
	5,507,382	4,282,832

On behalf of the Board

 Director

 Director

See accompanying notes of the financial statements.

# Audited Financial Statements

## Metrolinx

### Statement of operations

year ended March 31, 2011

(In thousands of dollars)

	2011	2010
	\$	\$
<b>Revenues</b>		
Operating revenue	333,840	301,427
Contribution from the Province of Ontario	97,137	68,427
Contribution from the Government of Canada	177	77
Investment income	1,150	313
Amortization of deferred capital contributions (Note 9)	220,607	171,712
	<b>652,911</b>	<b>541,956</b>
<b>Expenses</b>		
Supplies and services (Note 6 (b))	34,123	15,185
Equipment maintenance	55,044	51,296
Facilities and track	58,865	53,110
Labour and benefits	150,411	137,408
Rail and bus operations	143,757	134,670
Amortization of capital assets	220,823	169,528
Amortization of long term lease	327	327
Loss (gain) on disposal of capital assets	781	(7,219)
	<b>664,131</b>	<b>554,305</b>
<b>Excess of expenses over revenues</b>	<b>(11,220)</b>	<b>(12,349)</b>

See accompanying notes of the financial statements.



# Audited Financial Statements

## Metrolinx

### Statement of changes in net assets year ended March 31, 2011

(In thousands of dollars)

	2011				2010
	Invested in capital assets (Note 13)	Invested in long-term lease	Internally restricted net assets (Note 14)	Deficiency	Total
	\$	\$	\$	\$	\$
<b>Balance, beginning of year</b>	<b>823,447</b>	<b>29,515</b>	<b>26,332</b>	<b>(53,861)</b>	<b>825,433</b>
Excess of expenses over revenues				(11,220)	(11,220)
Amortization (net of amortization to revenue)	(2,545)	(327)	-	2,872	-
Assets contributed by the Province of Ontario (Note 17 (c))	2,006	-	-	-	2,006
Land acquisitions, net of deposits	374,313	-	-	-	374,313
Disposal of land	(1,318)	-	-	1,318	-
Disposal of TATO assets	(291)	-	-	291	-
Deposit on land	2,495	-	-	-	2,495
<b>Balance, end of year</b>	<b>1,198,107</b>	<b>29,188</b>	<b>26,332</b>	<b>(60,600)</b>	<b>825,433</b>

See accompanying notes of the financial statements.

# Audited Financial Statements

## Metrolinx

### Statement of cash flows year ended March 31, 2011

(In thousands of dollars)

	2011	2010
	\$	\$
<b>Operating activities</b>		
Excess of expenses over revenues	(11,220)	(12,349)
Amortization of capital assets and long-term lease	221,150	169,855
Loss (gain) on disposal of capital assets	781	(7,219)
Amortization of deferred capital contributions	(220,607)	(171,712)
Employee future benefits, net of payments	7,037	4,924
	(2,859)	(16,501)
Change in non-cash working capital		
Accounts receivable	(125,906)	(11,503)
Contributions due from Province of Ontario	38,148	(59,480)
Contributions due from Municipalities	17,264	264
Contributions due from Government of Canada	(1,420)	63,978
Spare parts and supplies	678	(352)
Prepaid expenses	(4,365)	2,661
Accounts payables and accrued liabilities	113,204	57,089
Unearned revenue in respect of tickets sold and not used	(725)	2
Due to Province of Ontario	-	(37,057)
	34,019	(899)
<b>Investing activities</b>		
Long-term receivable	800	800
Purchase of capital assets	(1,259,516)	(1,052,989)
Proceeds from sale of capital assets	3,158	16,200
Deposit on land	(2,495)	(56,415)
Advances on capital projects	(72,843)	(47,421)
	(1,330,896)	(1,139,825)
<b>Financing activities</b>		
Grants received for purchase of land	376,808	355,056
Deferred capital contributions received or receivable	958,047	801,768
	1,334,855	1,156,824
Net increase in cash and cash equivalents	37,978	16,100
Cash and cash equivalents, beginning of year	120,454	104,354
<b>Cash and cash equivalents, end of year</b>	<b>158,432</b>	<b>120,454</b>
<b>Non-cash transaction</b>		
Assets contributed by the Province of Ontario (Note 17 (c))	2,006	58,536

See accompanying notes of the financial statements.

# Metrolinx

## Notes to the financial statements

March 31, 2011

(In thousands of dollars)

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### 1. Nature of operations

Metrolinx is a Crown agency, reporting to the Minister of Transportation of Ontario ("MTO"). It is a non-share capital corporation and is exempt from income taxes under Section 149(1) (d) of the Income Tax Act (Canada).

Metrolinx was created by sections of the Greater Toronto Transportation Authority Act, 2006 which were proclaimed on August 24, 2006. On May 14, 2009, Bill 163 was proclaimed amending the Greater Toronto Transportation Authority Act, 2006 and changing the title of the Act to the Metrolinx Act, 2006. Metrolinx's mandate is to lead the coordination, planning, financing and development of an integrated multi-modal transportation network for the Greater Toronto and Hamilton Area (GTHA). Taking a regional approach, Metrolinx will bring together the province, municipalities and local transportation authorities to produce long-term economically and environmentally sustainable transportation solutions.

GO Transit is a division of Metrolinx that operates an interregional public transit system consisting of integrated rail and bus corridors. The network of rail and bus services primarily serves communities across the Greater Toronto and Hamilton Area including the Cities of Toronto and Hamilton, and Regions of Halton, Peel, York, Durham as well as Simcoe County, Dufferin County, Wellington County and the cities of Barrie and Guelph and the Town of Bradford-West Gwillimbury.

During the year Metrolinx assumed responsibility to construct and operate a rail service between Pearson International Airport and Union Station. A separate operating division has been created to support the delivery of the project as at April 1, 2011.

### 2. Summary of significant accounting policies

#### *Basis of presentation*

These financial statements are prepared by management in accordance with Canadian generally accepted accounting principles. As indicated in Note 1, effective May 14, 2009 the operations of GO Transit were wound up into Metrolinx.

#### *Cash and cash equivalents*

Cash and cash equivalents include cash on hand, balances with banks net of bank overdrafts and highly liquid short-term investments with maturities of three months or less at the time of purchase.

#### *Spare parts and supplies*

Spare parts and supplies are carried at the lower of cost and net realizable value. Cost is determined using the weighted-average method.

#### *Capital assets*

Capital assets are recorded at cost. The cost of a capital asset includes all costs directly related to the acquisition, construction, development or betterment of the capital asset. Salaries, wages and associated employee benefits for staff directly involved in the acquisition, development or construction of a capital asset are included in the cost of the capital asset.

Metrolinx has adopted a whole property approach in capitalizing and amortizing its buildings, rail equipment and bus equipment. Under this approach, all components attached to the building structure (lighting, elevators, air conditioning, etc) are amortized over a composite service life of the property as a whole.

If the development or construction of a capital asset is terminated or deferred indefinitely before completion, the costs capitalized to date are expensed, unless there is an alternative use for the capital asset.

# Metrolinx

## Notes to the financial statements

March 31, 2011

(In thousands of dollars)

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### 2. Summary of significant accounting policies (continued)

#### *Amortization*

Metrolinx provides for the amortization of the various classes of assets over their estimated useful lives on a straight-line basis as follows:

Buildings and equipment	
Shelters and ticket booths	5 years
Other buildings	20 years
Leasehold improvements	Lease life
Locomotives	20 years
Other railway rolling stock	25 years
Improvements to railway right-of-way plant	20 years
Track work and installation	20 years
Buses including double decker buses	10 years
Parking lots	20 years
Enterprise software	7 years
Computer equipment and software	5 years
Grade separations	50 years
Sundry	
Furniture	12 years
Other	3-7 years

Work-in-progress is comprised of direct construction and development costs. No amortization is recorded until construction is substantially completed and the assets are ready for productive use.

#### *Long-term lease*

Long-term lease represents the prepayment of the lease regarding Union Station. The amount is being amortized straight-line over 100 years, being the term of the lease plus one renewal period.

#### *Employee future benefits*

Metrolinx provides pension plan benefits through the multi-employer OMERS Pension Fund. The expense for the period equals the required contribution for the period.

Metrolinx provides a Top-Up pension plan benefit using the accrued benefit method which reflects the projected benefits for services rendered to date. Adjustments arising from employee benefit plan amendments, experience gains and losses and changes in assumptions are amortized to earnings over the estimated average remaining service lives of the members.

Metrolinx also provides other employee future benefits using the accrued benefit method which reflects the projected benefits for services rendered to date. Adjustments arising from employee benefit plan amendments, experience gains and losses and changes in assumptions are amortized to earnings over the estimated average remaining service lives of the members.

#### *Commuter services revenue*

Revenue is recognized when the transportation service is provided. Unearned amounts are reflected in the statement of financial position as unearned revenue.

#### *Contributions*

Metrolinx follows the deferral method of accounting for contributions. Unrestricted contributions, including operating grants are recognized as revenue in the period to which they relate.

Deferred capital contributions relate to funds received for the acquisition of capital assets. These deferred capital contributions are recognized as revenue over the same period as the amortization of the related capital asset.

# Metrolinx

## Notes to the financial statements

March 31, 2011

(In thousands of dollars)

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### 2. Summary of significant accounting policies (continued)

#### *Internally restricted net assets*

Internally restricted net assets are internally restricted to provide a funding source for planned future obligations and to provide flexibility against uncertainties which may arise. All reserves are approved by the Board of Directors and are disclosed on the statement of financial position as net assets.

#### *Classification of financial instruments*

Cash and cash equivalents are classified as held for trading. Accounts receivable, contributions due from Province of Ontario, contributions due from Municipalities, contributions due from Government of Canada and funds being held for Province of Ontario have been classified as loans and receivables. Accounts payable and accrued liabilities and advance from Province of Ontario have been classified as other financial liabilities.

Held for trading items are measured at fair value, with changes in their fair value recognized in the Statement of operations in the current period. Loans and receivables are measured at amortized cost, using the effective interest method, net of any impairment. Other financial liabilities are measured at amortized cost, using the effective interest method.

#### *Contracts to buy or sell a non-financial item*

As permitted for not for profit organizations, Metrolinx has made an accounting policy choice not to apply Section 3855, Financial Instruments - Recognition and Measurement, to contracts to buy or sell a non-financial item including derivatives embedded therein. Contracts related to the diesel fuel purchases are therefore excluded from the application of Section 3855 and not recognized in the financial statements but disclosed in Note 3.

#### *Use of estimates*

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The items subject to the most significant estimates are unearned revenue, amortization of capital assets, certain accrued liabilities, pension plan top-up benefits payable and other employee future benefits payable.

#### *Future accounting policy*

In December 2010, the Canadian Institute of Chartered Accountants ("CICA") issued a new accounting framework applicable to Not-for-Profit Organizations. Effective for fiscal years beginning on or after January 1, 2012, government Not-for-Profit Organizations must adopt Public Sector Accounting (PSA) Standards as their new underlying accounting framework and will have to choose between (a) the Not-for-Profit accounting standards which are incorporated into the CICA PSA Handbook; or (b) the CICA PSA Handbook without the Not-for-Profit accounting standards. Metrolinx currently plans to apply the Not-for-Profit accounting standards which are incorporated into the CICA PSA Handbook (for its fiscal year beginning on April 1, 2012). The impact of transitioning to these new standards has not been determined at this time.



# Metrolinx

## Notes to the financial statements

March 31, 2011

(In thousands of dollars)

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### 3. Financial instruments

#### *Fair values*

The fair values of cash and cash equivalents, accounts receivable, contributions due from Province of Ontario, contributions due from Municipalities, contributions due from Government of Canada, funds being held for Province of Ontario, accounts payable and accrued liabilities and advance from Province of Ontario approximate their carrying amounts because of their short term to maturity.

Other accounts noted on the Statement of financial position, such as prepaid expenses, capital assets, deposit on land, advances on capital projects, long term lease, unearned revenue, deferred capital contributions, pension plan top-up benefits payable and other employee future benefits payable are not financial instruments.

Metrolinx has elected to follow the disclosure requirements of Section 3861 "Financial Instruments - Disclosure and Presentation" of the CICA Handbook.

#### *Credit risk*

Metrolinx is subject to credit risk through its receivables. It is management's opinion that the risk is minimal as most of the receivables are from federal, provincial and municipal governments and organizations controlled by them.

#### *Interest rate risk*

Metrolinx does not have significant exposure to interest rate risk.

#### *Other price risk*

Metrolinx is exposed to changes in crude oil prices as a result of diesel fuel consumption. The potential fluctuations in crude oil prices could have a significant impact on the cost of providing transportation services. This risk is reduced, from time to time, through the use of diesel fuel forward purchase contracts to lock in firmly committed future operating costs for own use consumption. As at March 31, 2011, Metrolinx does not have any forward purchase contracts in place.

### 4. Capital disclosures

The capital structure of Metrolinx consists of net assets and deferred capital contributions.

Metrolinx's main objective when managing capital is to safeguard its ability to continue as a going concern, so that it can continue to provide the appropriate level of services to its stakeholders.

Metrolinx is subject to restrictions in how it is to utilize its externally restricted deferred capital contributions. Metrolinx employs internal control processes to ensure the restrictions are met prior to the utilization of these resources and has been in compliance with these restrictions throughout the period.

Metrolinx manages its capital structure and makes adjustments to it in light of economic conditions and the risk characteristics of the underlying assets.

### 5. Funds being held for Province of Ontario

In 2007 the former Greater Toronto Transit Authority (GO Transit) received \$46,667 from the Province of Ontario for their contribution towards the Toronto Transit Commission ("TTC") participation in the GTA Farecard project. TTC has not yet met the requirements to receive this funding and consequently the cash held by Metrolinx and the obligation to the Province have been segregated on the statement of financial position.

# Metrolinx

## Notes to the financial statements

March 31, 2011

(In thousands of dollars)

### 6. Capital assets

a)

			2011	2010
	Cost	Accumulated amortization	Net book value	Net book value
	\$	\$	\$	\$
Land	1,104,078	-	1,104,078	707,971
Buildings	504,630	249,614	255,016	196,063
Leasehold improvements	26,431	21,846	4,585	2,906
Locomotives and other railway rolling stock	1,172,799	274,178	898,621	748,214
Improvements to railway right-of-way plant	1,220,332	479,790	740,542	414,406
Track work and installation	401,987	112,774	289,213	274,079
Work-in-progress	1,121,794	-	1,121,794	1,088,572
Buses	269,093	125,802	143,291	158,270
Parking lots	258,118	96,158	161,960	155,035
Computer equipment and software	218,267	48,168	170,099	18,500
Other	126,517	71,942	54,575	39,261
	6,424,046	1,480,272	4,943,774	3,803,277

Work-in-progress includes the following:

	2011	2010
	\$	\$
Rail corridor expansion	282,732	418,344
Union Station	139,177	108,265
Rail fleet	111,998	127,963
PRESTO System	61,086	138,598
Light Rapid Transit and Bus Rapid Transit	250,553	50,969
Various	276,248	244,433
	1,121,794	1,088,572

- b) Included in Supplies and services are costs related to design and development of tangible capital assets that will not be completed as planned. In 2011, Metrolinx deferred the design and construction of the new signaling system in the Union Station Rail Corridor. A portion of the cost incurred for this project is for elements not usable in the future and have been written off from Work-in-progress.
- c) Included in accounts receivable is \$52,984 (2010 - \$nil) related to the design of the Light Rapid Transit (LRT) corridors in the City of Toronto. Based on a memorandum of understanding (MOU) between the City of Toronto, Metrolinx and the Province of Ontario, these projects have been cancelled or deferred at this time. The MOU provides for the recovery from the City of Toronto of expenditures relating to the design of the surface portion of the Eglinton LRT, the Finch West LRT and Sheppard East LRT. Accordingly, these costs have been reclassified from Work-in-progress to accounts receivable.

# Metrolinx

## Notes to the financial statements

March 31, 2011

(In thousands of dollars)

### 7. Advances on capital projects

Metrolinx has entered into Memorandum of Agreements (MOAs) with York Region Rapid Transit Corporation (YRRTC), The Regional Municipality of York (York Region), City of Toronto and the Toronto Transit Commission (TTC). The MOAs outline the projects, expected costs, and responsibilities of the parties involved. The MOAs also outline the definition of eligible costs and ownership rights of the projects specified in the agreements. The original MOAs were for the period April 1 to December 31, 2009. The MOA with YRRTC and York Region was extended until March 31, 2011. A Master Agreement with YRRTC and York Region was signed April 14, 2011 and covers both past and future eligible costs of constructing the bus rapidway. The MOA with the City of Toronto and the TTC was extended until May 31, 2011 and is currently being reviewed by all parties.

Pursuant to these agreements, advances were paid to the Region of York and to the Toronto Transit Commission to provide working capital totalling \$72,843 (2010 - \$47,421) to fund projects being developed by the Region of York and Toronto Transit Commission on behalf of Metrolinx. The advanced funds are to be held in a separate account and any interest accrued will be applied against the project.

As at March 31, 2011, Metrolinx has expended approximately \$346.3 million (2010 - \$129.1 million) in relation to these projects, including the following amounts which have been advanced for costs expected to be incurred to June 30, 2011.

	2011	2010
	\$	\$
Region of York	48,248	22,732
Toronto Transit Commission	24,595	24,689
	<b>72,843</b>	<b>47,421</b>

### 8. Long-term lease

			2011	2010
	Cost	Accumulated amortization	Net book value	Net book value
	\$	\$	\$	\$
Leasehold, Union Station	32,704	3,516	29,188	29,515

### 9. Deferred capital contributions

The changes in the deferred capital contributions for the year are as follows:

	2011	2010
	\$	\$
Balance, beginning of year	3,083,736	2,453,680
Contributions received or receivable in the period for capital asset acquisitions		
Province of Ontario	904,263	739,919
Municipalities	29,179	24,409
Government of Canada	24,605	37,440
Amortization of deferred capital contributions	(220,607)	(171,712)
Balance, end of year	<b>3,821,176</b>	<b>3,083,736</b>

# Metrolinx

## Notes to the financial statements

March 31, 2011

(In thousands of dollars)

### 9. Deferred capital contributions (continued)

Metrolinx realized a shortfall in Municipal funding related to its capital program. The Province has provided funding to bridge the shortfall in the current year in the amount of \$25,155 (2010 - \$50,868) and the cumulative amount is \$199,956. The Province will work with its Municipal partners to address the funding shortfalls.

### 10. Pension contributions

Metrolinx provides pension benefits for substantially all of its permanent employees through participation in the Ontario Municipal Employees Retirement System (OMERS) Pension Fund. The amount expensed in pension contributions for the year ended March 31, 2011 is \$9,409 (2010 - \$8,132).

### 11. Pension plan top-up benefits payable

With repatriation of the former GO Transit to the Province in 2002, bargaining and non-bargaining employees requested the Province to rectify the difference in pension benefits to be received by employees of GO Transit. When GO Transit was transferred from the Province to the Greater Toronto Services Board in 1999, the Provincial Plans were frozen and a new plan commenced under OMERS. It had been resolved that GO Transit was responsible for the pension obligation. GO Transit completed an actuarial valuation as of April 1, 2010. The expense for the year has been determined using the projected unit credit method pro-rated on service, applied in conformity with Section 3461 of the CICA Handbook. The pension expense recognized during the year is \$3,485 (2010 - \$2,347).

For the purpose of accounting for top-up benefits, Metrolinx has adopted the policy to recognize gains and losses in a year in excess of the minimum amortization (which is the portion of accumulated gains and losses which exceed 10% of the accrued benefit obligation, divided by the expected average remaining service life).

Information about Metrolinx's pension plan top-up is as follows:

	2011	2010
	\$	\$
Accrued benefit obligation	36,345	30,998
Fair value of plan assets	734	448
Funded status - plan deficit	35,611	30,550
Unamortized net actuarial loss	(9,147)	(7,269)
Accrued benefit liability	26,464	23,281

Details of the accrued benefit obligation are as follows:

	2011	2010
	\$	\$
Accrued benefit obligation, beginning of year	30,998	17,486
Current service cost	1,009	776
Interest cost on accrued benefit obligation	1,991	1,605
Benefit payments	(315)	(237)
Actuarial loss on accrued benefit obligation	2,662	11,368
Accrued benefit obligation, end of year	36,345	30,998

# Metrolinx

## Notes to the financial statements

March 31, 2011

(In thousands of dollars)

### 11. Pension plan top-up benefits payable (continued)

Details of the pension expense are as follows:

	2011	2010
	\$	\$
Current service cost	1,009	776
Interest cost on accrued benefit obligation	1,991	1,605
Actual return on plan assets	(1)	(2)
Actuarial gain on obligation	2,662	11,368
Expected return vs. actual return on plan assets	1	2
Amortization of gain vs. actual gain in year on obligation	(2,177)	(11,402)
	3,485	2,347

Plan assets by asset category are as follows:

	2011	2010
	%	%
Cash invested	25	21
Cash on deposit with Canada Revenue Agency	75	79
	100	100

Other information about Metrolinx's benefit plan is as follows:

	2011	2010
	\$	\$
Employer contributions	600	300
Benefits paid	315	237

The significant actuarial assumptions adopted in measuring Metrolinx's pension plan Top-up benefit obligations are as follows:

Discount rate	5.75% (2010 - 6.25%)
Rate of compensation increase	3% (2010 - 3%)
Inflation per annum	2% (2010 - 2%)
Expected average remaining service life	8 years (2010 - 10 years)

### 12. Other employee future benefits payable

Metrolinx provides post-retirement life and health benefits, Workplace Safety & Insurance Board ("WSIB") liabilities and retiree severance benefits. The plan is unfunded and requires nominal contributions from employees. Substantially all full time active employees are eligible for life and health benefits. A limited number of employees are eligible for severance benefits.

The measurement date of the plan assets and accrued benefit obligation is March 31 of each year. The most recent actuarial valuation of the other employee future benefits for funding purposes was as of March 31, 2011. The valuation was performed in accordance with the standards of the Canadian Institute of Actuaries. The financial statement items resulting from the valuation have been determined in accordance with Section 3461 of the CICA Handbook. The post-retirement non-pension benefits recognized during the period were \$5,647 (2010 - \$5,129).



# Metrolinx

## Notes to the financial statements

March 31, 2011

(In thousands of dollars)

### 12. Other employee future benefits payable (continued)

For the purpose of accounting for post-retirement non-pension benefits, Metrolinx has adopted the policy to recognize gains and losses in a period in excess of the minimum amortization (which is the portion of accumulated gains and losses which exceed 10% of the accrued benefit obligation, divided by the expected average remaining service life).

Information about Metrolinx's post-retirement non-pension benefits is as follows:

	2011	2010
	\$	\$
Accrued benefit obligation	62,622	49,391
Fair value of plan assets	-	-
Funded status - plan deficit	62,622	49,391
Unamortized net actuarial loss	(16,991)	(7,614)
Accrued benefit liability	45,631	41,777

Details of the accrued benefit obligation are as follows:

	2011	2010
	\$	\$
Accrued benefit obligation, beginning of year	49,391	35,381
Current service cost	2,601	2,471
Interest on accrued benefit obligation	2,924	2,794
Benefit payments	(1,781)	(1,951)
Actuarial loss on accrued benefit obligation	9,487	10,696
Accrued benefit obligation, end of year	62,622	49,391

Details on the post-retirement non-pension benefits expense are as follows:

	2011	2010
	\$	\$
Current service cost	2,601	2,471
Interest cost on accrued benefit obligation	2,924	2,794
Actuarial loss on obligation	9,487	10,696
Amortization of loss vs. actual loss in year on obligation	(9,365)	(10,832)
	5,647	5,129

# Metrolinx

## Notes to the financial statements

March 31, 2011

(In thousands of dollars)

### 12. Other employee future benefits payable (continued)

The significant actuarial assumptions adopted in measuring Metrolinx's post-retirement non-pension benefit obligations are as follows:

Discount rate for post-retirement non-pension benefit	5.8% (2010 - 6.20%)
Discount rate for WSIB liabilities	5.5% (2010 - 5%)
Discount rate for retiree severance benefits	4.6% (2010 - 5%)
Expected average remaining service life for post-retirement non-pension benefit	14 years (2010 -14 years)
Expected average remaining service life for WSIB liabilities	10 years (2010 -10 years)
Expected average remaining service life for retiree severance benefits	9 years (2010 - 9 years)
Rate of compensation increase	3% (2010 - 3%)
Inflation per annum	2.25% (2010 - 2%)
Initial Weighted Average Health Care Trend Rate	6.7% (2010 - 6.85%)
Ultimate Weighted Average Health Care Trend Rate	4.2% (2010 - 4.5%)
Dental care benefits increase	4% (2010 - 4.5%)

### 13. Net assets invested in capital assets

	2011	2010
	\$	\$
Capital assets	4,943,774	3,803,277
Deposits on land	2,665	56,485
Advances on capital projects	72,843	47,421
Less deferred capital contributions used to purchase capital assets	(3,821,176)	(3,083,736)
	1,198,107	823,447

### 14. Internally restricted net assets

The internally restricted net assets as at both March 31, 2011 and 2010 are as follows:

	\$
MCOR	21,051
Employment obligation	889
Self insured retention	2,013
Stabilization	2,379
	26,332

The Municipal Capital and Operating Restructuring (MCOR) reserve was established to assist in funding large capital expenditures.

The Employment Obligation reserve was established to assist in funding general employment related obligations of Metrolinx.

The Self Insured Retention reserve was established to assist in funding any claims against the self-insured retention layer of Metrolinx's insurance program.

# Metrolinx

## Notes to the financial statements

March 31, 2011

(In thousands of dollars)

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The Stabilization reserve was established to assist in funding fluctuations in operating and capital budgets of Metrolinx from year to year.

### 15. Commitments

- a) The minimum operating lease payments in each of the next five years are as follows:

	\$
2012	11,284
2013	11,341
2014	5,570
2015	3,757
2016	2,502
Subsequent	1,882
	<hr/> 36,336 <hr/>

- b) Metrolinx has also committed approximately \$2.6 billion for various capital asset additions/projects.
- c) A significant amount of the services provided by Metrolinx are operated and maintained by outside parties. These services are governed by the agreements with the Canadian National Railway Company ("CN"), Canadian Pacific Railway Company ("CP") and Bombardier Inc. and by a number of minor service agreements. Metrolinx has entered into the following major agreements for approximately \$112,000 per year:
- i) Master Operating Agreement with CN that terminated on May 31, 2010 has been extended until such time as a new agreement is finalized.
  - ii) Commuter Agreement with CP that terminated on December 31, 2010 has been extended until such time as a new agreement is finalized.
  - iii) Equipment Maintenance Contract with Bombardier terminating on May 31, 2013.
  - iv) Rail Crew Contract with Bombardier terminating May 31, 2013.
- d) As at year-end; Metrolinx had outstanding letters of credit totalling \$338 (2010 - \$2,098).

### 16. Contingencies

Various lawsuits have been filed against Metrolinx for incidents which arose in the ordinary course of business. Management has reviewed these claims and made provisions as appropriate. Where the outcome of a claim is not yet determinable, any settlement will be recorded when it is determined that a claim is likely to be settled and the amount is determinable.

# Metrolinx

## Notes to the financial statements

March 31, 2011

(In thousands of dollars)

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### 17. Related party transactions and balances

Metrolinx had the following transactions with related parties during the year:

- a) The Ontario Ministry of Transportation charged Metrolinx \$1,639 (2010 - \$4,602) during the year for the provision of services provided by the Ontario Ministry of Transportation. At March 31, 2011, accounts payable and accrued liabilities included \$437 (2010 - \$551) owing to the Ontario Ministry of Transportation.
- b) During the year ended March 31, 2010 the Ontario Ministry of Transportation charged Metrolinx \$1,188 for land sold by the Ontario Ministry of Transportation. During the year ended March 31, 2011 the amount has been adjusted to \$3 to bring it down to the net book value of this asset maintained by the Ontario Ministry of Transportation at the time of sale. At March 31, 2011, accounts receivable included \$1,185 owing by the Ontario Ministry of Transportation in this respect.
- c) During the year ended March 31, 2011 Metrolinx purchased land for two dollars from the Ontario Ministry of Transportation. The transfer was treated as a contribution from the Province equivalent to the net book value of this asset maintained by the Ministry, that amounted to \$2,006.

The transactions in 17a) are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. Contributions of capital assets from the Province are recorded at the carrying amount.

Balances due from/to the Province of Ontario are separately disclosed on the Statement of financial position. Amounts are non-interest bearing with no specified terms of repayments.

### 18. Guarantees

In the normal course of business, Metrolinx enters into agreements that meet the definition of a guarantee.

- (a) In the normal course of business, Metrolinx has entered into agreements that include indemnities in favour of third parties such as purchase and sale agreements, confidentiality agreements, engagement letters with advisors and consultants, outsourcing agreements, leasing contracts, information technology agreements and service agreements. These indemnification agreements may require Metrolinx to compensate counterparties for losses incurred by the counterparties as a result of breaches in representation and regulations or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The terms of these indemnities are not explicitly defined and the maximum amount of any potential reimbursement cannot be reasonably estimated.
- (b) Indemnity has been provided to all directors and or officers of Metrolinx including, but not limited to, all costs to settle suits or actions due to association with Metrolinx, subject to certain restrictions. Metrolinx has purchased directors' and officers' liability insurance to mitigate the cost of any potential future suits or actions. The term of the indemnification is not explicitly defined, but is limited to the period over which the indemnified party served as a trustee, director or officer of Metrolinx. The maximum amount of any potential future payment cannot be reasonably estimated.

The nature of these indemnification agreements prevents Metrolinx from making a reasonable estimate of the maximum exposure due to the difficulties in assessing the amount of liability which stems from the unpredictability of future events and the unlimited coverage offered to counterparties.

Historically, Metrolinx has not made any significant payments under such or similar indemnification agreements and therefore no amount has been recorded with respect to these agreements.