

Financial Statements of

TTC INSURANCE COMPANY LIMITED

Year ended December 31, 2006

TTC INSURANCE COMPANY LIMITED

Notes to Financial Statements

Year ended December 31, 2006

1. GENERAL

TTC Insurance Company Limited (the "Company") was incorporated on March 9, 1994 under the Ontario Corporations Act and is a subsidiary of Toronto Coach Terminal Inc. ("TCTI"), with its ultimate parent company being the Toronto Transit Commission (the "TTC"). The TTC is one of the agencies, boards and commissions of the City of Toronto (the "City").

The Company provides insurance coverage for compulsory automobile personal injury and accident benefit claims for the TTC.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

These financial statements are prepared in accordance with accounting principles generally accepted in Canada, including the accounting requirements of the Financial Services Commission of Ontario, and have been applied consistently.

(b) Measurement Uncertainty

Certain items recognized in the financial statements are subject to measurement uncertainty. The recognized amounts of such items are based on the Company's best information and judgement. Such amounts are not expected to change materially in the near term; however, any variation in the ultimate liability for accident claims incurred will be offset by a corresponding change in the indemnity receivable.

(c) Cash Equivalents

Cash equivalents consist of money market instruments, such as treasury bills and bankers' acceptances, which have original maturities at acquisition of three months or less and are readily convertible to cash on short notice. The investments are held by the City, on behalf of the Company.

(d) Liability for Accident Claims Incurred

The liability for accident claims incurred reflects an actuarial assessment of the automobile claims liability on the basis mandated by the Financial Services Commission of Ontario. When the claims are reported, the case estimates are initially established on an individual basis, by adjusters and lawyers employed by the TTC. The liability includes an actuarially estimated provision for claims incurred but not reported and internal and external adjustment expenses. The estimates have not been discounted, other than to reflect the discounting and provision for adverse deviation allowed by the Financial Services Commission of Ontario for the accident benefits component.

TTC INSURANCE COMPANY LIMITED

Notes to Financial Statements, page 2

Year ended December 31, 2006

3. LICENCE

The Company received a licence on July 12, 1994 from the Ontario Insurance Commission, now incorporated into the Financial Services Commission of Ontario, in order to transact the business of automobile insurance in the Province of Ontario. The Company initiated such transactions on July 30, 1994. By Provincial Order in Council dated July 6, 1994, the Company was granted the said licence subject to the following conditions:

- (a) the Company maintain, in aggregate, a paid-up capital and unimpaired surplus of not less than \$100,000;
- (b) the Company limit exclusively its underwriting to the automobile insurance risks of the TTC under the Compulsory Automobile Insurance Act or any successor thereto;
- (c) the indemnity agreement between the TTC and the Company, whereby the Company is to be reimbursed by the TTC for all current and future costs and expenditures, continue and be in full force and effect; and
- (d) the complete and full guarantee of the TTC's liabilities and obligations under the indemnity agreement which the Company has received from the City remains in full force and effect.

4. CASH AND CASH EQUIVALENTS

Pursuant to the guarantee agreement with the City described in note 3, the Company is required to maintain cash or securities available for payment of current liabilities equal to the greater of \$350,000 or one month's claims and operating expenses (all self-insured retention payments are processed through the TTC). The cash and cash equivalents amount restricted for this purpose is \$1,300,000 (2005 \$1,300,000).

5. INDEMNITY RECEIVABLE

The indemnity receivable from the TTC corresponds with the liability for automobile personal injury and accident benefit claims incurred. This receivable is covered by the indemnity agreement described in note 3. The payment of this receivable by the TTC is also covered by a separate guarantee agreement issued by the City.

6. FINANCIAL INSTRUMENTS

The main categories of financial instruments held by the Company are cash and cash equivalents, liability for unpaid accident claims and indemnity receivable from the TTC. The fair value of the cash and cash equivalents equates to the book value. The fair value of the Company's liability for unpaid accident claims is based on the discounted value plus a provision for adverse deviations. This amount is \$44,755,000 as at December 31, 2006 (2005 - \$40,265,000). The fair value of the indemnity receivable is deemed to equal that of the liability for accident claims incurred.

TTC INSURANCE COMPANY LIMITED

Notes to Financial Statements, page 3

Year ended December 31, 2006

7. ADVANCE FROM TORONTO COACH TERMINAL INC.

The advance from TCTI is due on demand, unsecured and non interest-bearing.

8. CAPITAL STOCK

The capital stock consists of the following:

Authorized:

10,000 common shares with par value of \$100 each

Issued and fully paid

1,000 common shares

\$ 100,000

9. RETENTION LEVELS

The Company's retention levels are the minimum limits of insurance, as required by the various municipal, provincial and federal statutes, and are fully recoverable from the TTC. The TTC has purchased excess insurance to cover claims in excess of \$5,000,000, excluding no-fault claims.

10. RELATED PARTY TRANSACTIONS

The TTC provides all management and administrative services necessary to support the operations of the Company. The expense incurred for the year for these services was \$54,713 (2005 \$36,519) and this has been reflected in the statements of income.