

Consolidated Financial Statements

BRITISH COLUMBIA RAILWAY COMPANY

March 31, 2016



INDEPENDENT AUDITOR'S REPORT

*To the Board of Directors of the British Columbia Railway Company, and
To the Minister of Transportation and Infrastructure, Province of British Columbia*

I have audited the accompanying consolidated financial statements of the British Columbia Railway Company, which comprise the consolidated statement of financial position as at March 31, 2016, and the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

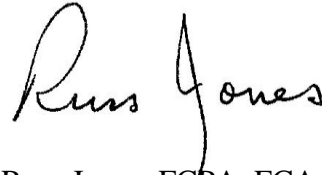
My responsibility is to express an opinion on these consolidated financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

In my view, the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the British Columbia Railway Company as at March 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



Russ Jones, FCPA, FCA
Deputy Auditor General

Victoria, British Columbia
May 18, 2016



BRITISH COLUMBIA RAILWAY COMPANY
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT MARCH 31, 2016
(in thousands of dollars)

	Note	2016	2015
ASSETS			
Current assets			
Cash and cash equivalents	10	\$ 97,263	\$ 117,799
Trade and other receivables	11	3,032	2,698
Materials and other items		850	914
Total current assets		101,145	121,411
Non-current assets			
Other receivables	11	132,142	123,694
Property, plant and equipment	12	655	316
Interest in mining rights	13	18,308	-
Investment property	14	159,141	146,820
Total non-current assets		310,246	270,830
Total assets		\$ 411,391	\$ 392,241
LIABILITIES AND SHAREHOLDER'S EQUITY			
Current liabilities			
Trade and other payables	15	\$ 3,548	\$ 2,923
Deferred lease revenue	16	1,283	1,288
Total current liabilities		4,831	4,211
Non-current liabilities			
Deferred lease revenue	16	28,526	29,430
Provisions	17	236,896	219,492
Employee benefits	18	4,907	4,620
Total non-current liabilities		270,329	253,542
Total liabilities		275,160	257,753
Shareholder's Equity			
Share capital	19	257,688	257,688
Contributed surplus	20	56,860	60,551
Deficit		(178,317)	(183,751)
Total shareholder's equity		136,231	134,488
Total liabilities and shareholder's equity		\$ 411,391	\$ 392,241

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, 2016
(in thousands of dollars)

	<i>Note</i>	2016	2015
Revenue	6	\$ 20,094	\$ 18,667
Expenses			
Labour costs	7	4,031	3,948
Repairs and maintenance		4,682	3,845
Professional services		1,615	2,027
Information technology		864	598
Administrative		1,095	1,125
Depreciation	8	328	398
Environmental costs		164	54
Property taxes		1,637	1,689
		14,416	13,684
Operating results before gain on sale of investment property		5,678	4,983
Gain on sale of investment property		1,826	1,672
Results from operating activities		7,504	6,655
Finance income	9	1,300	2,002
Finance costs	9	(3,273)	(3,748)
Net finance costs		(1,973)	(1,746)
Profit for the period		5,531	4,909
Other comprehensive income (loss)			
Defined benefit plan actuarial losses and return on plan assets	18	(216)	(954)
Post-employment benefit plan actuarial gains (losses)	18	119	(262)
Other comprehensive loss for the period		(97)	(1,216)
Total comprehensive income for the period		\$ 5,434	\$ 3,693

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, 2016
(in thousands of dollars)

	<i>Note</i>	2016	2015
Cash flows from operating activities			
Profit for the period		\$ 5,531	\$ 4,909
Adjustments for:			
Gain on sale of investment property		(1,826)	(1,672)
Depreciation	8	328	398
Amortization of deferred lease revenue		(1,124)	(1,123)
Accretion income on long-term notes receivable	11(c)	(548)	(518)
Pension benefit expense	18	112	83
Unwind of discount on provisions	9	3,273	3,748
		5,746	5,825
Change in working capital	26	336	(48)
Change in general environmental provision		2	(444)
Change in long-term receivable for environmental services	11(d)	(5,701)	(4,768)
Change in Joint Capital Account receivable	11(b)	425	210
Change in post-employment benefit obligation		78	79
Net cash from operating activities		886	854
Cash flows from investing activities			
Acquisition of property and equipment	12	(520)	(209)
Development costs on investment properties	14	(1,189)	(1,539)
Acquisition of Joint Capital Account assets	11(b)	(2,624)	(3,415)
Acquisition of mining rights	13	(18,308)	-
Proceeds from sale of investment property		4,896	3,704
Payments received on mortgages	11(a)	14	17
Net cash used in investing activities		(17,731)	(1,442)
Cash flows from financing activities			
Payments to the Province	20	(3,691)	(4,504)
Net cash used in financing activities		(3,691)	(4,504)
Net decrease in cash and cash equivalents		(20,536)	(5,092)
Cash and cash equivalents, beginning of period		117,799	122,891
Cash and cash equivalents, end of period		\$ 97,263	\$ 117,799

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 at April 1, 2014	\$ 257,688	\$ 65,055	\$ (187,444)	\$ 135,299
Total comprehensive income for the period				
Profit	-	-	4,909	4,909
Other comprehensive loss				
Defined benefit plan actuarial losses and return on plan assets	-	-	(954)	(954)
Post-employment benefit plan actuarial losses	-	-	(262)	(262)
Total other comprehensive loss	-	-	(1,216)	(1,216)
Total comprehensive income for the period	-	-	3,693	3,693
Transactions with owners, recorded directly in equity				
Distributions to owners				
Payment to the Province (Note 20)	-	(4,504)	-	(4,504)
Balance at March 31, 2015	\$ 257,688	\$ 60,551	\$ (183,751)	\$ 134,488
Total comprehensive income for the period				
Profit			5,531	5,531
Other comprehensive loss				
Defined benefit plan actuarial losses and return on plan assets			(216)	(216)
Post-employment benefit plan actuarial gains			119	119
Total other comprehensive loss	-	-	(97)	(97)
Total comprehensive income for the period	-	-	5,434	5,434
Transactions with owners, recorded directly in equity				
Distributions to owners				
Payment to the Province (Note 20)		(3,691)		(3,691)
Balance at March 31, 2016	\$ 257,688	\$ 56,860	\$ (178,317)	\$ 136,231

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, 2016
(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, 2016 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 British Columbia Ports Strategy and Pacific Gateway Strategy, by providing consulting advice, acquiring and holding railway corridor and strategic port lands, and making related infrastructure investments for the Province.

The Company owns the former BC Rail right-of-way and railway track infrastructure and leases those assets to Canadian National Railway Company (“CN”) for the purposes of operating a freight railway. Consistent with the Province’s Ports Strategy and Pacific Gateway Strategy, BCRC has retained ownership of the Port Subdivision operation, which provides open, neutral rail access to the port terminals at Roberts Bank and, through its subsidiary 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 meet the Pacific Gateway Strategy 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 16, 2016.

b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis.

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, 2016
(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 critical judgments in applying accounting policies that have the most significant effect 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 that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

- Note 13 – interest in mining rights
- Note 17 – provisions
- Note 18 – measurement of employee benefit obligations
- Note 24 – 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. The financial statements of 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.

BRITISH COLUMBIA RAILWAY COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2016
(tabular amounts in thousands of dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Financial instruments

i) Non-derivative financial assets

The Group initially recognizes loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognized initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Group has the following financial assets: loans and receivables. Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

The Group's loans and receivables are comprised of cash and cash equivalents, all amounts receivable (including Joint Capital Account receivables), and long-term notes receivable.

ii) Non-derivative financial liabilities

The Group initially recognizes debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognized initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

The Group's financial liabilities are comprised of trade and other payables which are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

iii) Derivative financial instruments

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

The Group has no derivatives or embedded derivatives.

BRITISH COLUMBIA RAILWAY COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2016
(tabular amounts in thousands of dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

c) 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.

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
- equipment 6 - 15 years

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

BRITISH COLUMBIA RAILWAY COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2016
(tabular amounts in thousands of dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

d) 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.

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.

e) 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

BRITISH COLUMBIA RAILWAY COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2016
(tabular amounts in thousands of dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Interest in mining rights (continued)

- 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(g).

f) 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.

g) Impairments

- i) Financial assets (including receivables)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

BRITISH COLUMBIA RAILWAY COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2016
(tabular amounts in thousands of dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Impairments (continued)

ii) 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.

h) 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.

i) 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.

BRITISH COLUMBIA RAILWAY COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2016
(tabular amounts in thousands of dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Employee benefits (continued)

i) Defined Benefit Plans (continued)

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.

ii) 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.

iii) 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.

iv) 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.

v) 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.

BRITISH COLUMBIA RAILWAY COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2016
(tabular amounts in thousands of dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

j) 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 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.

k) Revenue

i) Leasing Revenue

Leasing revenue from investment property is recognized in profit and loss on a straight-line basis over the term of the lease. Proceeds from prepaid lease arrangements are deferred and recognized in profit and loss on a straight-line basis over the term of the lease.

ii) Services

Revenue from services rendered, including fees related to the Port Subdivision operation, is recognized in profit or loss when services have been delivered, the amounts are measurable, and collectability is reasonably assured.

l) 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.

m) 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.

n) 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.

BRITISH COLUMBIA RAILWAY COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2016
(tabular amounts in thousands of dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

n) Finance income and finance costs (continued)

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.

o) Future accounting standards

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

• Disclosure Initiative: Amendments to IAS 7

In January 2016 the IASB issued Disclosure Initiative (*Amendments to IAS 7*). The amendments apply prospectively for annual periods beginning on or after January 1, 2017. Early application is permitted.

The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. One way to meet this new disclosure requirement is to provide a reconciliation between the opening and closing balances for liabilities from financing activities.

The Group intends to adopt these amendments in its financial statements for the annual period beginning April 1, 2017. The extent of the impact of adoption of the amendments has not yet been determined.

• IFRS 15 Revenue from Contracts with Customers

In May 2014 the IASB issued IFRS 15 *Revenue from Contracts with Customers*. The new standard is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted. IFRS 15 will replace IAS 11 *Construction Contracts*, IAS 18 *Revenue*, IFRIC 13 *Customer Loyalty Programmes*, IFRIC 15 *Agreements for the Construction of Real Estate*, IFRIC 18 *Transfer of Assets from Customers*, and SIC 31 *Revenue – Barter Transactions Involving Advertising Services*.

The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized.

The new standard applies to contracts with customers. It does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRSs.

The Group intends to adopt these amendments in its financial statements for the annual period beginning on April 1, 2018. The extent of the impact of adoption of the amendments has not yet been determined.

BRITISH COLUMBIA RAILWAY COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2016
(tabular amounts in thousands of dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

o) Future Accounting Standards (continued)

• IFRS 9 *Financial Instruments*

In July 2014 the IASB issued the complete IFRS 9 (IFRS 9 (2014)). The mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. Early adoption is permitted. The restatement of prior periods is not required and is only permitted if information is available without the use of hindsight.

IFRS 9 (2014) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2014), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows.

The standard introduces additional changes relating to financial liabilities. It also amends the impairment model by introducing a new 'expected credit loss' model for calculating impairment.

IFRS 9 (2014) also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship. Special transitional requirements have been set for the application of the new general hedging model.

The Group intends to adopt IFRS 9 (2014) in its financial statements for the annual period beginning on April 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

• 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 extent of the impact of adoption of the standard has not yet been determined.

BRITISH COLUMBIA RAILWAY COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2016
(tabular amounts in thousands of dollars)

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, 2016, CN has not commenced any action 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.

BRITISH COLUMBIA RAILWAY COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2016
(tabular amounts in thousands of dollars)

6. REVENUE

For the year ended March 31	<i>Note</i>	2016	2015
Investment property leasing revenue		\$ 8,041	\$ 7,047
Port Subdivision operating and maintenance services	(a)	8,599	8,201
Port Subdivision JCA privilege revenue	(a)	3,454	3,419
		\$ 20,094	\$ 18,667

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>	2016	2015
Direct labour costs		\$ 3,119	\$ 3,048
Labour costs for contracted MoTI employees	27	912	900
		\$ 4,031	\$ 3,948

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>	2016	2015
Property, plant and equipment	12	\$ 181	\$ 107
Investment property	14	147	291
		\$ 328	\$ 398

BRITISH COLUMBIA RAILWAY COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2016
(tabular amounts in thousands of dollars)

9. FINANCE INCOME AND FINANCE COSTS

For the year ended March 31	<i>Note</i>	2016	2015
Interest on bank deposits		\$ 12	\$ 19
Interest on loans and receivables		563	533
Interest on money market instruments		725	1,450
Finance income		1,300	2,002
Unwind of discount on provision	17	(3,273)	(3,748)
Finance costs		(3,273)	(3,748)
Net finance costs recognized in profit or loss		\$ (1,973)	\$ (1,746)

10. CASH AND CASH EQUIVALENTS

As at March 31		2016	2015
Cash		\$ 3,349	\$ 2,310
Money market instruments		93,914	115,489
		\$ 97,263	\$ 117,799

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>	2016	2015
Trade receivables		\$ 2,782	\$ 2,434
Loans and receivables			
Mortgages receivable	(a)	250	264
Joint Capital Account receivables	(b)	86,053	83,854
Long-term notes receivable from CN	(c)	9,959	9,411
Long-term receivable for environmental services	(d)	36,130	30,429
		132,392	123,958
		\$ 135,174	\$ 126,392
Current		\$ 3,032	\$ 2,698
Non-current		132,142	123,694
		\$ 135,174	\$ 126,392

(a) The Group has one outstanding mortgage issued in fiscal 2012 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%. The mortgage for \$250,000 was extended for a further 1-year term to November 2016.

BRITISH COLUMBIA RAILWAY COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2016
(tabular amounts in thousands of dollars)

11. TRADE AND OTHER RECEIVABLES (continued)

(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 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, as well as for any changes to the expected future cost of remediation.

12. PROPERTY PLANT AND EQUIPMENT

	Buildings	Equipment	Leasehold Improvements	Total
<u>Cost</u>				
Balance April 1, 2014	\$ 24	\$ 1,681	\$ 262	1,967
Additions	-	209	-	209
Disposals	(24)	(114)	-	(138)
Balance March 31, 2015	\$ -	\$ 1,776	\$ 262	\$ 2,038
Additions	-	520	-	520
Balance March 31, 2016	\$ -	\$ 2,296	\$ 262	\$ 2,558
<u>Depreciation</u>				
Balance April 1, 2014	\$ 23	\$ 1,453	\$ 262	\$ 1,738
Depreciation for the year	-	107	-	107
Disposals	(23)	(100)	-	(123)
Balance March 31, 2015	\$ -	\$ 1,460	\$ 262	\$ 1,722
Depreciation for the year	-	181	-	181
Balance March 31, 2016	\$ -	\$ 1,641	\$ 262	\$ 1,903
<u>Carrying Amounts</u>				
At March 31, 2015	\$ -	\$ 316	\$ -	\$ 316
At March 31, 2016	\$ -	\$ 655	\$ -	\$ 655

BRITISH COLUMBIA RAILWAY COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2016
(tabular amounts in thousands of dollars)

13. INTEREST IN MINING RIGHTS

	2016	2015
Carrying amount, April 1	\$ -	\$ -
Acquisition of licenses	18,308	-
Carrying amount, March 31	\$ 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

	2016	2015
<u>Cost</u>		
Balance, April 1	\$ 151,570	\$ 117,853
Additions	1,189	1,539
Effect of increased estimated cost of remediation	14,349	34,195
Disposals	(3,070)	(2,017)
Balance, March 31	164,038	151,570
<u>Depreciation</u>		
Balance, April 1	4,750	4,459
Depreciation for the year	147	291
Balance, March 31	4,897	4,750
Carrying amount, March 31	\$ 159,141	\$ 146,820

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, 2016 is \$210 million (March 31, 2015 - \$189 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.

BRITISH COLUMBIA RAILWAY COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2016
(tabular amounts in thousands of dollars)

15. TRADE AND OTHER PAYABLES

As at March 31	2016	2015
Trade payables	\$ 646	\$ 220
Non-trade payables and accrued expenses	2,902	2,703
Total current	\$ 3,548	\$ 2,923

16. DEFERRED LEASE REVENUE

As at March 31	2016	2015
KM operating lease	\$ 29,589	\$ 30,493
Other investment property leases	220	225
	29,809	30,718
Less: current portion	1,283	1,288
	\$ 28,526	\$ 29,430

Deferred lease revenue on investment property leases other than the KM lease is classified as current as it consists of short-term prepayments on various leases. The non-current portion consists of the lease revenue from the 40-year lease to KM for the Vancouver Wharves port terminal facility which has not yet been recognized in profit or loss (Note 5).

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 (2015 - \$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>	2016	2015
<u>General Environmental</u>	(a)		
Balance at April 1		\$ 91,872	\$ 91,597
Provisions made during the period		161	248
Provisions used during the period		(159)	(486)
Provisions reversed during the period		-	(206)
Unwind of discount		593	939
Transferred to deferred lease revenue		(220)	(220)
Balance at March 31		92,247	91,872
<u>Site Restoration</u>	(b)		
Balance at April 1		127,620	90,616
Provisions made during the period		14,349	34,195
Unwind of discount		2,680	2,809
Balance at March 31		144,649	127,620
Total Provisions		\$ 236,896	\$ 219,492

BRITISH COLUMBIA RAILWAY COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2016
(tabular amounts in thousands of dollars)

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 has been extended to March 31, 2017 forms the basis of the negotiations of a final agreement. Based on the agreement principles, management has estimated and recorded a provision in the financial statements.

This liability accrued interest using the following rates:

	2016	2015
Interest rate	0.75%	1.22%

- 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 2016. 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, 2016, the liability for retirement and remediation, on an undiscounted basis, before applying an inflation factor of 2.5% (2015 – 2.5%) and discounting is estimated to be approximately \$130.1 million (March 31, 2015 - \$112.6 million). The discounted provision increased by \$14.3 million in 2016 due to revised estimates of the remediation cost.

Management has assumed the following discount rates based on long-term Government of Canada Bond rates and the following inflation rates for future increases:

	2016	2015
Discount rate	2.15%	2.10%

BRITISH COLUMBIA RAILWAY COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2016
(tabular amounts in thousands of dollars)

18. EMPLOYEE BENEFITS

As at March 31	Pension Plan		Post-Employment Plan		Total	
	2016	2015	2016	2015	2016	2015
Defined benefit obligation	\$ 20,953	\$ 21,937	\$ 2,596	\$ 2,637	\$ 23,549	\$ 24,574
Fair value of plan assets	18,642	19,954	-	-	18,642	19,954
Total employee benefit liability	\$ 2,311	\$ 1,983	\$ 2,596	\$ 2,637	\$ 4,907	\$ 4,620

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 of March 31, 2015 and extrapolated to March 31, 2016. The Pension Plan assets are valued as at March 31 of each year, and the latest valuation of plan assets was March 31, 2016.

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 2016 (2015 – nil) and \$104,000 in direct benefit payments to the Post-Employment Plan.

The Group made contributions to a registered retirement savings' plan on behalf of its employees during the year of \$198,000 (2015 - \$195,000).

BRITISH COLUMBIA RAILWAY COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2016
(tabular amounts in thousands of dollars)

18. EMPLOYEE BENEFITS (continued)

b) Movement in the net defined benefit liability

	Pension Plan		Post-Employment Plan	
	2016	2015	2016	2015
Defined benefit obligation				
Balance, April 1	\$ (21,937)	\$ (20,398)	\$ (2,637)	\$ (2,296)
Included in profit or loss:				
Current service cost	-	-	(84)	(76)
Interest cost	(762)	(868)	(93)	(99)
	(762)	(868)	(177)	(175)
Included in OCI:				
Remeasurements loss (gain):				
Actuarial loss (gain) arising from:				
- demographic assumptions	-	-	-	121
- financial assumptions	712	(1,593)	117	(424)
- experience adjustments	123	16	2	41
	835	(1,577)	119	(262)
Other:				
Benefits paid	911	906	99	96
	911	906	99	96
Balance, March 31	\$ (20,953)	\$ (21,937)	\$ (2,596)	\$ (2,637)
Fair value of plan assets				
Balance, April 1	\$ 19,954	\$ 19,452	\$ -	\$ -
Included in profit or loss:				
Interest income	692	827	-	-
Administrative expenses	(42)	(42)	-	-
	650	785	-	-
Included in OCI:				
Remeasurements gain:				
Return on plan assets excluding interest income	(1,051)	623	-	-
	(1,051)	623	-	-
Other:				
Employer contributions			99	96
Benefits paid	(911)	(906)	(99)	(96)
	(911)	(906)	-	-
Balance, March 31	\$ 18,642	\$ 19,954	\$ -	\$ -
Net defined benefit liability	\$ (2,311)	\$ (1,983)	\$ (2,596)	\$ (2,637)

BRITISH COLUMBIA RAILWAY COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2016
(tabular amounts in thousands of dollars)

18. EMPLOYEE BENEFITS (continued)

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

For the year ended March 31	Pension Plan		Post-Employment Plan	
	2016	2015	2016	2015
Expense recognized in profit or loss				
Defined benefit obligation	\$ (762)	\$ (868)	\$ (177)	\$ (175)
Fair value of plan assets	650	785	-	-
Expense recognized with labour costs	\$ (112)	\$ (83)	\$ (177)	\$ (175)
Gains (losses) recognized in other comprehensive income				
Defined benefit obligation	\$ 835	\$ (1,577)	\$ 119	\$ (262)
Fair value of plan assets	(1,051)	623	-	-
	\$ (216)	\$ (954)	\$ 119	\$ (262)

d) Actuarial assumptions

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

	Pension Plan		Post-Employment Plan	
	2016	2015	2016	2015
Discount rate at end of year	3.80%	3.55%	3.90%	3.60%
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	5.41%	5.43%
Ultimate health care trend rate	N/A	N/A	4.50%	4.50%
Year ultimate rate reached	N/A	N/A	2035	2035

e) Plan assets

The plan assets for the Pension Plan comprise:

As at March 31	2016	2015
Equity securities	31%	33%
Debt securities	20%	21%
Refundable Tax Account	49%	46%
Fair value of plan assets	100%	100%

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

BRITISH COLUMBIA RAILWAY COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2016
(tabular amounts in thousands of dollars)

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:

1% Movement	Defined Benefit Obligation Increase (Decrease)			
	Pension Plan		Post-Employment Plan	
	Increase	Decrease	Increase	Decrease
Discount rate	\$ (2,510)	\$ 3,091	\$ (346)	\$ 439
Inflation rate / pension increase rate	2,999	(2,484)	N/A	N/A
Health care trend rate	N/A	N/A	343	(284)

19. SHARE CAPITAL

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

Issued and outstanding March 31, 2016 and March 31, 2015: 2,576,885 common shares held by the BCTFA (subsidiary of the Province).

20. CONTRIBUTED SURPLUS

During the period ended March 31, 2016, the Group made payments of \$3.7 million to the Province from its contributed surplus (2015 - \$4.5 million).

	2016	2015
Balance, April 1	\$ 60,551	\$ 65,055
Payments to the Province	(3,691)	(4,504)
Balance, March 31	\$ 56,860	\$ 60,551

The current year's payment to the Province of \$3,691,000 (2015 - \$1,004,000 of the total payment) was paid directly to the BCTFA towards funding of the North Shore Trade Corridor project (Note 23(b)).

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, 2016, the Group did not have any derivative financial instruments outstanding (March 31, 2015 – nil).

BRITISH COLUMBIA RAILWAY COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2016
(tabular amounts in thousands of dollars)

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 Rail, CP Rail and Burlington Northern Railway (Note 11(b)) of \$86 million (2015 - \$84 million);
- long-term notes receivable from CN Rail (Note 11(c)) of \$10 million (2015 - \$9 million); and
- long-term receivable for environmental services from Kinder Morgan (Note 11(d)) of \$36 million (2015 - \$30 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 change to interest rates on the money market instruments and joint capital account receivables would have an impact of \$235,000 and \$215,000 respectively (March 31, 2015 - \$289,000 and \$210,000 respectively) on the Group's profit or loss. 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
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2016
(tabular amounts in thousands of dollars)

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) Cash and cash equivalents, 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, 2016 is \$27 million (March 31, 2015 – \$33 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.

The Company does not have any financial instruments which are carried at 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 payments to the Province during the year from its contributed surplus of \$3.7 million (2015 - \$4.5 million).

BRITISH COLUMBIA RAILWAY COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2016
(tabular amounts in thousands of dollars)

22. OPERATING LEASES

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	2016
Less than 1 year	\$ 211
Between 1 and 5 years	496
More than 5 years	-
	\$ 707

The Group leases office space and office equipment under operating leases. The office leases typically run for a period of 5 years and the office equipment for a period of 1 to 3 years.

During the year ended March 31, 2016 an amount of \$366,000 was recognized as an expense in profit or loss in respect of operating leases (2015: \$387,000).

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:

	2016	2015
Less than 1 year	\$ 795	\$ 884
Between 1 and 5 years	336	1,075
More than 5 years	11	505
	\$ 1,142	\$ 2,464

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 2016 of \$6.1 million (2015: \$5.9 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. CAPITAL COMMITMENTS

The Group is committed to the following funding agreements:

a) Roberts Bank Rail Corridor Grade Separations

In 2009, in support of the Asia-Pacific Gateway and Corridor Initiative, the Group (on behalf of the Port Sub user railways) committed to share in the funding of two of the nine road/rail grade separations proposed for the Roberts Bank Rail Corridor up to a total of \$21 million. As at March 31, 2016, the Group has paid out \$13.9 million of the total commitment amount (March 31, 2015: \$13.4 million). Contributions to this project are included with the Joint Capital Account receivables (Note 11(b)) as the amounts are recoverable from the user railways.

BRITISH COLUMBIA RAILWAY COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2016
(tabular amounts in thousands of dollars)

23. CAPITAL COMMITMENTS (continued)

b) North Shore Trade Area (“NSTA”) Improvements

In 2009, the Group, on behalf of the Province, committed to share in the funding of infrastructure improvements along the North Shore of Burrard Inlet in North Vancouver, British Columbia. The NSTA improvements are expected to occur over the next 3 years. The Board has approved a contribution of up to \$12.5 million to the project. As at March 31, 2016, the Group has paid out \$5.2 million of the total committed amount (March 31, 2015: \$1.5 million). As the contributions are not expected to contribute to the Group’s infrastructure network, they are being treated as a distribution to the Province at the time of payment.

24. 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 (usually every 12 to 24 months). 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, the properties are valued by an external independent valuation company every 2 to 3 years or if there has been a significant change in the market conditions.

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.

BRITISH COLUMBIA RAILWAY COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2016
(tabular amounts in thousands of dollars)

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:

	2016	2015
Accounts receivable	\$ (348)	\$ 723
Materials and other items	64	26
Accounts payable and accrued liabilities	625	(737)
Current portion of deferred revenue	(5)	(60)
	\$ 336	\$ (48)

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	2016	2015
Short-term employee benefits	\$ 415	\$ 418
	\$ 415	\$ 418

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.

BRITISH COLUMBIA RAILWAY COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2016
(tabular amounts in thousands of dollars)

27. RELATED PARTIES (continued)

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	2016	2015
Employee Costs (a)	\$ 912	\$ 900
	\$ 912	\$ 900

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

The balance owing at March 31, 2016 to MoTI is \$247,000 (March 31, 2015 - \$236,000).

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 financial year there were no transactions or outstanding balances with BCTFA with the exception of the distribution made to the BCTFA (Note 20).

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