



STATEMENT OF FINANCIAL INFORMATION
Fiscal Year Ended March 31, 2019

Published in accordance with the
Financial Information Act, Chapter 140,
Revised Statutes of British Columbia, 1996

Consolidated Financial Statements

BRITISH COLUMBIA RAILWAY COMPANY

March 31, 2019

BRITISH COLUMBIA RAILWAY COMPANY
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT MARCH 31, 2019
(in thousands of dollars)

	<i>Note</i>	2019	2018
ASSETS			
Current assets			
Cash and cash equivalents	10	\$ 117,064	\$ 144,255
Trade and other receivables	11	2,937	2,434
Materials and other items		1,691	1,779
Total current assets		121,692	148,468
Non-current assets			
Other receivables	11	199,741	157,422
Property, plant and equipment	12	1,118	888
Interest in mining rights	13	18,308	18,308
Investment property	14	195,684	175,123
Total non-current assets		414,851	351,741
Total assets		\$ 536,543	\$ 500,209
LIABILITIES AND SHAREHOLDER'S EQUITY			
Current liabilities			
Trade and other payables	15	\$ 5,955	\$ 5,859
Deferred lease revenue	16	1,389	1,318
Total current liabilities		7,344	7,177
Non-current liabilities			
Deferred lease revenue	16	26,356	26,721
Provisions	17	297,160	270,455
Employee benefits	18	5,243	4,296
Total non-current liabilities		328,759	301,472
Total liabilities		336,103	308,649
Shareholder's Equity			
Share capital	19	257,688	257,688
Contributed surplus	20	52,136	52,136
Deficit		(109,384)	(118,264)
Total shareholder's equity		200,440	191,560
Total liabilities and shareholder's equity		\$ 536,543	\$ 500,209

The accompanying notes on pages 5 to 32 are an integral part of these consolidated financial statements.

On behalf of the Board



Director

BRITISH COLUMBIA RAILWAY COMPANY
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED MARCH 31, 2019
(in thousands of dollars)

	<i>Note</i>	2019	2018
Revenue	6	\$ 24,216	\$ 19,741
Expenses			
Labour costs	7, 18(c)	3,728	3,787
Property and track maintenance		3,302	3,246
Professional services		2,099	2,283
Information technology		680	666
Property taxes		1,082	1,279
Other		1,053	1,197
Depreciation	8	429	332
		12,373	12,790
Operating results before gain on sale of investment property		11,843	6,951
Gain on sale of investment property		722	47,310
Results from operating activities		12,565	54,261
Finance income	9	2,922	1,665
Finance costs	9	(5,862)	(4,195)
Net finance costs		(2,940)	(2,530)
Profit for the period		9,625	51,731
Other comprehensive income (loss)			
Defined benefit plan actuarial losses and return on plan assets	18(c)	(781)	(164)
Post-employment benefit plan actuarial gains	18(c)	36	1,346
Other comprehensive income (loss) for the period		(745)	1,182
Total comprehensive income for the period		\$ 8,880	\$ 52,913

The accompanying notes on pages 5 to 32 are an integral part of these consolidated financial statements.

BRITISH COLUMBIA RAILWAY COMPANY
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MARCH 31, 2019
(in thousands of dollars)

	<i>Note</i>	2019	2018
Cash flows from (used in) operating activities			
Profit for the period		\$ 9,625	\$ 51,731
Adjustments for:			
Gain on sale of investment property		(722)	(47,310)
Depreciation	8	429	332
Amortization of deferred lease revenue		(655)	(1,122)
Accretion income on long-term notes receivable	11(c)	(652)	(616)
Pension benefit expense	18(c)	140	133
Unwind of discount on provisions	9	5,862	4,195
		14,027	7,343
Change in working capital	26	(391)	4,502
Change in general environmental provision		(11)	(86)
Change in long-term receivable for environmental services	11(d)	(8,838)	(6,384)
Change in Joint Capital Account receivable	11(b)	(114)	2,159
Change in post-employment benefit obligation		62	96
Net cash from operating activities		4,735	7,630
Cash flows from (used in) investing activities			
Acquisition of property, plant, and equipment	12	(523)	(554)
Development costs on investment properties	14	(146)	(402)
Acquisition of Joint Capital Account assets	11(b)	(32,521)	(10,868)
Proceeds from sale of investment property		1,245	57,029
Payments received on mortgages	11(a)	19	19
Net cash from (used in) investing activities		(31,926)	45,224
Cash flows used in financing activities			
Payments to the Province	20	-	(432)
Net cash used in financing activities		-	(432)
Net increase (decrease) in cash and cash equivalents		(27,191)	52,422
Cash and cash equivalents, beginning of period		144,255	91,833
Cash and cash equivalents, end of period		\$ 117,064	\$ 144,255

The accompanying notes on pages 5 to 32 are an integral part of these consolidated financial statements.

BRITISH COLUMBIA RAILWAY COMPANY
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(in thousands of dollars)

	Share Capital	Contributed Surplus	Deficit	Total Equity
Balance April 1, 2017	\$ 257,688	\$ 52,568	\$ (171,177)	\$ 139,079
Total comprehensive income for the period				
Profit			51,731	51,731
Other comprehensive income (loss)				
Defined benefit plan actuarial losses and return on plan assets			(164)	(164)
Post-employment benefit plan actuarial gains			1,346	1,346
Total other comprehensive income	-	-	1,182	1,182
Total comprehensive income for the period	-	-	52,913	52,913
Transactions with owners, recorded directly in equity				
Distributions to owners				
Payment to the Province (Note 20)	-	(432)	-	(432)
Balance at March 31, 2018	\$ 257,688	\$ 52,136	\$ (118,264)	\$ 191,560
Total comprehensive income for the period				
Profit			9,625	9,625
Other comprehensive income (loss)				
Defined benefit plan actuarial losses and return on plan assets			(781)	(781)
Post-employment benefit plan actuarial gains			36	36
Total other comprehensive income	-	-	(745)	(745)
Total comprehensive income for the period	-	-	8,880	8,880
Transactions with owners, recorded directly in equity				
Distributions to owners				
Payment to the Province (Note 20)	-	-	-	-
Balance at March 31, 2019	\$ 257,688	\$ 52,136	\$ (109,384)	\$ 200,440

The accompanying notes on pages 5 to 32 are an integral part of these consolidated financial statements.

BRITISH COLUMBIA RAILWAY COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2019
(tabular amounts in thousands of dollars)

1. REPORTING ENTITY

British Columbia Railway Company (“BCRC” or the “Company”) is a company domiciled in Canada. The address of the registered office is Suite 600 - 221 West Esplanade, North Vancouver, BC, V7M 3J3. It is incorporated under the *British Columbia Railway Act*. It is owned by the BC Transportation Financing Authority (“BCTFA”), a subsidiary of the Province of British Columbia (the “Province”), operating under the supervision of the Ministry of Transportation and Infrastructure (“MoTI”).

The consolidated financial statements of the Company as at and for the year ended March 31, 2019 comprise the Company and its subsidiaries (together referred to as the “Group” and individually as “Group entities”).

The Group has commercial and business activities conducted through its operating subsidiary, BCR Properties Ltd. (“BCRP”), spanning the business areas of real estate, railway and marine terminal management. The Group’s primary mandate is to support and facilitate the safe and efficient movement of goods through BC’s western trade corridor 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 Province’s interest in the western trade corridor, BCRC has retained ownership of the Port Subdivision (“Port Sub”) operation, which provides open, neutral rail access to the port terminals at Roberts Bank and, through its subsidiary BCRP, has retained ownership of certain port-related lands.

The Province has determined that the remaining assets and entities owned by the Group that are not required to support development of the western trade corridor or required to be publicly owned, should be disposed in a timely manner which maximizes a commercial return to the Province. Management has completed its assessment of the Group and has concluded that the Group has the ability to continue as a going concern.

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

2. BASIS OF PREPARATION

a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRSs).

The consolidated financial statements were authorized for issue by the Board of Directors on May 15, 2019.

b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for cash and cash equivalents which have been measured at fair value through profit and loss.

c) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the Group’s functional currency and the functional currency of all its subsidiaries.

BRITISH COLUMBIA RAILWAY COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2019
(tabular amounts in thousands of dollars)

2. BASIS OF PREPARATION (continued)

d) Use of estimates and judgements

The preparation of the consolidated financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about judgments made in applying accounting policies that have the most significant effects on the amounts recognized in the consolidated financial statements is included in the following notes:

- Notes 4 and 5 – accounting for an arrangement containing a lease
- Note 11(b) – lease classification
- Note 14 – classification of investment property

Information about assumptions and estimation uncertainties at March 31, 2019 that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities in the next financial year is included in the following notes:

- Note 13 – interest in mining rights
- Note 17 – provisions
- Note 18 – measurement of employee benefit obligations
- Note 23 – determination of fair values
- Note 25 – contingencies

The accounting policies set out below have been applied consistently by Group entities to all periods presented in these consolidated financial statements unless otherwise indicated.

3. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of consolidation

i) Subsidiaries

Subsidiaries are entities controlled by the Company. They include: BCR Properties Ltd., Vancouver Wharves Limited Partnership, and Vancouver Wharves Ltd. The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

ii) Transaction elimination on consolidation

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

b) Financial statement presentation of expenses

The Group classifies the statement of comprehensive income using the nature of expense method, which classifies expenses according to their nature, such as labour costs or depreciation.

BRITISH COLUMBIA RAILWAY COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2019
(tabular amounts in thousands of dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Financial instruments

The Group has initially adopted IFRS 9, *Financial Instruments* ("IFRS 9") from April 1, 2018.

IFRS 9 sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. IFRS 9 also amends derivative financial instruments and hedge accounting. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39").

The Group implemented the new requirements for classification and measurement, and impairment, retrospectively with no restatement of comparative periods due to the fact that the implementation of IFRS 9 did not result in any impact on the Group's financial instruments. The Group also applied related amendments to IFRS 7 *Financial Instruments: Disclosures* ("IFRS 7").

(i) Classification and measurement of financial assets and financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables and available for sale.

The adoption of IFRS 9 has not had a significant effect on the Group's accounting policies related to financial assets and financial liabilities. The impact of IFRS 9 on the classification and measurement of financial assets and liabilities is set out below.

Under IFRS 9, on initial recognition, a financial asset is classified as measured at: amortized cost, fair value through other comprehensive income ("FVOCI") – debt instrument, FVOCI – equity instrument, or fair value through profit or loss ("FVTPL"). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

BRITISH COLUMBIA RAILWAY COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2019
(tabular amounts in thousands of dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Financial instruments (continued)

(i) Classification and measurement of financial assets and financial liabilities (continued)

All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at FVTPL. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized costs or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

A financial asset (unless it is a trade receivable without a significant financing component that is initially measured at the transaction price) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition.

The following accounting policies apply to subsequent measurement of financial assets:

- Financial assets at FVTPL: these assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss.
- Financial assets at amortized cost: these assets are subsequently measured at amortized costs using the effective interest method. The amortized cost is reduced by impairment losses (see note 3(c)(ii)). Interest income and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.
- Debt investments at FVOCI: these assets are subsequently measured at fair value. Interest income calculated using the effective interest method and impairment are recognized in profit or loss. Other net gains are recognized in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
- Equity investments at FVOCI: these assets are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in OCI and are never reclassified to profit or loss.

The following table shows the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets and liabilities as at April 1, 2018.

	Original classification Under IAS 39	New classification under IFRS 9
<u>Financial Assets</u>		
Cash and cash equivalents	Loans and receivables	FVTPL
Trade and other receivables	Loans and receivables	Amortized cost
Other receivables	Loans and receivables	Amortized cost
<u>Financial Liabilities</u>		
Trade and other payables	Other financial liabilities	Amortized cost

On adoption of IFRS 9, no changes in the carrying amounts of the financial assets or financial liabilities have been recorded.

BRITISH COLUMBIA RAILWAY COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2019
(tabular amounts in thousands of dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Financial instruments (continued)

(ii) Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' ("ECL") model. The new impairment model applies to financial assets measured at amortized cost. Under IFRS 9, credit losses are recognized earlier than under IAS 39.

The financial assets at amortized cost consist of trade receivables and other receivables.

Under IFRS 9, loss allowances are measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- Lifetime EFLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

The Group has elected to measure loss allowances for financial assets at amortized cost at an amount equal to lifetime ECLs.

Measurement of ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive).

On adoption of IFRS 9, there was no change to the impairment of the Group's financial assets.

d) Property, plant and equipment

i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and borrowing costs on qualifying assets.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognized net in profit or loss.

ii) Reclassification to investment property

When the use of a property changes from owner-occupied to investment property, the property is retained at its historical cost and reclassified as investment property. Therefore, no gain or loss is recognized at the time of reclassification.

BRITISH COLUMBIA RAILWAY COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2019
(tabular amounts in thousands of dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Property, plant and equipment (continued)

iii) Subsequent costs

The cost of replacing a part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the asset will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

iv) Depreciation

Depreciation is calculated based on the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.

The estimated useful lives for the current and comparative periods are as follows:

• buildings	30 - 40 years
• Port Sub equipment	5 - 15 years
• computer equipment	3 – 5 years

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

e) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

i) Recognition and measurement

Items of investment property are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and borrowing costs on qualifying assets.

Gains and losses on disposal of investment property are determined by comparing the proceeds from disposal with the carrying amount of the asset, and are recognized net in profit or loss.

ii) Subsequent costs

The cost of replacing a part of an item of investment property is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of investment property are recognized in profit or loss as incurred.

BRITISH COLUMBIA RAILWAY COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2019
(tabular amounts in thousands of dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Investment property (continued)

iii) Depreciation

Depreciation is calculated based on the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of investment property, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.

The estimated useful lives for the current and comparative periods are as follows:

- buildings 30 - 40 years

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

f) Interest in mining rights

The Group's interest in mining rights are accounted for as exploration and evaluation assets.

Exploration and evaluation assets are only recognized if the rights of the area of interest are current and either:

- i) the expenditures are expected to be recouped through successful development and exploitation of the area of interest; or
- ii) activities in the area of interest have not reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves and active operations relating to the area of interest are continuing.

Exploration and evaluation assets are tested for impairment when any of the following facts and circumstances exist:

- i) the term of exploration license in the specific area of interest has expired or will expire in the near future and it is not expected to be renewed;
- ii) substantive expenditure on further exploration for an evaluation of mineral resources in the specific area is not budgeted or planned;
- iii) exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the decision was made to discontinue such activities in the specified area;
- iv) sufficient data exists to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

Should impairment indicators exist, the Group would determine the impairment in accordance with note 3(h).

BRITISH COLUMBIA RAILWAY COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2019
(tabular amounts in thousands of dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Materials

Materials are measured at the lower of cost and net realizable value. The cost of materials includes expenditures incurred in acquiring the materials, production or conversion costs and other costs incurred in bringing them to their existing location and condition. Net realizable value is the replacement cost of the materials.

h) Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than materials, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit, or CGU").

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated to the carrying amounts of the assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

i) Assets held for sale

Assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. For this to be the case, the asset (or disposal group) must be available for immediate sale in its present condition and its sale must be highly probable to complete within one year. Immediately before classification as held for sale, the assets, or components of a disposal group, are re-measured in accordance with the Group's accounting policies. Thereafter the asset, or disposal group, is measured at the lower of its carrying amount and fair value less cost to sell. Impairment losses on initial classification as held for sale and subsequent gains or losses on re-measurement are recognized in profit or loss. Gains are not recognized in excess of any cumulative impairment loss.

BRITISH COLUMBIA RAILWAY COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2019
(tabular amounts in thousands of dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Employee benefits

i) Defined Benefit Plans

The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognized past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on AA credit-rated bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognized asset is limited to the total of any unrecognized past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Group. An economic benefit is available to the Group if it is realizable during the life of the plan, or on settlement of the plan liabilities.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognized in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognized immediately in profit or loss.

The Group recognizes actuarial gains and losses arising from post-employment defined benefit plans immediately in other comprehensive income, and reports them in retained earnings.

i) Registered Retirement Savings Plan Contributions

Contributions made by the Group to a registered retirement savings plan on behalf of its employees are expensed as contributions are made.

ii) Other Long-Term Employee Benefits

The Group's net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The discount rate is the yield at the reporting date on AA credit-rated bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed using the projected unit credit method. Any actuarial gains and losses are recognized in profit or loss in the period in which they arise.

iii) Termination Benefits

Termination benefits are recognized as an expense when the Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognized as an expense if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

BRITISH COLUMBIA RAILWAY COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2019
(tabular amounts in thousands of dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Employee benefits (continued)

iv) Short-Term Employee Benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

k) Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as a finance cost.

i) Site Restoration

In accordance with the Group's environmental policy and applicable legal requirements, provisions for site restoration in respect of contaminated land and the related expenses are recognized when the land is contaminated. The provisions are recognized as non-current liabilities and are discounted to their present value based on expected future cash flows. Changes in estimates are dealt with on a prospective basis as they arise.

A provision is also recognized for expected remediation or retirements costs associated with owned or leased property or equipment as a non-current liability with a corresponding asset. At each reporting date, the liability is re-measured in line with changes in discount rates and timing or amount of the costs to be incurred. Any changes in the liability are added to, or deducted from, the related asset, other than the unwinding of the discount which is recognized as a finance cost in profit or loss as it occurs. If the change in the liability results in a decrease in the liability that exceeds the carrying amount of the asset, the asset is written down to nil and the excess is recognized immediately in profit or loss.

l) Revenue

The Group has initially adopted IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15") from April 1, 2018.

IFRS 15 replaces IAS 11 Construction Contracts, IAS 18 Revenue, and other related interpretations. IFRS 15 provides a comprehensive framework for the recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the accounting standards for insurance contracts, financial instruments and lease contracts.

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. The standard requires revenue to be recognized in a manner that depicts the transfer of promised goods or services to a customer and at an amount that reflects the consideration expected to be received in exchange for transferring those goods or services.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

l) Revenue (continued)

The Group applied the requirements of the standard retrospectively with no restatement of comparative periods, due to the fact that the implementation of IFRS 15 did not result in any impact on the Group's revenue streams.

This is achieved by applying the following five steps:

1. identify the contract with a customer;
2. identify the performance obligations in the contract;
3. determine the transaction price;
4. allocate the transaction price to the performance obligations in the contract; and
5. recognize revenue when (or as) the entity satisfies a performance obligation

The majority of the Group's revenue is revenue from leasing arrangements, which is outside the scope of IFRS 15. Certain recoverable investment property expenses for common area costs are considered non-lease components and are within the scope of IFRS 15. The performance obligation for the operating cost recoveries is satisfied over time, which is generally the lease term.

Under IFRS 15, revenue is recognized when a customer obtains control of the goods or services. Determining the timing of the transfer of control - at a point in time or over time - requires judgment.

The following revenues earned by the Group fall under the scope of IFRS 15:

- (i) Joint Section Agreement - Port Subdivision operations and maintenance:
The Group operates and maintains a 37-kilometre track which connects three railways to the port terminal at Roberts Bank (the "Port Subdivision" operation). Revenue is earned on a cost-plus surcharge basis and the railways are charged based on their relative usage of the track each month. Revenue is earned over time as the services are performed.
- (ii) Real estate sales:
Revenues, recorded as net gains, from the disposition of investment property is recognized at the point in time that the risks and rewards of ownership have been transferred, possession or title passes to the purchaser, and all material conditions of the sales contract have been met, and at which time all proceeds are received or collectability is reasonably assured.

IFRS 15 did not have an impact on the Group's accounting for Port Sub operations and maintenance revenue and real estate sales.

m) Lease payments

Payments made or received under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives are recognized as an integral part of the total lease expense / revenue, over the term of the lease. Contingent lease payments are accounted for in the period in which they are incurred.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

n) Determining whether an arrangement contains a lease

At inception of an arrangement, the Group determines whether such an arrangement is or contains a lease. A specific asset is the subject of a lease if fulfilment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to the Group the right to control the use of the underlying asset.

o) Finance income and finance costs

Finance income comprises interest income on funds invested and changes in the fair value of financial assets at fair value through profit or loss. Interest income is recognized as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, changes in the fair value of financial assets at fair value through profit or loss, and impairment losses recognized on financial assets. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method.

p) Future accounting standards

The following is a summary of recent accounting pronouncements which have not yet been adopted by the Group:

• IFRS 16 Leases

In January 2016, the IASB issued IFRS 16 *Leases*. The new standard is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply IFRS 15 *Revenue from Contracts with Customers* at or before the date of initial adoption of IFRS 16. IFRS 16 will replace IAS 17 *Leases*.

This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessees.

Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided.

The Group intends to adopt IFRS 16 in its financial statements for the annual period beginning on April 1, 2019. The Group does not expect the amendments to have a material impact on the financial statements.

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4. 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 Group'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 was 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. BC Rail prepaid all lease payments under the Revitalization Agreement. The lease is being treated as a finance lease and all the related assets have been removed from the financial statements.
- (c) 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. As at March 31, 2019, CN has not formally commenced any discontinuance process for the return of any segments of the main line.

5. KINDER MORGAN ("KM") TRANSACTION

- (a) On May 30, 2007, BCRC and its subsidiaries, Vancouver Wharves Limited Partnership ("VWLP") and BCRP completed a transaction with KM pursuant to an agreement signed on April 3, 2007. Under the terms of the agreement, KM took over the operations of VWLP's port terminal facility by acquiring certain operating assets from VWLP and signing a 40-year non-renewable prepaid operating lease with BCRP for the land upon which VWLP operates. The net proceeds from the lease are being recognized as deferred lease revenue (Note 16) 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 on the land during the lease and to remediate all site contamination at the end of the lease. The fair value of the remediation services at the date of the agreement was estimated at \$14.0 million for off-site migration contamination projects and \$27.1 million for the remediation and site restoration at the end of the lease. As the Group retains ultimate responsibility for the remediation of the land, the site restoration and environmental obligations will continue to be reflected in the Group's consolidated financial statements (Note 17) until such time as management is satisfied that KM has completed the remediation work. As the value of the assumed obligations is 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 (Note 11(d)). 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 to ensure straight-line recognition over the lease term.

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6. REVENUE

For the year ended March 31	<i>Note</i>	2019	2018
Investment property leasing revenue		\$ 12,597	\$ 9,092
Port Subdivision operating and maintenance services	(a)	7,184	7,085
Port Subdivision JCA privilege revenue	(a)	4,435	3,564
		\$ 24,216	\$ 19,741

a) Port Subdivision Joint Service Revenue

The Group operates and maintains the 37-kilometre track connecting three railways to the port terminal at Roberts Bank (the "Port Subdivision operation") and recovers its operating and maintenance costs for this service from the three user railways in proportion to each railway's use of the track each month.

The Group has also invested in railway assets for its Port Subdivision operation. Agreements between the Group and the three user railways require the Group 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 ("JCA") relating to land has been accounted for as an operating lease and included with investment property (Note 14) and the balance, accounted for as finance leases, is included in other assets as the Joint Capital Account Receivables (Note 11(b)) to be collected upon retirement or cessation of operations.

The Group collects monthly lease payments ("JCA privilege revenue") from the user railways calculated at prime plus 1% (as at April 1 of each year) on the balance of the JCA balance and based on each railway's proportionate use of the track each month.

7. LABOUR COSTS

For the year ended March 31	<i>Note</i>	2019	2018
Direct labour costs		\$ 2,833	\$ 2,867
Labour costs for contracted MoTI employees	27	895	920
		\$ 3,728	\$ 3,787

Direct labour costs include employee wages, dental and health benefits, RRSP contributions, and the annual expense related to the post-employment benefit plan and the defined benefit supplemental pension plan.

8. DEPRECIATION EXPENSE

For the year ended March 31	<i>Note</i>	2019	2018
Property, plant and equipment	12	\$ 293	\$ 196
Investment property	14	136	136
		\$ 429	\$ 332

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9. FINANCE INCOME AND FINANCE COSTS

For the year ended March 31	<i>Note</i>	2019	2018
Interest on bank deposits		\$ 62	\$ 18
Interest on loans and receivables		658	628
Interest on money market instruments		2,202	1,019
Finance income		2,922	1,665
Unwind of discount on provision	17	(5,862)	(4,195)
Finance costs		(5,862)	(4,195)
Net finance costs recognized in profit or loss		\$ (2,940)	\$ (2,530)

10. CASH AND CASH EQUIVALENTS

As at March 31		2019	2018
Cash		\$ 3,054	\$ 6,447
Money market instruments		114,010	137,808
		\$ 117,064	\$ 144,255

The Group's money market instruments are invested in a fund which invests in government and corporate debt securities, including commercial paper.

11. TRADE AND OTHER RECEIVABLES

As as March 31	<i>Note</i>	2019	2018
Trade receivables		\$ 2,937	\$ 2,221
Other receivables			
Mortgages receivable	(a)	194	213
Joint Capital Account receivables	(b)	129,807	97,172
Long-term notes receivable from CN	(c)	11,796	11,144
Long-term receivable for environmental remediation services	(d)	57,944	49,106
		199,741	157,635
		\$ 202,678	\$ 159,856
Current		\$ 2,937	\$ 2,434
Non-current		199,741	157,422
		\$ 202,678	\$ 159,856

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11. TRADE AND OTHER RECEIVABLES (continued)

- (a) The Group has one outstanding mortgage issued in a previous year to a purchaser as part of a property sale transaction from the Group's real estate portfolio. The mortgage bears interest at prime plus 1.75% and is for a 2-year term ending November 2020.
- (b) The Joint Capital Account receivables relate to long-term finance leases which will be repaid to the Group 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% which is paid monthly.

Because the annual lease payments are based on prime plus 1% as at April 1 of each year and it is not possible to forecast with any accuracy the rates applicable to the lease throughout the lease term, it is not possible to accurately calculate the future minimum lease payments for this lease. Therefore, the lease revenue is recorded through profit or loss as it becomes measurable and collectable.

- (c) The long-term notes receivable from CN (Note 4) are non-interest bearing and due on July 12, 2094. The notes were initially recorded at fair value calculated based on the discounted cash flow using an implied interest rate of 5.75% and are accreted each year at 5.75% to their ultimate face value of \$842 million.
- (d) The long-term receivable for environmental remediation services relates to the KM lease for the Vancouver Wharves port terminal facility (Note 5). The receivable will be settled through the lessee's remediation performance at the end of the lease agreement. The value of the receivable at inception of the lease was based on the present value of the related remediation, using an implicit rate of interest of 4.6%. In each subsequent reporting period, the receivable balance is adjusted to reflect the time value of money at the current implicit rate of interest and for any changes to the expected future cost of remediation for which the receivable is being adjusted over the remaining term of the lease.

12. PROPERTY PLANT AND EQUIPMENT

	Leasehold		
	Equipment	Improvements	Total
<u>Cost</u>			
Balance, April 1, 2017	\$ 2,319	\$ 262	\$ 2,581
Additions	554	-	554
Balance March 31, 2018	\$ 2,873	\$ 262	\$ 3,135
Additions	523	-	523
Disposals	(1,261)	-	(1,261)
Balance March 31, 2019	\$ 2,135	\$ 262	\$ 2,397
<u>Depreciation</u>			
Balance April 1, 2017	\$ 1,789	\$ 262	\$ 2,051
Depreciation for the year	196	-	196
Balance March 31, 2018	\$ 1,985	\$ 262	\$ 2,247
Disposals	(1,261)	-	(1,261)
Depreciation for the year	293	-	293
Balance, March 31, 2019	\$ 1,017	\$ 262	\$ 1,279

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12. PROPERTY PLANT AND EQUIPMENT (continued)

	Equipment	Leasehold Improvements	Total
Carrying Amounts			
At March 31, 2018	\$ 888	\$ -	\$ 888
At March 31, 2019	\$ 1,118	\$ -	\$ 1,118

13. INTEREST IN MINING RIGHTS

As at March 31	2019	2018
Mining licenses	\$ 18,308	\$ 18,308

On May 1, 2015, the Group acquired 61 coal licenses in the Klappan region of British Columbia from Fortune Minerals Ltd. and its joint venture partner POSCO Canada (together, the “vendors”). The purchase price of the coal licenses was \$18,308,000, and was financed by the Group’s cash reserves. The agreement provides the vendors an option to reacquire the coal licenses within a 10-year period from the acquisition date, for the same price, subject to certain conditions.

14. INVESTMENT PROPERTY

As at March 31	2019	2018
Cost		
Balance, beginning of year	\$ 180,291	\$ 150,770
Additions	146	402
Effect of change in estimated cost of remediation	21,074	38,838
Disposals	(523)	(9,719)
Balance, end of year	200,988	180,291
Depreciation		
Balance, beginning of year	5,168	5,032
Depreciation for the year	136	136
Balance, end of year	5,304	5,168
Carrying amount, end of year	\$ 195,684	\$ 175,123

Investment property comprises a number of commercial properties that are leased to third parties with varying lease terms and conditions. The estimated fair value of the investment property portfolio as at March 31, 2019 is \$246 million (March 31, 2018 - \$237 million).

The Group is preparing certain non-port related and non-rail real estate assets for sale. The assets continue to be classified with investment property as they do not currently meet all the criteria for classification as held-for-sale.

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15. TRADE AND OTHER PAYABLES

As at March 31	2019	2018
Trade payables	\$ 37	\$ 43
Non-trade payables and accrued expenses	5,918	5,816
Total current	\$ 5,955	\$ 5,859

16. DEFERRED LEASE REVENUE

As at March 31	2019	2018
KM operating lease	\$ 26,881	\$ 27,784
Other investment property leases	864	255
	27,745	28,039
Less: current portion	1,389	1,318
	\$ 26,356	\$ 26,721

The KM lease portion consists of the lease revenue from the 40-year lease of the Vancouver Wharves port terminal facility which has not yet been recognized in profit or loss. During the year, KM performed remediation activities on the site, which reduced the Group's environmental liability accrual. The estimated value of the remediation completed in the year was \$0.2 million (2018 - \$0.2 million). These services were performed as part of the lease arrangement and were recognized as a reduction in the environmental liability and increase in deferred revenue as the revenue will be recognized in profit or loss over the term of the lease (Note 5).

17. PROVISIONS

	<i>Note</i>	2019	2018
<u>General Environmental</u>	<i>(a)</i>		
Balance, beginning of year		\$ 92,987	\$ 92,413
Provisions used during the year		(11)	(36)
Provisions reversed during the year		-	(50)
Unwind of discount		1,426	880
Transferred to deferred lease revenue		(220)	(220)
Balance at March 31		94,182	92,987
<u>Site Restoration</u>	<i>(b)</i>		
Balance, beginning of year		177,468	135,315
Provisions made during the year	14	21,074	38,838
Unwind of discount		4,436	3,315
Balance at March 31		202,978	177,468
Total Provisions		\$ 297,160	\$ 270,455

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17. PROVISIONS (continued)

- a) The general environmental provision consists of the estimated remediation costs required on the portfolio of real estate properties owned by the Group. The risk of environmental liability is inherent in the operation of the Group's business with respect to both current and past operations. As a result, the Group incurs costs, on an ongoing basis, associated with environmental regulatory compliance and clean-up requirements.

The Group has recorded provisions 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. The Group 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 Group'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.

Also included in the general environmental provision is an estimate related to a portion of a property previously used in the Vancouver Wharves terminal operations. In 2002, legal proceedings commenced 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. On February 1, 2008, an Agreement in Principle ("AIP") was reached which describes the remediation process, the responsibilities of the parties, and the estimated costs of remediation. The AIP which was extended to March 31, 2020 forms the basis of the negotiations of a final agreement. Based on the agreement principles, and ongoing negotiations, management has estimated and recorded a provision in the financial statements.

This liability accrued interest using the following rates:

	2019	2018
Interest rate	1.77%	1.10%

- b) The site restoration provision relates to the land upon which the Vancouver Wharves port terminal facility operates. While the obligation for restoring the site has been assumed by the lessee as part of the lease agreement (Note 5(b)), the Group retains ultimate responsibility for the obligation therefore the costs will continue to be reflected in these financial statements until such time as management is satisfied that the lessee has completed the remediation work.

An independent estimate of the ultimate remediation costs was obtained by the Group in March 2018. Because of the long-term nature of the site restoration liability, the greatest uncertainty in estimating the provision is the costs that will ultimately be incurred. In particular, the Group has assumed that the site will be restored using technology and materials that are currently available. Based on these assumptions, as at March 31, 2019, the liability for retirement and remediation, after applying an inflation factor of 2.5% (2018 – 2.5%) is estimated to be approximately \$203.0 million (March 31, 2018 - \$177.5 million). The discounted provision increased by \$21.1 million in 2019 due to a decrease in the discount rate.

Management has assumed the following discount rates based on long-term Government of Canada Bond rates:

	2019	2018
Discount rate	2.10%	2.50%

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18. EMPLOYEE BENEFITS

As at March 31	Pension Plan		Post-Employment Plan		Total	
	2019	2018	2019	2018	2019	2018
Defined benefit obligation	\$ 21,702	\$ 21,378	\$ 1,545	\$ 1,519	\$ 23,247	\$ 22,897
Fair value of plan assets	18,004	18,601	-	-	18,004	18,601
Total employee benefit liability	\$ 3,698	\$ 2,777	\$ 1,545	\$ 1,519	\$ 5,243	\$ 4,296

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

The Group also provided a defined benefit supplemental pension plan ("Pension Plan") for former executives and provides post-employment benefits ("Post-Employment Plan") for current and retired employees upon retirement. The Pension Plan is a non-registered benefit plan. There are currently no active members accruing benefits in the Pension Plan. Pension benefits for all inactive members are frozen, except for adjustments for inflation before and after retirement. The Post-Employment Plan includes the reimbursement of certain medical costs after retirement.

The amounts presented in this note are actuarially determined projections based on management's assumptions provided to the actuary. The Group's actuary prepares annual valuations of the accrued benefit obligation at March 31. The most recent valuations of the Pension Plan and the Post-Employment Plan were conducted as at March 31, 2019. The Pension Plan assets are valued as at March 31 of each year, and the latest valuation of plan assets was March 31, 2019.

Both the Pension Plan and the Post-Employment Plan expose the Group to actuarial risks such as longevity risk, interest rate risk and market (investment) risk.

a) Funding

The Pension Plan is fully funded by the Group. The funding requirements are based on the pension fund's actuarial measurement framework set out in the funding policies of the plan. The funding of the plan is based on a separate actuarial valuation for funding purposes for which the assumptions may differ from the assumptions above.

Employees are not required to contribute to the Pension Plan or the Post-Employment Plan. The Group expects to make no contributions to the Pension Plan in fiscal 2020 and \$77,000 in direct benefit payments to the Post-Employment Plan in fiscal 2020.

The Group made contributions to a registered retirement savings' plan on behalf of its employees during the year of \$177,000 (2018 - \$180,000).

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18. EMPLOYEE BENEFITS (continued)

b) Movement in the net defined benefit liability

As at March 31	Pension Plan		Post-Employment Plan	
	2019	2018	2019	2018
Defined benefit obligation				
Balance, beginning of year	\$ (21,378)	\$ (21,156)	\$ (1,519)	\$ (2,770)
Included in profit or loss:				
Current service cost	-	-	(19)	(91)
Past service cost	-	-	(63)	-
Interest cost	(731)	(755)	(52)	(100)
	(731)	(755)	(134)	(191)
Included in OCI:				
Remeasurements gain (loss):				
Actuarial gain (loss) arising from:				
- demographic assumptions	-	(291)	-	114
- financial assumptions	(596)	(417)	32	1,181
- experience adjustments	37	303	4	51
	(559)	(405)	36	1,346
Other:				
Benefits paid	966	938	72	96
	966	938	72	96
Balance, end of year	\$ (21,702)	\$ (21,378)	\$ (1,545)	\$ (1,519)
Fair value of plan assets				
Balance, beginning of year	\$ 18,601	\$ 18,676	\$ -	\$ -
Included in profit or loss:				
Interest income	633	664	-	-
Administrative expenses	(42)	(42)	-	-
	591	622	-	-
Included in OCI:				
Remeasurements gain (loss):				
Return (loss) on plan assets excluding interest income	(222)	241	-	-
	(222)	241	-	-
Other:				
Employer contributions	-	-	72	95
Benefits paid	(966)	(938)	(72)	(95)
	(966)	(938)	-	-
Balance, end of year	\$ 18,004	\$ 18,601	\$ -	\$ -
Net defined benefit liability	\$ (3,698)	\$ (2,777)	\$ (1,545)	\$ (1,519)

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18. EMPLOYEE BENEFITS (continued)

c) Gains (losses) recognized in statement of comprehensive income

For the year ended March 31	Pension Plan		Post-Employment Plan	
	2019	2018	2019	2018
Expense recognized in profit or loss				
Defined benefit obligation	\$ 731	\$ 755	\$ 134	\$ 191
Fair value of plan assets	(591)	(622)	-	-
Expense recognized with labour costs	\$ 140	\$ 133	\$ 134	\$ 191
Gains (losses) recognized in other comprehensive income				
Defined benefit obligation	\$ (559)	\$ (405)	\$ 36	\$ 1,346
Fair value of plan assets	(222)	241	-	-
	\$ (781)	\$ (164)	\$ 36	\$ 1,346

d) Actuarial assumptions

The following were the principal actuarial assumptions as at the reporting date:

	Pension Plan		Post-Employment Plan	
	2019	2018	2019	2018
Discount rate at end of year	3.30%	3.50%	3.30%	3.50%
Future pension growth	2.00%	2.00%	N/A	N/A
Inflation rate	2.00%	2.00%	N/A	N/A
Immediate health care trend rate	N/A	N/A	6.35%	6.56%
Ultimate health care trend rate	N/A	N/A	4.00%	4.50%
Year ultimate rate reached	N/A	N/A	2040	2035

e) Plan assets

The plan assets for the Pension Plan comprise:

As at March 31	2019	2018
Equity securities	33%	33%
Debt securities	21%	21%
Refundable Tax Account	46%	46%
Fair value of plan assets	100%	100%

The portfolio's asset mix is reviewed periodically and may vary in the future.

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18. EMPLOYEE BENEFITS (continued)

f) Sensitivity analysis

The following table shows the effect on the defined benefit obligation of a 1% change in certain key assumptions at March 31, 2019:

1% Movement	Defined Benefit Obligation Increase (Decrease)			
	Pension Plan		Post-Employment Plan	
	Increase	Decrease	Increase	Decrease
Discount rate	\$ (2,552)	\$ 3,135	\$ (199)	\$ 248
Inflation rate / pension increase rate	3,011	(2,504)	N/A	N/A
Health care trend rate	N/A	N/A	178	(145)

19. SHARE CAPITAL

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

Issued and outstanding March 31, 2019 and March 31, 2018: 2,576,885 common shares held by the BCTFA (subsidiary of the Province).

20. CONTRIBUTED SURPLUS

During the period ended March 31, 2019, the Group made no payments to the Province from its contributed surplus (2018 - \$0.4 million).

As at March 31	2019		2018	
Balance, beginning of year	\$	52,136	\$	52,568
Payments to the Province		-		(432)
Balance, end of year	\$	52,136	\$	52,136

The prior year's payment to the Province of \$432,000 was paid directly to the BCTFA towards funding of the North Shore Trade Corridor project which is now complete.

21. FINANCIAL INSTRUMENTS

Risk management

In the normal course of business, the Group is exposed to various risks such as credit risk, interest rate risk, and liquidity risk. To manage these risks, the Group follows a financial risk management framework, which is monitored and approved by the Group's Board of Directors, with a goal of maintaining a strong financial position, optimizing earnings and free cash flow, financing its operations at an optimal cost of capital and preserving its liquidity. The Group does not currently use derivative financial instruments. At March 31, 2019, the Group did not have any derivative financial instruments outstanding (March 31, 2018 – nil).

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21. FINANCIAL INSTRUMENTS (continued)

a) Credit risk

In the normal course of business, the Group monitors the financial condition and credit limits of its customers and reviews the credit history of each new customer. To manage its credit risk, the Group's focus includes the active management of relationships with customers to ensure timely payments, and requiring increased financial security through guarantees or letters of credit.

Included in Other Receivables are the following significant items where the Group has exposure to credit risk:

- long-term Joint Capital Account receivables due from CN, CP Rail and BNSF Railway Company (Note 11(b)) of \$130 million (2018 - \$97 million);
- long-term notes receivable from CN (Note 11(c)) of \$12 million (2018 - \$11 million); and
- long-term receivable for environmental remediation services from Kinder Morgan (Note 11(d)) of \$58 million (2018 - \$49 million).

b) Interest rate

The Group 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 Group's pension and post-retirement plans, its money market instruments and joint capital account receivables. A 25 bps increase to interest rates on the money market instruments and joint capital account receivables would increase net income and equity by \$285,000 and \$325,000 respectively (March 31, 2018 - \$345,000 and \$243,000 respectively) and a 25 bps decrease to interest rates would have the opposite effect. The pension plan investments are monitored by the board and management and managed by external pension fund managers.

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

c) Liquidity risk

The Group monitors and manages its cash requirements to ensure access to sufficient funds to meet operational and investing requirements. The Group 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 Group's principal source of liquidity is cash generated from operations and the disposal of non-core assets. The Group's primary uses of funds are for working capital requirements, as they come due, contractual obligations, capital expenditures, funding future environmental obligations, and other potential acquisitions. As such, the Group 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 shareholder.

BRITISH COLUMBIA RAILWAY COMPANY
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21. FINANCIAL INSTRUMENTS (continued)

Fair value of financial instruments

A number of the Group's accounting policies require the measurement of fair values. When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group 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 Statement of Financial Position under the following captions:

- (a) Trade accounts receivable, and trade and other payables:
The carrying amounts approximate fair value because of the short maturity of these instruments.
- (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 estimated fair value of the notes as at March 31, 2019 is \$36 million (March 31, 2018 – \$32 million); however due to the unique terms and conditions of the notes, there is a limited market or opportunity to readily dispose of these instruments.

Cash and cash equivalents are recorded at their fair value based on quoted prices in active markets (level 1). The carrying value of cash and cash equivalents included in the Consolidated Statement of Financial Position is equal to their fair value.

Capital management

As a result of its ownership by the Province of British Columbia, the Group 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 operating cash flows or disposals of surplus property, or, where there is a shortfall, through debt.

The Group currently has no debt outstanding and is retaining surplus equity 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.

The Group made no payments to the Province during the year from its contributed surplus (2018 - \$0.4 million).

BRITISH COLUMBIA RAILWAY COMPANY
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22. OPERATING LEASES

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

As at March 31	2019
Less than 1 year	\$ 213
Between 1 and 5 years	866
More than 5 years	74
	\$ 1,153

The Group leases office space under an operating lease which runs for a period of 5 years.

During the year ended March 31, 2019 an amount of \$400,000 was recognized as an expense in profit or loss in respect of operating leases (2018: \$386,000).

Leases as lessor

The Group leases out certain investment property held under operating leases (Note 14). The future minimum lease payments under non-cancellable leases are as follows:

As at March 31	2019	2018
Less than 1 year	\$ 1,764	\$ 1,434
Between 1 and 5 years	3,253	3,176
More than 5 years	6,182	2,198
	\$ 11,199	\$ 6,808

The 40-year operating lease with KM (Note 5) and the CN Revitalization Agreement (Note 4) were prepaid therefore no future payments are included above for these leases. Total proceeds from the KM lease are amortized to income annually resulting in rental income in 2019 of \$10.0 million (2018: \$7.5 million). The CN lease is being treated as a finance lease; all related assets were removed from the financial statements and related gains and losses were recognized at the time of the transaction.

23. DETERMINATION OF FAIR VALUES

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

a) Investment property

External, independent valuation companies, having appropriate recognized professional qualifications and recent experience in the location and category of property being valued, value the Group's investment property portfolio as required for property disposal purposes. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly. For those properties not currently for sale, an internal appraisal is performed. If there has been a significant change in market conditions, an external independent valuation is obtained by the Group.

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23. DETERMINATION OF FAIR VALUES (continued)

In the absence of current prices in an active market, the valuations are prepared by considering the aggregate of the estimated cash flows expected to be received from renting out the property. A yield that reflects the specific risks inherent in the net cash flows then is applied to the net annual cash flows to arrive at the property valuation.

Valuations reflect, when appropriate, the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting vacant accommodation, the allocation of maintenance and insurance responsibilities between the Group and the lessee, and the remaining economic life of the property. When rent reviews or lease renewals are pending with anticipated reversionary increases, it is assumed that all notices, and when appropriate counter-notices, have been served validly and within the appropriate time.

b) Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes.

c) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

24. CAPITAL COMMITMENTS

Deltaport Road / Rail Improvement Project

The Group is committed to supporting the Deltaport road / rail improvement project on behalf of the Port Sub user railways with budgeted funding of \$49 million in expansion costs. As at March 31, 2019, the Group has incurred \$43.4 million of the total committed amount (March 31, 2018: \$13.4 million). The assets will be added to the Joint Capital Account receivable as they are incurred.

25. CONTINGENCIES

The Group 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 (Note 17). Estimates are periodically reviewed and will be adjusted in the period that additional information becomes available.

26. CONSOLIDATED STATEMENT OF CASH FLOWS – SUPPLEMENTAL INFORMATION

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

For the year ended March 31	2019	2018
Accounts receivable	\$ (716)	\$ 439
Materials and other items	88	(165)
Accounts payable and accrued liabilities	96	4,189
Current portion of deferred revenue	141	39
	\$ (391)	\$ 4,502

BRITISH COLUMBIA RAILWAY COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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(tabular amounts in thousands of dollars)

27. RELATED PARTIES

All transactions with the Province of BC and its ministries, agencies and Crown corporations occurred in the normal course of business and are at arm's length, which is representative of fair value, unless otherwise disclosed in these notes.

Key management personnel compensation

The Group has defined key management as management employees at the Vice-President level and above and members of the Board of Directors.

In addition to their salaries, the Group also provides employment and post-employment benefits to executive officers, and contributes to an RRSP on their behalf.

Key management personnel compensation comprised:

For the year ended March 31	2019	2018
Short-term employee benefits	\$ 428	\$ 423
	\$ 428	\$ 423

A number of key management personnel, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of these entities. The related entities charged management fees to recover the related personnel costs in the reporting period.

The aggregate value of transactions and outstanding balances relating to key management personnel and entities over which they have control or significant influence were as follows:

For the year ended March 31	2019	2018
Employee Costs (a)	\$ 895	\$ 920
	\$ 895	\$ 920

(a) The Group received employee services from employees of MoTI.

The balance owing at March 31, 2019 to MoTI is \$244,000 (March 31, 2018 - \$248,000).

Other related party transactions

All outstanding balances with these related parties are to be settled in cash within 3 months of the reporting date. None of the balances are secured. During the fiscal year, there were no transactions or outstanding balances with BCTFA.

Other related party transactions have been disclosed elsewhere in the notes to the consolidated financial statements.

British Columbia Railway Company
Employee Remuneration (including Taxable Benefits) and Expenses
For Individuals Whose Remuneration and Expenses Exceeds \$75,000
April 1, 2018 to March 31, 2019

Last Name	First Name	Remuneration	Expenses
Adair	Russell	\$ 144,853	\$ -
Bevilacqua	Chris	148,890	1,950
Carter	Greg	112,967	-
Evanoff	Jennifer	117,820	-
Gosal	Marty	116,066	418
Hilliard	Kenneth	117,594	-
Kramer	Cathi	114,855	-
Langevin	Dane	117,153	-
Mosey	Gordon	129,256	1,579
Olive	David	118,411	-
Perrault	Stewart	117,465	-
Roering	Wolf	118,132	-
Steinberg	Kevin	203,846	2,115
Thorkelson	Larry	135,064	-
Westerhout	Shelley	111,316	593
Westlake	Gordon	212,723	1,842
Wukovits	Jeff	75,950	106
Total over \$75,000		2,212,361	8,603
Total under \$75,000		117,000	1,100
		\$ 2,329,361	\$ 9,703

**British Columbia Railway Company
Statement of Severance Agreements
April 1, 2018 to March 31, 2019**

There were no severance agreements made between British Columbia Railway Company and its non-unionized employees during the period.

**British Columbia Railway Company
Schedule Showing Total Remuneration and Expenses
In Respect of Board Members
April 1, 2018 to March 31, 2019**

There were no payments made by British Columbia Railway Company to any elected officials, employees appointed by Cabinet, or members of its Board of Directors during the period.

British Columbia Railway Company
Schedule of Payments Made for the Provision of Goods and Services
Amounts Exceeding \$25,000
April 1, 2018 to March 31, 2019

A & B Rail Services Ltd.	\$	3,971,534
Allstar Waterproof & Restorations Systems Ltd.		46,347
BC Hydro		362,413
BDO Canada		122,817
Borden Ladner Gervais LLP		164,699
Canadian Pacific Railway Company		33,647
City of Fort St John		26,435
City of Prince George		155,826
City of Surrey		148,649
Corporation of Delta		619,400
District Of Squamish		132,853
Falcon Shuttle Rail Inc.		26,236
FortisBC-Natural Gas		55,836
G. K. Marshall		38,850
GensCorp IT Inc.		743,684
Hatch Corporation		1,714,424
John Leighton		36,292
KC Rail Services Inc.		33,928
Les's Mechanical		44,242
Levor Guenther		217,647
Loram Maintenance of Way Ltd.		125,332
Marsh Canada Limited		467,634
McRae's Environmental Services Ltd.		29,679
Mercer (Canada) Limited		25,988
Minister of Finance		1,233,160
North American Rail Products		302,169
Norton Rose Fulbright Canada LLP		567,892
OpenRoad Toyota - Richmond		52,699
Pacific Blue Cross		43,728
Pauluzzi Appraisals Ltd.		56,416
Peter Woodbridge & Associates Ltd.		57,435
PNR RailWorks Inc.		14,462,168
Powerland Computers Ltd		389,910
Primus Canada		86,675
Receiver General for Canada - Source Deductions		694,429
REMCAN Projects Ltd.		43,303
SDM Realty Advisors Ltd.		420,225
SLR Consulting (Canada) Ltd.		81,607
SNC-Lavalin Inc.		31,757
South Delta Ground Works		47,569
Sperry Rail		33,210
Stella Jones Inc.		467,680
Sunlife		103,313
Technical Safety BC		105,156
Telus		46,876
Teranis Consulting Ltd.		55,465
Tier 5 Systems Ltd.		48,874
Top Notch Building Maintenance Ltd.		45,675
Tybo Contracting Ltd.		15,282,598
Unified Systems Inc.		74,021
Univar Canada Ltd.		35,991
voestalpine Nortrak Ltd.		74,569
Total payments exceeding \$25,000		44,288,962
Total payment of \$25,000 or less		919,956
Grand Total	\$	45,208,918

British Columbia Railway Company
Schedule of Debts
April 1, 2018 to March 31, 2019

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

British Columbia Railway Company
Schedule of Guarantee and Indemnity Agreements
April 1, 2018 to March 31, 2019

Guarantees:

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

Indemnities:

The organization has indemnities in force as follows:

- CN Revitalization Agreement