

**BRITISH
COLUMBIA
RAILWAY
COMPANY**

SERVICE PLAN UPDATE

2005 – 2007

SEPTEMBER 2005

**Honourable Kevin Falcon
Minister of Transportation, and
Minister Responsible for the British Columbia Railway Company**

On behalf of the Board of Directors of the British Columbia Railway Company (BCRC), I am pleased to provide our updated Service Plan for 2005 to 2007.

BCRC tabled a Service Plan in fiscal 2003. In 2004, BCRC received an exemption from having to prepare a service plan because at that time, it was undergoing significant organizational transition and corporate restructuring. This Service Plan represents an updated version of the plan tabled in February 2005, which reflected the corporate changes since the restructuring and presented a framework for the future. The only substantive change since that time has been a delay in two major dispositions – the Port Subdivision at Roberts Bank and Vancouver Wharves. This Service Plan forecasts those dispositions to be completed at the end of 2007, as opposed to 2005 as reported last February.

The original mandate of BCRC was to construct and operate a freight railway in British Columbia. With the disposition of its shares in BC Rail Ltd. and its partnership interests in BC Rail Partnership to the Canadian National Railway Company (CN) thereby transferring the freight railway operations, the mandate of BCRC changed significantly. Residual assets and entities which continue to be owned and operated by BCRC and its subsidiaries, with the exception of the railway right-of-way, railbed and track infrastructure now leased to CN, are being disposed of according to the instruction of the Shareholder.

This Service Plan establishes a framework to guide: a) the development of appropriate accountability measures for BCRC's long-term mandate as landowner of the railway right-of-way, railbed and track; and b) the disposition of BCRC's remaining business units, assets and non-railway related real estate.

The British Columbia Railway Company updated Service Plan for 2005 to 2007, was prepared under the direction of the Board of Directors in accordance with the *Budget Transparency and Accountability Act*. The Plan is consistent with government's strategic priorities and overall strategic plan. All significant assumptions, policy decisions, and identifiable risks as of July 29, 2005, have been considered in preparing the Plan. I am accountable for ensuring BCRC achieves the goals identified in the plan and for measuring and reporting performance.



John McLernon, Chair
British Columbia Railway Company

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1.0 ORGANIZATIONAL OVERVIEW

Enabling Legislation

The British Columbia Railway Company (BCRC) is a Crown corporation governed by two principal pieces of legislation. The *British Columbia Railway Act* establishes the Corporation's structure, responsibilities and accountabilities. The *British Columbia Railway Finance Act* establishes the borrowing and investment framework for BCRC. BCRC must also meet the requirements of the *Financial Administration Act* and the *Budget Transparency and Accountability Act*.

Key Changes from Previous Service Plan

BCRC tabled a Service Plan in fiscal 2003 which reflected the original mandate of operating a freight railway in British Columbia. In 2004, BCRC received an exemption from Section 13 (service plans for ministries and government organizations) of the *Budget Transparency and Accountability Act* because at that time, it was undergoing significant organizational transition and corporate restructuring. In July 2004, the BC Rail/Canadian National Railway Company (CN) Investment Partnership concluded and all of the freight railway operations of BCRC have since been assumed by CN. The remaining core business areas of and services provided by BCRC are described below.

A Service Plan was then tabled in February 2005 as part of this year's Provincial budget process. BCRC's updated Service Plan (September 2005) reflects changes which have occurred since February 2005. The only substantive change since that time has been a delay in two major dispositions – the Port Subdivision at Roberts Bank and Vancouver Wharves. This updated Service Plan forecasts those dispositions to be completed at the end of 2007, as opposed to 2005 as reported last February.

Mandate

BCRC's original mandate was to construct and operate a freight railway in British Columbia. In July 2004, BCRC disposed of its shares in BC Rail Ltd. and its partnership interests in BC Rail Partnership to CN, the private sector operator selected to assume the freight railway operations. The residual assets and entities currently owned and operated by BCRC and its subsidiaries, with the exception of the railway right-of-way, railbed and track infrastructure now leased to CN for railway purposes, are not required to be publicly owned. As a result, the Shareholder has instructed the Board of Directors to continue to wind down or dispose of the remaining business units, assets and non-railway related real estate owned by BCRC and/or its subsidiaries.

Over the long-term, BCRC will continue to own the railway right-of-way, railbed and track infrastructure that supports the railway. In addition, as landowner, BCRC will have on-going accountability to oversee the Revitalization Agreement (lease agreement) with CN.

Core Business Areas and Services

BCRC is a commercial Crown corporation with all of its business activities operating in competition with the private sector. BCRC operates without government subsidies. Borrowing is done through the Ministry of Finance and full financial reporting is provided according to the provisions of the *Budget Transparency and Accountability Act*.

BCRC has several operating subsidiaries, including:

BCR Port Subdivision Ltd.

~ This subsidiary operates the 23 mile railway line connecting three major railways (CN, Canadian Pacific Railway and Burlington Northern Santa Fe) with the port terminals at Roberts Bank. While operating none of its own trains on this railway line, the BCR Port Subdivision maintains the track and manages the operations on a shared cost basis of its users.

BCR Properties Ltd.

~ This subsidiary owns and manages all of the real estate not required to support railway operations. The portfolio consists of approximately 395 parcels of commercial, industrial and vacant land.

BCR Captive Insurance Co. Ltd.

~ This wholly owned insurance company provides primary property, general liability, terminal operator's liability, automobile physical damage and excess automobile liability coverage to BCRC and any subsidiary in which BCRC has a controlling interest. BCR Captive is regulated by the Financial Institutions Commission, and co-managed by BCRC and Aon Insurance Managers.

Vancouver Wharves Limited Partnership

~ Based in North Vancouver, this port facility handles inbound and outbound shipments of mineral concentrates, pulp, sulphur, fertilizers and agri-products.

Governance

BCRC's seven-member Board of Directors, appointed by the Province, reports to the Minister of Transportation. The Board is responsible for overseeing the conduct of BCRC's business, directing management and ensuring that all major issues affecting the business affairs of BCRC are given appropriate consideration. The Board delegates responsibility for the day-to-day leadership and management of BCRC to its President and Chief Executive Officer.

The Board functions through a series of committees appointed to deal with specific matters. These Committees generally meet quarterly in conjunction with full Board meetings.

There are currently three standing committees of the Board:

Audit, Finance and Risk Management Committee

~ Assists the Board of Directors in fulfilling its obligations and oversight responsibilities relating to the audit process, financial reporting, the system of corporate controls, governance of financial investments and various aspects of risk management.

Environment and Safety Committee

~ Assists the Board of Directors in fulfilling its obligations and oversight responsibilities related to adherence to environmental laws and regulations and the safety of employees and the general public who may be impacted by BCRC's activities.

Human Resources, Governance and Nominating Committee

~ Assists the Board of Directors by fulfilling obligations relating to senior management human resource and compensation issues, ensuring that appropriate corporate governance policies and procedures are put in place, and to ensure that the membership of the Board is relevant to the obligations of BCRC.

Ad hoc special purpose committees are established as required.

Location

The offices of BCRC are located in Suite 400 – 221 West Esplanade, North Vancouver, British Columbia, V7M 3J3.

2.0 STRATEGIC CONTEXT

Mission

Establish an effective management system for the Revitalization Agreement between BCRC and CN while ensuring the efficient wind down and/or disposition of BCRC's remaining businesses, assets and non-railway related real estate.

Values

Integrity

~ Decisions made in a manner that is consistent, professional and fair.

Fiscal responsibility

~ Maximize return from the disposition of businesses, assets and non-railway related real estate.

Accountability

~ Ensure full reporting of activities to the shareholder.

Safety

~ Ensure a safe and healthy work environment.

Respect

~ Treat everyone in an honest, fair and respectful manner.

3.0 PLANNING CONTEXT AND KEY STRATEGIC ISSUES

Revised Mandate

BCRC has undergone a significant organizational transformation from being owner of the railway right-of-way and operator of the railway, to being owner of the railway right-of-way with responsibility for railway operations moving to the private sector. As a result of this transformation, BCRC has a revised mandate. The transformation process and revised mandate creates a challenge for both the Board and the management team in ensuring that the Shareholder's expectations are fully understood, adequately articulated and appropriately implemented. The Minister of Transportation, on behalf of the Shareholder, has provided clear direction to BCRC regarding its new mandate and an appropriate course of action required to meet that mandate through the Shareholder's Letter of Expectations.

In February 2005, BCRC tabled a Service Plan which reflected a targeted completion of the Port Subdivision and Vancouver Wharves dispositions by the end of 2005. BCRC has since revised those assumptions and is now planning for these two dispositions to be completed at the end of 2007. As a result, this Service Plan has been updated accordingly.

Organizational Challenges

The Board, management team and retained staff, while substantially reduced from pre-transformation levels, have extensive organizational knowledge of both the previous operations of BCRC and the future expectations of the Shareholder. In essence, they share a corporate memory and provide much needed continuity.

With the transfer of the freight railway operations to CN, there is a much reduced employee level at BCRC which has created some capacity issues. The Investment Partnership with CN is a complex transaction that will continue to demand management attention over the period of the Service Plan. To date, management has focused on ensuring a smooth transition of the freight railway to the new operator and establishing appropriate and independent financial management and information technology systems previously provided by BC Rail Ltd. While minimal, the information technology support is adequate for the short term requirements of the organization. Strategic planning is well underway to prepare the remaining businesses, assets and non-railway related real estate for disposition and/or dissolution.

BCRC's new role as landlord to CN as tenant on the railway right-of-way means that an effective management system for the lease must be developed. The time line to complete the bulk of the wind down and disposition processes is short given the magnitude of what is required and the intent to ensure that strategic transportation issues are fully addressed. Therefore, a transition strategy for the residual entity will be developed in parallel to the disposition projects to ensure outstanding issues are dealt with and the on-going landlord-tenant relationship is effectively managed. This

transition strategy will also address how residual issues will be dealt with by the Shareholder at the end of 2007. A shared services model with another Crown agency or line ministry will be explored as part of the development of that transition strategy.

Operating Environment

In order to fully deliver on the Shareholder's expectations in an effective and efficient manner, cooperation from other levels of government and stakeholders will be necessary. Many of the approvals required to complete all of the non-rail related real estate dispositions are beyond the control of BCRC. In addition, for some of the real estate scheduled for disposition, management must resolve outstanding issues such as environmental remediation, subdivision requirements, etc. Access to professional services such as real estate appraisals and land surveys are restricted by an increased demand for these services throughout British Columbia.

There are however, two factors which can assist BCRC to deliver on this aspect of its new mandate. One is that there is significant community support for the disposition of the residual businesses, assets and non-railway related real estate. The second factor is that the economy of British Columbia is stable and shows signs of continued improvement which in turn, will encourage private sector investment in the types of businesses and real estate currently slated for disposition. The investment opportunities provided through the disposition process could prove to be beneficial for many communities in British Columbia.

4.0 GOALS, STRATEGIES AND PERFORMANCE MEASURES

The BCRC/CN Investment Partnership has fundamentally changed the company’s mandate and operating environment. Therefore, new goals, strategies and performance measures were developed to demonstrate a commitment to achieving *an effective management system for the Revitalization Agreement between BCRC and CN while ensuring the efficient wind down and/or disposition of BCRC’s remaining businesses, assets and non-railway related real estate.*

This updated Service Plan reflects the revised assumptions for major dispositions and extends the timeline to complete those dispositions to the end of 2007 as opposed to the end of 2005, which were reflected in the previous Service Plan tabled in February 2005.

Goal One

Ensure effective and efficient management of the Revitalization Agreement between BCRC and CN.

Strategies:			
<input type="checkbox"/> Manage positive landlord-tenant relationship between BCRC and CN <input type="checkbox"/> Refine management plan for Revitalization Agreement <input type="checkbox"/> Transition Revitalization Agreement management system to the Shareholder			
Performance Measures	2005	2006	2007
Progress in development of appropriate landlord-tenant relationship	<i>Protocol established to guide on-going relationship</i>	<i>Monitoring and reporting system for Protocol established</i>	<i>Monitoring and reporting system fully operational</i>
Management plan guiding Revitalization Agreement	<i>Management plan and guidelines completed</i>	<i>Management plan and guidelines implemented, monitoring and reporting system established</i>	<i>Monitoring and reporting system fully operational</i>
Shareholder fully understands landlord-tenant relationship	<i>Report quarterly to Shareholder on landlord-tenant issues</i>	<i>Report quarterly to Shareholder on landlord-tenant issues</i>	<i>Report quarterly to Shareholder on landlord-tenant issues</i>

Goal Two:

Complete disposition activities for all remaining business units, assets and non-railway related real estate while maximizing the financial return to the shareholder where possible.

Strategies:			
<ul style="list-style-type: none"> <input type="checkbox"/> Develop a strategic plan for business units, assets and non-railway related real estate to guide disposition <input type="checkbox"/> Ensure all dispositions are properly supported by professional appraisals and other market benchmarks <input type="checkbox"/> Ensure strong fiscal management and reporting 			
Performance Measures	2005	2006	2007
Strategic plans completed for each business unit, all assets and the real estate portfolio	<i>100%</i>	<i>Strategic plan implementation underway</i>	<i>Strategic plans fully implemented</i>
Percentage of business units, assets and real property disposed of within the disposal guidelines approved by the Board of Directors	<i>100%</i>	<i>100%</i>	<i>100%</i>
Net income outlook achieved	<i>\$38.6 m</i>	<i>\$45.6 m</i>	<i>\$25.5 m</i>

5.0 ALIGNMENT WITH GOVERNMENT'S GOALS

BCRC's updated Service Plan for 2005 to 2007, supports the British Columbia Government's February 2005, Speech from the Throne which articulated the "Five Great Goals for a Golden Decade." More specifically, this Service Plan supports the goal "To create more jobs per capita than anywhere else in Canada" which includes strategies aimed at the Asia-Pacific Gateway Strategy. As a commercial Crown corporation, a positive net income can support government's education, health and social support goals.

This Plan also supports British Columbia's Port Strategy which recognizes that the Province's port facilities are points of entry to the Pacific Ocean's trading markets and are therefore, key components of an efficient, reliable and competitive port system. Expansion of British Columbia's port capacity is required in order to handle continued economic growth and development.

6.0 SUMMARY FINANCIAL OUTLOOK

(\$ millions)	2004 ACTUAL	2005 OUTLOOK	2006 OUTLOOK	2007 OUTLOOK
Total Revenue	242.3	65.2	57.4	53.0
Operating Expenses	192.5	51.1	44.6	40.0
Amortization	31.5	11.8	11.3	10.9
Write-down of Assets	14.0	6.2	0.0	0.0
Total Expenses	238.0	69.1	55.9	50.9
Operating Income (Loss)	4.3	(3.9)	1.5	2.1
Financing Income (costs)	(13.1)	2.0	2.6	4.0
Gain on Disposal of Assets	0.0	40.5	41.5	19.4
Gain on CN Transaction	198.6	N/A	N/A	N/A
Other	5.5	0.0	0.0	0.0
Net Income	195.3	38.6	45.6	25.5
Capital Expenditures	31.6	20.7	10.9	15.2

Notes on Revenues and Expenses

The 2004 results are the actual audited results of the Company as approved by BCRC's Board of Directors. In BCRC's 2004 budget, it was assumed that the transaction with CN would close on March 31, 2004. As a result, the 2004 budget included the operating results of the industrial freight railway only up to this date. The 2004 actual results shown above include the operating results of the industrial freight railway up to the date of the conclusion of the transaction with CN (July 14, 2004).

The February 2005 budget assumed that Vancouver Wharves, the Port Subdivision and certain real estate would be sold on December 31, 2005, at an estimated gain of \$34.9 million. The sale of this real estate is now forecast to occur in 2006, and the sale of Vancouver Wharves and the Port Subdivision is now forecast to occur on December 31, 2007, at a revised estimated gain of \$27.3 million.

Amortization expense in the outlook includes \$6.8 million for those assets leased to CN that have been treated as an operating lease.

BCRC repaid all of its outstanding debt with the Province with the proceeds from the CN transaction in July 2004. The debt was repaid at its fair market value of \$509.0 million. The 2004 budget assumed that BCRC would complete a debt defeasance and the estimated cost of this was included in the budget for financing costs. Instead, BCRC settled its debt with the Province and the difference between fair market value and book value of \$40.8 million has been recorded through equity as required by related party transaction accounting rules. Financing income arises from the investment of excess cash being retained for corporate and operating purposes.

Key Assumptions

The budget assumes that Vancouver Wharves and the Port Subdivision will be sold on December 31, 2007. It is possible that these transactions may take place at some other point, either during 2007 or after 2007. Due to the uncertainty of timing of these transactions and that there is no current formal disposition plan these entities have been treated as continuing operations in the budget.

BCR Captive Insurance Co. will continue to provide insurance to BCRC and its subsidiaries until no longer required. BCRC will work with Risk Management Branch, Ministry of Finance to ensure appropriate on-going management of Captive post-2007 as it is anticipated that outstanding claims and litigation may delay its wind up for several years.

BCR Properties Ltd. will continue with its mandate to dispose of all of its property holdings by the end of 2006.

BCRC will have a full administration office from 2005 to 2007. After 2007, the remaining functions and responsibilities of BCRC will be amalgamated into government.

No wage or salary increases have been budgeted.

Forecast Risks and Sensitivities

Proceeds on the disposition of Vancouver Wharves, the Port Subdivision or the non-railway related real estate portfolio could be greater or less than what is included in the budget impacting the gain/loss on sales.

There is some risk associated with the Vancouver Wharves operations (i.e., ability to achieve their operating budget) however, the Board will continue to carefully monitor this situation.