



BRITISH
COLUMBIA
RAILWAY
COMPANY

ANNUAL SERVICE PLAN

2008 - 2010

January 31, 2008

Library and Archives Canada Cataloguing in Publication Data

British Columbia Railway Company
Annual service plan. - - 2008/2010 -

Annual.

Running title: British Columbia Railway Company annual service plan.

Also available on the Internet.

Continues: British Columbia Railway Company. Three year service plan.

ISSN 1911-6462 = Annual service plan (British Columbia Railway Company)

1. British Columbia Railway Company – Periodicals. 2. Railroads, Industrial
– British Columbia – Periodicals. 3. Railroads – British Columbia – Periodicals.
I. Title II. Title: British Columbia Railway Company annual service plan.

HE2810.B7B74

385'.065711

C2006-960179-8

Message from Board Chair to Minister Responsible

The Honourable Kevin Falcon
Minister of Transportation

Dear Minister,

On behalf of the Board of Directors of British Columbia Railway Company ("BCRC"), I am pleased to provide our Annual Service Plan for 2008 – 2010. The 2008 – 2010 Service Plan continues the strategic direction described in BCRC's previous Service Plan, with the exception that the process to seek an independent third-party operator for Vancouver Wharves was concluded with the signing of a 40-year Operating Lease Agreement between BCRC and Kinder Morgan Canada Terminals ULC (Kinder Morgan), on May 30, 2007.

BCRC's primary mandate is to support and facilitate the British Columbia Ports Strategy and Pacific Gateway Strategy, by providing consulting advice, acquiring and holding railway corridor and strategic port lands, and making related infrastructure investments for the Province. 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.

BCRC is responsible for the management of its long-term lease of the former BC Rail corridor lands and track infrastructure, with CN Rail, and the operating lease with Kinder Morgan for Vancouver Wharves. As well, in accordance with the direction established by the Shareholder through the Core Services Review process, BCRC continues to dispose of most remaining residual assets and entities, winding up most corporate activities except those related to rail or port operations.

BCRC will continue to retain ownership of all former BC Rail railway lands and track infrastructure, as well as BCR Port Subdivision Ltd. which manages the 24-mile railway line accessing the port terminals at Roberts Bank. BCR Properties will also acquire and retain ownership of key lands which support port terminal operations. Retention of these port and railway land holdings supports the government's British Columbia Ports Strategy and Pacific Gateway Strategy.

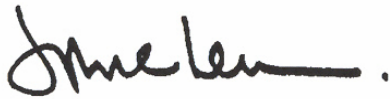
BCRC's subsidiary, BCR Properties Ltd., continues its mandated disposition of all non-railway and non-port related property holdings and should be substantially complete by the end of 2009. The real estate market continues to be very strong. BCR Properties' land dispositions are subject to risk of delays due to municipal development processes and risk of reduced revenues if there is a downturn in the real estate market.

This Service Plan establishes a framework guiding: (1) our accountability as owner of railway and port-related land holdings and assets; and (2) the disposition of all other remaining assets and entities.

The 2008 – 2010 British Columbia Railway Company Service Plan was prepared under the direction of the Board of Directors in accordance with the *Budget*

Transparency and Accountability Act and the BC Reporting Principles. The Plan is consistent with the government's strategic priorities. The Board is accountable for the contents of the plan, including the selection of performance measures and targets.

All significant assumptions, policy decisions and identifiable risks as of January 1, 2008, have been considered in preparing the Plan. The performance measures presented are consistent with BCRC's mandate and goals, and focus on aspects critical to the organization's performance. The performance targets in this plan have been determined based on an assessment of BCRC's operating environment, forecast conditions, risk assessment and past performance.

A handwritten signature in black ink, appearing to read "John McLernon", followed by a period.

John McLernon, Chair
British Columbia Railway Company

Table of Contents

	Message from Board Chair to Minister Responsible	i
1.0	Organizational Overview	1
	Enabling Legislation	1
	Mandate	1
	Core Business Areas and Services	2
	Location of Operations and Contact Information	2
2.0	Corporate Governance	3
	Governance	3
	Board of Directors	4
	Committees of the Board	4
	Officers	5
3.0	Strategic Context	6
	Planning Context and Key Strategic Issues	6
4.0	Goals, Strategies, Measures and Targets	8
	Goal One	8
	Goal Two	9
	Goal Three	10
	Goal Four	10
	Performance Management Systems	11
5.0	Summary Financial Outlook	12
	Notes on Revenues and Expenses	12
	Key Assumptions	13
	Forecast Risks and Sensitivities	14
6.0	Capital Plan and Major Capital Projects	15
7.0	Subsidiary Summary Information	16

1.0 ORGANIZATIONAL OVERVIEW

Enabling Legislation

British Columbia Railway Company (“BCRC”) is a commercial Crown corporation with 100% of its shares owned by the Province of British Columbia. The corporation is governed by two principal pieces of legislation. The *British Columbia Railway Act* establishes the corporation’s structure, governance, responsibilities and accountabilities. The *British Columbia Railway Finance Act* establishes the borrowing and investment framework for BCRC. BCRC must also meet the requirements common to other crown corporations under the *Financial Administration Act* and the *Budget Transparency and Accountability Act*.

Mandate

BCRC’s government directed mandate was affirmed in the most recent Shareholder’s Letter of Expectations, dated January 23, 2008. BCRC’s primary mandate is to support and facilitate the British Columbia Ports Strategy and Pacific Gateway Strategy, by providing consulting advice, acquiring and holding railway corridor and strategic port lands, and making related infrastructure investments for the Province.

BCRC continues to own the former BC Rail right-of-way and railway track infrastructure to protect the long-term strategic value of the railway corridor, and leases those assets to Canadian National Railway Company (“CN Rail”) through the *Revitalization Agreement*, 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. BCRC, through its subsidiary BCR Properties Ltd., has also retained ownership of port-related lands, including those upon which the Vancouver Wharves and Squamish Terminals port facilities operate.

The Province has determined that all other residual assets and entities are not required to be publicly owned and the mandate for BCRC is to wind down or dispose of these in a manner that maximizes a commercial return to the Province.

In its long-term role as landlord, BCRC will have an ongoing accountability to oversee the *Revitalization Agreement* with CN Rail as well as the new Operating Lease Agreement with Kinder Morgan Canada Terminals ULC (Kinder Morgan), for the operation of the Vancouver Wharves’ marine terminal facilities.

BCRC has identified a number of potential Gateway and port-related development opportunities, which are currently under preliminary review. Any specific projects which are determined to be viable will be identified in subsequent Service Plans.

Core Business Areas and Services

BCRC is a commercial Crown corporation with business activities operating in competition with the private sector. BCRC operates without government subsidies. Borrowing is done through the Ministry of Finance and financial reporting is in accordance with provisions of the *Budget Transparency and Accountability 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 management. For further details on each of the operating subsidiaries, see Section 7.0 of this Service Plan.

Location of Operations and Contact Information

The corporate offices for BCRC and its subsidiaries are located at:

Suite 600 - 221 West Esplanade
North Vancouver, BC
V7M 3J3

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.

Any correspondence or enquiries should be directed to the above BCRC corporate address, to the attention of the Corporate Secretary.

Further information on the company, its Board of Directors and principal policies on corporate governance may be found through the following website:

<http://www.bcrco.com>

2.0 CORPORATE GOVERNANCE

Governance

Sound 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. BCRC's governance practices are in accordance with the best practices outlined in the *Governance and Disclosure Guidelines for Governing Boards of British Columbia Public Sector Organizations* ("Best Practices Guidelines") published by the Province's Board Resourcing and Development Office.

A "Code of Conduct" for all BCRC employees, officers, agents and directors was introduced in 1995 which, amended as required, remains in effect. 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" which, amended as required, also remains in effect. 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 affiliations with BCRC beyond their role as directors. Each Board meeting begins with a declaration and review of any potential 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 Best Practice Guidelines for the sound direction and management of BCRC. The Board of Directors carries out its duties with the primary objective of enhancing shareholder value in accordance with the Shareholder's Letter of Expectations, a document jointly executed by the Minister and BCRC's Board Chair. 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 toward their achievement.

The service plan and revised forecast are reviewed and approved by the Board prior to the start of BCRC's fiscal year (January 1 – December 31). After review and comment by the Minister, the Board-approved service plan is finalized in January. 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 and 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 business environment within which BCRC operates.

Board of Directors

Under the *British Columbia Railway Act*, the Province may appoint up to nine directors to the Board of BCRC. BCRC presently operates with a seven member Board.

The Board of Directors, through the Chair, reports to the Minister of Transportation (designated as the Minister Responsible for BCRC) 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.

As at January 1, 2008, the Board of Directors is 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 directors of BCRC subsidiaries are appointed by the BCRC Board of Directors. Governance of BCRC subsidiaries is disclosed in Section 7.

Committees of the Board

The Board functions through a set 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

This 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

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

This committee assists the Board of Directors in fulfilling its obligations and oversight responsibilities relating to adherence to environmental laws and regulations and the health and 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

This 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 ensuring that the membership of the Board is relevant to the obligations of BCRC.

Ad hoc, special purpose committees may be appointed by the Board as required. The Vancouver Wharves Disposition Committee was dissolved in 2007, upon conclusion of the Operating Lease Agreement with Kinder Morgan. Presently, the Board has established the following one ad hoc committee:

- Real Estate Advisory Committee

Members: Brian G. Kenning (Chair), John R. McLernon

This committee assists the Board of Directors by reviewing the processes and evaluating bids for property dispositions and acquisitions with values exceeding BCRC management's limits of financial authority and requiring approval by the Board of Directors.

Officers

BCRC's officers are:

Kevin Mahoney, President and Chief Executive Officer

John Lusney, President, BCR Properties Ltd.

Linda Shute, Vice President Finance and Chief Financial Officer

Gordon Westlake, Vice President Operations & Corporate Affairs

Shelley Westerhout Hardman, Corporate Secretary

The officers of active BCRC subsidiaries are appointed by each subsidiary's Board of Directors and are typically comprised of two or three BCRC officers.

3.0 STRATEGIC CONTEXT

Planning Context and Key Strategic Issues

BCRC's primary mandate is to support and facilitate the British Columbia Ports Strategy and Pacific Gateway Strategy, by providing consulting advice, acquiring and holding railway corridor and strategic port lands, and making related infrastructure investments for the Province. BCRC will continue to own the former BC Rail corridor lands and track infrastructure, on which CN Rail has responsibility for freight railway operations. The *Revitalization Agreement* with CN Rail is complex and will continue to demand ongoing management attention, particularly related to monitoring compliance with terms of the Agreement.

BCRC's mandate also includes the disposition of residual assets, with the exception of those relating to railway or port activities. Some of BCRC's intended dispositions were reconsidered in the context of the government's British Columbia Ports Strategy and Pacific Gateway Strategy. This resulted in decisions to retain both the Port Subdivision as well as port-related land holdings. As a result, BCRC's mandate was revised in early 2006, requiring it to continue with managing these assets.

In particular, BCRC is now a key stakeholder and participant in the development and implementation of the Pacific Gateway Strategy in support of the Asia-Pacific trade expansion. Through its Port Subdivision, which acts as the vital rail link to the Roberts Bank port terminals, BCRC is directly involved in the planning and design of railway capacity expansion and related infrastructure requirements to support traffic growth through the Deltaport container terminal. BCRC's ownership and management of the Port Subdivision also protects neutral and competitive rail access to these port terminals. BCRC also provides its railway operating expertise to other government ministries and agencies in addressing Gateway initiatives or issues that may involve other railway operations on an "as requested" basis.

This service plan also supports the British Columbia Ports Strategy. BCRC has retained ownership of its marine terminal lands at Vancouver Wharves in North Vancouver and at Squamish Terminals in Squamish, to ensure that these lands are preserved for port use activities. BCRC also acts as an advisor to government and others in supporting other port-related transportation initiatives.

In order for BCRC to fully deliver the Shareholder's expectations in an effective and efficient manner, cooperation from other levels of government, agencies and stakeholders is necessary. There are risks of delays, as many of the processes and approvals required to complete the dispositions of non-rail real estate are beyond the control of BCRC. In addition, for some of the real estate dispositions, management must resolve outstanding issues such as environmental remediation and subdivision approvals. 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 throughout British Columbia.

BCRC will continue to be responsible for all capital investment in the Port Subdivision railway line. Expansion plans for the addition of a third berth at Deltaport involve amounts of capital in 2008 and 2009, within the capacity of BCRC's projected cash flow.

While BCRC's role of operating a commercial railway and marine terminals has been reduced to that of landlord, its specific 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 support increased Asia-Pacific trade.

Since completing the railway lease agreement with CN and the marine terminal lease agreement with Kinder Morgan, BCRC has been reduced to a staff of about 30. Capacity is currently adequate to fulfill its mandate. However, as Gateway and port-related opportunities evolve into development projects, additional capacity may need to be added.

BCRC will carry out its mandate in a commercially and an environmentally responsible manner. BCRC will 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 Corporation'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 Corporation's scope of operations;

4.0 GOALS, STRATEGIES, MEASURES AND TARGETS

The removal of direct operating responsibility for freight railway operations through the 2004 transaction with CN Rail fundamentally changed BCRC's mandate, structure and operating environment. As a result, BCRC has been working through a transition period and its mandate has continued to evolve over the three years since completion of the CN Rail transaction. Previous versions of BCRC's service plan were oriented to accomplishing a complete wind-down of corporate activities within the service plan time-span.

However, with the 2006 changes to BCRC's mandate, the corporation is once again transitioning to become a continuing operation. With the new role and mandate of BCRC emerging as a supporting resource to the government's British Columbia Ports Strategy and Pacific Gateway Strategy, it is premature to define specific goals and strategies 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 primary change since pre-2007 Service Plans, is that BCRC is no longer winding up, which drove the targets in the previous plans. New measures and targets were defined in the 2007 Service Plan, which focus on critical aspects of performance for the ongoing management of the Port Subdivision rail operations and the CN Rail Revitalization Agreement. Those targets have been updated in this plan and targets have been added, related to the new Kinder Morgan Operating Lease Agreement. In addition, revised targets have been established for the disposition of the non-freight railway and non-port terminal real estate holdings. The changes from the 2007 Service Plan are due to timing and market value differences.

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

Strategies:						
<ul style="list-style-type: none"> ➤ 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	Actual	Target	Actual	Targets		
	2006	2007	2007	2008	2009	2010
Number of derailments caused by track conditions or BCRC activities	0	0	0	0	0	0

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

<p>Strategies:</p> <ul style="list-style-type: none"> ➤ Manage a positive landlord-tenant relationship between BCRC and CN Rail. ➤ Monitoring of CN Rail compliance with terms of the Revitalization Agreement. ➤ Proactive management of 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	Actual	Actual	Targets		
	2006	2007	2008	2009	2010
Report on status of the CN Rail Revitalization Agreement.	Reported 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.	Inspected and reported 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.
Briefing Minister on public issues involving CN Rail operations under Revitalization Agreement.	Responded 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: Effective and efficient management of the Operating Lease Agreement between BCRC and Kinder Morgan Canada Terminals ULC.

Strategies:					
<ul style="list-style-type: none"> ➤ Manage a positive landlord-tenant relationship between BCRC and Kinder Morgan. ➤ Monitoring of Kinder Morgan compliance with terms of the Operating Lease Agreement. ➤ Proactive management of 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	Actual	Actual	Targets		
	2006	2007	2008	2009	2010
Report on status of the Kinder Morgan Operating Lease 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.
Monitor Kinder Morgan's environmental stewardship of BCRP lands	n/a	Inspected and review 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.

Goal 4: Dispose of all real estate holdings and other assets not required for freight railway corridors or port terminal operations.

Strategies:						
<ul style="list-style-type: none"> ➤ 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	Actual	Budget	Forecast	Targets		
	2006	2007	2007	2008	2009	2010
Number of property title transfers completed.	67	95	27	75	20	0
Gain on disposal of assets (\$ millions)	\$ 63.7	\$75.4	\$ 20.0	\$ 74.3	\$ 19.8	\$ 0

Performance Management Systems

Results achieved against the above Performance Measures are principally derived from BCRC's internal management and reporting systems. Certain results may be verified by auditors or at the request of the Board of Directors or Board Committees charged with responsibility for the specific sectors measured.

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 BC Safety Authority and/or Transport Canada).

5.0 SUMMARY FINANCIAL OUTLOOK

The financial results and outlook below are for BCRC on a consolidated basis.

(\$ millions)	2006 Actual	2007 Budget	2007 Estimate	2008 Budget	2009 Forecast	2010 Forecast
Total Revenue	17.6	20.8	16.7	14.8	11.0	11.5
Operating Expenses	24.1	16.0	16.5	16.3	11.2	11.2
Amortization	8.1	8.2	6.9	6.6	6.1	6.1
Total Expenses	32.2	24.2	23.4	22.9	17.3	17.3
Operating Income (Loss)	(14.6)	(3.4)	(6.7)	(8.1)	(6.3)	(5.8)
Financing Income	6.4	7.1	10.6	9.3	6.9	5.3
Gain on Disposal of Assets	63.7	75.4	20.0	74.3	19.8	0
Net income from continuing operations	55.5	79.1	23.9	75.5	20.4	(0.5)
Net income from discontinued operations	12.7	0	4.4	0	0	0
Net Income	68.2	79.1	28.3	75.5	20.4	(0.5)
Capital Expenditures	18.9	65.6	20.6	94.4	81.7	62.1
Retained Earnings	(373.2)	(323.0)	(315.9)	(240.4)	(220.0)	(220.5)
Debt	0	0	0	0	0	0
FTE's	79	29	30	30	24	24

Notes on Revenues and Expenses

The 2007 Estimate is based on the preliminary results for the year ended December 31, 2007. As such, the 2007 results are subject to change pending completion of the year-end external audit and approval of the year-end financial results by BCRC's Board of Directors in April 2008.

Net income for 2007 is expected to be lower than budget primarily due to the delayed timing of property sales.

The budget and forecast assume that all non-railway surplus real estate assets will be disposed of by the end of 2009. It also assumes the ongoing operation of the Port Subdivision and that BCRC will continue with its current mandate to support and facilitate the Province's BC Ports Strategy and Pacific Gateway Strategy.

The reduction in the 2008 and 2009 operating revenues and operating expenses therefore relates to decreased rental revenue and operating expenses for BCR Properties as rental properties are sold.

Amortization expense in the budget and forecast includes \$6.1 million for those assets leased to CN Rail that have been treated as an operating lease. Financing income arises from the investment of excess cash being retained for corporate and operating purposes.

The gain on sale of assets in 2006, 2007, 2008 and 2009 is related entirely to property sales. The transaction to transfer the Vancouver Wharves operation to Kinder Morgan completed on May 30, 2007 for nil gain or loss. The portion of the proceeds allocated to the operating lease is being amortized over the 40-year term of the lease.

Key Assumptions

BCRC will continue to own BCR 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.

BCR Captive Insurance Co. Ltd. will no longer be providing insurance to BCRC and its subsidiaries as of 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.

BCR Properties Ltd. will continue its mandate to dispose of all non-railway and non-port property holdings by the end of 2009. Proceeds on disposal have been estimated based on management's best estimates of the fair market value of the properties.

The forecast for capital expenditures includes costs to complete the BCR Properties subdivision projects, Port Subdivision costs related to the Deltaport 3rd Berth expansion project and the acquisition of strategic port lands and investment in port development projects consistent with the BC Ports Strategy and Pacific Gateway Strategy.

BCRC will continue, through the forecast period, with its current mandate to support the Province's Pacific Gateway Strategy.

The forecast assumes that no dividends will be paid to the Province.

Forecast Risks and Sensitivities

The 2008 to 2010 forecast has been prepared based on the third quarter outlook. Changes to final 2007 results may affect the 2008 to 2010 forecast.

Costs accrued for environmental remediation are based on investigations performed to date of site contamination and assume remediation to standards currently in effect. Costs could increase as the extent of contamination is verified or as future remediation standards and construction costs may be higher.

The timing and proceeds of disposition of the property sales could vary from the assumptions used in the forecast. A change in the economy could have an adverse affect on property values.

A change in the Company's mandate could affect the capital expenditures planned during the forecast period.

6.0 CAPITAL PLAN and MAJOR CAPITAL PROJECTS

The forecast for capital expenditures as detailed below includes costs to complete the BCR Properties subdivision projects and costs related to the Port Subdivision, including sustaining capital, costs in support of the Deltaport third berth expansion project and the future acquisition of “green” locomotives. In addition, the capital forecast includes provisions for the acquisition of strategic port lands and investment in port development projects, in support of the BC Ports Strategy and Pacific Gateway Strategy. Funding obligations to the Roberts Bank Rail Corridor grade separation initiative have also been included in the capital plan.

(\$ millions)	Estimate 2007	Forecast 2008	Forecast 2009	Forecast 2010
Sustaining				
BCR Properties subdivision projects	19.7	25.5	-	-
Tenure review (right-of- way land)	0.8	2.1	-	-
Port Subdivision sustaining	0.1	0.1	0.1	0.1
Deltaport berth 3 expansion	-	2.0	4.0	4.0
Port Subdivision “green” locomotives	-	-	3.0	-
Gateway Initiatives				
Land acquisitions	-	44.7	-	20.0
Port development	-	20.0	70.0	30.0
Sub-total	20.6	94.4	77.1	54.1
Contributions to Port Sub grade separations	-	-	4.6	8.0
Total Capital Expenditures	20.6	94.4	81.7	62.1

Gateway Initiatives

Land acquisitions planned for 2008 are to support Port Sub expansion and increased activity at Roberts Bank. Land acquisitions beyond 2008 reflect ongoing strategic port related real estate acquisitions to support the Province’s Pacific Gateway Strategy.

Provisions for investment in port development initiatives include such potential projects as Deltaport, Site B in Squamish, PEC site in North Vancouver, and the Port of Prince Rupert.

There is currently no specific plan or commitment for any capital project exceeding \$50 million during the service plan period. If any of the port development projects requires capital expenditures exceeding \$50 million, it will be brought forward for the appropriate Treasury Board approvals, and a Major Capital Project Plan will be made public in accordance with the *Budget Transparency and Accountability Act*.

7.0 SUBSIDIARY SUMMARY INFORMATION

BCRC is principally a holding company with its commercial and business activities conducted through the following operating subsidiaries:

BCR Properties Ltd.

This subsidiary owns and manages all of the real estate *not* required to support railway operations. Its portfolio consists of hundreds of parcels of commercial, industrial and vacant land, mainly distributed along the former BC Rail corridor. The mandate for this subsidiary is to dispose of all such land holdings in a manner that realizes full market value. This is reflected in the Gain on Disposal of Assets forecasted in the financial summary in Section 5.0.

The exception to the disposal mandate is port-related lands (Vancouver Wharves and Squamish Terminals). BCR Properties will continue to own these lands and lease them to the terminal operators for continued marine terminal use.

BCR Port Subdivision Ltd.

This subsidiary operates the 24-mile railway line between Cloverdale and Roberts Bank, providing the critical rail connection for three major railways (Canadian Pacific Railway, Canadian National Railway and BNSF Railway Company) to the port terminals at Roberts Bank. BCR Port Subdivision does not operate any trains over this line, but manages the train operations of the three user railways and is responsible for maintenance of the track and associated infrastructure. Costs are recovered from the user railways in proportion to their respective rail car traffic over the line each month.

BCR Captive Insurance Co. Ltd.

Until December 31, 2007, this subsidiary provided primary property, general liability, terminal operator's liability, automobile physical damage and excess automobile coverage to BCRC and its subsidiaries. Commencing in 2008, BCRC plans to procure its insurance from independent third party insurers. However, BCR Captive will continue as an active subsidiary while it continues to settle outstanding claims and recoveries.

The Board of Directors for BCR Captive Insurance is comprised of the same directors appointed to the BCRC Board. Directors on boards of the other subsidiaries are comprised of members of BCRC's executive management group, and all are appointed by the BCRC board. Although the subsidiary boards have the authority to direct and approve subsidiary business activities, it has been typical practice for any matters of strategic significance or those matters exceeding the limits of management's financial authority to be brought before the full BCRC Board of Directors for review and approval.

The business activities of the above subsidiaries are mostly in competition with the private sector. As a result, BCRC does not disclose the detailed financial results of its operating subsidiaries as this is regarded as confidential information. BCRC only reports financial results at the consolidated corporate level.

BCRC also held a number of dormant subsidiary companies, of which all have been voluntarily dissolved since 2004, with the exception of the following remaining dormant subsidiaries:

Vancouver Wharves Ltd. and Vancouver Wharves Limited Partnership

These are no longer operating entities, since the May 30, 2007 transaction with Kinder Morgan, but cannot be dissolved until resolution of any outstanding litigation matters.

BCR Finav No. 3 Ltd.

Awaiting resolution of a commercial arbitration matter before dissolution can proceed.

BCR Railcar Leasing Ltd.

Holds 100% of the shares of BCR Finav No. 3 Ltd. and can only be dissolved following dissolution of its subsidiary.

498344 British Columbia Ltd.

Holds title to lands which are part of a joint venture with a private, third party company. Company may be sold or will be dissolved if lands are sold separately.

It is BCRC's objective to dissolve or otherwise dispose of all dormant subsidiaries at the earliest possible opportunity, subject to resolution of issues requiring continuity of these subsidiaries.

This page intentionally blank.