British Columbia Railway Company

2007

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BRITISH COLUMBIA
The Best Place on Earth

MESSAGE FROM THE CHAIR OF THE BOARD

Overview

I am pleased to present the 2007 Annual Report for the British Columbia Railway Company ("BCRC" or "the Company"), a commercial Crown corporation with 100% of its shares owned by the Province of British Columbia ("the Shareholder").

This report reviews the activities of BCRC during 2007 in fulfilment of its mandate as outlined in the 2007-2009 Service Plan and changes to its mandate by the Shareholder that occurred during 2007. This report also presents the plans and expectations for the Company as it goes forward, as set forth in the Annual Service Plans of 2007-2009 and 2008-2010.

BCRC's mandate has continued to evolve since the transaction in 2004 that transferred the operations of its freight railway to Canadian National Railway Company ("CN Rail"). During 2007, the Company's mandate to support and facilitate the British Columbia Ports Strategy and Pacific Gateway Strategy became a higher priority and moving forward, the importance of this mandate is anticipated to grow. It includes providing consulting advice, acquiring and holding railway corridor and strategic port lands, and making related infrastructure investments for the Province. There are currently a number of potential opportunities under preliminary review and any projects determined to be viable will be identified in subsequent Service Plans.

2007 Operating Results

During 2007, the Company continued to work toward its specific mandated objectives including the effective management of the Revitalization Agreement with CN Rail; provision of safe, reliable and efficient freight operations on the Port Subdivision, which manages the 40-kilometre railway line accessing the port terminals at Roberts Bank; retention and management of land occupied by Vancouver Wharves and Squamish Terminals; and the ongoing sale of surplus real estate holdings and operating assets. In addition, the Company focused significant effort on its evolving mandate to support and facilitate the British Columbia Ports Strategy and Pacific Gateway Strategy.

The Company earned net income of $19.6 million during 2007, compared with $68.9 million in 2006 and a budget for 2007 of $79.1 million. The decrease in net income and variance from budget is substantially attributable to a delay in the sale of real estate due to the significant boom in economic activity throughout the Province. The increased economic activity has resulted in limited access to professional services such as consultants, land surveys and real estate appraisals. It has also delayed decisions from government departments and municipalities for environmental remediation and subdivision approvals. Management continues to work with the various levels of government to accelerate the process and anticipates that the remaining properties will be sold by the end of 2009.

Among the Company's achievements during 2007 was the successful negotiation of an agreement effective May 30, 2007 under which Kinder Morgan Canada Terminals ULC ("Kinder Morgan") purchased the terminal assets of Vancouver Wharves in North Vancouver and signed a long-term lease to operate the terminal. The agreement provides for Kinder Morgan to invest capital to improve the terminal's efficiency. BCRC retained ownership of the underlying real estate on which the facility operates.

Plans and Expectations

BCRC's specific mandated objectives as included in the 2007-2009 Annual Service Plan and the 2008-2010 Annual Service Plan are:

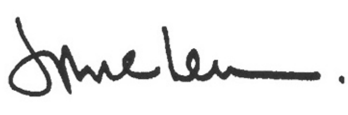
- Management of its long-term lease with CN Rail of the former BC Rail corridor lands and track infrastructure.
- Ownership and management of BCR Port Subdivision Ltd., which manages the 40-kilometre railway line accessing the port terminals at Roberts Bank.
- Continued disposition of all non-railway and non-port related property holdings by BCRC's subsidiary, BCR Properties Ltd. This objective should be substantially complete by the end of 2009.
- Retention and management of land occupied by Vancouver Wharves and Squamish Terminals and management of the operating lease with Kinder Morgan.
- Support and facilitate the British Columbia Ports Strategy and Pacific Gateway Strategy, by providing advice, acquiring and holding railway corridor and strategic port lands, and making related infrastructure investments for the Province.

BCRC will also comply with the Shareholder's requirements to make the public sector carbon neutral by 2010, including measuring and reducing greenhouse gas emissions from the Company's operations and, where necessary, offsetting remaining emissions through investments in the Pacific Carbon Trust.

Accountability

The British Columbia Railway Company 2007 Annual Report was prepared under my direction in accordance with the Budget Transparency and Accountability Act. I am accountable for the contents of the report. The information presented has been prepared in accordance with the BC Reporting Principles and reflects the actual performance of the Company for the 12 months ended December 31, 2007. The measures presented are consistent with BCRC's mission, goals and objectives, and focus on aspects critical to the organization's performance. I am responsible for ensuring internal controls are in place to measure performance in an accurate and timely fashion.

All significant decisions, events and identified risks, as of December 31, 2007, have been considered in preparing the report. The report contains estimates and interpretive information that represent the best judgment of management. Any changes in mandate direction, goals, objectives, strategies, measures or targets made since the 2007-2009 Annual Service Plan was published in January 2007 and any significant limitations in the reliability of data are identified in the report.



John McLernon, Chair

British Columbia Railway Company

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ORGANIZATIONAL OVERVIEW

British Columbia Railway Company ("BCRC" or "the Company") is a commercial Crown corporation with 100% of its shares owned by the Province of British Columbia ("the Shareholder"). The Company is governed by two principal pieces of legislation. The *British Columbia Railway Act* establishes the Company'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*.

Mandate

Over the past three years, the Shareholder has evolved the mandate of BCRC beginning in 2004 with a mandate to ensure the effective and efficient management of the long-term lease agreement ("Revitalization Agreement") between itself and Canadian National Railway Company ("CN Rail") and to dispose of all surplus assets and entities.

With the development by the Shareholder of the British Columbia Ports Strategy and the Pacific Gateway Strategy, the Company's mandate evolved to include retention and management of the Port Subdivision, (the 40-kilometre freight railway right-of-way, railbed and track infrastructure providing neutral rail access to the port terminals at Roberts Bank) and retention and management of key lands that support port terminal operations, including those occupied by Vancouver Wharves and Squamish Terminals. It also included a mandate to provide support and advice to the Shareholder in the development and implementation of strategies relating to the Pacific Gateway Strategy. The Company's 2007-2009 Service Plan reflected this mandate.

2007 Shareholder's Letter of Expectations

In February of 2007, the Shareholder's mandate to the Company, as directed in its Letter of Expectations, included the following:

- Continue to wind down or exit the residual assets and entities currently owned and operated by the Company, with the exception of the railway right-of-way, rail bed and track infrastructure required to support the freight railway and BCR Port Subdivision Ltd. and assets needed to achieve the Pacific Gateway Strategy.
- Continue to own and operate BCR Port Subdivision Ltd.
- As landowner, be accountable for the effective and efficient management of the Revitalization Agreement between the Company and CN Rail.
- Continue to wind down or exit certain remaining operating assets and entities owned by the Company in a manner that maximizes a commercial return to the Province.
- Provide advice and support to the Shareholder in the development and implementation of strategies and actions to further the Pacific Gateway Strategy.
- Implement alternative operating options for Vancouver Wharves.

As reported in this Annual Report, BCRC achieved significant success in 2007 meeting these and other objectives mandated in the Shareholder's Letter of Expectations.

2008 Shareholder's Letter of Expectations

In January of 2008, the Shareholder's Letter of Expectations reiterated the 2007 mandate and also directed the Company, as landowner, to be accountable for the effective and efficient management of the Operating Lease Agreement between the Company and Kinder Morgan Canada Terminals ULC ("Kinder Morgan") related to Vancouver Wharves.

The Shareholder also directed the Company to comply with the Shareholder's requirements to make the public sector carbon neutral by 2010, including: accurately defining, measuring, reporting on and verifying the greenhouse gas emissions from the Company's operations; implementing aggressive measures to reduce those emissions and reporting on these reduction measures and reduction plans; and offsetting any remaining emissions through investments in the Pacific Carbon Trust, which will invest in greenhouse gas reduction projects outside of the Company's scope of operations.

Accordingly, the Company is proceeding to comply with this mandate and will report on progress in its 2008 Annual Report.

Core Business Areas and Services

As a commercial Crown corporation, 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 continues to operate several subsidiaries, including:

BCR Port Subdivision Ltd. (Port Subdivision)

This wholly owned subsidiary operates the 40-kilometre railway line connecting three major railways (CN Rail, Canadian Pacific Railway and BNSF Railway Company) with the port terminals at Roberts Bank. While operating none of its own trains on this railway line, the Port Subdivision maintains the track and manages all train operations, recovering its costs from the three user railways based on their respective share of traffic over the line. The Port Subdivision is regulated provincially under the British Columbia Safety Authority.

BCR Properties Ltd. (BCR Properties)

This wholly owned subsidiary owns and manages the real estate portfolio not required to support railway operations. The portfolio of commercial, industrial and vacant land and buildings represents those non-railway surplus real estate assets the majority of which are slated for disposition by the end of 2009. During 2006, as a result of the British Columbia Ports Strategy and the Pacific Gateway Strategy, the Company's mandate was changed to include retention and management of the port-related lands including lands associated with Vancouver Wharves and Squamish Terminals operations.

Vancouver Wharves Limited Partnership (Vancouver Wharves)

Vancouver Wharves operates a port facility in North Vancouver that handles inbound and outbound shipments of mineral concentrates, pulp, sulphur, and agri-products. Consistent with BCRC's mandate, the operations of this wholly owned subsidiary were transferred to Kinder Morgan Canada Terminals ULC ("Kinder Morgan") effective May 30, 2007. Under the terms of the transaction, Kinder Morgan assumed the operations of the Vancouver Wharves port terminal facility by acquiring certain operating assets and signing a 40-year operating lease for the land upon which Vancouver Wharves operates. BCRC's ongoing responsibilities include the effective and efficient management of the landlord-tenant relationship between the Company and Kinder Morgan, including monitoring of compliance with terms of the operating lease agreement.

BCR Captive Insurance Co. Ltd. (BCR Captive)

This wholly owned insurance company provided 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. In early 2008, all insurance coverage for BCRC and its subsidiaries was obtained from independent third-party insurers. Outstanding claims and litigation will continue to be wound up over subsequent years leading to an eventual wind-up of the BCR Captive subsidiary.

Other than Vancouver Wharves, each of the above subsidiaries has its own operational management which reports through to the senior management and board of BCRC. In addition, BCRC owns several non-operational subsidiaries, which either have been or are in the process of being wound up and/or dissolved. Since 2004, 12 of these dormant subsidiaries have been dissolved.

Benefit to the Public

The main benefit to the public of BCRC's operations comes from its role in helping to implement the Shareholder's British Columbia Ports Strategy and Pacific Gateway Strategy. These strategies will add billions of dollars of economic output and more than 30,000 jobs in British Columbia by 2020 by expanding and increasing the efficiency of the province's transportation infrastructure. While increasing the province's capacity to serve export markets, it will also directly benefit British Columbians by improving movement of people and goods, facilitating economic growth, increasing transportation choices and enhancing connections to designated population growth areas.

The strategic direction for BCRC, as established by the Shareholder's Letter of Expectations, incorporates the above priority initiatives and actions.

Enabling Legislation

BCRC is governed by two principal pieces of legislation. The B*ritish 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*.

Location

The offices of BCRC and its subsidiaries are located at Suite 600 – 221 West Esplanade, North Vancouver, British Columbia, V7M 3J3.

2007 PERFORMANCE

2007 Goals and Targets

With the new role and mandate of BCRC evolving as a supporting resource to the government's British Columbia Ports Strategy and Pacific Gateway Strategy, it has been premature to define specific goals and strategies for the Company in those areas. As a result, the Goals set out below are primarily focused on the Company's existing business functions. As specific Gateway initiatives are identified in future Service Plans, outcome based goals and targets related to Gateway initiatives will be included.

The 2007 performance goals for BCRC were set out in its 2007 to 2009 Service Plan as follows:

Goal 1:
Provide safe, reliable, efficient and open access freight train operations on the Port Subdivision.

Strategies:

- Conduct dispatching, train control and yard management in a manner that provides fair and equal access to Roberts Bank port terminals.
- Maintain railway track and infrastructure in compliance with standards acceptable to the BC Safety Authority and Transport Canada.
- Participate in joint planning and development initiatives related to the Pacific Gateway Strategy and BC Ports Strategy.
- Maintain cooperative relationships with port terminal operators and neighbouring municipalities of Delta and Surrey.

Performance Measures	Target	Actual	Targets		
	2007	2007	2008	2009	2010
Number of derailments caused by track conditions or BCRC activities	0	0	0	0	0

Goal 2:
Effective and efficient management of the Revitalization Agreement between BCRC and CN Rail.

Strategies:

- Manage a positive landlord-tenant relationship between BCRC and CN Rail.
- Monitor CN Rail compliance with terms of the Revitalization Agreement.
- Proactively manage disputes, if any, as they may arise.
- Protect the strategic interests of BCRC and the Province whenever terms of the Revitalization Agreement require enforcement or interpretation.

Performance Measures	Target	Actual	Targets		
	2007	2007	2008	2009	2010
Report on status of the CN Rail Revitalization Agreement.	Report quarterly to the Board and Minister.	Reported quarterly to the Board and Minister.	Report quarterly to the Board and Minister.	Report quarterly to the Board and Minister.	Report quarterly to the Board and Minister.
Monitor CN Rail's environmental stewardship of freight railway lands under lease.	Inspect and report on one-third of railway network.	Inspected and reported on one-third of railway network.	Inspect and report on one-third of railway network.	Inspect and report on one-third of railway network.	Inspect and report on one-third of railway network.
Brief Minister on public issues involving CN Rail operations under Revitalization Agreement.	Respond within 48 hours of event or request.	Responded within 48 hours of event or request.	Respond within 48 hours of event or request.	Respond within 48 hours of event or request.	Respond within 48 hours of event or request.

Goal 3:
Dispose of all real estate holdings and other assets not required for freight railway corridors or port terminal operations.

Strategies:

- Maximize financial results by achieving full market value for dispositions.
- Obtain independent professional appraisals as a basis for property disposition values.
- Complete subdivision of larger land holdings where total net proceeds of disposition can be increased.
- Obtain market rates on leases, encroachments, easements, etc. on retained lands.

Performance Measures	Target	Actual	Targets		
	2007	2007	2008	2009	2010
Number of property title transfers completed.	95	20	75	20	0
Gain on disposal of assets ($ millions)	$75.4	$19.8	$74.3	$19.8	$0

The Company succeeded in meeting its 2007 targets with the exception of Goal 3 relating to the disposition of surplus real estate holdings.

BCRC is disposing of all real estate holdings and other assets not required for freight railway corridors or port terminal operations in a manner that captures full market value and maximizes the financial return from these assets. The Company obtains professional appraisals as a basis for determining values and, where total net returns can be increased, completes subdivision of larger land holdings prior to disposition. While this course maximizes the return to the Shareholder for these assets, the disposition process has taken somewhat longer than originally anticipated. Due to the significant boom in economic activity throughout the Province, access to professional services such as consultants, land surveys and real estate appraisals is constrained by an increased demand. This economic activity has also delayed decisions from government departments and municipalities for environmental remediations and subdivisions. Management continues to work with the various levels of government to accelerate the process and anticipates that the remaining properties will be sold by the end of 2009.

BCRC's role in the BC Ports Strategy and Pacific Gateway Strategy continues to evolve. BCRC is confident that it can perform a valuable role and contribute to government's objectives in planning and implementing important transportation infrastructure projects to increase economic activity and employment, to improve service for British Columbians and to support increased Asia-Pacific trade.

Changes to the 2007 Goals

In the 2008 – 2010 Service Plan, an additional goal was added relating to the management of the new Operating Lease Agreement with Kinder Morgan signed in May 2007.

Goal 4:

Effective and efficient management of the Operating Lease Agreement between BCRC and Kinder Morgan Canada Terminals ULC.

Strategies:

- Manage a positive landlord-tenant relationship between BCRC and Kinder Morgan.
- Monitor Kinder Morgan compliance with terms of the Operating Lease Agreement.
- Proactively manage disputes, if any, as they may arise.
- Protect the strategic interests of BCRC and the Province whenever terms of the Operating Lease Agreement require enforcement or interpretation.

Performance Measures	Target	Actual	Targets		
	2007	2007	2008	2009	2010
Report on status of the CN Rail Revitalization Agreement.	n/a	Reported quarterly to the Board and Minister.	Report quarterly to the Board and Minister.	Report quarterly to the Board and Minister.	Report quarterly to the Board and Minister.
Report on status of the Kinder Morgan Operating Lease Agreement. Monitor Kinder Morgan's environmental stewardship of BCRP lands.	n/a	Inspected and reviewed as required.	Inspect and review as required.	Inspect and review as required.	Inspect and review as required.
Briefing Minister on public issues involving Kinder Morgan operations under Operating Lease Agreement.	n/a	Responded within 48 hours of event or request.	Respond within 48 hours of event or request.	Respond within 48 hours of event or request.	Respond within 48 hours of event or request.

Performance Management Systems

Results achieved against the above Performance Measures are principally derived from BCRC's internal management and reporting systems.

Results can be regarded as accurate and reliable, as the performance measures have been intentionally selected for areas where management has confidence in the ability to accurately monitor and measure without the need for estimates or pro-rating of data.

Many of the performance results may also be verified externally by the promised deliverables (i.e. quarterly reporting to the Minister). Results may also be independently verified by external regulatory agencies (i.e. any train derailments are investigated by the British Columbia Safety Authority and/or Transport Canada).

BCR Port Subdivision Ltd.

The Port Subdivision continues to operate successfully, effectively serving its three user railways. In 2007, it handled a total of 5,285 trains (up 5.6% from 2006) and a total of 504,077 car units (up 6.5% from 2006). The increase was due primarily to the rebound in coal traffic, which was up 13.2% from 2006.

The Port Subdivision operates on a cost recovery basis, recovering its costs from its three user railways based on their respective share of traffic over the line each month. Port Subdivision earned revenues of $8.5 million, up $0.3 million from 2006. Operating expenses which include the costs for the operation and maintenance of the railway remained constant at $4.4 million.

BCR Port Subdivision Ltd. has an operations facility located near Roberts Bank at 3885 Deltaport Way, but all business and administrative functions are managed through the BCRC corporate office in North Vancouver.

BCR Properties Ltd.

This subsidiary continued with its mandate to dispose of surplus real estate holdings not required for freight railway corridors or port terminal operations.

A total of 20 parcels of land were sold during 2007 for net proceeds of $14.5 million resulting in a total gain of $10.6 million. In addition, the gain of $9.2 million on a property sold in 2004 was recognized this year with the collection of a sufficient amount of the proceeds.

Revenue from operations for BCR Properties excludes the gain on real estate sales discussed above. Operating revenues from the rental of properties still owned by the subsidiary were $7.9 million in 2007, a decline of $1.0 million from 2006. The decrease reflects the lower number of properties owned by the subsidiary. Property management expenses decreased by $7.7 million from 2006, mostly due to environmental expenses which decreased $9.0 million this year. The risk of environmental liability is inherent in the Company's operations and, as a result, costs are incurred on an ongoing basis.

Vancouver Wharves Limited Partnership

Vancouver Wharves handles inbound and outbound shipments of mineral concentrates, pulp, sulphur and agri-products. Effective May 30, 2007, the operations of Vancouver Wharves were transferred to Kinder Morgan Canada Terminals ULC. As such, only five months of operating results are included in the Company's 2007 consolidated results. For the five-month period, Vancouver Wharves had operating revenues of $15.8 million and operating expenses of $11.6 million.

BCR Captive Insurance Co. Ltd.

BCR Captive Insurance no longer provides insurance to BCRC and its subsidiaries effective January 31, 2008. Outstanding claims and litigation will continue to be wound up as soon as possible.

MANAGEMENT DISCUSSION AND ANALYSIS

During 2007, BCRC continued to own the former BC Railway right-of-way and railway track infrastructure and manage the long-term lease arrangement with CN Rail to operate the railway. BCRC has also retained ownership of its BCR Port Subdivision operation and, through its subsidiary BCR Properties, has retained ownership of certain port-related lands.

In May 2007, BCRC completed a transaction to transfer the operations of Vancouver Wharves to Kinder Morgan Canada Terminals ULC ("Kinder Morgan"). Under the terms of the agreement, Kinder Morgan assumed the operations of the port terminal facility by acquiring certain operating assets and entering into a 40-year operating lease for the land upon which Vancouver Wharves operates.

All other residual assets and entities not required for railway or port operations are to be disposed of in a manner that maximizes a commercial return to the government.

During 2007, the Company met its goals of effectively managing the Revitalization Agreement with CN Rail and providing safe, reliable and efficient freight operations on the BCR Port Subdivision. In addition, the Company focused its efforts on the ongoing sale of surplus real estate holdings and operating assets. A total of 20 real estate properties were sold during the year for net proceeds of $14.5 million and the transaction with Kinder Morgan was completed for net proceeds of $34.2 million and other consideration.

2007 Results

The Company earned net income of $19.6 million during 2007. This compares to net income of $68.9 million in 2006 and a budget for 2007 of $79.1 million. The decrease is substantially all attributable to real estate sales which were lower than last year and also lower than anticipated in the 2007 budget.

BCRC is disposing of all real estate holdings and other assets not required for freight railway corridors or port terminal operations in a manner that captures full market value and maximizes the financial return from these assets. The Company obtains professional appraisals as a basis for determining values and, where total net returns can be increased, completes subdivision of larger land holdings prior to disposition. While this course maximizes the return to the Shareholder for these assets, the disposition process has taken somewhat longer than originally anticipated. Due to the significant boom in economic activity throughout the Province, access to professional services such as consultants, land surveys and real estate appraisals is constrained by an increased demand. This economic activity has also delayed decisions from government departments and municipalities for environmental remediations and subdivisions. Management continues to work with various levels of government to accelerate the process and anticipates that the remaining properties will be sold by the end of 2009.

A restatement of the prior year results was necessary with respect to the presentation and depreciation of the BCR Port Subdivision railway assets. A review during the year determined that depreciation should not have been taken on the Port Subdivision Joint Capital Account railway assets. Instead, the lease agreements with the user railways should have been recorded as direct-financing lease receivables rather than as capital assets. Accordingly, the 2006 financial statements have been restated to reduce amortization expense by $0.7 million in 2006, thus increasing net income by $0.7 million, and to increase the carrying value of the assets by $29.0 million with a corresponding decrease to the opening deficit as at January 1, 2006 of $28.3 million.

The consolidated results for 2007 are as follows:

($ thousands)	2007 Actual	2006 Actual (restated)	Year Variance	2007 Budget (restated)	Budget Variance
Revenue	18,185	17,554	631	20,802	(2,617)
Operating expenses	31,327	26,333	(4,994)	18,295	(13,032)
Amortization	4,113	7,356	3,243	8,167	4,054
Total expenses	35,440	33,689	(1,751)	26,462	(8,978)
Operating loss	**(17,255)**	**(16,135)**	(1,120)	(5,660)	(11,595)
Interest income	12,597	8,655	3,942	9,303	3,294
Gain on disposal of assets	19,801	63,667	(43,866)	75,447	(55,646)
Income from continuing operations	**15,143**	**56,187**	**(41,044)**	**79,090**	**(63,947)**
Income from discontinued operations	4,416	12,676	(8,260)	-	4,416
Net income	**19,559**	**68,863**	**(49,304)**	**79,090**	**(59,531)**

In comparing the current year's results to the 2006 results, revenues remained relatively flat and expenses increased by $1.8 million. Operating expenses, which were higher this year by $5.0 million primarily as a result of accruals for future environmental expenses, were offset by lower amortization expense. Amortization expense this year was offset by a $2.8 million adjustment as a result of a reduction in the asset retirement obligation in excess of the related unamortized asset. Financing income was $3.9 million higher than last year due to increased cash balances and higher interest rates in 2007 and, as discussed earlier, the gain on disposal of assets was $43.9 million lower than last year as a result of delays in real estate sales. The income from discontinued operations represents the operating results for Vancouver Wharves to May 30, 2007, the effective date of the transaction with Kinder Morgan.

The budget presentation was changed to conform with the current year's financial statement presentation. As compared to the budget, the negative variance in net income of $59.5 million relates again to two main items: the gain on disposal of assets which was $55.6 million below budget and expenses which were $9.0 million over budget. The negative variance in the gain on sales was due to timing of real estate sales. The operating expenses were higher than budget due to accruals for environmental expenses and one-time costs relating to the decommissioning and removal of old railway assets in order to mitigate potential environmental and safety concerns. The increase in operating expenses was offset by lower than anticipated amortization expense this year.

Revenues

The revenues from continuing operations, by operating subsidiary, are as follows:

($ thousands)	2007 Actual	2006 Actual	Year Variance	2007 Budget	Budget Variance
BCR Properties	7,860	8,865	(1,005)	11,287	(3,427)
BCR Port Subdivision	8,547	8,251	296	9,230	(683)
Other	1,778	438	1,340	285	1,493
Total	18,185	17,554	631	20,802	(2,617)

Revenues from continuing operations increased by $0.6 million as compared to 2006 but were below budget by $2.6 million. The increase in revenues over the prior year relates primarily to rent revenue earned from the new lease transaction with Kinder Morgan. The decrease from the 2007 budget also relates to the new lease with Kinder Morgan which resulted in lower annual rent revenue than estimated in the budget, with other consideration being received from the transaction. The gain on property sales is not included in the above revenue results and will be discussed in further detail later in this report.

Expenses

Operating expenses from continuing operations, by operating subsidiary, are as follows:

($ thousands)	2007 Actual	2006 Actual (restated)	Year Variance	2007 Budget (restated)	Budget Variance
BCR Properties	6,644	14,313	7,669	4,250	(2,394)
BCR Port Subdivision	4,385	4,371	(14)	5,260	875
BCRC Corporate	24,411	15,005	(9,406)	16,952	(7,459)
Total	35,440	33,689	(1,751)	26,462	(8,978)

Operating expenses from continuing operations increased by $1.8 million in 2007 and were higher than budget by almost $9.0 million.

For fiscal 2007, BCR Properties operating expenses decreased as a result of lower environmental provisions on its real estate portfolio. The decrease in BCR Properties expenses was offset by increased BCRC Corporate expenses as a result of environmental provisions accrued this year and, as discussed above, a one-time expense relating to the decommissioning and removal of old railway assets for environment and safety reasons.

As compared to budget, operating expenses were higher than budget due to increases in the environmental provisions for both BCR Properties and BCRC Corporate which were not anticipated in the budget.

The risk of environmental liability is inherent in the Company's operations with respect to both current and past operations. As a result, the Company incurs costs, on an ongoing basis, associated with environmental regulatory compliance and remediation requirements. Management believes that, based on information known today, environmental costs likely to be incurred over the next several years have been identified. However, ongoing efforts to identify potential environmental concerns may lead to additional environmental costs in the future, the magnitude of which can not be reasonably estimated at this time.

Other Income

Other income includes financing income and the gain on disposal of assets. The gain on disposal of assets relates mainly to the sale of surplus real estate assets. A total of 20 parcels of land were sold during 2007 for net proceeds of $14.5 million resulting in a total gain of $10.6 million. In addition, the gain of $9.2 million on a property sold in 2004 was recognized in 2007 once a sufficient amount of the proceeds was received.

Interest income of $12.6 million was earned during the year as compared to $8.7 million in 2006 and a budget of $9.3 million. The positive variance over 2006 is due to both higher interest rates and increased cash balances as a result of the proceeds received from the Kinder

Morgan transaction, real estate sales and the timing of capital expenditures. The 2007 budget for capital expenditures was originally $65.6 million of which $21.0 million was actually spent in 2007. Capital expenditures of $28.5 million budgeted for 2007 and relating to Vancouver Wharves were assumed by Kinder Morgan as part of the transaction. The balance of the 2007 planned capital expenditures, relating mostly to the real estate subdivision projects, were delayed to 2008.

Discontinued Operations

Since 2006 the Vancouver Wharves operation, which was in the process of being transferred to a new operator, has been presented as discontinued operations. The Kinder Morgan transaction to assume the operations of Vancouver Wharves completed on May 30, 2007 therefore 2007 includes only five months of operating results.

($ thousands)	2007 Actual (5 months)	2006 Actual	Year Variance	2007 Budget	Budget Variance
Revenues	15,741	46,742	(31,001)	-	15,741
Operating expenses	(11,586)	(35,247)	23,661	-	(11,586)
Gain on disposal of assets	191	600	(409)	-	191
Interest	70	581	(511)	-	70
Total	4,416	12,676	(8,260)	-	4,416

Net income from discontinued operations decreased by $8.3 million this year as it represents only five months of Vancouver Wharves operations. The 2007 budget assumed that the transaction with Kinder Morgan would be completed by the end of 2006 therefore no budgeted results were included for 2007.

Disposal of Assets

The Company continues to prepare non port-related surplus real estate assets for sale. Once ready, these assets are classified as held for sale on the balance sheet. At the end of the year, BCRC had assets with a book value of $16.7 million classified as available for sale. The remaining assets, although being prepared for sale, do not meet the requirements under Canadian generally accepted accounting principles (GAAP) for separate presentation therefore they continue to be included with Property and Equipment.

Liquidity and Capital Resources

As a result of its ownership by the Province of British Columbia, BCRC 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 retained earnings, or, where there is a shortfall, through debt.

The Company's year-end cash position increased by $35.6 million in 2007 primarily due to proceeds received from the transaction with Kinder Morgan. Proceeds received from real estate sales of $14.5 million were offset by capital expenditures of $21.0 mostly relating to construction, engineering, and other costs incurred to subdivide and prepare these and future properties for sale.

BCRC currently has no debt outstanding and with the current plan to dispose of the remaining non port-related real estate properties, management anticipates that, along with residual proceeds from the CN Rail and Kinder Morgan transactions, the organization will have sufficient cash to fund disposition, capital and operating activities into the future.

Historical Financial and Operating Results

Based on the significant changes to the organization since 2004, management believes that historical results from earlier than 2005 would not be meaningful. The historical results have been restated to conform to the current year's financial statement presentation.

($ thousands)	2007 Actual	2006 Actual (restated)	2005 Actual (restated)
Revenue	18,185	17,554	24,387
Operating expenses	31,327	26,333	25,330
Amortization	4,113	7,356	10,025
Total expenses	35,440	33,689	35,355
Operating loss	**(17,255)**	**(16,135)**	**(10,968)**
Interest income	12,597	8,655	3,713
Gain on disposal of assets	19,801	63,667	9,885
Reduction in gain on CN Rail transaction	-	-	(5,602)
Income (loss) from continuing operations	**15,143**	**56,187**	**(2,972)**
Income (loss) from discontinued operations	4,416	12,676	(9,749)
Net income (loss)	**19,559**	**68,863**	**(12,721)**

Financial Forecast

The future goals and objectives for BCRC remain unchanged from last year with the exception of managing the new operating lease with Kinder Morgan. The goals are included in the 2008 to 2010 Annual Service Plan as follows:

1. Provide safe, reliable, efficient and open access freight train operations on the Port Subdivision.
2. Ensure effective and efficient management of the Revitalization Agreement between BCRC and CN Rail.
3. Ensure effective and efficient management of the Operating Lease Agreement between BCRC and Kinder Morgan.
4. Dispose of all surplus real estate holdings and other surplus assets not required for freight railway corridors or port terminal operations.

The following financial forecast was included in the 2008 to 2010 Annual Service Plan. It was based on certain assumptions at the time of its preparation as follows:

- BCR Properties Ltd. will continue in its mandate to dispose of all non-railway and non-port holdings and anticipates completion of the disposition process by the end of 2009. Proceeds on disposal have been estimated based on management's best estimates of the fair value of the properties.
- BCR Captive will no longer provide insurance to BCRC and its subsidiaries after December 31, 2007. Outstanding claims and litigation will continue to be wound up over the following years. Effective in 2008, all insurance will be procured from independent third party insurers.

- BCRC will continue to own Port Subdivision into the future and will fund all capital requirements for additional rail capacity and related infrastructure to support forecast port terminal expansions at Roberts Bank. Port Subdivision will be able to recover all of its operating expenses as well as Privilege Charges (a form of asset "rent") on the entire Joint Capital Account from the three user railways.
- BCRC will continue to maintain an administration office and will continue in its current mandate to support the provincial government's Ports Strategy and Pacific Gateway Strategy.
- The Asset Retirement Obligation and environmental liability related to the remediation of the Vancouver Wharves site remains with BCRC. Although Kinder Morgan is contractually required to perform the remediation (per the Operating Lease Agreement signed in May, 2007), the obligation will remain with BCRC until such time as BCRC management is satisfied that the remediation work has been done. Conservatively, it has been assumed that no remediation work will be done during this forecast period.
- The capital forecast includes provisions for the investment in port development infrastructure projects in support of the BC Ports Strategy and Pacific Gateway Strategy. No revenue associated with these investments has been included in the forecasts due to the uncertainty, at this time, of the form and amount of the future revenue stream. It is management's intent however to recover the investment and/or earn an appropriate return on the investment. This future revenue stream, not yet quantified, is expected to provide BCRC with positive operating income going forward.
- No dividend payments are made to the Province.
- BCRC will comply with the shareholder's requirements to make the public sector carbon neutral by 2010.

Based on the above key assumptions, the financial forecast through 2010 is as follows:

($ thousands)	2007 Actual	2008 Forecast	2009 Forecast	2010 Forecast
Revenue	18,185	14,808	10,982	11,502
Operating expenses	31,327	16,270	11,251	11,251
Amortization	4,113	6,642	6,080	6,080
Total expenses	35,440	22,912	17,331	17,331
Operating loss	**(17,255)**	**(8,104)**	**(6,349)**	**(5,829)**
Interest income	12,597	9,260	6,927	5,273
Gain on disposal of assets	19,801	74,317	19,853	-
Income from continuing operations	**15,143**	**75,473**	**20,431**	(556)
Income from discontinued operations	4,416	-	-	-
Net income (loss)	**19,559**	**75,473**	**20,431**	**(556)**
Capital expenditures	**21,044**	**94,415**	**81,700**	**62,100**
Retained earnings (deficit)	**(324,620)**	**(249,147)**	**(228,716)**	**(229,272)**
Debt	**-**	**-**	**-**	**-**
FTE's	**30**	**30**	**24**	**24**

Capital Outlook

The forecast for capital expenditures includes costs to complete the BCR Properties subdivision projects and capital costs related to the Port Subdivision, including sustaining capital, track extension costs in support of the Deltaport third berth expansion project and funding obligations to the Roberts Bank Rail Corridor grade separation initiative. In addition, the capital forecast includes provisions for the acquisition of strategic port lands and investment in port development infrastructure projects, in support of the BC Ports Strategy and Pacific Gateway Strategy.

($ millions)	2008	2009	2010
BCR Properties subdivision projects	25.5	-	-
Deltaport berth 3 expansion	2.0	4.0	4.0
Land acquisitions	44.7	-	-
Pacific Gateway initiatives	20.0	70.0	50.0
Other	2.2	3.1	0.1
Sub-total	94.4	77.1	54.1
Contributions to Roberts Bank Rail Corridor grade separations	-	4.6	8.0
Total Capital Expenditures	94.4	81.7	62.1

Forecast Risk and Sensitivities

The expected proceeds from the sales of non-port and non-railway related real estate is management's best estimate based on current knowledge and market conditions. Any difference between the actual and estimated proceeds will have a direct impact on the gain/loss on sales included in the financial forecast.

Costs accrued for environmental remediation are based on preliminary investigation of site contamination and assume remediation to standards currently in effect. Costs could increase as the extent of contamination is verified or if future remediation standards and construction costs are higher.

The amount and timing of capital expenditure on the Port Subdivision may be adjusted as the construction schedule of the Berth 3 expansion project at Deltaport is confirmed and as associated engineering design and cost estimates are completed. The provision for capital expenditures relating to the Gateway initiatives will be adjusted as projects become more clearly defined.

OPERATING SEGMENT INFORMATION

The following operating segment information has been prepared for each of the operating subsidiaries of the Company excluding intercompany transactions.

BCR Properties Ltd.

($ thousands)	2007 Actual	2006 Actual	Year Variance	2007 Budget	Budget Variance
Revenues	7,860	8,865	(1,005)	11,287	(3,427)
Expenses	6,644	14,313	7,669	4,250	(2,394)
Operating income (loss)	**1,216**	**(5,448)**	**6,664**	**7,037**	**(5,821)**

BCR Port Subdivision Ltd.

($ thousands)	2007 Actual	2006 Actual	Year Variance	2007 Budget	Budget Variance
Revenues	8,547	8,251	296	9,230	(683)
Expenses	4,385	4,371	(14)	5,260	875
Operating income	**4,162**	**3,880**	**282**	**3,970**	**192**

REPORT OF MANAGEMENT

The accompanying consolidated financial statements of British Columbia Railway Company and all other information contained in the Annual Report are the responsibility of management. The consolidated financial statements were prepared in conformity with GAAP appropriate in the circumstances in a manner consistent with the previous year and, accordingly, include some amounts based on management's best judgments and estimates. The financial information contained elsewhere in this Annual Report is consistent with that in the consolidated financial statements.

Management is responsible for maintaining a system of internal accounting controls and procedures to provide reasonable assurance, at an appropriate cost/benefit relationship, that assets are safeguarded and transactions are authorized, recorded and reported properly. The internal accounting control system is augmented by appropriate reviews by management, written policies and guidelines and a written Code of Business Conduct adopted by the Board of Directors, applicable to all employees of the Company. Management believes that the Company's internal accounting controls provide reasonable assurance that assets are safeguarded against material loss from unauthorized use or disposition and that the financial records are reliable for preparing financial statements and other data and maintaining accountability for assets.

The Audit, Finance and Risk Management Committee meets with the independent auditors and management periodically to discuss internal accounting controls, auditing and financial reporting matters. The committee reviews with the independent auditors the scope and results of the audit effort. The committee also meets with the independent auditors without management present to ensure that the independent auditors have free access to the committee. The committee reviews the consolidated annual financial statements and recommends their approval by the Board of Directors.

The independent auditors, KPMG LLP Chartered Accountants, are appointed by the Board of Directors to examine the financial statements of British Columbia Railway Company and conduct such tests and related procedures as they deem necessary in conformity with generally accepted auditing standards. The opinion of the independent auditors, based upon their examination of the financial statements, is contained in this Annual Report.

Kevin Mahoney, President and Chief Executive Officer

Linda Shute, C.A., Vice–President Finance and Chief Financial Officer

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AUDITORS' REPORT

To the Lieutenant Governor in Council

Province of British Columbia

We have audited the consolidated balance sheet of British Columbia Railway Company as at December 31, 2007 and the consolidated statement of income and deficit and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Vancouver, Canada

February 15, 2008

CONSOLIDATED BALANCE SHEET (in thousands of dollars)

December 31	2007	2006
		restated Note 2
ASSETS		
Current		
Cash and cash equivalents	**$ 267,464**	$ 225,486
Accounts receivable	**5,739**	4,759
Materials and other items	**259**	635
Discontinued operations - Note 3	**-**	8,434
	273,462	239,314
Assets available for sale	**16,718**	11,282
Property and equipment - Note 5	**282,278**	293,006
Other assets - Note 6	**82,420**	81,910
Discontinued operations - Note 3	**-**	5,034
	$ 654,878	630,546
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current		
Accounts payable and accrued liabilities	**$ 10,932**	$ 6,798
Current portion of other liabilities - Note 7	**2,375**	11,338
Discontinued operations - Note 3	**-**	5,957
	13,307	24,093
Deferred lease revenue	**309,561**	281,625
Other liabilities - Note 7	**121,395**	133,772
	444,263	439,490
Shareholder's equity		
Share capital - Note 8	**257,688**	257,688
Contributed surplus	**277,547**	277,547
Deficit	**(324,620)**	(344,179)
	210,615	191,056
	$ 654,878	$ 630,546

Commitments - Note 9
Contingent liabilities - Note 10

See accompanying notes to the consolidated financial statements.

On behalf of the Board

Director

Director

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2007 and 2006

CONSOLIDATED STATEMENT OF INCOME AND DEFICIT (in thousands of dollars)

For the years ended December 31	2007	2006 *restated Note 2*
Revenues	**$ 18,185**	$ 17,554
Expenses		
Labour costs	**3,951**	4,038
Operations and maintenance	**7,280**	3,768
General and administration	**5,860**	3,321
Amortization	**4,113**	7,356
Environmental costs	**10,368**	11,300
Operating and other taxes	**2,006**	1,647
Accretion expense	**1,862**	2,259
	35,440	33,689
Operating loss	**(17,255)**	(16,135)
Other income		
Gain on property sales	**19,801**	63,667
Interest income - Note 11	**12,597**	8,655
Income from continuing operations	**15,143**	56,187
Income from discontinued operations - Note 3	**4,416**	12,676
Net income and comprehensive income	**19,559**	68,863
Deficit, beginning of year, as previously reported	**(373,160)**	(441,333)
Adjustment to amortization expense - Note 2	**28,981**	28,291
Deficit, beginning of year, restated	**(344,179)**	(413,042)
Deficit, end of year	**(324,620)**	(344,179)

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (in thousands of dollars)

For the years ended December 31	2007	2006
		restated Note 2
Operating activities		
Income from continuing operations	**$ 15,143**	$56,187
Adjustment for items not involving cash		
Gain on property sales	**(19,801)**	(63,667)
Amortization of property and equipment	**4,113**	7,356
Amortization of other assets and liabilities	**(1,035)**	(765)
Pension and post employment benefit income and contributions - Note 12	**661**	1,054
Accretion of asset retirement obligation	**1,862**	2,259
Change in environmental liability accrual	**3,911**	10,658
Net change in non-cash working capital - Note 13(a)	**4,212**	(1,416)
Cash provided by operating activities	**9,066**	11,666
Investing activities		
Purchase of property and equipment	**(20,357)**	(14,493)
Net proceeds on sale of property and equipment	**14,497**	84,518
Net proceeds from Kinder Morgan transaction - Note 3	**34,239**	-
Changes in other assets	**(1,810)**	517
Cash provided by investing activities	**26,569**	70,542
Increase in cash and cash equivalents from continuing operations	**35,635**	82,208
Cash provided by discontinued operations	**6,343**	6,211
Cash and cash equivalents, beginning of year	**225,486**	137,067
Cash and cash equivalents, end of year	**$267,464**	$225,486

See accompanying notes to the consolidated financial statements.

British Columbia Railway Company ("BCRC") is owned by the Province of British Columbia (the "Province") and is incorporated under the British Columbia Railway Act. BCRC is principally a holding company with its commercial and business activities conducted through several operating subsidiaries, spanning the business areas of real estate, and railway and marine terminal management.

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 government'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 BCR Properties Ltd., has retained ownership of certain port-related lands.

The Province has determined that the remaining assets and entities owned by the Company are not required to be publicly owned, and that BCRC is to wind down or dispose of these in a timely manner which maximizes a commercial return to the Province.

1. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements are expressed in Canadian dollars and have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

Basis of consolidation

These consolidated financial statements include the accounts of BCRC and all of its subsidiaries. In these notes, "Company" refers to BCRC, its subsidiaries and partnerships. All significant intercompany transactions have been eliminated.

Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates and third party valuations relate to the determination of net recoverable value of assets, useful lives for amortization and provisions for post employment benefits, contingencies, restructuring and environmental matters. Actual amounts may ultimately differ from these estimates.

Cash and cash equivalents

Cash and cash equivalents include cash and those short-term money market instruments with initial terms to maturity of three months or less.

Inventories

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

Property and equipment

Property and equipment are recorded at cost less accumulated depreciation. Acquisitions and installations are recorded at cost while repairs are charged to operations. Betterments are capitalized. On major projects, interest costs are capitalized as a cost of the project.

Property and equipment are amortized on a straight-line basis over the estimated useful lives of the assets. Management annually assesses the value of its property and equipment. When indicators of impairment exist, management performs a fair value assessment and reduces the asset's carrying value to its estimated fair value.

The original cost of assets less estimated salvage value is amortized over the following number of years:

	Number of Years
Buildings	30 - 40
Equipment	3 - 20

Equipment and leasehold improvements under capital lease are amortized over their lease term.

Joint Capital Account

The Company has invested in railway assets for its BCR Port Subdivision operation. An agreement between the Company and the three user railways requires the Company to maintain a separate account of these 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 relating to land has been accounted for as an operating lease and the balance accounted for as direct financing leases.

Discontinued operations

As described in Note 3, the Company completed a transaction in May 2007 to sell the operating assets and transfer the operations of their subsidiary, Vancouver Wharves, to a new operator. The operating results of Vancouver Wharves to the date of the transaction have been reported separately as discontinued operations on the balance sheet and statement of operations.

Assets available for sale

The Company is preparing non port-related real estate assets for sale and once ready, the assets are reclassified as held for sale.

Deferred lease revenue

The Company has two long-term lease arrangements currently in effect. One operating lease relates to a portion of the Company's long-term lease of its railway right-of-way land and railbed assets including grade and ballast as a result of the CN transaction in 2004. The second lease came into effect in 2007 as a result of a transaction with Kinder Morgan Canada Terminals ULC ("KM") and is for the land upon which the Vancouver Wharves terminal facility operates (see Note 3). Both operating leases were prepaid therefore the amounts have been included in deferred revenue and are being amortized to income over the related terms of each lease.

Revenue recognition

Revenues are recognized when services have been substantially completed. Rental income is recognized as earned. All revenues are recognized when the collectibility is reasonably assured.

Post employment benefits

The Company accrues its obligations under employee benefit plans and the related costs as benefits are earned, net of returns on plan assets. The Company's policies are as follows:

i) The cost of retirement benefits earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected health care costs.

ii) The expected interest cost on any prior service obligation is calculated using management's estimate for the long-term rate of return.

iii) The expected return on plan assets is calculated at a market-related value for the assets.

iv) Past service costs from plan amendments are amortized on a straight-line basis over the expected average remaining service period of active employees. Experience gains and losses and any changes in assumptions in excess of 10% of the greater of the accrued benefit obligation and the market value of plan assets are amortized over the expected average remaining service period of active employees. The amortization of past service costs, experience gains and losses and any changes in assumptions are included in the pension expense for the year.

v) Unamortized costs on benefit plans are amortized over the remaining life expectancy of plan members when all the members are inactive.

Income taxes

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

Environmental expenditures and liabilities

Environmental expenditures that relate to current operations are expensed as part of operating activities or capitalized as appropriate. Expenditures that relate to an existing condition caused by past operations and which are not expected to contribute to current or future operations are expensed. Environmental liabilities related to environmental assessment and/or remedial efforts are accrued when the expenditures are considered likely and the costs can be reasonably estimated.

Asset retirement obligation

The Company recognizes asset retirement obligations in accordance with Canadian GAAP as set out in CICA Handbook Section 3110. Under this standard future costs to retire an asset, including dismantling, remediation, ongoing treatment and monitoring of the asset, are recognized and recorded as a liability at fair value, assuming a credit adjusted risk-free discount rate and an inflation factor. The liability is accreted over time through periodic charges to earnings. In addition, the asset's retirement cost is capitalized as part of the assets' carrying value and amortized over the assets' useful lives.

Financial Instruments

Effective with the commencement of its 2007 fiscal year, the Company adopted the recommendations of the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1530, *Comprehensive Income*, CICA Handbook Section 3251, *Equity*, CICA Handbook Section 3855 *Financial Instruments – Recognition and Measurement*, CICA Handbook Section 3861, *Financial Instruments – Disclosure and Presentation*, and CICA Handbook Section 3865, *Hedges*. These new Handbook Sections provide comprehensive requirements for the recognition and measurement of financial instruments, as well as standards on when and how hedge accounting may be applied.

CICA Handbook Section 1530 establishes standards for reporting and displaying comprehensive income. Comprehensive income is defined as the change in shareholders' equity during a period from transactions and other events and circumstances from non-owner sources. This standard requires certain gains and losses that would otherwise be recorded as part of net earnings to be presented in other "comprehensive income" until it is considered appropriate to recognize into net earnings.

Under CICA Handbook Section 3855, all financial instruments are classified into one of the following five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets, or other financial liabilities. All financial instruments, including derivatives, are included on the consolidated balance sheet and are measured at fair market value, with the exception of loans and receivables, investments held-to-maturity and other financial liabilities, which are measured at amortized cost. Subsequent measurement and recognition of changes in fair value of financial instruments depends on their initial classification. Held-for-trading financial investments are measured at fair value and all gains and losses are included in net income in the period in which they arise. Available-for-sale financial instruments are measured at fair value with revaluation gains and losses included in other comprehensive income until the assets are removed from the balance sheet.

The standards also require derivative instruments to be recorded as either assets or liabilities measured at their fair value unless exempted from derivative treatment as a normal purchase and sale. Certain derivatives embedded in other contracts must also be 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 must formally document, designate and assess the effectiveness of transactions that receive hedge accounting.

As a result of the adoption of these standards, the Company has classified cash and equivalents as held-for-trading. Amounts receivable are classified as loans and receivables. Accounts payable and accrued liabilities and other liabilities are classified as other payables. The Company has not identified any embedded derivatives and currently the Company does not have any financial instruments that would qualify for hedge accounting.

The adoption of these standards has no impact on the financial statements for the year ended December 31, 2007.

2. REVISION OF PRIOR YEAR ACCOUNTING TREATMENT

During 2007, a review of the BCR Port Subdivision railway assets determined that depreciation taken in previous years on the Port Subdivision's Joint Capital Account assets should not have been taken as the lease agreements with the user railways should have been recorded as direct-financing lease receivables rather than as capital assets. Accordingly the 2006 financial statements have been restated to reduce amortization expense by $0.7 million and increase the carrying value of the assets by $29.0 million, with a corresponding decrease to the opening deficit as at January 1, 2006 of $28.3 million. The Joint Capital Account assets, excluding the land, have accordingly been reclassified from Capital Assets and are now being presented with other assets as Joint Capital Account receivables.

3. KINDER MORGAN TRANSACTION

On May 30, 2007, BCRC and its subsidiaries, Vancouver Wharves Limited Partnership "(VWLP") and BCR Properties Ltd. ("BCRP") completed a transaction with Kinder Morgan Canada Terminals ULC ("KM") pursuant to an agreement signed on April 3,

December 31, 2007 (tabular amounts in thousands of dollars)

2007. Under the terms of the agreement, KM assumed the operations of VWLP's port terminal facility by acquiring certain operating assets from VWLP and signing a 40-year non-renewable operating lease with BCRP for the land upon which VWLP operates. Cash proceeds of $40 million were received on the transaction.

As part of the agreement, KM assumed responsibility to remediate the land at the end of the lease and to complete certain projects designed to prevent further off-site migration of contamination from the land during the lease. At May 29, 2007, VWLP had accrued $44.6 million in an asset retirement obligation for remediation of the land and $14.0 million in respect of the off-site migration projects. As BCR Properties retains ultimate responsibility for the asset retirement obligations and the remediation of the land, the obligations will continue to be reflected in the Company's consolidated financial statements until such time as management is satisfied that KM has completed the remediation work.

Transaction costs of $5.8 million were applied against the proceeds of $40 million resulting in net proceeds on the transaction of $34.2 million. The operating assets were sold at fair value which approximated their net book value of $5.6 million and the remaining cash proceeds of $28.6 million were allocated to the operating lease and are being recognized in income on a straight-line basis over the term of the lease. In addition, the fair value of the remediation services at the date of the agreement, presently estimated as $27.1 million for the asset retirement obligation and $14.0 million for off-site migration projects, will be accreted into income on a straight-line basis over the term of the lease. An annual assessment will be made concerning Kinder Morgan's plans and progress towards completion of the remediation services.

Environmental obligations relating to the land adjacent to the main VWLP site which is leased from Canada Lands Company Limited (Note 10 (a) and (b)) will be retained by the Company. KM will however be responsible for the cost of moving certain operations from the adjacent land to the main site.

The Company's share of the assets, liabilities and revenues and expenses have been reclassified to discontinued operations for the years ended December 31, 2007 and 2006 as follows:

	VWLP	
	2007	2006
Balance sheet		
Current assets	$ -	$ 8,434
Capital assets	-	5,034
Current liabilities	-	(5,957)
Net assets of discontinued operations	$ -	$ 7,511
Statement of income		
Revenues	$ **15,741**	$ 46,742
Expenses	**(11,586)**	(35,247)
Gain on disposal of assets	**191**	600
Net interest	**70**	581
Net income from discontinued operations	$ **4,416**	$ 12,676

December 31, 2007 (tabular amounts in thousands of dollars)

4. CN TRANSACTION

The CN transaction was the main component of the Company's original plan to dispose of its residual assets and activities.

(a) On July 14, 2004, BCRC and BCR Properties Ltd. completed a transaction with Canadian National Railway Company (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 Company'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 Partnership entered into a Revitalization Agreement, under which BC Rail Partnership leased the railway right-of-way land, railbed assets, and related track infrastructure from BCRC under a long-term lease. BC Rail Partnership prepaid all lease payments under the Revitalization Agreement. The lease of certain items included in railbed assets is being accounted for as an operating lease. The lease of the remaining railbed assets and track infrastructure has been treated as a capital lease. As a result of the CN Transaction, the Revitalization Agreement was assumed by CN.

(c) As part of the CN Transaction, CN committed to certain average transit times for rail traffic on the BC Railway system. Breach of the transit time commitments results in penalty payments made by CN to a trust fund held by BCRC and dedicated to upgrades of the BC railway system to improve reliability and transit times for the railway users. As at December 31, 2007, the trust fund held $1.1 million (2006 - $0.3 million) in CN penalty payments, which are not recognized in these financial statements.

5. PROPERTY AND EQUIPMENT

	2007			2006 *restated Note 2*		
	Cost	**Accumulated Amortization**	**Net**	Cost	Accumulated Amortization	Net
Assets under operating lease	**$628,604**	**$403,224**	**$225,380**	$628,918	$397,175	$231,743
Land	**20,323**	**-**	**20,323**	37,692	-	37,692
Buildings	**10,700**	**2,842**	**7,858**	10,738	2,299	8,439
Equipment and leasehold improvements	**1,863**	**1,066**	**797**	1,543	797	746
Construction in progress	**27,920**	**-**	**27,920**	14,386	-	14,386
	$689,410	**$407,132**	**$282,278**	$693,277	$400,271	$293,006

Assets under operating lease include railway right-of-way land and railbed assets.

December 31, 2007 (tabular amounts in thousands of dollars)

6. OTHER ASSETS

	2007	2006
Accrued pension benefit asset - Note 12(a)	**$ 11,900**	$ 12,600
Mortgage receivable - 6(a)	**7,676**	8,156
Joint Capital Account receivables - 6(b)	**46,214**	46,214
Deferred property transfer tax - 6(c)	**8,976**	8,985
Long-term notes receivable from CN - 6(d)	**6,211**	5,877
Long-term receivable for environmental services - Note 3	**1,262**	-
Other	**181**	78
	$ 82,420	$ 81,910

(a) The mortgage receivable was provided to a purchaser in 2004 as part of a sale of property from the Company's real estate portfolio. The mortgage term is currently being renegotiated. The mortgage bears interest at prime plus 2%.

(b) The Joint Capital Account receivables relate to direct-financing leases which will be repaid to the Company by the users of the railway in proportion to their use of the track when the assets are either retired or the operation ceases.

(c) Deferred property transfer tax arose as part of the CN Transaction described in Note 4. The cost is being amortized over the lease term of 990 years.

(d) The long-term notes receivable from CN are non-interest bearing and due on July 12, 2094. The notes were discounted using an implied interest rate of 5.75% and are accreted each year to their ultimate face value of $842 million.

7. OTHER LIABILITIES

	2007	2006
Environmental liability accrual - Note 10	**$ 93,013**	$ 89,102
Asset retirement obligation - 7(a)	**27,316**	43,565
Deferred gain on sale of real estate - 7(b)	**-**	9,168
Accrued pension benefit liability - Note 12(a)	**205**	-
Accrued non-pension benefit obligation - Note 12(a)	**861**	1,105
Other	**2,375**	2,170
	123,770	145,110
Less current portion	**(2,375)**	(11,338)
	$ 121,395	$ 133,772

(a) Asset retirement obligations

	2007	2006
Opening asset retirement obligations	**$ 43,565**	$ 41,192
Adjustment for change in lease term	**(17,431)**	-
Increase (decrease) in estimate for site-wide remediation	**(680)**	114
Accretion expense on obligation	**1,862**	2,259
Ending asset retirement obligations	**$ 27,316**	$ 43,565
Discount rate	**4.5% - 5.5%**	4.5% - 5.5%
Inflation	**2.5%**	2.5%

December 31, 2007 (tabular amounts in thousands of dollars)

OTHER LIABILITIES (continued…)

The asset retirement obligations have been assumed by KM as part of the transaction described in Note 3. As the Company retains ultimate responsibility for the asset retirement obligations however, they will continue to be reflected in the financial statements until such time as management is satisfied that KM has completed the remediation work. The estimate of the obligations was reduced by $17.4 million to reflect the change in the expected timing of future cash flows to be incurred for remediation.

Although the ultimate amount to be incurred is uncertain, the liability for retirement and remediation, on an undiscounted basis, before applying an inflation factor of 2.5% is estimated to be approximately $85.9 million (2006 - $84.4 million).

(b) The deferred gain on sale of real estate relates to property sold in 2004 in exchange for a mortgage (note 6(a)). The deferred gain was recognized as income in 2007 once the Company received more than 15% of the total proceeds.

8. SHARE CAPITAL

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

Issued and outstanding: 2,576,885 common shares held by the Province.

As all of the issued and outstanding common shares of the Company are held by the Province, earnings per share data has not been provided.

9. COMMITMENTS

The following is a schedule of future minimum payments at December 31, 2007, required under non-cancelable operating leases:

2008	$296
2009	169
	$465

10. CONTINGENT LIABILITIES

The Company 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. Estimates will be adjusted in the period that additional information becomes available.

(a) The Company leases a portion of the property used in the Vancouver Wharves terminal operations in North Vancouver from Canada Lands Company Limited ("CLCL"). The Vancouver Wharves operations were transferred to a new operator in 2007 as described in Note 3, however, the CLCL lease remains with the Company and the new operator has access rights to carry on terminal operations.

On February 6, 2003, the Company received a notice of default on its lease from CLCL. The current lease with CLCL expired April 11, 2004 and CLCL advised the Company that, based on the alleged defaults under the lease, it had no right to renew the lease. The Attorney General of Canada and CLCL filed a Petition on August 6, 2004 seeking a writ of possession of the leased lands. Vancouver Wharves Ltd. and BCRC carrying on business as VWLP and VWLP, and BC Rail Ltd. are named as respondents in the Petition. The Petition was scheduled to be heard by the court in a

December 31, 2007 (tabular amounts in thousands of dollars)

CONTINGENT LIABILITIES (continued…)

proceeding commencing November 19, 2007 however, in August 2007, the parties reached a settlement. The Settlement Agreement sets out the process for vacating the property and the agreed amount of rent owing to the date the site is vacated. The costs of vacating the property as well as any resulting site reconfiguration costs related to the Vancouver Wharves operation have been assumed by the new operator.

(b) On June 14, 2002, the Attorney General of Canada commenced legal proceedings in the B.C. Supreme Court against Vancouver Wharves Ltd. (formerly BCR Marine Ltd.), BC Rail Ltd., BCR Properties Ltd., British Columbia Wharves Ltd., CSCL, BCRC carrying on business as VWLP and VWLP, 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 as included in the lease described in (a) above. Effective February 1, 2008, an Agreement in Principle (AIP) was reached with Environment Canada. The AIP will form the basis of the negotiations of a final agreement that is to be negotiated over the next 12 months.

(c) The risk of environmental liability is inherent in the operation of the Company's business with respect to both current and past operations. As a result, the Company incurs costs, on an ongoing basis, associated with environmental regulatory compliance and clean-up requirements.

The Company accrues 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 Company 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 Company'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.

(d) The Province and BCRC have provided commercial indemnities to CN with respect to the CN Transaction and indemnities related to income tax attributes of BC Rail at closing. As at December 31, 2007, the maximum present value (calculated at 9%) of amounts payable under the tax indemnities related to income tax attributes (excluding any reimbursement of professional fees, tax arrears, interest or taxes payable, if any, on indemnity payments) is approximately $494 million. These indemnities remain in effect until 90 days after the last date on which a tax assessment or reassessment can be issued in respect of the income tax attributes. Management believes it is unlikely that the Province or BCRC will ultimately be held liable for any amounts under the commercial and tax indemnities.

11. INTEREST INCOME

	2007	2006
Interest earned on temporary investments	**$11.414**	$ 7,476
Other interest income (expense)	**1.183**	1,179
	$12,597	$8,655

December 31, 2007 (tabular amounts in thousands of dollars)

12. EMPLOYEE BENEFITS

(a) The Company has defined benefit and defined contribution pension plans and other retirement and post employment benefit plans which cover most of its employees. The amounts presented in this note are actuarially determined projections.

During 2007 as a result of the KM transaction described in Note 3, the Company began the process to wind up the pension plan related to the Vancouver Wharves operation. The effective date of the wind-up was May 30, 2007 however the wind-up has not been formally approved by the Office of the Superintendent of Financial Institutions therefore it continues to be recorded in the Company's financial statements. Currently it is estimated that the Vancouver Wharves pension plan is in a net liability position of $205,000. In addition, as part of the KM transaction the Vancouver Wharves non-pension obligation estimated at $210,000 at December 31, 2006 was assumed by KM.

	Pension Plans		Other Plans	
	2007	2006	**2007**	2006
Reconciliation of accrued benefit obligation				
Opening balance	**$(17,988)**	$(17,587)	**$(975)**	$(1,002)
Current service cost	**(53)**	(78)	**-**	(7)
Employee contributions	**(5)**	(8)	**-**	-
Benefits paid	**401**	588	**78**	70
Interest cost	**(932)**	(911)	**(44)**	(51)
Settlement	**-**	-	**210**	-
Actuarial gains (losses)	**2,177**	8	**(233)**	15
Ending balance	**(16,400)**	(17,988)	**(964)**	(975)
Reconciliation of plan assets				
Opening balance	**22,520**	22,112	**-**	-
Actual return on plan assets	**997**	921	**-**	-
Employer contributions	**43**	67	**78**	70
Employee contributions	**5**	8	**-**	-
Benefits	**(401)**	(588)	**(78)**	(70)
Ending balance	**23,164**	22,520	**-**	-
Fund status - surplus (deficit)	**6,764**	4,532	**(964)**	(975)
Unamortized past service costs	**1,614**	1,816	**-**	-
Unamortized net actuarial loss (gain)	**3,317**	6,252	**103**	(130)
Accrued benefit asset (liability)	**$ 11,695**	$ 12,600	**$(861)**	$(1,105)

(b) Significant actuarial assumptions adopted in measuring the Company's accrued benefit obligations are as follows as of December 31:

	Pension Plans		Other Plans	
	2007	2006	**2007**	2006
Discount rate for liabilities	**5.25%**	5.25%	**5.25%**	5.25%
Expected long-term rate of return on plan assets	**3.5% / 7.0%**	3.5% / 7.0%	**-**	-
Salary escalation rate	**N/A / N/A**	N/A / 2.5%	**-**	**-**

December 31, 2007 (tabular amounts in thousands of dollars)

The weighted average rate of increase in the per capita cost of future covered health care benefits was assumed to be 4.00% per year starting in 2010.

The plan asset portfolio currently comprises equity investments and debt. Equity investments are 30%-70% of the portfolio and include Canadian, International, and Real Estate investments. Debt is 20%-40% of the portfolio and comprises short-term debt, bonds and mortgages. Asset mix is reviewed periodically and may vary in the future.

(c) The Company's net benefit plan expense is as follows:

	Pension Plans		**Other Plans**	
	2007	2006	**2007**	2006
Current service cost	**$ 53**	$ 78	**$ -**	$ 7
Interest cost	**932**	911	**48**	51
Actual return on plan assets	**(828)**	(804)	**-**	-
Amortization of transitional asset	**-**	497	**-**	-
Plan amendments	**202**	202	**-**	-
Plan curtailment / settlement loss (gain)	**(174)**	-	**-**	-
Net actuarial loss (gain)	**762**	255	**1**	(6)
	$ 947	$1,139	**$ 49**	$ 52

13. STATEMENT OF CASH FLOWS – SUPPLEMENTAL INFORMATION

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

	2007	2006
Accounts receivable	**$ (503)**	$ (349)
Materials and other items	**376**	(36)
Accounts payable and accrued liabilities	**4,339**	(1,031)
	$ 4,212	$ (1,416)

(b) The following interest was received in the current year:

	2007	2006
Interest received from third parties	**$ 12,597**	$ 8,330
	$ 12,597	$ 8,330

14. COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform with the current year's financial statement presentation.

GOVERNANCE

BCRC's seven-member Board of Directors, is appointed by the Shareholder, reports to the Minister of Transportation and is responsible for overseeing the conduct of business, directing management and ensuring that all major issues affecting BCRC's affairs are given appropriate consideration.

During 2007, the Board of Directors was comprised of the following appointees:

John R. McLernon, Chair

Bev A. Briscoe

Brian G. Kenning

Len S. Marchand

Gerald P. Offet

Robert L. Phillips

Jim R. Yeates

The Board functions though a series of committees appointed to deal with specific matters.

There are currently three standing committees of the Board:

Audit, Finance and Risk Management Committee

Members: Brian G. Kenning (Chair), Bev A. Briscoe

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

Environment and Safety Committee

Members: Robert L. Phillips (Chair), Gerald P. Offet, Jim R. Yeates

- 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

Members: Len S. Marchand (Chair), John R. McLernon

- 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 in place, and making certain that the membership of the Board is relevant to the obligations of BCRC.

BCRC's officers:

Kevin Mahoney, President and Chief Executive Officer

Linda Shute, C.A., Vice President Finance and Chief Financial Officer

John Lusney, President, BCR Properties Ltd.

Gordon Westlake, Vice President Operations and Corporate Affairs

Shelley Westerhout Hardman, Manager Administration and Corporate Secretary

Sound corporate governance principles are essential to the success of every commercial enterprise. BCRC is committed to ensuring corporate governance principles guide the organization's continued success. A Code of Conduct for all BCRC employees, officers, agents and directors was introduced in 1995 which, amended as required, remains in effect today. The Code reflects and emphasizes the organization's values of integrity, fiscal responsibility, accountability, safety and respect.

The Board of Directors adopted Standards of Ethical Conduct for Directors and Officers in 1999 which, amended as required, remains in effect today. The Standards recognize the additional responsibilities and duties that directors and officers have to BCRC. The implementation of the Standards of Ethical Conduct for Directors and Officers includes the appointment by the Board of Directors of an Ethics Advisor to provide advice to directors and officers on the application and interpretation of the standards.

In accordance with present guidelines for corporate governance, all members of the Board are independent and unrelated, and have no other affiliation with BCRC beyond their role as directors. Each Board meeting begins with a declaration and review of any conflicts directors may have. The roles of the Chair and the CEO are separate and distinct, with no overlap of responsibilities.

BCRC continues to review its governance practices to ensure that they are consistent with the Code and the Best Practices Guidelines issued by the Shareholders' Board Resourcing & Development Office for the sound direction and management of BCRC. The Board of Directors carries out its duties with the primary objective of enhancing shareholder value.

The Board has the authority and duty to supervise management of BCRC's business affairs. Management reviews and revises the objectives for BCRC with the Board, which considers and approves those objectives and monitors progress towards their achievement.

The service plan and forecast are reviewed and approved by the Board prior to the start of the fiscal year. The approval of the service plan and budget establishes the authority of senior management to take the actions indicated in the service plan and their responsibility for implementation. Other material matters not reflected in the budget, including raising capital, acquisitions and divestitures, require approval of the Board. Through reports distributed to the Board, and at quarterly directors' meetings, management reviews with the Board the progress of business units in meeting the service plan and budgets.

Management has primary responsibility for establishing objectives for BCRC, which are designed to exploit all opportunities available to diminish the risks to which its business is subject so as to enhance returns to the shareholder. Management regularly reviews the objectives to ensure that they are in keeping with the state of the environment within which BCRC operates. In pursuit of these objectives, management prepares an annual service plan and a three-year strategic plan, including financial forecasts.

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