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BRITISH COLUMBIA RAILWAY COMPANY

STATEMENT OF FINANCIAL INFORMATION

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Consolidated Financial Statements

BRITISH COLUMBIA RAILWAY COMPANY

December 31, 2008

KPMG LLP
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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, 2008 and the consolidated statement of income and comprehensive income and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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, 2008 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

Vancouver, Canada

February 11, 2009

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2008 and 2007

CONSOLIDATED BALANCE SHEET (in thousands of dollars)

December 31	2008	2007
ASSETS		
Current		
Cash and cash equivalents	**$ 306,155**	$ 267,464
Accounts receivable	**6,487**	5,739
Materials and other items	**440**	259
	313,082	273,462
Assets available for sale	**15,747**	16,718
Property and equipment - Note 5	**280,449**	282,733
Other assets - Note 6	**76,841**	82,420
	$ 686,119	$ 655,333
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current		
Accounts payable and accrued liabilities	**$ 3,960**	$ 10,932
Current portion of other liabilities - Note 7	**2,054**	2,375
	6,014	13,307
Deferred lease revenue - Note 7	**308,160**	309,561
Other liabilities - Note 8	**123,642**	121,850
	437,816	444,718
Shareholder's equity		
Share capital - Note 10	**$ 257,688**	$ 257,688
Contributed surplus	**277,547**	277,547
Deficit	**(286,932)**	(324,620)
	248,303	210,615
	$ 686,119	$ 655,333

Commitments - Note 11
Contingent liabilities - Note 12

See accompanying notes to the consolidated financial statements.

On behalf of the Board

Director

Director

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2008 and 2007

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

For the years ended December 31	2008	2007
Revenues	$ 23,759	$ 18,185
Expenses		
Labour costs	3,604	3,951
Operations and maintenance	6,324	7,280
General and administration	3,524	5,860
Amortization of property and equipment	4,300	4,113
Environmental costs	3,101	10,368
Operating and other taxes	984	2,006
Accretion expense	1,521	1,862
	23,358	35,440
Operating income (loss)	401	(17,255)
Other income		
Gain on property sales	27,259	19,801
Interest income - Note 13	10,028	12,597
Income from continuing operations	37,688	15,143
Income from discontinued operations - Note 2	-	4,416
Net income and comprehensive income	37,688	19,559
Deficit, beginning of year, restated	(324,620)	(344,179)
Deficit, end of year	$ (286,932)	$ (324,620)

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (in thousands of dollars)

For the years ended December 31	2008	2007
Operating activities		
Income from continuing operations	**$ $37,688**	$ 15,143
Adjustment for items not involving cash		
Gain on property sales	**(27,259)**	(19,801)
Amortization of property and equipment	**4,300**	4,113
Amortization of deferred lease revenue	**(999)**	(1,035)
Acretion income on long term notes receivable	**(399)**	-
Pension and post employment benefit income and contributions - Note 9	**289**	661
Accretion of asset retirement obligation	**1,521**	1,862
Change in environmental liability accrual	**(95)**	3,911
Increase in long term receivable	**(2,200)**	-
Net change in non-cash working capital - Note 14(a)	**(8,222)**	4,212
Cash provided by operating activities	**4,624**	9,066
Investing activities		
Purchase of property and equipment	**(9,929)**	(20,357)
Net proceeds on sale of property and equipment	**36,293**	14,497
Net proceeds from Kinder Morgan transaction - Note 2	**-**	34,239
Net proceeds received on mortgage receivable	**7,676**	-
Changes in other assets	**27**	(1,810)
Cash provided by investing activities	**34,067**	26,569
Increase in cash and cash equivalents from continuing operations	**38,691**	35,635
Cash provided by discontinued operations	**-**	6,343
Cash and cash equivalents, beginning of year	**267,464**	225,486
Cash and cash equivalents, end of year	**$ 306,155**	$ 267,464

See accompanying notes to the consolidated financial statements.

Non-cash transactions:		
Increased VWLP pension allocated to deferred revenue	**$ 402**	$ -

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 and marine terminal management.

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.

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 that are not required to meet the Pacific Gateway Strategy 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, and its subsidiaries. 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 relate to the determination of net recoverable value of receivables, property and equipment, assets available for sale, useful lives for amortization and provisions for post employment benefits, contingencies and environmental matters. Actual amounts may ultimately differ from these estimates. The estimates are reviewed periodically and as adjustments become necessary, they are reported in earnings in the year in which they become known.

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.

Materials and supplies

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

Property and equipment

Property and equipment are recorded at cost less accumulated amortization. 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 assesses the value of its property and equipment for impairment when events and changes in circumstances indicate the carrying amount may not be recoverable. When such 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 on a straight line basis over the following number of years (see note 5):

	Number of Years
Buildings	30 - 40
Equipment	3 - 20
Assets under operating lease - Ballast & culverts	75
- Tracklaying and surfacing	35

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

Assets available for sale

The Company is preparing non port-related and non-rail real estate assets for sale and once ready, the assets are reclassified as held for sale and no longer depreciated. The assets are measured at the lower of cost and net realizable value, which is the estimated proceeds less costs to sell.

Joint Capital Account

The Company has invested in railway assets for its BCR Port Subdivision operation. An agreement between the Company and the three user railways requires the Company to maintain a separate account of the invested costs (the "Joint Capital Account") as the costs will be reimbursed by the user railways in proportion to their use of the track at the time that the assets are retired or when the operation ceases to exist. The portion of the Joint Capital Account relating to land has been accounted for as an operating lease and included in property and equipment and the balance accounted for as direct financing leases is included in other assets as the Joint Capital Account Receivables to be collected upon retirement or cessation of operations.

Discontinued operations

As described in Note 2, the Company completed a transaction in May 2007 to sell the operating assets and transfer the operations of their subsidiary, Vancouver Wharves, to a new operator. The operating results of Vancouver Wharves to the date of the transaction have been reported separately as discontinued operations on the statement of operations.

Deferred lease revenue

The Company has two long-term lease arrangements currently in effect:

a) An operating lease related to the Company's long-term lease of its railway right-of-way land and railbed assets including grade and ballast as a result of the CN transaction in 2004 which is being amortized over 990 years. (see Note 3)

b) A lease with Kinder Morgan Canada Terminals ULC ("KM") is for the land upon which the Vancouver Wharves terminal facility operates which is being amortized over 40 years (see Note 2).

Both operating leases were prepaid therefore the amounts have been included in deferred revenue and are being amortized to income over the related terms of each lease.

Revenue recognition

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

Post employment benefits

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

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

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

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

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

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

Income taxes

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

Environmental expenditures and liabilities

Environmental expenditures that relate to current operations or an existing condition caused by past operations and which are not expected to contribute to current or future operations are expensed as part of operating activities. 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 the fair value of a future asset retirement obligation as a liability in the period in which it incurs a legal or constructive obligation associated with the retirement of tangible long-lived assets that results from the acquisition, construction, development, and/or normal use of the assets. The Company concurrently recognizes a corresponding increase in the carrying amount of the related long-lived asset that is depreciated over the life of the asset. The fair value of the asset retirement obligation is estimated using the expected cash flow approach that reflects a range of possible outcomes discounted at a credit-adjusted risk-free interest rate. Subsequent to the initial measurement, the asset retirement obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. Changes in the obligation due to the passage of time are recognized in income as accretion expense using the interest method. Changes in the obligation due to the changes in estimated cash flows are recognized as an adjustment of the carrying amount of the related long-lived asset that is depreciated over the remaining life of the asset.

Financial Instruments

Commencing January 1, 2008 the Company adopted the recommendations of the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3862 Financial Instruments – Disclosures, Section 3863 Financial Instruments – Presentation, and Section 1535 - Capital Disclosures.

a) Disclosures

CICA Handbook Section 3862, Financial Instruments – Disclosures, requires entities to provide disclosures in their financial statements that enable users to evaluate the significance of financial instruments for the entity's financial position and performance, the nature and extent of risks arising from financial instruments to which the entity is exposed during the year and at the balance sheet date, and how the entity manages those risks.

CICA Handbook Section 3863, Financial Instruments - Presentation, carries forward the former presentation requirements included in CICA Handbook Section 3861.

CICA Handbook Section 1535 establishes standards for disclosing information about an entity's capital and how it is managed, including disclosure of any externally imposed capital requirements, whether the entity has compiled with them, and if not, the consequences.

b) Recognition and Measurement

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

Derivative instruments are recorded as either assets or liabilities measured at their fair value except when considered a normal purchase and sale arrangement. Certain derivatives embedded in other contracts must also be measured at fair value. All changes in the fair value of derivatives are recognized in earnings unless specific hedge accounting criteria are met, which requires that a company must formally document, designate and assess the effectiveness of transactions that receive hedge accounting.

c) Comprehensive Income

Comprehensive income is defined as the change in shareholders' equity during a period from transactions and other events and circumstances from non-owner sources. Gains and losses that would otherwise be recorded as part of net earnings to be presented in other "comprehensive income" until it is considered appropriate to recognize such into net earnings.

The Company has classified cash and cash equivalents as held-for-trading. Amounts receivable are classified as loans and receivables. Accounts payable and accrued liabilities and other liabilities are classified as other payables. The Company has not identified any derivatives or embedded derivatives.

2. KINDER MORGAN TRANSACTION

On May 30, 2007, BCRC and its subsidiaries, Vancouver Wharves Limited Partnership "(VWLP") and BCR Properties Ltd. ("BCRP") completed a transaction with KM pursuant to an agreement signed on April 3, 2007. Under the terms of the agreement, KM assumed the operations of VWLP's port terminal facility by acquiring certain operating assets from VWLP and signing a 40-year non-renewable operating lease with BCRP for the land upon which VWLP operates. Cash proceeds of $40 million were received on the transaction.

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

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

Environmental obligations relating to the land adjacent to the main VWLP site which is leased from Canada Lands Company Limited (Note 12 (a) and (b)) will be retained by the Company. KM will however be responsible for the future cost of moving certain operations from the adjacent land to the main site.

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

December 31, 2008 (tabular amounts in thousands of dollars)

KINDER MORGAN TRANSACTION (continued…)

		2007
Statement of income		
Revenues	$	15,741
Expenses		(11,586)
Gain on disposal of assets		191
Net interest income		70
Net income from discontinued operations	$	4,416

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 BCRP completed a transaction with 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 entered into a Revitalization Agreement, under which BC Rail leased the railway right-of-way land, railbed assets, and related track infrastructure from BCRC under a long-term lease, which contains provision for prospective adjustments. BC Rail prepaid all lease payments under the Revitalization Agreement. The lease of the right of way land and railbed assets is being accounted for as an operating lease. The lease of the track infrastructure and equipment has been treated as a capital lease. As a result of the CN Transaction, the Revitalization Agreement was assumed by CN.

(c) As part of the CN Transaction, CN committed to certain average transit times for rail traffic on the BC Railway system. Breach of the transit time commitments results in penalty payments required to be made by CN dedicated to upgrades of the BC railway system to improve reliability and transit times for the railway users. As at December 31, 2008, the trust fund held $1.6 million (2007 - $1.1 million) in CN penalty payments, which are not recognized in these financial statements.

4. FINANCIAL INSTRUMENTS

Risk management

In the normal course of business, the Company is exposed to various risks such as credit risk, commodity price risk, interest rate risk, and liquidity risk. To manage these risks, the Company follows a financial risk management framework, which is monitored and approved by the Company's Audit Committee, with a goal of maintaining a strong balance sheet, optimizing earnings and free cash flow, financing its operations at an optimal cost of capital and preserving its liquidity. The Company has no involvement with derivative financial instruments in the management of its risks and does not use them for trading purposes. At December 31, 2008, the Company did not have any derivative financial instruments outstanding.

(a) Credit risk

In the normal course of business, the Company monitors the financial condition and credit limits of its customers and reviews the credit history of each new customer. Although, the Company believes there are no significant concentrations of credit risk, except as discussed specifically below, the current economic conditions in the market have resulted in an increase in the Company's credit risk. To manage its credit risk, the Company's focus is on working with customers to ensure timely payments, and requiring increased financial security through guarantees or letters of credit.

$53 million (84%) of the Company's receivables are due from CN Rail, CP Rail, and Burlington Northern. The recovery of these amounts will be based on the relative usage by the railroads at the time the assets are retired.

(b) Interest rate

The Company is exposed to interest rate risk, which is the risk that the fair value or future cash flows of a financial instrument will vary as a result of changes in market interest rates. Such risk exists in relation to the funded status of the Company's pension and postretirement plans and to its money market instruments. A 100 bps change to interest rates on the money market instruments would have an impact of $2.8 million on the Company's income statement

The Company does not currently hold any derivative financial instruments to manage its interest rate risk.

(c) Liquidity risk

The Company monitors and manages its cash requirements to ensure access to sufficient funds to meet operational and investing requirements. The Company pursues a solid financial policy framework with the goal of maintaining a strong balance sheet, by monitoring its current ratio, and free cash flow forecasts.

The Company's principal source of liquidity is cash generated from the disposal of non-core assets. The Company's primary uses of funds are for working capital requirements, as they come due, pension and post retirement benefit contributions, contractual obligations, capital expenditures on to prepare properties for sale and other potential acquisitions. As such, the Company sets priorities on its uses of available funds based on short-term operational requirements, while keeping in mind its long-term contractual obligations and returning value to its shareholders.

Fair value of financial instruments

Generally accepted accounting principles define the fair value of a financial instrument as the amount at which the instrument could be exchanged in a current transaction between willing parties. The Company uses the following methods and assumptions to estimate the fair value of each class of financial instruments for which the carrying amounts are included in the Consolidated Balance Sheet under the following captions:

(a) Cash and cash equivalents, Accounts receivable, Accounts payable and accrued liabilities:

The carrying amounts approximate fair value because of the short maturity of these instruments.

(b) Other assets:

i) Joint Capital Account Receivables – these receivables generate interest at current market terms for instruments with similar terms and conditions, therefore the fair value approximates the carrying value.

ii) Long Term Note Receivable from CN – the notes are generating an implicit interest rate of 5.75% per annum, which is consistent with instruments with similar terms and conditions, therefore the fair value approximates the carrying value.

December 31, 2008 (tabular amounts in thousands of dollars)

Capital Management

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.

BCRC currently has no debt outstanding and is currently retaining all capital to fund operating costs and disposition costs, for non port related and non-rail real estate properties, capital requirements for additional rail capacity and related infrastructure for port terminal expansions at Roberts Bank. Capital forecasts also includes further provisions for the investment in port development infrastructure projects in support of the BC Ports Strategy and Pacific Gateway Strategy.

No dividend payments are currently being made to the Province.

5. PROPERTY AND EQUIPMENT

	2008			2007		
	Cost	**Accumulated Amortization**	**Net**	Cost	Accumulated Amortization	Net
Assets under operating lease	**$628,921**	**$406,614**	**$222,307**	$628,604	$403,224	$225,380
Land	**28,576**	**-**	**28,576**	20,778	-	20,778
Buildings	**9,544**	**2,935**	**6,609**	10,700	2,842	7,858
Equipment and leasehold improvements	**1,926**	**1,412**	**514**	1,863	1,066	797
Construction in progress	**22,443**	**-**	**22,443**	27,920	-	27,920
	$691,410	**$410,961**	**$280,449**	$689,865	$407,132	$282,733

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

Effective January 1, 2008, the Company changed its estimate of the useful lives of earthwork/grading and ballast. Based on a review of current technical data and comparable industry data, the estimated useful life for ballast was increased from 25 to 75 years and earthwork/grading, which were previously amortized over 90 years are now considered to have indefinite life. These changes have been applied prospectively. The change has had the effect of decreasing depreciation expense by $2.7 million in 2008.

6. OTHER ASSETS

	2008	**2007**
Accrued pension benefit asset - Note 9(a)	**$ 11,575**	$ 11,900
Mortgage receivable - (a)	**-**	7,676
Joint Capital Account receivables - (b)	**46,214**	46,214
Deferred property transfer tax - (c)	**8,966**	8,976
Long-term notes receivable from CN - (d)	**6,610**	6,211
Long-term receivable for environmental services, KM - (e)	**3,462**	1,262
Other	**14**	181
	$ 76,841	$ 82,420

December 31, 2008 (tabular amounts in thousands of dollars)

OTHER ASSESTS (continued…)

(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 was settled on October 15, 2008.

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

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

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

(e) Long term receivable for environmental services from KM – the receivable will be settled through KM's remediation performance at the end of the lease agreement. The return on the receivable is equally matched with the accretion of the associated asset retirement obligation.

7. DEFERRED REVENUE

	2008	2007
CN Operating Lease	**$ 281,055**	$ 281,340
KM Operating Lease	**27,105**	28,221
Deferred rental revenue	**2,054**	2,375
	$ 310,214	$ 311,936
Less current portion	**(2,054)**	(2,375)
	$ 308,160	$ 309,561

8. OTHER LIABILITIES

	2008	**2007**
Environmental liability accrual	**$ 92,918**	$ 93,013
Asset retirement obligation	**29,292**	27,771
Accrued pension benefit liability - Note 9(a)	**607**	205
Accrued non-pension benefit obligation - Note 9(a)	**825**	861
	$ 123,642	$ 121,850

(a) Asset retirement obligations

	2008	**2007**
Opening asset retirement obligations	**$ 27,771**	$ 43,565
Adjustment for change in lease term	**-**	(17,431)
Increase (decrease) in estimate for site-wide remediation	**-**	(225)
Accretion expense on obligation	**1,521**	1,862
Ending asset retirement obligations	**$ 29,292**	$ 27,771
Discount rate	**4.5% - 5.5%**	4.5% - 5.5%
Inflation	**2.5%**	2.5%

The asset retirement obligations have been assumed by KM as part of the transaction described in Note 2. As the Company retains ultimate responsibility for the asset retirement obligations however, they will continue to be reflected in the financial

December 31, 2008 (tabular amounts in thousands of dollars)

OTHER LIABILITIES (continued…)

statements until such time as management is satisfied that KM has completed the remediation work. In 2007, in connection with the proposed KM transaction, the estimate of the obligations was reduced by $17.4 million to reflect the change in the expected timing of future cash flows to be incurred for remediation.

Although the ultimate amount to be incurred is uncertain, the liability for retirement and remediation, on an undiscounted basis, before applying an inflation factor of 2.5% and discounting is estimated to be approximately $88.1 million (2007 - $85.9 million).

9. 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 based on management's assumptions provided to the actuary. The pension plans include a supplementary pension plan for current and retired executives and a pension plan associated with the previous Vancouver Wharves operation.

During 2007 as a result of the KM transaction described in Note 2, the Company began the process to wind up the pension plan related to the Vancouver Wharves operation. The effective date of the wind-up was May 30, 2007, however the wind-up was not formally approved by the Office of the Superintendent of Financial Institutions until February 12, 2009 therefore it continues to be recorded in the Company's financial statements. It is estimated that the Vancouver Wharves pension plan is in a net liability position of $607,000.

	Pension Plans		Other Plans	
	2008	2007	**2008**	2007
Reconciliation of accrued benefit obligation				
Opening balance	**$ (16,400)**	$ (17,988)	**$ (964)**	$ (975)
Current service cost	**-**	(53)	**-**	-
Employee contributions	**-**	(5)	**-**	-
Benefits paid	**521**	401	**81**	78
Interest cost	**(909)**	(932)	**(48)**	(44)
Settlement	**-**	-	**-**	210
Actuarial gains (losses)	**1,250**	2,177	**141**	(233)
Ending balance	**(15,538)**	(16,400)	**(790)**	(964)
Reconciliation of plan assets				
Opening balance	**23,164**	22,520	**-**	-
Actual return on plan assets	**(311)**	997	**-**	-
Employer contributions	**-**	43	**81**	78
Employee contributions	**-**	5	**-**	-
Benefits	**(521)**	(401)	**(81)**	(78)
Ending balance	**22,332**	23,164	**-**	-
Fund status - surplus (deficit)	**6,794**	6,764	**(790)**	(964)
Unamortized past service costs	**1,412**	1,614	**-**	-
Unamortized net actuarial loss (gain)	**2,762**	3,317	**(35)**	103
Net Accrued benefit asset (liability)	**$ 10,968**	$ 11,695	**$ (825)**	$ (861)
BCRC Accrued benefit asset	**11,575**	11,900	**-**	-
Vancouver Wharves accrued benefit liability	**(607)**	(205)	**(825)**	(861)
Net Accrued benefit asset (liability)	**$ 10,968**	$ 11,695	**$ (825)**	$ (861)

December 31, 2008 (tabular amounts in thousands of dollars)

EMPLOYEE BENEFITS (continued…)

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

	Pension Plans				Other Plans	
	2008		2007		**2008**	2007
	BCRC SERP	VW Pension	BCRC SERP	VW Pension		
Discount rate for liabilities	**6.70%**	**4.00%**	5.25%	5.25%	**6.50%**	5.25%
Expected long-term rate of return on plan assets	**3.50%**	**7.000%**	3.50%	7.00%	**-**	-
Salary escalation rate	**N/A**	**N/A**	N/A	N/A	**-**	-

The weighted average rate of increase in the per capita cost of future covered health care benefits was assumed to be 5.00% per year starting in 2014.

The plan asset portfolio currently comprises equity investments and debt. Equity investments are 30%-60% 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	
	2008	2007	**2008**	2007
Current service cost	**$ -**	$ 53	**$ -**	$ -
Interest cost	**909**	932	**48**	48
Actual return on plan assets	**311**	(828)	**-**	-
Plan amendments	**202**	202	**-**	-
Plan curtailment / settlement loss (gain)	**-**	(174)	**-**	-
Amortize actuarial loss (gain)	**(695)**	(762)	**(84)**	1
	$ 727	$ 947	**$ (36)**	$ 49

Every three years, an actuarial valuation is performed to assess the financial position of the Plan and the adequacy of plan funding. The latest full actuarial valuation was carried out at September 30, 2007. For accounting purposes a second actuarial valuation of the benefit obligations was performed at September 30, 2008 using plan asset data at September 30, 2008 to satisfy disclosure requirements under CICA 3461.

10. 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.

11. COMMITMENTS

The following is a schedule of future minimum payments at December 31, 2008, required under non-cancelable operating leases of office equipment and office space:

2009	$ 296
2010	248
2011	248
2012	256
2013	262
Thereafter	153
	$ 1,463

12. CONTINGENT LIABILITIES

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

(a) The Company leases a portion of the property used in the Vancouver Wharves terminal operations in North Vancouver from Canada Lands Company Limited ("CLCL"). The Vancouver Wharves operations were transferred to a new operator in 2007 as described in Note 2, however, the CLCL lease remains with the Company and the new operator has access rights to carry on terminal operations.

On February 6, 2003, the Company received a notice of default on its lease from CLCL. The current lease with CLCL expired April 11, 2004 and CLCL advised the Company that, based on the alleged defaults under the lease, it had no right to renew the lease. The Attorney General of Canada and CLCL filed a Petition on August 6, 2004 seeking a writ of possession of the leased lands. In August 2007, the parties reached Settlement Agreement which sets out the process for vacating the property and the agreed amount of rent owing to the date the site is vacated. The costs of vacating the property as well as any resulting site reconfiguration costs related to the Vancouver Wharves operation have been assumed by the new operator.

(b) On June 14, 2002, the Attorney General of Canada commenced legal proceedings in the B.C. Supreme Court against the Company and its subsidiaries 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. On February 1, 2008, an Agreement in Principle ("AIP") was reached with Environment Canada. The expiry date of the AIP has been extended to August 1, 2009. The AIP will form the basis of the negotiations of a final agreement. Based on the agreement principles, management has estimated and accrued a liability in the financial statements.

(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 has made accruals 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, 2008, 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 $538 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.

13. INTEREST INCOME

	2008	2007
Interest earned on short-term money market instruments	**$ 7,531**	$ 11.414
Other interest income (expense)	**2,497**	**1.183**
	$ 10,028	$ 12,597

14. STATEMENT OF CASH FLOWS - SUPPLEMENTAL INFORMATION

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

	2008	2007
Accounts receivable	**$ (748)**	$ (503)
Materials and other items	**(181)**	376
Accounts payable and accrued liabilities	**(6,972)**	4,134
Deferred revenue	**(321)**	205
	$ (8,222)	$ 4,212

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

	2008	2007
Interest received from third parties	**$ 10,028**	$ 12,597
	$ 10,028	$ 12,597

15. COMPARATIVE FIGURES

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

Schedule of Debts
January 1, 2008 to December 31, 2008

This organization had no third-party long-term debt outstanding during the period.

Schedule of Guarantee and Indemnity Agreements
January 1, 2008 to December 31, 2008

This organization has not given any guarantees under the Guarantees and Indemnities Regulation.

Information on all indemnities for this organization is included in Note 11 to the Financial Statements.

British Columbia Railway Company
Employee Remuneration (including Taxable Benefits) and Expenses
For Individuals Whose Remuneration and Expenses Exceeds $75,000
January 1, 2008 to December 31, 2008

Last Name	First Name	Remuneration	Expenses
Adair	Russell	97,410.80	-
Bevilacqua	Chris	97,361.32	97.00
Brodie	John	137,095.17	995.73
Bryce	John	96,678.19	27.00
Carter	Greg	97,429.02	107.35
Cote	Claire	95,234.55	3,377.66
Dawson	Christopher	87,062.96	51,543.51
Derouin	Richard	84,575.00	-
Lee	Cindy	94,858.84	1,807.25
Lusney	John	234,299.01	35,585.77
MacMillan	Rodney	132,024.00	379.51
Mahoney	Kevin	488,582.17	52,523.39
Miller	Roy	97,500.03	-
Myhill-Jones	Richard	165,827.04	70,262.90
Patrick	Gregory	94,747.02	74.70
Raynard	Grant	86,076.24	-
Roy	Denis	101,928.05	572.11
Salmon	Rodney	80,091.86	41,942.19
Shute	Linda	192,746.52	6,425.58
Solley	Jennifer	80,583.13	2,512.65
Van Hattem	Arnie	115,587.49	17,220.99
Webb	Richard	93,085.04	178.54
Westerhout Hardman	Shelley	108,719.30	2,608.70
Westlake	Gordon	247,801.07	26,931.79
Winters	Tom	165,734.30	6,160.88
Total over $75,000		3,373,038.12	321,335.20
Total under $75,000		413,286.92	1,961.04
		3,786,325.04	323,296.24

British Columbia Railway Company
Statement of Severance Agreements
January 1, 2008 to December 31, 2008

There were no severance agreement made between British Columbia Railway Company and its non-unionized employees during 2008.

As required in the Financial Information Act Guidance Package, payments made under these severance agreements are excluded from the Schedule of Employee Remuneration.

British Columbia Railway Company
Schedule Showing Total Remuneration and Expenses
In Respect of Each Board Member
January 1, 2008 to December 31, 2008

Last Name	First Name	Remuneration	Expenses
McLernon	John	44,300.00	18,560.91
Kenning	Brian	33,050.00	-
Briscoe	Beverley	28,200.00	-
Offet	Gerald	10,500.00	1,419.69
Marchand	Len	24,800.00	3,872.59
McLaren	Dan	9,875.00	4,301.21
Phillips	Robert	24,450.00	1,120.00
Yeates	Jim	23,425.00	-
Total		198,600.00	29,274.40

British Columbia Railway Company
Schedule of Payments Made for the Provision of Goods and Services
Amounts Exceeding $25,000
January 1, 2008 to December 31, 2008

0695980 BC Ltd.	$96,017.60
A & B Rail Services Ltd.	2,864,033.45
Allstar Waterproof & Restorations Systems Ltd.	39,973.50
Alta Lake Electric	48,020.95
Aon Insurance Managers	47,363.02
Ashcroft Treating (a Divsion of Tolko Industries Ltd)	154,492.82
BC Hydro	249,280.51
Blake, Cassels & Graydon LLP	74,181.05
Borden Ladner Gervais LLP	1,630,810.82
Bull Housser & Tupper	511,013.73
Burchell Hayman Parish	147,147.31
Canadian National Railway	642,018.36
CN Non-Freight-Rent	330,261.88
Canadian Pacific Railway Company	27,892.09
Cathay Pacific	32,391.42
City of Prince George	389,675.59
City of Quesnel	32,935.08
City of Surrey	110,182.84
City of Williams Lake	35,960.64
Coastland Engineering & Surveying Ltd.	37,370.79
Corporation Of Delta	474,223.82
Cushman & Wakefield LePage Inc.	64,909.49
District Of Mackenzie	31,216.36
District Of North Vancouver	1,216,506.41
District Of Squamish	320,871.28
Dust Away Road Spraying	30,917.22
EBA Engineering Consultants Ltd.	240,140.87
EMIRATES	37,629.05
Environmental Dynamics Inc.	60,304.04
Exton, Dodge & Galibois	35,429.98
Fasken Martineau DuMoulin LLP	71,564.14
Four River Hardwoods Ltd.	30,000.00
Frontline Software Corp.	52,880.00
GensCorp IT Inc.	588,640.66
Golder Associates Ltd.	32,736.27
Gordon Helgeson	158,035.64
Harder Associates Engineering Consulting	109,477.00
Hatch Mott MacDonald Ltd.	151,661.39
IDL Projects Inc.	4,206,834.26
Iron Mountain	36,370.67
John Hunter Co Ltd	43,366.50
John Leighton	32,208.84
Karen MacWilliam	77,143.50
KARO	34,074.27
Keystone Environmental Ltd.	120,802.32
Kirk & Co Consulting Ltd.	33,130.30
Konecranes Canada Inc.	26,662.45
KPMG LLP	148,425.92
L & M Engineering Limited	835,595.26
Land Title and Survey Authority of BC	120,517.72
Lawson Lundell	69,667.47
Leong & Associates Actuaries and Consultants Inc.	28,418.26
Les Pongracz	140,131.28
Loram Maintenance of Way	62,450.90
Marsh Canada Limited	331,064.00
McElhanney Associates	397,828.24
MMK Consulting Inc.	42,479.60
Morrow Environmental Consultants Inc.	183,344.19
Nancy Spooner Consulting Inc.	39,396.71
Navigata Communications Limited	63,186.68
North Country Appraisals (1985)	696,461.02
Pacific Blue Cross	49,845.76
Pacific Weed Sevices	43,982.41
Pacific Western Helicopters Ltd.	45,944.71
Pauluzzi Appraisals Ltd.	116,082.75
Piteau Associates	1,078,197.10
Pitman Asphalt	45,192.54
PNR RailWorks Inc.	1,100,277.39
Prince Rupert Port Authority	37,774.54
PVA Eco Services	88,611.71
Quantum Murray LP.	4,810,546.89
Raines Janitorial Ltd	34,477.00
Rathbone & Goodrich	47,654.25
REMCAN Projects Ltd.	576,780.16
RLS Remote Living Systems	46,473.58
Rob Thurrott	63,429.75
Schneider Canada, Inc.	43,393.28
Sonic Drilling Ltd.	43,378.98
Squamish Nation	143,444.42
Stantec Architecture Ltd.	130,337.10
Sunlife Group Insurance	193,893.19
T.J. Tryon Land Surveying Limited	44,492.49
Telus Communications (BC) Inc	25,660.99
Telus Mobility	28,022.32
Teranis Consulting Ltd.	85,548.61
Terasen Gas	128,714.54
The RSC Group	27,917.94
UMA Engineering Ltd.	99,330.03
VAE Nortrak Ltd.	180,796.00
Vancouver Fraser Port Authority	111,081.79
Village of Pemberton	32,584.15
Westmar Consultants Inc.	52,476.37
Workers' Compensation Board of BC	29,209.93
Workgroup Technologies Inc.	26,659.00
Total Payments Exceeding $25,000	28,589,939.10
Total Payment of $25,000 or less	1,169,630.67
Grand Total	$29,759,569.77