Financial Statements of

CANADA LINE RAPID TRANSIT INC.

Year ended December 31, 2007

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AUDITORS' REPORT TO THE SHAREHOLDER

We have audited the statement of financial position of Canada Line Rapid Transit Inc. ("CLCO" or the "Company") as at December 31, 2007 and the statement of cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Vancouver, Canada

January 25, 2008

CANADA LINE RAPID TRANSIT INC.

Statement of Financial Position

December 31, 2007, with comparative figures for 2006

		2007		2006
Assets				
Cash and cash equivalents	$	1,301,707	$	22,063,983
Accounts receivable and other assets		2,064,647		3,245,140
Investments (note 3)		49,300,000		-
Capital assets (note 4)		143,387		174,591
Project costs (note 5)		1,208,393,913		697,011,745
	$	1,261,203,654	$	722,495,459
Liabilities and Net Assets				
Accounts payable and accrued liabilities	$	20,784,239	$	79,503,431
Due to related parties (note 6)		31,910,572		65,661
Deferred Concessionaire credits (note 7)		264,613,058		72,743,497
Deferred capital contributions (note 8)		828,812,863		433,189,466
Net assets (note 9):				
Unrestricted		1		1
Invested in project costs		115,082,921		136,993,403
		115,082,922		136,993,404
	$	1,261,203,654	$	722,495,459

Financing arrangements (note 10)
Concession agreement (note 11)
Commitments and contingencies (note 12)

See accompanying notes to financial statements.

Approved on behalf of the Board:

Director

Director

CANADA LINE RAPID TRANSIT INC.

Statement of Cash Flows

Year ended December 31, 2007, with comparative figures for 2006

	2007	2006
Cash provided by (used in):		
Investments:		
Project costs	$ (609,843,372)	$ (436,917,025)
Capital asset additions	(99,286)	(96,796)
Less: Assets acquired on behalf of and funded by the Vancouver Airport Authority	98,591,694	101,132,228
	(511,350,964)	(335,881,593)
Changes in working capital:		
Accounts receivable and other assets	1,180,493	1,797,420
Investments	(49,300,000)	-
Accounts payable and accrued liabilities	(58,719,192)	67,647,421
Due from/to related parties	31,844,911	(168,367)
	(586,344,752)	(266,605,119)
Financing:		
Deferred Concessionaire credits	191,869,561	11,653,191
Capital contributions	395,623,397	201,049,880
Contributions invested in project costs	(21,910,482)	52,717,311
	565,582,476	265,420,382
Decrease in cash and cash equivalents	(20,762,276)	(1,184,737)
Cash and cash equivalents, beginning of year	22,063,983	23,248,720
Cash and cash equivalents, end of year	$ 1,301,707	$ 22,063,983

See accompanying notes to financial statements.

1. Nature of business:

Canada Line Rapid Transit Inc. ("CLCO" or the "Company") is incorporated under the Business Corporations Act (British Columbia) and is wholly owned by the South Coast British Columbia Transportation Authority ("TransLink"), formerly the Greater Vancouver Transportation Authority.

CLCO is incorporated to oversee the study, design, financing, construction, operation and maintenance of a rail-based rapid transit line (the "Canada Line"' or "Project") running between central Richmond and the Vancouver International Airport and downtown Vancouver. CLCO is funded by the Government of Canada, the Province of British Columbia (the "Province"), TransLink, the Vancouver Airport Authority (the "Airport Authority" or "VAA"), and the City of Vancouver and has entered into funding agreements with each of these parties (see note 10 - Financing arrangements).

InTransitBC Limited Partnership (the "Concessionaire") will undertake the design, partial financing and construction of the Canada Line and subsequently its operation and maintenance (see note 11 - Concession agreement).

2. Significant accounting policies:

(a) Basis of presentation:

These financial statements are prepared in accordance with Canadian generally accepted accounting principles for not-for-profit organizations. Costs associated with the design of the Canada Line are capitalized on the accrual basis to either capital assets or project costs. No statement of operations is provided as CLCO's activities are focused on the Canada Line's Procurement and Construction Phases and there are no operations.

CLCO is filing its tax returns on a not-for-profit and tax exempt basis.

The statement of financial position has been prepared on a non-classified basis as segregation of assets and liabilities between current and non-current would not provide meaningful information.

(b) Cash and cash equivalents:

Cash and cash equivalents include deposits in banks, certificates of deposit and short-term investments with original maturities of three months or less.

2. Significant accounting policies (continued):

(c) Financial instruments:

During the year, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants ("CICA") under CICA Handbook Section 3855, *Financial Instruments – Recognition and Measurement* and Section 3861 – *Financial Instruments – Disclosure and Presentation.* These new handbook sections provide requirements for the recognition and measurement of financial assets and financial liabilities. Under Section 3855, all financial assets and liabilities are to be measured at fair value except for loans and receivables and held-to-maturity investments, which should be measured at amortized cost. Held-for-trading (HFT) financial assets and available for sale (AFS) assets are to be measured at fair value with changes in fair value recorded against deferred capital contributions to be recognized into income on the same basis as amortization expense related to the projects.

These new standards had no material impact on previously reported results.

(d) Capital assets:

Capital assets are stated at cost and are amortized on a straight-line basis over their useful economic lives as follows:

Asset	Rate
Leasehold improvements	3 years
Furniture and equipment	5 years
Computer hardware	3 years
Computer software	3 years

Amortization is recorded as part of project costs.

(e) Project costs:

Project costs consist of costs during the Procurement and Construction Phases of the Canada Line.

Procurement and Construction Phase costs are deferred until the Canada Line is completed and put into service, at which time the costs will be amortized.

Should the Project be terminated, the project costs will be written off in that period.

(f) Deferred Concessionaire credits:

Concessionaire credits are deferred until the Canada Line is put in service, at which time the credits will be amortized over the remaining term of the Concession Agreement.

2. Significant accounting policies (continued):

(g) Capital contributions:

The Company follows the deferral method of accounting for contributions. Accordingly, capital contributions for Procurement and Construction Phases of the Canada Line from the Government of Canada, the Province, TransLink, and the City of Vancouver will be recognized as follows:

- Contributions towards project costs that will be amortized will be recognized as revenue on the same basis as the amortization expense related to the project costs.
- Contributions for the purchase of land are recognized as direct increase in net assets.

(h) Recoveries:

The Company nets the contributions from the Airport Authority against the related project costs. Contributions received in advance of specific airport related project costs are recorded as deferred recoveries.

(i) Derivative financial instruments:

The Company may enter into interest rate swap agreements to reduce its exposure to market risks from changing interest rates.

The Company recognizes these derivative trading instruments on the balance sheet at their fair value. Changes in the fair value of the interest rate swaps will be reported as part of project costs.

(j) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities at the date of the financial statements. Significant areas requiring the use of management estimates relate to the provision for investment losses, accrued liabilities and contingencies. Actual results could differ from these estimates.

(k) Land sales:

The Company records the net proceeds from excess land sales as a reduction in the project costs.

(l) Investments:

Investments are comprised of non-bank sponsored asset-backed commercial paper (ABCP) classified as held-for-trading and recorded at their estimated fair values in accordance with CICA Handbook Section 3855.

2. Significant accounting policies (continued):

(m) Future accounting changes:

On December 1, 2006, the CICA issued new accounting standards: Handbook Section 3862, *Financial Instruments – Disclosures* (Section 3862) and Handbook Section 3863, *Financial Instruments – Presentation* (Section 3863). These new standards will be effective for the Company on January 1, 2008.

Sections 3862 and 3863 replace Handbook Section 3861, *Financial Instruments – Disclosure and Presentation*, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

3. Investments:

At December 31, 2007, the Company held Canadian non-bank sponsored asset-backed ABCP issued by a number of trusts with an original cost of $56.5 million. On the dates the Company acquired these investments, they were rated R1 (High) by Dominion Bond Rating Service ("DBRS"), the highest credit rating issued for commercial paper. These investments matured during the third quarter of 2007 but, as a result of liquidity issues in the ABCP market, did not settle on maturity. As a result, the Company classified its ABCP as investments after initially classifying them as cash and cash equivalents.

On August 16, 2007, an announcement was made by a group representing banks, asset providers and major investors that they had agreed in principle to a long-term proposal and interim agreement to convert the ABCP into long-term floating rate notes maturing no earlier than the scheduled maturity of the underlying assets. On September 6, 2007, a pan-Canadian Investors Committee consisting of major investors was formed to develop a restructuring plan for the ABCP.

On December 23, 2007, the pan-Canadian Investors Committee provided certain details about the expected restructuring. The valuation technique used by the Company to estimate the fair value of its investment in ABCP, at December 31, 2007, incorporates probability weighted discounted cash flows considering the information provided by pan-Canadian Investors Committee and the best available public information regarding market conditions and other factors that a market participant would consider for such investments. Where there is no observable market data, the Company has used estimates that is believed to be reasonable. Continuing uncertainties regarding the value of the assets which underlie the ABCP, the amount and timing of cash flows and the outcome of the restructuring process could give rise to a further change in the value of the Company's investment in ABCP.

Based on the Company, the estimated fair value of the investment in ABCP is $49.3 million at December 31, 2007. The reduction in the fair value of $7.2 million, or 12.7% of the original cost of the ABCP, was recorded as a charge to deferred capital contributions.

4. Capital assets:

			2007	2006
	Cost	Accumulated amortization	Net book value	Net book value
Leasehold improvements	$ 54,742	$ 36,495	$ 18,247	$ 36,495
Furniture and equipment	146,340	115,856	30,484	59,752
Computer hardware	263,074	209,738	53,336	25,086
Computer software	442,655	401,335	41,320	53,258
	$ 906,811	$ 763,424	$ 143,387	$ 174,591

5. Project costs:

	2007	2006
Construction costs	$ 1,244,602,644	$ 628,758,854
Property acquisitions	115,082,921	136,993,403
Management costs	70,439,474	54,398,920
	1,430,125,039	820,151,177
Less:		
Assets acquired on behalf of and funded by the Airport Authority (notes 2(g) and 8)	(221,731,126)	(123,139,432)
	$ 1,208,393,913	$ 697,011,745

6. Related party transactions:

The following table summarizes the Company's related party transactions during the period:

	2007	2006
Secondment of staff, net of cost sharing recoveries for consultant costs and interest paid – TransLink	$ 3,371,828	$ 114,863
Trolley wires infrastructure costs – net of receivables - TransLink	2,837,344	
Insurance deductible receivable - Transportation Property and Casualty Company Inc. (TPCC)	(26,643)	-
Payroll processing charges – West Coast Express Limited (WCE)	-	12,000

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

6. Related party transactions (continued):

The following amounts represent balances due to/from related parties as at December 31.

	2007	2006
Due to (from) related parties:		
TransLink loan (a)	$ 29,000,000	$ -
TransLink accounts payable (b)	2,937,215	19,954
WCE	-	45,707
TPCC (b)	(26,643)	-
	$ 31,910,572	$ 65,661

(a) The TransLink loan is revolving, unsecured and bears interest at 5% per year at December 31, 2007. This loan is provided through a credit facility with a maximum of $30 million available.

(b) The amounts due to TransLink and from TPCC are due on demand, are unsecured, bear no interest, and have arisen from the transactions referred to above.

7. Deferred Concessionaire credits:

Deferred Concessionaire credits represent the funding provided by the Concessionaire towards the design and construction Phases of the Canada Line. It is estimated that the funding to be provided by the Concessionaire will amount to $720 million. The ultimate funding obligation of the Concessionaire will not be known until completion of the Project. Upon completion and service commencement of the Project, the total deferred Concessionaire credits will be amortized to income over the remaining term of the concession agreement.

8. Deferred capital contributions:

Deferred capital contributions comprise funding received from the Government of Canada, the Province, TransLink and the City of Vancouver for the Procurement and Construction Phases of the Canada Line, as follows:

8. Deferred capital contributions (continued):

	2007	2006
Government of Canada	$ 411,929,998	$ 244,491,345
Province of BC	194,725,000	136,325,000
TransLink	315,737,407	178,186,404
City of Vancouver	22,905,196	7,977,378
	945,297,601	566,980,127
Less:		
Funding used (net of dispositions) to acquire land (note 9(b))	(115,082,921)	(136,993,403)
Cumulative net investment income (loss)	(1,401,817)	3,202,742
	$ 828,812,863	$ 433,189,466

Assets acquired on behalf of and funded by the Airport Authority are netted against the related project costs when incurred (notes 2(h) and 5).

9. Net assets:

(a) Unrestricted assets:

The Company has authorized two common shares without par value.

(b) Invested in project costs:

Represents the funding received to acquire land.

10. Financing arrangements:

CLCO has entered into various agreements with the Government of Canada, the Province, TransLink, the Airport Authority and the City of Vancouver. These agreements provide for the funding of costs related to Procurement and Construction Phases of the Canada Line, as follows:

Funding Agency commitments (nominal dollars except as otherwise noted):

Agency	Total amount of committed funding
Government of Canada	$ 450,000,000
The Province (note (a))	435,025,000
TransLink (note (b))	334,625,000
Airport Authority (note (c))	300,000,000
City of Vancouver	28,970,059
	$ 1,548,620,059

10. Financing arrangements (continued):

(a) The Province's funding includes $165,700,000 towards future operating costs. This funding will vary as a function of the Concessionaire's operating performance. The total funding commitment also includes a $15,000,000 commitment to fund additional costs.

(b) The TransLink funding includes $8,600,000 towards a pedestrian/bike bridge over the Fraser River. The TransLink credit facility to CLCO of $30,000,000 (note 6) is not included in the above amount.

(c) The Airport Authority's funding includes $50,000,000 for certain common costs, and up to a maximum of $250,000,000 related to the construction of the portion of the Canada Line associated with the Airport Authority section of the Canada Line.

The Airport Authority's funding is based on the value of the Canadian dollar at April 1, 2003 subject to annual compounding for cumulative inflation.

(d) CLCO has in place a short term demand credit facility with HSBC Bank Canada for $45,000,000 declining to $40,000,000 at March 31, 2008. This facility ends on September 30, 2008. There were no amounts drawn on this facility at December 31, 2007.

11. Concession agreement:

On July 29, 2005, the original Concession Agreement between CLCO, TransLink and the Concessionaire was entered into concurrently with the completion of the Concessionaire's financing and sub-contracting arrangements.

Under the Concession Agreement, the Concessionaire has agreed to design, construct and partially finance the Canada Line and then to operate it over a total term (including construction and operating phases) of 35 years. During the Construction Phase, CLCO will make payments to the Concessionaire upon the achievement of certain milestones. These payments totaled $979,989,586 at December 31, 2007 (2006 - $556,015,357). The Concessionaire assumes price and schedule risk, subject to certain compensation events, the occurrence of which will require CLCO to make compensatory payments to the Concessionaire. During the operating phase, CLCO, through funding from the Province and TransLink, will make monthly payments to the Concessionaire based on the Concessionaire's performance.

12. Commitments and contingencies:

(a) Operating lease commitments:

The Company is committed to payments under operating leases as follows:

2008	$ 343,053
2009	300,567

(b) Cost sharing:

In November 2004, CLCO entered into cost-sharing agreements with the City of Vancouver and the City of Richmond. The Company agreed to contribute $1,350,000 to the City of Vancouver and $1,170,000 to the City of Richmond for reimbursement of certain costs of municipal staff during the construction of the Canada Line from 2005 to 2009. As at December 31, 2007, amounts of $710,000 (2006 - $710,000) and $900,000 (2006 - $650,000) had been paid to the City of Vancouver and the City of Richmond, respectively.

CLCO has entered into access agreements with each of the City of Vancouver and the City of Richmond. The agreements provide access to city streets and outline the process by which the Cities provide advice on design.

In November 2004, CLCO entered into a Memorandum of Understanding with the City of Richmond which requires CLCO to provide funding of $2,000,000 during the construction of the Canada Line to improve urban design. At December 31, 2007, no monies had been paid under this Memorandum of Understanding.

(c) Litigation:

As at December 31, 2007, there are lawsuits pending against the Company arising in the ordinary course of business. Management is of the opinion that any claims against the Company, which are not recoverable from the Company's insurance, are not likely to be material and therefore no provision has been made in the financial statements for any such liability.

13. Comparative figures:

Certain of the comparative figures have been reclassified to conform with the current year's financial statement presentation.