



## Confidential Information Memorandum

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CIBC

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WORLD MARKETS

May 2003

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## GLOSSARY OF KEY TERMS

“Agency” means the Canada Transportation Agency, the body established under the CTA to effect regulation of businesses carrying on transportation services under federal regulation.

“Average length of haul” means the average distance in miles one ton is carried. Computed by dividing total ton-miles by tons of freight.

“BC” means the province of British Columbia.

“BC Rail” means the industrial rail freight business of BCR engaged in transport of forest, energy and agricultural products as well as car hire, switching, and excluding ownership and operation of the Port Subdivision.

“BCR” means the rail operating division of BCRC, including ownership and operation of the Port Subdivision.

“BCRC” means British Columbia Railway Company, which comprises BCR, BCR Properties and BCR Marine.

“BCR Marine” means the non-legal entity consisting primarily of Vancouver Wharves.

“Box car” means a type of enclosed railcar with sliding side doors.

“Bulk” means cargo shipped in loose condition and of a homogeneous nature. Includes cargoes that are shipped unpackaged either dry, such as grain, mineral concentrates, fertilizers; or liquids such as canola oil.

“Bulkhead flat” means a type of open railcar with high walls at either end.

“BNSF” means the Burlington Northern Santa Fe Railway, a railway company operating across the United States, mostly concentrated west of the Mississippi River.

“Carload” means a shipment of not less than 10,000 pounds of one commodity from one consignor to one consignee. An originated carload is one that is loaded and begins its journey on a particular railroad; a carried carload is any carload that travels on a particular railroad; and a terminated carload is a carload that ends its journey and is unloaded on a particular railroad.

“Car mile” means the movement of a car a distance of one mile. An empty car mile is a mile run by a freight car without a load; a loaded car mile is a mile run by a freight car with a load.

“Car velocity” means an average speed calculation, expressed in miles per day, of the car movements from the time a loaded car is released by a customer to the time it is spotted empty at the next customer loading location.

“Center-beam flat” means a type of open railcar with a centre structure to which lumber loads are secured.

“Centerm” means the Centennial Terminal, located in Vancouver, BC.

“Class 1 railroad” means, as determined by the STB, a railroad with annual operating revenues that exceed a threshold indexed to a base of US\$250 million in 1991 dollars. The threshold in 2001 was US\$266.7 million.

“CN” means the Canadian National Railway Company, a railway company operating across Canada and south to the Gulf of Mexico.

“Coal/low gondola” means a type of open railcar with sides, loaded from above and unloaded by machine or in a dumper.

“Container” means a truck trailer body that can be detached from the chassis for loading onto a vessel, a railcar, or stacked in a container depot. Containers may be ventilated, insulated, refrigerated, flat rack, vehicle rack, open top, bulk liquid, dry bulk, or other special configurations. Typical containers may be 20 feet, 40 feet, 45 feet, 48 feet, or 53 feet in length, 8 feet or 8.5 feet in width and 8.5 feet or 9.5 feet in height.

“CPR” means the Canadian Pacific Railway Company, a railway company operating across Canada and in the northern United States.

“Crew bunkhouse” means a building used to temporarily house employees away from home.

“CTA” means the *Canada Transportation Act*, the law that governs businesses carrying on transportation subject to federal regulation. For rail this includes all railways with international or inter-provincial operations plus any that apply to be federally regulated in Canada.

“Deltaport” means a container handling terminal located at Roberts Bank in Delta, BC, south of Vancouver.

“EBITDA” means earnings before interest, taxes, depreciation and amortization.

“Finlay Navigation” means Finlay Navigation Limited Partnership, a barge business operated by BCRC on Babine and Williston Lakes, which includes two vessels in active service and two idle vessels.

“Freight shed” means a building used to store freight, while in the process of being transferred to/from a railcar.

“Gross ton miles” means the number of tons behind the locomotive (cars and contents, and company service equipment) multiplied by the distance moved in all movements on the railway, including locomotives, empty equipment and work equipment.

“High side gondola” means a type of open railcar with sides, loaded from above and unloaded by machine or in a dumper.

“Hopper” means a type of enclosed railcar, loaded from above and unloaded from below through hatches.

“Improvements” includes the railway track (including but not limited to all rail, ties, turnouts, associated hardware, and track ballast); all works of infrastructure to support the safety, security and operating integrity of the railway track (including but not limited to cuttings, embankments, drainage works, bridges, tunnels, culverts, retaining walls, works of stabilization, signals and detection devices, and at-grade road crossings and signals); and buildings, structures, fixtures and associated works situated on or under or above the surface of the operational land (but excluding any estate in the land).

“Intermodal service” means the movement of trailers or containers on railroad freight cars.

“Linehaul” means the movement of trains between terminals and stations on the main or branch lines of the railroad, exclusive of switching movements.

- “**Lower Mainland**” means that portion of British Columbia, generally defined by the Fraser River Valley, west of Hope, BC.
- “**Main track**” means a track extending through and between stations upon which trains are operated.
- “**MGT**” means millions of gross tons, used as a measure of weight passing over a portion of track.
- “**NOLs**” means non-capital loss carry forwards.
- “**Operating ratio**” means the ratio of operating expenses to operating revenues.
- “**Port Subdivision**” means a 23 mile portion of track geographically isolated from the balance of BC Rail, which extends from a connection with CPR at Pratt to the Roberts Bank and Deltaport facilities south of Vancouver, BC.
- “**Province**” means the government of the Province of British Columbia.
- “**Railbed**” means the land underneath the track of a railway, comprising the basic grading and earthworks below the track ballast.
- “**Regional railroad**” means, as defined by the Association of American Railroads, a non-Class 1, linehaul, freight railroad that operates at least 350 miles of track and/or has annual operating revenues of at least US\$40 million.
- “**Reload**” means the activity of transferring freight between a truck and a railcar as part of transport from origin to destination.
- “**Revenue ton mile**” means the movement of a ton of freight over one mile for revenue.
- “**Right-of-way**” means a strip of land of various widths upon which a rail track is built.
- “**Rolling stock**” means transportation equipment on wheels, especially locomotives and freight cars.
- “**Route miles (kilometres)**” means the miles (kilometres) of right-of-way operated by a railroad and its affiliates. In multiple main track territories only one mainline track counts as route miles (kilometres).
- “**Scheduled railroad**” means a railroad that handles individual car movements according to a specific time schedule where possible in order to meet agreed upon customer commitments.
- “**Siding**” means a track auxiliary to the main track for meeting or passing trains, or a track for industrial purposes.
- “**Stake flat**” means a type of open railcar with stakes along the sides to contain freight within the car.
- “**SRY**” means Southern Railway of BC, a subsidiary of Washington Group International.
- “**STB**” means Surface Transportation Board, a department of the United States Department of Transportation.
- “**Through train**” means a train operated between two or more major concentration or distribution points.
- “**TOFC**” means the activity of handling highway trailers on a flatcar (Trailers on Flat Car).

“**Ton mile**” means the movement of a ton over one mile. See also Revenue ton mile and Gross ton mile.

“**Track**” means the rail, ties and ballast upon which trains operate.

“**Trip plans**” means a detailed chain of train handling events describing how a car(s) can be handled from the shipper's door to the consignee's door. Trip plans are expressed in hours and are tailored for each specific customer location.

“**UCC**” means undepreciated capital cost as defined in section 13(21) of the *Income Tax Act* (Canada).

“**Unit train**” means a train consisting of similar cars carrying a single commodity, remaining coupled at all times during loading and unloading, and typically operating on a regular cycle between consistent loading and unloading locations.

“**UP**” means the Union Pacific Railroad, a railway company operating throughout the United States and into Canada.

“**Vancouver Wharves**” is a port terminal adjacent to BC Rail's North Vancouver terminus, operating as the Vancouver Wharves Limited Partnership, which is the principal operating company of BCR Marine.

“**Vanterm**” is a container handling facility on Burrard Inlet in Vancouver, BC.

“**Vehicle shop**” means a maintenance facility for equipment that can operate on public highways.

“**Waybill**” means the document covering a shipment and showing the forwarding and receiving stations, the name of consignor and consignee, the car initials and number, the routing, the description and weight of the commodity, instructions for special services, the rate, total charges, advances and waybill reference for previous services, and the amount prepaid.

“**Wheel shop**” means a maintenance facility for maintaining, installing and removing wheels from railcars.

“**Yard**” means a system of tracks within defined limits, designed for switching services.

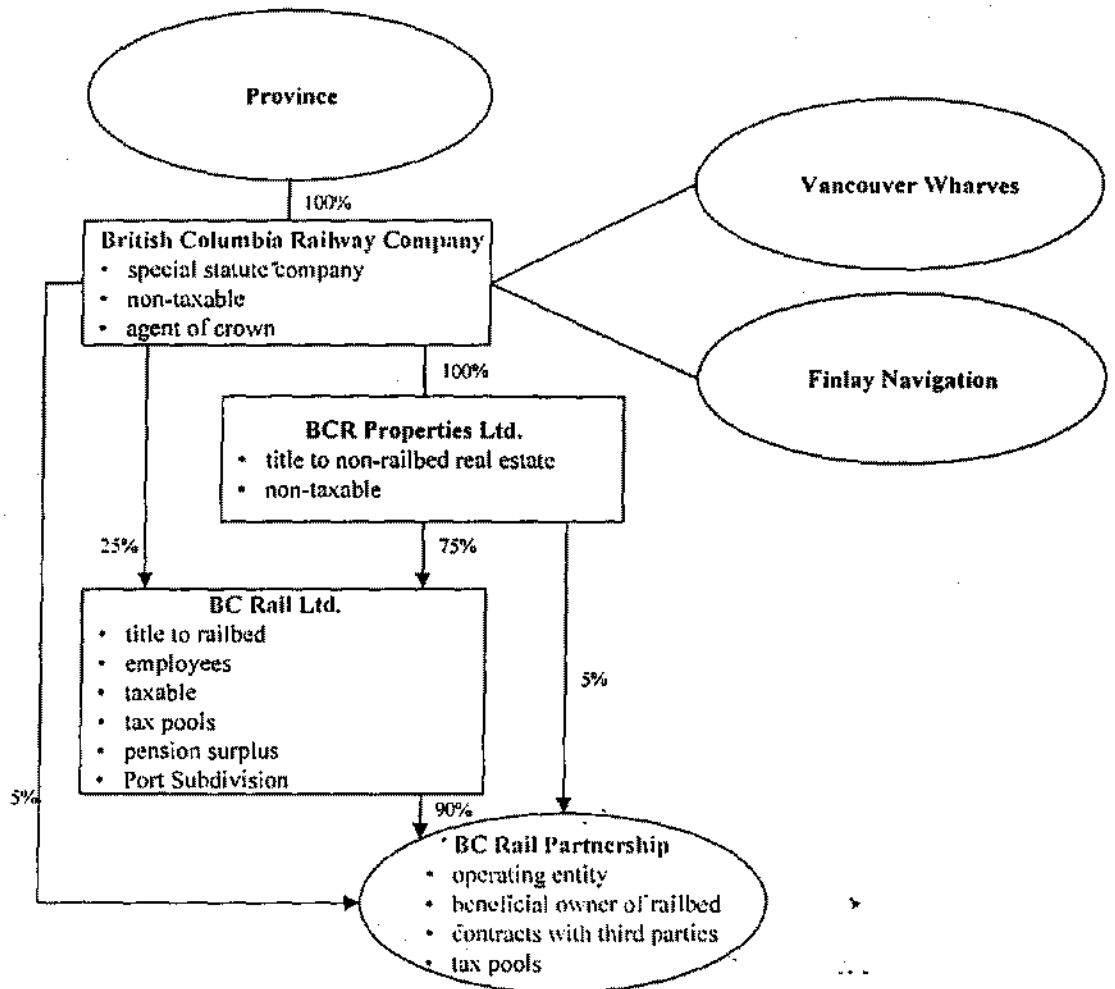
“**Yard dwell**” means the average duration, expressed in hours, that cars spend in a specific operating terminal.

## 1. INTRODUCTION

### 1.1. Situation Overview

The government of the Province of British Columbia (the "Province"), is interested in pursuing a potential transaction involving the industrial freight railway business of BCRC ("BC Rail"). Through CIBC World Markets, the Province is inviting interested parties to submit Expressions of Interest describing the basis on which a Transaction might be completed.

**Figure 1.1 Current Structure**



Prior to a Transaction, certain assets at BCRC will be restructured. These restructuring steps will generally include:

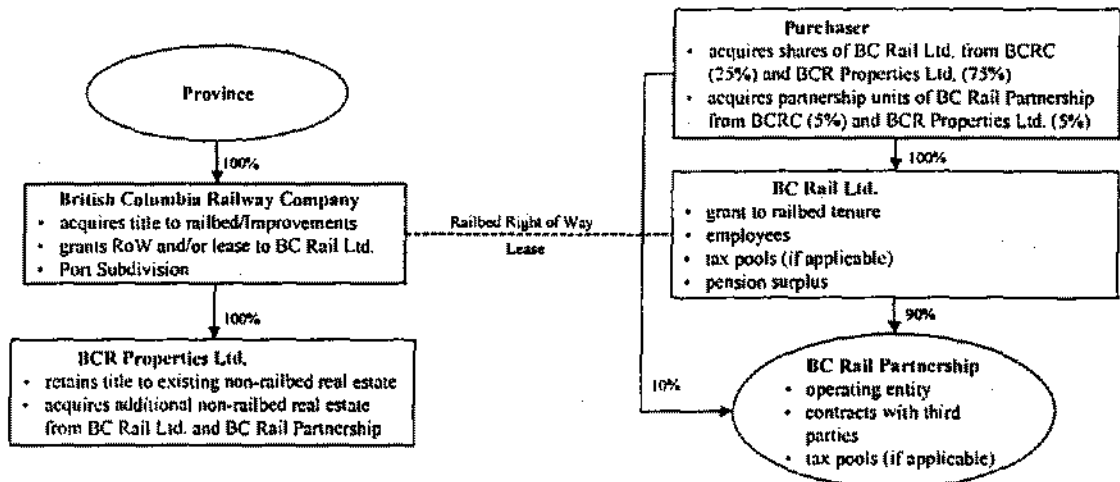
- The completion of the sale of Vancouver Wharves<sup>1</sup>
- The completion of the sale of Finlay Navigation

<sup>1</sup> If the sale Vancouver Wharves has not been completed at the closing of the Transaction, other steps will be taken to exclude it from the Transaction.

- Transfer of non-railbed real estate to BCR Properties Ltd. (currently in various entities including BC Rail Ltd. and BC Rail Partnership)
- Transfer of Port Subdivision assets and operations to a new corporation
- Transfer of all rolling stock to BC Rail Ltd.
- Transfer of railbed and Improvements to BCRC

After (or in conjunction with) completion of the restructuring steps, the Transaction will occur and be structured as a sale by BCRC and BCR Properties Ltd. of their shares and partnership units in BC Rail Ltd. and BC Rail Partnership, respectively, concurrent with the granting of a right-of-way and/or lease in respect of railbed lands and Improvements to BC Rail Ltd. under which the purchaser will acquire a long-term (eg. 60 years) right to occupy and use the railbed and Improvements for nominal rent. The purchaser will be expected to assume full responsibility for maintenance associated with the railbed and Improvements and will only be permitted to use them for railway operating purposes. The Province intends that legislation be passed in the fall to facilitate and support the Transaction.

**Figure 1.2 Proposed Transaction Structure**





## 1.2. Contacts

It is the intention of CIBCWM and the Province to conduct a process that minimizes any disruption to BC Rail's operations and employees. In this regard, there must be no contact with any past or present representatives, including directors, or employees of BC Rail, BCRC, the Province or any other related government entity, or any other entity with a business relationship with BC Rail, including, without limitation, customers and suppliers, in relation to this Transaction. In addition, Recipients are precluded from discussions relating to the Transaction with other potential purchasers without the prior written consent of CIBCWM. All inquiries or communications including requests for additional information must be directed to one of the following individuals at CIBMWM:

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## 2. EXECUTIVE SUMMARY

### 2.1. Overview of British Columbia Railway Company

BCRC was formed in 1912 for the purpose of building a railroad between North Vancouver and Prince George. The provincial government became involved with the construction of the railroad in 1918 with the objective of completing construction of the rail line to Prince George. This objective was realized in 1953 when the full rail line was officially opened for traffic. Since 1953 additional rail lines have been added.

BCRC was initially established to facilitate economic development in northern BC and to provide passenger services between North Vancouver and Prince George. The Company's powers are defined in the *British Columbia Railway Act*. BCRC (and its affiliated companies) operates on a commercial basis in full competition with the private sector in a deregulated transportation industry.

BCRC consists of a portfolio of companies united by a mandate to provide customers with integrated commercially competitive transportation and related services in BC. It is comprised of a holding company, BCRC, and two operating businesses, BCR and BCR Marine (currently consisting primarily of Vancouver Wharves). BCR is further segmented into business units – industrial rail freight (BC Rail), Port Subdivision, Finlay Navigation and real estate. BCRC is currently in the process of divesting Vancouver Wharves and Finlay Navigation. Passenger rail operations ceased at the end of October 2002 and are excluded from a Transaction, as is the Port Subdivision and real estate. As a result, the Transaction contemplated herein will include only the industrial rail freight business after certain adjustments described in Section 5.1.

### 2.2. BCR Industrial Rail Freight Business ("BC Rail")

BC Rail, Canada's third largest railway as measured by revenue and continuous track, operates exclusively in BC and has inter-line connections to all rail-served points in North America. The BC Rail line consists of 2,315 route kilometres and 740 kilometres of industrial, yard and track sidings throughout the Province. The Company plays an important role in the economy of BC as almost all of the railroad's customers sell their commodities outside BC. About 85% of BC Rail's total revenue is generated from the transport of such goods as forest, energy and agricultural products. The remainder of BC Rail's revenue is derived from car hire and switching. BC Rail's key stakeholders include its customers, the various communities along its line (including First Nations) and its employees. Major customers include Canfor Corp. ("Canfor"), Slocan Forest Products Ltd. ("Slocan"), Enersul Limited Partnership ("Enersul"), Weldwood of Canada Ltd. ("Weldwood") and West Fraser Timber Co. Ltd. ("West Fraser").

### 2.3. Overview of the Railway Industry in British Columbia and U.S. Northwest

The railway industry in BC and the U.S. Northwest is unique, not only because of the geographical challenges, but also because traffic movements are concentrated on trade with the Pacific Rim rather than trade supporting regional economic activity. Most of the goods moving by rail throughout BC and the U.S. Northwest are bulk commodities produced in the interior of the continent and consumer goods moving between the large manufacturing centres in eastern North America and Asia. As such, the industrial activity in this region is significantly influenced by factors such as the competitiveness of servicing ports, commodity prices, the overall economic health of trading partners and demand for forest products. There are over 550 railway companies currently operating in North America – over 40 of these operate in BC, Washington, and Oregon.

## 2.4. Investment Highlights

### 2.4.1. Access to Premium Forest Resource

BC has by far the largest and best quality forest resource, or "fibre basket", on the North American continent. Lumber shippers in areas served by BC Rail in the BC Interior have a competitive advantage through lower logging costs and modern, higher productivity mills when compared to other Northwest fibre areas – the U.S. Northwest and the BC Coastal fibre baskets. Fibre from BC forests has a competitive advantage over fibre from Alberta forests (primarily Aspen, less strength and size), and eastern Canadian forests (smaller trees and colder climate). BC Rail enjoys access to most of the fibre growing region in BC which provides attractive revenue sources from a range of forest products commodities for a potential operator.

### 2.4.2. Modern, High Quality Assets

BC Rail has consistently invested in high quality assets and has ensured that its fleet of locomotives and railcars, as well as railway infrastructure, have remained modern and in good condition. As a result of substantial capital expenditures made over the past five years to upgrade assets, BC Rail does not expect that any significant capital projects will be required over the next five years. Forty 4,400 HP C40-8 and C44-9 locomotives, with an average age of ten years, make up the core of the 120 unit locomotive fleet. Twenty-one B36-7 and B39-8 branchline locomotives have had extensive overhauls recently. BC Rail also has approximately 9,000 railcars and 1,903 miles (3,055 kilometres) of high quality track. Since 1985, the track and structures of the core railway between North Vancouver and Chetwynd (Mile 0 – 660) have been extensively re-built and upgraded to allow a 286,000 pound railcar loading limit. The track consists of 115 lb., 124 lb. and 136 lb. continuous welded rail ("CWR") from Mile 0 – 538. Heavy-haul rail salvaged from the Tumbler Subdivision is being used to extend CWR installation north of Mile 538. Hardwood ties, premium tie plates with elastic fasteners and screw spikes have been used on most sharp curves for gauge restraint. A program to remove timber structures and upgrade older steel decks on bridges will be completed in 2003 to allow 286,000 pound railcar loading limit up to Mile 660. Rockwork and tunneling programs have stabilized most active slopes.

### 2.4.3. Originates and Terminates Significant Proportion of Traffic

Approximately 57% of BC Rail's revenue originates and terminates on BC Rail's system, rather than being interlined to other rail carriers for shipment to final destination. As a result, this traffic is not dependent on an interline relationship with one of the Class 1 rail carriers, therefore providing enhanced operating flexibility and efficiency. The potential for sending this traffic to other markets in order to build longer haul traffic is greatest with pulp traffic, possibly diverting traffic presently destined for overseas markets to North American markets.

### 2.4.4. Attractive Operating Ratio with Further Improvement Opportunities

BC Rail's operating expenses of \$225.5 million for 2002 represent 76.6% of its \$294.4 million revenue base. This compares favourably to the operating ratios enjoyed by the Class 1 railroads which are generally in the 80% range. BC Rail's management team has successfully reduced the operating ratio from 89.9% in 2000 to 76.6% in 2002 in large part through a focus on more efficiently managing maintenance and operations expenses. BC Rail's long-term plan is to further reduce operating expenses through productivity improvements, consolidation and rationalization of plant, fleets and facilities and, in the appropriate situations, divest low-margin businesses.

For 2003, BC Rail's financial outlook projects a 76.7% operating ratio resulting in \$67.2 million of operating income and \$103.7 million of EBITDA. A reduction to 70%, in line with some other Class 1 railroads, would result in operating income and EBITDA of \$86.6 million and \$123.1 million, respectively. The operating ratio in Q1 was 71.9%, lending support to BC Rail meeting or exceeding the full year outlook for 2003.

**Table 2.1 2003 Operating Ratio Sensitivity**

<i>(\$ millions)</i>	<u>Outlook (76.7%)</u>	<u>@75%</u>	<u>@70%</u>
Revenue	\$288.6	\$288.6	\$288.6
Operating Expenses	221.4	216.5	202.0
Operating Income	\$67.2	\$72.1	\$86.6
Depreciation & Amortization	36.5	36.5	36.5
EBITDA	\$103.7	\$108.6	\$123.1

#### 2.4.5. Significant Synergy Opportunity

In addition to the above initiatives, a purchaser of BC Rail with an existing rail network would be expected to have significant additional opportunities to derive value through both revenue and cost synergies. As a mid-sized railway by North American standards that lacks geographic presence outside BC, BC Rail faces challenges both in maximizing long haul revenue and in achieving meaningful economies of scale.

A purchaser with an existing rail network outside of BC should not only be able to generate significant incremental revenues through access to new long haul traffic but should also be able to significantly reduce costs by combining BC Rail's operations and maintenance functions with its own and eliminating duplicative management, administrative and support areas.

#### 2.4.6. Sizeable Tax Pools

At December 31, 2002, BC Rail Ltd. and BC Rail Partnership had approximately \$2.05 billion in tax pools consisting of \$1.19 billion in UCC balances and approximately \$857 million of utilizable "NOLs". It may be possible to structure the Transaction in a manner that will substantially preserve these NOLs for utilization by a purchaser.

#### 2.4.7. Pension Surplus

BC Rail conducts an actuarial valuation of its pension plan every two years with the most recent valuation completed as of December 31, 2001. At that date, the BC Rail Ltd. defined benefit pension plan had a surplus of approximately \$151.7 million. A purchaser of BC Rail would benefit from a contribution holiday that currently exists and is expected to continue for a number of years.

## 2.5. Financial Summary

The table below sets out the financial information for BC Rail based on actual results from 1999 to Q1 2003 and management outlook for 2003.

**Table 2.2 Financial Summary**

<i>(C\$ millions)</i>	Years Ended December 31,					Qtr. Ended March 31,	
	1999	2000	2001	2002	2003F <sup>1</sup>	2002	2003
Revenue	\$295.9	\$283.5	\$272.1	\$294.4	\$288.6	\$80.5	\$77.1
Operating Expenses <sup>2</sup>	169.9	195.1	184.7	161.3	162.4	44.0	40.9
General & Administrative Expenses	31.6	27.1	11.8	28.1	22.5	5.8	5.0
<b>EBITDA</b>	<b>94.4</b>	<b>61.3</b>	<b>75.6</b>	<b>105.0</b>	<b>103.7</b>	<b>30.7</b>	<b>31.2</b>
Depreciation / Amortization	40.3	32.6	38.8	36.1	36.5	10.3	9.5
<b>EBIT (Operating Income)</b>	<b>54.1</b>	<b>28.7</b>	<b>36.8</b>	<b>68.9</b>	<b>67.2</b>	<b>20.4</b>	<b>21.7</b>
Operating Ratio	81.7%	89.9%	86.5%	76.6%	76.7%	74.7%	71.9%
Capital Expenditures	44.1	77.3	55.8	38.9	33.4	3.2	4.0

<sup>1</sup> Outlook presented to Board of Directors on May 1, 2003.

<sup>2</sup> Excludes expensed capital expenditures at Dawson, Tumbler and Nelson subdivisions of \$3.3 million in 2000, \$3.2 million in 2001, \$1.5 million in 2002 and \$2.4 million in 2003F. These have been included in the capital expenditure figures.