BRITISH COLUMBIA RAILWAY COMPANY

2005

ANNUAL REPORT

MESSAGE FROM THE CHAIR OF THE BOARD

2005 was the first full year of operation for the British Columbia Railway Company (BCRC) after the completion of the BC Rail Investment Partnership in July 2004. The focus for the Company in 2005 was the new mandate as revised by the Company's shareholder, the Province of British Columbia (Shareholder), in 2004.

The Company's new mandate is to ensure the effective and efficient management of the long-term lease agreement (Revitalization Agreement) between itself and the Canadian National Railway Company (CN) and to effectively complete the disposal of its remaining operating units and non-railway related real estate assets in a manner which will maximize the economic and financial return to the Shareholder.

During the year, the Company concentrated its efforts on developing its relationship with CN and the management of the Revitalization Agreement. It also reviewed the remaining business units and non-railway related real estate assets, assessing the economic and strategic value of the assets and developing a plan which will meet its commitments to the Shareholder. Of some significance to this plan was the sale of non-railway related real estate holdings with sales of 45 parcels of land and 3 buildings completed during the year for total proceeds of $17.5 million.

Subsequent to the year-end, the Company announced the decision to retain ownership of BCR Port Subdivision Ltd. The decision was made based on a review of the subsidiary's economic and strategic value in conjunction with the Shareholder's BC Ports Strategy. The importance of preserving neutral rail access to the port terminals at Roberts Bank, particularly in light of the planned port terminal expansions, was recognized.

Going forward, the Company will focus on the ongoing management of a positive landlord-tenant relationship with CN and the development of appropriate accountability measures for BCRC's long-term mandate as owner of the railway right-of-way, railbed, and track. As described in BCRC's 2006 to 2008 Annual Service Plan, the disposition process for the remaining business units (excluding the Port Subdivision) and the majority of the non-railway related real estate assets is expected to be complete by the end of 2007. In early 2006, the Shareholder and management will be reassessing the strategic value of the remaining business units and any resulting impact to the disposition process.

The 2005 British Columbia Railway Company 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 reflects the actual performance of the Crown agency for the twelve months ended December 31, 2005. All significant decisions, events and identified risks, as of December 31, 2005, have been considered in preparing the report.

John McLernon, Chair

British Columbia Railway Company

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ORGANIZATIONAL OVERVIEW

Mandate

The British Columbia Railway Company is a Crown corporation of the Province of British Columbia. BCRC's original mandate was to construct and operate a freight railway in British Columbia. After the completion of the BC Rail Investment Partnership with CN in July 2004 which resulted in the entering into of a Revitalization Agreement between BCRC and CN, the mandate of BCRC changed significantly. The residual assets and entities currently owned and operated by BCRC and its subsidiaries, with the exception of the railway right-of-way, railbed, and track infrastructure, are not required to be publicly owned. As a result, the Shareholder revised BCRC's mandate and instructed the Board of Directors to continue to wind down and to dispose of the remaining business units, assets and non-railway related real estate owned by BCRC and/or its subsidiaries.

Over the long-term, BCRC will continue to own the railway right-of-way, railbed and track infrastructure that supports the railway. BCRC's revised mandate therefore includes the ongoing management of the Revitalization Agreement between BCRC, as landowner and CN, as tenant.

In recognition of its revised mandate, BCRC's 2006-2008 Annual Service Plan establishes a framework to guide the development of appropriate accountability measures for BCRC's long-term mandate as owner of the railway right-of-way, railbed, and track, and for the disposition of BCRC's remaining business units, assets and non-railway related real estate.

Mission

BCRC's current mission as set out in the 2006-2008 Annual Service Plan, is the "effective management of the Revitalization Agreement between BCRC and CN while ensuring the efficient wind down and/or disposition of BCRC's remaining businesses, assets, and non-railway related real estate".

Core Business Areas and Services

BCRC continues as a commercial Crown corporation with all of its remaining business activities operating in competition with the private sector. Borrowing is done through the Ministry of Finance and full 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 railway line connecting three major railways (Canadian National Railway, 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 each month. The Port Subdivision is regulated provincially under the BC Safety Authority.

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 395 parcels of commercial, industrial and vacant land and buildings represents those non-railway real estate assets which are to be disposed of by the end of 2007. BCR Properties' mandate includes leading the real estate disposition process.

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.

Vancouver Wharves Limited Partnership (Vancouver Wharves)

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

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, twelve 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 are located at Suite 400 – 221 West Esplanade, North Vancouver, British Columbia, V7M 3J3.

2005 HIGHLIGHTS

BCR Port Subdivision Ltd.

The Port Subdivision continued to successfully operate as a stand-alone operation through 2005 effectively serving its three main user railways. Traffic volumes were up 7.6% from 2004 levels with 529,909 cars on 5,452 trains (estimated 46.8 million gross tons) being transported over the Port Subdivision railway line.

BCR Properties Ltd.

During 2005, BCR Properties continued to focus on its mandate to dispose of non-railway related real estate. At the beginning of 2005, BCR Properties owned a portfolio of 395 properties located throughout the province of British Columbia, all of which are scheduled to be disposed of by the end of 2007.

The early part of the year was spent assessing property values and preparing a plan which would meet the Company's goal of selling the real estate assets in the most efficient manner possible while maximizing the financial return to the Shareholder. Sales of 45 parcels of land and 3 buildings were completed during the year for total proceeds of $17.5 million.

BCR Captive Insurance Co. Ltd.

With the overall mandate of the Company to wind-up or dispose of its remaining significant business units and non-railway assets, BCR Captive has been focused on obtaining appropriate insurance coverage for the organization during this wind-down period and managing any past insurance claims.

Vancouver Wharves Limited Partnership

Vancouver Wharves handled almost 3.8 million tonnes of product in 2005, an increase of 235,000 tonnes over 2004 levels. The additional tonnage was a result of increased shipments of sulphur and metal concentrates.

BC Rail Investment Partnership

During 2005, the Company continued to focus on the effective and efficient management of the Revitalization Agreement with CN, including:

- maintaining a positive landlord / tenant relationship,
- developing various protocols for the Revitalization Agreement and ensuring appropriate follow-up on issues as required, and
- developing a plan for the ultimate transition of the contract management to government post-2007.

MANAGEMENT DISCUSSION AND ANALYSIS

The BC Rail Investment Partnership in 2004 fundamentally changed the Company's mandate and operating environment. Goals and strategies were therefore developed to ensure the successful achievement of the revised mandate. The Company's prime focus in 2005 was the development of:

a) a process for the ongoing management of the Revitalization Agreement between BCRC and CN and,

b) a plan for the disposal of all remaining business units and non-railway related real estate.

While these main goals were being addressed, management had to ensure the continued smooth operation of its operating subsidiaries.

Subsequent to year-end, the Shareholder and the Company are reassessing the strategic value of the remaining business units and any resulting impact to the disposition plan.

2005 Results

2005 was the first full year of operation after the disposal of the freight railway operations to CN in July 2004. BCRC's consolidated operating income decreased by $45.4 million to an operating loss of $41.2 million in 2005. The transfer of operating responsibilities for the freight railway operations and resulting loss in income was the primary reason for the variance from 2004.

The Company ended the year with a consolidated net loss of $35.4 million in 2005 as compared to consolidated net income of $195.3 million in 2004. Net income in 2004 was due almost entirely to the gain on the freight railway transaction of $198.6 million.

Revenues

Compared to 2004, consolidated revenues decreased by $173.3 million to $68.9 million. The decrease in revenues relates primarily to the transfer of operating responsibility for the freight railway operations in 2004. Revenue, broken down by business unit, is as follows:

($ thousands)	**2005**	2004
Freight Railway	**$ -**	$ 165,080
Vancouver Wharves	**44,560**	44,074
BCR Properties	**15,939**	22,869
BCR Port Subdivision	**6,920**	6,688
Other	**1,528**	3,561
Total	**$ 68,947**	$ 242,272

Vancouver Wharves had a better than expected operating year with increased revenues of $0.5 million over 2004. The increase was mostly attributable to a higher volume of product handled through the terminal during the year, with overall volumes up 7% over the previous year. Sulphur, which accounted for 55% of the total volumes, saw the greatest increase, up 14% over 2004 levels.

BCR Properties earns revenue from two main sources: lease and rental charges on property and buildings and, the sale of land and buildings. Revenue associated with the significant gains earned from the sale of land and buildings in 2005 has been presented separately below operating income and is discussed below under Other Income. Rental revenue decreased in 2005, down $1.0 million from 2004 due to the sale of rent-generating properties during the year. Included in revenues are also land donations made by the Company, as directed by the Shareholder. A donation of a parcel of land with a value of $2.1 million was made in 2005. It was the second part of the 2004 land donation which had a value of $8.1 million. An offsetting donation expense is also recorded resulting in a net loss of less than $0.1 million in 2005.

Revenue from BCR Port Subdivision remained relatively flat in 2005, up $0.2 million.

Expenses

Consolidated operating expenses were $110.1 million for 2005, down $127.9 million from 2004. Similar to revenues, the reduction in expenses is almost entirely due to the transfer of operating responsibility for the freight railway operations to CN. The consolidated operating expenses, broken down by business unit, are as follows:

($ thousands)	**2005**	2004
Freight Railway	**$ -**	$ 126,640
Vancouver Wharves	**79,627**	79,324
BCR Properties	**11,199**	17,434
BCR Port Subdivision	**3,932**	4,049
Other	**15,381**	10,575
Total	**$ 110,139**	$ 238,022

Operating expenses of Vancouver Wharves and BCR Port Subdivision were consistent with 2004 levels. Included in Vancouver Wharves expenses for 2005 are provisions for liabilities related to future environmental expenditures of $5.0 million ($30.8 million in 2004) and an asset impairment write down of $39.0 million ($14.0 million in 2004). BCR Properties expenses decreased in 2005 due to the $8.2 million donation expense recorded in 2004 as compared to $2.1 million recorded in 2005.

Other expenses increased primarily due to amortization of the railway assets owned by BCRC and under long-term lease to CN as well as surplus assets owned by BCRC. The assets were transferred in July 2004 therefore 2004 amortization included only six months of expense. The annual amortization expense for 2005 was $8.3 million.

Other Income

Other income included the gain on property sales of $9.9 million. This represents surplus non-railway related real estate properties sold during the year by BCR Properties. A total of 45 properties and 3 buildings were sold during 2005 for total proceeds of $17.5 million.

An adjustment to the gain on the CN transaction was recorded during the year. As provided for in the Revitalization Agreement with CN, certain aspects of the transaction were finalized during 2005 which resulted in a $5.6 million reduction to the gain.

Net interest income of $1.5 million was earned during the year as compared to interest expense of $13.1 million in 2004. In 2004, proceeds received from the CN transaction were used to repay all outstanding debt owing to the Shareholder thereby eliminating interest expense on debt.

Disposal of Assets

In 2004 the Shareholder instructed BCRC to wind down or dispose of its remaining business units, assets and non-railway related real estate. Upon completion of the wind down plan, there will be no significant continuing operations. Accordingly, BCRC has not adopted discontinued operations reporting as it is considered less meaningful to the users of the financial statements for the current and future fiscal years as the wind down plan is completed.

At the end of the year, BCRC recorded certain real estate assets with a book value of $37.0 million as available for sale as required by generally accepted accounting principles (GAAP). The remaining assets, although being prepared for sale, do not meet the requirements under GAAP for separate presentation therefore they continue to be included with Property and Equipment.

Liquidity and Capital Resources

Due to its Crown ownership, 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 $1.0 billion proceeds received in 2004 from the transaction with CN was used to repay all outstanding debt due to the Shareholder at a cost of $509.5 million and to pay a dividend of $443.0 million. The balance was retained to cover transaction costs and fund future corporate requirements.

Cash provided from operating activities was $10.4 million for the year ended December 31, 2005, as compared to $51.2 million for 2004. The reduction is due primarily to the reduction of income resulting from the transfer of freight railway operations to CN in July 2004.

Cash provided from investing activities was $41.6 million for 2005, as compared to $933.7 million for 2004. The freight railway transaction with CN contributed net proceeds of almost $970.0 million in 2004.

During 2005, cash inflows included:

- proceeds from sales of property and equipment totalling $17.6 million;
- insurance deposits of $26.3 million, previously held by the re-insurer and returned to the Company in 2005 on the expiry date of the contract, $25.0 million of which has been retained by the Company's captive insurance company to fund future possible insurance claims, and
- a prepayment of $10.8 million received on a property lease which was renegotiated during the year.

Offsetting these cash inflows, were purchases of property and equipment of $13.9 million relating primarily to capital acquisitions made by BCR Properties for site preparation and subdivision costs associated with future real estate sales.

Cash used in financing activities was negligible in 2005 as compared to $956.2 million for 2004. The payments made in 2004 related primarily to the repayment of outstanding debt to the Shareholder and a dividend payment.

With the current plan to dispose of the majority of all remaining business units, assets, and non-railway related real estate in the short term, management anticipates that, along with residual proceeds from the CN transaction, sufficient cash proceeds will be received from asset sales to fund disposition, capital and other costs during the wind down period.

Financial Outlook

The goals and objectives for BCRC are included in the 2006-2008 Annual Service Plan as follows:

1. Ensure effective and efficient management of the Revitalization Agreement between BCRC and CN; and
2. Complete disposition activities for all remaining business units, assets, and non-railway related real estate while maximizing the financial return to the Shareholder, where possible.

The financial outlook included in the 2006-2008 Annual Service Plan, updated for the announcement subsequent to year-end regarding Port Subdivision, assumes that BCR Port Subdivision is retained by BCRC and that all remaining business units and non-railway related real estate assets will be disposed of by the end of 2007. Any residual assets or business activities remaining after this time are assumed to be transferred to government.

The BCR Captive Insurance Co. Ltd. provides primary property, general liability, terminal operator's liability, automobile physical damage and excess automobile liability coverage to BCRC and its subsidiaries. The outlook assumes that BCR Captive will continue to provide insurance to the Company through 2007. Going forward the Company will work with Risk Management Branch, Ministry of Finance to ensure appropriate ongoing management of BCR Captive post-2007 as it is anticipated that outstanding claims and litigation may delay its wind-up for several years.

Capital expenditures during the 3-year outlook period include the following major projects: $40 million for BCR Properties site preparation and subdivision costs related to future property sales, $26 million for Vancouver Wharves site upgrade costs, and $8 million for the Port Subdivision Deltaport Berth 3 expansion project.

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 where the expected cost can be reasonably estimated. Provisions for environmental expenditures have been made based on management's best estimates and are included in the current financial outlook. Ongoing efforts to identify potential environmental concerns may lead to future investigations which may result in additional environmental costs.

The BC Rail / CN Investment Partnership agreement included the provision of certain commercial indemnities and indemnities related to income tax attributes by the Shareholder and BCRC to CN. Management believes it is unlikely that the Shareholder or BCRC will ultimately be held liable for any amounts under these indemnities.

Based on the above key assumptions, the financial outlook through 2008 is as follows:

($ thousands)	2006	2007	2008
Total revenue	$ 59,245	$ 56,008	$ 14,912
Total expenses	71,406	65,560	17,196
Operating income	**(12,161)**	**(9,552)**	**(2,284)**
Financing income	1,967	2,815	3,651
Gain on disposal of assets	93,910	27,727	–
Net income	**$ 83,716**	**$ 20,990**	**$ 1,367**
Capital expenditures	**$ 62,334**	**$ 16,000**	**$ 4,000**

Forecast Risk and Sensitivities

The expected proceeds from the sales of the remaining operating units and non-railway related real estate are 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 outlook.

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, 2005 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, 2005 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 17, 2006

CONSOLIDATED BALANCE SHEET (in thousands of dollars)

December 31	2005	2004
ASSETS		
Current		
Cash and cash equivalents	**$ 137,067**	$ 85,078
Accounts receivable	**8,083**	24,542
Inventories and other items	**2,330**	5,315
Investment in preferred shares - Note 2 (c)	**-**	112,000
	147,480	226,935
Assets available for sale	**36,976**	14,612
Property and equipment - Note 3	**283,779**	351,342
Other assets - Note 4	**37,022**	67,978
	$ 505,257	$ 660,867
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current		
Accounts payable and accrued liabilities	**$ 12,772**	$ 42,001
Current portion of other liabilities - Note 5	**12,901**	2,782
Short-term loan - Note 2 (c)	**-**	112,000
	25,673	156,783
Deferred lease revenue	**281,910**	282,195
Other liabilities - Note 5	**129,949**	118,739
	437,532	557,717
Shareholder's equity		
Share capital - Note 7	**257,688**	257,688
Contributed surplus	**277,547**	277,547
Deficit	**(467,510)**	(432,085)
	67,725	103,150
	$ 505,257	$ 660,867

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, 2005 and 2004

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

For the years ended December 31	**2005**	2004
Revenues	**$ 68,947**	$ 242,272
Expenses		
Labour costs	**18,162**	67,905
Amortization of property and equipment	**12,812**	31,528
Purchased services	**17,486**	33,456
Environmental costs	**6,859**	33,005
Lease expense	**5,972**	14,653
Materials and supplies	**2,482**	13,709
Fuel	**341**	15,411
Operating and other taxes	**4,530**	4,797
Asset impairment write-down - Notes 3 and 4	**40,669**	14,569
Other	**826**	8,989
	110,139	238,022
Operating income (loss)	**(41,192)**	4,250
Other income (expenses)		
Gain on property sales	**9,888**	-
Income tax recovery from prior years	**-**	5,565
Gain (loss) on CN Transaction - Note 2	**(5,602)**	198,635
Net interest income (expense) - Note 10	**1,481**	(13,143)
Net income (loss)	**(35,425)**	195,307
Deficit, beginning of year	**(432,085)**	(143,158)
Cost of debt settlement - Note 6	**-**	(40,779)
Dividend	**-**	(443,455)
Deficit, end of year	**$(467,510)**	$ (432,085)

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (in thousands of dollars)

For the years ended December 31	2005	2004
Operating activities		
Net income (loss)	**$(35,425)**	$195,307
Adjustment for items not involving cash		
Gain on property sales	**(9,888)**	(142)
Loss on land donation	**21**	70
Loss (gain) on CN Transaction - Note 2	**5,602**	(198,635)
Amortization of property and equipment	**12,812**	31,528
Amortization of other assets and liabilities	**(1,272)**	149
Pension and post employment benefit income and contributions - Note 11	**2,850**	(7,146)
Accretion of asset retirement obligation	**2,527**	1,787
Asset impairment write-down - Note 3 and 4	**40,669**	14,569
Income tax recovery from prior years	**-**	(5,565)
Net change in non-cash working capital - Note 12 (a)	**(11,886)**	(10,833)
Change in other liabilities - Note 12 (b)	**4,380**	30,147
Cash provided by operating activities	**10,390**	51,236
Investing activities		
Purchase of property and equipment	**(13,885)**	(31,596)
Net proceeds on sale of property and equipment	**17,600**	7,812
Net proceeds from the CN Transaction - Note 2	**-**	969,921
Insurance deposits received from reinsurer - Note 4	**26,263**	-
Deferred property transfer tax - Note 4	**-**	(9,007)
Proceeds from lease modification - Note 5	**10,800**	-
Changes in other assets	**837**	(3,391)
Cash provided by investing activities	**41,615**	933,739
Financing activities		
Payments and interest earned on sinking funds	**-**	(4,360)
Sinking fund retirements - Note 6	**-**	28,369
Repayment of long-term debt and capital lease obligations	**(16)**	(536,725)
Dividend	**-**	(443,455)
Cash used in financing activities	**(16)**	(956,171)
Increase in cash and cash equivalents	**51,989**	28,804
Cash and cash equivalents, beginning of year	**85,078**	56,274
Cash and cash equivalents, end of year	**$137,067**	$ 85,078

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 and its subsidiaries (collectively the "Company") own and lease railway right-of-way, railbed and track infrastructure in British Columbia, provide bulk terminal services through Vancouver Wharves Limited Partnership ("VWLP"), operate the railway running to the Roberts Bank port terminal and own and manage a portfolio of real estate property within British Columbia.

As at December 31, 2005, the Company is continuing its plan of winding down or disposing of the remaining business units, assets and non-railway related real estate. On completion of the plan, there are expected to be no significant continuing operations. Accordingly, the Company has not adopted discontinued operations reporting as it is not considered meaningful to the users of the financial statements for the current and future fiscal years. Subsequent to year end, the Shareholder and the Company are reassessing the strategic value of the remaining business units and any resulting impact to its plan.

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.

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, finance costs and other indirect expenses 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
Road and buildings	
Grade	100
Rail, ties and ballast	25-35
Wharves and buildings	10-40
Equipment	
Handling and other equipment	3-20

Leasehold improvements and equipment under capital lease is amortized over its lease term.

Assets available for sale

The Company is preparing real estate assets for sale and once they meet the requirements under CICA Handbook Section 3475, the assets are classified as held for sale.

Deferred lease revenue

A portion of the Company's long-term lease of its railway right-of-way, railbed and track infrastructure 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.

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.

SIGNIFICANT ACCOUNTING POLICIES (continued…)

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 which are contained in leases. 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, 2005 (tabular amounts in thousands of dollars)

2. CN TRANSACTION

The CN transaction was a main component of a continuing plan to dispose of all of the assets and activities of the Company.

(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") for cash proceeds of $1.0 billion. The 2004 gain on the CN Transaction included in the financial statements is $198.6 million.

The proceeds from the CN Transaction were used to repay all outstanding debt due to the Province at a cost of $509.5 million, to pay a $443 million dividend to the Province and the balance was retained to pay transaction costs and fund future corporate requirements. The final working capital settlement payment of $16.3 million was accrued in 2004 and paid to CN in fiscal 2005.

(b) Prior to the CN Transaction, BCRC and BC Rail Partnership entered into a Revitalization Agreement, under which BC Rail Partnership leased the railbed and related 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 has been assumed by CN.

(c) As part of the CN Transaction, the Company acquired 112,000,000 redeemable and retractable preferred shares of a subsidiary of CN and borrowed $112 million from CN. The loan matured in March 2005, the preferred shares were redeemed and were used to repay this loan.

(d) 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.

(e) The Company's share of BC Rail's net operating income for the 196 days ended July 14, 2004 is as follows:

	For the 196 days ending July 14, 2004
Operating revenues	$ 165,080
Expenses	
Labour costs	48,866
Amortization of property and equipment	22,412
Purchased services and other	17,785
Environmental costs	22
Lease expense	10,657
Materials and supplies	11,234
Fuel	14,597
Operating and other taxes	1,067
Net operating income	$ 38,440

December 31, 2005 (tabular amounts in thousands of dollars)

3. PROPERTY AND EQUIPMENT

	2005			2004		
	Cost	**Accumulated Amortization**	**Net**	Cost	Accumulated Amortization	Net
Roads and buildings	**$676,456**	**$407,627**	**$268,829**	$760,395	$427,356	$333,039
Equipment	**3,824**	**1,142**	**2,682**	17,557	3,481	14,076
Equipment under capital lease	**48**	**28**	**20**	48	12	36
Construction in progress	**12,248**	**-**	**12,248**	4,191	-	4,191
	$692,576	**$408,797**	**$283,779**	$782,191	$430,849	$351,342

At December 31, 2005, the Company recognized an impairment charge of $39 million (2004 - $14 million) to write down the value of wharfs, buildings, and equipment to their estimated fair value.

During the year, the Company donated land with a value of $2.1 million (2004 - $8.1 million) as directed by the Province.

4. OTHER ASSETS

	2005	2004
Insurance deposits	**$ -**	$ 26,263
Accrued pension benefit asset - Note 11 (a)	**13,672**	16,561
Mortgage receivable	**8,636**	9,111
Deferred property transfer tax	**8,994**	9,003
Long-term notes receivable from CN	**5,552**	5,132
Timber rights	**-**	1,500
Other	**168**	408
	$ 37,022	$ 67,978

Insurance deposits are funds required to be put on deposit as part of the Company's self-insurance program, calculated as the excess of the premiums paid over the actual losses incurred, plus investment income. The amounts were invested in pooled funds of short-term Canadian debt instruments. On September 30, 2005, the contract with the reinsurer expired and was commuted. The balance of insurance deposits of approximately $26 million was returned to the Company and included with cash and cash equivalents, of which $25 million is retained by the Company's captive insurance company to fund future possible insurance claims.

A mortgage receivable was provided to a purchaser as part of a sale of property from the Company's real estate portfolio. The mortgage bears interest at prime plus 2% and is repayable over 3 years.

Deferred property transfer tax arose as part of the CN Transaction described in Note 2(b). The cost is being amortized over the lease term of 990 years.

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 debt receivable from CN at the fair value. The debt receivable is non-interest bearing, is due on July 12, 2094 and is accreted each year to its ultimate face value.

December 31, 2005 (tabular amounts in thousands of dollars)

During the year, management assessed its ability to recover the value of timber rights via logging opportunities. The rights were written down to estimated fair value and an impairment charge of $1.5 million was recognized.

5. OTHER LIABILITIES

	2005	2004
Environmental liability accrual - Note 9	**$ 78,444**	$ 74,087
Asset retirement obligation	**41,192**	34,285
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)	**1,123**	1,162
Other	**2,308**	2,819
	142,850	121,521
Less current portion	**(12,901)**	(2,782)
	$129,949	$118,739

(a) 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 is 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 Company anticipates the sale to be completed by March 2006 and have accordingly recorded the deferred revenue as a current liability as at December 31, 2005.

(b) Asset retirement obligation:

	2005	2004
Opening asset retirement obligation	**$34,285**	$32,498
Addition of obligation on VPA water lot lease	**3,678**	-
Increase in estimate	**702**	-
Accretion expense on obligation	**2,527**	1,787
Ending asset retirement obligation	**$41,192**	$34,285
Discount rate	**4.5%**	5.5%
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 $80.4 million (2004 - $73.7 million).

6. COST OF DEBT SETTLEMENT

On July 19, 2004, the Company and the Province entered into an agreement to allow the Company to repay all of its outstanding debt owing to the Province. Debt with a book value, COST OF DEBT SETTLEMENT (continued…)

December 31, 2005 (tabular amounts in thousands of dollars)

including accrued interest, of $505.6 million was repaid on July 22, 2004 at its fair market value of $509.5 million. Related sinking fund investments of $28.4 million and the foreign currency hedge contract with a carrying value of $8.5 million were also assumed by the Province. Under the related party transaction rules, the difference between the book value and fair value of the debt of $40.8 million was recorded as a charge to the retained earnings of the Company.

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, 2005, required under non-cancelable operating leases:

2006	$1,710
2007	1,101
2008	454
2009	99
2010	-
	$3,364

At December 31, 2005, the Company had outstanding commitments to acquire material and equipment amounting to $0.6 million (2004 - $0.7 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 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 is scheduled to be heard by the court in a proceeding commencing October 23, 2006. 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 $23 million.

December 31, 2005 (tabular amounts in thousands of dollars)

CONTINGENT LIABILITIES (continued…)

(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 $20 million (2004 - $18 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, 2005, 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 $415 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.

10. NET INTEREST INCOME (EXPENSE)

	2005	2004
Interest earned on temporary investments	**$3,107**	$ 5,732
Sinking fund earnings	**-**	718
Interest on long-term debt and short-term notes owing to the Province	**-**	(17,080)
Interest on capital lease obligations	**(3)**	(499)
Accretion expense	**(2,527)**	(1,787)
Other interest income (expense)	**904**	(227)
	$1,481	$(13,143)

December 31, 2005 (tabular amounts in thousands of dollars)

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	
	2005	2004	**2005**	2004
Reconciliation of accrued benefit obligation				
Opening balance	**$(19,217)**	$(469,701)	**$ (766)**	$(73,623)
Current service cost	**(78)**	(9,005)	**(13)**	(878)
Benefits paid	**406**	24,472	**76**	1,354
Interest cost	**(938)**	(22,763)	**(44)**	(2,620)
Disposition of BC Rail	**-**	460,401	**-**	75,090
Settlement	**4,788**	-	**-**	-
Actuarial gains (losses)	**(2,548)**	(2,621)	**90**	(89)
Ending balance	**(17,587)**	(19,217)	**(657)**	(766)
Reconciliation of plan assets				
Opening balance	**25,799**	557,279	**-**	-
Actual return on plan assets	**1,339**	64,466	**-**	-
Employer contributions	**1,124**	7,776	**76**	1,354
Employee contributions	**7**	7	**-**	-
Disposition of BC Rail	**-**	(579,257)	**-**	-
Settlement	**(4,978)**	-	**-**	-
Benefits	**(406)**	(24,472)	**(76)**	(1,354)
Ending balance	**22,885**	25,799	**-**	-
Fund status - surplus (deficit)	**5,298**	6,582	**(657)**	(766)
Employer contributions during period from measurement date to fiscal year end	**-**	(461)	**-**	-
Unamortized past service costs	**2,018**	2,220	**-**	-
Unamortized transitional obligation	**497**	995	**-**	-
Unamortized net actuarial loss (gain)	**5,859**	7,225	**(466)**	(396)
Accrued benefit asset (liability)	**$ 13,672**	$ 16,561	**$(1,123)**	$ (1,162)

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

	Pension Plans		Other Plans	
	2005	2004	**2005**	2004
Discount rate for liabilities	**5.25%**	6.0%/6.5%	**5.25%**	6.00%
Expected long-term rate of return on plan assets	**7.0%/3.5%**	7.0%/3.5%	**-**	-
Salary escalation rate	**2.5%/N/A**	3.5%/N/A	**-**	-

The weighted average rate of increase in the per capita cost of future covered health care benefits was assumed to be 7.0% grading down to 5.0% 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.

December 31, 2005 (tabular amounts in thousands of dollars)

EMPLOYEE BENEFITS (continued…)

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

	Pension Plans		Other Plans	
	2005	2004	**2005**	2004
Current service cost	**$ 72**	$ 6,494	**$13**	$ 878
Interest cost	**938**	16,436	**44**	2,620
Actual return on plan assets	**(805)**	(20,375)	**-**	-
Amortization of transitional asset	**498**	(5,201)	**-**	-
Plan amendments	**202**	202	**-**	-
Plan settlement loss	**2,553**	-	**-**	-
Net actuarial loss (gain)	**554**	257	**(19)**	673
	$4,012	$(2,187)	**$38**	$4,171

(d) VWLP is a member of the British Columbia Maritime Employers Association ("BCMEA"). The organization has unfunded liabilities for pensions and/or retiring allowances of $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 2005, VWLP's share of the total paid by the Waterfront Employers of BC in longshore and foreman wages was approximately 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:

	2005	2004
Accounts receivable	**$ 15,814**	$(14,703)
Inventories and other items	**3,012**	5,441
Accounts payable and accrued liabilities	**(30,712)**	(1,571)
	$(11,886)	$(10,833)

(b) The components of change in other liabilities are as follows:

	2005	2004
Restructuring costs	**$ -**	$ (425)
Environmental liability accrual	**4,357**	30,572
Other	**23**	-
	$4,380	$30,147

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

	2005	2004
Interest paid to third parties	**$ 3**	$17,863
Interest received from third parties	**(3,106)**	(6,450)
	$(3,103)	$11,413

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, appointed by the Province, 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 put in place, and ensuring that the membership of the Board is relevant to the obligations of BCRC.

BCRC's officers are:

Kevin Mahoney, President and Chief Executive Officer
Michael Kaye, C.A., Vice President Finance and Chief Financial Officer
John Leighton, Secretary
John Lusney, President, BCR Properties Ltd.

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. 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.