



***BRITISH***  
***COLUMBIA***  
***RAILWAY***  
***COMPANY***

**ANNUAL SERVICE PLAN**

**2007 - 2009**

*January 25, 2007*

## **Library and Archives Canada Cataloguing in Publication Data**

British Columbia Railway Company  
Annual service plan. - - 2005/2007 -

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

## Letter 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 2007 – 2009.

The 2007 – 2009 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 has been accelerated by approximately one year as a result of further evaluation by the Shareholder and the Board.

BCRC's primary mandate is the management of its long-term lease of the former BC Rail corridor lands and track infrastructure to CN Rail. 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's subsidiary, BCR Properties Ltd., continues its mandated disposition of all non-railway property holdings and should be substantially complete by the end of 2007. BCR Properties will retain ownership of key lands which support port terminal operations. BCRC will continue to retain ownership of all 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. Retention of these port and railway land holdings supports the government's British Columbia Ports Strategy and Pacific Gateway Strategy.

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

The British Columbia Railway Company Service Plan for 2007 to 2009 was prepared under the direction of the Board of Directors in accordance with the *Budget Transparency and Accountability Act*. The Plan is consistent with the government's strategic priorities and overall strategic plan. All significant assumptions, policy decisions and identifiable risks as of January 25, 2007, have been considered in preparing the Plan. I am accountable for ensuring BCRC achieves the goals identified in the plan and for measuring and reporting performance.



John McLernon, Chair  
British Columbia Railway Company

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## 1.0 ORGANIZATIONAL OVERVIEW

### *Enabling Legislation*

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 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 decided to retain 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 a new operating arrangement yet to be negotiated with a third party for the operation of Vancouver Wharves’ terminal facilities.

### *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, railway management and marine terminal operations. For further details on each of the operating subsidiaries, see Section 8 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.

Vancouver Wharves Limited Partnership, whose operations are currently in the process of being transitioned to a third party operator, conducts all of its business and administrative functions from its own offices at 1995 West First Street 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

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 through Cabinet 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, 2007, 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.

### *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 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. Presently, the Board has established the following two ad hoc committees:

- Real Estate Sales Advisory Committee

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

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

- Vancouver Wharves Disposition Committee

Members: Bev A. Briscoe (Chair), Robert L. Phillips, Jim R. Yeates

This committee assists the Board of Directors by reviewing the disposition process, the selection of advisors, ensuring due diligence is undertaken, evaluating bids received for a potential new operator for Vancouver Wharves, and preparing recommendations to the Board of Directors.

## *Officers*

BCRC's officers are:

Kevin Mahoney, President and Chief Executive Officer  
Michael Kaye, Vice President Finance and Chief Financial Officer  
John Lusney, President, BCR Properties Ltd.  
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 ALIGNMENT WITH GOVERNMENT'S STRATEGIC PLAN

BCRC's annual Service Plan supports the Province of British Columbia Strategic Plan 2006/07 – 2008/09, and its Five Great Goals.

Most specifically, this Service Plan supports the Province's Goal 5: "Create more jobs per capita than anywhere else in Canada" and the following stated "Initiatives Underway" and "Priority Actions":

- Implementing an Asia-Pacific strategy to capitalize on expanding Asian markets;
- Developing a Gateway Program to help create a comprehensive, effective transportation network that supports improved movement of people and goods - facilitating economic growth, increased transportation choices, and better connections to designated population growth areas;
- Ensuring that impediments to economic development (e.g. transportation limitations, labour shortages) are addressed.

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

In particular, BCRC is 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 will retain ownership of its waterfront 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 in supporting other port-related transportation initiatives.

## 4.0 STRATEGIC CONTEXT

### *Mission*

Effective management of the Revitalization Agreement between BCRC and CN Rail, holding railway corridor and port lands for the Province, and ensuring the efficient disposition and wind-down of all other remaining businesses and assets.

### *Values*

#### Integrity

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

#### Fiscal Responsibility

- Maximize returns from the disposition of businesses, assets and real estate not required to support railway or port operations

#### Accountability

- Ensure full reporting of activities to the Shareholder

#### Safety

- Ensure a safe and healthy work environment

#### Respect

- Treat everyone in an honest, fair and respectful manner

### *Planning Context and Key Strategic Issues*

BCRC continues to own the former BC Rail corridor lands and track infrastructure on which CN Rail has responsibility for freight railway operations. BCRC's mandate also includes the disposition of assets and eventual wind-up of corporate activities, with the exception of those relating to railway or port assets.

BCRC has a relatively small staff dealing with a diverse range of highly complex issues. 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.

Some of BCRC's intended dispositions have been reconsidered in the context of the government's British Columbia Ports Strategy and Pacific Gateway Strategy. This has 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.

This modified mandate has created challenges for the organization as it had been established for short-term, diminishing levels of business activity. This has resulted in a requirement for BCRC to reconsider staff resources and to develop a long-term human resource plan. Management, together with the Board of Directors, is now

working on an amended management structure, including potential recruitment of new and additional resources to support the revised mandate going forward.

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. 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, subdivision approvals, etc. 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 within the capacity of BCRC's projected cash flow in 2008/2009. However, longer-term future expansions contemplated at Roberts Bank will trigger the need for substantial new capital investments, which will place considerable demands on BCRC's financial resources. Furthermore, capital invested in the Port Subdivision is not able to earn a commercial return on invested capital and this will present a hurdle if it is necessary to debt finance these investments.

While BCRC's role in commercial activity diminishes, 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.

## 5.0 GOALS, STRATEGIES, PERFORMANCE 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 two 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 recent 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.

The primary change since the 2006 Service Plan is that BCRC is no longer under wind up guidelines, which drove the targets in the previous plan. New measures and targets have been defined in this 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. In addition, revised targets have been established for the disposition of the non freight railway and port terminal real estate holdings. The changes from the previous Service Plan are due to timing differences and total proceeds are targeted higher due to improved market conditions.

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

Strategies:					
	<ul style="list-style-type: none"> <li>➤ Conduct dispatching, train control and yard management in a manner that provides fair and equal access to Roberts Bank port terminals.</li> <li>➤ Maintain railway track and infrastructure in compliance with standards acceptable to the BC Safety Authority and Transport Canada.</li> <li>➤ Participate in joint planning and development initiatives related to the Pacific Gateway Strategy and BC Ports Strategy.</li> <li>➤ Maintain cooperative relationships with port terminal operators and neighbouring municipalities of Delta and Surrey.</li> </ul>				
Performance Measures	Actual	Actual	Targets		
	2005	2006	2007	2008	2009
Number of derailments caused solely by track condition.	0	0	0	0	0

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

Strategies:					
<ul style="list-style-type: none"> <li>➤ Manage a positive landlord-tenant relationship between BCRC and CN Rail.</li> <li>➤ Monitoring of CN Rail compliance with terms of the Revitalization Agreement.</li> <li>➤ Proactive management of disputes, if any, as they may arise.</li> <li>➤ Protect the strategic interests of BCRC and the Province whenever terms of the Revitalization Agreement require enforcement or interpretation.</li> </ul>					
Performance Measures	Actual	Actual	Targets		
	2005	2006	2007	2008	2009
Report on status of the CN Rail Revitalization Agreement.	Report 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 quarterly to the Board and Minister.
Monitor CN Rail's environmental stewardship of freight railway lands under lease.	Inspect one third of railway network.	Inspect one third of railway network.	Inspect one third of railway network.	Inspect one third of railway network.	Inspect one third of railway network.
Briefing Minister on public issues involving CN Rail operations under Revitalization Agreement.	Respond 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.	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:					
<ul style="list-style-type: none"> <li>➤ Maximize financial results by achieving full market value for dispositions.</li> <li>➤ Obtain independent professional appraisals for basis of property disposition values.</li> <li>➤ Complete subdivision of larger land holdings where total net proceeds of disposition can be increased.</li> <li>➤ Obtain market rates on leases, encroachments, easements, etc. on retained lands.</li> </ul>					
Performance Measures	Actual	Forecast	Targets		
	2005	2006	2007	2008	2009
Number of property title transfers completed.	44	67	95	0	0
Gain on disposal of assets (\$ millions)	\$ 9.9	\$ 64.2	\$ 75.4	\$ 0	\$ 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).

## 6.0 SUMMARY FINANCIAL OUTLOOK

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

(\$ millions)	2005 Actual	2006 Estimate	2007 Budget	2008 Forecast	2009 Forecast
<b>Total Revenue</b>	68.9	64.3	20.8	15.7	15.7
Operating Expenses	56.6	60.7	16.0	10.1	10.1
Amortization	12.8	8.2	8.2	8.6	9.0
Asset Impairment Write-down	40.7	0	0	0	0
Total Expenses	110.1	68.9	24.2	18.7	19.1
<b>Operating Income (Loss)</b>	<b>( 41.2 )</b>	<b>(4.6)</b>	<b>( 3.4 )</b>	<b>( 3.0 )</b>	<b>( 3.4 )</b>
Financing Income	1.5	7.0	7.1	7.9	8.2
Gain on Disposal of Assets	9.9	64.2	75.4	0	0
Reduction in Gain on CN Rail Transaction	( 5.6 )	0	0	0	0
<b>Net Income</b>	<b>( 35.4 )</b>	<b>66.6</b>	<b>79.1</b>	<b>4.9</b>	<b>4.8</b>
<b>Capital Expenditures</b>	13.9	18.6	65.6	19.0	2.0
<b>Retained Earnings</b>	(467.5)	(400.9)	(323.0)	(318.1)	(313.3)
<b>Debt</b>	0	0	0	0	0
<b>FTE's</b>	35	31	29	21	21

### *Notes on Revenues and Expenses*

The 2006 Estimate is based on un-audited financial results to the end of December, and current forecasts. As such, the 2006 results are subject to change pending completion of the year-end external audit and approval by BCRC's Board of Directors in March 2007.

The 2007 budget assumes that the Vancouver Wharves operation will be transferred to a third-party operator effective December 31, 2006. The reduction in the 2007 operating revenues and operating expenses therefore reflects elimination of Vancouver Wharves' operating results beginning in 2007. As a result of the extension of the Vancouver Wharves process, it is likely the transaction will close in the first quarter of 2007. This transaction could result in a material change to this Outlook.

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 2005, 2006 and 2007 is related entirely to property sales. It has been assumed that the Vancouver Wharves transaction will be at its carrying value, resulting in no gain.

### *Key Assumptions*

The budget assumes that the new operating arrangement for Vancouver Wharves will take effect on December 31, 2006, and conservatively assumes for a gain/loss of nil.

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. is no longer providing insurance to BCRC and its subsidiaries as of December 31, 2006. Outstanding claims and litigation will continue to be wound up over the following years. Effective in 2007, 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 2007. Proceeds on disposal have been estimated based on management's best estimates of the fair market value of the properties.

The land on which Vancouver Wharves and Squamish Terminals operate will continue to be owned by BCR Properties Ltd. The current property leases paid by the two terminals to BCR Properties are assumed to continue through the forecast period.

With its new mandate as a continuing Crown corporation, it has been assumed that BCRC will continue to have a full administration office.

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

### *Forecast Risks and Sensitivities*

Proceeds from the Vancouver Wharves operating arrangement or from the disposition of surplus real estate holdings could be greater or less than what has been estimated in the budget and forecast, subject to prevailing market conditions. The timing of these transactions could also vary from the timing assumed in the budget and forecast.

Costs accrued for environmental remediation are based on preliminary investigations 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 amount and timing of capital expenditures on the Port Subdivision may be adjusted as the construction schedule of the third berth expansion project at Deltaport is confirmed, and associated engineering design and cost estimates are completed.

## 7.0 CAPITAL PLAN and MAJOR CAPITAL PROJECTS

There are no plans for BCRC or any of its subsidiaries to undertake any major capital projects or commitments in excess of \$50 million within the period of this Service Plan. Other than relatively minor sustaining capital, the only other capital requirement would be driven by the need to meet expansion obligations at Deltaport.

## 8.0 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 6.0.

The exception to the disposal mandate is the land leased to the port terminal facilities at 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, 2006, 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 2007, BCRC will 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.

### Vancouver Wharves Limited Partnership

Based in North Vancouver, this port terminal facility handles inbound and outbound shipments of mineral concentrates, pulp, sulphur, fertilizers and agri-products. It is planned that this subsidiary will be under a new operating arrangement in 2007 with an independent third party terminal operator who will also lease the underlying lands from BCR Properties.

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 holds a number of dormant subsidiary companies, of which 11 have been voluntarily dissolved since 2004. The remaining dormant subsidiaries include:

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.

Vancouver Shipping Agencies Ltd.

A subsidiary of Vancouver Wharves Ltd. which must be retained and will be transferred to the new third party operator of Vancouver Wharves.

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.

