



Transportation Investment Corporation Annual Report

2010-2011



Port Mann/Highway 1
Improvement Project

www.pmh1project.com

TABLE OF CONTENTS

MESSAGE FROM THE CHAIR	3
MESSAGE FROM THE CEO.....	4
ORGANIZATIONAL OVERVIEW	5
Corporate Profile.....	5
Mandate and Enabling Legislation	5
Our Vision.....	5
Our Values	5
Our Goals.....	5
Core Business Areas	6
Tolling.....	6
Key Benefits.....	6
Partners, Clients, Stakeholders	7
TI Corp Locations.....	7
CORPORATE GOVERNANCE	7
Officers	8
YEAR IN REVIEW	8
Key Construction Milestones	8
Community Relations Milestones	9
Environmental Milestones	10
Tolling Operation Milestones.....	10
Administrative Milestones	11
REPORT ON PERFORMANCE.....	11
SHAREHOLDER’S LETTER OF EXPECTATION	11
MANAGEMENT’S DISCUSSION AND ANALYSIS	11
Overview	13
Summary of Financial Results	13
<i>Construction</i>	13
<i>Operations</i>	13
Risks.....	15
CONTACT INFORMATION	17
AUDITED FINANCIAL STATEMENTS AND NOTES.....	18

MESSAGE FROM THE CHAIR

On behalf of the Board of Directors, I am pleased to present the 2010-2011 Annual Report for Transportation Investment Corporation (TI Corp).

The past year marked significant progress as the Port Mann Highway 1 Improvement Project continued to take shape; the project remains on time and on budget with substantial completion scheduled for 2013. This project is a key component of the Province's plan to address the problem of growing regional congestion, and the negative impact it has on our economy and quality of life. The results of our efforts will improve the movement of people, goods and transit.

During 2010-2011, TI Corp marked a significant construction milestone with completion of the south approach deck and support piers of the Port Mann Bridge. Interchanges and associated improvements along the corridor continue to move towards completion.

In 2011-2012, TI Corp will include additional resources focused on development of the toll operating structure. The tolling structure will be in place to recover the costs for the PMH1 project. The tolling system will be based on the principles of fairness, convenience and superior customer service. With tolling projected to commence in December 2012, the next year will see an increased focus on this element of TI Corp's mandate.

Risks to TI Corp over the term of the project continue to be any factors that could affect the construction schedule and projected bridge opening date of December 2012. To mitigate these risks, TI Corp has implemented a robust schedule management framework and works closely with the project contractor, Kiewit/Flatiron General Partnership. The project remains on schedule and on budget.

Over the next year TI Corp's board will continue to evolve and I look forward to welcoming new members. These new members will represent a broad spectrum of expertise from the business and legal communities, adding to our already strong team. Furthermore, I would like to thank all TI Corp management, employees, contractors and subcontractors who have worked hard on the Port Mann/Highway 1 Improvement Project over the past year building on our successful track record.

This report has been prepared in accordance with the Budget Transparency and Accountability Act and the BC Reporting Principles. The board is accountable for the contents of the report, including what has been included in the report and how it has been reported. The information presented reflects the actual performance of TI Corp for the 12 months ended March 31, 2011. The board is responsible for ensuring internal controls are in place to ensure information is measured and reported accurately and in a timely fashion.

All significant assumptions, policy decisions, events and identified risks, as of March 31, 2011, have been considered in preparing the report. The report contains estimates and interpretive information that represent the best judgment of management. Any changes in mandate direction, goals, strategies, measures of targets and any significant limitations in the reliability of data are identified in the report.



Grant Main
Chair, Board of Directors

MESSAGE FROM THE CEO

I am pleased to report on TI Corp's performance during the 2010-2011 fiscal year. As British Columbia's largest transportation infrastructure project, the results of our efforts are helping to shape our roadways and improve access and safety along the Highway 1 corridor.

TI Corp ended the year in a strong position with the majority of project areas throughout the corridor now under construction. Milestones include, meeting some key environmental objectives, completing a portion of the cycling and pedestrian multi-user paths and marking a significant event by completing construction of the south approach of the new Port Mann Bridge.

This progress will continue throughout 2011-2012 with significant construction activity planned for the 2011 construction season.

Stakeholder consultations were held throughout the year to discuss noise mitigation and planned improvements to Highway 1 and nearby interchanges. Building relationships and partnerships with members of the community and local municipalities continues to be a priority for TI Corp. Providing the highest level of service to our customers is of the utmost importance to TI Corp as the project advances. To ensure that TI Corp continues to respond to the needs of our stakeholders— residents, businesses, drivers and goods movers - the organization will begin an annual survey in the 2011/2012 fiscal year to determine satisfaction with the steps the organization takes to meet its objective to minimize disruption and maximize predictability during construction.

2010/2011 saw significant progress made on the tolling system operations. In March 2010, TI Corp selected CS Systemes D'Information S.A. (CS) of France as the electronic tolling systems provider for the project. The organization is also moving forward with a competitive selection process to find a tolling operator that can deliver the convenience and features our customers will need, while providing value for money. A proponent is expected to be selected later this year.

The tolling structure is being designed to meet international best practices and provide a high level of customer service, including ease of use, access to the system, effective and responsive two-way communications and fairness to all customers. Ensuring fair and equitable pricing, with appropriate incentives remains a priority as we move forward with planning. The tolling framework will be finalized in early 2012.

The successes of the past year are the results of hard work by a dynamic, multi-disciplined team. I look forward to another successful year ahead.



Mike Proudfoot,
CEO

ORGANIZATIONAL OVERVIEW

Corporate Profile

Transportation Investment Corporation is a public crown corporation established under the *Transportation Investment Act* to implement the Port Mann/Highway 1 (PMH1) Improvement Project, including construction of a new 10-lane Port Mann Bridge, widening the highway, upgrading interchanges and improving access and safety on Highway 1. The project spans a distance of approximately 37 kilometers from the McGill Street Interchange in Vancouver to 216th Street in Langley. The PMH1 Improvement Project also includes development, implementation and management of tolling operations to pay for the project and help manage growth in traffic over time.

The Port Mann Bridge and Highway 1 comprise Metro Vancouver's primary goods movement and commuting corridor, traversing six municipalities with key connections to the region's other 14 communities. The PMH1 Improvement Project was established in 2003 as part of the Provincial Gateway Program to address the problem of growing regional congestion and to improve the movement of people, goods and transit. Combined with other road, bridge and transit improvements planned or underway, this project will help create an effective transportation network within Metro Vancouver.

Mandate and Enabling Legislation

TI Corp is established under the *Transportation Investment Act*. TI Corp's primary mandate as part of the Province's Gateway Program is to manage and ensure successful delivery and implementation of the Port Mann/Highway1 Improvement Project. TI Corp is also mandated to recover the capital costs of the project as well as operating and maintenance costs of the bridge and highway through tolling.

Our Vision

To develop and implement self-sustaining infrastructure projects for the benefit of British Columbians.

Our Values

The corporation values the diversity of its employees and will strive to deliver projects in a manner that is respectful to residents, businesses, all levels of government and the environment while ensuring safe and efficient movement of people and goods.

Our Goals

- Reduce congestion and travel times;
- Improve safety and accessibility;
- Facilitate expanded public transit service; and
- Expand the transportation network to better accommodate high occupancy vehicles (HOV), cyclists and pedestrians.



The new Port Mann Bridge will have HOV lanes in both directions for use by carpools and transit, as well as a 3metre-wide, barrier separated multi-use path

Core Business Areas

TI Corp is a Crown corporation, tasked with the delivery of the PMH1 Improvement Project, British Columbia's largest transportation infrastructure project and a key component of the Province's Gateway Program. The Port Mann Bridge is a major crossing over the Fraser River forming part of Highway 1 between Coquitlam and Surrey. The new 10-lane Port Mann Bridge, expanded high occupancy vehicle (HOV) network, transit priority facilities, and widened Highway 1 will help cut round-trip travel times in this corridor by up to 30 per cent and will allow public transit over the crossing for the first time in over 20 years.

The Gateway Program was established as part of a broader response by the Province of British Columbia to reduce congestion, improve the movement of people and goods and improve safety and reliability on key highway corridors. The Gateway Program improvements will complement other regional road and transit improvements currently being planned or under construction.

Taken together, these improvements will help create a comprehensive and effective transportation network for Greater Vancouver which will improve the movement of people and goods, thereby facilitating economic growth, increased transportation choices and improved connectivity to areas designated for population growth.

Tolling


The PMH1 Project will use Open Road Tolling, a safer and more efficient method of tolling than traditional toll booths. This fully electronic tolling means that exhaust emissions from idling cars at toll booths are eliminated and bridge users don't need to worry about exact change or delays. Instead, modern, electronic tags and video capture technology will be used to identify vehicles as they pass under the toll point. Bridge users may choose to pay before or after travel using a variety of payment methods, including online, by phone or in person at self-serve kiosks or tolling customer service centres.

The toll operating structure, currently under development, is based on the principles of ease of use, superior customer service, convenience, fairness and equity to ensure all customers have the opportunity to pay the lowest toll for which they are eligible. The tolling pricing, product and customer service structure will be finalized and released during the 2011/2012 service planning period.

Tolls will help encourage the use of congestion-reduction measures, such as public transit, and will promote carpooling and off-peak commercial travel through targeted discounts, helping to moderate traffic growth and greatly extend the life of the new bridge. The travel demand management effect of the tolls will also result in lower greenhouse gas and other emissions compared to a non-tolled facility. Additionally, tolls will extend the service life of the improvements well into the future compared to a non-tolled expansion.

Key Benefits

The PMH1 corridor is the busiest and most economically critical route in Greater Vancouver. Built in the early 1960s when the population of Metro Vancouver was 800,000, it now serves as the most important east-west corridor to the region's 2.2 million people. Traffic has increased to the point where the bridge is congested in both directions for more than 13 hours per day.



As a result of this project, there will be reliable bus service across the bridge and convenient Park & Ride areas when the project opens, including a RapidBus service that will connect Coquitlam/Burnaby at the Lougheed Highway SkyTrain Station to Langley at 202nd Street in about 25 minutes. The new bridge also provides for future rapid transit.

Partners, Clients, Stakeholders

A design-build agreement has been signed between the Province of British Columbia and the Kiewit/Flatiron General Partnership for \$2.46 billion to construct a new 10-lane Port Mann Bridge, widen and improve approximately 37 kilometers of Highway 1, and remove the existing bridge.

Accordingly, a key function of TI Corp until substantial completion of the PMH1 Improvement Project is the ongoing management and oversight of the design-build contractor and their activities, ensuring that construction proceeds on budget and on-time with minimal disruption to road and bridge users.

TI Corp is responsible for the implementation of the Port Mann/Highway Improvement Project. Our key partners include:

- Ministry of Transportation and Infrastructure/ BC Transportation Financing Authority
- Municipalities adjacent to the corridor
- Kiewit/Flatiron General Partnership
- Operations & Maintenance, Tolling and other contractors

Key stakeholders and clients include those who are providing advice and input and who will benefit from the project improvements:

- RCMP and other first responders
- Commuters and businesses
- Commercial trucking and service companies and drivers
- The travelling public

TI Corp Locations

TI Corp operates from two key locations, with project personnel in the field daily along the 37 kilometers of highway improvements. Key locations include:

Corporate Head Office: Suite 1420 – 1111 West Georgia Street, Vancouver, B.C. V6E 4M3

Project Office: Suite 40 – 145 Schoolhouse Street, Coquitlam, B.C. V3K 4X8

CORPORATE GOVERNANCE

By legislation, Transportation Investment Corporation is governed by a Board of Directors consisting of no more than seven members appointed by the Lieutenant Governor in Council. The Board of Directors, through the Chair, report to the Minister of Transportation and Infrastructure (designated as the Minister Responsible for TI Corp) and is responsible for overseeing the conduct of business, directing

management and ensuring that all major issues affecting TI Corp's affairs are given appropriate consideration.

As a Crown agency, TI Corp operates under a Shareholder's Letter of Expectations that outlines both the corporation's as well as the shareholder's responsibilities and is jointly signed by the Minister of Transportation and Infrastructure and the Chair of TI Corp.

In addition, TI Corp's Board practices in alignment of the Board Resourcing and Development Office (BRDO) corporate governance guidelines. More information on those guidelines as well as the BRDO can be found at: <http://www.fin.gov.bc.ca/brdo/>.

The Board of Directors currently consists of:

- Chair - Grant Main Deputy Minister, Ministry of Transportation and Infrastructure
- Member - Larry Blain Chair, Partnerships British Columbia
- Member - John Dyble, Deputy Minister to the Premier

The Board will be expanding its membership as construction advances and as TI Corp's focus shifts to operations. As a public crown corporation and part of the Provincial Government's Public Sector Employer's Council (PSEC), TI Corp operates under PSEC's best practices for transparent and full disclosure of public sector executive compensation.

Officers

- Chief Executive Officer - Mike Proudfoot
- Vice President Technical Services - Garry Dawson
- Chief Financial Officer - Kenneth Tan
- Corporate Secretary - Cathy Young

YEAR IN REVIEW

Key Construction Milestones

March 2010 – Piling work for the south approach piers of the new Port Mann Bridge complete.

April 2010 – Project one-third complete.

June/July 2010 – Girders for eastbound and westbound HOV ramps at Grandview Highway installed and new structures take shape. These new dedicated HOV ramps will provide a more direct connection to Highway 1 and reduce traffic weaving and congestion.

August 2010 – Hjorth Creek environmental enhancement work complete.



New HOV ramps being constructed to connect Highway 1 traffic to Grandview Highway at an improved Boundary Road intersection.

November 2010 – Girders for the new Kensington Avenue overpass installed. The overpass will have five lanes to improve efficiency and safety and accommodate the high volume of drivers in the area.

November 2010 – Girders for the new 160 Street overpass installed. The new interchange will provide significant improvements for drivers coming to and from Highway 1, as well as for drivers crossing from one side of Surrey to the other. The new overpass will have four lanes to connect Surrey residents from community to community when complete.

November 2010 – New ramp that will connect Highway 1 westbound with Lougheed Highway eastbound takes shape with the installation of girders. These new ramps in the Cape Horn area will improve traffic flow and reduce travel time.

December 2010 – A new cycling/pedestrian tunnel opened at the 152 Street Interchange.

December 2010 – Construction of the south approach for the new Port Mann Bridge finished. The gantry used to place pre-cast deck sections was dismantled and moved to Coquitlam to begin construction of the north approach.

January 2011 – Girders are installed for a new ramp connecting Lougheed Highway eastbound and Highway 1 eastbound and the Mary Hill Bypass. This ramp will allow for more direct connections between Highway 1 and Lougheed Highway.

March 2011 – The first support cable for the main span of the Port Mann Bridge installed on the south pylon.

Community Relations Milestones

Four local area consultations were held to discuss noise mitigation and planned improvements to Highway 1 and nearby interchanges with residents between Brunette Avenue and North Road, Fraser Heights East and Grandview Highway/Boundary Road.

Informational open houses were also held for:

- The new 202 Street Park & Ride and Transit Exchange in the Township of Langley
- The Cape Horn Interchange in Coquitlam
- The Proposed Wilson Farm Habitat Enhancement Project at Colony Farm in Port Coquitlam



The new Kensington Avenue overpass girders being installed.



New on-ramp connecting Highway 1 to Lougheed Highway.



New bridge deck sections being held in place by gantry. The south approach of the new Port Mann Bridge is complete and the gantry is positioned over the north approach.



The first support cables for the main span of the Port Mann Bridge.

Environmental Milestones

This past year the Environmental Assessment Certificate (EAC) for the PMH1 Project was amended to transfer disposition of the Project from Ministry of Transportation and Infrastructure to TI Corp.

TI Corp has made key advances in delivering off-corridor habitat enhancement, part of TI Corp's obligations under the design-build agreement. A Project agreement was substantially completed with Metro Vancouver for the Wilson Farm Tidal Flow Restoration and Habitat Enhancement Project in Colony Farm Regional Park to begin construction in summer 2011. This project is also supported by Fisheries and Oceans Canada and the Kwikwitlem First Nation and will enhance over 4000 m of drainage channels, and provide fish-friendly connections to the Coquitlam River for the first time in over 100 years. The project is intended to maintain and enhance existing wildlife features. Fish and wildlife enhancement works were also created at Hjorth Creek (160 interchange) and Mundy Creek (United Boulevard Interchange).



Hjorth Creek environmental enhancement work is now complete. The project is intended to maintain and enhance existing wildlife features.

During June 2010, Kwantlen First Nation and TI Corp celebrated the successful construction of the Brae Slough habitat enhancements, constructed near Fort Langley. Kwantlen First Nation honoured the new habitat with the name *Sqwalets*, meaning "a river runs through".

TI Corp continued to deliver on its obligations throughout the year under the design-build agreement: providing environmental oversight of the design-build contractor and conducting contaminated site investigation of acquired properties.

Tolling Operation Milestones

TI Corp continues to develop a tolling system based on the principles of ease of use, superior customer service, convenience, equity and fairness. In March 2010, TI Corp selected CS Systemes D'Information S.A. (CS) of France as the electronic tolling systems provider for the Port Mann/Highway 1 Improvement Project.

Through a competitive selection process this year, TI Corp intends to award a tolling operator contract for the new Port Mann Bridge. The tolling operator will be responsible for all activities associated with operating the toll system, including but not limited to: contact centre operations, customer services, account management, tag management and manual review of license plates. The tolling operator will be responsible for the day to day operations of the tolling system and will be the primary point of contact for tolling customers. The contract is scheduled to be awarded in the 2011/2012 service planning period.

TI Corp is conducting additional research with key stakeholders on how to make the system as fair and easy to use as possible. As part of the research, TI Corp will be analyzing the potential traffic and financial implications of various pricing measures with a view to confirming a refined pricing, product and customer service structure later this year.

Administrative Milestones

TI Corp has established a core construction management, tolling operations and administrative staff component. In addition to managing the Head Concession Agreement with the Province of British Columbia, this team is actively managing three significant third party agreements:

- Design-Build construction agreement,
- Tolling systems agreement, and
- Road and Bridge maintenance agreement

TI Corp has also entered into hedging contracts to mitigate future interest rate increase risks. This will help ensure predictability of future debt service payments.

REPORT ON PERFORMANCE

TI Corp's identified goals and targets focus on the critical aspects of performance in delivering a major infrastructure project including the acquisition and installation of tolling systems.

Performance Measures (\$M = Millions)	2008/09 Actual	2009/10 Actual	2010/11 Actual	2010/11 Budget	2011/12 Target	2012/13 Target	2013/14 Target
Remain within the approved net operating loss projections	(\$7.8M)	(\$4.5M)	(\$7.2M)	(\$18.6M)	(\$14.7M)	(\$48.6M)	(\$48.4M)
Achieve percentage of completion target for total design & build construction	5.6%	33.7%	56.6%	52.0%	78.7%	97.7%	100%
Restrict percentage of annual corporate overhead expenses to 1% of total annual project expenditures¹	0.8%	0.2%	0.3%	1%	1%	1%	1%

The net loss projections and the annual corporate overhead expenses percentage are sourced from the annual audited financial statement numbers of TI Corp.

The percentage of completion achievement is derived from an estimate of the progress of the particular segments of the project using verified progress billings.

¹ Corporate overhead expenses consist of salaries and administration costs including office overhead.

SHAREHOLDER’S LETTER OF EXPECTATIONS

The Shareholder’s Letter of Expectations, between the shareholder (the Government of British Columbia) and TI Corp, is an agreement on the respective roles and responsibilities of each, and serves as the basis of agreement between the shareholder and the Corporation on corporate mandate including high-level performance expectations, public policy issues, and strategic priorities.

SLE Direction	TI Corp Alignment
Manage and ensure the delivery and implementation of the Design-Build work including the design and construction of the concession highway, all in accordance with the terms of the design build agreement dated as of March 17, 2009 signed between TI Corp and Kiewit/Flatiron General Partnership, the Contractor.	<p>TI Corp staff and Independent contractors working under TI Corp direction continue to monitor progress and quality of work done by the design-build contractor.</p> <p>Target dates for start of bridge operations and substantial completion of the project are December 2012 and December 2013 respectively.</p>
Establishment of a tolling system and toll collections at the Port Mann Bridge, consistent with the provisions of the Port Mann/Highway 1 Bridge Concession Agreement dated as of March 10, 2010 signed between the Province, BC Transportation Financing Authority and Transportation Investment Corporation, and any modifications to this agreement.	<p>The concession agreement amongst the Province, BC Transportation Financing Authority and Transportation Investment Corporation was signed on March 10, 2010.</p> <p>A service provider to supply and deliver a tolling system for the Port Mann Bridge was engaged on March 24, 2010.</p> <p>A procurement to engage a toll operation service provider will be implemented in Spring 2011. The target date for full implementation of the tolling system and associated operations is December 2012.</p>
Ensure prudent management of capital and operating plans such that approved deficit projections, over the construction period of the Port Mann/Highway 1 Improvement Project are not materially exceeded.	The Corporation has addressed the risk of rising long-term interest rates through the implementation of a hedging strategy to mitigate the effects of predicted increases in these rates.
Transportation Investment Corporation is to be in a positive net income position by 2017/18.	

In addition to the direction contained in TI Corp’s Shareholder’s Letter of Expectations, TI Corp and the PMH1 Improvement Project also play a role in the Province’s climate change goals, by reducing greenhouse gases associated with congestion-induced idling and traffic delays as well as by making public transit across the Port Mann Bridge possible for the first time in more than twenty years.

Once it is in operation, Highway 1 RapidBus will provide transit service as fast as, or faster, than travelling by car. Transit users will be able to travel from the 202 Street Park & Ride in Langley to the Lougheed Skytrain Station in less than 25 minutes. More than 20,000 people are expected to use this service by 2031, reducing greenhouse gases by 10,000 to 15,000 tonnes per year.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's discussion and analysis of the financial results from operations and financial position for the year ended March 31, 2011 should be read in conjunction with the audited financial statements and accompanying notes. These financial statements and results presented are stated in Canadian dollars and have been prepared according to Canadian Generally Accepted Accounting Principles.

Management has included some forward-looking statements which we believe to be reasonable, based on information currently available but these statements are subject to risks and uncertainties that may cause actual results to differ from those forward looking statements.

Overview

The principal task of the Corporation's management during the organization's initial five years will be the managing and directing of the construction of the Port Mann/Highway 1 infrastructure. Other activities essential to its operations will be the acquisition and installation of tolling systems, the procurement of a tolling operations partner as well as a road and bridge maintenance contractor.

The design-build contractor is currently ahead of schedule and as a result it is anticipated that portions of the project will be completed in advance of projected times.

Summary of Financial Results

Construction

The cost for the Port Mann/Highway 1 Improvement project has been estimated at approximately \$ 3.3 billion.

(\$ millions)	2008/09 Actual	2009/10 Actual	2010/11 Actual	2010/11 Budget	Variance	2011/12 Target	2012/13 Target	2013/14 Target
Capital Expenditures	\$ 215	\$ 778	\$ 738	\$ 735	\$ (3)	\$ 844	\$ 585	\$ 78

The Minister of Finance is the Corporation's fiscal agent and provides both short-term and long-term funding, enabling the construction of infrastructure as well as payments for on-going operations.

Total debt at year-end of \$1.22 billion consisted of short-term debt of \$269 million and long-term debt of \$951 million.

Operations

The Corporation will continue to show operating losses during the construction phase of its operations as tolling revenue will not be forthcoming until the new Port Mann Bridge is completed.

The net loss from operations of \$7 million (2010 - \$5 million) was mostly due to the cost of highway maintenance. The balance comprised salaries and corporate overhead. The cumulative deficit at March 31, 2011 was \$19 million.

(\$ millions)	2008/09 ²	2009/10	2010/11	2010/11	Variance	2011/12	2012/13	2013/14
	Actual	Actual	Actual	Budget		Target	Target	Target
Revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 83	\$ 175
<u>Operating Expenses</u>								
Interest	-	-	-	-	-	-	38	97
Operations & Maintenance	-	3	5	12	7	13	64	77
Administration (including salaries and fees)	2	1	2	2	-	2	2	4
Amortization	-	-	-	5	5	-	28	45
Contract Termination Fee	6	-	-	-	-	-	-	-
<u>Net Loss from Operations</u>	\$ (8)	\$ (4)	\$ (7)	\$ (19)	\$ 12	\$ (15)	\$ (49)	\$ (48)
<u>Other Comprehensive Income/ (Loss)</u>³	\$ -	\$ (26)	\$ (74)	\$ -	\$ (74)	\$ -	\$ -	\$ -


In December 2009, TI Corp adopted a financial strategy that takes advantage of interest rate hedging to lock in borrowing costs. This strategy created more predictable debt interest costs by minimizing the impact of global interest rate volatility over time. The financing and hedging plan was designed to provide more certainty to future debt interest rates and more predictability as to when TI Corp would become profitable.

TI Corp adopted hedge accounting under Canadian Generally Accepted Accounting Principles in order to minimize variability of its net income.

Approximately 67% or \$2.0 billion of TI Corp's future debt were hedged. Since the implementation of the financing and hedging plan, the global economy continued to weaken and interest rates have further

² For the period June 25, 2008 to March 31, 2009

³ Unrealized hedging loss that reflects the difference between market rates of interest and the fixed interest rates on TI Corp's hedge instruments – an accounting treatment that has no cash impact and will be offset by savings from borrowings at lower rates upon hedge settlement. A more detailed explanation is provided on pages 14-15 of this report.



declined. As market rates of interest continued to be below the hedged rates, the fair market valuation of hedges resulted in realized and unrealized “mark-to-market” accounting losses.

As of March 31, 2011, TI Corp’s accumulated unrealized hedging loss totaled \$100 million (\$26 million in fiscal year 2009/10 and \$74 million in fiscal year 2010/11), which was booked under “Other Comprehensive Losses”. The unrealized hedging losses do not contribute to net loss from operations, and have no cash impact.

TI Corp is not sustaining an increase to operating losses as a result of the unrealized hedging losses entered into the accounting records. Bookkeeping losses upon hedge settlement are offset by equivalent savings from borrowings at lower interest rates. This will result in achievement of the average target rate of about 5% per annum, which was the objective of the financing and hedging plan.

Despite the recent decline in interest rates, the objectives of TI Corp’s hedging plan have been completely fulfilled, including:

- Mitigated the risk of debt interest costs on future financial performance,
- Minimized the cost of capital at attractive levels, over the life of the PMH1 Project; and,
- Minimized variability in net income.

Internal and External Business Environment

The priority for TI Corp over the next fiscal year continues to be the safe and efficient delivery of the construction phase of the PMH1 Improvement Project, ensuring that construction continues on budget and on schedule and that the bridge opens and tolling commences by December 2012.

To that end, the key strategic issues and risks for TI Corp are those that could impact the construction schedule or the project budget. These include market and economic fluctuations that could affect long-term debt costs or events that could result in project delays.

In addition, TI Corp remains focused on the necessary preparations to commence tolling operations when the new Port Mann Bridge is open to traffic. This includes the necessary tolling-related infrastructure, including the tolling gantry and Primary Service Centre, as well as contracts with key suppliers.

Risks

Risk management is implicit in TI Corp’s management methodology. Key risk management principles include:

- Immediate communication of identified risks
- Pro-active risk mitigation
- Centralized tracking
- Continual review
- Appropriate allocation of risks to relevant parties.

Current identified issues/risks and plans to address those risks are as follows:

Key Strategic Issue	Status and Potential Impacts	Risk Mitigation
Project price escalation:		
<ul style="list-style-type: none"> • Long-term debt costs 	Long-term interest rate increases have been mitigated through a hedging strategy.	Risks associated with interest rate fluctuations over the course of the project, including during 2010/2011, are mitigated through the use of a long-term hedging strategy.
<ul style="list-style-type: none"> • Project Schedule 	The project is currently on budget and on schedule.	TI Corp has entered into a fixed price design-build agreement with the contractor, protecting TI Corp from the risk of any potential cost overrun.
Delays on tolling start-up:		
<ul style="list-style-type: none"> • Toll mechanisms complete 	Plans are in place to contract the essential tolling services	Detailed tolling schedule developed. Tolling system contract includes key deliverables linked to payment milestones.
<ul style="list-style-type: none"> • Construction schedule 	Construction currently ahead of schedule	Ongoing monthly monitoring of construction progress undertaken over 2010/2011 to achieve schedule certainty.
<ul style="list-style-type: none"> • Tolling operations building available 	Construction underway – completion schedule achievable	Competitive selection process launched during 2010/2011. Constructor selected and will be required to meet specific milestone dates included in contract.
Public support:		
<ul style="list-style-type: none"> • Noise, property and project status questions and concerns 	Project web site and 24/7 staffed information line has been in effect since July 2009	Continued commitment to proactive communication regarding project activities. All enquires responded to within 48 hours.
<ul style="list-style-type: none"> • Awareness and understanding of tolling requirements and process 	Tolling operator to be procured in 2011	Implement an effective toll customer service and information program in advance of tolling commencement



CONTACT INFORMATION

For further information please contact:

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Transportation Investment Corporation
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AUDITED FINANCIAL STATEMENTS AND NOTES

Report of the Auditor General of British Columbia



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Transportation Investment Corporation, and
To the Minister of Transportation and Infrastructure, Province of British Columbia

Report on the Financial Statements

I have audited the accompanying financial statements of Transportation Investment Corporation, which comprise the statement of financial position as at March 31, 2011, and the statements of shareholder's equity, operations and 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

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I 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.

In my view, the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

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

Victoria, British Columbia
June 3, 2011

John Doyle, MAcc, CA
Auditor General

Statement of Management Responsibility



Port Mann/Highway 1 Improvement Project Transportation Investment Corporation

June 3, 2011

Statement of Management Responsibility

Year ended March 31, 2011

The financial statements of Transportation Investment Corporation have been prepared by management in accordance with Canadian generally accepted accounting principles.

Management is responsible for the preparation of the financial statements and has established a system of internal control to provide reasonable assurance that assets are safeguarded, transactions are properly authorized, and financial records provide reliable information for the preparation of financial statements.

The Board of Directors is responsible for the review and approval of the financial statements and meets with management and the external auditor to discuss the results of the audit examination and financial reporting matters. The external auditor has full access to the Board with and without the presence of management.

The Auditor General of British Columbia has performed an independent audit of the financial statements. The Auditor's report outlines the scope of his examination and expresses an opinion on the financial statements of the Transportation Investment Corporation.

Yours truly,

A handwritten signature in blue ink, appearing to read "Mike Proudfoot", written over a horizontal line.

Mike Proudfoot

Chief Executive Officer

A handwritten signature in blue ink, appearing to read "Kenneth Tan", written over a horizontal line.

Kenneth Tan

Chief Financial Officer

Statement of Financial Position

Transportation Investment Corporation

Statement of Financial Position

As at March 31

2011

2010

(\$ 000s)

ASSETS

CURRENT ASSETS

Cash	\$ 12,896	\$ 4,573
Accounts receivable (note 4)	5,058	13
HST recoverable	2,496	-
Prepaid expense (note 5)	26	-
	<u>20,476</u>	<u>4,586</u>

LONG-TERM ASSETS

Property, plant and equipment (note 6)		
Assets under construction	1,610,256	941,841
Office equipment	536	480
	<u>1,610,792</u>	<u>942,321</u>
Accumulated depreciation	(275)	(96)
	<u>1,610,517</u>	<u>942,225</u>

Intangible assets (note 7)	119,290	44,807
Restricted cash (note 8)	10,500	10,500
Land (note 9)	709	5,699
	<u>1,741,016</u>	<u>1,003,231</u>
	<u>\$ 1,761,492</u>	<u>\$ 1,007,817</u>

LIABILITIES

CURRENT LIABILITIES

Accounts payable and accrued liabilities (note 10)	\$ 430,178	\$ 330,454
Short-term debt (note 11)	269,191	112,980
	<u>699,369</u>	<u>443,434</u>

LONG-TERM LIABILITIES

Long-term debt (note 12)	951,133	426,579
Derivative liability (note 15)	81,252	26,365
	<u>1,032,385</u>	<u>452,944</u>

SHAREHOLDER'S EQUITY

Contributed surplus (note 14)	150,000	150,000
Deficit	(19,469)	(12,223)
Accumulated other comprehensive loss (note 15)	(100,793)	(26,338)
	<u>29,738</u>	<u>111,439</u>
	<u>\$ 1,761,492</u>	<u>\$ 1,007,817</u>

Contractual obligation (note 18)

Contingent liabilities (note 24)

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

Approved on behalf of the Board

Grant Main, Chair

Larry Blain, Director

Statement of Shareholder's Equity

Transportation Investment Corporation		
Statement of Shareholder's Equity		
As at March 31	<u>2011</u>	<u>2010</u>
(\$ 000s)		
SHARE CAPITAL & CONTRIBUTED SURPLUS		
Beginning and end of the year (note 14)	<u>\$ 150,000</u>	<u>\$ 150,000</u>
DEFICIT		
Beginning of the year	(12,223)	(7,758)
Net loss from operations	<u>(7,246)</u>	<u>(4,465)</u>
End of the year	<u>(19,469)</u>	<u>(12,223)</u>
ACCUMULATED OTHER COMPREHENSIVE LOSS		
Beginning of the year	(26,338)	-
Other comprehensive loss for the year	<u>(74,455)</u>	<u>(26,338)</u>
End of the year (note 15)	<u>(100,793)</u>	<u>(26,338)</u>
TOTAL SHAREHOLDER'S EQUITY	<u>\$ 29,738</u>	<u>\$ 111,439</u>

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

Statement of Operations

Transportation Investment Corporation		
Statement of Operations		
For the year ended March 31		
	<u>2011</u>	<u>2010</u>
(\$ 000s)		
REVENUES		
Net foreign exchange gain	\$ -	\$ 213
Sundry	<u>11</u>	<u>6</u>
	<u>11</u>	<u>219</u>
EXPENSES		
Operations	5,108	2,944
Corporate salaries	1,071	894
Administration	753	761
Depreciation	136	58
Hedge ineffectiveness loss (note 15)	73	27
Interest	<u>116</u>	<u>-</u>
	<u>7,257</u>	<u>4,684</u>
NET LOSS FROM OPERATIONS	(7,246)	(4,465)
OTHER COMPREHENSIVE LOSS		
Unrealized effective hedging loss (note 15)	<u>(74,455)</u>	<u>(26,338)</u>
COMPREHENSIVE LOSS FOR THE YEAR	<u>\$ (81,701)</u>	<u>\$ (30,803)</u>

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

Statement of Cash Flows

Transportation Investment Corporation		
Statement of Cash Flows		
For the year ended March 31		
	<u>2011</u>	<u>2010</u>
(\$ 000s)		
Cash provided by (used for)		
OPERATIONS		
Net loss from operations	\$ (7,246)	\$ (4,465)
Items not affecting cash:		
Depreciation expense	136	58
Hedge ineffectiveness loss	73	27
Changes in non-cash operating working capital:		
Increase in accounts receivable	(74)	(13)
Increase in HST recoverable	(268)	-
Increase in prepaid expense	(25)	-
Increase in accounts payable	417	139
Increase in financial instrument	-	169
	<u>(6,987)</u>	<u>(4,085)</u>
FINANCING		
Proceeds from debt	680,765	519,410
Settlement of derivative financial instruments	(20,560)	-
Items not affecting cash:		
Effective hedging loss	54,887	26,338
Hedge settlement amortization	919	-
Accumulated other comprehensive income	(54,887)	(26,338)
	<u>661,124</u>	<u>519,410</u>
INVESTING		
Intangible assets	(74,483)	(32,399)
Property, plant and equipment	(667,509)	(739,403)
Land	4,990	(5,899)
Items not affecting cash:		
Hedge settlement amortization	(919)	-
Changes in non-cash investing working capital:		
Increase in accounts receivable	(4,971)	-
Increase in HST recoverable	(2,228)	-
Increase in prepaid expense	(1)	-
Increase in accounts payable	99,307	226,106
	<u>(645,814)</u>	<u>(551,395)</u>
Change in cash, current year	8,323	(36,070)
Cash, beginning of year	15,073	51,143
Cash, end of year	<u>\$ 23,396</u>	<u>\$ 15,073</u>
Cash consists of:		
Restricted cash	\$ 10,500	\$ 10,500
Cash in bank	12,896	4,572
Petty cash	-	1
	<u>\$ 23,396</u>	<u>\$ 15,073</u>

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

1) PURPOSE

The Transportation Investment Corporation (TI Corp) is a Crown corporation wholly owned by the Province of British Columbia. TI Corp was established on June 25, 2008 under the *Transportation Investment Act (SBC 2002)*. The Corporation is currently undertaking the design and build of the Port Mann/Highway 1 Project (Project) and may also engage in or conduct business authorized by the Lieutenant Governor in Council.

On March 10, 2010, the Port Mann Highway 1 Bridge Concession Agreement, which outlines the terms and conditions of the Project was signed by authorized representatives of TI Corp, the BC Transportation Financing Authority (BCTFA) and the Ministry of Transportation and Infrastructure.

2) SIGNIFICANT ACCOUNTING POLICIES

a) Basis of presentation

The financial statements of TI Corp are prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP) on a going concern basis.

b) 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 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. Significant areas requiring the use of management estimates relate to property, plant and equipment, the effectiveness of hedging instruments, and accounts payable and accrued liabilities. Although management uses the best estimates available, actual balances may differ from these amounts.

c) Federal and Provincial taxes

TI Corp is exempt from corporate income taxes. The Corporation was exempt from the Goods and Services Tax up to June 30, 2010. Thereafter, the Corporation remits and fully recovers Harmonized Sales Tax.

d) Intangible assets

Intangible assets are recorded at cost and are amortized over their expected useful lives calculated on a straight line basis. The life of land rights is based on the residual term of the Concession Agreement of 78 years.

e) Foreign exchange

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the rate of exchange in effect at the end of the accounting period. Changes in the Canadian dollar equivalent of these monetary assets and liabilities due to changes in the exchange rate are recognized as foreign currency gains and losses in net income from operations.

f) Derivative financial instruments

Canadian GAAP requires that all financial instrument assets be classified as held-for-trading, available-for-sale, and held-to-maturity or as loans and receivables. In addition, derivative financial instruments that are not accounted for as hedging instruments must be classified as held-for-trading. Financial instrument liabilities can be classified as held-for-trading or as other liabilities. All financial instruments are measured at fair value on initial recognition, and subsequent measurement and recognition of changes in fair value are dependent on whether the financial instrument has been classified as held for trading, available for sale, held to maturity, loans and receivables or other financial liabilities.

The Corporation has classified and measured its financial instruments as follows:

Financial Instrument	Category	Measurement	Recognition of Gain or Loss
Cash and cash equivalents	Held for trading	Fair value	Income from operations
Accounts receivable	Loans and receivables	Fair value	Income from operations
Derivatives other than hedging instruments	Held for trading	Fair value	Income from operations
Effective hedged instruments	Designated hedges	Fair value	Other comprehensive income
Ineffective portion of hedged instruments	Held for trading	Fair value	Income from operations
Accounts payable and accrued liabilities	Other financial liabilities	Fair value	Income from operations
Short-term debt	Other financial liabilities	Fair value	Income from operations
Long-term debt	Other financial liabilities	Amortized cost using the effective interest rate method	Income from operations

g) Property, plant and equipment

Borrowing costs that are directly attributable to the acquisition, construction or production of capital assets under construction are capitalized using the actual borrowing costs net of any temporary investment income. Capitalization of borrowing costs ceases when the specific asset is available for use.

Depreciation of capital asset costs less estimated residual value is calculated at straight line rates to depreciate the assets over their estimated useful lives. Depreciation commences at the end of the first quarter after management has determined the asset is available for use. Depreciation ceases on the earlier of the date the asset is classified as held-for-sale or the date the asset is derecognized.

Assets under construction consist of highway infrastructure under development including bridges, road bed, overpasses, underpasses, retaining walls and drainage systems.

Depreciation rates have been determined as follows:

Capital Asset	Initial Measurement	Estimated Useful Lives
Assets under construction	Cost	Depreciated when available for use
Office equipment	Cost	3 years
Land	Cost	Not depreciated

h) Debt placement fees

Transaction fees incurred in the arrangement or placement of debt during the capital asset construction phase are capitalized as interest during construction. Upon completion of the construction of the capital assets, these costs will be amortized over the estimated useful life of the assets.

i) Pension and post retirement benefits

Commencing in fiscal year 2009/10, pension benefits for employees of the Corporation are provided through the BC Public Service Pension Plan. Payments for the cost of this plan are accounted for on an accrual basis.

j) Administration and overhead costs

Administration and overhead costs which are directly attributable to bringing the property, plant and equipment to a condition necessary for them to be capable of operating in a manner intended by management form a part of the capital cost of the assets.

3) FUTURE ACCOUNTING CHANGES

International Financial Reporting Standards (IFRS)

In February 2008, the Canadian Accounting Standards Board (AcSB) confirmed that the use of IFRS will be required in 2011 for publicly accountable enterprises. IFRS will replace Canada's current Generally Accepted Accounting Principles (GAAP) for those enterprises. Pursuant to a provincial Treasury Board directive in 2010, the Corporation is directed to consult with the Office of the Comptroller General of British Columbia (OCG), who will provide guidance to the Corporation prior to the adoption of accounting policy choices and elections related to applicable accounting standards or guidelines.

The TI Corp will comply with the Treasury Board directive and after consultation with OCG will adopt IFRS effective April 1, 2011. TI Corp's future financial statements will be prepared in accordance with IFRS, with 2011 comparative figures and the April 1, 2010 opening balance sheet restated to conform with IFRS, along with reconciliations from Canadian GAAP to IFRS, as per the guidance provided in IFRS 1, "First-Time Adoption of International Financial Reporting Standards".

As part of TI Corp's transition to IFRS, an implementation plan was prepared based on the results of a diagnostic review of the differences between IFRS and the Corporation's current accounting policies. This analysis provided an overview of key issues due to the changeover to IFRS and the resulting impact on the Corporation, including enhanced presentation and disclosure requirements. During this phase, the Corporation also established a process to oversee the impact of the transition on financial reporting, operating processes, internal controls and information systems. As a result, an extensive analysis of IFRS for those areas of the financial statements that have identified accounting differences between Canadian GAAP and IFRS has been completed.

The Corporation will continue to monitor changes to IFRS and will review the impact of such changes in its business activities, its disclosure and internal controls over financial reporting and its financial reporting systems.

4) ACCOUNTS RECEIVABLE

(\$ 000's)	2011	2010
Trade accounts receivable	\$ 89	\$ -
Related party trade accounts receivable:		
Ministry of Transportation and Infrastructure	<u>4,969</u>	<u>13</u>
	<u>\$ 5,058</u>	<u>\$ 13</u>

Accounts receivable due from the Ministry of Transportation and Infrastructure pertains to the cost recovery for construction of a park and ride project.

5) PREPAID EXPENSE

(\$ 000's)	2011	2010
Rent	\$ 11	\$ -
Software Support	11	-
Insurance	3	-
Membership	<u>1</u>	<u>-</u>
	<u>\$ 26</u>	<u>\$ -</u>

6) PROPERTY, PLANT AND EQUIPMENT (PPE)

Assets under construction will not be depreciated until management has determined they are available for use. Capitalization of net interest costs for the year totaled \$44,623,780 (2010 - \$16,559,722).

PPE at Cost (\$ 000's)	Office Equipment	Assets Under Construction	Total
Balance March 31, 2009	\$ -	\$ 202,879	\$ 202,879
Additions	<u>480</u>	<u>738,962</u>	<u>739,442</u>
Balance March 31, 2010	480	941,841	942,321
Additions	<u>56</u>	<u>668,415</u>	<u>668,471</u>
Balance March 31, 2011	\$ 536	\$ 1,610,256	\$ 1,610,792

Accumulated Depreciation (\$ 000's)	Office Equipment	Assets Under Construction	Total
Balance March 31, 2009	\$ -	\$ -	\$ -
Depreciation expense	<u>(96)</u>	<u>-</u>	<u>(96)</u>
Balance March 31, 2010	(96)	-	(96)
Depreciation expense	<u>(179)</u>	<u>-</u>	<u>(179)</u>
Balance March 31, 2011	\$ (275)	\$ -	\$ (275)

Net Book Value (\$ 000's)	Office Equipment	Assets Under Construction	Total
Balance March 31, 2010	\$ 384	\$ 941,841	\$ 942,225
Balance March 31, 2011	\$ 261	\$ 1,610,256	\$ 1,610,517

7) INTANGIBLE ASSETS

TI Corp has entered into a licensing agreement with the BCTFA to use and occupy certain lands in order to permit the Corporation to comply with its obligations under the Concession Agreement for the Project. The term of the license commences on December 31, 2012 and ends on March 14, 2090. The licensing agreement requires preliminary payments to be made as the properties are acquired. Amortization of these intangible assets will commence on January 1, 2013.

(\$ 000's)	Balance March 31, 2009	Additions	Balance March 31, 2010	Additions	Balance March 31, 2011
Land Rights – at cost	\$ 12,409	32,398	44,807	74,483	\$ 119,290

8) RESTRICTED CASH

A restricted cash balance of \$10.5 million is held as collateral for a standby letter of credit issued by the Canadian Imperial Bank of Commerce (CIBC) in favor of the Receiver General for Canada on behalf of Fisheries and Oceans Canada (the beneficiary), to ensure TI Corp's compliance with their authorization for work or undertakings affecting fish habitat.

The standby letter of credit expires on June 29, 2011 and will be automatically renewed, unless the beneficiary provides 60 days' notice prior to the expiry date that it is no longer required. The standby letter of credit will also be automatically reduced by the amount of each drawing paid by CIBC to the beneficiary.

9) LAND

Land is recorded at cost which approximates market value. TI Corp has purchased certain properties on a temporary basis to facilitate construction activities.

(\$ 000's)	Balance March 31, 2009	Additions	Balance March 31, 2010	Additions	Disposals	Balance March 31, 2011
Land	\$ 0	5,699	5,699	709	(5,699)	\$ 709

During the fiscal year 2010/11, land purchased in the prior year for a park and ride project were sold to the Ministry of Transportation and Infrastructure for proceeds of \$5,698,780.

10) ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

(\$000's)	2011	2010
Trade payables	\$ 405,843	\$ 290,619
Related party payables:		
Minister of Finance	14,959	6,016
Ministry of Transportation and Infrastructure	6,036	20,725
BC Transportation Financing Authority	<u>3,340</u>	<u>13,094</u>
	<u>\$ 430,178</u>	<u>\$ 330,454</u>

All account payables are in the normal course of operations and are measured at the exchange amount. Related party values are negotiated between the respective entities and approximate market values.

11) SHORT-TERM DEBT

TI Corp funds its construction and operations with a blend of long-term and short-term debt. Short-term commercial paper debt assumed by TI Corp typically matures within 365 days. TI Corp has been authorized to acquire up to \$1 billion in short-term debt. The fair values of the commercial paper debt instruments approximate their stated values.

Commercial Paper (\$000's)	Annual Interest Rate	Maturity Date	2011	2010
Province of British Columbia	0.14 %	May 19, 2010	\$ -	\$ 57,989
Province of British Columbia	0.14 %	May 19, 2010	-	49,991
Province of British Columbia	0.13 %	April 1, 2010	-	5,000
Province of British Columbia	1.10 %	July 7, 2011	25,226	-
Province of British Columbia	1.08 %	May 6, 2011	43,354	-
Province of British Columbia	1.00 %	May 10, 2011	38,149	-
Province of British Columbia	1.07 %	June 3, 2011	17,057	-
Province of British Columbia	1.10 %	June 13, 2011	50,161	-
Province of British Columbia	1.12 %	June 15, 2011	35,114	-
Province of British Columbia	1.00 %	May 5, 2011	48,154	-
Province of British Columbia	0.90 %	June 20, 2011	<u>11,976</u>	<u>-</u>
			<u>\$ 269,191</u>	<u>\$ 112,980</u>

12) LONG-TERM DEBT

Long-term debt consists of a series of bonds due to the Province of British Columbia. With the approval of the Minister of Finance, sinking fund payments have been temporarily suspended but will commence once tolling revenue has been received. The Minister of Finance is the fiscal agent of TI Corp. There are no debt maturities over the next 5 years. Two new long-term debt instruments were acquired during the current fiscal year.

Interest to be paid on currently held long-term debt over the next 5 years amounts to \$48.2 million per year. During the construction phase of operations, the majority of the interest costs will be capitalized as a part of the capital asset costs. Fair values have been determined using active market comparisons.

Debt Series (\$000's)	Maturity Date	Coupon Rate	Effective Rate	March 31, 2011		March 31, 2010	
				Fair Value	Amortized Cost	Fair Value	Amortized Cost
BCCP-148	June 9, 2039	4.99%	4.99%	\$ 86,061	\$ 78,188	\$ 82,804	\$ 78,188
BCCD-22	June 18, 2040	4.95%	4.70%	109,405	104,219	105,225	104,392
BCCD-19	June 18, 2031	5.00%	4.95%	163,159	152,745	157,281	152,889
BCCD-22	June 18, 2040	4.95%	5.27%	105,029	91,191	101,016	91,110
BCCD-W	November 19, 2027	6.15%	4.95%	293,142	274,881	-	-
BCCD-X	June 18, 2029	5.70%	5.14%	262,999	249,909	-	-
				<u>\$1,019,795</u>	<u>\$ 951,133</u>	<u>\$ 446,326</u>	<u>\$ 426,579</u>

13) DERIVATIVE FINANCIAL INSTRUMENTS

TI Corp entered into a number of hedging transactions during the prior year, through advanced rate setting (ARS), also known as bond forwards and forward starting swap instruments. The Corporation has elected to apply hedge accounting rules in accordance with the Canadian Institute of Chartered Accountants, (CICA) Handbook Section 3865. The sole purpose in entering into derivative contracts is to mitigate interest rate risk by offsetting expected future interest rate increases. Hedge accounting rules permit the matching of hedging instrument gains or losses to the increase or decrease in future bond coupon rates. The Corporation does not enter into derivative financial instruments for trading or speculative purposes and documentation detailing the risk management objectives and strategies for undertaking effectiveness testing of the hedges have been compiled.

(\$000's)		March 31, 2011		March 31, 2010	
Hedging Instrument	Derivative Maturity	Derivative Amount	Hedged Item	Derivative Amount	Hedged Item
ARS-1	May 19, 2010	\$ -	\$ -	\$ 216,500	\$ 268,000
ARS-1 Ext	June 20, 2011	51,500	63,700	51,500	63,700
ARS-2	June 18, 2010	-	-	100,000	119,100
ARS-4	June 20, 2011	200,000	227,800	200,000	227,800
ARS-5	June 18, 2010	-	-	100,000	118,400
ARS-6	June 20, 2011	100,000	114,300	100,000	114,300
ARS-7	June 20, 2011	75,000	100,000	75,000	100,000
SWAP-1	June 18, 2013	500,000	500,000	500,000	500,000
SWAP-2	January 16, 2013	300,000	300,000	300,000	300,000
SWAP-3	June 18, 2011	100,000	100,000	100,000	100,000
SWAP-4	June 18, 2011	100,000	100,000	100,000	100,000
		<u>\$ 1,426,500</u>	<u>\$ 1,505,800</u>	<u>\$ 1,843,000</u>	<u>\$ 2,011,300</u>

14) SHARE CAPITAL AND CONTRIBUTED SURPLUS

	2011	2010
Share capital	\$ 100	\$ 100
Contributed surplus	<u>149,999,900</u>	<u>149,999,900</u>
	<u>\$ 150,000,000</u>	<u>\$ 150,000,000</u>

Authorized capital as stated in the *Transportation Investment Act*, is one share with a par value of \$100, issued to the Minister of Transportation and Infrastructure.

Contributed surplus consists of \$100 million received from the Province of British Columbia and work-in-progress valued at \$50 million transferred from the BCTFA in the prior year.

15) OTHER COMPREHENSIVE LOSS AND ACCUMULATED OTHER COMPREHENSIVE LOSS

The comprehensive loss detailed in the Statement of Operations, consists of two components – net loss from operations and other comprehensive loss. Other comprehensive loss represents the fair value changes of effective portions of cash flow hedging instruments during the period which resulted in a change in shareholder’s equity. Amounts are recorded in other comprehensive loss until such time as the criteria for recognition in the statement of operations have been met.

(\$000's) Hedging Instrument	March 31, 2011			March 31, 2010		
	Other Comprehensive Loss	Derivative Liability	Loss(Gain) on Ineffective Portion of Derivative	Other Comprehensive Loss	Derivative Liability	Loss(Gain) on Ineffective Portion of Derivative
ARS-1	\$ -	\$ -	\$ -	\$ 966	\$ (966)	\$ -
ARS-1 Ext	5,047	(5,047)	-	568	(568)	-
ARS-2	-	-	8	1,040	(1,042)	2
ARS-4	24,554	(24,608)	38	7,139	(7,154)	15
ARS-5	-	-	10	1,711	(1,715)	4
ARS-6	11,710	(11,733)	17	3,007	(3,013)	6
ARS-7	8,573	(8,573)	-	1,638	(1,638)	-
SWAP-1	7,649	(7,649)	-	1,406	(1,406)	-
SWAP-2	12,613	(12,613)	-	5,832	(5,832)	-
SWAP-3	5,712	(5,712)	-	1,704	(1,704)	-
SWAP-4	<u>5,317</u>	<u>(5,317)</u>	<u>-</u>	<u>1,327</u>	<u>(1,327)</u>	<u>-</u>
Unrealized hedge losses	81,175	(81,252)	73	\$ 26,338	(26,365)	27
Unamortized portion of cash flow hedge reserves	<u>19,618</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 100,793</u>	<u>\$ (81,252)</u>	<u>\$ 73</u>	<u>\$ 26,338</u>	<u>\$ (26,365)</u>	<u>\$ 27</u>

All hedging instruments have been designated as cash flow hedges. The current year’s loss of \$72,836 on the ineffective portions of the hedging instruments is recorded under net loss from operations entitled “hedge ineffectiveness loss”. The losses on the effective portions of the hedging instruments are recorded as effective hedging losses in the Other Comprehensive Loss area of the Statement of Operations. Hedged long-term debt to be issued in the future will mature between 2019 and 2029.

Matured Hedging Instrument (\$000's)	Loss on Maturity	Allocated to Interest Cost in the Current Year	Cash Flow Hedge Reserve Balance in Accumulated Other Comprehensive Loss March 31, 2011	Cash Flow Hedge Reserve Amortized Until
ARS-1	\$ 7,677	\$ 384	\$ 7,293	November 19, 2027
ARS-2	6,113	254	5,859	June 18, 2029
ARS-5	<u>6,747</u>	<u>281</u>	<u>6,466</u>	June 18, 2029
Cash flow hedge reserves	<u>\$ 20,537</u>	<u>\$ 919</u>	<u>\$ 19,618</u>	

During the 2010/11 fiscal year, ARS-1, ARS-2, and ARS-5 matured, resulting in Accumulated Other Comprehensive Losses in the amount of \$20,537,579. These amounts, collectively called “cash flow hedge reserves”, will be recognized as expenditures over the term of the debt acquired.

For the 2011/12 fiscal year, the cash flow hedge reserves’ anticipated allocation to interest cost will be \$1,115,559.

16) RELATED PARTY TRANSACTIONS

TI Corp is related through common ownership to all Province of British Columbia ministries, agencies, Crown corporations and all public sector organizations that are included in provincial government reporting entity (GRE). A portion of the Corporation's suppliers are from within the GRE. Transactions with related parties are in the normal course of operations and are measured at the exchange amount, as determined through negotiations between these parties.

All debt financing required during the construction phase of the Project is obtained through the Ministry of Finance.

EXPENDITURES			
Category (\$000's)	Related Party	2011	2010
	<u>Parent:</u>		
Interest and debt management costs	Minister of Finance	\$ 45,315	\$ 16,560
Administration costs	Minister of Finance	131	-
PPE	Ministry of Transportation and Infrastructure	30,877	27,162
	<u>Associates:</u>		
Land rights	BC Transportation Financing Authority	78,325	31,728
Administration	Partnerships BC	17	8
Utilities	BC Hydro	4	-
	<u>Key Management Personnel:</u>		
	Executive salaries	374	275
	Executive short-term benefits	6	1
	Executive post-employment benefits	15	12

Parent:

Ministries of the Province of British Columbia

Debt financing acquired from the Province of BC includes short-term commercial paper and bond issuances. Repayment of principal, interest and associated debt management fees are payable to the Minister of Finance.

Ministry of Transportation and Infrastructure

Technical services used throughout the course of construction are provided through the Ministry of Transportation and Infrastructure.

Associate:

BC Transportation Financing Authority (BCTFA)

TI Corp obtained the right to occupy and use the right-of-way lands owned by the BCTFA until 2090.

RECEIPTS			
Category (\$000's)	Related Party	2011	2010
	Parent:		
Capital assets	Ministry of Transportation and Infrastructure	\$ 29,581	\$ -

Parent:

Ministry of Transportation and Infrastructure

Receipts from the Ministry of Transportation and Infrastructure are primarily for the cost recovery of a park and ride project including the sale of land.

17) SERVICE CONCESSION AGREEMENT

TI Corp, Ministry of Transportation and Infrastructure (Ministry) and the BCTFA entered into a Concession Agreement (CA), dated March 10, 2010, and a Concession Agreement Modification Agreement effective on May 19, 2010. The expiry date of the CA is March 14, 2090 and the tolling term is for the first forty years expiring on March 14, 2050.

TI Corp duties:

- Manage and finance the construction of the Project.
- Undertake the operations, maintenance and rehabilitation of the Concession Highway.
- Develop and operate a tolling system during the tolling term.
- Collect and retain toll revenue.
- Keep the concession open to the public.
- Ownership of acquired capital assets.

Province's obligations:

- Grant licenses and rights to TI Corp to permit the operation of a concession.
- Take possession of the capital assets at end of term.
- Permit the use of existing land and infrastructure.

BCTFA duties:

- Grant licenses for use and occupation of lands by TI Corp for the term of the Concession Agreement.

Collection of tolls will commence upon completion of the Port Mann Bridge.

18) CONTRACTUAL OBLIGATIONS

At March 31, 2011, TI Corp had the following contractual obligations:

(\$ Millions)	2011/12	2012/13	2013/14	2014/15	2015/16	TOTAL
Kiewit/Flatiron General Partnership – New construction	\$ 550	\$ 460	\$ 17	\$ -	\$ -	\$ 1,027
Kiewit/Flatiron General Partnership – Decommission old bridge	-	-	39	-	-	39
Mainroad Infrastructure Maintenance LP	6	6	7	-	-	19
C-S Intelligent Transportation Systems BC Inc.	5	10	1	-	-	16
Lands West Property Services Inc.	4	2	-	-	-	6
Miscellaneous other small contracts	<u>4</u>	<u>2</u>	<u>1</u>	<u>-</u>	<u>-</u>	<u>7</u>
	<u>\$ 569</u>	<u>\$ 480</u>	<u>\$ 65</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,114</u>

19) CAPITAL MANAGEMENT

TI Corp defines capital as cash, cash equivalents, derivative contracts, and short-term and long-term debt.

Pursuant to Section 24.23(2)(c) of the *Transportation Investment Act*, with the approval of the Minister of Finance, TI Corp may borrow the sums of money considered necessary to carry out its mandate.

TI Corp's objective in managing its capital is to monitor its cash, debt and the use of derivative financial instruments in order to minimize its cost of capital and its exposure to credit, market, currency, interest rate and liquidity risks, and to ensure that sufficient resources are available to fund the Project and ongoing operations. To achieve this objective, management reviews its capital management approach on a continuous and ongoing basis. Cash in excess of day-to-day operational requirements is invested in interest bearing bank deposits.

During the construction phase of operations, TI Corp utilizes short term debt to fund construction and ongoing operations. Pursuant to TI Corp's long-term debt strategy and hedging plan, the majority of the short-term debt is replaced by long-term bond debt.

20) FINANCIAL INSTRUMENT RISKS

TI Corp is exposed to certain risks through its financial instruments.

Credit Risk:

Credit risk is the risk that TI Corp will suffer a loss due to the failure of a counterparty to discharge its obligation on derivative contracts. TI Corp has entered into a derivative product transactions agreement with the Minister of Finance under which the Minister, as fiscal agent for the Corporation, may enter into derivative products transactions with third parties. Government policy is that derivative transactions are entered into only with counterparties, comprising Canadian Schedule A banks with a rating from Standard and Poor's and Moody's Investors Service Inc. of at least AA-/Aa3 or A+/A1. The Province also establishes limits on individual counterparty credit exposures and monitors these on a regular basis.

Cash and cash equivalents do not present a credit risk as accounts receivables are minimal and cash is held at a major banking institution.

Liquidity Risk:

Liquidity risk is the risk that TI Corp will encounter difficulty in meeting obligations associated with its financial liabilities. The Province has guaranteed all payments under the design-build contract for the Project. In addition, the TI Corp has been given approval to spend up to \$3.3 Billion on the Project, with funding provided through the Minister of Finance as TI Corp's fiscal agent. The Corporation monitors its spending and debt through budgets, forecasts and effective management of its contracts.

Market Risk:

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk includes currency risk, interest rate risk and other price risk.

a) **Currency Risk:**

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates. As at March 31, 2011, TI Corp has no foreign currency debt. When this has occurred in the past, the risk has been managed by entering into foreign currency derivative contracts.

b) **Interest Rate Risk:**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. TI Corp is exposed to interest rate risk as a result of its requirement to assume short-term and long-term debt over the period of its infrastructure development. As short-term debt must be renewed on a frequent basis, interest rate increases will lead to higher interest costs. For the 2011/12 fiscal year, an increase of 1% to the short-term interest rate would result in an estimated additional short-term interest cost of \$3.5 million. TI Corp has instituted a hedging strategy to mitigate the risk of higher long-term interest rates.

c) **Other Price Risk:**

Other price risk is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices other than those arising from currency or interest rate risks. Due to the nature of TI Corp's financial instruments and as the fair values of the financial instruments approximate carrying values, TI Corp's financial instruments are not subject to other price risk.

Fair Value Disclosure:

Fair value is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. As fair values are dependent on a range of inputs used in making the measurements, a fair value hierarchy has been developed to disclose the basis of measurements used.

TI Corp has used the following fair value hierarchy to classify financial instruments recorded at fair value on the Corporation's Statement of Financial Position:

Level 1 – quoted prices (unadjusted in active markets for identical assets and liabilities);

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial Instrument	Amount (\$000's)	Measurement Level
Cash and cash equivalents	\$12,896	1
Accounts receivable and prepaids	7,580	3
Effective hedged instruments	(81,252)	2
Ineffective portion of hedged instruments	73	2
Accounts payable and accrued liabilities	(430,178)	3
Short-term debt	(269,191)	1

The valuation of cash and cash equivalents, accounts receivable, accounts payable, and short-term debt approximated their fair values at year-end because of the short-term maturities of these instruments.

The carrying value for hedging instruments is established by reference to published market rates for underlying derivative values. As permitted by the CICA Handbook, the effectiveness assessment method utilizes linear regression tests performed using a hypothetical derivative approach for both prospective and retrospective effectiveness assessments.

21) EMPLOYEE BENEFIT PLAN

In the prior year, both the TI Corp and its employees commenced contributions to the Public Service Pension Plan (the Plan), a jointly trusted pension plan. The Public Service Pension Board of Trustees, representing plan members and employers, has oversight responsibilities for the management of the Plan, including investment of the assets and administration of benefits. The Plan is a multi-employer contributory pension plan and basic pension benefits are defined.

Every three years, an actuarial valuation is performed to assess the financial position of the Plan and the adequacy of plan funding. The latest valuation, as at March 31, 2008, indicated a surplus of \$487 million for basic pension benefits. The actuary does not attribute portions of any unfunded liability or to individual employers. In the current year, the employees of the TI Corp contributed \$108,452 (2010 - \$30,780) and the Corporation paid \$121,682 (2010 - \$34,637) in employer contributions to the Plan.

22) SUBSEQUENT EVENTS

On May 2, 2011, the Board of Directors approved the awarding of a contract to EllisDon Corporation in the amount of \$19.8 million plus HST for the construction of the Transportation Management Centre, a multi-purpose building to house tolling, district and regional transportation operations.

During the period April 4 to April 7, 2011, TI Corp acquired additional short term debt in the amount of \$393 million. The proceeds were used to settle outstanding account payables.

23) MEASUREMENT UNCERTAINTY

A degree of measurement uncertainty exists over the estimation of the cost of the assets under construction. Payments on the Design-Build contract with Kiewit/Flatiron General Partnership are based on an estimate of work performed using a percentage of completion estimate at the date of billing.

An error of one percent could result in an over or under estimation of cost of approximately \$24 million. Every attempt is made by management to record a realistic estimation of costs incurred.

24) CONTINGENT LIABILITIES

A provision of the design build contract with Kiewit/Flatiron General Partnership requires the payment of an early completion bonus if the tolling operations commence prior to December 1, 2012. At March 31, 2011, it is not possible to determine if a payment will be required.

From time to time, in the ordinary course of business, TI Corp can become a defendant or party to pending or threatened legal actions and proceedings. It is not possible to determine the ultimate outcome of such matters; however, based on all currently available information, management believes that liabilities, if any arising from any pending litigation will not have a material adverse effect on the financial position or results of operations of the Corporation.



25) COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the presentation adopted in the current year.