



***BRITISH  
COLUMBIA  
RAILWAY  
COMPANY***

**SERVICE PLAN**

**2009 - 2011**

*January 29, 2009*

## **Message from Board Chair to Minister Responsible**

The Honourable Kevin Falcon  
Minister of Transportation and Infrastructure

Dear Minister,

On behalf of the Board of Directors of the British Columbia Railway Company ("BCRC"), I am pleased to provide our Service Plan for 2009 – 2011. The 2009 – 2011 Service Plan does not contain any major changes from BCRC's previous Service Plan, as BCRC will be continuing with the same strategic direction.

BCRC's continuing 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 BCRC's planning focus for 2009 is to progress the assessment of those opportunities. Any projects determined to be viable will be identified and development details will be provided in subsequent Service Plans.

Throughout the three-year Service Planning period, BCRC will continue to be responsible for the management of its long-term lease of the former BC Rail corridor lands and track infrastructure, with CN Rail; and the Vancouver Wharves marine terminal operating lease with Kinder Morgan Canada Terminals.

BCRC will continue to retain ownership of all former BC Rail railway lands and track infrastructure, as well as the BCR Port Subdivision, the 24-mile railway line accessing the port terminals at Roberts Bank. BCRC's subsidiary, BCR Properties Ltd. 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.

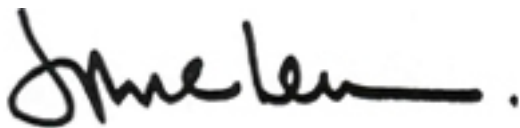
In accordance with the direction established by the Shareholder through the Core Services Review process, BCRC will continue to dispose of most remaining residual assets and entities, winding up most corporate activities except those related to rail or port operations. BCR Properties Ltd. will continue its mandated disposition of all non-railway and non-port related property holdings and should be substantially complete by the end of 2010. BCR Properties' land dispositions are subject to risk of delays due to municipal development processes and risk of reduced revenues with the anticipated downturn in the real estate market.

Although there are no significant shifts in its internal operating environment since the last Service Plan update, the greatest risk facing BCRC is driven by the current global economic challenges. The timing and proceeds of disposition of the property sales, as well as the number of commercially viable infrastructure opportunities, could be negatively impacted by the state of the global economy. BCRC will closely monitor the conditions to ensure appropriate timing of any dispositions or investments.

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 2009 – 2011 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 and fiscal plan. 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 December 31, 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	1
	Location of Operations	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, Performance Measures, Targets, Benchmarks and Description of Performance Management Systems	8
	Goal One	8
	Goal Two	9
	Goal Three	10
	Goal Four	10
	Benchmarking and Performance Management Systems	11
5.0	Shareholder's Letter of Expectations	12
6.0	Summary Financial Outlook	14
	Notes on Revenues and Expenses	14
	Key Assumptions	15
	Forecast Risks and Sensitivities	16
7.0	Capital Plan and Major Capital Projects	17
8.0	Subsidiary Summary Information	18
9.0	Contact Information	20

## **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, 2009. 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, to enhance shareholder value for the benefit of 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, a critical link in the Roberts Bank Rail Corridor, 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.

There have been no significant shifts in business areas or program delivery since the last update of the Service Plan. The Province remains committed that all other BCRC 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.

### ***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 its operating subsidiaries, spanning the business areas of real estate and railway management. For further details on each of the operating subsidiaries, see Section 8.0 of this Service Plan.

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 (Kinder Morgan) for the operation of the Vancouver Wharves' marine terminal facilities. Both of these leased operations are critical components of the North Shore Trade Corridor.

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 and details will be provided in subsequent Service Plans.

BCRC's vision is to fulfill its mandate as defined by the Shareholder's Letter of Expectations, guided by its values of integrity, fiscal responsibility, accountability, safety and respect.

### ***Location of Operations***

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

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

BCRC also 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.

## 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 and Infrastructure (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, 2009, the Board of Directors is comprised of the following appointees:

John R. McLernon, Chair  
Bev A. Briscoe  
Brian G. Kenning  
Len S. Marchand  
Daniel R. McLaren  
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 8.0.

### ***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), Jim R. Yeates, Daniel R. McLaren

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***

As at January 1, 2009, 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 (on Maternity Leave)

Kevin Steinberg, Vice President Finance and Chief Financial Officer (Acting)

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 assumed 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. In addition, under the terms of the Revitalization Agreement, in 2009 CN may commence the line abandonment process for any portions of the rail network that it deems uneconomical. BCRC is currently developing a strategy for dealing with the potential line abandonment process.

BCRC will continue to own and manage the Port Subdivision, which acts as the vital rail link to the Roberts Bank port terminals. BCRC's ownership and management of the Port Subdivision protects neutral and competitive rail access to these 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 and Westshore Coal Terminal. BCRC will continue to be responsible for all capital investment in the Port Subdivision railway line. Rail expansion plans supporting the addition of the third berth at Deltaport, growth in coal traffic, grade separations and "green" locomotives, are included the financial forecasts.

BCRC will also retain 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. In May 2007, BCRC entered into a 40-year Operating Lease Agreement for the Vancouver Wharves facility, with Kinder Morgan Canada 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. BCRC also acts as an advisor to government and other stakeholders in supporting other port-related transportation initiatives and will make infrastructure investments where an appropriate business case exists.

BCRC continues with its mandate to dispose of its residual real estate holdings. There are risks of delays, as many of the processes and approvals required to complete the dispositions of non-rail real estate, including environmental remediation and subdivision approvals, are beyond the control of BCRC.

While BCRC's role of operating a commercial railway and marine terminals has been reduced to that of landlord, its role in the BC Ports Strategy and Pacific Gateway Strategy continues to evolve and expand. Although there are no significant shifts in its internal operating environment since the last Service Plan update, the greatest risk facing BCRC is driven by the current global economic challenges. The timing and proceeds of disposition of the property sales, as well as the number of commercially viable infrastructure opportunities, could be negatively impacted by the state of the global economy. BCRC will closely monitor the conditions to ensure appropriate timing of any dispositions or investments.

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 resources 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, PERFORMANCE MEASURES, TARGETS, BENCHMARKS and DESCRIPTION OF PERFORMANCE MANAGEMENT SYSTEMS**

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 worked through a transition period as its mandate evolved in the years immediately following the completion of the CN Rail transaction. Previous versions of BCRC's service plan were oriented to accomplishing a complete wind-down of all corporate activities within the Service Plan time-span.

However, since the 2006 changes to BCRC's mandate, the corporation has transitioned into a continuing operation, with the new role of BCRC as a supporting resource to the government's British Columbia Ports Strategy and Pacific Gateway Strategy. 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 new Gateway initiatives will be included.

The identified goals and targets focus on critical aspects of performance for the ongoing management of the Port Subdivision rail operations, the CN Rail Revitalization Agreement and the 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 previous Service Plan are due to timing and market value differences of real estate dispositions.

##### ***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	Target	Actual	Targets		
	2007	2008	2008	2009	2010	2011
Number of reportable incidents 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"> <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		
	2007	2008	2009	2010	2011
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, by ongoing inspections over the entire system on a 3-year cycle and resolve any compliance exceptions.	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.
Respond to 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.**

<b>Strategies:</b> <ul style="list-style-type: none"> <li>➤ Manage a positive landlord-tenant relationship between BCRC and Kinder Morgan.</li> <li>➤ Monitoring of Kinder Morgan compliance with terms of the Operating Lease 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 Operating Lease Agreement require enforcement or interpretation.</li> </ul>					
Performance Measures	Actual	Actual	Targets		
	2007	2008	2009	2010	2011
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
Respond to 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.**

<b>Strategies:</b> <ul style="list-style-type: none"> <li>➤ Maximize financial results by achieving full market value for dispositions.</li> <li>➤ Obtain independent professional appraisals as a basis for 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	Budget	Forecast	Targets		
	2007	2008	2008	2009	2010	2011
Gain on disposal of assets (\$ millions)	\$ 19.8	\$74.3	\$ 27.3	\$ 37.7	\$ 30.9	\$NA

## ***Benchmarking and 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).

Because of the unique nature of BCRC's operating leases with CN and Kinder Morgan, managing role (but not operating its own trains) on the Port Subdivision and disposition process of its portfolio of surplus real estate holdings, no relevant or comparable benchmarks have been established.

## 5.0 SHAREHOLDER'S LETTER OF EXPECTATIONS

SLE Direction	BCRC Alignment
<ul style="list-style-type: none"> <li>support and facilitate the British Columbia Ports Strategy and Pacific Gateway Strategy</li> </ul>	<ul style="list-style-type: none"> <li>provide advice and support to the Shareholder and other stakeholders, in the development and implementation of strategies and actions to further the Pacific Gateway Strategy;</li> <li>secure through purchase, option or other means, lands suitable for supporting the objectives as outlined in the Shareholder's Pacific Gateway Strategy;</li> <li>make investments in infrastructure projects that support the objectives as outlined in the Shareholder's Pacific Gateway Strategy, ensuring any BCRC legal authority issues are resolved to the satisfaction of the Ministry of Transportation and Infrastructure (MOTI) and the Ministry of Attorney General (MAG), before projects proceed;</li> <li>ensure all borrowing activities of the Corporation and its subsidiaries are undertaken through the Ministry of Finance, unless otherwise directed or permitted;</li> <li>work with Partnerships BC to ensure that the Provincial capital standard is applied to projects;</li> <li>return to Treasury Board for approval for any individual project over \$50 million.</li> </ul>
<ul style="list-style-type: none"> <li>continue to own and operate BCR Port Subdivision Ltd</li> </ul>	<ul style="list-style-type: none"> <li>manage all aspects of Port Sub rail operations</li> </ul>
<ul style="list-style-type: none"> <li>on-going accountability to ensure effective and efficient management of the Revitalization Agreement between the Corporation and Canadian National Railway Company ("CN");</li> </ul>	<ul style="list-style-type: none"> <li>administer the Revitalization Agreement and prepare quarterly reports for the Shareholder on the status of the long-term lease with CN</li> </ul>



<ul style="list-style-type: none"> <li>on-going accountability to ensure effective and efficient management of the Operating Lease Agreement between the Corporation and Kinder Morgan Canada Terminals ULC ("Kinder Morgan");</li> </ul>	<ul style="list-style-type: none"> <li>administer the operating lease agreement and prepare quarterly reports for the Shareholder on the status of the long-term lease with Kinder Morgan</li> </ul>
<ul style="list-style-type: none"> <li>continue to dispose of the residual assets and wind down entities currently owned and operated by the Corporation that are not required to preserve the railway right-of-way, rail bed and track infrastructure; or not required to support the freight railway under the Revitalization Agreement; or not assets or entities that support the Pacific Gateway Strategy</li> </ul>	<ul style="list-style-type: none"> <li>continue to dispose of remaining real estate assets and wind down operating entities, owned by the Corporation in a manner that maximizes a commercial return to the Shareholder;</li> <li>prepare quarterly reports for the Shareholder on the status of real estate dispositions and wind down activities, which identify all financial impacts anticipated to result;</li> </ul>
<ul style="list-style-type: none"> <li>comply with the Shareholder's requirements to make the Public Sector carbon neutral by 2010, including</li> </ul>	<ul style="list-style-type: none"> <li>prepare inventory list of all emission sources;</li> <li>measure or calculate emissions from all sources;</li> <li>develop and implement action plans to reduce emissions;</li> <li>report on emissions and purchase carbon offsets through the Pacific Carbon Trust.</li> </ul>

## 6.0 SUMMARY FINANCIAL OUTLOOK

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

(\$ millions)	<b>2007 Actual</b>	<b>2008 Budget</b>	<b>2008 Forecast</b>	<b>2009 Budget</b>	<b>2010 Forecast</b>	<b>2011 Forecast</b>
<b>Total Revenue</b>	18.2	14.8	21.5	14.3	14.2	13.1
Operating Expenses	31.3	16.3	15.7	15.2	13.4	11.0
Amortization (Note 4)	4.1	6.6	4.3	6.7	6.3	6.1
Total Expenses	35.4	22.9	20.0	21.9	19.7	17.1
<b>Operating Income (Loss)</b>	<b>( 17.2)</b>	<b>(8.1)</b>	<b>1.5</b> (Note 1)	<b>( 7.6)</b>	<b>( 5.5)</b>	<b>( 4.0)</b>
Financing Income (Note 5)	12.6	9.3	8.5 (Note 2)	7.2	6.5	4.2
Gain on Disposal of Assets (Note 6)	19.8	74.3	27.3 (Note 3)	37.7	30.9	0
<b>Net income from continuing operations</b>	<b>15.2</b>	<b>75.5</b>	<b>37.3</b>	<b>37.3</b>	<b>31.9</b>	<b>0.2</b>
Net income from discontinued operations	4.4	0	0	0	0	0
<b>Net Income</b>	<b>19.6</b>	<b>75.5</b>	<b>37.3</b>	<b>37.3</b>	<b>31.9</b>	<b>0.2</b>
<b>Capital Expenditures</b>	20.4	24.4	9.9	80.2	94.9	100.1
<b>Retained Earnings</b>	(324.6)	(240.4)	(287.3)	(250.0)	(218.1)	(217.9)
<b>Debt</b>	0	0	0	0	0	0
<b>FTE's</b>	30	30	31	32	25	25

### *Notes on Revenues and Expenses*

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

The estimated operating income for 2008 of \$1.5 million (Note 1) is better than budget primarily due to higher than budgeted operating income in BCR Properties as a result of delayed property sales. Delays in property sales are primarily due to the greater than anticipated time required to complete the property subdivision process.

Lower interest income (Note 2) is largely due to lower interest earning cash balances. The overall gain on sale of assets (Note 3) is projected to be lower than budget by approximately \$47.0 million due to delays in property sales.

The budget and forecast assume that all non-railway surplus real estate assets will now be disposed of by the end of 2010. 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 2009, 2010 and 2011 operating revenues and operating expenses therefore relates to decreased rental revenue and operating expenses for BCR Properties as rental properties are sold.

Amortization expense (Note 4) in the budget and forecast includes those assets leased to CN Rail that have been treated as an operating lease and amortization on unsold properties.

Financing income arises (Note 5) from the investment of excess cash being retained for corporate and operating purposes.

The gain on sale of assets (Note 6) in 2007, 2008, 2009 and 2010 is related entirely to property sales.

BCRC's business activities are mostly in competition with the private sector. As a result, BCRC does not disclose the major sources of revenue and expenses as this is regarded as confidential information.

### ***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. BCR 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 Properties 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 2010. Proceeds on disposal have been estimated based on management's best estimates of the fair value of the properties.

BCR Captive is a regulated insurance company that provided insurance to BCRC and its subsidiary companies for all claims that occurred before January 31, 2008. BCR Captive was wound up on November 30, 2008. Insurance coverage since February 1, 2008 has been provided by third party insurance. This will continue to be the insurance strategy going forward. Any outstanding claims and obligations of BCR Captive were assumed by BCRC at the windup of BCR Captive.

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

The forecast assumes that no dividend payments are made to the Province. Budget information provided agrees to funding approved by the Ministry and is consistent with Government's fiscal plan.

### ***Forecast Risks and Sensitivities***

The 2009 to 2011 forecast has been prepared based on the 2008 preliminary results. Changes to final audited 2008 results may affect the 2009 to 2011 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 costs may be higher.

The timing and proceeds of disposition of the property sales could vary from the assumptions used in the forecast. A downturn in the economy could have an adverse affect on property values. For each percent reduction in real estate property values remaining in the BCR Properties portfolio, the gain on disposal of assets over the planning period would potentially be reduced by \$1.3 million.

Finance income is derived from interest earning cash balances. The annual effect, for each half percentage point reduction in interest rates ranges between an annual decrease in finance income of \$0.8 million to \$1.2 million.

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

## 7.0 CAPITAL PLAN and MAJOR CAPITAL PROJECTS

The forecast for capital expenditures as detailed below includes costs to complete the BCR Properties real estate subdivision projects and costs related to the Port Subdivision, including sustaining capital, costs in support of the Deltaport third berth expansion project and Port sub causeway redevelopment project and the future acquisition of “green” locomotives. In addition, the capital forecast includes provisions for the acquisition of strategic port lands 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)	Forecast 2008	Forecast 2009	Forecast 2010	Forecast 2011
Sustaining:				
BCR Properties subdivision projects	9.4	29.9	11.7	-
Tenure review (right-of- way land)	0.4	2.0	-	-
Port Subdivision sustaining	0.1	0.2	0.2	0.2
Deltaport berth 3 expansion	-	8.0	2.0	-
Port Subdivision “green” locomotives	-	3.5	-	-
Coal track Extension	-	2.0	-	-
Low level Road	-	-	5.0	-
Gateway Initiatives:				
Landbanking	-	30.0	28.0	16.5
Port sub causeway redevelopment	-	-	40.0	80.0
Sub-total	9.9	75.6	86.9	96.7
Contributions to Port Sub grade separations	-	4.6	8.0	3.4
Total Capital Expenditures	9.9	80.2	94.9	100.1

### Gateway Initiatives

Land acquisitions reflect ongoing strategic port related real estate acquisitions to support the Province’s Pacific Gateway Strategy. The landbanking provision is intended for multiple individual purchases/projects. It is expected that no individual purchase will be in excess of \$50 million.

There is currently no specific plan or commitment for any land purchase or capital project exceeding \$50 million with the exception of the Port Sub Causeway Redevelopment project for which BCRC’s investment is estimated at \$120 million. Prior to finalizing any agreement or making any commitment for the Causeway Redevelopment project or any other project with an expenditure 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*. Other than the timing of the current capital plan, the current plan is consistent with the prior Service Plan.

## 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. ("BCR Properties")

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 of non-railway corridor lands 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. ("BCR Port Subdivision")

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. ("BCR Captive")

Until January 31, 2008, this subsidiary provided primary property, general liability, terminal operator's liability, automobile physical damage and excess automobile coverage to BCRC and its subsidiaries. Effective February 1, 2008, BCRC obtained its insurance from independent third party insurers. BCR Captive was wound up on November 30, 2008. Any outstanding claims and obligations of Captive were assumed by BCRC at windup.

Prior to wind-up, the Board of Directors for BCR Captive was 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.

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. In addition, in 2009 BCRC intends to consolidate all of its remaining commercial and business activities, including BCR Properties Ltd. and BCR Port Subdivision Ltd., into one operating subsidiary.

## **9.0 CONTACT INFORMATION**

Any correspondence or enquiries should be directed to BCRC to the attention of the Corporate Secretary at 604-678-4737 or at the following address:

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

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

<http://www.bcrco.com>



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