



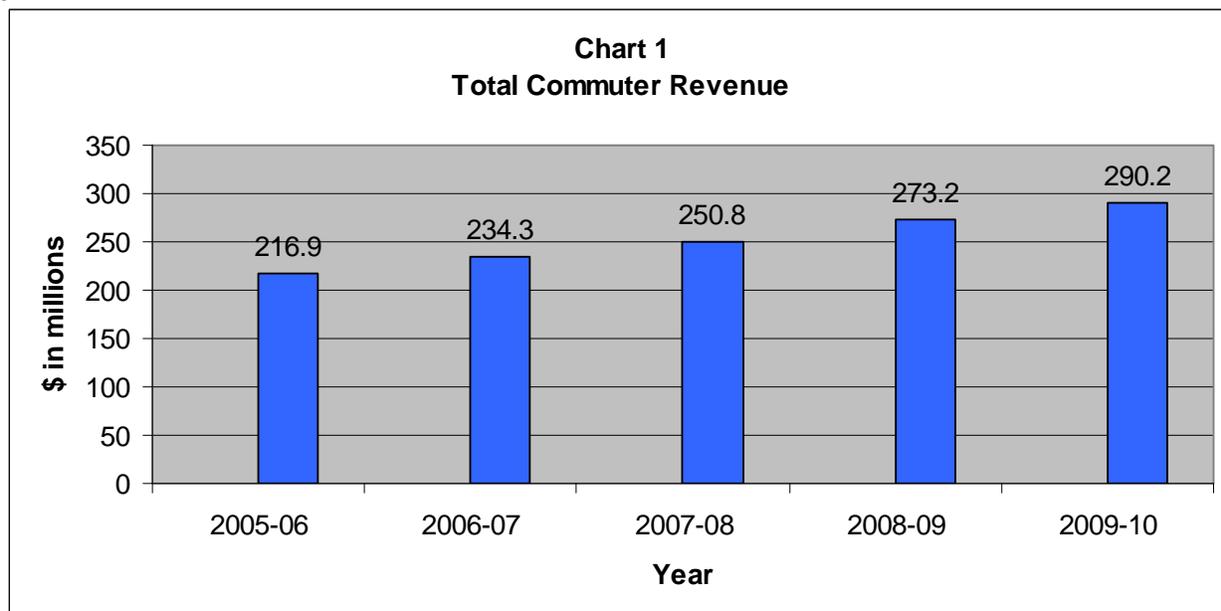
Management Discussion and Analysis (MD&A) for the Metrolinx Board of Directors

June 29, 2010

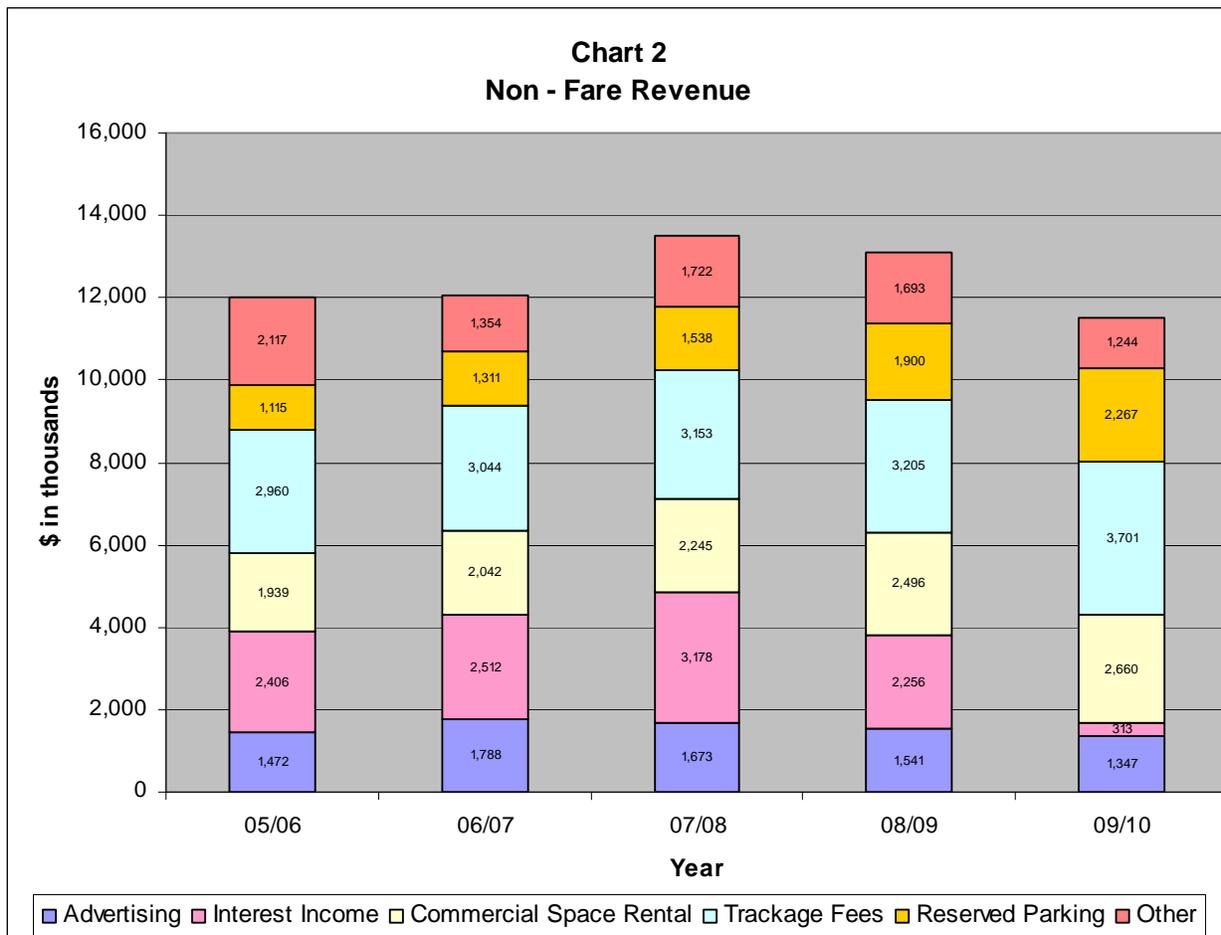
Fiscal 2009-10 represented the first year of the combined operations of the former Metrolinx and GO Transit. The financial statements presented in this annual report have been prepared as if the combination occurred on April 1, 2008 in order to provide the reader with a clear understanding of year over year comparison of operations. Further details can be found in Note 2 of the financial statements.

Operating Results

Ridership growth, which had been averaging 3.7 per cent over the last ten years slowed down significantly in the first half of the year. By the second half of the year ridership had started to get back to previous year levels. Despite the economic downturn, ridership for the year grew 1.2% with 55.57 million rides taken compared with 54.9 million rides in fiscal 2008-09. Total fare revenue for fiscal 2009-10 of \$290.2 million was comparable to fiscal 2008-09 of \$273.2 million. A fare increase of \$.25 was introduced on March 14th, 2009 positively impacting fare revenues by approximately \$14 million. Chart 1 outlines changes in total fare revenue over the last five years.



Metrolinx's non-fare revenue represents 3.8 per cent of its total operating revenue. Chart 2 shows the key components of non-fare revenue (not including gain/loss on the sale of capital assets) over 5 years. During the year the low interest rates lead to a decline of \$1.9 million in interest income over the previous year. Other non-fare revenues were up \$1.1 million.



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

- GO Transit Division - an operating division providing bus and rail service to the public on a daily basis; and
- Corporate Division – that includes the planning and policy and other administrative activities of the Corporation and the infrastructure investment activities surrounding the Big Move for the GTHA.

The GO Transit Division uses its operating cost recovery ratio as a key financial performance measure. GO Transit's cost recovery ratio compares favourably with those of other public transit authorities in Canada and the

United States. GO Transit has been able to maintain this favourable cost recovery ratio through effective management of key operating expenses and effective maintenance of its fleet of buses and trains. GO Transit budgeted an 81.5 per cent operating cost recovery ratio for fiscal 2009-10. The actual operating cost recovery ratio came in at 78.1 per cent, slightly lower than the budgeted ratio due to revenues coming in 3.4 percent less than projected and operating expenses being slightly higher than projected in the areas of crew costs and bus/rail spare parts.

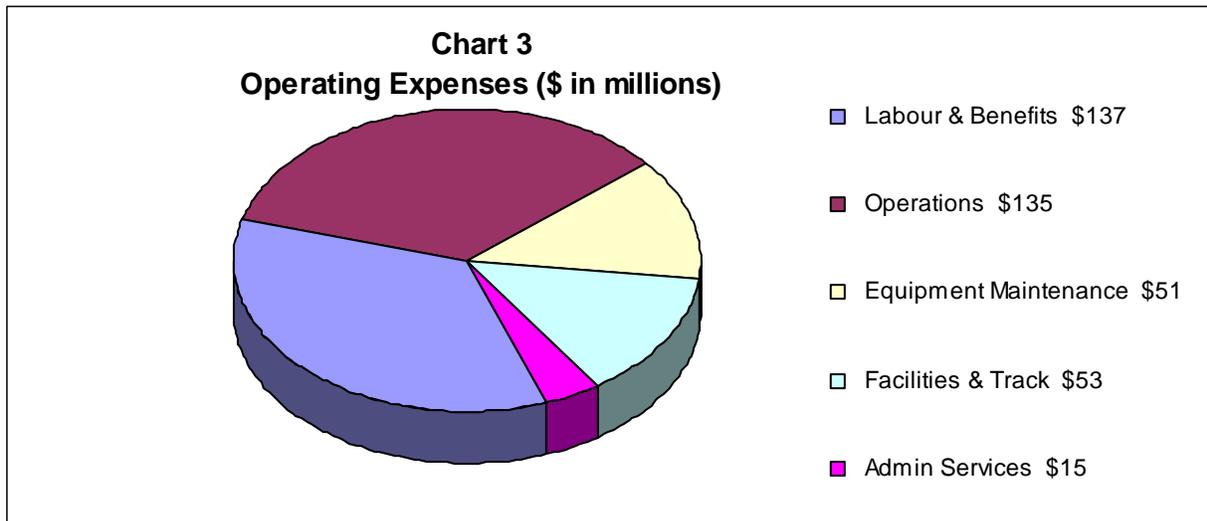
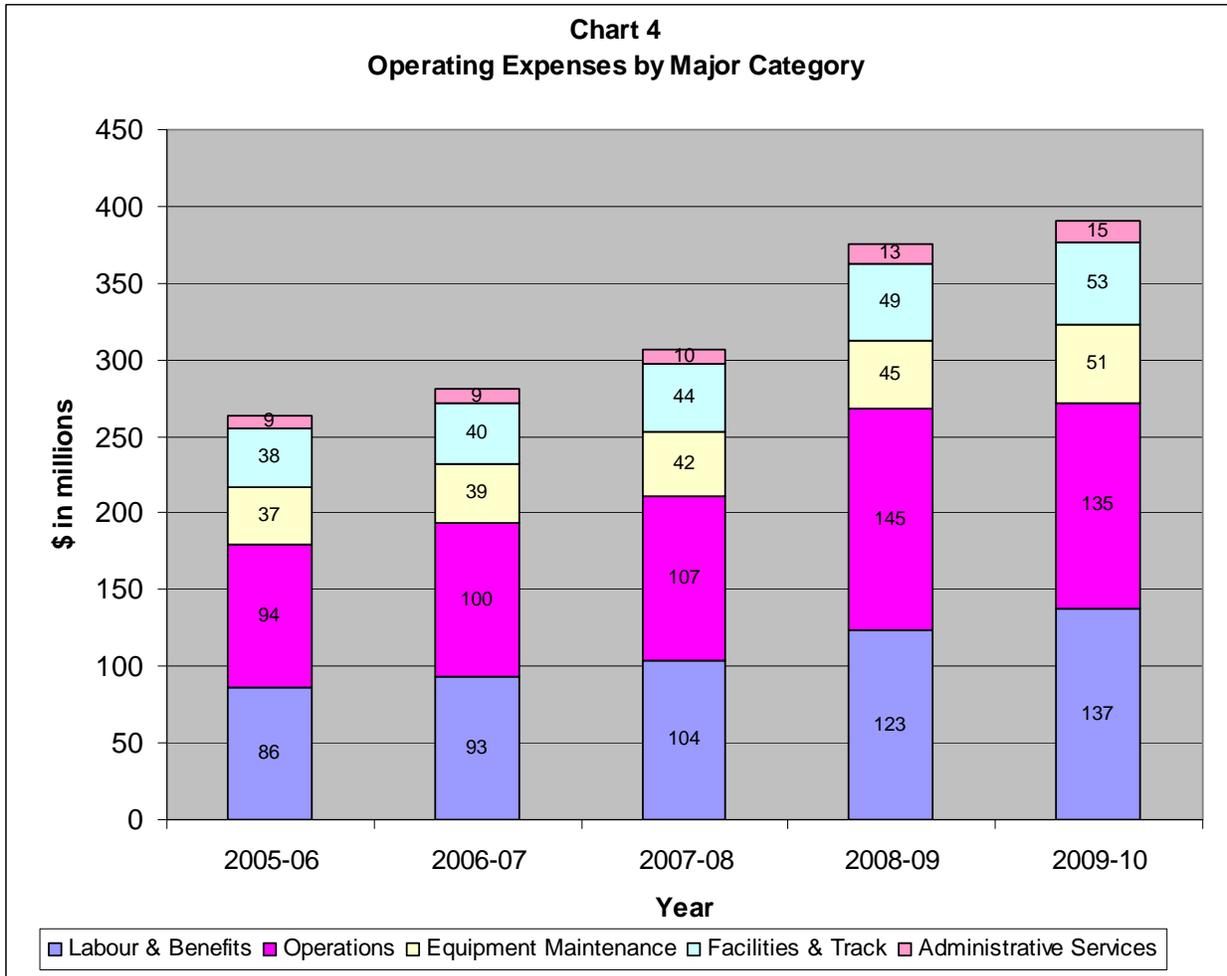


Chart 3 provides the breakdown of Metrolinx's operating expenditures for the fiscal year. GO Transit addresses the possible variability of some of its key expenses like fuel supply by fixing the price of 80 percent of its expected fuel requirements with its supplier on a rolling 12 month outlook for the year. During the year Metrolinx experienced an increase of 0.6 per cent or \$2.2 million in operating expenses over a budget of \$384.1 million. The increase was primarily due to a one-time settlement of transition costs associated with the downsizing of crews when Bombardier began providing crews to GO Transit. The increases were offset by decreases in professional services and utilities and diesel fuel costs due to a mild winter. Chart 4 provides a breakdown of operating expenses over the last five years.



Capital Investments

Metrolinx embarked on its largest capital investment program since GO Transit was created over 43 years ago. Investment in the creation of capital assets totalled \$1,156.8 million during the year as compared to \$861 million for the previous year reflecting the Province's plan to significantly increase its investment in public transit infrastructure. Major capital projects that moved forward during the year include:

- The purchase of two major sections of rail corridor for \$239 million including the south end of the Barrie corridor and the portion of the Lakeshore West corridor between Union Station and the Willowbrook maintenance facility. These purchases brought the total ownership in GO Transit rail corridors to 54 per cent allowing GO Transit to have greater control over the reliability of its rail services and manage its future;

- \$129 million in investments and deposits in moving forward the Big 5 projects through the approval of the Environmental Assessment (EA) for Sheppard East LRT, continued work on EAs for Scarborough RT, Finch West LRT, Eglinton Crosstown LRT, and York Viva BRT;
- Ownership transfer of 26 locomotives and 243 bi-level coaches previously leased from Toronto Area Transit Operating Authority (TATO) at a book value of \$59 million (transferred at a nominal value of \$2.00);
- Progress payments of \$69 million were made for 45 bi-level coaches expected to be delivered in fiscal 2010-11 and 2011-12. These coaches will be used to further increase the number of 12 coach trains, thereby increasing per train ridership in future years by over 20 per cent (300 peak period per train riders);
- \$50 million for progress payments on 30 more powerful and fuel efficient MP40 locomotives to allow GO Transit to move forward with its plan to increase its rail fleet from 10 to 12 car trains as an efficient and effective way of increasing ridership;
- \$15 million to complete purchase of 20 conventional buses and 10 double decker buses required to maintain the current capacity and grow GO Transit's bus operations to service more riders. With the addition of the 10 double decker buses GO Transit now has a fleet of 22 of these buses that can transport 37 per cent more riders per bus, is fully accessible and is one of the most fuel efficient buses available based on kilometres per passenger;
- \$59 million in new parking structures for Aurora and Whitby and expansions of parking spaces for Maple, Mt. Pleasant, Rouge Hill, Unionville and Centennial stations;
- \$56 million on the Georgetown South and West Toronto Diamond projects expected to accommodate more train service for the Pan Am Games;
- \$37million in building a third track between Port Credit to Oakville thereby improving operational flexibility, on-time performance and the ability to add future trains; and

- \$40 million for the first stage implementation of the PRESTO fare card to be used as the key method of fare revenue payment in future years.

Chart 5 outlines the capital investments made by Metrolinx over the past 5 years. Chart 6 provides a summary of the fleet at the end of the fiscal year.

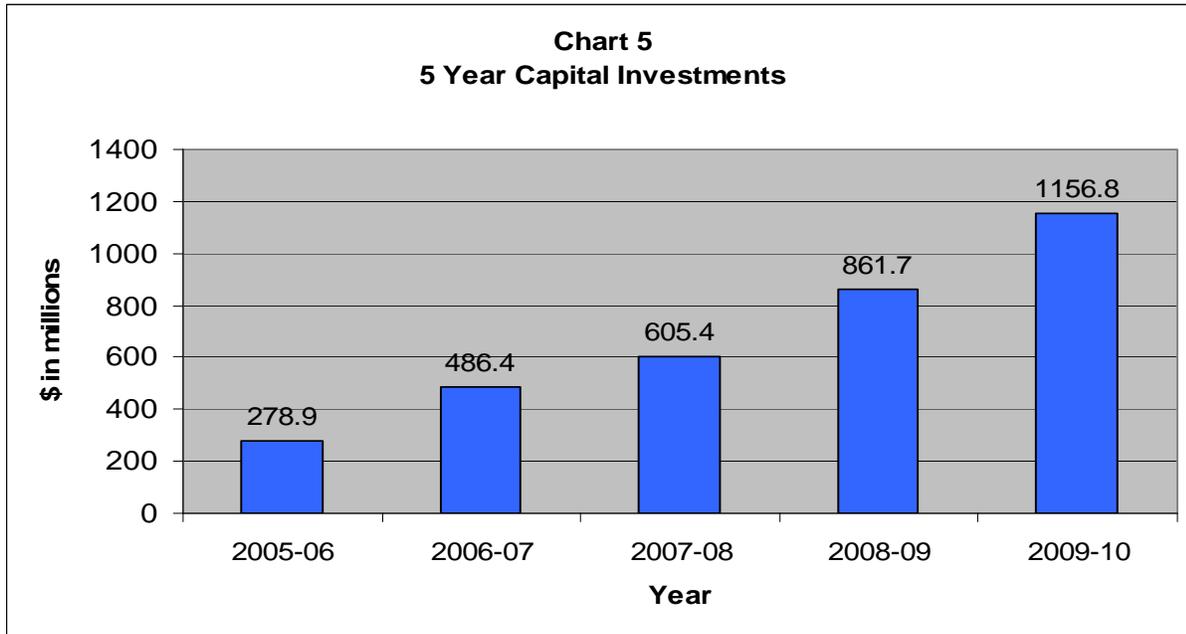


Chart 6 Service Levels and Infrastructure as at March 2010

Train Service:

Lines	7
Stations	59
Route kilometres	390
Weekday train trips	180
Fleet size (number of trainsets)	42
Locomotives	58
Bi-level passenger railcars	478

Bus Service:

Terminals (plus numerous stops & ticket agencies)	17
Route kilometres	2672
Weekday Union Station bus trips	484
Weekday bus trips, total system	2045
Single-level buses	365
Double decker buses	22

Across our system:

Parking spaces	58142
Parking structures	3
Wind turbines	1
Stations/terminals with bike shelters	49
Stations with bike lockers (or reserved bike parking)	5

Enterprise Risk Management

In addition to developing management policies and guidelines to direct the combined operations of Metrolinx and GO Transit, the Corporation completed Phase 1 during the year of an Enterprise Risk Management system to help ensure that its activities stay on course in meeting the goals and objectives of the Corporation. Metrolinx has identified 37 potential risks that could significantly impact its ability to meet its goals and objects and is in the process of developing strategies to address each of these risks. Changes to key risks facing the Corporation will be reported to the Audit, Finance and Risk Management Committee and the Board on a quarterly basis. Metrolinx is in the process of integrating risk management into its key management processes including budgeting, forecasting, performance and project management as a means of ensuring the success of the Corporation.

Performance Management

Metrolinx has also developed performance management measures and targets to ensure results are achieved against its goals and objectives, especially in the area of customer service. It has also recently completed mission, vision and value statements for the Corporation to drive its business plans towards the effective and efficient achievement of its goals and objectives. GO Transit's key performance indicator for operations is its reliability factor for on-time service. During the year GO Transit achieved reliability factor of 91 per cent in rail services. This compared favourably with the previous year's achievement of 85 per cent. GO bus services also performed strongly during the year achieving 99 per cent on-time performance.