BRITISH COLUMBIA RAILWAY COMPANY

2006

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BRITISH COLUMBIA
The Best Place on Earth

MESSAGE FROM THE CHAIR OF THE BOARD

Overview

I am pleased to present the 2006 Annual Report for the British Columbia Railway Company ("BCRC" or "the Company"), a commercial Crown corporation with 100% of its shares owned by the Province of British Columbia ("the Shareholder").

This report reviews the activities of BCRC during 2006 in fulfilment of its mandate as outlined in the 2006-2008 Service Plan and changes to its mandate by the Shareholder that occurred during 2006. This report also presents the plans and expectations for the Company as it goes forward, as set forth in the 2007-2009 Service Plan of February 20, 2007.

BCRC owns the former BC Rail right-of-way and railway track infrastructure and leases those assets to Canadian National Railway Company ("CN Rail") through a long term lease agreement (Revitalization Agreement) for the purposes of operating a freight railway. BCRC is focused on protecting the long-term strategic value of this railway corridor.

The Company's mandate related to its other assets and entities was revised in 2006. The previous mandate assigned to BCRC by the Shareholder in 2004 was to dispose of all surplus assets and entities not necessary for the Company to meet its objectives under the CN Rail relationship and Revitalization Agreement. Any residual business activities would be transferred into government by the end of 2007.

During 2006, the Shareholder determined that its British Columbia Ports Strategy and Pacific Gateway Strategy would be supported and facilitated by BCRC retaining ownership of certain key assets previously designated as surplus. These key assets included the Port Subdivision operation, which provides open, neutral rail access to the port terminals at Roberts Bank, and certain port-related lands, including those upon which the Vancouver Wharves and Squamish Terminals port facilities operate. Any other BCRC assets and entities not required to be publicly owned to support these strategies would be disposed of by BCRC. Accordingly, BCRC is disposing of these surplus assets in a manner that maximizes a commercial return to the Shareholder. The Shareholder has determined that the Company will carry on with a mandate to manage the Revitalization Agreement, own and operate the Port Subdivision, and own and manage the port lands underlying Vancouver Wharves and Squamish Terminals and such other lands and assets required to support the Ports and Pacific Gateway strategies.

2006 Operating Results

During 2006, the Company met its goals of effectively managing the Revitalization Agreement with CN Rail and providing safe, reliable and efficient freight operations on the Port Subdivision. In addition, the organization focused its efforts on the ongoing sale of surplus real estate holdings and operating assets.

The Company earned net income of $68.2 million in 2006, primarily as a result of surplus real estate sales. A total of 47 real estate properties were sold during the year for total proceeds of $84.5 million and a gain of $63.7 million.

Net income was $15.5 million below the annual budgeted 2006 net income of $83.7 million. This variance in net income of $15.5 million is primarily the result of the gain on disposal of assets, which was $30.2 million below budget, being offset by an asset impairment charge relating to Vancouver Wharves of $15.1 million, which was budgeted to occur in 2006 but not required based on a market value analysis of the business. The lower gain on disposal of assets was the result of a delay in the sale of certain real estate until 2007.

By the end of the year, management had made significant progress in negotiating a new operating arrangement for Vancouver Wharves — and a transaction is expected to be completed during the Second Quarter of 2007.

Plans and Expectations

The future objectives for BCRC are included in the 2007-2009 Annual Service Plan as follows:

1. Provide safe, reliable, efficient and open access freight train operations on the Port Subdivision.
2. Ensure effective and efficient management of the Revitalization Agreement between BCRC and CN Rail.
3. Dispose of all surplus real estate holdings and other surplus assets not required for freight railway corridors or to support the Ports and Pacific Gateway strategies.

BCRC is an important contributor to the development and implementation of the Ports and Pacific Gateway strategies in support of Asia-Pacific trade expansion. Through its Port Subdivision, BCRC is directly involved in the planning of railway capacity expansion and related infrastructure requirements to support traffic growth through the Deltaport terminal. BCRC's ownership and management of the Port Subdivision also protects neutral and competitive rail access to the Deltaport terminal. 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.

The 2007-2009 Service Plan also supports the Ports and Pacific Gateway strategies. BCRC will retain ownership of its port-related 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.

The Company's modified mandate has created challenges for the organization as it had been established for short-term, diminishing levels of business activity. Management, together with the Board of Directors, is preparing an amended management structure, including potential recruitment of additional resources if required to support the revised mandate going forward.

BCRC's role in the Ports and Pacific Gateway strategies 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.

Accountability

The British Columbia Railway Company 2006 Annual Report was prepared under my direction in accordance with the *Budget Transparency and Accountability Act*. I am accountable for the contents of the report. The information presented has been prepared in accordance with the BC Reporting Principles and reflects the actual performance of the Company for the 12 months ended December 31, 2006 in relation to the February 2006 service plan. The measures presented are consistent with BCRC's mission, goals and objectives, and focus on aspects critical to the organization's performance. I am responsible for ensuring internal controls are in place to measure performance in an accurate and timely fashion.

All significant decisions, events and identified risks, as of December 31, 2006, have been considered in preparing the report. The report contains estimates and interpretive information that represent the best judgment of management. Any changes in mandate direction, goals, objectives, strategies, measures or targets made since the February 2006 Service Plan was released and any significant limitations in the reliability of data are identified in the report.

John McLernon, Chair

British Columbia Railway Company

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ORGANIZATIONAL OVERVIEW

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

Mandate

The original mandate of BCRC was to construct and operate a freight railway in British Columbia. With the 2004 disposition of its shares in BC Rail Ltd. and its partnership interests in BC Rail Partnership to CN Rail thereby transferring the freight railway operations, the mandate of BCRC changed. The Shareholder determined that the mandate of BCRC should be to ensure the effective and efficient management of the long-term lease agreement (Revitalization Agreement) between itself and CN Rail and to dispose of all surplus assets and entities owned and operated by BCRC and its subsidiaries. Any residual business activities would be transferred into government and the BCRC administration offices would be closed.

In 2006, as a result of the British Columbia Ports Strategy and the Pacific Gateway Strategy, the Company's mandate was changed to include retention and management of the Port Subdivision, the 24-mile (38.6 kilometre) freight railway right-of-way, railbed and track infrastructure that provides neutral rail access to the port terminals at Roberts Bank. The Company's 2006-2008 Service Plan reflected this change and stated that the BCRC office would be substantially wound-up by the end of 2007 and any residual business activities would be transferred into government.

Later in 2006, the Shareholder made an additional change to BCRC's mandate. The new mandate includes retention and management of land occupied by Vancouver Wharves, while selling the port terminal assets to a third-party operator, and retention and management of all key lands, including Squamish Terminals, which support port terminal operations. Timing of the implementation of the Vancouver Wharves strategy was accelerated and is now expected to be finalized by the end of the Second Quarter of 2007. The Shareholder determined that retention of these port-related land holdings would further support its British Columbia Ports Strategy and Pacific Gateway Strategy.

With the mandate revised to include management of these rail and port lands, BCRC has reversed its direction of contracting operations and closing administration offices and has begun working on an amended management structure, including potential recruitment of new and additional resources if required to support the revised mandate going forward.

Mission

BCRC's current mission as set out in the 2007-2009 Annual Service Plan, is effective management of the Revitalization Agreement between BCRC and CN Rail, holding of railway corridor and port lands for the Shareholder to support and facilitate the British Columbia Ports Strategy and the Pacific Gateway Strategy, and ensuring the efficient disposition and conclusion of all other remaining surplus businesses and assets.

Values

BCRC operations and assets are managed according to the values stated in the 2007-2009 Service Plan.

Integrity

Make decisions 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.

Core Business Areas and Services

As a commercial Crown corporation, borrowing is done through the Ministry of Finance and full financial and non-financial reporting is provided according to the provisions of the *Budget Transparency and Accountability Act*.

BCRC continues to operate several subsidiaries, including:

BCR Port Subdivision Ltd. (Port Subdivision)

This wholly owned subsidiary operates the 24-mile (38.6 kilometre) railway line connecting three major railways (CN Rail, Canadian Pacific Railway and BNSF Railway Company) with the port terminals at Roberts Bank. While operating none of its own trains on this railway line, the Port Subdivision maintains the track and manages all train operations, recovering its costs from the three user railways based on their respective share of traffic over the line. The Port Subdivision is regulated provincially under the British Columbia Safety Authority.

During 2006, as a result of the British Columbia Ports Strategy and the Pacific Gateway Strategy as stated in the BCRC's 2006-2008 Service Plan, the Company's mandate was changed to include retention and management of the Port Subdivision.

BCR Properties Ltd. (BCR Properties)

This wholly owned subsidiary owns and manages the real estate portfolio not required to support railway operations. The portfolio of approximately 300 parcels of commercial, industrial and vacant land and buildings represents those non-railway surplus real estate assets the majority of which are slated for disposition by the end of 2008. BCR Properties' mandate includes management of BCRC held land and leading the real estate disposition process. During 2006, as a result of the British Columbia Ports Strategy and the Pacific Gateway Strategy, the Company's mandate was changed to include retention and management of the port-related lands including Vancouver Wharves and Squamish Terminals.

BCR Captive Insurance Co. Ltd. (BCR Captive)

This wholly owned insurance company provides primary property, general liability, terminal operator's liability, automobile physical damage and excess automobile liability coverage to BCRC and any subsidiary in which BCRC has a controlling interest. BCR Captive is regulated by the Financial Institutions Commission. It is anticipated that BCR Captive will no longer provide insurance to BCRC and its subsidiaries after the Second Quarter of 2007. Outstanding claims and litigation will continue to be wound up over subsequent years. Effective mid-year 2007, all insurance will be procured from independent third-party insurers.

Vancouver Wharves Limited Partnership (Vancouver Wharves)

This wholly owned subsidiary, operates a port facility in North Vancouver that handles inbound and outbound shipments of mineral concentrates, pulp, sulphur, and agriproducts. During 2006, the Shareholder changed BCRC's mandate to include retention and management of BCR Properties land occupied by Vancouver Wharves, while selling the port terminal assets and entering into a long term operating lease with a third-party operator. Timing of the implementation of the Vancouver Wharves strategy was accelerated and is now expected to be finalized by the end of the Second Quarter of 2007. The Shareholder determined that retention of these port land holdings would further support its British Columbia Ports Strategy and Pacific Gateway Strategy.

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

Enabling Legislation

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

Location

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

2006 PERFORMANCE

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 surplus assets and eventual conclusion of corporate activities, with the exception of those relating to railway or port lands.

The 2006 performance goals for BCRC were set out in its 2006 to 2008 Service Plan as follows:

GOAL ONE:

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

Strategies	2006 Targets	2006 Results
• Manage positive landlord-tenant relationship between BCRC and CN • Refine management plan for Revitalization Agreement • Transition Revitalization Agreement management system to the Shareholder	• Monitoring and reporting system fully operational • Management plan and guidelines implemented, monitoring and reporting system established • Complete plan for transition of Revitalization Agreement management system to Shareholder	• Report received in March 2007 from the Office of the Auditor General concluding that a "generally adequate system is in place" to monitor CN's commitments under the Revitalization Agreement. • With the change in BCRC's mandate, the management of the Revitalization Agreement will remain with BCRC and will not be transferred to the Shareholder.

GOAL TWO:

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

Strategies	2006 Targets	2006 Results
• Develop a strategic plan for business units, assets and non-railway related real estate to guide dispositions	• Strategic plan implementation underway	• BCR Properties management team has developed a strategic plan for disposition of surplus real estate. The status of the plan is reviewed by the Real Estate Disposition Committee of the Board on a quarterly basis.
• Ensure all dispositions are properly supported by professional appraisals and other market benchmarks • Ensure strong fiscal management and reporting	• 100% of business units, assets and real property disposed of within the disposal guidelines approved by the Board of Directors • Consolidated net income of $83.7 million achieved	• During 2006 there were 47 dispositions of surplus property for a gain of $63.7 million. • Consolidated net income of $68.2 million was achieved in 2006. • Fewer property sales than anticipated were completed during the year due to the significant amount of work required to prepare the properties for sale. The remaining properties are planned for disposition by the end of 2008.

BCRC has a relatively small staff dealing with a diverse range of 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 surplus 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 other port-related land holdings. As a result, BCRC's mandate was revised in late 2006, requiring it to continue 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 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 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 British Columbia 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.

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 British Columbia Safety Authority and/or Transport Canada).

BCR Port Subdivision Ltd.

During 2006, as a result of the British Columbia Ports Strategy and the Pacific Gateway Strategy as stated in the BCRC's 2006-2008 Service Plan, the Company's mandate was changed to include retention and management of the Port Subdivision.

The Port Subdivision continued to successfully operate as a stand-alone operation through 2006 effectively serving its three main user railways. In 2006, it handled a total of 5,003 trains (down 8.2% from 2005) and a total of 473,273 car units (down 10.7% from 2005). The decline was due to a reduction in CP Rail's coal traffic from Elk Valley (down 27.9% from 2005) which more than offset significant gains in CN Rail coal (up 57.7%) and container traffic (up 26.4%).

The Port Subdivision operates on a cost recovery basis, recovering its costs from its three user railways based on their respective share of traffic over the line each month. Port Subdivision earned revenues of $8.3 million during 2006, up $1.3 million from 2005. Operating expenses which include the costs for the operation and maintenance of the railway also increased, up $0.4 million to $4.4 million in 2006. As a result of the Shareholder's decision to retain the Port Subdivision, management developed a longer-term plan for the maintenance of the railway which resulted in an increase to maintenance costs in 2006. Maintenance costs are expected to remain at this level for 2007.

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

BCR Properties Ltd.

This subsidiary continued disposing of remaining surplus assets and non-railway related real estate while maximizing the financial return to the Shareholder.

A total of 40 parcels of land and seven buildings were sold during 2006 for net proceeds of $84.5 million resulting in a total gain of $63.7 million. Fewer property sales than anticipated were completed during the year due to the significant amount of work required for the subdivision process and for preparing properties for sale. Management expects that most of the approximately 300 properties remaining will be sold by the end of 2008.

Revenue from operations for BCR Properties excludes the gain on real estate sales discussed above. Operating revenues, which primarily include the rental revenue from properties still owned by the subsidiary, were $8.9 million in 2006, a decline of almost 50% from the 2005 revenues of $15.9 million. The decrease in rental revenue is consistent with the fewer number of properties owned by the subsidiary. Property management expenses also decreased significantly however, a $10.6 million increase to the estimate of the environmental provision offset this reduction. The risk of environmental liability is inherent in the Company's operations and, as a result, costs are incurred on an ongoing basis. Operating expenses for BCR Properties were $14.3 million in 2006, a net increase of $3.1 million from 2005.

Vancouver Wharves Limited Partnership

This wholly owned subsidiary, operating a port facility in North Vancouver, handles inbound and outbound shipments of mineral concentrates, pulp, sulphur, and agriproducts.

During 2006, the Shareholder changed BCRC's mandate to include retention of the BCR Properties land occupied by Vancouver Wharves, while selling the port terminal assets and entering into a long term operating agreement with a third-party operator. Timing of the implementation of the Vancouver Wharves strategy is expected to be finalized by the end of the Second Quarter of 2007. The Shareholder determined that retention of these port land holdings would further support its British Columbia Ports Strategy and Pacific Gateway Strategy.

Vancouver Wharves handled 3.6 million tonnes of product in 2006, a decrease of 0.2 million tonnes from 2005 levels.

Operating revenues for Vancouver Wharves increased by $2.2 million to $46.7 million. Revenues were higher than 2005 primarily due to the resolution and collection of a long-outstanding account receivable in the amount of $2.1 million which had been fully provided for in past years. Vancouver Wharves experienced a $4.1 million decrease in operating expenses in 2006, down to $35.2 million. The decrease related to environmental costs, amortization expense, and overall cost efficiencies. Also, in 2005 an impairment charge of $15.2 million was recorded against the capital assets of Vancouver Wharves to write them down to their estimated fair value. No such write-down was required in 2006.

BCR Captive Insurance Co. Ltd.

BCR Captive Insurance Co. Ltd. will no longer provide insurance to BCRC and its subsidiaries after the Second Quarter 2007. Outstanding claims and litigation will continue to be wound up over the following years. Effective mid-year 2007, all insurance will be procured from independent third-party insurers.

2007 TO 2009 PERFORMANCE GOALS

In 2006, goals and strategies for BCRC were revised and expanded to take into account the change in the Company's mandate to support the Province's British Columbia Ports Strategy and Pacific Gateway Strategy. The goals are outlined in BCRC's 2007 to 2009 Service Plan published in February 2007 and summarized below.

GOAL ONE:

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

Strategies

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

Performance Measures	2007 Target	2008 Target	2009 Target
• Number of derailments caused solely by track condition	0	0	0

GOAL TWO:

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

Strategies

- Manage a positive landlord-tenant relationship between BCRC and CN Rail.
- 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	2007 Target	2008 Target	2009 Target
• Report on status of the CN Revitalization Agreement	• Report quarterly to the Board of Directors and Minister	• Report quarterly to the Board of Directors and Minister	• Report quarterly to the Board of Directors and Minister
• Monitor CN Rail's environmental stewardship of freight railway lands under lease	• Inspect one third of the railway network	• Inspect one third of the railway network	• Inspect one third of the 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

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

Strategies

- Maximize financial results by achieving full market value for dispositions.
- Obtain independent professional appraisals for basis of 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	2007 Target	2008 Target	2009 Target
• Number of property title transfers completed	95	0	0
• Gain on disposal of assets ($ millions)	$ 75.4	$ 0	$ 0

ALIGNMENT WITH GOVERNMENT'S STRATEGIC PLAN

As stated in the BCRC's annual 2007-2009 Service Plan, BCRC activities support the Province of British Columbia Strategic Plan 2006/07 – 2008/09 and its Five Great Goals.

Most specifically, BCRC supports the Province's Goal 5: "Create more jobs per capita than anywhere else in Canada" by:

- 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; and
- 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.

MANAGEMENT DISCUSSION AND ANALYSIS

BCRC continues to own the former BC Rail right-of-way and railway track infrastructure to protect the strategic value of the railway corridor and leases those assets to CN Rail through the Revitalization Agreement – a long term lease arrangement to operate the freight railway. Consistent with the government's British Columbia Ports Strategy and Pacific Gateway Strategy, BCRC has retained ownership of its BCR Port Subdivision operation and, through its subsidiary BCR Properties, will retain ownership of certain port-related lands. All other residual assets and entities are not required to be publicly owned and the mandate for BCRC since 2004 has been to conclude or dispose of these in a manner that maximizes a commercial return to the government.

During 2006, the Company met its goals of effectively managing the Revitalization Agreement with CN Rail and providing safe, reliable and efficient freight operations on the BCR Port Subdivision. In addition, the Company focused its efforts on the ongoing sale of surplus real estate holdings and operating assets. A total of 47 real estate properties were sold during the year and a transaction for the transfer of Vancouver Wharves to a new operator is expected to complete during the Second Quarter of 2007.

2006 Results

The 2006 financial statements have been prepared using discontinued operations reporting to appropriately reflect the financial results of Vancouver Wharves. The comparative 2005 results and the 2006 budget have also been restated to conform to the current year's presentation.

The 2005 results were also restated with respect to an impairment whereby Vancouver Wharves' assets were written down to their estimated fair value. During a subsequent review it was determined that $21.2 million of the charge related to retirement costs for land and was not required. Additionally, it was determined that amortization expense of $0.9 million recorded on the retirement cost should not have been recorded. Accordingly, the restatement increased net income for 2005 by $22.1 million.

($ thousands)	2006 Actual	2005 Actual (restated)	Year Variance	2006 Budget (restated)	Budget Variance
Revenue	17,554	24,387	(6,833)	15,468	2,086
Operating expenses	24,074	18,540	(5,534)	17,130	(6,944)
Amortization	8,046	10,715	2,669	8,210	164
Asset impairment write-down	-	4,263	4,263	-	-
Total expenses	32,120	33,518	1,398	25,340	(6,780)
Operating loss	**(14,566)**	**(9,131)**	**(5,435)**	**(9,872)**	**(4,694)**
Financing income	6,396	1,186	5,210	1,967	4,429
Gain on disposal of assets	63,667	9,885	53,782	93,910	(30,243)
Reduction in gain on CN Rail transaction	-	(5,602)	5,602	-	-
Income (loss) from continuing operations	**55,497**	**(3,662)**	**59,159**	**86,005**	**(30,508)**
Income (loss) from discontinued operations	12,676	(9,749)	22,425	(2,289)	14,965
Net income (loss)	**68,173**	**(13,411)**	**81,584**	**83,716**	**(15,543)**

In comparing the current year's results to the restated 2005 results, 2006 net income increased by $81.6 million over 2005. The increase was due to two primary factors: the sale of surplus real estate in 2006 resulting in a gain on sales $53.8 million higher than the prior year and asset impairment charges totalling $19.5 million which were recorded in 2005 primarily relating to Vancouver Wharves assets. There was no such impairment charge required in 2006. The increase in financing income accounts for the balance of the variance in income over 2005.

As compared to the restated budget, the variance in net income of $15.5 million relates again to two main items: the gain on disposal of assets which was $30.2 million below budget offset by the asset impairment charge relating to Vancouver Wharves of $15.1 million which was budgeted to occur in 2006 but which was not required. The negative variance in the gain on sales was due to timing of real estate sales which were delayed to 2007. The budgeted asset impairment charge relating to Vancouver Wharves assets was not required in 2006 based on a market value analysis of the business.

Revenues

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

($ thousands)	2006 Actual	2005 Actual	Year Variance	2006 Budget	Budget Variance
BCR Properties	8,865	15,939	(7,074)	6,586	2,279
BCR Port Subdivision	8,251	6,920	1,331	8,391	(140)
Other	438	1,528	(1,090)	491	(53)
Total	**17,554**	**24,387**	**(6,833)**	**15,468**	**2,086**

Revenues from continuing operations decreased by $6.8 million as compared to 2005 but were higher than budget by $2.1 million. The decrease in revenues over the prior year relates primarily to BCR Properties whose rental revenue is decreasing as rental properties are being sold. However, rental revenues did not decrease at the rate anticipated in the budget due to the slower pace of real estate sales. The gain on property sales is not included in the above revenue results and will be discussed in further detail later in this report.

The BCR Port Subdivision, which earns its revenue on a cost recovery basis from the users of its railway, incurred and recovered higher costs relating to an intensified maintenance program during the year.

Expenses

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

($ thousands)	2006 Actual	2005 Actual (restated)	Year Variance	2006 Budget (restated)	Budget Variance
BCR Properties	14,313	11,199	(3,114)	5,156	(9,157)
BCR Port Subdivision	4,371	3,932	(439)	5,270	899
Other	13,436	18,387	4,951	14,914	1,478
Total	**32,120**	**33,518**	**1,398**	**25,340**	**(6,780)**

Operating expenses from continuing operations decreased by $1.4 million in 2006, however were higher than budget by $6.8 million.

BCR Properties experienced higher operating expenses than last year and significantly higher than what was anticipated in the budget. The increase relates almost entirely to an environmental provision associated with the portfolio of real estate property being prepared for sale. This estimate, which increased by $10.6 million in 2006, was not anticipated in the budget. Compared to 2005, the environmental expense increased by $8.2 million and was offset by a positive variance to property management costs that are decreasing as properties are sold.

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

Other expenses include the BCRC administration office expenses, the Captive insurance and administration costs, and the amortization of the railway assets under lease to CN Rail. The 2006 expenses were slightly better than budget and lower than 2005 due to overall reductions in administrative expenses and a one-time asset impairment charge of $2.7 million which was recorded in 2005.

Other Income

Other income includes financing income and the gain on disposal of assets. The gain on disposal of assets relates mainly to the sale of surplus real estate assets. A total of 40 parcels of land and seven buildings were sold during 2006 for net proceeds of $84.5 million resulting in a total gain of $63.7 million. Fewer property sales than anticipated were completed during the year due to the significant amount of work required for the subdivision process and preparing the properties for sale. Many of these issues are beyond management's control, however, management anticipates that the remaining properties will be sold by the end of 2008.

Net interest income of $6.4 million was earned during the year as compared to $1.2 million in 2005 and a 2006 budget of $2.0 million. The positive variance is due to both higher interest rates and timing of capital expenditures. The 2006 budget for capital expenditures was originally $62.3 million of which $43.4 million was delayed to 2007. Of the total amount delayed, $13.6 million relates to Vancouver Wharves where most of the significant capital projects were suspended pending resolution of the transaction to transfer its operations to a new operator, and $25.9 million relates to BCR Properties subdivision costs which have been delayed to 2007 due to the timing of the subdivision process.

Discontinued Operations

In 2004 and 2005, the Company's mandate was to discontinue substantially all operations and therefore the Company did not adopt discontinued operations disclosures. During 2006, its mandate was modified and the Company now plans to continue owning and managing certain port-related assets. Discontinued operations disclosures are now appropriate for Vancouver Wharves which will be transferred to a new operator after the transaction closes.

The income from discontinued operations is as follows:

($ thousands)	2006 Actual	2005 Actual (restated)	Year Variance	2006 Budget (restated)	Budget Variance
Revenues	46,742	44,560	2,182	43,777	2,965
Operting expenses	(35,247)	(39,382)	4,135	(30,989)	(4,258)
Asset impairment charge	-	(15,225)	15,225	(15,077)	15,077
Gain on disposal of assets	600	3	597	-	600
Net interest	581	295	286	-	581
Net income	**12,676**	**(9,749)**	**22,425**	**(2,289)**	**14,965**

Net income from discontinued operations increased by $22.4 million as compared to 2005. The increase primarily relates to the asset impairment charge of $15.2 million which was recorded in 2005. Revenues were higher than 2005 due to the resolution and collection of a long-outstanding account receivable in the amount of $2.1 million which had been fully provided for in past years. Finally, Vancouver Wharves experienced a decrease in operating expenses relating to environmental, amortization and overall cost efficiencies. The positive budget variance related to the impairment charge which was budgeted but not required in 2006.

Disposal of Assets

The Company has been preparing non port-related surplus real estate assets for sale. Once ready, these assets are classified as held for sale on the balance sheet. At the end of the year, BCRC had assets with a book value of $11.3 million classified as available for sale. The remaining assets, although being prepared for sale, do not meet the requirements under Canadian Generally Accepted Accounting Principles for separate presentation therefore they continue to be included with Property and Equipment.

Liquidity and Capital Resources

As a result of its ownership by the Province of British Columbia, BCRC is not able to obtain financing through the issuance of new equity. All capital resources, both sustaining and growth or investment capital, must be generated out of retained earnings, or, where there is a shortfall, through debt.

The Company's year-end cash position increased by $88.4 million in 2006 primarily due to proceeds received on property sales of $84.5 million. Cash provided from operating activities, both continuing and discontinued, was $22.3 million and the total spent on capital expenditures was $18.9 million.

With the current plan to dispose of the remaining non port-related real estate properties and the impact of the anticipated transaction for the operations of Vancouver Wharves, management anticipates that, along with residual proceeds from the CN Rail transaction, the organization will have sufficient cash to fund disposition, capital and operating activities through the forecast period to 2009.

Historical Financial and Operating Results

Based on the significant changes to the organization since 2004, management believes that historical results from earlier than 2005 would not be meaningful. Comparative results for 2005 have been highlighted earlier in the relevant sections of the annual report.

Financial Forecast

The future goals and objectives for BCRC are included in the 2007 to 2009 Annual Service Plan as follows:

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

The following financial forecast was included in the 2007 to 2009 Annual Service Plan and was based on certain assumptions at the time of its preparation. Events have occurred since the preparation of the 2007 to 2009 Annual Service Plan which may have an impact to the forecast. The assumptions upon which the forecast was prepared and any events which may impact the forecast are discussed below. The updates are for information purposes and have not been incorporated into the current forecast.

- The new operating arrangement for Vancouver Wharves was assumed to complete on December 31, 2006 for a gain/loss of nil. Capital expenditures relating to the Vancouver Wharves Berth 1 relocation from the PEC site, estimated at $28.5 million in 2007, and the Berth 1 shiploader upgrade (environmental-related), estimated at $15.0 million for 2008, were assumed to remain the responsibility of BCRC.

  Update to forecast: The new operating arrangement is now anticipated to complete during the second quarter of 2007. The timing and final terms of the transaction will likely result in a material change to the forecast as it is expected that the new operator will assume responsibility for the Berth 1 relocation and upgrade costs of $43.5 million.

- BCR Port Subdivision is retained by BCRC into the future and BCRC will fund all capital requirements for additional rail capacity and related infrastructure to support forecast port terminal expansions at Roberts Bank.
- BCR Captive Insurance Co. Ltd. will no longer provide insurance to BCRC and its subsidiaries after 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.

  Update to forecast: BCR Captive will continue to provide insurance to BCRC and its subsidiaries until the Vancouver Wharves transaction is completed, anticipated to be second quarter 2007. This change should not have a material effect on the financial forecast.

- BCR Properties will continue its mandate to dispose of surplus property holdings by the end of 2007. Proceeds on disposal have been estimated based on management's best estimate of the fair market value of the properties.

  Update to forecast: The disposition of surplus real estate will likely continue into 2008 therefore a portion of the gain on disposal of assets will likely be transferred from 2007 to 2008. The amount to be transferred to 2008 is not determinable at this time.

- 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.

Update to forecast: As part of the transaction to transfer Vancouver Wharves to a new operator, it is anticipated that the property lease between Vancouver Wharves and BCR Properties will be cancelled and a new lease put in place. Any change to the lease terms and amount will have an impact on the financial forecast.

- 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.

Based on the above assumptions, the financial forecast through 2009 is as follows:

($ thousands)	2006 Actual	2007 Forecast	2008 Forecast	2009 Forecast
Total revenue	17,554	20,802	15,723	15,723
Operating expenses	24,074	16,036	10,087	10,087
Amortization	8,046	8,167	8,629	9,004
Total expenses	32,120	24,203	18,716	19,091
Operating loss	**(14,566)**	**(3,401)**	**(2,993)**	**(3,668)**
Financing income	6,396	7,044	7,917	8,155
Gain on disposal of assets	63,667	75,447	-	-
Net income from contining operations	**55,497**	**79,090**	**4,924**	**4,787**
Net income from discontinued operations	**12,676**	**-**	**-**	**-**
Net income	**68,173**	**79,090**	**4,924**	**4,787**
Capital expenditures	**18,938**	**65,644**	**19,000**	**2,000**
Retained earnings (deficit)	**(373,160)**	**(294,070)**	**(289,146)**	**(284,359)**
Debt	**-**	**-**	**-**	**-**
FTE's	**79**	**29**	**21**	**21**

Capital expenditures include $34.2 million for BCR Properties site preparation and subdivision costs during 2007, $43.5 million for Vancouver Wharves site upgrade costs during 2007 and 2008, and $6.0 million related to the Port Subdivision Deltaport Berth 3 expansion project in 2008 and 2009. The balance of the capital expenditures relate to smaller capital initiatives.

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 forecast. The only significant capital requirement would be driven by the need to meet expansion obligations at Deltaport.

Forecast Risk and Sensitivities

The forecast is based on certain assumptions regarding the transfer of the Vancouver Wharves operation to a third-party operator. Initially it was assumed that the transaction would complete on December 31, 2006. As a result of an extension to the Vancouver Wharves process, it is unlikely that the transaction will close until the Second Quarter of 2007. The timing and final terms of the transaction could result in a material change to the forecast.

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

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

The amount and timing of capital expenditure on the Port Subdivision may be adjusted as the construction schedule of the Berth 3 expansion project at Deltaport is confirmed and as associated engineering design and cost estimates are completed.

REPORT OF MANAGEMENT

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

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

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

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

Kevin Mahoney, President and Chief Executive Officer

Michael Kaye, C.A., Vice–President Finance and Chief Financial Officer

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AUDITORS' REPORT

To the Lieutenant Governor in Council

Province of British Columbia

We have audited the consolidated balance sheet of British Columbia Railway Company as at December 31, 2006 and the consolidated statement of income and deficit and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Vancouver, Canada

February 16, 2007

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006 and 2005

CONSOLIDATED BALANCE SHEET (in thousands of dollars)

December 31	**2006**	2005
		restated Note 2
ASSETS		
Current		
Cash and cash equivalents	**$ 225,486**	$ 137,067
Accounts receivable	**4,131**	3,782
Materials and other items	**635**	626
Discontinued operations - Note 2(a)	**8,434**	6,005
	238,686	147,480
Assets available for sale	**11,282**	36,976
Property and equipment - Note 4	**309,314**	308,436
Other assets - Note 5	**35,696**	37,022
Discontinued operations - Note 2(a)	**5,959**	1,520
	$ 600,937	$ 531,434
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current		
Accounts payable and accrued liabilities	**$ 6,170**	$ 7,167
Current portion of other liabilities - Note 6	**11,338**	12,901
Discontinued operations - Note 2(a)	**5,957**	5,627
	23,465	25,695
Deferred lease revenue	**281,625**	281,910
Other liabilities - Note 6	**133,772**	129,927
	438,862	437,532
Shareholder's equity		
Share capital - Note 7	**257,688**	257,688
Contributed surplus	**277,547**	277,547
Deficit	**(373,160)**	(441,333)
	162,075	93,902
	$ 600,937	$ 531,434

Commitments - Note 8
Contingent liabilities - Note 9

See accompanying notes to the consolidated financial statements.

On behalf of the Board

Director

Director

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006 and 2005

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

For the years ended December 31	2006	2005
		restated Note 2
Revenues	**$ 17,554**	$ 24,387
Expenses		
Labour costs	**4,038**	4,197
Operations and maintenance	**3,768**	4,693
General and administration	**3,321**	5,386
Amortization	**8,046**	10,715
Environmental costs	**11,300**	1,845
Operating and other taxes	**1,647**	2,419
Asset impairment write-down	**-**	4,263
	32,120	33,518
Operating income (loss)	**(14,566)**	(9,131)
Other income (expenses)		
Gain on property sales	**63,667**	9,885
CN Transaction - Note 3	**-**	(5,602)
Net interest income - Note 10	**6,396**	1,186
Income (loss) from continuing operations	**55,497**	(3,662)
Income (loss) from discontinued operations - Note 2(a)	**12,676**	(9,749)
Net income (loss)	**68,173**	(13,411)
Deficit, beginning of year, as previously reported	**(467,510)**	(432,085)
Adjustment to amortization expense - Note 2(b)	**4,996**	4,163
Adjustment to asset impairment write-down - Note 2(b)	**21,181**	-
Deficit, beginning of year, restated	**(441,333)**	(427,922)
Deficit, end of year	**$ (373,160)**	$ (441,333))

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (in thousands of dollars)

For the years ended December 31	2006	2005
		restated Note 2
Operating activities		
Income (loss) from continuing operations	**$ 55,497**	$ (3,662)
Adjustment for items not involving cash		
Gain on property sales	**(63,667)**	(9,885)
Loss on land donation	**-**	21
CN Transaction - Note 3	**-**	5,602
Amortization of property and equipment	**8,046**	10,715
Amortization of other assets and liabilities	**(765)**	(1,249)
Pension and post employment benefit income and contributions - Note 11	**1,054**	2,850
Accretion of asset retirement obligation	**2,259**	2,527
Asset impairment write-down	**-**	4,263
Change in environmental liability accrual	**10,658**	4,357
Net change in non-cash working capital - Note 12(a)	**(1,416)**	(10,333)
Cash provided by operating activities	**11,666**	5,206
Investing activities		
Purchase of property and equipment	**(14,493)**	(11,502)
Net proceeds on sale of property and equipment	**84,518**	17,597
Insurance deposits received from reinsurer	**-**	26,263
Proceeds from lease modification - Note 6(a)	**-**	10,800
Changes in other assets	**517**	837
Cash provided by investing activities	**70,542**	43,995
Increase in cash and cash equivalents	**82,208**	49,201
Cash provided by discontinued operations	**6,211**	2,788
Cash and cash equivalents, beginning of year	**137,067**	85,078
Cash and cash equivalents, end of year	**$ 225,486**	$ 137,067

See accompanying notes to the consolidated financial statements.

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

The Company owns the former BC Rail right-of-way and railway track infrastructure and leases those assets to Canadian National Railway Company ("CN") for the purposes of operating a freight railway. Consistent with the government's Ports Strategy and Pacific Gateway Strategy, BCRC has retained ownership of the Port Subdivision operation, which provides open, neutral rail access to the port terminals at Roberts Bank and, through its subsidiary BCR Properties Ltd., has retained ownership of certain port-related lands.

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

1. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of consolidation

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

Use of estimates

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

Cash and cash equivalents

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

Inventories

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

December 31, 2006 (tabular amounts in thousands of dollars)

SIGNIFICANT ACCOUNTING POLICIES (continued…)

Property and equipment

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

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

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

	Number of Years
Buildings	30 - 40
Railway assets:	
Grade	100
Rail, ties and ballast	25 - 35
Equipment	3 - 20

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

Discontinued operations

The Company's mandate during 2005 was to discontinue substantially all operations and therefore the Company did not adopt discontinued operations disclosures. During fiscal 2006 the mandate was modified and the Company now plans to continue owning and managing certain port related lands. Discontinued operations disclosures are now considered meaningful. As described in Note 2, the Vancouver Wharves operations are in the process of being disposed and therefore have been separately reported as discontinued operations on the balance sheet and statement of operations. The 2005 amounts have been reclassified on a comparative basis.

Assets available for sale

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

Deferred lease revenue

A portion of the Company's long-term lease of its railway right-of-way land and railbed assets including grade and ballast has been accounted for as an operating lease. The operating lease payments have been prepaid, therefore the amount has been included in deferred revenue and is being amortized to income over 990 years.

Revenue recognition

Rail freight revenues and associated movement costs are recognized as the service is performed. Terminal revenues are recognized when services have been substantially completed. Rental income is recognized as earned. All revenues are recognized when the collectibility is reasonably assured.

SIGNIFICANT ACCOUNTING POLICIES (continued…)

Post employment benefits

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

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

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

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

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

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

Income taxes

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

Environmental expenditures and liabilities

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

Asset retirement obligation

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

December 31, 2006 (tabular amounts in thousands of dollars)

2. REVISION OF PRIOR YEAR ACCOUNTING TREATMENT

(a) Discontinued operations

In May 2006, the Company entered into a formal plan to transfer or sell the operations of its port terminal facility, Vancouver Wharves Limited Partnership ("VWLP"). It is anticipated that a transaction will complete during the second quarter of 2007 and that the operating assets of the business will be sold, the operating liabilities will be assumed, and the land upon which VWLP operates will be transferred to a new operator via a long-term lease arrangement. The Company will be retaining the environmental obligations described in note 9 (a) and (b). The Company is not expecting a loss on the transaction.

The Company's share of the assets, liabilities and revenues and expenses have been reclassified to discontinued operations for the years ended December 31, 2006 and 2005 as follows:

	2006	2005
Balance sheet		
Current assets	**$ 8,434**	$ 6,005
Capital assets	**5,959**	1,520
Current liabilities	**(5,957)**	(5,627)
Net assets of discontinued operations	**$ 8,436**	$1,898
Statement of income		
Revenues	**$ 46,742**	$ 44,560
Expenses	**(35,247)**	(39,382)
Asset impairment write-down	**-**	(15,225)
Gain on disposal of assets	**600**	3
Net interest	**581**	295
Net income (loss) from discontinued operations	**$ 12,676**	$ (9,749)

(b) 2005 asset impairment write-down and amortization adjustment

During fiscal 2005 the Company recognized an impairment charge related to its wharf assets, to write them down to their estimated fair value. During a subsequent review it was determined that $21.2 million of the charge related to retirement costs for land was not required. Additionally it was determined that accumulated amortization expense of $5.0 million previously recorded on the retirement cost should not have been recognized. Accordingly the financial statements for 2005 have been restated to reduce the impairment charge by $21.2 million and amortization expense by $0.9 million with a corresponding increase in property and equipment of $26.2 million and decrease of the January 1, 2005 accumulated deficit of $4.1 million.

December 31, 2006 (tabular amounts in thousands of dollars)

3. CN TRANSACTION

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

(a) On July 14, 2004, BCRC and BCR Properties Ltd. completed a transaction with Canadian National Railway Company (CN) pursuant to an agreement signed between the parties on November 25, 2003 (the "CN Transaction"). Under the terms of the agreement, CN assumed the Company's industrial freight railway business by purchasing the shares of BC Rail Ltd., the partnership interests of BC Rail Partnership and railcars from a related entity (collectively "BC Rail").

(b) BCRC and BC Rail Partnership entered into a Revitalization Agreement, under which BC Rail Partnership leased the railway right-of-way land, railbed assets, and related track infrastructure from BCRC under a long-term lease. BC Rail Partnership prepaid all lease payments under the Revitalization Agreement. The lease of certain items included in railbed assets is being accounted for as an operating lease. The lease of the remaining railbed assets and track infrastructure has been treated as a capital lease. As a result of the CN Transaction, the Revitalization Agreement was assumed by CN.

(c) As provided for in the Revitalization Agreement, certain aspects of the transaction were finalized in fiscal 2005 and as a result a $5.6 million reduction in the gain was recorded.

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

4. PROPERTY AND EQUIPMENT

	2006			2005		
	Cost	**Accumulated Amortization**	**Net**	Cost	Accumulated Amortization *restated Note 2*	Net
Assets under operating lease	**$ 621,412**	**$ 397,175**	**$ 224,237**	$ 620,823	$ 390,728	$ 230,095
Land	**44,273**	**-**	**44,273**	44,585	-	44,585
Buildings	**10,738**	**2,299**	**8,439**	10,612	1,840	8,772
Railway assets	**31,508**	**15,647**	**15,861**	31,524	15,060	16,464
Equipment and leasehold improvements	**3,588**	**1,470**	**2,118**	3,487	1,141	2,346
Construction in progress	**14,386**	**-**	**14,386**	6,174	-	6,174
	$ 725,905	**$ 416,591**	**$ 309,314**	$ 717,205	$ 408,769	$ 308,436

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

December 31, 2006 (tabular amounts in thousands of dollars)

5. OTHER ASSETS

	2006	2005
Accrued pension benefit asset - Note 11(a)	**$ 12,600**	$ 13,672
Mortgage receivable	**8,156**	8,636
Deferred property transfer tax	**8,985**	8,994
Long-term notes receivable from CN	**5,877**	5,552
Other	**78**	168
	$ 35,696	$ 37,022

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

(b) Deferred property transfer tax arose as part of the CN Transaction described in Note 3(b). The cost is being amortized over the lease term of 990 years.

(c) Intercompany debt, which was previously owed by BC Rail Ltd. and BC Rail Partnership to related entities, was restructured and assumed by CN on July 14, 2004. The face value of the debt is $823.6 million. At the time of the restructuring, the fair value of the debt was $5 million. On July 14, 2004, the Company recorded a long-term receivable from CN at the fair value. The note receivable is non-interest bearing, is due on July 12, 2094 and is accreted each year to its ultimate face value.

6. OTHER LIABILITIES

	2006	2005
Environmental liability accrual - Note 9	**$ 89,102**	$ 78,444
Asset retirement obligation	**43,565**	41,192
Deferred revenue from lease modification	**-**	10,615
Deferred gain on sale of real estate	**9,168**	9,168
Accrued non-pension benefit obligation - Note 11(a)	**1,105**	1,123
Other	**2,170**	2,286
	145,110	142,828
Less current portion	**(11,338)**	(12,901)
	$ 133,772	$ 129,927

(a) Asset retirement obligation

	2006	2005
Opening asset retirement obligation	**$ 41,192**	$ 34,285
Addition of obligation on VPA water lot lease	**-**	3,678
Increase in estimate for site-wide remediation	**114**	702
Accretion expense on obligation	**2,259**	2,527
Ending asset retirement obligation	**$ 43,565**	$ 41,192
Discount rate	**4.5%**	4.5%
Inflation	**2.5%**	2.5%

Although the ultimate amount to be incurred is uncertain, the liability for retirement and remediation, on an undiscounted basis, before applying an inflation factor of 2.5% is estimated to be approximately $84.4 million (2005 - $80.4 million).

December 31, 2006 (tabular amounts in thousands of dollars)

OTHER LIABILITIES (continued…)

(b) During 2005, the Company renegotiated a lease with the Vancouver Port Authority (VPA) in exchange for a non refundable payment of $10.8 million which was being amortized over the remaining 29 years of the lease. In conjunction, a purchase and sale agreement was signed with VPA for a future date based on certain conditions. The sale of the leased property was completed in March 2006 and the unamortized balance of the prepayment recognized as income in 2006.

(c) The deferred gain on sale of real estate relates to property sold in 2004 in exchange for a mortgage (note 5(a)). The deferred gain will be recognized as income once the Company has received more than 15% of the total proceeds, which is expected to occur in fiscal 2007. The deferred gain has accordingly been recorded as a current liability as at December 31, 2006.

7. SHARE CAPITAL

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

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

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

8. COMMITMENTS

The following is a schedule of future minimum payments at December 31, 2006, required under non-cancelable operating leases:

	Continuing operations	Discontinued operations	Total
2007	$ 300	$ 1,341	$ 1,641
2008	300	559	859
2009	150	176	326
2010	-	28	28
2011	-	-	-
	$ 750	$ 2,104	$ 2,854

At December 31, 2006, the Company had outstanding purchase commitments for construction in progress relating to discontinued operations of $0.7 million (2005 - $0.6 million).

9. CONTINGENT LIABILITIES

The Company is contingently liable with respect to pending litigation and claims arising in the normal course of business. Provisions have been made based on the best estimates of management with the information available. Estimates will be adjusted in the period that additional information becomes available.

(a) The Company leases a portion of its property used in its terminal operations in North Vancouver from Canada Lands Company Limited (“CLCL”). The Company received a notice of default on its lease from CLCL on February 6, 2003. The current lease with CLCL expired April 11, 2004 and CLCL has advised the Company that, based on the alleged defaults under the lease, it had no right to renew the lease. The Attorney General of Canada and CLCL filed a Petition on August 6, 2004 seeking a writ of possession of the leased lands. Vancouver Wharves Ltd. and BCRC carrying on business as VWLP and VWLP, and BC Rail Ltd. are named as respondents in the Petition. The Petition was

CONTINGENT LIABILITIES (continued…)

scheduled to be heard by the court in a proceeding commencing October 23, 2006, but the hearing has been deferred to November 19, 2007. In the event that the lease is not renewed, the Company is reviewing plans to reconfigure the site and continue operations. The site reconfiguration costs are currently estimated to be $34.3 million. Under a proposed transaction to transfer the VWL operations to a new operator, if the reconfiguration proceeds, it would be financed by the new operator.

(b) On June 14, 2002, the Attorney General of Canada commenced legal proceedings in the B.C. Supreme Court against Vancouver Wharves Ltd. (formerly BCR Marine Ltd.), BC Rail Ltd., BCR Properties Ltd., British Columbia Wharves Ltd., CSCL, BCRC carrying on business as VWLP and VWLP, alleging that those entities are responsible for soil and groundwater contamination on a site adjacent to the VWLP operation and in Burrard Inlet adjacent to that property as included in the lease described in (a) above. The Attorney General has not filed a Statement of Claim or quantified the damages claimed. The Company has been advised that approximately $24.2 million (2005 - $20 million) has been spent to date by the landlord in remediating the site. The parties are currently assessing remediation options for the site.

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

The Company accrues for both anticipated expenditures on existing environmental remediation programs and contingent liabilities in relation to specific sites where the expected costs can be reasonably estimated.

The Company believes it has identified the costs likely to be incurred over the next several years, based on known information. However, ongoing efforts to identify potential environmental concerns associated with the Company's properties may lead to future environmental investigations, which may result in the identification of additional environmental costs and liabilities, the magnitude of which cannot be reasonably estimated.

(d) The Province and BCRC have provided commercial indemnities to CN with respect to the CN Transaction and indemnities related to income tax attributes of BC Rail at closing. As at December 31, 2006, the maximum present value (calculated at 9%) of amounts payable under the tax indemnities related to income tax attributes (excluding any reimbursement of professional fees, tax arrears, interest or taxes payable, if any, on indemnity payments) is approximately $453 million. These indemnities remain in effect until 90 days after the last date on which a tax assessment or reassessment can be issued in respect of the income tax attributes. Management believes it is unlikely that the Province or BCRC will ultimately be held liable for any amounts under the commercial and tax indemnities.

December 31, 2006 (tabular amounts in thousands of dollars)

10. NET INTEREST INCOME (EXPENSE)

	2006	2005
Interest earned on temporary investments	$ 7,476	$ 2,226
Accretion expense on asset retirement obligation	(2,259)	(2,527)
Other interest income	1,179	1,487
	$ 6,396	$ 1,186

11. EMPLOYEE BENEFITS

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

	Pension Plans		Other Plans	
	2006	2005	2006	2005
Reconciliation of accrued benefit obligation				
Opening balance	$ (17,587)	$ (19,217)	$ (1,002)	$ (766)
Current service cost	(78)	(78)	(7)	(13)
Employee contributions	(8)	-	-	-
Benefits paid	588	406	70	77
Interest cost	(911)	(938)	(51)	(44)
Settlement	-	4,788	-	-
Actuarial gains (losses)	8	(2,548)	15	(256)
Ending balance	(17,988)	(17,587)	(975)	(1,002)
Reconciliation of plan assets				
Opening balance	22,112	25,026	-	-
Actual return on plan assets	921	1,339	-	-
Employer contributions	67	1,124	70	77
Employee contributions	8	7	-	-
Settlement	-	(4,978)	-	-
Benefits	(588)	(406)	(70)	(77)
Ending balance	22,520	22,112	-	-
Fund status - surplus (deficit)	4,532	4,525	(975)	(1,002)
Unamortized past service costs	1,816	2,018	-	-
Unamortized transitional obligation	-	497	-	-
Unamortized net actuarial loss (gain)	6,252	6,632	(130)	(121)
Accrued benefit asset (liability)	$ 12,600	$ 13,672	$ (1,105)	$ (1,123)

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

	Pension Plans		Other Plans	
	2006	2005	2006	2005
Discount rate for liabilities	5.25%	5.25%	5.25%	5.25%
Expected long-term rate of return on plan assets	7.0% / 3.5%	7.0% / 3.5%	-	-
Salary escalation rate	2.5% / N/A	2.5% / N/A	-	-

December 31, 2006 (tabular amounts in thousands of dollars)

EMPLOYEE BENEFITS (continued…)

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

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

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

	Pension Plans		Other Plans	
	2006	2005	**2006**	2005
Current service cost	**$ 78**	$ 72	**$ 7**	$ 13
Interest cost	**911**	938	**51**	44
Actual return on plan assets	**(804)**	(805)	**-**	-
Amortization of transitional asset	**497**	498	**-**	-
Plan amendments	**202**	202	**-**	-
Plan settlement loss	**-**	2,553	**-**	-
Net actuarial loss (gain)	**255**	554	**(6)**	(19)
	$ 1,139	$ 4,012	**$ 52**	$ 38

(d) VWLP is a member of the British Columbia Maritime Employers Association ("BCMEA"). The organization has unfunded liabilities for retiring allowances of $26.2 million (2005 - $26.3 million). Due to the transient work force, it is not practical to allocate these liabilities to the individual companies but rather, the organizations will recover required funding based on hours worked. In 2006, VWLP's share of the total paid by the Waterfront Employers of BC in longshore and foreman wages was approximately 2.9% (2005 – 3.3%).

12. STATEMENT OF CASH FLOWS – SUPPLEMENTAL INFORMATION

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

	2006	2005
Accounts receivable	**$ (349)**	$ 16,611
Inventories and other items	**(36)**	2,809
Accounts payable and accrued liabilities	**(1,031)**	(29,753)
	$ (1,416)	$ (10,333)

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

	2006	2005
Interest received from third parties	**$ 8,330**	$ 2,809
	$ 8,330	$ 2,809

13. FINANCIAL INSTRUMENTS

The Company's financial instruments include cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities. The carrying amounts approximate fair value due to their immediate or short-term maturity.

14. COMPARATIVE FIGURES

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

GOVERNANCE

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

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

There are currently three standing committees of the Board:

Audit, Finance and Risk Management Committee
Members: Brian G. Kenning (Chair), Bev A. Briscoe

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

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

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

Human Resources, Governance and Nominating Committee
Members: Len S. Marchand (Chair), John R. McLernon

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

BCRC's officers:

Kevin Mahoney, President and Chief Executive Officer
Michael Kaye, C.A., Vice President Finance and Chief Financial Officer
John Lusney, President, BCR Properties Ltd.
Gordon Westlake, Vice President Operations and Corporate Affairs
Shelley Westerhout Hardman, Manager Administration and Corporate Secretary

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

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

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

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

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

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

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

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