



STATEMENT OF FINANCIAL INFORMATION
Fiscal Year Ended December 31, 2009

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Consolidated Financial Statements

BRITISH COLUMBIA RAILWAY COMPANY

December 31, 2009 and 2008





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AUDITORS' REPORT

To the Lieutenant Governor in Council
Province of British Columbia

We have audited the consolidated balance sheet of British Columbia Railway Company as at December 31, 2009 and the consolidated statement of income and comprehensive income and deficit 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 consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Vancouver, Canada

February 10, 2010

KPMG LLP, a Canadian limited liability partnership is the Canadian member firm of KPMG International, a Swiss cooperative.

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 and 2008

CONSOLIDATED BALANCE SHEET (in thousands of dollars)

December 31	2009	2008
ASSETS		
Current		
Cash and cash equivalents	\$ 315,010	\$ 306,155
Accounts receivable	5,031	6,487
Materials and other items	282	440
	320,323	313,082
Assets available for sale	25,276	15,747
Property and equipment - Note 5	272,623	280,449
Other assets - Note 6	81,153	76,841
	\$ 699,375	\$ 686,119
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current		
Accounts payable and accrued liabilities	\$ 2,923	\$ 3,960
Current portion of deferred revenue - Note 7	1,499	2,054
	4,422	6,014
Deferred lease revenue - Note 7	312,703	308,160
Other liabilities - Note 8	132,710	123,642
	449,835	437,816
Shareholder's equity		
Share capital - Note 10	\$ 257,688	\$ 257,688
Contributed surplus	277,547	277,547
Deficit	(285,695)	(286,932)
	249,540	248,303
	\$ 699,375	\$ 686,119
Commitments - Note 11		
Contingent liabilities - Note 12		

See accompanying notes to the consolidated financial statements.

On behalf of the Board



Director

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 and 2008

CONSOLIDATED STATEMENT OF INCOME AND COMPREHENSIVE INCOME AND DEFICIT (in thousands of dollars)

For the years ended December 31	2009	2008
Revenues	\$ 20,209	\$ 23,759
Expenses		
Labour costs	4,369	3,604
Operations and maintenance	3,472	6,324
General and administration	5,106	3,524
Amortization of property and equipment	3,992	4,300
Environmental costs	17,182	5,058
Operating and other taxes	1,931	984
Accretion expense	1,604	1,521
	37,656	25,315
Operating income (loss)	(17,447)	(1,556)
Other income		
Gain on property sales	15,710	27,259
Interest income - Note 13(b)	2,974	11,985
Net income and comprehensive income	1,237	37,688
Deficit, beginning of year	(286,932)	(324,620)
Deficit, end of year	\$ (285,695)	\$ (286,932)

See accompanying notes to the consolidated financial statements.

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 and 2008

CONSOLIDATED STATEMENT OF CASH FLOWS (in thousands of dollars)

For the years ended December 31	2009	2008
Operating activities		
Net income and comprehensive income	\$ 1,237	\$ 37,688
Adjustment for items not involving cash		
Gain on property sales	(15,710)	(27,259)
Amortization of property and equipment	3,992	4,300
Amortization of deferred lease revenue	(1,145)	(999)
Accretion income on long-term notes receivable	(384)	(399)
Pension and post employment benefit income and contributions - Note 9	10	289
Accretion of asset retirement obligation	1,604	1,521
Change in environmental liability accrual	10,948	(95)
Increase in long term receivable	(2,283)	(2,200)
Net change in non-cash working capital - Note 13(a)	172	(8,222)
Cash provided by operating activities	(1,559)	4,624
Investing activities		
Purchase of property and equipment	(13,934)	(9,929)
Net proceeds on sale of property and equipment	25,359	36,293
Net proceeds received on mortgage receivable	-	7,676
Changes in other assets	(1,011)	27
Cash provided by investing activities	10,414	34,067
Increase in cash and cash equivalents from operations	8,855	38,691
Cash and cash equivalents, beginning of year	\$ 306,155	267,464
Cash and cash equivalents, end of year	\$ 315,010	\$ 306,155
Non-cash transactions:		
Disposal of property in exchange for mortgage	\$ 1,200	\$ -
Increased VWLP pension allocated to deferred revenue	-	402

See accompanying notes to the consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 (tabular amounts in thousands of dollars)

British Columbia Railway Company (“BCRC” or the “Company”) is owned by the Province of British Columbia (the “Province”) and is incorporated under the British Columbia Railway Act. BCRC is principally a holding company with its commercial and business activities conducted through several operating subsidiaries, spanning the business areas of real estate, railway and marine terminal management.

BCRC’s primary mandate is to support and facilitate the British Columbia Ports Strategy and Pacific Gateway Strategy, by providing consulting advice, acquiring and holding railway corridor and strategic port lands, and making related infrastructure investments for the Province.

The Company owns the former BC Rail right-of-way and railway track infrastructure and leases those assets to Canadian National Railway Company (“CN”) for the purposes of operating a freight railway. Consistent with the government’s Ports Strategy and Pacific Gateway Strategy, BCRC has retained ownership of the Port Subdivision operation, which provides open, neutral rail access to the port terminals at Roberts Bank and, through its subsidiary BCR Properties Ltd., has retained ownership of certain port-related lands.

The Province has determined that the remaining assets and entities owned by the Company that are not required to meet the Pacific Gateway Strategy are not required to be publicly owned, and that BCRC is to wind down or dispose of these in a timely manner which maximizes a commercial return to the Province. Management had completed its assessment of the Company and has concluded that the Company has the ability to continue as a going concern.

On February 10, 2010, the Province announced its intention to transfer the operations and management of BCRC into the Ministry of Transportation and Infrastructure (“MoTI”). The current Board of Directors has resigned effective March 31, 2010 and commencing April 1, 2010 the MoTI will assume responsibility for the Company’s operations. The President and CEO and the Executive Vice-President of Real Estate will stay on until March 31, 2010 to facilitate the transition of BCRC into the MoTI.

I. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements are expressed in Canadian dollars and have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”).

Basis of consolidation

These consolidated financial statements include the accounts of BCRC and all of its subsidiaries. In these notes, “Company” refers to BCRC, and its subsidiaries. All significant intercompany transactions have been eliminated.

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 the determination of net recoverable value of receivables, property and equipment, assets available for sale, useful lives for amortization and provisions for post employment benefits, contingencies and environmental matters.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 (tabular amounts in thousands of dollars)

SIGNIFICANT ACCOUNTING POLICIES (continued...)

Actual amounts may ultimately differ from these estimates. The estimates are reviewed periodically and as adjustments become necessary, they are reported in earnings in the year in which they become known.

Cash and cash equivalents

Cash and cash equivalents include cash and those short-term money market instruments with initial terms to maturity of three months or less.

Materials

Materials are valued at the lower of average cost and net realizable value. Cost includes purchase price, import duties, other net taxes, and transport, handling and other costs directly attributable to acquisition. Net realizable value is the estimated revenues generated through operations plus estimated salvage value on disposal, less the estimated costs of completion and costs to generate the revenues.

Property and equipment

Property and equipment are capitalized at cost less accumulated amortization. Acquisitions and installations are capitalized at cost while repairs are charged to operations. Betterments are capitalized. On major projects interest costs are capitalized as a cost of the project.

Property and equipment are amortized on a straight-line basis over the estimated useful lives of the assets. Management assesses the value of its property and equipment for impairment when events and changes in circumstances indicate the carrying amount may not be recoverable (i.e. when the undiscounted future cash flows are less than the carrying value of such assets). When such indicators of impairment exist, management performs a fair value assessment and reduces the asset's carrying value to its estimated fair value.

The original cost of assets less estimated salvage value is amortized on a straight line basis over the following number of years (see Note 5):

	Number of Years
Buildings	30 - 40
Equipment	3 - 20
Assets under operating lease - Ballast & culverts lease	75
- Tracklaying and surfacing	35

Equipment and leasehold improvements under capital lease are amortized over the lower of the assets useful life and the lease term.

Assets available for sale

The Company is preparing non port-related and non-rail real estate assets for sale and once ready, the assets are reclassified as held for sale and no longer depreciated. The assets are measured at the lower of cost and net realizable value, which is the estimated proceeds less costs to sell.

Joint Capital Account

The Company has invested in railway assets for its BCR Port Subdivision operation. Agreements between the Company and the three user railways require the Company to maintain a separate account of the invested costs (the "Joint Capital Account") as the costs will be reimbursed by the user railways in proportion to their use of the track at the time that the assets are retired or when the operation ceases to exist. The portion of the Joint Capital Account relating to land has been accounted for as an operating lease and included in property and equipment and the balance accounted for as direct financing leases is

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 (tabular amounts in thousands of dollars)

SIGNIFICANT ACCOUNTING POLICIES (continued...)

included in other assets as the Joint Capital Account Receivables to be collected upon retirement or cessation of operations.

Deferred lease revenue

The Company has two long-term prepaid lease arrangements currently in effect:

- a) An operating lease related to the Company's long-term lease of its railway right-of-way land and railbed assets including grade and ballast as a result of the CN transaction in 2004 which is being amortized over 990 years, representing the initial lease term and the sum of the renewal options (see Note 2).
- b) A lease with Kinder Morgan Canada Terminals ULC ("KM") for the land upon which the Vancouver Wharves terminal facility operates which is being amortized over the 40-year lease term (see Note 3).

Both operating leases were prepaid therefore the amounts have been included in deferred revenue and are being amortized to income over the related terms of each lease.

Revenue recognition

Revenues are recognized when services have been substantially completed. Rental income is recognized as earned. All revenues are recognized when the amounts are measurable and collectability is reasonably assured.

Post employment benefits

The Company accrues its obligations under employee benefit plans and the related costs as benefits are earned, net of returns on plan assets. The Company's policies are as follows:

- i) The cost of retirement benefits earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected health care costs.
- ii) The expected interest cost on any prior service obligation is calculated using management's estimate for the long-term rate of return.
- iii) The expected return on plan assets is calculated at a market-related value for the assets.
- iv) Past service costs from plan amendments are amortized on a straight-line basis over the expected average remaining service period of active employees. Experience gains and losses and any changes in assumptions in excess of 10% of the greater of the accrued benefit obligation and the market value of plan assets are amortized over the expected average remaining service period of active employees. The amortization of past service costs, experience gains and losses and any changes in assumptions are included in the pension expense for the year.
- v) Unamortized costs on benefit plans are amortized over the remaining life expectancy of plan members when all the members are inactive.

Income taxes

The Company is exempt from Canadian federal and British Columbia provincial income and capital taxes.

Environmental expenditures and liabilities

Environmental expenditures that relate to current operations or an existing condition caused by past operations and which are not expected to contribute to current or future operations are expensed as part of operating activities. Environmental liabilities related to

SIGNIFICANT ACCOUNTING POLICIES (continued...)

environmental assessment and/or remedial efforts are accrued when the expenditures are considered likely and the costs can be reasonably estimated

Asset retirement obligation

The Company recognizes the fair value of a future asset retirement obligation as a liability in the period in which it incurs a legal or constructive obligation associated with the retirement of tangible long-lived assets that results from the acquisition, construction, development, and/or normal use of the assets. The Company concurrently recognizes a corresponding increase in the carrying amount of the related long-lived asset that is depreciated over the life of the asset. The fair value of the asset retirement obligation is estimated using the expected cash flow approach that reflects a range of possible outcomes discounted at a credit-adjusted risk-free interest rate. Subsequent to the initial measurement, the asset retirement obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. Changes in the obligation due to the passage of time are recognized in income as accretion expense using the interest method. Changes in the obligation due to the changes in estimated cash flows are recognized as an adjustment of the carrying amount of the related long-lived asset.

Financial Instruments

(a) Recognition and Measurement

All financial instruments are classified into one of the following five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets, or other financial liabilities. All financial instruments, including derivatives, are included on the consolidated balance sheet and are measured at fair market value, with the exception of loans and receivables, investments held-to-maturity and other financial liabilities, which are measured at amortized cost. Subsequent measurement and recognition of changes in fair value of financial instruments depends on their initial classification. Held-for-trading financial instruments are measured at fair value and all gains and losses are included in net income in the period in which they arise. Available-for-sale financial instruments are measured at fair value with revaluation gains and losses included in other comprehensive income until the assets are removed from the balance sheet.

Derivative instruments are recorded as either assets or liabilities measured at their fair value except when considered a normal purchase and sale arrangement. Certain derivatives embedded in other contracts must also be measured at fair value. All changes in the fair value of derivatives are recognized in earnings unless specific hedge accounting criteria are met, which requires that a company must formally document, designate and assess the effectiveness of transactions that receive hedge accounting.

The Company has classified cash and cash equivalents as held-for-trading. Amounts receivable are classified as loans and receivables. Accounts payable and accrued liabilities and other liabilities are classified as other payables. The Company has not identified any derivatives or embedded derivatives.

(b) Disclosures

Disclosures are provided in the financial statements to enable users to evaluate the significance of financial instruments for the Company's financial position and performance, the nature and extent of risks arising from financial instruments to which the Company is exposed during the year and at the balance sheet date, and how the Company manages those risks (see Note 4).

(c) Comprehensive Income

Comprehensive income is defined as the change in shareholders' equity during a period from transactions and other events and circumstances from non-owner sources. Gains and losses that would otherwise be recorded as part of net earnings to be presented in other "comprehensive income" until it is considered appropriate to recognize such into net earnings.

Future Accounting Framework

The Canadian Accounting Standards Board (AcSB) has confirmed that, on January 1, 2011, International Financial Reporting Standards (IFRS) will replace Canadian generally accepted accounting principles (Canadian GAAP) for publicly accountable enterprises. The Public Sector Accounting Board (PSAB) has amended the Introduction to the Public Sector Accounting Handbook to confirm the direction previously provided to Government Business Enterprises ("GBE"), as self-sustaining commercial operations to adhere to the standards for publicly accountable enterprises.

The Company, as a GBE, has embarked on a project to assess and evaluate IFRS to determine the changes required to comply with the direction of PSAB.

In light of the recent announcements regarding the change in governance and operating management of the Company, BCRC will be reviewing its mandate. Any change to the mandate may impact whether the Company is a self-sustaining commercial operation and its appropriate classification under PSAB. Once the Company has determined the appropriate classification under the PSAB definitions, the alternative methods of GAAP will be reviewed to determine the most appropriate future accounting framework.

Throughout 2010, the Company will revisit its timelines, processes and accounting policy choices or elections to ensure it is fully prepared to comply with PSAB directions

2. CN TRANSACTION

- (a) On July 14, 2004, BCRC and BCRP completed a transaction with CN pursuant to an agreement signed between the parties on November 25, 2003 (the "CN Transaction"). Under the terms of the agreement, CN assumed the Company's industrial freight railway business by purchasing the shares of BC Rail Ltd., the partnership interests of BC Rail Partnership and railcars from a related entity (collectively "BC Rail").
- (b) BCRC and BC Rail entered into a Revitalization Agreement which has been assumed by CN. Under the agreement, BC Rail leased the railway right-of-way land, railbed assets, and related track infrastructure from BCRC under a long-term lease, which contains provision for prospective adjustments. BC Rail prepaid all lease payments under the Revitalization Agreement. The lease of the right of way land and railbed assets is being accounted for as an operating lease. The net proceeds from the operating lease are being recognized as deferred revenue (see Note 7) and amortized to income on a straight-line basis over the term of the lease (including renewal options). The lease of the track infrastructure and equipment is being treated as a sales type lease and the related assets have been removed from the financial statements.
- (c) As part of the CN Transaction, CN committed to certain average transit times for rail traffic on the BC Railway system. Breach of the transit time commitments results in penalty payments required to be made by CN dedicated to upgrades of the BC railway system to improve reliability and transit times for the railway users. As at December 31,

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 (tabular amounts in thousands of dollars)

CN TRANSACTION (continued...)

2009, the trust fund held \$2.6 million (2008 - \$1.6 million) in CN penalty payments, which are not recognized in these financial statements.

- (d) Under the Revitalization Agreement, effective July 14, 2009 CN has the right to return certain segments of track to BCRC's control, for no proceeds; subject to specific legal and regulatory approvals. If segments are returned to BCRC, BCRC can retain, sell, or otherwise use the segment at its own discretion, or put the segment back to CN for \$1. At this time, CN has not commenced any action for the return of any segments.

3. KINDER MORGAN ("KM") TRANSACTION

- (a) On May 30, 2007, BCRC and its subsidiaries, Vancouver Wharves Limited Partnership ("VWLP") and BCR Properties Ltd. ("BCRP") completed a transaction with KM pursuant to an agreement signed on April 3, 2007. Under the terms of the agreement, KM assumed the operations of VWLP's port terminal facility by acquiring certain operating assets from VWLP and signing a 40-year non-renewable operating lease with BCRP for the land upon which VWLP operates. The net proceeds from the lease are being recognized as deferred revenue (see Note 7) and amortized to income on a straight-line basis over the term of the lease.
- (b) As part of the agreement, KM assumed responsibility to complete certain projects designed to prevent further off-site migration of contamination from the land during the lease and to remediate the land at the end of the lease. The fair value of the remediation services at the date of the agreement were estimated at \$14.0 million for off-site migration projects and \$27.1 million for the asset retirement obligation. As BCRC retains ultimate responsibility for the asset retirement obligations and the remediation of the land, the obligations will continue to be reflected in the Company's consolidated financial statements (see Note 8) until such time as management is satisfied that KM has completed the remediation work. As the value of the obligations are considered to be part of the lease proceeds, an equivalent amount of lease revenue will be recognized on a straight-line basis over the lease term. An annual assessment will be made concerning Kinder Morgan's plans and progress towards completion of the remediation services. Any remediation performed in excess of revenue recognized will be reclassified to deferred revenue.

4. FINANCIAL INSTRUMENTS

Risk management

In the normal course of business, the Company is exposed to various risks such as credit risk, commodity price risk, interest rate risk, and liquidity risk. To manage these risks, the Company follows a financial risk management framework, which is monitored and approved by the Company's Audit Committee, with a goal of maintaining a strong balance sheet, optimizing earnings and free cash flow, financing its operations at an optimal cost of capital and preserving its liquidity. The Company does not currently use derivative financial instruments in the management of its risks and does not use them for trading purposes. At December 31, 2009, the Company did not have any derivative financial instruments outstanding.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 (tabular amounts in thousands of dollars)

FINANCIAL INSTRUMENTS (continued...)

(a) Credit risk

In the normal course of business, the Company monitors the financial condition and credit limits of its customers and reviews the credit history of each new customer. Although, the Company believes there are no significant concentrations of credit risk, except as discussed specifically below, the current economic conditions in the market have resulted in an increase in the Company's credit risk.

To manage its credit risk, the Company's focus is on working with customers to ensure timely payments, and requiring increased financial security through guarantees or letters of credit.

Included in Other Assets is \$54 million of long-term receivables due from CN Rail, CP Rail, and Burlington Northern Railway. Of these receivables, \$47 million will be recovered based on the relative usage by the railroads at the time the assets are retired.

(b) Interest rate

The Company is exposed to interest rate risk, which is the risk that the fair value or future cash flows of a financial instrument will vary as a result of changes in market interest rates. Such risk exists in relation to the funded status of the Company's pension and post-retirement plans and to its money market instruments. A 25 bps change to interest rates on the money market instruments would have an impact of \$780,000 on the Company's income statement.

The Company does not currently hold any derivative financial instruments to manage its interest rate risk.

(c) Liquidity risk

The Company monitors and manages its cash requirements to ensure access to sufficient funds to meet operational and investing requirements. The Company pursues a solid financial policy framework with the goal of maintaining a strong balance sheet, by monitoring its current ratio, and free cash flow forecasts.

The Company's principal source of liquidity is cash generated from the disposal of non-core assets. The Company's primary uses of funds are for working capital requirements, as they come due, pension and post-retirement benefit contributions, contractual obligations, capital expenditures to prepare properties for sale and other potential acquisitions. As such, the Company sets priorities on its uses of available funds based on short-term operational requirements, while keeping in mind its long-term contractual obligations and returning value to its shareholders.

Fair value of financial instruments

GAAP defines the fair value of a financial instrument as the amount at which the instrument could be exchanged in a current transaction between willing parties. The Company uses the following methods and assumptions to estimate the fair value of each class of financial instruments for which the carrying amounts are included in the Consolidated Balance Sheet under the following captions:

(a) Cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities:

The carrying amounts approximate fair value because of the short maturity of these instruments.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2009 (tabular amounts in thousands of dollars)
FINANCIAL INSTRUMENTS (continued...)

(b) Other assets:

- i) Joint Capital Account Receivables – these receivables generate interest at current market terms for instruments with similar terms and conditions, therefore the fair value approximates the carrying value.
- ii) Long-Term Note Receivable from CN – the notes are generating an implicit interest rate of 5.75% per annum, which is consistent with instruments with similar terms and conditions, therefore the fair value approximates the carrying value.

Capital Management

As a result of its ownership by the Province of British Columbia, BCRC is not able to obtain financing through the issuance of new equity. All capital resources, both sustaining and growth or investment capital, must be generated out of retained earnings, or, where there is a shortfall, through debt.

BCRC currently has no debt outstanding and is retaining all capital to fund operating costs and disposition costs for non-port related and non-rail real estate properties, capital requirements for additional rail capacity and related infrastructure for port terminal expansions at Roberts Bank. Capital forecasts also include further provisions for the investment in port development infrastructure projects in support of the BC Ports Strategy and Pacific Gateway Strategy.

No dividend payments were made to the Province in 2009.

5. PROPERTY AND EQUIPMENT

	2009			2008		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Assets under operating lease	\$628,069	\$410,003	\$218,066	\$628,921	\$406,614	\$222,307
Land	39,810	-	39,810	28,576	-	28,576
Buildings	5,731	2,123	3,608	9,544	2,935	6,609
Equipment and leasehold improvements	1,905	1,595	310	1,926	1,412	514
Construction in progress	10,829	-	10,829	22,443	-	22,443
	\$686,344	\$413,721	\$272,623	\$691,410	\$410,961	\$280,449

Assets under operating lease include railway right-of-way land and railbed assets.

Construction in progress includes improvements being made to prepare properties for sale, once completed the assets will be transferred to assets available for sale. During the year, no interest was capitalized on construction in progress (2008 - \$ nil).

6. OTHER ASSETS

	2009	2008
Accrued pension benefit asset - Note 9(a)	\$ 11,173	\$ 11,575
Mortgage receivable - (a)	1,050	-
Joint Capital Account receivables - (b)	47,233	46,214
Deferred property transfer tax - (c)	8,957	8,966
Long-term notes receivable from CN - (d)	6,994	6,610
Long-term receivable for environmental services, KM - (e)	5,744	3,462
Other	2	14
	\$ 81,153	\$ 76,841

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 (tabular amounts in thousands of dollars)

OTHER ASSETS (continued...)

- (a) The mortgage receivable was provided to a purchaser in 2009 as part of a sale of property from the Company's real estate portfolio. The mortgage bears interest at prime plus 2% and is repayable over 2 years.
- (b) The Joint Capital Account receivables relate to direct-financing leases which will be repaid to the Company by the users of the railway in proportion to their use of the track when the assets are either retired or the operation ceases. The receivables bear interest at prime plus 1%.
- (c) Deferred property transfer tax arose as part of the CN Transaction described in Note 2. The cost is being amortized over the lease term of 990 years.
- (d) The long-term notes receivable from CN are non-interest bearing and due on July 12, 2094. The notes were discounted using an implied interest rate of 5.75% and are accreted each year to their ultimate face value of \$842 million.
- (e) The long-term receivable for environmental services from KM will be settled through KM's remediation performance at the end of the lease agreement (see Note 3). The value of the receivable is recognized at the discounted rate, equivalent to the discounted asset retirement obligation. Annually, the Company recognizes the accretion on the asset retirement obligation and an equivalent return on the receivable at approximately 5.5%.

7. DEFERRED REVENUE

	2009	2008
CN operating Lease	\$ 280,770	\$ 281,055
KM operating Lease	31,933	27,105
Deferred rental revenue	1,499	2,054
	\$ 314,202	\$ 310,214
Less: current portion	(1,499)	(2,054)
	\$ 312,703	\$ 308,160

8. OTHER LIABILITIES

	2009	2008
Environmental liability accrual	\$ 98,178	\$ 92,918
Asset retirement obligation - (a)	33,492	29,292
Accrued pension benefit liability - Note 9(a)	-	607
Accrued non-pension benefit obligation - Note 9(a)	1,040	825
	\$ 132,710	\$ 123,642

- (a) Asset retirement obligations

	2009	2008
Opening asset retirement obligations	\$ 29,292	\$ 27,771
Increase in estimate for site-wide remediation	2,596	-
Accretion expense on obligation	1,604	1,521
Ending asset retirement obligations	\$ 33,492	\$ 29,292
Discount rate	4.25% - 5.5%	4.5% - 5.5%
Inflation	2.5%	2.5%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 (tabular amounts in thousands of dollars)

OTHER LIABILITIES (continued...)

The asset retirement obligations have been assumed by KM as part of the transaction described in Note 3(b). However, as the Company retains ultimate responsibility for the asset retirement obligations, they will continue to be reflected in the financial statements until such time as management is satisfied that KM has completed the remediation work.

During the year the Company received a revised estimate of the ultimate remediation costs, which exceeded the previous estimate. This resulted in an increase to the obligation of \$2.6 million and a corresponding increase to the value of the land.

Although the ultimate amount to be incurred is uncertain, the liability for retirement and remediation, on an undiscounted basis, before applying an inflation factor of 2.5% and discounting is estimated to be approximately \$95.1 million (2008- \$88.1 million).

9. EMPLOYEE BENEFITS

- (a) The Company makes contributions to a registered retirement savings plan on behalf of its employees which are expensed as contributions are made.

The Company also provides post-retirement benefits to its employees and a defined benefit supplementary pension plan for current and retired executives. The amounts presented in this note are actuarially determined projections based on management's assumptions provided to the actuary.

During 2007, as a result of the KM transaction described in Note 3, the Company began the process to wind up the pension plan related to the Vancouver Wharves operation. The effective date of the wind-up was May 30, 2007, however the wind-up was not formally approved by the Office of the Superintendent of Financial Institutions until February 12, 2009. The plan was formally wound up with all liabilities being distributed on August 27, 2009. Effective August 28, 2009, there are no remaining assets or liabilities in the plan.

	Pension Plans		Other Plans	
	2009	2008	2009	2008
Reconciliation of accrued benefit obligation				
Opening balance	\$ (15,538)	\$ (16,400)	\$ (790)	\$ (964)
Benefits paid	819	521	93	81
Interest cost	(923)	(909)	(48)	(48)
Settlement	1,673	-	-	-
Actuarial gains (losses)	(215)	1,250	(295)	141
Ending balance	(14,184)	(15,538)	(1,040)	(790)
Reconciliation of plan assets				
Opening balance	22,332	23,164	-	-
Actual return on plan assets	(515)	(311)	-	-
Employer contributions	754	-	93	81
Benefits paid	(819)	(521)	(93)	(81)
Settlement	(1,735)	-	-	-
Ending balance	20,017	22,332	-	-
Fund status - surplus (deficit)	5,833	6,794	(1,040)	(790)
Unamortized past service costs	1,210	1,412	-	-
Unamortized net actuarial loss (gain)	4,130	2,762	-	(35)
Net accrued benefit asset (liability)	\$ 11,173	\$ 10,968	\$ (1,040)	\$ (825)
Accrued benefit asset	11,173	11,575	-	-
Accrued benefit liability	-	(607)	(1,040)	(825)
Net accrued benefit asset (liability)	\$ 11,173	\$ 10,968	\$ (1,040)	\$ (825)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 (tabular amounts in thousands of dollars)

EMPLOYEE BENEFITS (continued...)

- (b) Significant actuarial assumptions adopted in measuring the Company's accrued benefit obligations are as follows as of December 31:

	Pension Plans		Other Plans	
	2009	2008	2009	2008
Discount rate for liabilities	6.45%	6.70%	6.00%	6.50%
Expected long-term rate of return on plan assets	3.50%	3.50%	-	-
Salary escalation rate	N/A	N/A	-	-

The weighted average rate of increase in the per capita cost of future covered health care benefits was assumed to be 5.00% per year starting in 2014.

The plan asset portfolio currently comprises equity investments, debt instruments, and deposits in the CRA's refundable tax account ("RTA"). Investments outside of the RTA consist of equity investments of 30%-60% including Canadian, International, and Real Estate investments and debt of 20%-40% comprising of short-term debt, bonds and mortgages. The RTA consists of 53%-55% of the assets. Asset mix is reviewed periodically and may vary in the future.

- (c) The Company's net benefit plan expense is as follows:

	Pension Plans		Other Plans	
	2009	2008	2009	2008
Current service cost	\$ -	\$ -	\$ -	\$ -
Interest cost	923	909	48	48
Actual return on plan assets	(515)	311	-	-
Plan amendments	-	202	-	-
Plan curtailment / settlement loss (gain)	62	-	-	-
Amortize actuarial loss (gain)	80	(695)	-	1
	\$ 550	\$ 727	\$ 48	\$ 49

Every three years, an actuarial valuation is performed to assess the financial position of the Plan and the adequacy of plan funding. The latest full actuarial valuation was carried out at September 30, 2007. For accounting purposes a second actuarial valuation of the benefit obligations was performed at September 30, 2009 using plan asset data at September 30, 2009 to satisfy disclosure requirements under CICA 3461.

- (d) During the year the Company made contributions, on behalf of its employees, to a registered retirement savings' plan of \$240,000 (2008 - \$235,000).

10. SHARE CAPITAL

Authorized: 10,000,000 common shares with a par value of \$100 each.

Issued and outstanding December 31, 2009 and 2008: 2,576,885 common shares held by the Province.

As all of the issued and outstanding common shares of the Company are held by the Province, earnings per share data has not been provided.

11. COMMITMENTS

The following is a schedule of future minimum payments at December 31, 2009, required under non-cancelable operating leases of office equipment and office space:

2010	\$ 248
2011	248
2012	256
2013	262
2014	153
	\$ 1,167

12. CONTINGENT LIABILITIES

The Company is contingently liable with respect to environmental obligations and pending litigation and claims arising in the normal course of business. Provisions have been made based on the best estimates of management with the information available. Estimates are periodically reviewed and will be adjusted in the period that additional information becomes available.

- (a) The Company leased a portion of the property used in the Vancouver Wharves terminal operations in North Vancouver from Canada Lands Company Limited (“CLCL”). The Vancouver Wharves operations were transferred to a new operator in 2007 as described in Note 3(a), however, the CLCL lease remained with the Company and the new operator had access rights to carry on terminal operations.

On February 6, 2003, the Company received a notice of default on its lease from CLCL. The current lease with CLCL expired April 11, 2004 and CLCL advised the Company that, based on the alleged defaults under the lease, it had no right to renew the lease. The Attorney General of Canada and CLCL filed a Petition on August 6, 2004 seeking a writ of possession of the leased lands. In August 2007, the parties reached a Settlement Agreement which sets out the process for vacating the property and the agreed amount of rent owing to the date the site is vacated. Vacant possession was delivered on June 26, 2009 and the Consent Dismissal Order was received January 20, 2010.

- (b) On June 14, 2002, the Attorney General of Canada commenced legal proceedings in the B.C. Supreme Court against the Company and its subsidiaries alleging that those entities are responsible for soil and groundwater contamination on a site adjacent to the VWLP operation and in Burrard Inlet adjacent to that property as included in the lease described in (a) above. On February 1, 2008, an Agreement in Principle (“AIP”) was reached with Environment Canada which describes the remediation process, the responsibilities of the parties, and the estimated costs of remediation. The AIP which expires March 31, 2010 forms the basis of the negotiations of a final agreement. Based on the agreement principles, management has estimated and accrued a liability in the financial statements.
- (c) The risk of environmental liability is inherent in the operation of the Company’s business with respect to both current and past operations. As a result, the Company incurs costs, on an ongoing basis, associated with environmental regulatory compliance and clean-up requirements.

The Company has made accruals for both anticipated expenditures on existing environmental remediation programs and contingent liabilities in relation to specific sites where the expected costs can be reasonably estimated.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2009 (tabular amounts in thousands of dollars)

CONTINGENT LIABILITIES (continued...)

The Company believes it has identified the costs likely to be incurred over the next several years, based on known information. However, ongoing efforts to identify potential environmental concerns associated with the Company's properties may lead to future environmental investigations, which may result in the identification of additional environmental costs and liabilities, the magnitude of which cannot be reasonably estimated.

- (d) The Province and BCRC have provided commercial indemnities to CN with respect to the CN Transaction and indemnities related to income tax attributes of BC Rail that existed upon closing of the transaction. As at December 31, 2009, the maximum present value (calculated at 9%) of amounts payable under the tax indemnities related to income tax attributes (excluding any reimbursement of professional fees, tax arrears, interest or taxes payable, if any, on indemnity payments) is approximately \$586 million. These indemnities remain in effect until 90 days after the last date on which a tax assessment or reassessment can be issued in respect of the income tax attributes. Management believes it is unlikely that the Province or BCRC will ultimately be held liable for any amounts under the commercial and tax indemnities.

13. STATEMENT OF CASH FLOWS - SUPPLEMENTAL INFORMATION

- (a) The components of changes in non-cash working capital balances relating to operations are as follows:

	2009	2008
Accounts receivable	\$ 1,606	\$ (748)
Materials and other items	158	(181)
Accounts payable and accrued liabilities	(1,037)	(6,972)
Deferred revenue	(555)	(321)
	\$ 172	\$ (8,222)

- (b) The following interest was received in the current year

	2009	2008
Interest received from third parties	\$ 2,974	\$ 11,985
	\$ 2,974	\$ 11,985

14. RELATED PARTY TRANSACTIONS

All of the Companies related party transactions are in the normal course of business.

15. COMPARATIVE FIGURES

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

British Columbia Railway Company
Schedule of Debts
January 1, 2009 to December 31, 2009

The organization had no third-party long-term debt outstanding during the period.

British Columbia Railway Company
Schedule of Guarantee and Indemnity Agreements
January 1, 2009 to December 31, 2009

The organization has not given any guarantees under the Guarantees and Indemnities Regulation.

Information on all indemnities for the organization is included in Note 12 to the Financial Statements.

British Columbia Railway Company
Employee Remuneration (including Taxable Benefits) and Expenses
For Individuals Whose Remuneration and Expenses Exceeds \$75,000
January 1, 2009 to December 31, 2009

Last Name	First Name	Remuneration	Expenses
Adair	Russell	101,347.89	-
Bevilacqua	Chris	102,504.07	-
Brodie	John	140,881.06	3,129.60
Bryce	John	101,195.59	-
Carter	Greg	101,996.04	-
Cote	Claire	94,433.90	2,958.71
Dawson	Christopher	84,395.16	32,566.39
Derouin	Richard	91,090.18	-
Lee	Cindy	94,050.17	1,860.02
Lusney	John	265,311.43	13,940.80
MacMillan	Rodney	141,079.16	316.32
Mahoney	Kevin	482,719.95	3,471.19
Miller	Roy	102,364.30	-
Myhill-Jones	Richard	154,350.26	55,488.98
Patrick	Gregory	100,443.57	110.00
Raynard	Grant	87,431.16	-
Roy	Denis	106,339.94	-
Salmon	Rodney	81,525.99	37,992.95
Solley	Jennifer	79,327.55	1,935.50
Steinberg	Kevin	219,732.69	5,659.43
Van Hattem	Arnie	112,881.34	26,639.58
Webb	Richard	99,756.12	228.26
Westerhout Hardman	Shelley	104,903.75	565.73
Westlake	Gordon	227,874.44	9,686.51
Winters	Tom	179,094.98	5,002.13
Total over \$75,000		3,457,030.69	201,552.10
Total under \$75,000		367,202.51	1,105.44
		3,824,233.20	202,657.54

**British Columbia Railway Company
Statement of Severance Agreements
January 1, 2009 to December 31, 2009**

There was 1 severance agreement made between British Columbia Railway Company and its non-unionized employees during 2009. The agreement represented 4 months compensation.

As required in the Financial Information Act Guidance Package, payments made under these severance agreements are excluded from the Schedule of Employee Remuneration.

British Columbia Railway Company
Schedule Showing Total Remuneration and Expenses
In Respect of Each Board Member
January 1, 2009 to December 31, 2009

**Elected Officials, Employees appointed by
Cabinet, and Members of the Board of Directors:**

Name	Position	Remuneration	Expenses
McLernon, John	Chair	46,000.00	579.00
Briscoe, Beverly	Member, Board	27,200.00	-
Kenning, Brian	Member, Board	32,850.00	-
Marchand, Len	Member, Board	24,550.00	5,924.38
McLaren, Dan	Member, Board	15,500.00	4,911.21
Phillips, Bob	Member, Board	24,900.00	-
Yeates, Jim	Member, Board	12,000.00	-

British Columbia Railway Company
Schedule of Payments Made for the Provision of Goods and Services
Amounts Exceeding \$25,000
January 1, 2009 to December 31, 2009

0695980 BC Ltd.	\$ 115,315.20	Raines Janitorial Ltd
A & B Rail Services Ltd.	406,169.59	Receiver General for Canada - GST
Altus Group Limited	74,062.28	Receiver General for Canada - Source Deductions
AMEC Earth & Environmental Limited	25,808.07	Reg. Dist. of Fraser-Fort George
Ashcroft Treating (a Division of Tolko Industries Ltd)	28,883.68	REMCAN Projects Ltd.
BC Hydro	208,557.90	Revenue Services of British Columbia
BCT Fencing Ltd.	43,434.51	Richco Contracting Ltd.
Blake, Cassels & Graydon LLP	157,330.01	Shell Canada Products
Borden Ladner Gervais LLP	1,010,877.27	Squamish Nation
Bull Housser & Tupper	794,651.08	Squamish-Lillooet Regional District
Burchell Hayman Parish	184,239.32	Stantec Architecture Ltd.
Canadian National Railway	214,484.66	Sunlife
Cariboo Regional District	27,370.47	Telus Communications (BC) Inc
City of Fort St John	31,224.62	Telus Mobility
City of Prince George	443,688.00	Teranis Consulting Ltd.
City of Quesnel	94,777.74	Terasen Gas
City of Surrey	94,387.93	The Standard Life Assurance Company
City of Williams Lake	115,732.40	Tryon Land Surveying Limited
Corp. of the City of Dawson Creek	46,225.96	Vancouver Fraser Port Authority
Corporation Of Delta	512,759.00	Village of Pemberton
Dennison Chevrolet Ltd.	33,554.93	Workers Compensation Board of BC
Diligent	53,301.05	
District Of Mackenzie	130,962.62	Total payments exceeding \$25,000
District Of North Vancouver	135,039.91	
District Of Squamish	896,325.51	Total payments of \$25,000 or less
Dollar Saver Lumber	50,000.00	
Frontline Software Corp.	52,880.00	
GensCorp IT Inc.	610,107.30	Grand Total
Gordon Helgeson	90,629.15	
Hatch Mott MacDonald Ltd.	615,819.54	
Hobbs, Winter & Macdonald	28,962.15	
IDL Projects Inc.	761,646.46	
Iron Mountain	39,604.15	
John Leighton	33,737.78	
Kinder Morgan	31,930.43	
KMEP Canada ULC C3174	30,530.63	
KPMG LLP	150,632.81	
L & M Engineering Limited	320,528.59	
Land Title and Survey Authority of BC	115,620.00	
Les Pongracz	86,573.88	
Loram Maintenance of Way Ltd.	102,761.07	
Marsh Canada Limited	332,013.00	
Marshik & Associates	72,709.54	
McElhanney Associates	45,948.28	
Minister of Finance	1,346,908.69	
Morneau Sobeco	31,966.73	
Morrow Environmental Consultants Inc.	129,667.56	
Mount Polley Mining Corporation	274,981.03	
Navigata Communications Limited	85,755.11	
North Country Appraisals (1985) Ltd.	684,091.44	
Pacific Blue Cross	51,354.82	
Pacific Weed Services	50,101.02	
Pauluzzi Appraisals Ltd.	122,738.70	
Persona Construction Ltd.	31,705.42	
Piteau Associates	1,193,661.66	
Pitman Asphalt	35,640.42	
PNR RailWorks Inc.	1,206,166.32	
PVA Eco Services	87,761.10	
PW Trenchless Construction Inc.	73,500.00	
Quantum Murray LP.	5,075,291.37	
Quesnel Appraisal Services Ltd.	83,573.34	
Rail Sciences	42,979.18	

\$ 36,854.00
566,847.74
1,217,139.50
43,716.99
135,465.13
76,146.00
41,934.42
27,177.75
324,695.72
130,497.68
35,299.64
208,027.37
29,157.91
25,738.37
277,948.09
278,162.50
755,831.00
50,741.99
114,579.25
58,821.54
26,194.48

24,520,619.45

1,188,147.68

\$ 25,708,767.12