

C

LIBR
GEMPS
G 2
CILL



**BRITISH
COLUMBIA
RAILWAY**

ANNUAL REPORT 1979

Highlights

	Dollars in Thousands	
	1979	1978
Operating revenues	\$ 125,826	\$ 114,309
Operating expenses	121,370	105,621
Operating profit	4,456	8,688
Interest	54,053	54,338
Net Loss	48,135	44,448
Carloadings	149,923	154,850
Tonnage	8,599,215	8,842,253
Number of Employees	2,951	2,950

Officers

M. C. NORRIS
President and Chief Executive Officer

J. R. CLARKE
Vice-President — Finance

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: A sunset scene at the British
Columbia Railway's southern terminal in
North Vancouver.

Board of Directors

J. N. FRAINE
Chairman of the Board

STANLEY M. HORNER
Chartered Accountant, retired

E. C. HURD
Chairman of the Board
Trans Mountain Pipe Line Co. Ltd.

J. NORMAN HYLAND
President, Granduc Mining Co. Ltd.

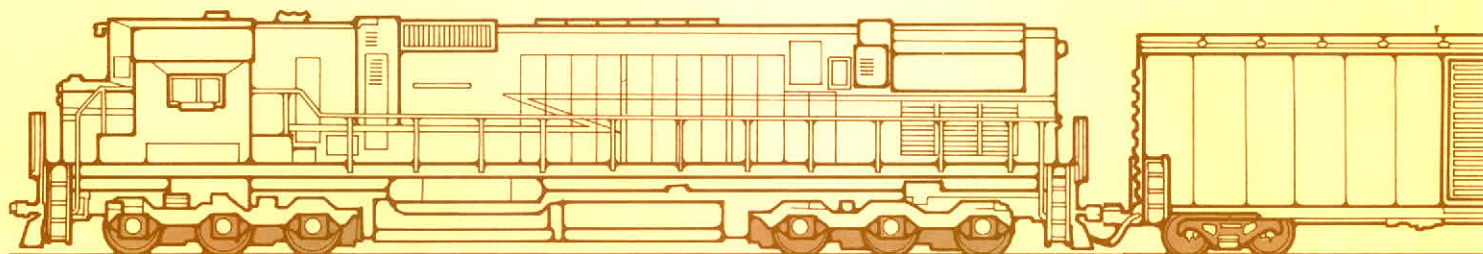
GLENN W. McPHERSON
Chairman
Vancouver Port Authority

HON. D. M. PHILLIPS
Minister of Industry &
Small Business Development
Province of British Columbia

BRUCE ROME
Businessman

ROBERT E. SWANSON
Consulting Engineer

DONALD N. WATSON
Chairman
President
Chief Executive Officer
Canadian Cellulose Company Limited



Report of the Board of Directors

While we maintained a business activity only slightly below the record volume achieved in 1978, our railway operating profit for 1979 was \$4,456,000 down from \$8,688,000 realized in the preceding year. This experience was attributable to a multiplicity of factors recited by the President in his following report.

We incurred interest costs of \$54,053,000 on our outstanding debt obligations of \$687,934,000 and after recording miscellaneous income of \$1,462,000, our resultant net loss was \$48,135,000 for the year under review.

The need for financial restructure of the Railway, as recommended by the Royal Commission and as heretofore provided for almost all railways operating on this continent, has been fully recognized by the Provincial Government. In his 1980 Budget address the Minister of Finance stated:

"The British Columbia Railway has played an important role in opening up the more remote regions of the Province. In doing so it has had to make large investments in facilities before they could be operated profitably. The burden of debt on these investments has been a barrier to good financial management and the continued success of the Railway. The Government therefore proposes to introduce legislation at this Session to provide for the Province's ongoing commitment to the interest costs and retirement of the British Columbia Railway's historic debt."

We are currently engaged in intensive collaboration with government officials to determine the appropriate procedures to accomplish this purpose.

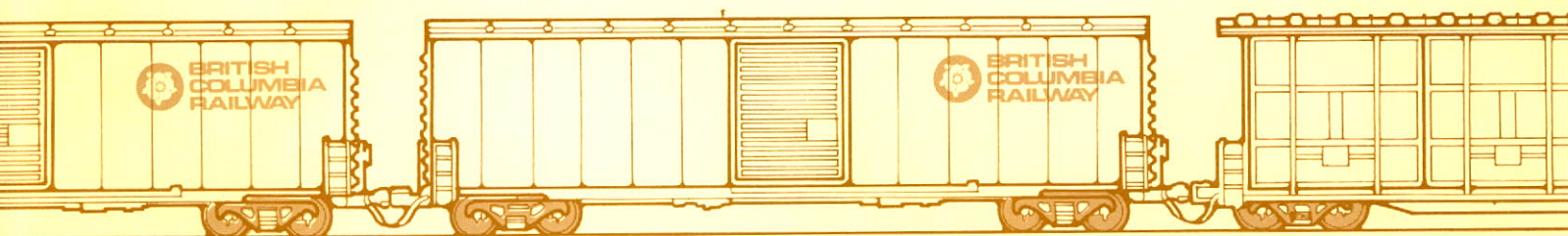
A matter of continuing grave concern to the Directors is the cost of strikes, not only to the financial welfare of the Railway, its customers and the Provincial economy, but equally to the affected employees and their families and the merchants whom they support.

However, in spite of the fact that we believe the awards of the Strand Commission were excessive and that the recently signed collective agreement denied benefits to the Railway which were within its legitimate expectations, there is a new opportunity for improvement in union-management relations. The 30-month contract gives some time for the development of a better understanding between the Council of Unions and management and, hopefully, will lead to an improved climate for negotiation of subsequent agreements. It is hoped, too, that the recently announced appointment, by the Railway, of a well qualified person as Vice-President, Labour Relations, will help this process materially.

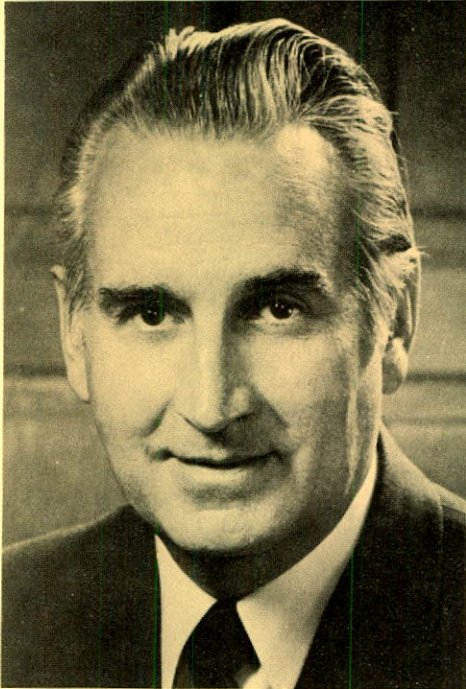
In the Railway, as in any industrial enterprise, the key to success is in its people. The Board acknowledges, with thanks, employee efforts during the past year and urges the Railway "family" at all levels of responsibility to work toward a safer, more harmonious and more productive future.

On behalf of the Board

J.N. Fraine
Chairman of the Board



President's Report



1979 was again a year of solid accomplishment on the British Columbia Railway. The operating profit of \$4.46 million, while down from 1978, was achieved in the face of very real difficulties.

The severe rail car shortage during the first half of 1979, the lengthy Gibraltar Mine strike, the decline of eastern rail lumber shipments during the second half of 1979, and the loss of the Peace River Bridge for 47 days all had a major impact on revenues. In addition, the strike of B.C.R. unions which began on December 10 resulted in a loss of switching and freight revenues of \$4 million in December. An additional loss of some \$400,000 of switching revenues occurred due to the partial destruction of the CN bridge across Burrard Inlet.

As a result of the loss of the CN bridge, the British Columbia Railway handled 240 CN detour trains between Prince George and North Vancouver under a reciprocal detour agreement. This was an important industry obligation met by the British Columbia Railway which permitted the continued flow of certain export traffic through the Port of Vancouver. The cooperation of the B.C.R. shippers in this matter is gratefully acknowledged.

On the cost side, the Strand Commission award resulted in unexpected additional labor costs in excess of \$3 million. The price of fuel increased by 12 per cent over 1978.

Overall, carloadings, excluding CN detour movements, were down by only three per cent while freight revenues increased by seven per cent over 1978. Revenues from all sources were above those of the previous year — \$127.2 million compared to \$115.5 million. Operating expenses increased by 14.9 per cent over 1978.

During 1979 the Province of British Columbia provided \$6.8 million to reduce the operating losses on the Fort Nelson Extension. In addition, the rehabilitation program was also funded by the Province of British Columbia.

Borrowing requirements were reduced because of the Government's funding of the upgrading program on the Fort Nelson Extension, a reduction in the Railway's capital programs and a reduction in major equipment acquisitions.

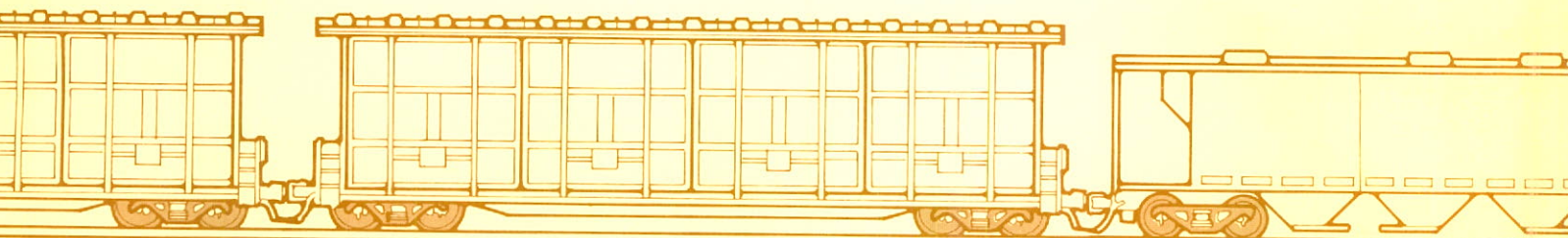
Capital expenditures in 1979 totalled \$29 million, including the Fort Nelson Extension.

Significant improvements in car repair capacity and Stores Department efficiency were made at Squamish by moving the rail car repairs to the building previously occupied by the rail car manufacturing plant and centralizing Squamish and North Vancouver Stores in the vacated car shop and surrounding area.

Construction commenced during the year at Prince George on a \$6 million complex which includes a car repair shop, a yard office and a stores building. The car repair shop will ensure proper maintenance on approximately 3,000 cars utilized in the Prince George and north area of the Railway. The yard office replaces an outdated and undersized facility; the stores building fulfills an objective of consolidating Prince George stores operations in a single area adjacent to those facilities requiring stores' service.

The Railway's rail car fleet was improved and expanded in 1979. Acquisitions included 500 double door cars to replace customer lease cars where contracts had expired and to provide more efficient car types better suited to our traffic. An additional 400 box cars were ordered for interline lumber loading, most of which were delivered by the year-end.

Track improvements during the year included ballasting of 97 miles of track. The established lines south of Fort St. James and Fort St. John have now been



substantially upgraded through rail relaying, ballasting, tie replacement, bridge replacement, grade stabilization, curve reduction and bank widening.

A special tribute is due the Railway's engineering staff who, in addition to their normal duties, as well as the Northeast coal rail route access engineering studies and the major rehabilitation of the Fort Nelson line, were faced with the destruction by fire of the 1,400-ft. long 70-ft. high trestle approach to the main span of the Peace River Bridge. In one week, engineering had completed the geotechnical investigation of the site, designed a massive earthfill and had the contract let and dirt moving. The repairs were made in record time and involved placing some 800,000 yards of material and constructing 90 feet of new trestle. During this 47-day period the Railway maintained its transportation service for customers by providing loading and unloading facilities on the south side of the Peace River. These facilities were reached by a temporary bridge constructed across the Pine River by the Ministry of Highways. Dawson Creek facilities were also utilized for truck-to-rail transfer.

The Railway demonstrated its ability to handle additional volumes of traffic and, equally important, demonstrated the value of improved track structure which permitted the handling of unit trains of up to 130 tons gross weight per car without incident. This performance attracted the attention of off-shore coal customers.

In April a major reorganization of the management structure of the Railway was implemented. Four major areas of responsibility — Finance — Administration — Marketing & Sales — Operations & Maintenance — were each brought

under the jurisdiction of a Vice-President. At the same time Operations and Engineering departments were streamlined and consolidated to reflect the Railway's change from an expansionary to a stabilized position. These changes have been reflected in cost savings and improved management control of the Railway.

Continued improvement was made during the year in the data processing, internal audit, financial planning and financial control areas of the Railway.

The first major computer system designed to assist the Marketing & Sales Division, the Contribution Analysis Package (C.A.P.), was developed by the Marketing and Data Processing departments and will greatly assist in maximizing the Railway's net freight revenues.

Prototype testing of B.C. Railway's L.I.C. System (Location, Identification and Control of train movements) was completed in May. Functional specifications for the general and conceptual design of the full system are complete. Upon acceptance of the design by the Joint Federal Government-Provincial Government-B.C. Railway Steering Committee, the detailed hardware and software design will be finalized.

The Employees' Suggestion System, introduced in September, 1978 has proven to be most gratifying. By year-end, more than 800 suggestions have been received, 87 of which were adopted, with awards totalling more than \$20,000.

The program of Management Committee visits to on-line communities was continued and three separate trips were completed to meet with civic officials, business and labor leaders, press representatives and Railway personnel in eleven communities.

A school program was introduced in 1979 to present the Railway's history and an outline of general operations to hundreds of school children in eight school districts located in areas along the rail line.

In 1979 the incidence of mishaps and lost time accidents was above the previous year's level and this was a major disappointment in the overall performance. Management is determined to reverse these results in 1980.

The Railway in December suffered its first major labour disruption since late 1976. The resultant 30-month contract breaks the pattern of annual confrontation at the bargaining table and bodes well for the resolution of remaining problems. In addition, since the end of the year, a Vice-President — Labour Relations has been added to the Railway staff in the person of P.A. (Archie) MacDonald, who has a broad background in contract negotiations, mediation and conciliation and in all aspects of the collective bargaining process.

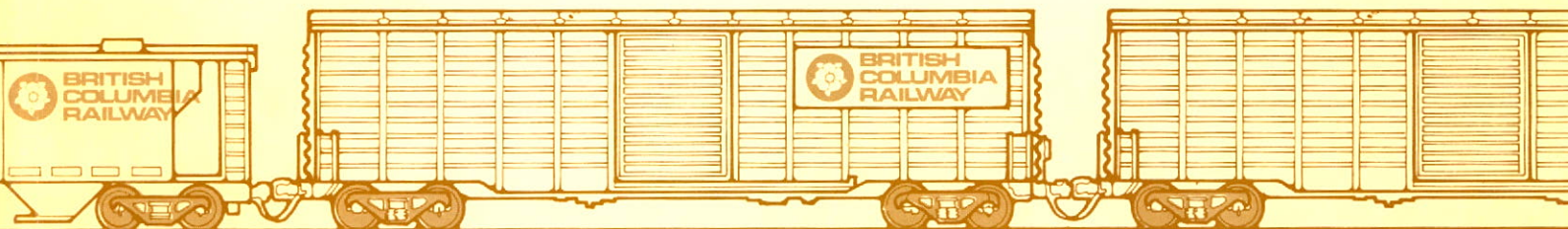
Discussions and negotiations continue related to the shipment of coal from the Northeast sector of the Province.

The efforts of all employees are recognized and appreciated — management extends thanks for their significant and direct contribution to the growth of the Railway and the Provincial economy.

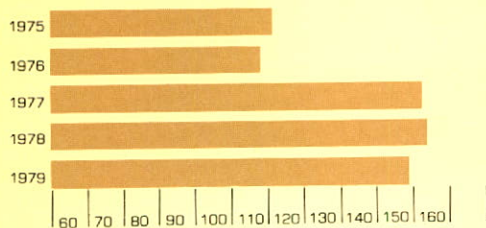
On behalf of management I express my appreciation for the effort and dedication extended by the Directors throughout the year.

We look forward to a strong performance by the Railway in the years ahead.

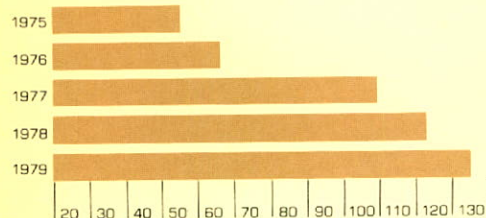
M.C. Norris
President and
Chief Executive Officer



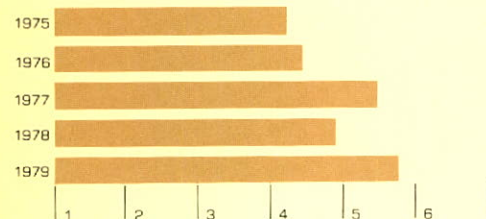
Carloadings (in thousands)



Gross Revenue (in millions of dollars)

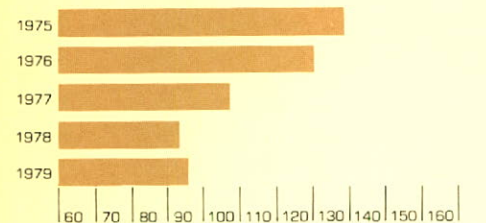


Gross Ton Miles (in billions)



one ton hauled one mile equals 1 gross ton mile (including contents and car weight)

Operating Ratio



The Year in Review

Traffic

Carloadings moved in near-record volume despite a weakening lumber market, two bridge outages and a strike which affected traffic movements for the final 21 days of 1979. (The strike continued into the first three weeks of 1980).

Total loadings, at 149,923, were slightly below the previous year's record of 154,850. Tonnage hauled totalled 8,599,215, down from 8,842,253, the all-time high which was achieved in 1978.

Factors contributing to the reduction in freight handled included a decline in the demand for lumber during the final quarter of 1979, labour disruptions both on the Railway and in industry serviced by the Railway, the loss in mid-October of the CNR bridge spanning Burrard Inlet in Vancouver, and shortly thereafter, the loss of the trestle section of B.C. Rail's Peace River Bridge in northern B.C.

Passenger traffic declined to 72,841 passengers from 75,592 in the previous year.

The Royal Hudson steam train excursion between North Vancouver and Squamish, in its sixth year of operations, carried 66,500 passengers in 99 trips compared with 68,000 in 107 trips during 1978.

Locomotive and Car Fleets

In the scheduled rebuild program, 17 locomotives were completed and two units were half completed at year-end.

Unscheduled heavy repairs included three engine changes and 15 heavy repairs.

During the course of a busy year the car shop handled 794 major car repairs and 2,058 light repairs.

In its first full year of operation, the new paint shop processed 356 cars.

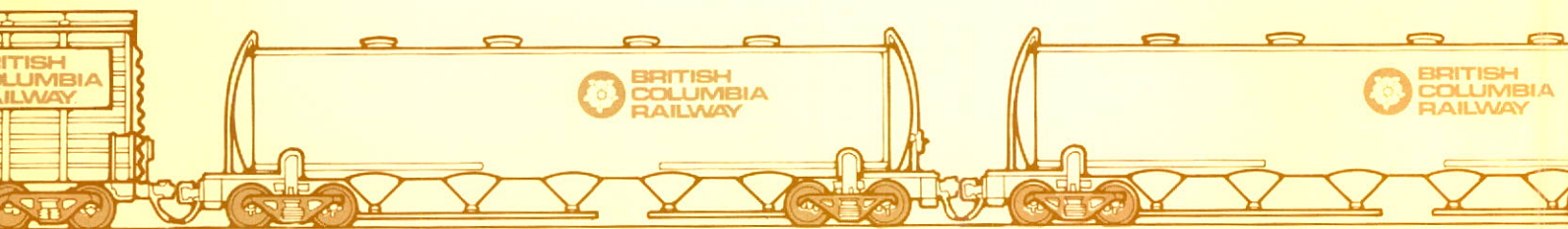
Apart from the car work performed at Squamish, line point car shops supported the Railway's daily operations by completing more than 20,000 light car repairs.

Among measures taken in 1979 to improve facilities of the Mechanical Division were:

- extension of the drainage system in the shop area at North Vancouver and erection of a new metal building to provide storage for passenger Budd car engines and components. A 30-foot fibre glass extension was added to the car repair facilities and new lighting installed to permit night-time car repairs.
- movement of the car repair work force in Squamish into the plant previously used for rail car manufacturing will facilitate the handling of heavy and medium car repairs.
- installation of a new power washer in the motive power area will permit faster and improved cleaning of locomotive traction motors and generators.
- acquisition of a Bertram wheel lathe (acquired in late 1979 and to be installed early in 1980) will speed wheel set production.

Completion of the new car shop now under construction in Prince George will result in the handling of an increasing volume of car repairs at that location.

The Railway owns 116 diesel locomotives, three having been retired during the year. It operates 9,870 freight and other cars and a fleet of 572 cars, trucks and road trailers.



Engineering

Fort Nelson Extension

The upgrading program on the Extension continued as scheduled with work completed as planned and with costs substantially on budget.

Major work included 106 miles (170 km) of ballasting, 50 miles (80 km) of final lining and surfacing over the area ballasted in the previous year, 150 miles (240 km) of rehabilitation of 85 lb. rail, 77 miles (123 km) of rail-end welding and installation of 207,123 ties.

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

Main Track Improvements

In 1979 there were 62,614 feet of main track relay completed and sidings and yard relay totalled 53,078 feet.

Other improvements included installation of 104,854 ties, 97 miles (155 km) of ballasting and 511 miles (818 km) of lining and surfacing.

Approximately 900,000 cubic yards of earth were moved in replacing the Peace River Trestle which was destroyed by fire in October.

Additional progress in the Engineering area involved dismantling the Australian Creek Bridge, the designing and start-up of construction of a new yard office, stores building and car shop at Prince George and start of construction of a wheel lathe building in Squamish.

Other Engineering work included rail grinding, installation of turn-outs, rail slotting, yard lighting improvements and upgrading of section facilities.

Consulting Services

Pre-engineering studies were completed on the cost of the proposed 54.5 mile Chetwynd South route to the northeast coal fields.

Later in the year Engineering began preparing a study of another route alternative. To be completed in May, 1980, this study involves access to the coal fields via a 68-mile Chetwynd-Martin Creek-Tumbler Ridge Route.

Communications

The Railway negotiated two contracts during the year for commercial circuits. One contract was with Westcoast Transmission Co. for data circuits which were placed in service in March; the other with B.C. Telephone Co., for voice circuits into the Alta Lake area. This service is scheduled to commence in July, 1980.

The Ministry of Universities, Science and Communications has contracted to use a number of circuits on the Railway's microwave system. Channels have been installed for an ambulance network which is being installed in the Prince George and Quesnel areas. This service is under consideration for the Squamish, Whistler and Pemberton area.

The Railway's microwave system in the Fort St. John area has been expanded with an increase from 24 to 120 channels.

Industrial Development

Construction of several new facilities and major plant expansions marked industrial development along the rail line in 1979.

New facilities included a wood chip export terminal in North Vancouver, lumber remanufacturing plants at Lac La Hache and Williams Lake, a petroleum bulk plant at Prince George, bulk cement distribution facilities at Fort St. John, a heavy equipment sales and service centre at Fort Nelson and a log load-out facility at Fort St. James.

New industrial tracks were installed at North Vancouver, Prince George, Chetwynd and Fort St. James.

Forest product manufacturing plants were expanded at Lillooet, Williams Lake and Prince George and track revisions were completed to accommodate increased lumber production at Fort St. James and Fort Nelson.

Labour Relations

During the first quarter of the year the Strand Commission completed a review of wage relationships among the seven unions comprising the Council of Unions on the British Columbia Railway. This review resulted in substantial mid-contract wage increases for employees in a majority of the unions.

New contract negotiations commenced with the Council in May to replace the contract which expired on July 31, 1979.

Strike action by the Council of Trade Unions led to a partial shut-down of rail operations beginning December 10th and a total stoppage beginning December 18th.

Operations resumed on January 21st when the Council agreed to forward to its members for a ratification vote a settlement recommendation proposed by the Provincial Minister of Labour.



Commodities Carried

Carloadings:

	1975	1976	1977	1978	1979
Lumber (to Canadian & U.S. & off-shore markets — includes plywood & veneer)	50,390	49,341	65,654	64,586	58,286
Other Forest Products (to Canadian & U.S. & off-shore markets — includes logs, wood chips, & miscellaneous forest products)	28,545	32,944	39,217	44,328	45,782
Manufactured & Miscellaneous Piggyback	19,699	19,014	23,449	23,126	22,482
Merchandise (less-than-carload lots)	5,236	5,699	8,560	8,762	9,175
Products of Mines	5,071	3,985	4,643	4,547	4,202
Grain	4,529	2,973	3,644	2,553	2,652
Total Revenue Cars Loaded on Line	3,170	2,539	2,749	1,695	1,819
Received from Connections	116,640	116,495	147,916	149,597	144,398
	3,804	2,985	4,681	5,253	5,525
	120,444	119,480	152,597	154,850	149,923

Rolling Stock Fleet

	1975	1976	1977	1978	1979
Motive power-diesel units	107	119	119	119	116
Freight cars	8,280	8,851	9,254	9,376	9,862
Passenger cars	5	5	6	6	8
Boarding and work cars	538	546	562	549	538

Outlook

Traffic Prospects

A downturn in housing starts in the United States and a strike which halted rail operations during the closing weeks of 1979 and during the first three weeks of 1980, are likely to affect earlier traffic forecasts.

The Railway has been working with coal producers on the proposed movements of northeast coal. Negotiations between the

Federal and Provincial Governments and between the coal producers and customers in world markets are proceeding.

Calculations have been based on movements of up to five million tons annually through the Port of Prince Rupert.

Both coal and sulphur from the northeast sector of the Province offer encouraging traffic prospects for the future. Sulphur shipments from Fort Nelson are expected to increase and the Hasler sulphur plant, now under construction south of Chetwynd, is scheduled to enter production in 1980.

Industrial Development

A substantial number of industrial developments are planned for 1980 including a rail-car-to-barge transfer terminal at North Vancouver, log load-out yard at Lillooet, groundwood pulp mill at Quesnel, lumber remanufacturing plant at Barlow, north of Quesnel, and a lumber manufacturing complex, feed mill, pulp mill expansion, sash and door expansion, planer mill and a 20-acre expansion to the Railway's industrial park, all at Prince George.

Other planned industrial developments include a sulphur outloading plant at Hasler, south of Chetwynd, lumber manufacturing plant expansion and modernization at Chetwynd, anhydrous ammonia bulk plants and the first phase of a 10-acre industrial park development at Fort St. John, a log out-loading yard at Niteal (Mile 898) and re-opening of the cubed forage manufacturing plant at Dawson Creek.

Operations

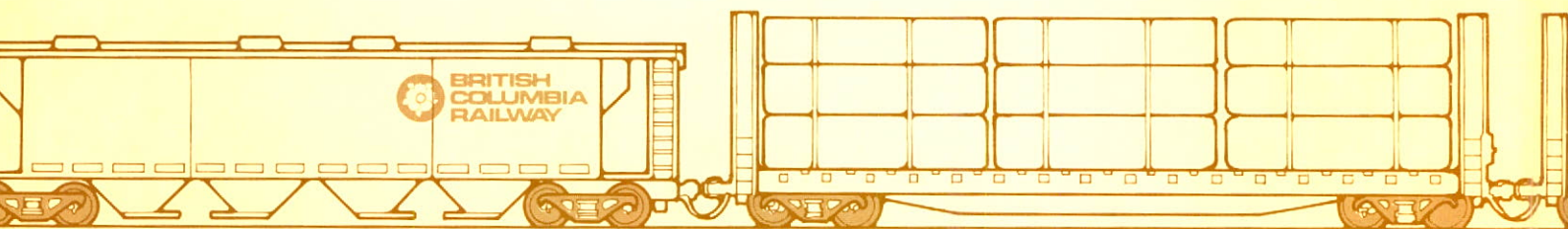
Twelve new 3000 h.p. locomotives, each costing \$1,000,000, will be delivered to the Railway in the final quarter of 1980.

The decision to acquire the additional units was based on an analysis of the existing fleet, anticipated traffic and the rising cost of fleet maintenance.

In 1980 B.C. Rail intends to lease 645 bulkhead flat cars which, after retiring certain leased equipment, will increase the car fleet by 172 cars. The new flat cars are 66 feet in length and will be the longest cars of this type on the Railway.

An additional 50 box cars will be added to the fleet for use in interline pulp service.

To monitor and improve control of its off-line cars the Railway, beginning in mid-1980, will improve access to the American Association of Railroad's computer system.



Also during the year, the Railway will acquire additional locomotive control (locotrol) equipment to augment present equipment which includes 13 lead units and 12 mid-train remote cars. Scheduled for delivery are six master sets of lead equipment and six remote cars. The lead equipment will be incorporated into six of the new locomotives to be placed in service in 1980.

The Railway for the past 10 years, in order to optimize its train operations, has been utilizing electronic equipment for controlling remote locomotives.

Mechanical

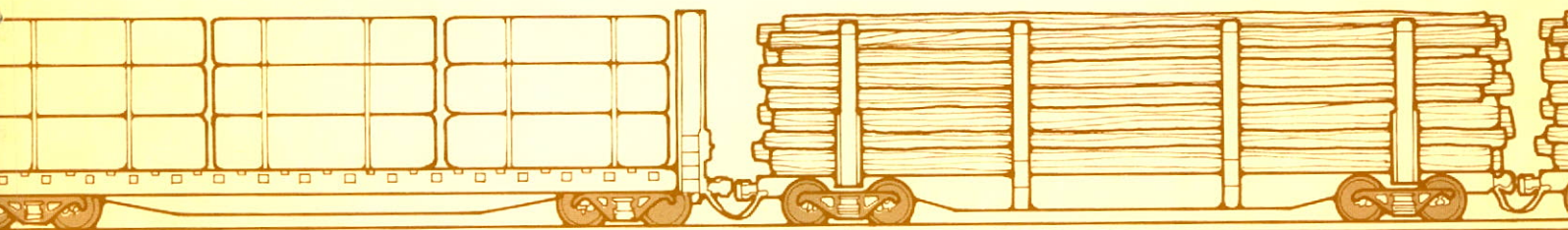
In 1980, Squamish Shops plans to rebuild 20 locomotives and complete more than 900 medium and heavy car repairs.

Data Processing

The Railway's teleprocessing system is being converted from the IBM 360 computer to a PDP 11-70 computer. The move to the new computer will improve the system as most of the older teletype machines can be replaced with newer, faster computer terminals.

The 10-year-old IBM 360 computer will be replaced with a new IBM 4341 computer in November, 1980.

In late 1979 a study commenced to review all waybilling procedures within the Railway. It is anticipated that the development of a new system will utilize advancing computer technology. Specific plans will be prepared and implemented during the course of the next two years.



BRITISH COLUMBIA RAILWAY COMPANY

Balance Sheet

(Dollars in Thousands)

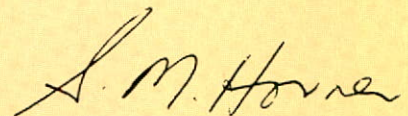
Assets

	December 28 1979	December 29 1978 (Note 2)
Current assets		
Cash and temporary investments	\$ 14,556	18,865
Accounts receivable	32,068	24,660
Materials, supplies and other items	27,001	27,704
	73,625	71,229
Property and equipment		
Road	427,547	413,249
Equipment	177,063	174,307
Other properties	1,981	6,930
	606,591	594,486
Accumulated depreciation	118,334	104,555
	488,257	489,931
Dease Lake Extension , construction costs — Note 4	92,107	91,433
	\$653,989	652,593

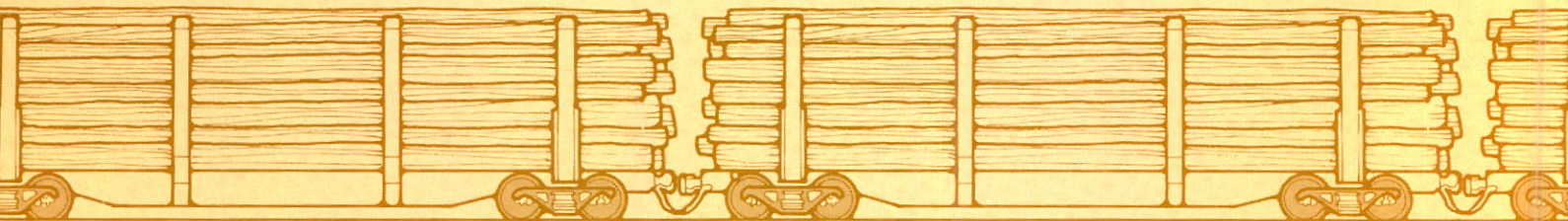
On behalf of the Board:



GLENN W. McPHERSON
Director



STANLEY M. HORNER
Director



Liabilities and Shareholder's Equity (Deficit)

	December 28 1979	December 29 1978 (Note 2)
Current liabilities		
Accounts payable and other liabilities	\$ 67,729	50,422
Notes payable	30,000	20,000
Current obligations on long-term debt	9,900	8,483
	107,629	78,905
Long-term debt — Note 5	648,034	627,227
Shareholder's deficit		
Share capital — Note 6	185,573	185,573
Contributed surplus — Government grants	61,250	61,250
	246,823	246,823
Deficit	(348,497)	(300,362)
	(101,674)	(53,539)
Commitments and contingent liabilities		
Notes 7, 8 and 9		
	\$653,989	652,593

Auditors' Report

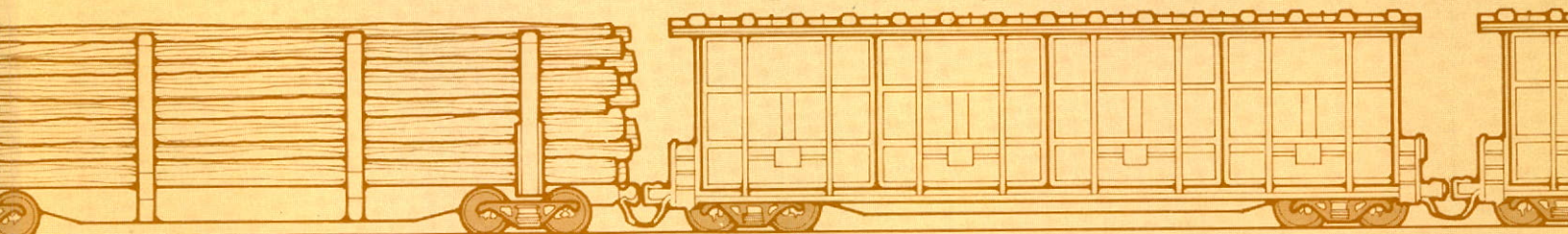
To the Lieutenant Governor in Council
Province of British Columbia

We have examined the balance sheet of British Columbia Railway Company as at December 28, 1979 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 December 28, 1979 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, as restated.

Peat, Marwick, Mitchell & Co.
Chartered Accountants

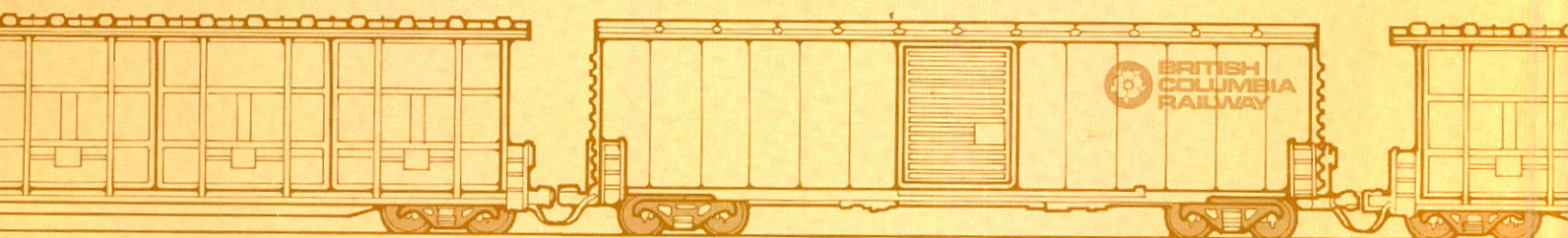
Vancouver, British Columbia, Canada
March 20, 1980



BRITISH COLUMBIA RAILWAY COMPANY**Income and Deficit**

(Dollars in Thousands)

	Fiscal Year Ended	
	December 28 1979	December 29 1978 (Note 2)
Operating revenues	\$125,826	114,309
Operating expenses		
Transportation	53,823	44,640
Road maintenance	28,369	23,914
Equipment maintenance	26,348	22,317
Depreciation	13,364	13,585
Other	8,354	9,402
Government grants — Notes 2 and 3	(8,888)	(8,237)
	121,370	105,621
Railway operating profit	4,456	8,688
Other expenses		
Interest on borrowed money — Note 5	54,053	54,338
Less other income	1,462	1,202
	52,591	53,136
Net loss	48,135	44,448
Opening deficit as restated — Note 2	300,362	255,914
Closing deficit	\$348,497	300,362

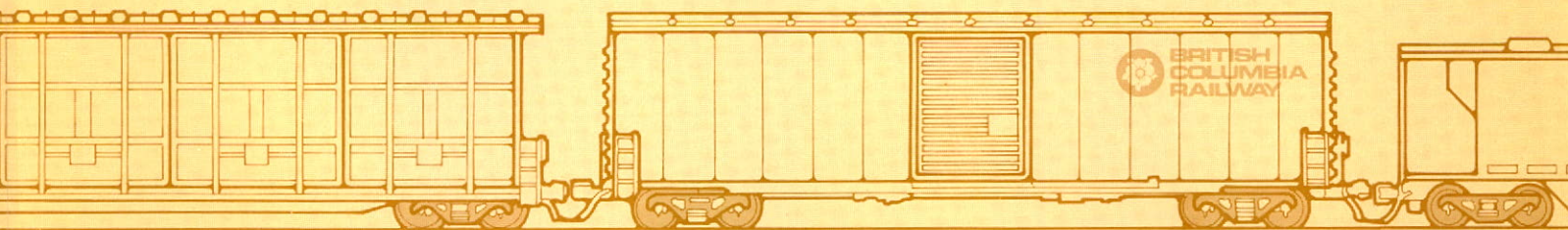


BRITISH COLUMBIA RAILWAY COMPANY

Changes in Financial Position

(Dollars in Thousands)

	Fiscal Year Ended	
	December 28 1979	December 29 1978 (Note 2)
Funds provided		
Long-term debt	\$ 41,376	—
Government construction grants — Note 3	12,090	9,827
	53,466	9,827
Funds used		
Operations		
Net loss	48,135	44,448
Deduct items not requiring funds	13,364	13,585
	34,771	30,863
Property and equipment	23,780	16,557
Dease Lake Extension, construction costs	674	(791)
Sinking funds and long-term debt	20,569	15,890
	79,794	62,519
Working capital (deficiency)		
Decrease	(26,328)	(52,692)
Opening balance	(7,676)	45,016
Closing balance	\$(34,004)	(7,676)



Notes To Financial Statements

December 28, 1979

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.

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, Communications 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:

	<u>Number of Years</u>
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.

Bond discount

Bond discount is deferred and amortized over the term of the issue to which it relates. Unamortized amounts related to debt retired are charged against operations in the year the debt is retired unless the debt is specifically refinanced. In this case the remaining amount is amortized over the lesser of the balance of the life of the original debt, or the life of replacement debt.

Materials and supplies

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

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.

Fiscal year-end

The fiscal year of the Railway ends on the Friday closest to December 31. The 1979 fiscal year ended on December 28, 1979 and the 1978 fiscal year ended on December 29, 1978; both comprised 52 weeks.

Statement presentation

Certain items in the 1978 comparative financial statements are presented in conformity with the statement presentation adopted for 1979.

2. Prior year adjustment

Opening deficit as previously reported	\$302,762,000
Additional contribution from the Government of the Province of British Columbia to reduce 1978 Fort Nelson Extension operating loss	<u>2,400,000</u>
Opening deficit as restated	<u>\$300,362,000</u>

3. 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.

The province has provided a total of \$25,842,000 to the Railway for the rehabilitation program of which \$21,917,000 has offset road property capital expenditures. The balance of \$3,925,000, together with contributions to offset the operating loss have been deducted from operating expenses as follows:

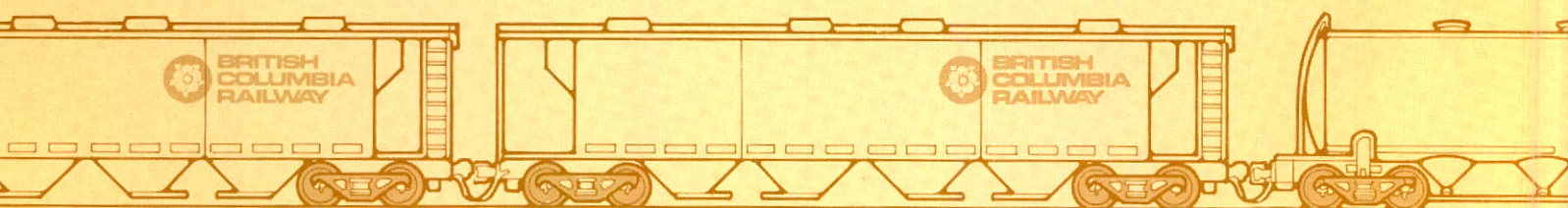
	<u>1979</u>	<u>1978</u>
Rehabilitation program, road property maintenance expenses	<u>\$2,088,000</u>	1,837,000
Contribution to reduce operating losses	<u>6,800,000</u>	6,400,000
Total Government grants deducted from operating expenses	<u>\$8,888,000</u>	<u>8,237,000</u>

4. Dease Lake Extension, construction costs

Construction costs consist of charges relating to the uncompleted Dease Lake Extension following suspension of construction in 1977. 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.

5. 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 December 28, 1979 the principal amount of such bonds held in the sinking fund aggregated \$32,915,000 (1978 — \$32,766,000).



Interest on borrowed money is as follows:

	1979	1978
Interest and debt expense on long-term debt	\$ 64,745,000	60,752,000
Less:		
Sinking fund earnings, net of earnings on Railway's own bonds held	8,297,000	4,772,000
Temporary investment of long-term debt proceeds	2,395,000	1,642,000
	10,692,000	6,414,000
	\$ 54,053,000	54,338,000

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

	1979	1978
Sinking fund bonds and debentures		
1981-1985 — 3¼% to 5%	\$ 17,468,000	17,617,000
1986-1990 — 4¾% to 8¼%	50,000,000	50,000,000
1991-1995 — 4.5% to 8.92%	142,734,000	142,734,000
1996-2000 — 7.08% to 10.5%	378,210,000	336,834,000
2001-2005 — 9.05% to 10.4%	155,000,000	155,000,000
	743,412,000	702,185,000
Less sinking fund assets net of Railway's own bonds held	86,981,000	68,109,000
	656,431,000	634,076,000
Serial bonds		
47½% — due 1988	1,503,000	1,634,000
	657,934,000	635,710,000
Deduct current obligations on long-term debt	9,900,000	8,483,000
	\$648,034,000	627,227,000

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 \$48,387,000 of bonds are subject to redemption in various amounts at various dates commencing in 1980, at the option of either the holder or the Railway. The Railway also has the right under certain circumstances to redeem bonds aggregating \$435,544,000 at various dates, principally after 1980, in some cases at premiums up to 1%.

Long-term debt retirements and sinking fund provisions for the four fiscal years ending with 1984 are \$9,958,000, \$9,967,000, \$9,309,000 and \$9,319,000.

Included in long-term debt outstanding at December 28, 1979 are obligations recorded at par value of \$14,477,000 payable in United States currency. The Canadian equivalent of these obligations at December 28, 1979 is approximately \$16,948,000.

The Government of the Province of British Columbia has unconditionally guaranteed the principal and interest of the long-term debt.

6. Share capital

Authorized share capital is 2,105,729 shares of \$100 each of which 1,855,729 shares are outstanding and held by the Government of the Province of British Columbia.

7. 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 1997. The minimum average annual lease payments under existing leases at December 28, 1979 are as follows:

1980-1984	\$10,314,000
1985-1989	9,207,000
1990-1994	5,588,000
1995-1997	686,000

The Railway is committed to acquire \$44,000,000 of rolling stock during 1980.

8. Contingent liabilities

Three contractors have commenced actions against the Railway to recover losses and other damages for specific claims in the aggregate amount of approximately \$21,000,000 together with other unspecified amounts. The Railway has not provided for these claims in its accounts as in the opinion of counsel these claims should not succeed.

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. Total pension expense for the year was \$4,907,000 (1978 — \$4,800,000) including past service costs of \$586,000. Total contributions for 1980 are projected to be \$5,000,000.

10. Remuneration of directors and officers

Total remuneration paid to five officers amounted to \$245,000 (six in 1978 — \$234,000). Remuneration paid to eight directors who were not officers of the Railway amounted to \$38,000 (eight in 1978 — \$44,000); the remaining director served in each year without remuneration from the Railway.

