Financial Statements of

RAPID TRANSIT PROJECT 2000 LTD.

Year ended March 31, 2014

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INDEPENDENT AUDITORS' REPORT

To the Shareholder of Rapid Transit Project 2000 Ltd., and
To the Minister of Transportation and Infrastructure, Province of British Columbia

We have audited the accompanying financial statements of Rapid Transit Project 2000 Ltd., which comprise the statement of financial position as at March 31, 2014, the statements of operations, remeasurement gains and losses, changes in net debt and cash flows for the year the ended and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation of these financial statements in accordance with the financial reporting provisions of Section 23.1 of the Budget Transparency and Accountability Act of the Province of British Columbia, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation 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 of Rapid Transit Project 2000 Ltd. as at March 31, 2014 and for the year then ended are prepared, in all material respects, in accordance with the financial reporting provisions of Section 23.1 of the Budget Transparency and Accountability Act of the Province of British Columbia.

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 2 to the financial statements which describes the basis of accounting and the significant differences between such basis of accounting and Canadian public sector accounting standards.

KPMG LLP

Chartered Accountants

May 26, 2014
Victoria, Canada

RAPID TRANSIT PROJECT 2000 LTD.
Statement of Financial Position

	March 31 2014	March 31 2013
	($ 000s)	($ 000s)
Financial assets		
Cash and cash equivalents	6,425	6,425
Accounts receivable	1	2
	6,426	6,427
Liabilities		
Accounts payable and accrued liabilities	5,517	5,532
Deferred capital contributions (note 3)	746,288	759,463
	751,805	764,995
Net debt	(745,379)	(758,568)
Non-financial assets		
Tangible capital assets under lease (note 4)	798,505	811,680
Accumulated surplus (note 5)	53,126	53,112

Contingent liabilities (note 6)

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

Approved on behalf of the Board:

Colin Smith

Director

RAPID TRANSIT PROJECT 2000 LTD.
Statement of Operations

Year ended March 31	2014 Budget ($ 000s)	2014 Actual ($ 000s)	2013 Actual ($ 000s)
Revenue			
Amortization of deferred capital contributions	13,238	13,175	13,174
Interest income	80	84	89
	13,318	13,259	13,263
Expenses			
Amortization of tangible capital assets under lease	13,238	13,175	13,174
General administrative	80	70	46
	13,318	13,245	13,220
Annual operating surplus	-	14	43
Accumulated surplus at beginning of year		53,112	53,069
Accumulated surplus at end of year		53,126	53,112

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

RAPID TRANSIT PROJECT 2000 LTD.

Statement of Change in Net Debt

Year ended March 31	2014 Budget ($ 000s)	2014 Actual ($ 000s)	2013 Actual ($ 000s)
Annual operating surplus	-	14	43
Amortization of tangible capital assets under lease	13,238	13,175	13,174
Decrease in net debt	13,238	13,189	13,217
Net debt at beginning of year		(758,568)	(771,785)
Net debt at end of year		(745,379)	(758,568)

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

RAPID TRANSIT PROJECT 2000 LTD.

Statement of Cash Flows

Year ended March 31	2014	2013
	($ 000s)	($ 000s)
Cash provided by (used in):		
Operating transactions		
Annual operating surplus	14	43
Amortization of tangible capital assets	13,175	13,174
Amortization of deferred capital contributions	(13,175)	(13,174)
Net changes in working capital	(14)	(13)
Increase in cash and cash equivalents	-	30
Cash and cash equivalents, beginning of year	6,425	6,395
Cash and cash equivalents, end of year	6,425	6,425

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

1. Nature of operations:

Rapid Transit Project 2000 Ltd. (the Company) is a Crown Corporation incorporated under the laws of British Columbia. The Company is exempt from tax under the *Income Tax Act* as it is wholly owned by the Province of British Columbia (the Province).

The Company was incorporated to carry out the study, design, construction and development of extensions to the existing Lower Mainland Light Rail Transit System (the SkyTrain Extension) which included the construction of the Millennium Line (the Line) and a pre-build component of the Evergreen Line. In this capacity, the Company acts as an agent for the Province and conducts its activities in a manner consistent with general financial and management policies approved by the Treasury Board.

The Millennium Line was fully completed on January 6, 2006. The Line is being operated by British Columbia Rapid Transit Company Ltd. (BCRTC), a subsidiary of the South Coast British Columbia Transportation Authority (TransLink) under the multi-party Millennium Line Use Agreement with the Company and British Columbia Transit (BC Transit).

2. Significant accounting policies:

The financial statements of the Rapid Transit Project 2000 Ltd. are prepared by management in accordance with the basis of accounting described below. Significant accounting policies of the Rapid Transit Project 2000 Ltd. are as follows:

(a) Basis of accounting:

The financial statements have been prepared in accordance with the set of standards and guidelines that comprise generally accepted accounting principles for senior governments in Canada as required by Section 23.1 of the *Budget Transparency and Accountability Act* of the Province of British Columbia and supplemented by Regulation 198/2011 issued by the Province of British Columbia Treasury Board.

Regulation 198/2011 requires that restricted contributions received for acquiring or developing a depreciable tangible capital asset be deferred and recognized in revenue at the same rate that amortization of the related tangible capital asset is recorded. The reduction of the deferred capital contributions and the recognition of the revenue are accounted for in the fiscal period during which the tangible capital asset is used to provide services.

Canadian public sector accounting (PSA) standards require government transfers, which do not contain a stipulation that creates a liability, to be recognized as revenue by the recipient when approved by the transferor and the eligibility criteria have been met. The regulation requires deferral of revenue recognition to future years, and recognition in income systematically over the useful life of the asset, rather than in the year the transfer was made, resulting in differences in deferred capital contributions, and accumulated surplus on the statement of financial position, and the amortization of deferred capital contributions and annual operating surplus on the statement of operations.

The Company follows the accrual method of accounting for revenues and expenses. Revenues are normally recognized in the year in which they are earned and measurable. Expenses are recognized as they are incurred and measurable as a result of receipt of goods or services and/or the creation of a legal obligation to pay.

2. Significant accounting policies (continued):

(b) Reporting entity:

These financial statements reflect the assets, liabilities, revenues, and expenses of the Rapid Transit Project 2000 Ltd. There are no organizations controlled or consolidated by the Company.

(c) Cash and cash equivalents:

Cash and cash equivalents include short-term investment in a guarantee income certificate with a term to maturity of 182 days. This investment is redeemable within a day's notice. Interest income is reported as revenue in the period earned.

(d) Deferred capital contributions:

The Rapid Transit Project 2000 Ltd., as an agent for the Province, developed and constructed the Millennium Line. The Company has oversight responsibilities to ensure that the Line is maintained and operated, as per the direction and requirement from the Province, throughout its useful life. The Company deferred all monetary and non-monetary contributions from the Province for the construction of the Line and amortizes the contributions into revenue on a straight-line basis, at a rate corresponding with the amortization rate for the related depreciable tangible capital assets.

(e) Non-financial assets:

Non-financial assets are not available to discharge existing liabilities and are held for use in the provision of services. They have useful lives extending beyond the current year and are not intended for sale in the ordinary course of operations.

Tangible capital assets under lease:

Tangible capital assets are recorded at cost, which includes direct project expenditures, overhead expenses directly attributable to the project, and related financing charges during the acquisition, design, construction or development of the assets. Capitalization of financing charges during construction ceases upon substantial completion.

Assets under construction are not amortized until the assets are available for use. The cost, less residual value of the tangible capital assets, excluding land, are amortized on a straight-line basis over their estimated useful lives as follows:

Asset	Useful life
Millennium Line	100 years
Vehicles	25 years

2. Significant accounting policies (continued):

(f) Financial instruments:

Cash and cash equivalents are measured at cost plus accrued interest which approximates fair value. All other financial assets and financial liabilities are measured at cost or amortized cost. For financial instruments measured using amortized cost, the effective interest rate method is used to determine interest revenue or expense.

Unrealized gains and losses from changes in the fair value of financial instruments are recognized in the statement of remeasurement gains and losses. Upon settlement, the cumulative gain or loss is reclassified from the statement of remeasurement gains and losses and recognized in the statement of operations. During the years presented, there are no unrealized gains or losses, and as a result, no statement of remeasurement gains and losses has been presented.

Interest attributable to financial instruments are reported in the statement of operations.

All financial assets except derivatives are tested annually for impairment. When financial assets are impaired, impairment losses are recorded in the statement of operations. A write-down of a portfolio investment to reflect a loss in value is not reversed for a subsequent increase in value.

Transaction costs are a component of cost for financial instruments measured using cost or amortized cost. Transaction costs are expensed for financial instruments measured at fair value.

(g) Use of estimates:

The preparation of the financial statements 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 revenue and expenses during the year. Significant items subject to such estimates and assumptions include the useful life of tangible capital assets and provision for contingencies. Actual results could differ from those estimates.

(h) Future accounting policy changes:

In 2010, the Public Sector Accounting Board issued PS 3260 - *Liabilities for Contaminated Sites* effective for fiscal periods beginning on or after April 1, 2014. This policy establishes recognition, measurement and disclosure standards for liabilities resulting from contamination of non-productive sites. Management evaluated PS 3260 and does not expect any material financial impacts to the Company upon adoption of the standard.

3. Deferred capital contributions:

Deferred capital contributions are comprised of funding received as Prepaid Capital Advances (PCAs) as well as attributed interest from the Ministry of Finance for the design, planning and construction of the Millennium Line and the related pre-operating costs.

($ 000s)	March 31 2014	March 31 2013
Opening balance	759,463	772,637
Amortization	(13,175)	(13,174)
Closing balance	746,288	759,463

4. Tangible capital assets under lease:

Tangible capital assets under lease consist of land, land improvements, stations, guideways, operating and maintenance centres, real property assets and other assets related to the Millennium Line. These assets are made available for use to the South Coast British Columbia Transportation Authority (TransLink) under the Millennium Line Use Agreement for consideration of one dollar per year.

The original operating lease arrangement between the Company and TransLink expired on March 30, 2014 and both parties agreed to extend the term for one more year ending March 30, 2015.

Cost information of the tangible capital assets under lease is as follows:

($ 000s)	Cost	Accumulated amortization			Net Book Value	
		Beginning balance	Amortization	Ending balance	2014	2013
Millennium Line	889,193	(208,163)	(7,664)	(215,827)	673,366	681,030
Vehicles	137,763	(60,064)	(5,511)	(65,575)	72,188	77,699
Land in use	52,951	-	-	-	52,951	52,951
Net book value	1,079,907	(268,227)	(13,175)	(281,402)	798,505	811,680

Completed construction costs include costs incurred by the Company in funding the provincially approved share of municipal integration costs and the provincially approved pre-build of an Evergreen Line connection to the Millennium Line at Lougheed Town Centre Station.

4. Tangible capital assets under lease (continued):

Included within tangible capital assets is $21.2 million of land which was expropriated under the *Expropriation Act* and has been registered on behalf of the Company in the name of BC Transit. A number of previous owners of expropriated land have challenged the expropriated value. Any difference between the amounts paid and subsequently reassessed will be recorded in the period of reassessment. The balance of the land, $31.8 million, is registered in the Company's name.

5. Accumulated surplus:

Accumulated surplus consists of approximately $53 million of funding from the Province for acquisition of land for the Millennium Line.

6. Contingent liabilities:

As at March 31, 2014, several legal claims against the Company remain outstanding as a result of the Company's compulsory acquisition of land. It is the opinion of management that these claims are unlikely to result in payments significant to the financial statements as a whole. Any difference between the amounts currently provided in respect to settlements and subsequently reassessed will be recorded in the period of reassessment.

7. Budget figures:

Budgeted figures have been provided for comparison purposes and have been derived from the estimates approved by the Company's board and the Ministry of Transportation and Infrastructure of the Province.

8. Financial instruments:

The fair values of the Company's accounts receivable and accounts payable and accrued liabilities approximate their carrying amounts due to their short term to maturity. The fair value of cash and cash equivalents approximates its carrying value as it earns interest at variable market rates.

The Company is not exposed to any significant interest rate, credit, foreign exchange and liquidity risk arising from its financial instruments. There were no changes to risks related to financial instruments during the years presented.

(a) Interest rate risk:

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate from changes in market interest rates. The Company is not exposed to any significant interest rate risk. The interest rate of the short-term investment the Company invested in is guaranteed so changes in interest rates will have no impact to the return of the investment.

8. Financial instruments (continued):

(b) Credit risk:

Credit risk is the risk the Company will incur financial loss due to a counterparty defaulting on its financial obligation to the Company. The Company follows the Province's policy guidelines by dealing with only highly rated counterparties and therefore, limiting the Company's exposure to credit risk. There are no concentrations of credit risk arising from financial instruments.

(c) Foreign exchange risk:

Foreign exchange risk is the risk the Company will incur financial loss due to changes in foreign exchange rates. The Company is not exposed to any foreign exchange risk as the Company conducts its business activities in Canadian currency only.

(d) Liquidity risk:

Liquidity risk is the risk the Company will encounter difficulty in meeting its financial obligations. The company manages its financial resources closely to ensure all financial obligations are met. Financial assets mature within one year and financial liabilities are expected to mature no later than five years.

9. Related party transactions:

The Company is related through common ownership to all province government ministries, agencies, crown corporations and other public sector organizations that are included in the provincial government reporting entity. All transactions between the related parties are considered to possess commercial substance and are recorded at the exchange amount, which is the amount of consideration established and agreed by the parties.