annual report 2001

BCR
GROUP OF COMPANIES

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the track ahead

VISION: To act as a valuable strategic advantage for our customers in moving their goods to market

VALUES:

A safe and healthy work environment

A customer-focused, market-driven approach to business

A creative, resourceful and entrepreneurial spirit

Continuous improvement and innovation

Operate profitably to achieve business targets

Treat all of our stakeholders in an honest, fair and respectful manner

Reward and recognize achievements of individuals and teams

BCR GROUP

The BCR Group of Companies is a unique, fully commercial Crown Corporation with all of its businesses operating in full competition with the private sector in a deregulated environment.

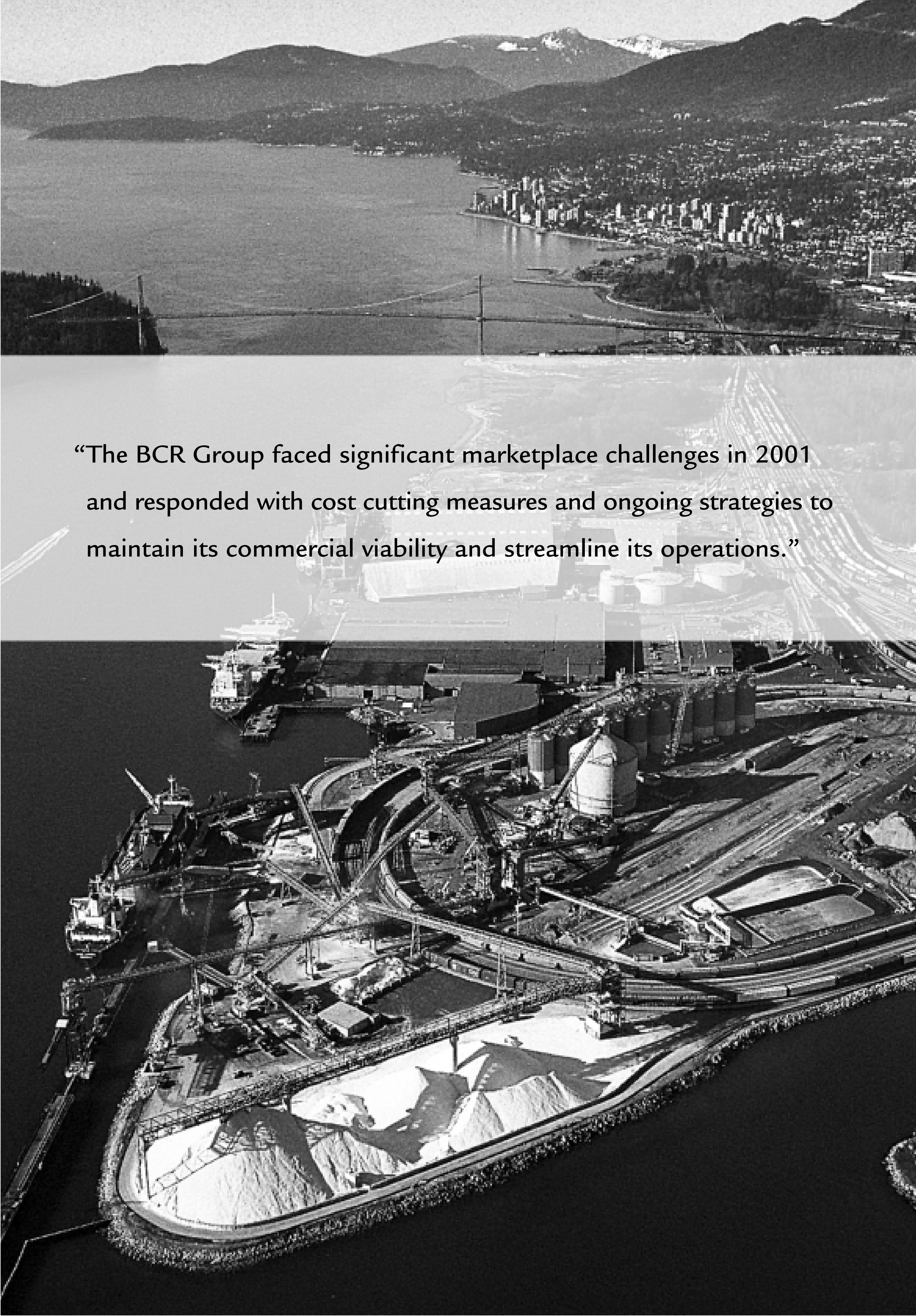
The Group consists of a portfolio of companies, united by a mandate to provide customers with services in commercially competitive transportation and related sectors in British Columbia. The Group is made up of a holding company, British Columbia Railway Company, and two operating business units, BC Rail and BCR Marine.

BC RAIL

BC Rail, Canada's third-largest railway as measured by revenue, 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 kilometres of mainland and 740 kilometres of industrial, yard and track sidings throughout the province. BC Rail is driven by a commitment to customer service. Existing methods of service are enhanced by ongoing improvements in areas such as Internet technology and productivity in all segments of the transportation business. BC Rail plays an important role in the economic life of British Columbia, as almost all the railroad's customers sell their commodities to world markets. The majority of tonnage originated by BC Rail is transported beyond British Columbia's borders. About 80 per cent of BC Rail's total revenue is generated by the transport of such goods as forest, energy and agricultural products. The remainder of the Railways revenue is derived from real estate and passenger services.

BCR MARINE

BCR Marine, one of the leading players in the marine sector, comprises Canadian Stevedoring, Casco Terminals and Vancouver Wharves. Canadian Stevedoring provides stevedoring services at 16 locations along the BC coast and operates the Fairview Terminal in Prince Rupert. Casco Terminals operates the container terminal on the south shore of Vancouver Harbour and handles containers, pulp, packaged lumber and general cargo. Vancouver Wharves, based in North Vancouver, is one of the largest deep-sea loading terminals in North America. It handles bulk commodities such as pulp, canola oil, sulphur, fertilizers, mineral concentrates and agricultural products for shipment to other ports in North American and overseas markets.



"The BCR Group faced significant marketplace challenges in 2001 and responded with cost cutting measures and ongoing strategies to maintain its commercial viability and streamline its operations."

EXECUTIVE SUMMARY

The BCR Group faced significant marketplace challenges in 2001 and responded with cost-cutting measures and ongoing strategies to maintain its commercial viability and streamline its operations.

Nonetheless, the Group suffered a loss of $6.9-million before a one-time restructuring charge of $100-million, bringing its total net loss to $106.9-million.

Revenue fell to $447.2-million in 2001 compared to $495.7-million in 2000. Aggressive cost cutting accounted for a decline in expenses as well, to $418.6-million from $451.5-million in 2000.

Revenues declined due to weakness in the Province's key sectors of forestry and mining. The softwood lumber trading dispute contributed to a difficult forest products market and to an impact on Rail's revenues. The world trade slowdown and changes to global shipping patterns caused a significant decline in container handling at Marine's Casco Terminals. Weak resource sectors hurt Vancouver Wharves as well.

As part of a strategic review of the Company's direction, an increased focus was placed on the operations of BCR's two main operating units - BC Rail and BCR Marine. At Rail, a decision was made not to go forward with repairs to the historic Royal Hudson steam engine as neither the Company nor the Province had the funds for the work. Rail exited the Trailer on Flat Car segment of its Intermodal business because it was uneconomic. Reviews of all business lines continue. At Marine, management rationalization took place with the centralization of administrative functions at Vancouver Wharves. Canadian Stevedoring relocated its equipment storage locker to a new facility and work was completed on Phase One of an expansion of container handling facilities at Casco Terminals.

The upcoming year will be one of great challenge and change at the BCR Group. In early spring 2002, the Company decided to offer BCR Marine for sale. While Marine is a strong business unit, it needs growth capital to move forward and the BCR Group cannot provide that funding. As a result, the Group is moving forward with a new business model aimed at creating a streamlined and self-funded regional railway. We see our employees as vital to achieving this goal.

SUMMARIZED CONSOLIDATED RESULTS

$,000	2001	2000
Revenue	447,178	495,721
Expenses	418,605	451,451
Operating Income	28,573	44,270
Finance Costs & Income Tax	35,480	37,991
Income Before Special Charges	(6,907)	6,279
Special Charges	100,000	13,000
Net Loss	(106,907)	(6,721)

MESSAGE FROM THE CHAIR AND CHIEF EXECUTIVE OFFICER

The year 2001 was a challenging one for the BCR Group as troubled world markets, continuing low commodity volumes and the aftershocks of the September 11 attacks affected all of our businesses.

Yet it was also a pivotal year from a strategic point of view as we undertook a process to refocus the Company and set it on the path to a sustainable future.

Our short-term strategy included efforts to offset our revenue declines in a variety of ways, such as rigorous and disciplined cost cutting throughout the organization.

But our broader strategy involved developing a whole new business model for the Company, which provides a key transportation link for many of British Columbia's export-oriented companies.

Our analysis occurred in parallel with the government's Core Services Review. That review helped define our core businesses – the Marine business, Passenger Rail services and our Industrial Freight Railway.

These businesses operate in challenging economic environments and require different approaches and solutions. Marine, while poised for growth, needs considerable growth capital to achieve its objectives.

Our passenger rail services are of immediate concern to us. The services lose millions of dollars in operating expenses every year. In addition, BC Rail cannot generate the capital required to rebuild its rolling stock on the main North Vancouver to Prince George service. We realize that tourists, who account for most of our passenger traffic, are important to the economy of this region. While we will be unable to maintain this service ourselves, we have been in discussions with various third parties to see if solutions can be found that would benefit stakeholders in the interior of British Columbia.

Finally, the long-term viability of the Railway can only be sustained by an aggressive commitment to cost reduction and assurance that all elements of the business contribute to the financial health of the Company.

2001 BOARD OF DIRECTORS & OFFICERS
(AS AT DECEMBER 31, 2001)

British Columbia Railway Company

DIRECTORS

John R. McLernon, Chair (2)
Anne M. Stewart (2)
Bev A. Briscoe (1)
Brian G. Kenning (1)
Len S. Marchand (2)
Patrick W. Rorison (3)
Jim F. Shepard (3)
Jim R. Yeates (1)

OFFICERS

Robert L. Phillips,
Group President and Chief Executive Officer

Robert P. Pirooz,
Group Vice President and
General Counsel / Corporate Secretary

Douglas A. Wilkes,
Group Vice President Finance and Chief Financial Officer

(1) Member of Audit, Finance and Risk Management Committee
(2) Member of Human Resources, Governance and Nominating Committee
(3) Member of Environment and Safety Committee

The central part of our 2001 strategy involved the evaluation of all industrial rail business units, with a goal of creating a streamlined railway that is safe, scheduled and self-funded.

To achieve our goal, in the past year we examined the contributions that each of the Company's business lines was making to the overall prosperity of the Group. Based on those assessments, we decided to exit some that would have required significant capital investments. Neither our shareholder, the British Columbia government, nor the Company, can provide these funds, given our respective fiscal situations.

This was the result of our evaluations:

· We exited the Trailer-on-Flat-Car (TOFC) segment of our Intermodal division.

· We pared back some of our passenger services in order to extend the service life of our Rail Diesel Car (RDC) fleet.

· We decided not to rebuild the Royal Hudson steam locomotive.

We are confident our strategic efforts will pay off in the long term. However, the year remained difficult: we reported a loss of $6.9-million and a one-time restructuring charge of $100-million, bringing our total loss to $106.9-million.

Subsequent to year end, we announced that we would embark on a process to offer BCR Marine for sale to the private sector. We believe that a private owner will have the investment capability necessary to make BCR Marine, already a strong asset, flourish in the face of strong international competition.

That sale, once completed, will help us towards our goal of being a streamlined, self-sustaining railway.

The year 2002 will present more challenges and, we believe, more opportunities for the Company. We feel that with our newer vision of the type of operation we want – a streamlined provincial railway whose mandate is safe, efficient transportation of goods throughout British Columbia - we will emerge stronger and healthier.

There will be other challenges in 2002. Union collective agreements expire on December 31, 2002. It is our hope that our efforts to improve relations with our unionized work force in 2001, such as through more frequent union/management health and safety meetings, will help make the negotiation process and end results satisfying to both parties.

We wish to take this opportunity to thank you all for the warm welcome we received when we assumed the leadership of this company. We also wish to recognize the dedication, commitment and hard work of our former directors who stepped down from the board this year, specifically John T. Goldsmith, our chair.

Our new board members remain committed to our goals of commercial viability and accountability. We believe their participation and strong sense of vision for the Company will serve it well.

We would also like to take this chance to thank all of our dedicated employees who work so hard each day for this company, in the good times and the bad. We believe the year 2002 will be one of change, but also one of strength.

John McLernon
Chairman of the Board
The BCR Group of Companies

Bob Phillips
Chief Executive Officer
The BCR Group of Companies

"Our ongoing challenge is that BC Rail is a regional railway that faces the same cost structures as larger North American railways, yet lacks their economies of scale."

BC RAIL: A YEAR IN REVIEW

In 2001, BC Rail faced one of its most difficult years ever. It was challenged by a variety of external factors, some anticipated, some horribly unexpected: the worldwide economic slump, volatile commodities prices, the softwood lumber tariffs imposed by the United States and the shocking September 11 tragedy.

Freight rail suffered a drop in lumber traffic as the hefty softwood tariffs forced many of the province's mills to close. In addition, the tariffs affected our customers' – and in turn our own - ability to plan for shipments. Weekly shipment volumes fluctuated dramatically from a low of 335 cars to a high of 686 cars during the year. Furthermore, our lumber fleet acquisition planned for last year was deferred due to the continued uncertainty the trade dispute caused.

In light of these setbacks, we took a variety of often-difficult measures to make the railway commercially viable, in accordance with our mandate and philosophy. Cost cutting ranked high among our strategies and will continue to do so in 2002 and beyond as we evaluate different initiatives to make the railway more efficient and productive.

But rest assured, we are looking beyond 2002. We have a plan to respond to the external difficulties we face. This plan has involved re-examining our entire business model to make us a safer, more reliable and self-funding commercial regional railway by 2004. The process involves focusing on our core business and becoming a streamlined regional freight railway – what we do best. Achieving long-term viability will take place only by reducing costs in the long term and adopting more efficient systems and work processes.

Our ongoing challenge is that BC Rail is a regional railway that faces the same cost structures as larger North American railways, yet lacks their economies of scale. We operate on diverse and challenging geographic terrain with predominantly uni-directional loaded traffic flow. Finally, due to its own fiscal situation, we receive no subsidies, debt relief or capital infusions from our shareholder, the BC government. These are among the factors forcing us to make changes to our present business model.

We enter this process with the advantage of an already strong freight railway operation. Among our achievements of 2001:

· Improved Freight Business from 2000, a $10.5-million increase in earnings before interest, taxes, depreciation and amortization (EBITDA).

· Reduced overall expenses by more than $25-million.

· Realized a 6% revenue yield improvement for freight commodities.

· Maintained Operating and Maintenance (O&M) expenses on budget, despite heavy demands on both of these areas in the first quarter of the year.

We also worked hard on strategies to better utilize our assets and move towards a more profitable mix of traffic, all in an effort to meet our business requirements more efficiently. This has meant examining all of our lines of business and evaluating what goods and services were profitable or not. We measured our traffic according to strict commercial viability tests.

One aspect of our business that did not meet these commercial viability benchmarks was our Intermodal, or Trailer-On-Flat-Car (TOFC) segment. As a result, in December 2001 we made public the difficult decision to discontinue the TOFC business effective February 1, 2002. Regrettably, the move affected approximately 25 employees in Prince George and approximately 75 in North Vancouver. However, after considerable analysis, we decided that we could not continue to run the division without considerable investment – about $30-million over 10 years. Furthermore, the TOFC segment was losing $2 million a year and had become an uneconomic mode of transportation with limited profitable growth potential.

In 2001, the cost of fuel created difficulties for the railway for the first half of the year. The weak Canadian dollar also worked against us because we purchase our fuel in US dollars. After September 11, prices recovered somewhat, ultimately providing some balance to the situation.

And on a more positive note, our fuel conservation recovery program launched in May 2000, paid dividends in terms of reducing fuel use, maintaining customer satisfaction and reducing environmental impacts. In financial terms this is a vital program since diesel fuel costs account for more than half of our train operating expenses. In 2001, we are pleased to note that our fuel consumption trended downwards from 8.5 litres per 1000 gross ton miles (GTMs) to 7.93 litres per 1000 GTMs.

Another positive achievement was the railway's significant improvement in safety. Stronger union-management co-operation resulted in a renewed effort to address personal injuries, train accidents, and the costs associated with these two elements. In 2001, we had a 37% improvement in lost time injuries over 2000.

In our constant commitment to improving customer service – a key management principle - we spent considerable time and effort reviewing our Information Technology Operating systems. Our goal was to improve and possibly replace or upgrade them to make the railway even more cost-effective. We recognize that an effective IT system is an element that will enable us to provide greater customer service and railroad efficiency and we continue to evaluate this vital component.

Our 12 terminal operations were centralized in our new Network Operations Centre at company headquarters in North Vancouver. This is where all the planning for customers' product movement is developed. All the planning, customer contacts and daily information flow to keep the rail traffic moving is processed out of one centre instead of 12. Although the project has not been without its problems, there has been a steady improvement to customer service levels and in our overall efficiency.

This year we will place continued emphasis on railway efficiency and customer service to retain and improve market share in our business lines.

Our passenger service division faced significant struggles in 2001. After serious consideration and analysis, it was decided not to repair the Royal Hudson steam engine. Although popular among tourists and BC residents, it was unprofitable and would have required costly maintenance and repairs. We are currently working with the steam engine's owner, the Provincial government, to ensure that this historic locomotive can be put on permanent display for the enjoyment and education of all British Columbians.

Despite these setbacks, going forward, we have a solid strategy in place for 2002 that we believe will stem the losses and provide a solution to our passenger services challenges.

The Pacific Starlight Dinner Train fits well with BC Rail and we intend to continue this service in 2002.

The Budd cars (Rail Diesel Cars), used on the Cariboo Prospector service, are losing money and are coming to the end of their service life. Unfortunately we do not have the means to replace or refurbish them. This would cost between $30-million to $35-million. The cars will be retired at the end of October 2002. Discussions are taking place with third parties to see if alternative services can be provided for the passenger rail tourist market. As well, consultations about essential services along Anderson and Seton Lakes were begun in late 2001 in order to provide transportation for people who rely on the train in that corridor.

This was the inaugural year of the Whistler Northwind, a passenger service for the high-end tourism market. Although well received, it will likely take a couple of seasons to realize a profit from the growing market it serves. We are redeploying our marketing efforts to focus on North America rather than Europe and have every reason to believe in its future success.

The year 2002 will be one year of challenge and change. But we believe that through management's efforts and those of our dedicated employees, we will emerge as a stronger and more viable railway.

Mark Mudie
President & Chief Operating Officer
BC Rail

"Management will capitalize on, and continue to lead the pace of change in the marine industry. Change creates challenges but it also generates opportunities to grow."

BCR MARINE: A YEAR IN REVIEW

2001 was both exciting and challenging for BCR Marine and its three business units, Canadian Stevedoring, Casco Terminals and Vancouver Wharves.

Canadian Stevedoring experienced a strong year, especially in grain exports, overcoming the lack of activity at Fairview Terminal in Prince Rupert due to the decline in resource based export activity in the region. Late in the year Stevedoring relocated its gear and equipment storage locker from rental accommodations to a new facility on previously undeveloped land within the loop tracks at Vancouver Wharves. A road overpass over the tracks was part of the project, which allows continual access both to the new locker and also to the balance of the undeveloped land base within the loop tracks.

At Casco Terminals, a 29-year agreement with the Vancouver Port Authority was finalized following which approval was given to proceed with a major terminal operations and capacity upgrade. A slowdown in world trade and changes to container shipping line call dates to the Port of Vancouver meant the loss of a long term container customer in the second half of the year. However, this reduced activity facilitated completion of the modernization project and Casco's container handling capacity has been increased from 150,000 units to 200,000 units annually. This new capacity was critical to Casco's success in attracting The New World Alliance, a major new 130,000 unit per year container customer, with shipments starting March 2002.

Vancouver Wharves experienced weakness in most resource sectors served, particularly pulp and mineral concentrates, due to soft world markets. However a strong shipping month in December brought total Vancouver Wharves 2001 tonnage handled above forecast. Agri shipments grew considerably following commissioning of the new gentle-handle agri facility and sulphur volumes were strong in the first full year following commissioning of the new dry bulk handling system.

Overall, operating ratios were improved, as was site safety where Casco and Vancouver Wharves both achieved WCB merit rating. Despite the difficult economy, BCR Marine employees set a record for contributions to the annual United Way campaign, both in terms of participation and total giving. As well, the administrative functions for BCR Marine were brought together in one location with the completion of a third floor addition to the Vancouver Wharves office building which now houses Canadian Stevedoring, Vancouver Wharves and Corporate management.

Management will capitalize on, and continue to lead the pace of change in the marine industry. Change creates challenges but it also generates opportunities to grow. BCR Marine is particularly well positioned to achieve growth across all business sectors at Canadian Stevedoring, container business expansion at Casco Terminals and continued agriproducts tonnage increases at Vancouver Wharves.

William Weymark
President, BCR Marine

SERVICE PLAN

The British Columbia Railway Company is a unique, fully commercial Crown Corporation, operating in full competition with the private sector. Because of the risks of disclosing commercially sensitive information or financial data, the company's Annual Report publishes only consolidated, historical results. Releasing other types of information to the public could seriously undermine the company's competitive position.

Going forward, BC Rail will focus on providing a strategic advantage to its customers, being a reliable and cost effective freight transport company, creating a market-driven approach to business and ensuring a safe and healthy working environment.

Between 2002 and 2004, there is one major capital project forecast at BC Rail: the purchase of a new fleet of box cars to handle OSB (oriented strand board) for a proposed new OSB plant in Fort St. John. The estimated capital cost of the car fleet is $55 million. The commitment for this capital expenditure will occur only when a construction start date for the OSB plant is confirmed.

BCR Marine's mission is to set the industry standard for customer service excellence, have the best trained, most highly motivated staff in the industry and exceed all prevailing environmental standards. It will grow financial returns to meet or exceed shareholder expectations.

Currently, Marine operates in many mature markets. Volumes through the Port of Vancouver are expected to remain flat at best. Competitors now exist outside of Vancouver and the Pacific Northwest, as far away as South America and Asia, where low-cost production facilities offer significant client advantages. However, it is investing in its Centerm facility to improve container capacity and handling productivity.

Furthermore, Marine's diversity lets it take advantage of new opportunities. Its various units, Casco, Vancouver Wharves and Canadian Stevedoring, are well positioned in their markets.

ABORIGINAL AFFAIRS OVERVIEW

There were three Aboriginal Affairs highlights during 2001, all of which served to foster positive, productive relationships between the BCR Group and its neighbouring First Nations. The first was the signing of two protocol agreements. The first protocol was signed in February 2001 with the Seton Lake Band. The second was signed in September with the Xaxli'p First Nation. These are the fifth and sixth protocols the BCR Group has signed with First Nations to date. The Company is currently working on others and anticipates that several more will be signed in 2002.

These agreements are crucial in maintaining understanding and respect between the Company and First Nations. The pacts create a formal communication and consultation structure to ensure that when problems arise affecting each party, the interests of both are protected and the issues are resolved to everyone's satisfaction.

The second highlight was the BCR Group's continuation of joint business venture discussions with a variety of First Nations. These joint ventures give First Nations the opportunity to make valuable contributions to both the Company and the British Columbia economy.

Each joint venture must meet proper business benchmarks before being approved. An example of a successful joint venture last year was the establishment of an art kiosk with the Squamish First Nation. It will display and sell its artwork at the North Vancouver passenger service station. Another component of this project is the creation of Squamish artwork for display on BC Rail's Whistler Northwind tourist train and its Pacific Starlight dinner train.

The third highlight was the vegetation management project undertaken between BC Rail and the Gitxsan First Nation. This innovative project, carried out in BC Rail's Takla subdivision northwest of Fort St. James, provided important mutual benefits. Five Gitxsan were trained and certified as pesticide applicators. They gained much-needed employment together with skills that can be used for future employment. BC Rail's safety levels were improved because the spraying controlled hazardous overgrowth along the track. A follow up program is planned for 2002.

BCR Group is proud of its relationship-building with First Nations and looks forward to continuing the process in 2002.

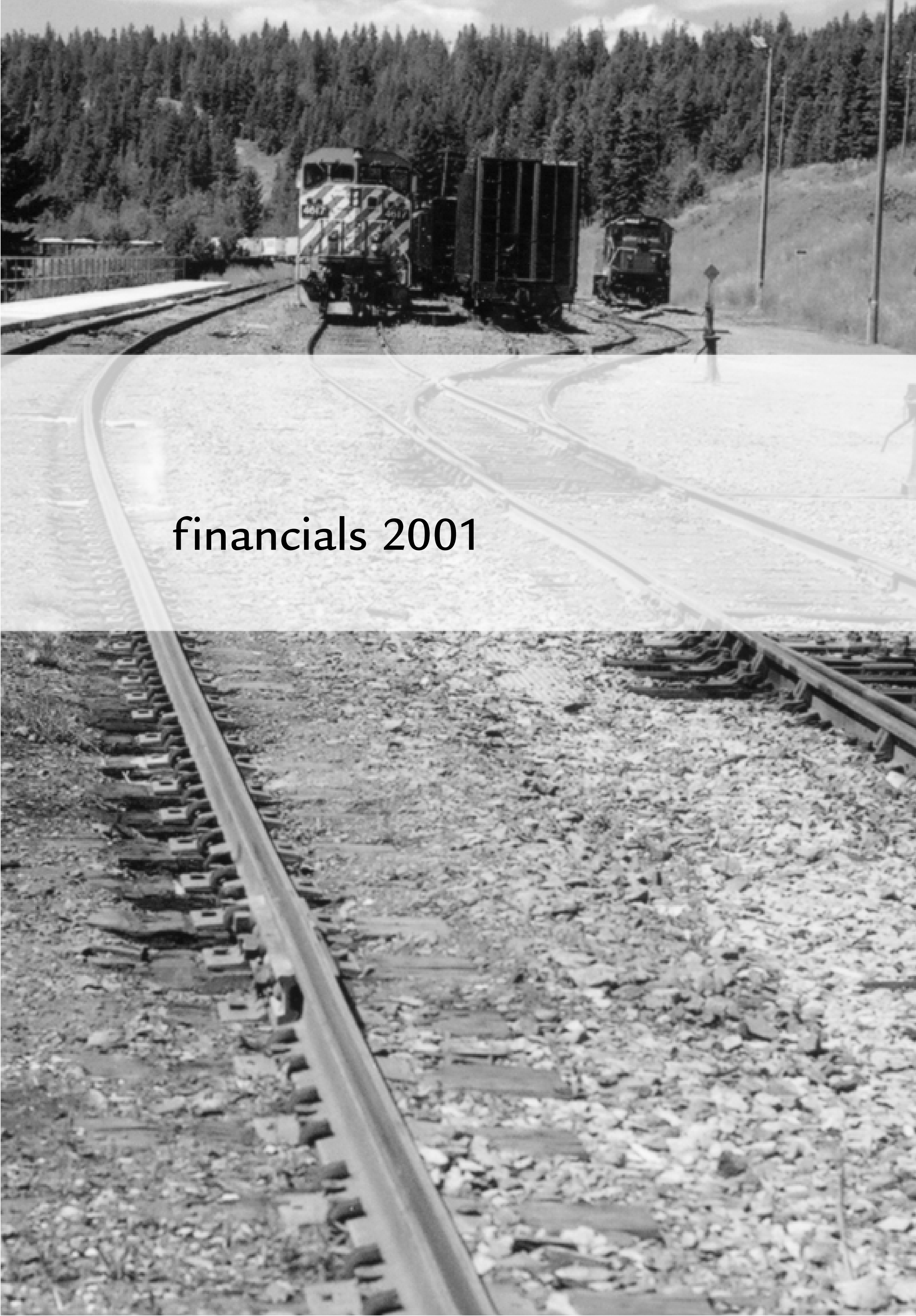
BC RAIL'S REGIONAL RAILWAY STATUS

As a regional railway, BC Rail faces challenges its competitors do not. It incurs the same costs as larger national railways but lacks their economies of scale.

To this end, in March 2001 BC Rail resigned membership in the Railway Association of Canada (RAC) and a new, regional railway association was born: the Association of Regional Railways of Canada, or ARRC. BC Rail President Mark Mudie was elected its first chairman.

The Association will act as a vehicle promoting the common interest of regional railways, although the members realize that sometimes their interests might not always be identical and they will take an appropriate course of action in those instances.

The ARRC sees its role as being a low-cost operation that will devote its resources to federal and provincial public policy issues that directly affect its membership.



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OVERVIEW

The BCR Group of Companies ('the BCR Group') is a competitive, commercial Crown corporation owned by the Province of British Columbia. The BCR Group comprises two distinct operating business units: BC Rail and BCR Marine. BC Rail is the historic founding company of the BCR Group and the railway is the core business unit. The acquisition of Vancouver Wharves in 1993, and Canadian Stevedoring in 1998, provided diversification into the marine terminal business and a wider range of freight commodities, as well as exposure to high-growth container traffic and the ability to handle other non-resource manufactured goods. In 1999, Vancouver Wharves and Canadian Stevedoring were combined to form the BCR Marine business unit.

BC Rail is challenged by the effects of a deregulated Canadian transportation industry encouraging competition between transportation modes, and the ongoing trend of mergers and consolidations between major North American railways, both causing pressure on BC Rail and its ability to provide competitive freight rates. Other difficulties faced by the railway are: the uncertainty in the forest sector, the loss of all northeast coal traffic by 2003 and the costly obligation to operate an unprofitable passenger train service.

To deal with these challenges, BC Rail's strategies for the future will be to aggressively pursue traffic growth only in commodities that yield adequate returns on investment, to reduce net operating expenses, to eliminate lines of business that do not yield positive contributions, to provide competitive, consistent services valued by freight shipping customers and to create a work environment capable of implementing and sustaining organizational transformation.

BCR Marine's growth is slowed by a general downward trend on commodity prices, mature markets yielding flat volumes, stringent environmental regulations, monitoring and enforcement, and the increasing waterfront urbanization limiting expansion possibilities. However, growth opportunities in container traffic are forecast for 2003. BCR Marine will invest in reconfiguring its Centerm facility to improve overall container capacity and handling productivity. Furthermore, there is focus on building annual tonnage in specialty agri-products now that Vancouver Wharves has fully commissioned its new handling and storage facilities.

RESULTS OF 2001 COMPARED TO 2000

The BCR Group's 2001 net loss of $106.9 million compares to a net loss for 2000 of $6.7 million. In each year, the BCR Group recorded special charges that are discussed more fully below.

Before special charges, the BCR Group's net loss was $6.9 million in 2001, a reduction of $13.2 million from 2000's net income of $6.3 million.

REVENUES

Consolidated revenues for 2001 were $447.2 million, down $48.5 million or 10% from 2000.

Revenues declined as a result of poor performances in the BCR Group's container, fertilizer, pulp, woodpulp, sulphur, and coal traffic.

In BCR Marine, container traffic revenue decreased by $12.9 million, or 29% to $31.4 million. The decrease is primarily the result of losing two significant customers. Fertilizer revenue declined by $2.2 million, or 96% to $0.09 million from overall reduced export to Australia and New Zealand. And, revenues from pulp shipments declined by $2.4 million, or 9% to $23.8 million as a result of a general slow down in the economy. In BC Rail, woodpulp revenues declined by $1.9 million, or 5% to $38.2 million. Woodpulp volumes have been negatively impacted by the decline in the world pulp market and the corresponding decline in export shipments followed by extensive mill curtailments and/or shutdowns. Sulphur revenues declined by $5.2 million, or 20% to $21.2 million. World sulphur prices remained depressed leading to lower average freight rates, and volumes were affected by difficulties of trucking product into Enersul from WestCoast Energy. Average per car revenues on coal shipments were higher than expected from improved strip ratios at the mine operating level, favourable exchange rates and higher world prices. However, coal revenues fell $3.9 million, or 23% to $12.9 million from reduced volumes due to the August 2000 closure of the Quintette mine.

Finally, revenues improved by the good performance of agri-products (grain, pulses and legumes) and lumber traffic.

Agri-products revenue from BCR Marine increased by $3.7 million, or 54% to $10.5 million. Increased tonnage in specialty grains was experienced as the new agri-products facility reached full production levels in 2001. In BC Rail, strong grain revenues resulted from a good growing season combined with an increase in car supply and incentive pricing. Grain revenues increased by $2.9 million, or 45% to $9.3 million. For the year end, BC Rail's lumber revenues increased by $3.8 million, or 8% to $49.8

million. The first half of the year was positively affected by the lower level of mill curtailments and the push by customers to ship their full quota prior to the expiry of the Softwood Lumber Agreement. Volumes dropped however, in response to the potential retroactive countervail and anti-dumping duties imposed by the United States. By the fourth quarter, volumes and prices continue to be adversely affected by the above-mentioned duties and reaction to the events of September 11th.

Real estate revenues in 2001 experienced a significant decline from $29.7 million to $10.4 million, a reduction of $19.3 million, or 65%. In December 2000, the BCR Group sold its portfolio of non-transportation related revenue-producing properties resulting in fewer buildings generating rental revenue and lowering building and land sales proceeds and income during the year.

Intermodal revenue decreased by $3.1 million, or 12% to $21.7 million primarily from the elimination of the LTL (less-than-trailer-load) service. Furthermore, TOFC (Trailers-On-Flat-Cars) revenue is lower than last year primarily due to the shift in product definition leading to a lower price per trailer.

Finlay Navigation revenues decreased by $1.2 million, or 14% to $7.2 million. The general decline in the forest industry and the United States' countervailing duty on softwood lumber adversely affected operations.

OPERATING EXPENSES

Consolidated operating expenses decreased by $32.8 million, or 7% to $418.6 million.

Labour costs decreased by $25 million, or 12% to $188.2 million due to an $8.9 million offset from improved Pension income. As well, direct labour cost reduction at BCR Marine correlated with the decrease in container volume and new process efficiencies gained in the loading/ unloading systems for all products.

Amortization expense increased by $7 million, or 12% to $67.1 million. The increase is due to significant capital additions in 2001 such as the Sulphur Expansion and Loop Track and the Specialty Agri-products Facility at BCR Marine, as well as a charge related to the write-down of assets at the end of 2001.

Purchased services and other expenses increased by $5 million, or 10% to $56.1 million. Increases include allocation of costs associated with restructuring charges for aid of employees, hiring new staff, and overall higher consulting costs from services related to forming the 2004 Strategic Plan.

Lease expenses decreased by $8.3 million, or 20% to $33.7 million primarily from the reduction in the size of BC Rail's fleet of leased cars to correspond with declining volumes in the forest industry.

Materials and supplies decreased by $6.8 million, or 18% to $31.7 million due to overall declining volumes.

Fuel costs decreased by $3.2 million, or 9% to $31.8 million. At BC Rail, a $1 million savings resulted from the move to use diesel versus electric locomotives on the Tumbler Ridge branchline. The remaining decrease in fuel is due to a fall in the price of fuel per litre, BC Rail's fuel conservation program and the decline in the general volume resulting from the overall decrease in cargo tonnage.

Capital and operating taxes decreased by $1.6 million, or 14% to $9.9 million, primarily from the significant reduction in the Group's real estate portfolio.

NON-OPERATING EXPENSES

Consolidated non-operating expenses decreased by $2.5 million, or 7% to $35.5 million.

Net interest expense decreased by $0.5 million, or 1% to $37.5 million. Reduction in long-term debt and related interest results from the reduction in capital lease obligations, the pay-out of real estate mortgages, the maturity of a third party note and the increase in sinking funds.

Income taxes for 2001 resulted in a recovery of $2 million.

SPECIAL CHARGES

Results for 2001 include a special charge of $100 million in relation to the restructuring of the BCR Group's rail business. The Group continues to experience inadequate returns on its assets. Accordingly, the BCR Group addressed this challenge through the planning and approval of a plan to reorganize its rail operations. The reorganization involves closing redundant offices, eliminating non-strategic lines of business, and implementing changes in systems, personnel, and business processes. The plan is expected to be in place by 2004. The estimated cost, however, has been fully recorded in 2001.

The special charge in 2000 of $13 million related solely to environmental matters. The BCR Group recorded the charge in 2000 for both anticipated expenditures on environmental remediation programs to the year 2010 and expected liabilities in relation to specific sites.

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 generally accepted accounting principles 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 a program of internal audits and 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 of the Board of Directors, composed of directors who are not officers of the Company, meets with the independent auditors, management and internal auditors 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 Lieutenant Governor in Council 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.

R. L. Phillips
President and
Chief Executive Officer

P.M. Ballachey
Vice-President and
Controller

AUDITOR'S 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, 2001 and the consolidated statements 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 audit.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2001 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 22, 2002

CONSOLIDATED BALANCE SHEET

(IN THOUSANDS OF DOLLARS)

December 31	2001	2000
ASSETS		
Current		
Cash and cash equivalents	$ 21,095	$ 18,525
Accounts receivable	76,354	92,218
Inventories and other items	29,897	31,638
	127,346	142,381
Property and equipment – Note 2	1,092,471	1,109,961
Other assets – Note 3	109,917	119,384
	$ 1,329,734	$ 1,371,726
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current		
Accounts payable and accrued liabilities	$ 127,583	$ 121,204
Short-term notes payable to the Province	86,471	50,596
Current obligations on long-term debt – Note 4	7,590	8,833
Current portion of deferred revenue	2,532	2,532
	224,176	183,165
Other liabilities – Note 5	114,676	78,544
Deferred revenue	18,844	21,376
Long-term debt – Note 4	552,522	562,218
	910,218	845,303
Commitments – Note 7		
Contingent liabilities – Note 8		
Shareholder's equity		
Share capital – Note 6	257,688	257,688
Contributed surplus – Note 6	277,547	277,547
Deficit	(115,719)	(8,812)
	419,516	526,423
	$ 1,329,734	$ 1,371,726

See accompanying notes.

On behalf of the Board

John McLernon
Director

Brian G. Kenning
Director

CONSOLIDATED STATEMENT OF INCOME AND DEFICIT

(IN THOUSANDS OF DOLLARS)

For the years ended December 31	2001	2000
Revenues	$ 447,178	$ 495,721
Expenses		
Labour costs	188,188	213,242
Amortization of property and equipment	67,108	60,027
Purchased services and other	56,149	51,083
Lease expense	33,705	41,993
Materials and supplies	31,690	38,500
Fuel	31,809	35,053
Capital and operating taxes	9,956	11,553
	418,605	451,451
Operating income	28,573	44,270
Non-operating expenses		
Net interest expense – Note 10	37,469	37,918
Income tax expense (recovery) – Note 11	(1,989)	73
Income (loss) before special charges	(6,907)	6,279
Special charges		
Restructuring – Note 9	100,000	-
Environmental – Note 9	-	13,000
Net loss	(106,907)	(6,721)
Deficit, beginning of year	(8,812)	(2,091)
Deficit, end of year	$ (115,719)	$ (8,812)

See accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

(IN THOUSANDS OF DOLLARS)

For the years ended December 31	2001	2000
Operating activities		
Net loss	$ (106,907)	$ (6,721)
Adjustment for items not involving cash		
Loss (gain) on sale of assets	110	(9,569)
Amortization of property and equipment	67,108	60,027
Amortization of other assets and liabilities	1,275	772
Pension and post employment benefit income – Note 12	(10,091)	(1,209)
Pension and post employment benefit contributions – Note 12	(2,036)	(1,790)
Future income taxes – Note 11	(2,101)	(35)
Deferred revenue	(2,577)	(1,935)
Special charges – Note 9	100,000	13,000
Net change in non-cash working capital – Note 13	(6,943)	(19,077)
Cash provided by operating activities	37,838	33,463
Investing activities		
Purchase of property and equipment	(84,688)	(121,786)
Proceeds on sale of property and equipment, net of selling costs	23,696	109,964
Investment in Finlay Navigation Limited Partnership	-	2,208
Change to insurance deposits	1,448	(3,974)
Additions to other assets	(1,334)	(2,526)
Cash used in investing activities	(60,878)	(16,114)
Financing activities		
Short-term notes advanced from the Province	35,875	30,603
Payments and interest earned on sinking funds	(6,188)	(6,366)
Proceeds from long-term borrowings	-	4,838
Repayment of long-term debt	(4,077)	(60,622)
Change in other liabilities	-	5,943
Cash provided by (used in) financing activities	25,610	(25,604)
Increase (decrease) in cash and cash equivalents	2,570	(8,255)
Cash and cash equivalents, beginning of year	18,525	26,780
Cash and cash equivalents, end of year	$ 21,095	$ 18,525

See accompanying notes.

DECEMBER 31, 2001 (TABULAR AMOUNTS IN THOUSANDS OF DOLLARS)

British Columbia Railway Company is owned by the Province of British Columbia (the "Province") and was incorporated under the British Columbia Railway Act.

The Company provides transportation and terminal services within British Columbia including rail, deep-sea terminals and stevedoring.

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.

Basis of consolidation

These consolidated financial statements include the accounts of British Columbia Railway Company and all subsidiaries. In these notes, "Company" refers to British Columbia Railway Company, its subsidiaries and partnerships. All significant inter-company transactions have been eliminated.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates relate to the determination of net recoverable value of 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

Road property is recorded at cost, net of government grants. Abandoned or relocated sections are removed at average unit costs. Track materials installed during planned programs are recorded at cost. However, labour costs for programmed replacements are expensed as incurred. Repairs and non-programmed replacements of track structure are charged against current operations. Betterments and major track relocations are capitalized.

In accordance with generally accepted accounting practices for railways in Canada, property and equipment is amortized on a straight-line basis over the estimated useful lives of the assets. The cost of assets retired or disposed, less salvage value, is charged against accumulated amortization in accordance with the group method of amortization. No gain or loss on retirements, other than on accidental destruction of rolling stock and on disposal of land and commercial property, is included in income. The original cost of assets less estimated salvage value is amortized over the following number of years:

	Number of Years
Road and buildings:	
Tunnels	150
Grade	100
Bridges	30 - 80
Rail, ties and ballast	25 - 35
Wharves and buildings	10 - 40
Equipment:	
Locomotives	25
Freight cars	15 - 33
Handling and other equipment	3 - 20

Goodwill

Goodwill reflects the excess of purchase consideration over the fair value of the identifiable assets acquired. In the absence of evidence of impairment in value, goodwill is being amortized over its expected useful life of 25 years on a straight-line basis. Management annually reviews the carrying value and recoverability of goodwill based on its best estimates of undiscounted future cash flows.

Deferred revenue

Under contracts with certain shippers, the Company receives payments in advance of handling and storage charges, usually to assist with the financing of the construction of new storage facilities. These payments are included in deferred revenue and recognized over the term of the related handling contract.

Revenue recognition

Rail freight revenues and associated movement costs are recognized as the service is performed. Stevedoring revenue is recognized when services for a particular vessel have been completed. Terminal revenues are recognized as the services are performed.

Foreign exchange

Transactions denominated in a foreign currency are translated at exchange rates prevailing on the date of transactions. Assets and liabilities denominated in a foreign currency at the balance sheet date, except those subject to swap agreements (Note 4), are translated to equivalent Canadian amounts at the exchange rate in effect on that date.

Income taxes

The Company follows the assets and liability method of accounting for income taxes. Under this method, changes in future tax asset and liability balances are included in income. These balances are determined using enacted tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled.

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 policies are as follows:

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

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

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

iv) Past service costs from plan amendments, experience gains and losses and any changes in assumptions are amortized on a straight-line basis over the expected average remaining service period of active employees and included in the pension expense for the year.

DECEMBER 31, 2001 (TABULAR AMOUNTS IN THOUSANDS OF DOLLARS)

2. PROPERTY AND EQUIPMENT

	2001			2000		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Road and buildings	$1,584,603	$ 980,115	$ 604,488	$1,574,285	$ 968,976	$ 605,309
Equipment	692,302	254,799	437,503	724,744	264,185	460,559
Equipment under capital lease	31,384	24,346	7,038	35,910	26,827	9,083
Construction in progress	43,442	-	43,442	35,010	-	35,010
	$2,351,731	$1,259,260	$1,092,471	$2,369,949	$1,259,988	$1,109,961

During the year, the Company entered into two agreements with the Province and the Squamish Nation for the exchange of parcels of land. Under these agreements, the Company exchanged land, development costs and cash for a total value of $4.4 million for land, timber rights and cash with a fair value of $4.7 million. The Company recognized a gain of $300,000 on the transaction, which was recorded at market value.

Interest of $1,005,000 (2000 - $3,432,000) has been capitalized.

3. OTHER ASSETS

	2001	2000
Goodwill		
Cost	$ 37,340	$ 37,340
Accumulated amortization	(5,899)	(3,585)
	31,441	33,755
Insurance deposits	23,024	24,472
Deferred system costs	1,987	15,469
Deferred terminal construction costs	8,201	8,450
Accrued benefit asset - Note 12	29,233	15,407
Mortgages receivable	7,398	7,997
Other	8,633	13,834
	$109,917	$119,384

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.

Deferred system costs include costs incurred to develop information systems, which are being amortized over their expected useful lives of 3 to 7 years.

Deferred terminal construction costs are those incurred jointly with the Vancouver Port Authority to construct terminal assets at two piers, which are leased by the Company. The costs are being amortized over the term of the lease agreements.

DECEMBER 31, 2001 (TABULAR AMOUNTS IN THOUSANDS OF DOLLARS)

4. LONG-TERM DEBT

(a) Long-term debt outstanding, less current maturities, consists of the following:

		2001	2000
Sinking fund bonds, notes and debentures payable to the Province of British Columbia:			
8.00%	due August 2005	$ 44,000	$ 44,000
10.99%	due August 2005	24,490	24,490
6.00%	due June 2008	50,000	50,000
6.377%	due July 2009	150,000	150,000
8.00%	due June 2026	50,000	50,000
6.15%	due November 2027	25,000	25,000
5.70%	due June 2029	175,000	175,000
5.75%	due January 2039	50,000	50,000
		568,490	568,490
Capital lease obligations		14,365	17,902
Mortgage payable		-	733
Other long-term notes payable		714	1,195
		583,569	588,320
Less:			
Sinking funds		23,457	17,269
Current portion		7,590	8,833
		$552,522	$562,218

(b) The sinking fund bonds, notes and debentures payable to the Province of British Columbia are unsecured.

(c) Sinking fund requirements for the next five years are as follows:

2002	$4,918
2003	4,918
2004	4,918
2005	4,918
2006	3,862

(d) The 6.377% note is a French franc note subject to swap agreements arranged by the Company's fiscal agent, the Province, which effectively converts the note into a Canadian dollar obligation due to the Province.

DECEMBER 31, 2001 (TABULAR AMOUNTS IN THOUSANDS OF DOLLARS)

4. LONG-TERM DEBT (cont'd)

(e) Effective interest rates for assets under capital leases recorded in the property and equipment accounts as at December 31, 2001 are in the range of 5.6% to 13.1%. The future minimum lease payments are as follows:

2002	$ 3,955
2003	3,955
2004	1,965
2005	1,965
2006	1,965
Later years	12,660
Total minimum lease payments	26,465
Less:	
Maintenance costs	4,493
Imputed interest	7,607
Net liability	$14,365

5. OTHER LIABILITIES

	2001	2000
Accrued non-pension benefit obligation – Note 12	$ 43,322	$41,575
Restructuring costs – Note 9	35,032	-
Workers' compensation	16,125	14,627
Environmental costs – Note 9	13,000	13,000
Future income taxes – Note 11	6,053	8,154
Other	1,144	1,188
	$114,676	$78,544

6. SHARE CAPITAL

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

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

On March 29, 2000, the Province approved a $233,169,000 reduction in the contributed surplus of the Company, with a corresponding elimination of the deficit of $233,169,000 at December 31, 1999.

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

DECEMBER 31, 2001 (TABULAR AMOUNTS IN THOUSANDS OF DOLLARS)

7. COMMITMENTS

The following is a schedule of future minimum payments at December 31, 2001, required under non-cancelable operating leases:

2002	$24,192
2003	11,736
2004	6,111
2005	2,591
2006	1,033
Later years	4,132
Total minimum lease payments	$49,795

At December 31, 2001, the Company had outstanding commitments to acquire fuel, material and equipment amounting to $19 million (2000 - $24 million), which approximates fair value.

8. CONTINGENT LIABILITIES

Litigation

The Company is contingently liable with respect to pending litigation and claims arising in the normal course of business. In the opinion of management, any liability that may arise would not have a material adverse effect on future income as sufficient provisions have been made.

9. RESTRUCTURING AND ENVIRONMENTAL COSTS

Restructuring costs

During the year, the Company approved its 2004 Strategic Plan to reorganize its rail operations. The reorganization involves closing redundant offices, eliminating non-strategic lines of business, and implementing changes in systems, personnel, and business processes. The 2004 Strategic Plan is expected to be complete by the end of fiscal 2003. The estimated cost, however, has been fully recorded in the 2001 financial year.

The restructuring costs included in the year ended December 31, 2001 are as follows:

Asset write-downs	$ 36,400
Accrued future expenditures	63,600
	$100,000

DECEMBER 31, 2001 (TABULAR AMOUNTS IN THOUSANDS OF DOLLARS)

9. RESTRUCTURING AND ENVIRONMENTAL COSTS (cont'd)

Environmental matters

The risk of environmental liability is inherent in the operation of railways, terminal facilities, and property management companies with respect to both current and past operations. As a result, the Company incurs significant costs, on an ongoing basis, associated with environmental regulatory compliance and clean-up requirements.

As at December 31, 2000, the Company recorded a $13 million charge for both anticipated expenditures on environmental remediation programs to the year 2010 and expected liabilities in relation to specific sites.

The Company believes it has identified the costs likely to be incurred in 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.

10. NET INTEREST EXPENSE

	2001	2000
Interest on long-term debt and notes to the Province	$40,312	$41,833
Interest on other long-term debt	271	1,485
Interest on capital lease obligations	1,418	1,696
	42,001	45,014
Less:		
Sinking fund earnings	1,265	892
Interest earned on temporary investments	2,262	2,772
Interest capitalized	1,005	3,432
	4,532	7,096
Net interest expense	$37,469	$37,918

11. INCOME TAXES

(a) Income tax expense (recovery) is comprised as follows:

	2001	2000
Current	$ 112	$ 108
Future	(2,101)	(35)
	$(1,989)	$ 73

DECEMBER 31, 2001 (TABULAR AMOUNTS IN THOUSANDS OF DOLLARS)

11. INCOME TAXES (cont'd)

(b) As at December 31, 2001, the Company had available tax losses carried forward aggregating $309 million. The tax losses available to be carried forward expire as follows:

2002	$ 24,000
2003	42,000
2004	14,000
2005	32,000
2006	45,000
2007	66,000
2008	86,000
Total	$309,000

12. EMPLOYEE BENEFITS

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

	Pension Plans		Other Plans	
	2001	2000	2001	2000
Reconciliation of accrued benefit asset (obligation)				
Opening balance	$(431,442)	$(472,009)	$(31,724)	$(30,623)
Current service cost	(13,827)	(15,118)	(725)	(748)
Benefits paid	23,149	16,396	932	890
Interest cost	(32,008)	(30,491)	(2,399)	(2,243)
Actuarial gains (losses)	(35,652)	69,780	(3,455)	1,000
Ending balance	(489,780)	(431,442)	(37,371)	(31,724)
Reconciliation of plan assets				
Opening balance	657,446	530,775	-	-
Actual return on plan assets	(62,571)	143,080	-	-
Employer contributions	1,104	900	932	890
Employee contributions	18	66	-	-
Benefits	(23,149)	(17,375)	(932)	(890)
Ending balance	572,848	657,446	-	-
Fund status – surplus (deficit)	83,068	226,004	(37,371)	(31,724)
Unamortized transitional obligation and actuarial gain	(53,835)	(210,597)	(5,951)	(9,851)
Accrued benefit asset (liability)	$ 29,233	$ 15,407	$(43,322)	$(41,575)

DECEMBER 31, 2001 (TABULAR AMOUNTS IN THOUSANDS OF DOLLARS)

12. EMPLOYEE BENEFITS (cont'd)

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

	Pension Plans		Other Plans	
	2001	2000	2001	2000
Discount rate	7.0%	7.5%	7.0%	7.5%
Expected long-term rate of return on plan assets	7.0%	7.0%	-	-
Salary escalation rate	3.0%	2.5%	-	-

The weighted average rate of increase in the per capita cost of future covered health care benefits was assumed to be 6.3% in 2001 (2000 – 8.0%) and declines to 4.2% annually after eight years.

The plan asset portfolio currently comprises equity investments and debt. Equity investments are 50%-70% of the portfolio and include Canadian, International, and Real Estate investments. Debt is 30%-50% of the portfolio and comprises short-term debt, bonds and mortgages. Asset mix is reviewed periodically and may vary in the future.

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

	Pension Plans		Other Plans	
	2001	2000	2001	2000
Current service cost	$ 13,809	$ 15,053	$ 725	$ 748
Interest cost	32,008	30,491	2,399	2,243
Expected return on plan assets	(44,955)	(39,217)	-	-
Amortization of transitional asset, actuarial gains and losses	(12,667)	(10,249)	(446)	(414)
Change in valuation allowance	(964)	136	-	-
Net benefit plan expense (income)	$(12,769)	$ (3,786)	$ 2,678	$2,577

13. STATEMENT OF CASH FLOWS – SUPPLEMENTAL INFORMATION

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

	2001	2000
Accounts receivable	$ 15,864	$ (14,834)
Inventories and other items	(3,544)	(4,090)
Accounts payable and accrued liabilities	(19,307)	(776)
Deferred revenue	44	623
	$ (6,943)	$ (19,077)

DECEMBER 31, 2001 (TABULAR AMOUNTS IN THOUSANDS OF DOLLARS)

13. STATEMENT OF CASH FLOWS – SUPPLEMENTAL INFORMATION (cont'd)

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

	2001	2000
Interest paid to third parties	$ 41,822	$ 45,327
Interest received from third parties	(3,457)	(3,634)
	$ 38,365	$ 41,693

(c) The following are non-cash transactions recorded during the year:

	2001	2000
Other assets and mortgages payable	$ -	$ 294
Other assets and fixed assets	2,040	-
Road and building and mortgages receivable	-	6,987
Assets acquired under capital lease	-	2,632
Restructuring charge	100,000	-
	$102,040	$ 9,913

14. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

15. COMPARATIVE FIGURES

The presentation of the 2000 consolidated financial statements has been restated to conform with that of the current year.

STATEMENT OF CORPORATE GOVERNANCE

Sound corporate governance principles are essential to the success of every commercial enterprise. The BCR Group of Companies is committed to these principles to foster the continued success of the BCR Group.

A Code of Conduct for all BCR Group employees, officers, agents and directors was introduced in 1995 and remains in effect today. The Code emphasizes the importance of honesty, fair dealing, faithful performance of contract and integrity. In 1999, the Board of Directors adopted Standards of Ethical Conduct for Directors and Officers. The Standards recognize the additional responsibilities and duties that directors and officers have to the BCR Group of Companies. The implementation of the Standards of Ethical Conduct 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.

The BCR Group of Companies will continue to review its governance practices to ensure that they are consistent with the Code and that they contribute to the sound direction and management of BCR Group business.

The Board of Directors carries out its duties with a primary objective of enhancing shareholder value. The Board has the authority and duty to supervise management of the Company's business affairs. Management reviews and revises the objectives for the Company with the Board, which considers and approves them and monitors progress towards their achievement.

The business plan and forecast are reviewed and approved by the Board prior to the start of each fiscal year. The approval of the business plan and budget establishes the authority of senior management to take the actions indicated in the business 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. Reports are distributed to the Board, and at quarterly directors' meetings, management reviews with the Board the progress of business units in meeting the business plan and budgets.

The Board regards the selection and compensation of senior management as an important element of meeting the Company's objectives. It has delegated this function to an independent Human Resources, Governance and Nominating Committee consisting of three non-executive members. The committee, with the assistance of independent consultants, considers compensation for senior management, which is designed to reward effort, reflect the Company's performance in relation to current objectives and to be consistent with market rates of compensation.

The Board recognizes the importance of maintaining effective internal, financial and other controls, sound management information systems and timely, consistent financial reporting. The Board has delegated the overseeing of management's performance of these functions to an independent three-member Audit, Finance and Risk Management Committee whose members have been selected for their ability and experience with these functions. The committee meets at least twice annually with the Company's auditors to review annual planning for the audit of the Company's accounts, to monitor the progress of the audit and to review the auditor's report and recommendations. The committee has direct access to the Company's internal audit staff. The committee also approves all other financial information prepared by management for public release.

Management has primary responsibility for establishing objectives for the Company. The objectives are designed to exploit opportunities available to the Company and 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 Company's development and the markets in which it operates. In pursuit of these objectives, management prepares an annual business plan and a five-year strategic plan, including financial forecasts and annual operating and capital budgets.

CONSOLIDATED FIVE-YEAR REVIEW

	FISCAL YEAR				
	2001	2000	1999	1998	1997
			(Restated)		
Income Statement Items (in thousands)					
Revenues	$ 447,178	$ 495,721	$ 478,053	$ 417,567	$ 427,118
Expenses	418,605	451,451	411,167	357,872	349,539
Operating income	28,573	44,270	66,886	59,695	77,579
Finance costs and income taxes	35,480	37,991	32,362	35,562	37,381
Income before special charges	(6,907)	6,279	34,524	24,133	40,198
Special charges	100,000	13,000	616,583	-	-
Net income (loss)	$ (106,907)	$ (6,721)	$ (582,059)	$ 24,133	$ 40,198
Rate of Return (income before special charges)					
On shareholder's equity	-1.5%	1.2%	4.2%	2.2%	3.5%
Other Financial Highlights					
Capital additions, net (in millions)	$ 63	$ 14	$ 156	$ 105	$ 126
Total assets (in millions)	$ 1,330	$ 1,372	$ 1,387	$ 1,944	$ 1,771
Operating ratio	93.6%	91.1%	86.0%	85.7%	81.8%
Debt : equity	57:43	52:48	53:47	35:65	28:72
Employees	1,953	1,999	2,088	2,249	2,361
Traffic and Operating Statistics					
BC Rail Business Unit					
Revenue ton-miles (millions)	4,865	5,058	5,106	4,947	5,200
Gross ton-miles (millions)	8,696	8,914	9,090	8,986	9,375
Net : gross ton-miles	36:64	36:64	36:64	36:64	36:64
Revenue tons (thousands)	13,988	15,273	16,177	16,230	17,933
Carloadings	168,120	184,125	193,627	193,882	212,189
Revenue tons per carload	83	83	84	84	85
Revenue ton miles					
per BC Rail employee (thousands)	2,847	2,882	2,685	2,446	2,498
Number of locomotives at year end	125	129	127	122	123
Number of freight cars at year end	9,186	9,563	9,538	9,846	9,701
BCR Marine Business Unit					
Vancouver Wharves Limited Partnership					
Tonnage shipped (thousands)	4,046	4,292	3,463	3,772	5,200
Tons handled per employee	22,603	20,321	15,552	17,097	20,001
Canadian Stevedoring Limited (Note 1)					
Tonnage handled (thousands)	9,633	10,041	8,816	1,525	-
Tons handled per employee	17,030	15,763	14,645	2,495	
BCR Properties Business Unit					
Leased square feet (thousands)	536	309	1,663	1,340	832
Revenue per employee (thousands)	$ 914	$ 1,192	$ 1,489	$ 1,346	$ 1,088

Note 1: Canadian Stevedoring Company was purchased October 31, 1998.