

BRITISH COLUMBIA RAILWAY 1980 ANNUAL REPORT



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Highlights	<i>Dollars in Thousands</i>	
	1980	1979
Operating revenues	\$ 143,726	\$ 125,826
Operating expenses	\$ 136,228	\$ 121,370
Operating profit	\$ 7,498	\$ 4,456
Interest	\$ 950	\$ 54,053
Net Profit (Loss)	\$ 12,642	\$ (48,135)
Carloadings	148,243	149,923
Tonnage	8,663,746	8,599,215
Number of Employees	2,767	2,951

Officers

M. C. NORRIS

President and Chief Executive Officer

J.R. CLARKE

Vice-President — Finance

P. A. MacDONALD

Vice-President — Labour Relations

N.A. McPHERSON

Vice-President — Operations and Maintenance

G.L. RITCHIE

Vice-President — Administration and Corporate Development

A. C. STURGEON

Vice-President — Marketing and Sales

General Offices: 1095 West Pender Street,
Vancouver, B.C. V6E 2N6

Bond Registration Office: Parliament Buildings,
Victoria, B.C. V8V 1X4

COVER: Towards the end of 1980 the Railway completed plans for its first use of television advertising. In the Spring and Fall of 1981 spot announcements will appear in some 50 communities along, and in the general area of its rail route, between Lillooet and Fort St. John. Central themes of the advertising, as depicted on this year's cover of the Annual Report, are people, jobs and resources.

Board of Directors

J. NORMAN HYLAND

Chairman of the Board

J. N. FRAINE

Retired Railroader

STANLEY M. HORNER

Chartered Accountant, retired

E. C. HURD

Retired Executive

GLENN W. McPHERSON

*Chairman
Vancouver Port Authority*

HON. D. M. PHILLIPS

*Minister of Industry and
Small Business Development
Province of British Columbia*

BRUCE ROME

Businessman

ROBERT E. SWANSON

Consulting Engineer

DONALD N. WATSON

*Chairman
President and Chief Executive Officer
Canadian Cellulose Company Limited*

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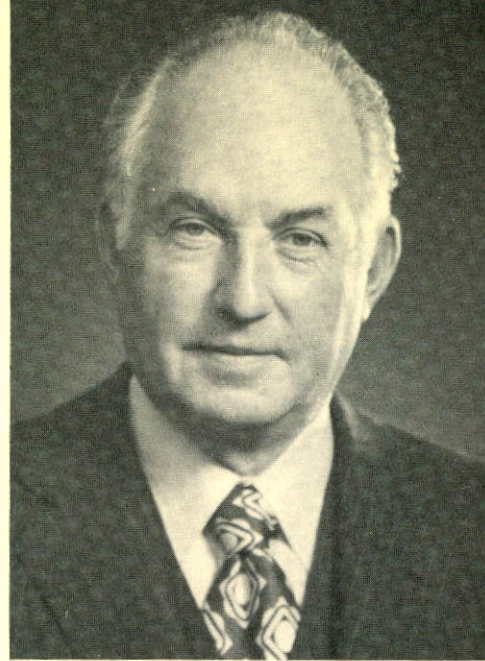
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Report of the Board of Directors

In 1980, British Columbia Railway recorded an operating profit of \$7.5 million, an increase from the \$4.5 million reported in 1979. Of a \$70 million debt servicing grant received from the Provincial Government in 1980, \$57.5 million was applied to offset our interest costs on borrowed money, resulting in a net profit of \$12.6 million, compared with a net loss of \$48.1 million in 1979.

The Railway's strong operating performance was achieved through cost control, innovative equipment utilization, and an effective freight rate program. In addition, operating efficiencies and reduced maintenance costs were achieved on the Fort Nelson line, as a result of the highly successful three-year upgrading program.

The Directors continue to encourage Management to bring forward projects and programs which are designed to improve operating efficiency, to provide a productive and safe working environment, and to enable the Railway to carry out its important transportation function on a profitable basis. An example of such a project was the completion in 1980 of the new Car Repair Shop at Prince George with a supporting Stores facility and a new Terminal Building to house those employees responsible for directing the Railway's freight operations through Prince George.

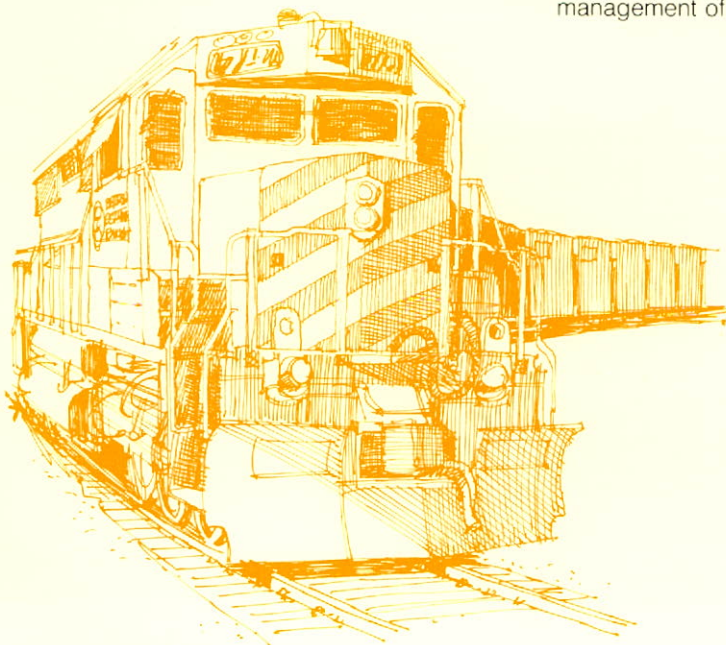


J. N. Hyland

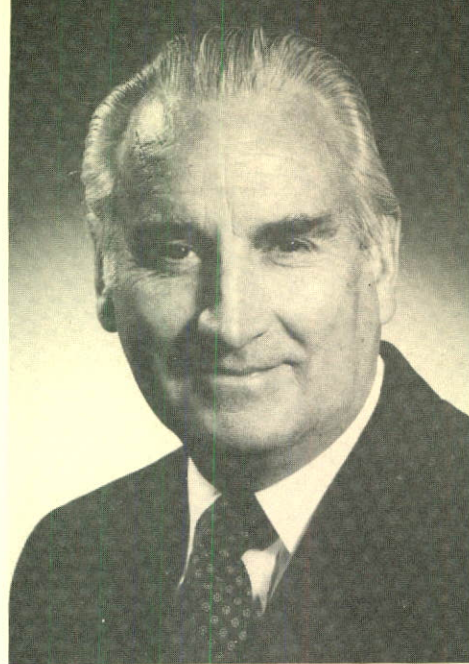
A major activity of the Board in 1980 was to assist Management in the negotiations of a joint freight rate with the Canadian National Railway and the coal producers in the movement of coal from the Tumbler Ridge area to the planned coal loading terminal at Prince Rupert. Completion of this large scale industrial development in northeastern British Columbia will require the construction of 130 km of new rail line from Tumbler Ridge to a point on the existing British Columbia Railway line near Anzac, thus enabling movement of unit coal trains to Prince George, from which point the shipments will travel on Canadian National Railway trackage to Prince Rupert. The planning for construction and financing of this key rail link will be an important responsibility of the Railway in 1981.

The Board of Directors wishes to express its thanks to all Railway employees for their individual contributions to B.C. Railway during 1980 and to acknowledge the positive results which effective team work helps to provide. Over the past four years the Railway has developed an experienced management group, and these officers and senior executives continue to demonstrate their diligence and competency in the management of the B.C. Railway.

J. N. HYLAND
Chairman of the Board



President's Report



M. C. Norris

The year 1980 was one of significant achievement for the Railway: operating results improved substantially and the Railway achieved its first net profit in a decade.

During 1980, major capital improvements were undertaken and included substantial completion of the rehabilitation program on the Fort Nelson Extension; improvements to the rail car and locomotive fleets; the completion of the stores, car repair and yard office complex in Prince George; and the reaching of a milestone in the track improvement program when crushed rock ballast was placed under the final section of track between North Vancouver and Chetwynd.

The Railway has succeeded in further improving labour relations during 1980. For the first time in recent years, a contract extending beyond one year was signed with the Council of Trade Unions covering the period from August 1, 1979 to January 31, 1982. In addition, the constitution of the Council of Trade Unions has been finalized, thereby enabling that Council to function effectively. In recognition of the maturing relationship between management and the Council of Trade Unions, the three-member Strand Commission has resigned, thus allowing the parties to conduct their affairs without third party participation. The two-member Fact Finder team appointed by the Minister of Labour to investigate and report upon the issue of train crew size has submitted its report. That report is now serving as a basis for the on-going negotiations between the Railway and the United Transportation Union. These positive developments bode well for continued improvement in labour relations on B.C. Rail.

Another significant contribution to labour-management relations was the amendment of the pension plan. At year-end, we were pleased to announce that all pensions in force would be increased effective January 1, 1981. Provision has also been made for future periodic pension increases to be financed out of investment earnings in excess of 5 per cent per annum on pension fund assets held in respect of pensioners.

Safety performance also showed substantial improvement. Mishap and train accident costs in 1980 were reduced by 53 per cent compared to 1979.

Continuing improvements in the overall operations of the Railway are assisted by ongoing data processing developments and enhancements. The development of B.C. Rail's system for the location, identification and control of train movements continued during the year under grants from both the Provincial and Federal Governments. The Railway's progress in this field is of considerable interest to the railroad community throughout the world. Control of our rail car fleet was improved in 1980 when B.C. Rail joined the data exchange facilities of the Association of American Railroads. In addition, a new Payroll and Employee Information System will fully integrate six existing programs covering all divisions of the Railway. The Payroll component of that system was successfully implemented on the new IBM 4341 computer at year-end.

1980 Results

The 1980 operating profit was \$7.5 million, an increase of \$3 million over 1979. Improved operations on the Fort Nelson Extension reduced the amount of Provincial Government assistance by \$2.4 million. The operating improvement overall was \$5.4 million. This result was particularly satisfying in the face of a three-week shutdown in January, depressed lumber markets, and major flood damage in December on the Squamish Subdivision.



The net profit was \$12.6 million for 1980, compared to a net loss of \$48.1 million in 1979. This achievement results from significant operating improvements and Provincial Government debt service assistance.

The historic debt burden of the Railway is largely the result of the Province's utilization of B.C. Rail as a vehicle for the development of northern British Columbia to the overall benefit of the Province. Until recently the responsibility for this debt burden and the operating losses of the developmental lines had been placed solely upon the Railway. In 1980, the Provincial Government stated its intention of introducing legislation to provide for the Province's ongoing commitment to the Railway's debt service charges. A grant of \$70 million was made to the Railway during 1980. As a result, interest expense was reduced to \$1 million from \$54 million in 1979. The Railway is encouraged by the Government's intent to continue this assistance.

Capital investment totalled \$52.5 million compared to \$23.8 million in 1979. Major capital expenditures included the purchase of twelve 3,000 h.p. locomotives; the acquisition of 405 bulkhead flatcars; the completion of the stores, car repair and yard office complex in Prince George; ballasting of 101 km of track between Prince George and Quesnel; and continued upgrading of the Fort Nelson Extension.

A court action by KRM Construction Ltd. and its parent company, Keen Industries Ltd., concerning contracts on the Dease Lake Extension, resulted in a judgement finding the Railway liable and awarding damages of approximately \$8 million plus costs and interest to the contractors. The total judgement is not expected to exceed \$12 million. The Railway will appeal the judgement.

Outlook

The announcement that two major mining companies are proceeding to sign long-term coal contracts with the Japanese heralds the development of the north east coal fields of British Columbia. The Railway is to undertake the construction of a 130 km branch line into the coal fields from a point near Anzac, 121 km north of Prince George. The route selected includes approximately 14 km of tunneling and is to be completed in time to accept coal shipments by late 1983. The pre-engineering work necessary prior to tendering for construction is currently underway. We welcome the challenge of constructing this branch line.

The introduction of major coal traffic will provide desirable commodity diversification and will be a major milestone in the development of the British Columbia Railway.

Continuing depressed lumber markets, high inflation, and upcoming labour negotiations in the industries affecting the Railway combined with the branch line construction program will make 1981 a very challenging year for B.C. Rail.

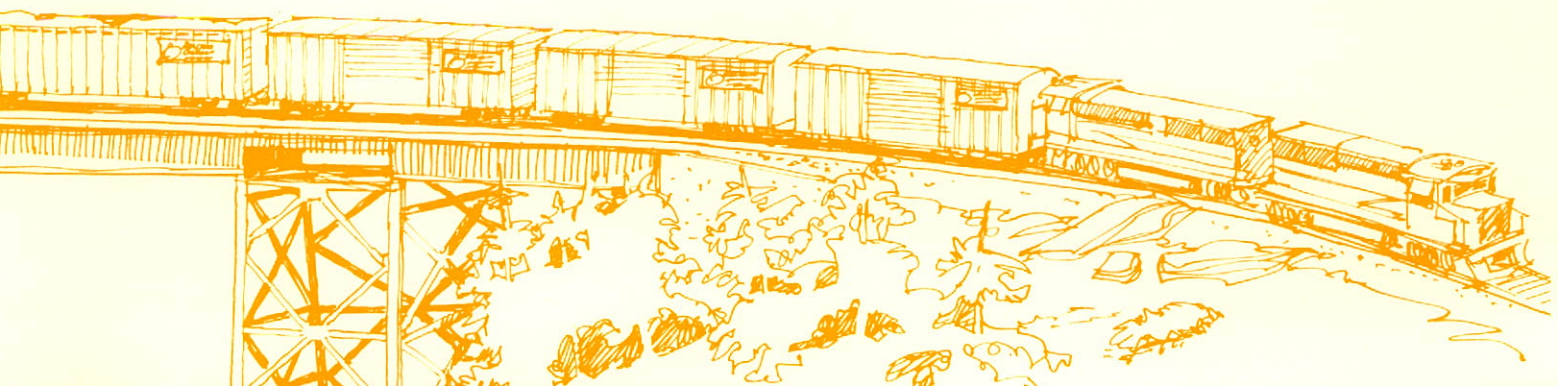
Special Thanks

The hard work and enthusiasm of our staff is much appreciated and the Railway's improved performance is, to a very large extent, the result of the effort put forth by all employees.

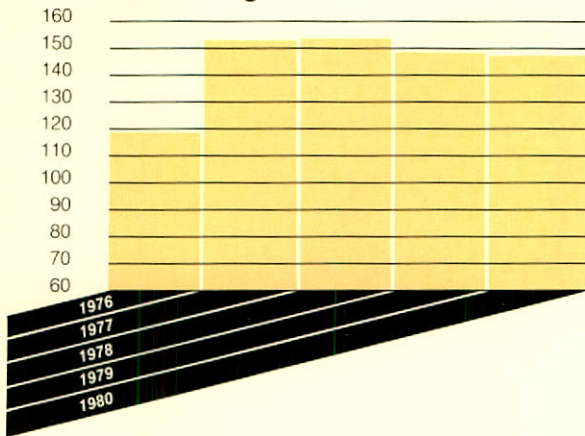
Special credit is due to our Engineering and Maintenance-of-Way staffs. A recent example of their proficiency was the completion of repairs within 20 days after three slides and 22 major washouts forced closure of the rail line between Squamish and Lillooet.

I also acknowledge on behalf of Management my appreciation for the co-operation, effort and continued strong support of the Board of Directors.

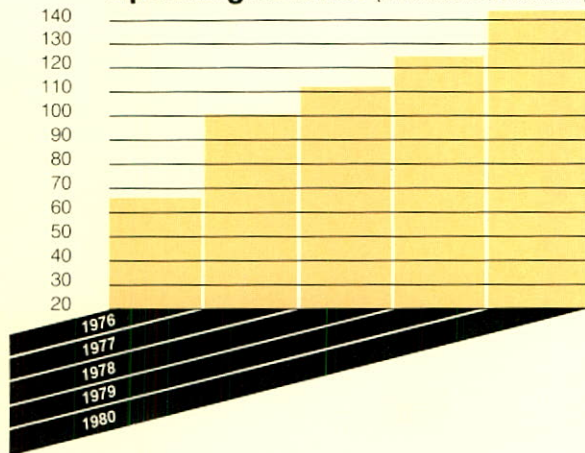
M. C. NORRIS
President and
Chief Executive Officer



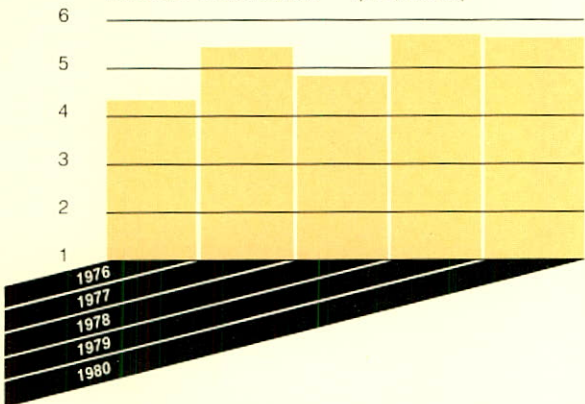
Carloadings (in thousands)



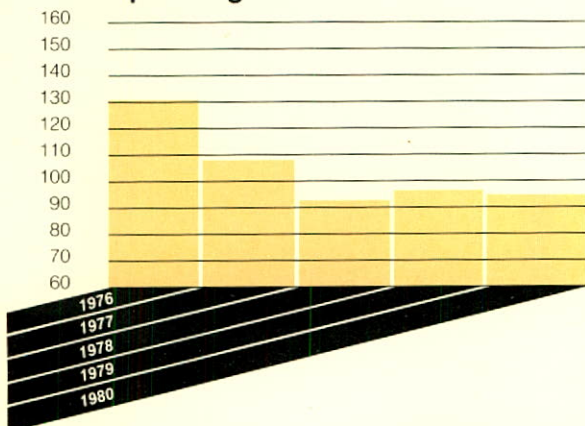
Operating Revenue (in millions of dollars)



Gross Ton Miles (in billions)



Operating Ratio



The Year in Review

Traffic

The Railway operates a rail freight service, principally engaged in transporting British Columbia's natural resources from the central interior and northern parts of the Province. Approximately three-quarters of total traffic volume is derived from the forest industry. One major market for our shippers' products is the eastern United States. In 1980, reduced U.S. housing starts, caused by high interest and mortgage rates, resulted in depressed demand for B.C. lumber products. This condition had a direct impact on the Railway's principal shippers and resulted in a 16 per cent reduction of lumber carloadings. A further reduction in overall volume was due to a strike which extended into the first three weeks of the year. These traffic decreases were partially offset by increased carloadings in woodchips, logs, sulphur, and grain. The Railway's 1980 carloadings totalled 148,243, compared to 149,923 in 1979.

Bulk commodities now represent a greater portion of the total traffic volume. Because these commodities are carried in larger capacity cars and larger cars are being used to handle forest products, total tonnage hauled in 1980 increased to 8,663,746 compared to 8,599,215 in 1979, despite the reduction in overall carloadings.

The Railway operates the Royal Hudson steam excursion train between North Vancouver and Squamish under contract with the Province. During 1980, the seventh year of operation, 59,388 passengers were carried on 100 trips. Regular passenger traffic increased to 73,514 from 72,841 in 1979.

Rolling Stock

Major improvements were made in the locomotive and rail car fleets both by significant acquisitions and the regular equipment repair programs.

The Railway purchased 12 new 3,000 h.p. diesel-powered locomotives, equipped to permit mid-train remote control operation. The Railway also acquired, by way of lease, 405 bulkhead flatcars.

At the end of 1980, the Railway's rolling stock fleet was comprised of 126 diesel-powered locomotives and 10,482 freight and other rail cars.

As a result of increased demand for log cars, the Railway has converted 105 bulkhead flatcars for hauling logs.

Continuing repair programs are necessary for the efficient utilization of the Railway's investment in rolling stock. As a part of the locomotive repair program, 15 locomotives were rebuilt during the year and a further three were nearing completion at year-end. During 1980, the Railway also achieved its objectives in relation to major repair work on rail cars; 881 major repairs were completed. The construction of a new car repair shop in Prince George was completed in 1980, an ongoing commitment to an effective car repair program. This shop will specialize in light repairs and will service approximately 3,000 cars captive to the central and northern areas of British Columbia.

Engineering

North East Coal

On behalf of the Province of British Columbia, pre-engineering studies were completed on rail access routes to the north east coal fields. Also under contract, detailed engineering was subsequently commenced on the exploration and design of proposed tunnels and grade on the Tumbler Ridge branch line route.

The recent announcement that the development of the north east coal fields of British Columbia will proceed has resulted in further activities by the Railway towards the construction of the 130 km branch line into the coal fields from a point near Anzac, 121 km north of Prince George. The pre-engineering work necessary prior to tendering for construction is currently underway.

Fort Nelson Extension

The three-year rehabilitation program on the Fort Nelson Extension was substantially completed at year-end. Construction of the Elleh Creek fill will continue into 1981. The track work portion of the program was completed in 1980. During the year, 150 km of track were ballasted and 167,000 ties installed. Rail-end welding for 191 km was also completed.

Other programmed work included shoulder widening, cut widening, ditching, completion of culvert extensions, and stabilization and reconstruction of grade.

Main Track Improvements

A milestone in the track improvement program was reached when crushed rock ballast was placed under the final portion of track between North Vancouver and Chetwynd. In addition, a total of 90,000 ties were placed throughout the system, of which 52,000 were installed in conjunction with the ballast program. Other Engineering activities included the upgrading or replacement of 6 bridges, the installation of thirteen shipper sidings, and the design of industrial park developments at Prince George and Fort St. John.

Communications

The Railway's commercial revenue from communication services increased by 15 per cent in 1980 as a result of additional circuits having been placed into service and the installation of 7 data channels for commercial users. Thirty data circuits and terminals were installed for the Railway's use.

Commodities Carried					
Carloadings:					
	1980	1979	1978	1977	1976
Lumber (to Canadian & U.S. & off-shore markets — includes plywood & veneer)	50,677	58,286	64,586	65,654	49,341
Other Forest Products (to Canadian & U.S. & off-shore markets — includes logs, wood chips & miscellaneous forest products)	50,475	45,782	44,328	39,217	32,944
Manufactured & Miscellaneous	23,141	22,482	23,126	23,449	19,014
Piggyback	8,716	9,175	8,762	8,560	5,699
Merchandise (less-than-carload lots)	3,147	4,202	4,547	4,643	3,985
Products of Mines	4,598	2,652	2,553	3,644	2,973
Grain	2,855	1,819	1,695	2,749	2,539
Total Revenue Cars Loaded on Line	143,609	144,398	149,597	147,916	116,495
Received from Connections	4,634	5,525	5,253	4,681	2,985
	148,243	149,923	154,850	152,597	119,480
Rolling Stock Fleet					
Motive power-diesel units	126	116	119	119	119
Freight cars	9,966	9,862	9,376	9,254	8,851
Passenger cars	7	8	6	6	5
Boarding and work cars	509	538	549	562	546

Industrial Development

New industrial facilities established in areas adjacent to the Railway during the year included a thermal-mechanical pulp mill at Quesnel, a building products manufacturing plant and a tire vulcanizing and distribution centre at Prince George, a rough lumber mill and two maintenance shops at Mackenzie, a major forest products manufacturing plant at Chetwynd, a sulphur pelletizing facility at Taylor, an anhydrous ammonia bulk plant at Fort St. John, a major log loadout operation at Niteal, and a lumber loadout facility at Fort Nelson. To service these new facilities, industrial tracks were installed at Lillooet, Quesnel, Prince George, Chetwynd, Taylor, Niteal, and Fort Nelson.

Major plant expansions in 1980 included the addition of a veneer plant to a forest products manufacturing facility at Lillooet, a pulp mill expansion at Prince George, and the completion of the pulp mill expansion at Mackenzie. Industrial track extension and modifications were completed at North Vancouver, Dunkley, Prince George, Mackenzie, Hasler, Taylor, and Fort St. James.

Labour Relations

In April, 1980, Mr. P.A. MacDonald was appointed Vice-President — Labour Relations.

For the first time in recent years, a contract extending beyond one year was signed with the Council of Trade Unions, covering the period from August 1, 1979 to January 31, 1982. During the year, a two-member Fact Finder team was appointed by the Minister of Labour to report on the issue of crew consist. The team, Mr. Jack Munro and Mr. John Spicer, made its recommendations soon after the 1980 year-end. These recommendations now serve as the basis for on-going negotiations between the Railway and the United Transportation Union.

Outlook

Traffic Prospects

A moderate increase in traffic volume is expected in 1981 as a result of a strong regional economic outlook and industrial expansion adjacent to the Railway. Depressed U.S. lumber demand is expected to continue into mid-year, but improvements are anticipated in the latter half of 1981. In the long term, the development of the north east coal fields and consequent major coal traffic will provide desirable commodity diversification for the Railway.

Industrial Development

A substantial number of industrial developments are planned for 1981 in Squamish, Williams Lake, Prince George, Mackenzie, Taylor, and Fort St. John. These developments offer encouraging traffic prospects for the future.

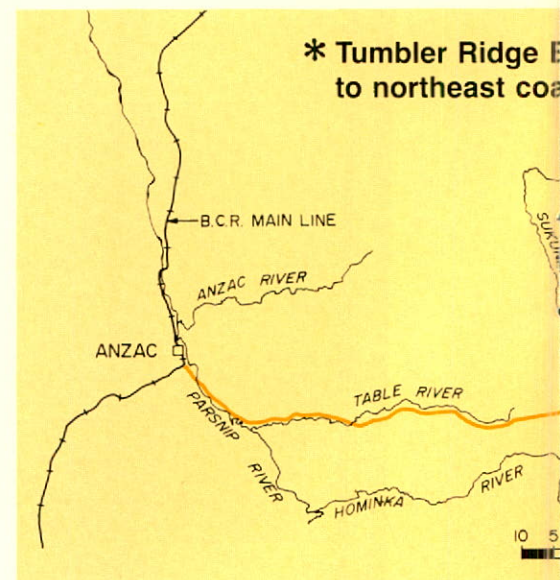
Data Processing

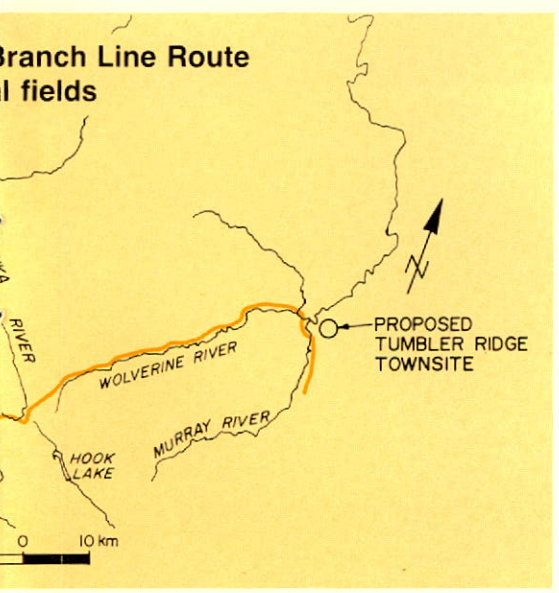
The Data Processing Department intends to continue to support the ongoing improvements in the overall operation of the Railway by the implementation of further system developments and enhancements, among which will be the completion of the payroll and employee information system, the development of a new inventory control system, and the further development of the Railway's system for the location, identification and control of train movements.

Engineering

The most significant project to be undertaken in 1981 is the rail access construction into the north east coal fields. The pre-engineering, design, and letting of contracts will be in progress throughout the year. Completion of this project is scheduled for late 1983.

Other major projects include an \$8 million rail relay program in the Anderson Lake-Seton Lake-Pavilion Hill area and upgrading of the main track between Chetwynd and Fort St. John.





BRITISH COLUMBIA RAILWAY COMPANY

Balance Sheet (Dollars in Thousands)

Assets

	January 2 1981	December 28 1979
Current assets		
Cash and temporary investments	\$ 12,618	14,556
Accounts receivable	21,814	32,068
Materials, supplies and other items	31,297	27,001
	65,729	73,625
Property and equipment		
Road	435,146	427,547
Equipment	208,401	177,063
Other properties	1,981	1,981
	645,528	606,591
Accumulated depreciation	130,702	118,334
	514,826	488,257
Dease Lake Extension — Note 3	92,506	92,107
	\$673,061	653,989

On behalf of the Board:



G. W. McPherson, Director



S. M. Horner, Director

Auditors' Report

To the Lieutenant Governor in Council
Province of British Columbia

We have examined the balance sheet of British Columbia Railway Company as at January 2, 1981 and the statements of income and deficit and changes in financial position for the fiscal year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Railway as at January 2, 1981 and the results of its operations and the changes in its financial position for the fiscal year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding fiscal year.

Peat, Marwick, Mitchell & Co.
Chartered Accountants

Vancouver, British Columbia, Canada
March 6, 1981

Liabilities and Shareholder's Deficit

	January 2 1981	December 28 1979
Current liabilities		
Accounts payable and other liabilities	\$ 67,246	67,729
Notes payable	—	30,000
Current obligations on long-term debt	11,159	9,900
	78,405	107,629
Long-term debt — Note 4	671,210	648,034
Shareholder's deficit		
Share capital — Note 6	185,573	185,573
Contributed surplus — Government grants — Note 5	73,728	61,250
	259,301	246,823
Deficit	(335,855)	(348,497)
	(76,554)	(101,674)
Commitments and contingent liabilities — Notes 7, 8 and 9		
	\$673,061	653,989

Management Report on Financial Statements

The financial statements of the British Columbia Railway Company have been prepared by Management in accordance with accounting principles generally accepted in Canada for railways in a manner consistent with the previous year. Management is responsible for the accuracy, integrity and objectivity of the information contained and to ensure that the presentation conforms with generally accepted accounting principles.

The independent auditors, Peat, Marwick, Mitchell & Co., have been appointed by the Lieutenant Governor in Council to express an opinion as to whether these financial statements present fairly the Railway's financial position and operating results in conformity with generally accepted accounting principles consistently applied. Their report outlines the scope of their examination and gives an opinion on the fairness of the statement presentation.

An Audit Committee of the Railway Directors appointed by the Board meets periodically with financial officers of the Railway and the external auditors to ensure that each group is fulfilling its obligations and to review and approve the annual financial statements prior to their release.

Management maintains an extensive system of internal accounting controls and believes that transactions are accurately recorded on a timely basis, are properly approved and result in reliable financial statements. The adequacy and operation of the control systems are monitored on an on-going basis by an internal audit department.

The financial statements have, in the opinion of the Railway, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized in Note 1 of the Notes to the financial statements.

BRITISH COLUMBIA RAILWAY COMPANY

Income and Deficit (Dollars in Thousands)

	<i>Fiscal Year Ended</i>	
	January 2 1981	December 28 1979
Operating revenues	\$143,726	125,826
Operating expenses		
Transportation	61,232	53,823
Road maintenance	28,920	28,369
Equipment maintenance	28,845	26,348
Depreciation	14,279	13,364
Other	9,462	8,354
Government grants — Note 2	(6,510)	(8,888)
	136,228	121,370
Railway operating profit	7,498	4,456
Other income (expenses)		
Interest expense — Note 5	(58,472)	(54,053)
Application of debt servicing grant	57,522	—
	(950)	(54,053)
Other income	6,094	1,462
	5,144	(52,591)
Net profit (loss)	12,642	(48,135)
Opening deficit	348,497	300,362
Closing deficit	\$335,855	348,497

BRITISH COLUMBIA RAILWAY COMPANY

Changes in Financial Position (Dollars in Thousands)

	<i>Fiscal Year Ended</i>	
	January 2 1981	December 28 1979
Funds provided		
Operations		
Net profit (loss)	\$ 12,642	(48,135)
Add items not requiring funds	14,279	13,364
	26,921	(34,771)
Long-term financing	64,701	41,376
Government grants		
Construction — Note 2	11,648	12,090
Debt servicing — Note 5	12,478	—
	115,748	18,695
Funds used		
Property and equipment	52,496	23,780
Dease Lake Extension — Note 3	399	674
Sinking funds and long-term debt	41,525	20,569
	94,420	45,023
Working capital (deficiency)		
Increase (decrease)	21,328	(26,328)
Opening balance	(34,004)	(7,676)
Closing balance	\$ (12,676)	(34,004)

Notes to Financial Statements

January 2, 1981

1. Significant accounting policies

The accounting regulations prescribed by the Canadian Transport Commission for Canadian railways have been adopted to the extent that this is possible without submitting specific accounting policies and depreciation rates to the Commission for approval.

Class of business

The Railway provides a fully integrated rail service within the Province of British Columbia. Services other than hauling freight are not of sufficient size to constitute a separate segment.

Road property

New construction is recorded at cost net of grants received. Abandoned or relocated sections are removed at average unit costs. Elements of track structure installed during planned programs are recorded at cost and the material released is removed from the asset accounts at the average unit cost. Labour costs for programmed replacements are expensed as incurred.

All costs of constructing extension lines are capitalized to the date the line is certified operational by the British Columbia Ministry of Transportation and Highways. Capitalization of interest ceases and provision of depreciation commences on the date of certification.

Depreciation

Depreciation is provided for major categories of property and equipment on the straight-line basis at composite rates estimated to reduce the original cost to estimated salvage value over the average service lives of the classes. The group method is used for recording depreciation under which the original cost of assets retired less salvage value is charged against accumulated depreciation. No gain or loss on retirements, other than on accidental destruction of rolling stock and on disposal of land, is included in operations. The original cost of principal assets less estimated salvage value is depreciated over the following number of years:

	<i>Number of Years</i>
Grades, surfacing and tunnels	100
Rails	50
Ties and ballast	25
Bridges	65
Locomotives and power units	25
Freight cars	33

Repairs

Repairs and non-programmed replacements of track structure are charged against current operations. Betterments and major track relocations are capitalized.

Materials and supplies

Inventories of materials and supplies are valued at the lower of average cost or net realizable value.

Government grants

Government grants have been recorded in accordance with the accounting recommendations of the Canadian Institute of Chartered Accountants. Grants directly related to the construction or rehabilitation of road property have offset related road property capital expenditures. Cost assistance grants have been deducted from the related expense accounts.

Income taxes

The Railway is exempt from Canadian federal and provincial income taxes.

Transactions in foreign currency

Transactions originating in United States currency are recorded at the approximate exchange rates prevailing at the dates of the transactions. Current assets and current liabilities have been translated to equivalent Canadian amounts at the rate of exchange in effect on the balance sheet date.

Leases

Certain long-term lease transactions relating to the financing of equipment are accounted for as purchases of property. The capitalized lease obligation reflects the present value of future rental payments dis-

counted at the interest rate implicit in the lease. The capitalized value of depreciable assets is depreciated over the term of the lease in equal annual amounts. The costs of all other leases are charged against operations as they are incurred.

Fiscal year-end

The fiscal year of the Railway ends on the Friday closest to December 31. The 1980 fiscal year ended on January 2, 1981 and comprised 53 weeks. The 1979 fiscal year ended on December 28, 1979 and comprised 52 weeks.

2. Fort Nelson Extension

During 1978, the Government of the Province of British Columbia undertook to reimburse the Railway for the costs of the rehabilitation program which began in June, 1978 and to reduce the annual operating losses of this Extension.

During the last three years the Province has provided a total of \$39,193,000 to the Railway for the rehabilitation program of which \$33,565,000 has offset road property capital expenditures. The balance, together with contributions to offset the operating loss, have been deducted from operating expenses as follows:

	1980	1979
Rehabilitation program, road property maintenance expenses	\$1,703,000	2,088,000
Contribution to reduce operating losses	4,807,000	6,800,000
Total Government grants deducted from operating expenses	\$6,510,000	8,888,000

3. Dease Lake Extension

These costs consist of charges relating to the uncompleted Dease Lake Extension prior to suspension of construction in 1977 and legal and other costs incurred subsequently in connection with litigation commenced against the Railway by contractors involved in construction of the Extension. There are no commitments to continue construction and in the event any portion of this Extension is abandoned, the cost less any value recovered will be written off at that time.

4. Long-term debt

Long-term debt is not secured by assets of the Railway. Bonds issued by the Railway which are held in the sinking fund are not cancelled but for financial statement presentation have been deducted from the amounts shown as outstanding. As of January 2, 1981 the principal amount of such bonds held in the sinking fund aggregated \$33,077,000 (1979 — \$32,915,000).

Long-term debt outstanding, less current maturities, consists of the following:

	1980	1979
Sinking fund bonds and debentures		
1981-1985 — 3¼% to 5%	\$ 17,415,000	17,468,000
1986-1990 — 4¾%	29,906,000	50,000,000
1991-1995 — 4.5% to 9.34%	142,719,000	142,734,000
1996-2000 — 7.08% to 10.5%	378,210,000	378,210,000
2001-2005 — 9.05% to 12.75%	200,000,000	155,000,000
	768,250,000	743,412,000
Less sinking fund assets net of Railway's own bonds held	106,807,000	86,981,000
	661,443,000	656,431,000
Serial bonds		
4½% — due 1988	1,366,000	1,503,000
Long-term lease obligations	19,560,000	—
	682,369,000	657,934,000
Deduct current portion	11,159,000	9,900,000
	\$671,210,000	648,034,000

Bonds totalling \$185,327,000 which are held by the Minister of Finance for Canada contain a provision whereby under certain circumstances they may be presented for redemption upon six months notice given to the Railway. A further \$28,387,000 of bonds are subject to redemption in various amounts at various dates until 1984, at the option of either the holder or the Railway. The Railway also has the right under certain circumstances to redeem bonds aggregating \$479,602,000 at various dates, principally after 1983.

Long-term debt retirements and sinking fund provisions excluding early redemption options, for the four fiscal years ending with 1985 are \$10,577,000, \$9,919,000, \$9,929,000 and \$9,847,000.

Included in long-term debt outstanding at January 2, 1981 are obligations recorded at par value of \$14,287,000 payable in United States currency. The Canadian equivalent of these obligations at January 2, 1981 is approximately \$16,986,000.

The Government of the Province of British Columbia has unconditionally guaranteed the principal and interest of the serial bonds and sinking fund bonds and debentures.

5. Interest expense

The Province has granted \$70,000,000 to assist in paying the 1980 debt servicing charges of the Railway. Of this amount, \$57,522,000 has been applied to offset interest on borrowed money and the balance of \$12,478,000 has been added to contributed surplus.

Interest expense is as follows:

	1980	1979
Interest on long-term debt	\$72,439,000	64,745,000
Less:		
Sinking fund earnings	10,076,000	8,297,000
Interest earned on temporary investments	4,841,000	2,395,000
	14,917,000	10,692,000
	57,522,000	54,053,000
Less:		
Application of debt servicing grant	57,522,000	—
Net interest on long-term debt	—	54,053,000
Interest on capitalized leases	\$ 950,000	

6. Share capital

Authorized share capital is 2,105,729 shares of \$100 each of which 1,855,729 shares are outstanding.

7. Lease commitments

The Railway has significant lease commitments for rolling stock and additional minor lease commitments for equipment and real estate which expire during varying periods to the year 2000.

The following is a schedule of future minimum rental payments at January 2, 1981 required under non-cancellable leases that have terms in excess of one year:

	Capital leases	Operating leases
1981	\$ 2,938,000	13,129,000
1982	2,938,000	12,871,000
1983	2,938,000	12,771,000
1984	2,938,000	11,944,000
1985	2,938,000	11,712,000
Later years	35,988,000	81,747,000
Total minimum lease payments	50,678,000	144,174,000
Less:		
Executory costs	(4,921,000)	
Imputed interest	(26,197,000)	
Present value	\$19,560,000	

Assets under capital leases recorded in the property and equipment accounts as at January 2, 1981 are as follows:

Equipment	\$19,701,000
Accumulated depreciation	458,000
	\$19,243,000

8. Contingent liabilities

On January 16, 1981 a judgement was rendered by the British Columbia Supreme Court awarding two contractors \$8,070,000 plus costs and interest, which in total should not exceed \$12,000,000, resulting from litigation concerning construction of the Dease Lake Extension. The Railway will capitalize all amounts paid pursuant to this judgement together with costs and any interest allocable to the period prior to cessation of construction in 1977; interest allocable to periods subsequent to that date will be recorded as an expense of the periods to which it applies. No provision has been made in the accounts as the Railway intends to appeal this judgement. In the opinion of counsel the Railway should succeed in this appeal.

A contractor has commenced legal action against the Railway to recover losses and other damages for specific claims concerning construction of the Dease Lake Extension in the amount of \$1,400,000, plus interest and costs.

9. Pension plan

The majority of employees participate in a contributory pension plan and are entitled to limited vested rights prior to retirement. Based on a report by independent actuaries, the unfunded accrued liabilities of the pension plan at January 1, 1979 approximated \$7,000,000. The unfunded liabilities are being amortized over a period of 24 years commencing on January 1, 1979, at a cost of \$568,000 per annum. Total pension expense for the year including past service costs was \$5,089,000 (1979 — \$4,907,000). Total contributions for 1981 are projected to be \$5,600,000.

The plan is currently being amended to be effective January 1, 1981. The amendments will increase pensions in force at January 1, 1981 and will make provision for future periodic increases in pensions in force financed out of investment earnings in excess of 5% per annum on pension fund assets held in respect of pensioners.

The next actuarial valuation of the plan is due as at December 31, 1981. The independent actuaries have advised that, in their opinion, the actuarial assumptions to be used in the next actuarial valuation should be revised. They estimate that the effect of such a revision will be to reduce the ongoing costs and the value placed on accrued liabilities, thereby reducing or eliminating the current unfunded liability. They further estimate that the January 1, 1981 amendment will increase ongoing costs and accrued liabilities, valued on the recommended new actuarial assumptions. The net effect of the change in the basis of valuation and the increased cost of the revised plan should be a small reduction in pension costs, as a percentage of payroll.

10. Remuneration of directors and officers

Total remuneration paid to six officers amounted to \$304,000 (five in 1979 — \$245,000). Remuneration paid to eight directors who were not officers of the Railway amounted to \$55,000 (eight in 1979 — \$38,000); the remaining director served in each year without remuneration from the Railway.

11. Related party transactions

All of the outstanding shares of the Railway are owned by the Government of the Province of British Columbia.

Long-term debt is guaranteed by the Province and the Railway received a grant to assist with the related debt servicing charges as set out in Note 5. The Ministry of Finance of the Province acts as fiscal agent in the administration of the long-term debt for which no charge is made to the Railway. The Railway also received a grant during the year for rehabilitation expenses and certain operating losses incurred on the Fort Nelson Extension as described in Note 2. No charge for property taxes on land used for Railway purposes is made by the Province. The Railway has undertaken preliminary work on behalf of the Province in connection with construction of a 130 km branch line to access coal deposits in north-eastern British Columbia for which the Railway has recovered full costs. All other transactions between the Railway and the Province are at terms no more or less favourable than those with unrelated parties.

