

Financial Statements of

BRITISH COLUMBIA TRANSIT

Year ended March 31, 2008

REPORT OF MANAGEMENT

Year ended March 31, 2008

The financial statements of British Columbia Transit ("BC Transit") are the responsibility of management and have been prepared in accordance with Canadian generally accepted accounting principles consistently applied and appropriate in the circumstances. A precise determination of many assets and liabilities is dependent upon future events and, consequently, the preparation of periodic financial statements necessarily involves the use of management's judgment in establishing the estimates and approximations used. The financial statements have, in management's opinion, been properly prepared within the framework of the accounting policies summarized in the notes to the financial statements and incorporate, within reasonable limits of materiality, all information available as at May 14, 2008.

BC Transit's system of internal controls is designed to provide reasonable assurance that assets are safeguarded, transactions are properly recorded and executed in accordance with management's authorization, financial information is reliable and ethics codes are observed. Inherent to the concept of reasonable assurance is the recognition that there are limits in all internal control systems and that system costs should not exceed the expected benefits. The system includes the selection, training and development of qualified personnel, organizational division of responsibilities, appropriate delegation of authority and formal written company policies and procedures including the conflict of interest policy of all BC Transit officers and employees.

The financial statements have been examined by KPMG LLP, BC Transit's independent external auditors. Their responsibility is to express their opinion whether the financial statements in all material respects, present fairly the financial position, results of operations and cash flows in accordance with generally accepted accounting principles. Their report follows. The Board of Directors meets regularly with management and the external auditors to satisfy itself that the company's system of internal control is adequate, to ensure that responsibilities for financial reporting are being met, and to provide an opportunity for full and open access to the Board of Directors in respect to financial reporting matters.

Management is responsible for all of the information in this Annual Report. Financial information presented elsewhere in this Annual Report is consistent with that in the financial statements.



Manuel Achadinha
President and Chief Executive Officer



Tony Sharp, CA
Vice President, Finance and Chief Financial Officer



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AUDITORS' REPORT

To the Members of the Board of Directors of
British Columbia Transit

We have audited the balance sheet of British Columbia Transit as at March 31, 2008 and the statements of operations, changes in net assets and 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 March 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, slightly slanted style.

Chartered Accountants

Victoria, Canada

May 14, 2008

BRITISH COLUMBIA TRANSIT

Balance Sheet

March 31, 2008 (\$000)

	2008	2007
Assets		
Current assets:		
Cash and cash equivalents (note 3)	\$ 21,666	\$ 36,756
Accounts receivable:		
Federal Capital Grants	12,148	-
Municipalities	9,675	7,961
Trade and other	4,431	4,276
Parts inventory	6,215	5,817
Prepaid expenditures	1,284	1,409
Derivative financial instruments (note 13(b))	737	-
	56,156	56,219
Debt sinking funds (note 4)	32,553	25,929
Capital assets (note 5)	200,473	180,610
Capital assets under lease (note 6)	878,256	896,138
Investment in Transportation Property and Casualty Company Inc.	20	20
	\$ 1,167,458	\$ 1,158,916

Liabilities

Current liabilities:		
Accounts payable and accrued liabilities	\$ 17,220	\$ 14,353
Deferred revenue (note 7)	9,825	14,285
Current portion of long-term debt	-	10,200
Current portion of obligations under capital leases	17	17
	27,062	38,855
Long-term debt (note 8)	113,933	111,724
Obligations under capital leases (note 9)	162	180
Deferred contributions (note 10)	17,073	15,617
Deferred capital contributions (note 11)	933,112	919,912
	1,091,342	1,086,288

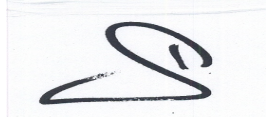
Net Assets

Contributed surplus	70,210	71,644
Accumulated net assets	5,906	984
	76,116	72,628
	\$ 1,167,458	\$ 1,158,916

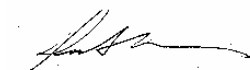
Commitments (note 14)

See accompanying notes to financial statements.

Approved on behalf of the Board:



Director



Director

BRITISH COLUMBIA TRANSIT

Statement of Operations

Year ended March 31, 2008 (\$000)

	2008	2007
Revenue:		
Operations	\$ 55,925	\$ 50,917
Investment and other income	3,380	2,364
	<u>59,305</u>	<u>53,281</u>
Expenditures:		
Operations and maintenance	133,269	118,464
Administration	10,788	10,057
Interest on long-term debt	7,022	6,556
Amortization of capital assets	16,043	14,234
Vehicle/property leases and taxes	2,157	1,756
	<u>169,279</u>	<u>151,067</u>
Recoveries:		
Contributions from the Province of British Columbia:		
Operating grants	52,029	49,641
Supplementary operating grant	6,097	2,424
Contributions from municipalities (note 10)	46,758	39,734
Amortization of deferred capital contributions - capital assets	6,544	5,960
	<u>111,428</u>	<u>97,759</u>
Revenue (expenditures) from transit operations	1,454	(27)
Other:		
Amortization of capital assets under lease	(17,308)	(16,833)
Amortization of deferred capital contributions - capital assets under lease	16,447	15,291
Gain (loss) on disposal of capital assets	(94)	26
Gain on foreign exchange and derivatives	821	-
	<u>(134)</u>	<u>(1,516)</u>
Net revenue (expenditures) for the year	\$ 1,320	\$ (1,543)

See accompanying notes to financial statements.

BRITISH COLUMBIA TRANSIT

Statement of Changes in Net Assets

Year ended March 31, 2008 (\$000)

	Accumulated net assets	Contributed surplus	Total 2008	Total 2007
Balance, beginning of year	\$ 984	71,644	72,628	74,202
Effect of adoption of new accounting policies (note 2)	2,616	-	2,616	-
Net revenue (expenditures) for the year	1,320	-	1,320	(1,543)
Unrealized gains from change in fair value of available for sale securities	125	-	125	-
Return of contribution to the Province (note 7)	-	(573)	(573)	(31)
Internal transfer	861	(861)	-	-
Balance, end of year	\$ 5,906	70,210	76,116	72,628

See accompanying notes to financial statements.

BRITISH COLUMBIA TRANSIT

Statement of Cash Flows

Year ended March 31, 2008 (\$000)

	2008	2007
Cash provided by (used for):		
Operations:		
Net revenue (expenditures) for the year	\$ 1,320	\$ (1,543)
Items not involving cash:		
Amortization of capital assets	16,043	14,234
Amortization of capital assets under lease	17,308	16,833
Amortization of deferred capital contributions	(22,991)	(21,251)
Gain (loss) on disposal of capital assets	94	(26)
Unrealized gain on foreign exchange derivative	(737)	-
Net changes in non-cash operating working capital:		
Accounts receivable	(1,869)	(163)
Parts inventory	(398)	252
Prepaid expenditures	125	(45)
Accounts payable and accrued liabilities	2,867	(1,554)
Deferred revenue	(4,460)	4,727
	<u>(3,735)</u>	<u>3,217</u>
	7,302	11,464
Investing:		
Proceeds from sale of capital assets	537	26
Additions to capital assets	(36,536)	(16,786)
Recoveries from capital assets under lease	573	3,452
	<u>(35,426)</u>	<u>(13,308)</u>
Financing:		
Repayment to the Province of British Columbia of proceeds on disposal of contributed land	(573)	(31)
Increase in deferred contributions	1,456	1,656
Capital lease payments	(18)	(18)
Increase (decrease) in long-term debt	(7,991)	16,293
Increase in debt sinking funds	(3,883)	(714)
Deferred capital contributions received	24,043	4,872
	<u>13,034</u>	<u>22,058</u>
Increase (decrease) in cash and cash equivalents	(15,090)	20,214
Cash and cash equivalents, beginning of year	36,756	16,542
Cash and cash equivalents, end of year	<u>\$ 21,666</u>	<u>\$ 36,756</u>

See accompanying notes to financial statements.

BRITISH COLUMBIA TRANSIT

Notes to Financial Statements

Year ended March 31, 2008 (\$000)

1. Purpose:

British Columbia Transit ("BC Transit") was established under the British Columbia Transit Act, as amended in 1998, to operate the urban transit systems in the Province of British Columbia outside of the Metro Vancouver Regional service area. In 2008 BC Transit recovered 43.9% (2007 - 44.6%) of its expenditures from the Province of British Columbia with the balance from transit operations and municipalities.

BC Transit, on behalf of the Victoria Regional Transit Commission, is responsible for the administration of all funds raised by certain tax levies. The financial position and changes in the funds during the year are set out in note 12.

2. Summary of significant accounting policies:

The accompanying financial statements are prepared in accordance with Canadian generally accepted accounting principles for not-for-profit organizations. The significant accounting policies are set out here under:

(a) Short-term investments:

Short-term investments are classified as held for trading and carried at fair value. In 2007, these investments were recorded at the lower of cost and market value. This change in classification did not result in any change in the recorded amounts.

(b) Parts inventory:

Parts inventory is valued at the lower of cost on a first-in first-out basis, and replacement cost. Inventories are recorded net of any obsolescence provisions.

(c) Debt sinking funds:

Debt sinking funds, consisting of pooled investment portfolios and Canada, provincial government and Crown corporation bonds, were recorded in 2007 at the lower of amortized cost or market. Effective April 2007, these investments are classified as available for sale and recorded at fair value. Fair values are determined on the basis of quoted bid price.

BRITISH COLUMBIA TRANSIT

Notes to Financial Statements

Year ended March 31, 2008 (\$000)

2. Summary of significant accounting policies (continued):

(d) Capital assets:

- (i) All capital assets, except those noted in (ii) are recorded at cost, including capitalized interest as described in note 2(f).
- (ii) Amortization is provided on the basis that results in a matching of these charges with BC Transit's statutory power to recover the cost of the related assets. Contributed assets are not subject to recovery and are amortized over their estimated useful lives. All assets are amortized by the sinking fund method over a period not exceeding their estimated remaining useful lives. Land is not subject to amortization. The assessment of net recoverable amounts is determined by applying the applicable deferred capital contributions to capital costs.

(e) Investment in Transportation Property and Casualty Company Inc.:

BC Transit's 10% interest in Transportation Property and Casualty Company Inc. is recorded on the cost basis of accounting.

(f) Capitalization of interest:

Interest incurred in connection with capital acquisitions from the date of advance of funds until the assets are placed in service for transit purposes is capitalized. In 2008 interest of \$207 was capitalized (2007 - \$211).

(g) Amortization of bond premiums and discounts:

Bond premiums and discounts are amortized on an effective yield basis over the term of the debt.

(h) Revenue recognition:

All sources of revenue are recognized on the accrual basis.

BC Transit follows the deferral method of accounting for contributions. Contributions from third parties for defined purposes are recognized as revenue in the year in which the related expenses are incurred. Contributions restricted for the purchase of capital assets are deferred and amortized into revenue at a rate corresponding with the amortization rate for the related capital assets. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

BRITISH COLUMBIA TRANSIT

Notes to Financial Statements

Year ended March 31, 2008 (\$000)

2. Summary of significant accounting policies (continued):

(i) Deferred capital contributions:

Deferred capital contributions include the unamortized portions of capital asset contributions. Contributions for capital projects are provided by prepaid capital advances from the Province and capital grants from the federal government. These prepaid capital advances are recorded by BC Transit as deferred capital contributions and are recognized in the statement of operations on the same basis as the related assets are amortized. This matches the amortization of the deferred capital contributions with the expenditures incurred through amortization of the capital assets acquired with the funds.

(j) Employee future benefits:

BC Transit and its employees contribute to the Public Service Pension Plan, a jointly trustee pension plan. The board of trustees, representing plan members and employers, is responsible for overseeing the management of the pension plan, including investment of the assets and administration of the plan. The pension plan is a multi-employer contributory defined benefit pension plan with over 51,000 active plan members and approximately 30,000 retired plan members. Required contributions to the plan are expensed as incurred.

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 was as at March 31, 2005, and disclosed a \$767 million deficit for funding purposes. The actuary does not attribute portions of the deficit to individual employers. The next required valuation will be as of March 31, 2008. Contributions to the plan in 2008 by BC Transit totaled approximately \$3,031 (2007 - \$2,773).

(k) Use of estimates:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenditures during the reported periods. Significant areas requiring the use of management estimates include the determination of amortization periods and certain accrued liabilities. Actual results could differ from the estimates. Adjustments, if any, are reflected in operations in the period of settlement.

BRITISH COLUMBIA TRANSIT

Notes to Financial Statements

Year ended March 31, 2008 (\$000)

2. Summary of significant accounting policies (continued):

(l) Income and capital taxes:

BC Transit is exempt from Canadian federal and British Columbia provincial income and capital taxes.

(m) Impairment of long-lived assets:

BC Transit monitors the recoverability of long-lived assets, including capital assets, whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. BC Transit reviews factors such as current market value, future asset utilization and business climate and compares the carrying value of the assets to the future undiscounted cash flows expected to result from the use of the related asset. If such cash flows are less than the carrying value, the impairment charge is recognized based on the excess of unamortized cost over fair market value.

(n) Change in accounting policy:

Effective April 1, 2007, the BC Transit adopted CICA Handbook Section 3855, *Financial Instruments – Recognition and Measurement* and related financial instrument Handbook sections.

A financial instrument is any contract that gives rise to a financial asset of one party and a financial liability or equity of another party. Financial assets include cost and rights to receive cash or another financial instrument from another party. Financial liabilities represent contractual obligations to deliver cash or other financial instruments to another party.

Cash and cash equivalents, including short-term investments and all derivative financial instruments are classified as held for trading and carried at fair value with unrealized gains or losses recorded in current year operations.

Accounts receivable, accounts payable and accrued liabilities and long-term debt are all initially recorded at fair value and then carried at amortized cost thereafter. Transaction costs and debt premiums or discounts are reflected in the carrying amount of long-term debt and amortized on an effective interest rate basis.

Investments in sinking funds are classified as available for sale and carried at fair value. The unrealized change in fair value is reflected as an adjustment to accumulated net assets to be recorded in income when realized.

The impact to the opening fund balances as a result of this change in accounting policy was to increase debt sinking funds and accumulated net assets by \$2,616 representing the adjustment to fair value of investments.

BRITISH COLUMBIA TRANSIT

Notes to Financial Statements

Year ended March 31, 2008 (\$000)

2. Summary of significant accounting policies (continued):

(o) Future change in accounting policies:

Commencing with the fiscal year beginning April 1, 2008, BC Transit will be adopting CICA Handbook Section 3862, *“Financial Instruments – Disclosure”* and Handbook Section 3863, *“Financial Instruments – Presentation”* and Section 3031, *“Inventories”*.

Sections 3862 and 3863 establish standards for the disclosure and presentation of financial instruments. Section 3031 prescribes the accounting treatment for inventories and provides guidance on the determination of costs and their subsequent recognition as an expense, including any write-down to net realizable value. Previously recognized write-downs are to be reversed upon net realizable values reversing. BC Transit does not expect the adoption of these standards to have a significant impact on its financial statements.

(p) Comparative figures:

Certain 2007 comparative figures have been reclassified to conform with the financial statement presentation for the current year.

3. Cash and cash equivalents:

BC Transit considers deposits in banks, certificates of deposit and short-term investments with original maturities of three months or less as cash and cash equivalents.

(a) Major components of cash and cash equivalents are as follows:

	2008	2007
Cash	\$ 3,783	\$ 4,996
Short-term investments	17,883	31,760
	\$ 21,666	\$ 36,756

(b) Supplemental cash flow information:

	2008	2007
Cash paid during the year for:		
Interest on long-term debt and notes payable	\$ 6,936	\$ 6,404
Cash received:		
Interest on investments	3,338	2,349

BRITISH COLUMBIA TRANSIT

Notes to Financial Statements

Year ended March 31, 2008 (\$000)

4. Debt sinking funds:

Investments held in the sinking funds, including interest earned, are to be used to repay the related debt at maturity.

Investment income in 2008 includes \$286 (2007 - \$31) of realized gains on disposition of investments in the sinking funds.

Sinking funds and related investments are managed by the British Columbia Investment Management Corporation ("BCIMC"). Investment management fees totaling \$19 (2007 - \$20) were paid directly from individual portfolios to BCIMC.

5. Capital assets:

March 31, 2008	Carrying value	Accumulated depreciation and amortization	Net book value
Land	\$ 5,508	\$ -	\$ 5,508
Land improvements	2,554	1,429	1,125
Buildings	22,292	10,075	12,217
Revenue vehicles	239,606	80,369	159,237
Revenue vehicles under capital leases	294	115	179
Equipment	18,345	10,209	8,136
Capital projects in progress	14,071	-	14,071
	<u>\$ 302,670</u>	<u>\$ 102,197</u>	<u>\$ 200,473</u>

March 31, 2007	Carrying value	Accumulated depreciation and amortization	Net book value
Land	\$ 5,508	\$ -	\$ 5,508
Land improvements	2,554	1,285	1,269
Buildings	21,960	8,885	13,075
Revenue vehicles	217,719	69,612	148,107
Revenue vehicles under capital leases	294	97	197
Equipment	16,780	7,985	8,795
Capital projects in progress	3,659	-	3,659
	<u>\$ 268,474</u>	<u>\$ 87,864</u>	<u>\$ 180,610</u>

BRITISH COLUMBIA TRANSIT

Notes to Financial Statements

Year ended March 31, 2008 (\$000)

6. Capital assets under lease:

These capital assets under lease consist of land, land improvements, stations, guideways and other assets related to the SkyTrain system and West Coast Express. These assets are made available to the South Coast British Columbia Transportation Authority ("SCBCTA") for their use pursuant to an Order in Council and operating lease and represent one of the Province's contributions toward public transportation in the Metro Vancouver service area.

The operating lease arrangements with SCBCTA are for one dollar per year under an initial 15-year term to 2014, with additional five-year renewal periods upon the agreement of BC Transit and the SCBCTA. Cost information of these assets is as follows:

March 31, 2008	Carrying value	Accumulated amortization	Net book value
SkyTrain	\$ 1,201,299	\$ 422,750	\$ 778,549
West Coast Express	128,848	29,141	99,707
	\$ 1,330,147	\$ 451,891	\$ 878,256

March 31, 2007	Carrying value	Accumulated amortization	Net book value
SkyTrain	\$ 1,201,872	\$ 408,924	\$ 792,948
West Coast Express	128,848	25,658	103,190
	\$ 1,330,720	\$ 434,582	\$ 896,138

BRITISH COLUMBIA TRANSIT

Notes to Financial Statements

Year ended March 31, 2008 (\$000)

7. Deferred revenue:

	2008	2007
Unexpended contributions:		
Provincial funding	\$ 3,390	\$ 8,132
Fuel Cells Canada	1,045	1,000
Public Transit Agreement	5,390	5,153
	\$ 9,825	\$ 14,285

BC Transit owns certain West Coast Express and SkyTrain infrastructure in Vancouver. The SkyTrain infrastructure included lands surplus to the operation of the Expo Line. As in prior years BC Transit has disposed of certain surplus lands. The total proceeds of \$573 (2007 - \$31) are included in deferred revenue. During the year, the Ministry of Transportation granted these and other accumulated funds to BC Transit to use for operating and capital expenditures. \$6,097 was recognized in operations during the year and \$458 was used to purchase capital assets. The remaining unexpended amounts represent funds designated for capital and special projects.

Deferred revenue also includes \$775 received from the Ministry of Environment and held for retro-fitting diesel motors.

BC Transit earned interest of \$45 and \$237 respectively on deferred capital grants from Fuel Cells Canada and the Public Transit Agreement. As required under the related contribution agreements, this interest has been deferred.

8. Long-term debt:

	2008	2007
Sinking fund bonds, weighted average interest rate of 6.2%, maturing at various dates to 2023, amortized from 10 to 20 years	\$ 100,184	\$ 108,184
Sinking fund bonds under interest rate and currency conversion agreements, effective weighted average interest rate of 6.1%, maturing at various dates to 2011, amortized over 12 years	13,749	13,740
	113,933	121,914
Less current portion	-	(10,200)
	\$ 113,933	\$ 111,724

The Minister of Finance, as BC Transit's fiscal agent, arranges financing at BC Transit's request. BC Transit paid fees totaling \$17 (2007 - \$28) in the year for these fiscal agent services.

BRITISH COLUMBIA TRANSIT

Notes to Financial Statements

Year ended March 31, 2008 (\$000)

8. Long-term debt (continued):

Schedule of long-term debt maturities in each of the next five years are as follows:

2009	\$	-
2010		9,829
2011		8,363
2012		9,918
2013		-
Thereafter		85,823

Schedule of long-term debt sinking fund installments in each of the next five years are as follows:

2009	\$	5,916
2010		5,916
2011		5,606
2012		5,123
2013		3,689
Thereafter		28,838

9. Obligations under capital leases:

BC Transit leases equipment under leases which are classified as capital leases. The future minimum annual lease payments are as follows:

2009	\$	34
2010		34
2011		34
2012		34
2013		34
Thereafter		63
		233
Less amount representing interest at 8.36%		(54)
Present value of capital lease obligations		179
Less current portion		(17)
	\$	162

Interest incurred during the year with respect to obligations under capital leases amounted to \$16 (2007 - \$17).

BRITISH COLUMBIA TRANSIT

Notes to Financial Statements

Year ended March 31, 2008 (\$000)

10. Deferred contributions:

Debt service contributions to fund sinking fund and interest payments are recovered from municipal partners over the estimated service life of the related assets. These contributions may differ from the annual amortization of the related assets. Such differences are deferred to be recognized as a recovery in future periods.

	2008	2007
Balance, beginning of year	\$ 15,617	\$ 13,961
Contributions from municipalities - Victoria	22,688	20,286
Contributions from municipalities - other municipalities	25,526	21,104
Contributions from municipalities expended	(46,758)	(39,734)
Balance, end of year	\$ 17,073	\$ 15,617

11. Deferred capital contributions:

	2008	2007
Federal and Provincial contributions subject to amortization:		
Capital assets	\$ 112,895	\$ 83,248
Capital assets under lease	820,217	836,664
	\$ 933,112	\$ 919,912

12. Victoria Regional Transit Fund:

BC Transit holds funds in trust on behalf of the Victoria Regional Transit Commission. These funds are not included in the financial statements. The fund balance and transactions during the year are as follows:

Fund balance, beginning of year	\$ 2,475
Revenue:	
Fuel tax	8,085
Property tax	12,888
Interest earned	227
Contributions	(22,688)
Fund balance, end of year	\$ 987

BRITISH COLUMBIA TRANSIT

Notes to Financial Statements

Year ended March 31, 2008 (\$000)

13. Financial instruments:

(a) Fair value:

The carrying value of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximate their fair value due to the relatively short periods to maturity of the instruments. The estimated fair value of obligations under capital leases approximates their carrying value as they bear interest at rates approximating current market rates. Debt sinking funds are reflected on the balance sheet at fair value. The fair value of long-term debt at March 31, 2008 is \$126,528 (2007 - \$133,954).

In evaluating the fair value information, considerable judgment is required to interpret the market data used to develop the estimates. The use of different market assumptions and/or different valuation techniques may have a material effect on the estimated fair value amounts for financial instruments. Accordingly, the estimates of fair value presented herein may not be indicative of the amounts that could be realized in a current market exchange.

(b) Exposure to interest rate, credit and foreign exchange risks:

Financial instruments that potentially subject BC Transit to significant concentrations of interest rate and credit risk consist primarily of cash equivalents, trade accounts receivable and debt sinking funds. To reduce risk, cash equivalents and debt sinking funds are only held at major financial institutions. Management performs ongoing credit evaluations of its customers' financial condition. As most receivables are from municipal partners, the exposure to credit risk is nominal.

BC Transit is party to certain derivative financial instruments, principally interest rate swap contracts (used to manage the exposure to interest rates and cash flow risk) and forward foreign exchange contracts (used to manage foreign currency exposures on foreign currency debt). These arrangements are in respect to long-term debt of \$13,749 maturing in 2010 and 2011. The net fair value of these derivative instruments is nominal at March 31, 2008 and 2007.

BC Transit periodically commits to acquire certain capital assets, primarily transit vehicles, from suppliers requiring payment in either US dollars or Pounds Sterling. Such obligations may subject BC Transit to foreign currency risks. These risks may be mitigated by entering into foreign currency option agreements. As at March 31, 2008 BC Transit held options to acquire Pounds Sterling in the \$CDN amount of \$15,138, with a fair value of \$737 (at March 31, 2007, no such derivative contracts were in place).

BRITISH COLUMBIA TRANSIT

Notes to Financial Statements

Year ended March 31, 2008 (\$000)

14. Commitments:

Operating lease payments:

BC Transit is committed to make future minimum payments under operating leases for the next five years as follows:

2009	\$	1,320
2010		1,364
2011		1,485
2012		1,522
2013		1,544

These expenditures will be recovered from provincial and municipal sources pursuant to cost-sharing agreements.

As at March 31, 2008, BC Transit has outstanding contracts to purchase vehicles for approximately \$47,260.