

Consolidated Financial Statements

BRITISH COLUMBIA RAILWAY COMPANY

December 31, 2006 and 2005



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AUDITORS' REPORT

To the Lieutenant Governor in Council
Province of British Columbia

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

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

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

Chartered Accountants

Vancouver, Canada
February 16, 2007

BRITISH COLUMBIA RAILWAY COMPANY
CONSOLIDATED BALANCE SHEET
(in thousands of dollars)

December 31	2006	2005 <i>restated</i> <i>Note 2</i>
ASSETS		
Current		
Cash and cash equivalents	\$ 225,486	\$ 137,067
Accounts receivable	4,131	3,782
Materials and other items	635	626
Discontinued operations - Note 2(a)	8,434	6,005
	238,686	147,480
Assets available for sale	11,282	36,976
Property and equipment - Note 4	309,314	308,436
Other assets - Note 5	35,696	37,022
Discontinued operations - Note 2(a)	5,959	1,520
	\$ 600,937	\$ 531,434
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current		
Accounts payable and accrued liabilities	\$ 6,170	\$ 7,167
Current portion of other liabilities - Note 6	11,338	12,901
Discontinued operations - Note 2(a)	5,957	5,627
	23,465	25,695
Deferred lease revenue	281,625	281,910
Other liabilities - Note 6	133,772	129,927
	438,862	437,532
Shareholder's equity		
Share capital - Note 7	257,688	257,688
Contributed surplus	277,547	277,547
Deficit	(373,160)	(441,333)
	162,075	93,902
	\$ 600,937	\$ 531,434
Commitments - Note 8		
Contingent liabilities - Note 9		

See accompanying notes to the consolidated financial statements.

On behalf of the Board



Director



Director

BRITISH COLUMBIA RAILWAY COMPANY
CONSOLIDATED STATEMENT OF INCOME AND DEFICIT
(in thousands of dollars)

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

BRITISH COLUMBIA RAILWAY COMPANY
CONSOLIDATED STATEMENT OF CASH FLOWS
(in thousands of dollars)

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

See accompanying notes to the consolidated financial statements.

BRITISH COLUMBIA RAILWAY COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006
(tabular amounts in thousands of dollars)

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

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

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

1. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of consolidation

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

Use of estimates

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

Cash and cash equivalents

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

Inventories

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

Property and equipment

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

Property and equipment are amortized on a straight-line basis over the estimated useful lives of the assets. Management annually assesses the value of its property and equipment. When indicators of

BRITISH COLUMBIA RAILWAY COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006
(tabular amounts in thousands of dollars)

1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

impairment exist, management performs a fair value assessment and reduces the asset's carrying value to its estimated fair value.

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

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

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

Discontinued operations

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

Assets available for sale

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

Deferred lease revenue

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

Revenue recognition

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

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.

BRITISH COLUMBIA RAILWAY COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006
(tabular amounts in thousands of dollars)

1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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

Income taxes

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

Environmental expenditures and liabilities

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

Asset retirement obligation

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

2. REVISION OF PRIOR YEAR ACCOUNTING TREATMENT

(a) Discontinued operations

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

BRITISH COLUMBIA RAILWAY COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006
(tabular amounts in thousands of dollars)

2. REVISION OF PRIOR YEAR ACCOUNTING TREATMENT (cont'd)

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

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

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

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

3. CN TRANSACTION

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

- (a) On July 14, 2004, BCRC and BCR Properties Ltd. completed a transaction with Canadian National Railway Company (CN) pursuant to an agreement signed between the parties on November 25, 2003 (the "CN Transaction"). Under the terms of the agreement, CN assumed the Company's industrial freight railway business by purchasing the shares of BC Rail Ltd., the partnership interests of BC Rail Partnership and railcars from a related entity (collectively "BC Rail").
- (b) BCRC and BC Rail Partnership entered into a Revitalization Agreement, under which BC Rail Partnership leased the railway right-of-way land, railbed assets, and related track infrastructure from BCRC under a long-term lease. BC Rail Partnership prepaid all lease payments under the Revitalization Agreement. The lease of certain items included in railbed assets is being accounted for as an operating lease. The lease of the remaining railbed assets and track infrastructure has been treated as a capital lease. As a result of the CN Transaction, the Revitalization Agreement was assumed by CN.

BRITISH COLUMBIA RAILWAY COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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(tabular amounts in thousands of dollars)

3. CN TRANSACTION (cont'd)

- (c) As provided for in the Revitalization Agreement, certain aspects of the transaction were finalized in fiscal 2005 and as a result a \$5.6 million reduction in the gain was recorded.
- (d) As part of the CN Transaction, CN committed to certain average transit times for rail traffic on the BC Railway system. Breach of the transit time commitments results in penalty payments made by CN to a trust fund held by BCRC and dedicated to upgrades of the BC railway system to improve reliability and transit times for the railway users. As at December 31, 2006, the trust fund held \$0.3 million in CN penalty payments, which are not recognized in these financial statements.

4. PROPERTY AND EQUIPMENT

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

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

5. OTHER ASSETS

	2006	2005
		<i>restated Note 2</i>
Accrued pension benefit asset - Note 11(a)	\$ 12,600	\$ 13,672
Mortgage receivable	8,156	8,636
Deferred property transfer tax	8,985	8,994
Long-term notes receivable from CN	5,877	5,552
Other	78	168
	\$ 35,696	\$ 37,022

- (a) The mortgage receivable was provided to a purchaser in 2004 as part of a sale of property from the Company's real estate portfolio. The mortgage term is currently being re-negotiated. The mortgage bears interest at prime plus 2%.
- (b) Deferred property transfer tax arose as part of the CN Transaction described in Note 3(b). The cost is being amortized over the lease term of 990 years.

BRITISH COLUMBIA RAILWAY COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006
(tabular amounts in thousands of dollars)

5. OTHER ASSETS (cont'd)

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

6. OTHER LIABILITIES

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

(a) Asset retirement obligation

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

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

- (b) During 2005, the Company renegotiated a lease with the Vancouver Port Authority (VPA) in exchange for a non refundable payment of \$10.8 million which was being amortized over the remaining 29 years of the lease. In conjunction, a purchase and sale agreement was signed with VPA for a future date based on certain conditions. The sale of the leased property was completed in March 2006 and the unamortized balance of the prepayment recognized as income in 2006.
- (c) The deferred gain on sale of real estate relates to property sold in 2004 in exchange for a mortgage (note 5(a)). The deferred gain will be recognized as income once the Company has received more than 15% of the total proceeds, which is expected to occur in fiscal 2007. The deferred gain has accordingly been recorded as a current liability as at December 31, 2006.

BRITISH COLUMBIA RAILWAY COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006
(tabular amounts in thousands of dollars)

7. SHARE CAPITAL

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

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

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

8. COMMITMENTS

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

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

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

9. CONTINGENT LIABILITIES

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

- (a) The Company leases a portion of its property used in its terminal operations in North Vancouver from Canada Lands Company Limited ("CLCL"). The Company received a notice of default on its lease from CLCL on February 6, 2003. The current lease with CLCL expired April 11, 2004 and CLCL has advised the Company that, based on the alleged defaults under the lease, it had no right to renew the lease. The Attorney General of Canada and CLCL filed a Petition on August 6, 2004 seeking a writ of possession of the leased lands. Vancouver Wharves Ltd. and BCRC carrying on business as VWLP and VWLP, and BC Rail Ltd. are named as respondents in the Petition. The Petition was scheduled to be heard by the court in a proceeding commencing October 23, 2006, but the hearing has been deferred to November 19, 2007. In the event that the lease is not renewed, the Company is reviewing plans to reconfigure the site and continue operations. The site reconfiguration costs are currently estimated to be \$34.3 million. Under a proposed transaction to transfer the VWL operations to a new operator, if the reconfiguration proceeds, it would be financed by the new operator.
- (b) On June 14, 2002, the Attorney General of Canada commenced legal proceedings in the B.C. Supreme Court against Vancouver Wharves Ltd. (formerly BCR Marine Ltd.), BC Rail Ltd., BCR

BRITISH COLUMBIA RAILWAY COMPANY
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(tabular amounts in thousands of dollars)

9. CONTINGENT LIABILITIES (cont'd)

Properties Ltd., British Columbia Wharves Ltd., CSCL, BCRC carrying on business as VWLP and VWLP, alleging that those entities are responsible for soil and groundwater contamination on a site adjacent to the VWLP operation and in Burrard Inlet adjacent to that property as included in the lease described in (a) above. The Attorney General has not filed a Statement of Claim or quantified the damages claimed. The Company has been advised that approximately \$24.2 million (2005 - \$20 million) has been spent to date by the landlord in remediating the site. The parties are currently assessing remediation options for the site.

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

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

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

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

10. NET INTEREST INCOME

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

BRITISH COLUMBIA RAILWAY COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006
(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	
	2006	2005	2006	2005
Reconciliation of accrued benefit obligation				
Opening balance	\$ (17,587)	\$ (19,217)	\$ (1,002)	\$ (766)
Current service cost	(78)	(78)	(7)	(13)
Employee contributions	(8)	-	-	-
Benefits paid	588	406	70	77
Interest cost	(911)	(938)	(51)	(44)
Settlement	-	4,788	-	-
Actuarial gains (losses)	8	(2,548)	15	(256)
Ending balance	(17,988)	(17,587)	(975)	(1,002)
Reconciliation of plan assets				
Opening balance	22,112	25,026	-	-
Actual return on plan assets	921	1,339	-	-
Employer contributions	67	1,124	70	77
Employee contributions	8	7	-	-
Settlement	-	(4,978)	-	-
Benefits	(588)	(406)	(70)	(77)
Ending balance	22,520	22,112	-	-
Fund status - surplus (deficit)	4,532	4,525	(975)	(1,002)
Unamortized past service costs	1,816	2,018	-	-
Unamortized transitional obligation	-	497	-	-
Unamortized net actuarial loss (gain)	6,252	6,632	(130)	(121)
Accrued benefit asset (liability)	\$ 12,600	\$ 13,672	\$ (1,105)	\$ (1,123)

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

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

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

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

BRITISH COLUMBIA RAILWAY COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006
(tabular amounts in thousands of dollars)

11. EMPLOYEE BENEFITS (cont'd)

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

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

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

12. STATEMENT OF CASH FLOWS – SUPPLEMENTAL INFORMATION

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

	2006	2005
		<i>restated</i>
		<i>Note 2</i>
Accounts receivable	\$ (349)	\$ 16,611
Materials and other items	(36)	2,809
Accounts payable and accrued liabilities	(1,031)	(29,753)
	\$ (1,416)	\$ (10,333)

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

	2006	2005
		<i>restated</i>
		<i>Note 2</i>
Interest received from third parties	\$ 8,330	\$ 2,809
	\$ 8,330	\$ 2,809

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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.