BRITISH
COLUMBIA
RAILWAY
COMPANY

2004
ANNUAL REPORT

MESSAGE FROM THE CHAIR OF THE BOARD

2004 was a transition year for the British Columbia Railway Company (BCRC). During the first half of the year, it continued to own and operate the freight railway while also working towards the completion of the partnership transaction with Canadian National Railway (CN). On July 14, 2004, the transaction closed and CN assumed the operations of the freight railway.

BCRC's original mandate was to construct and operate a freight railway in British Columbia. Upon disposition of the freight railway operations to CN, the mandate of BCRC changed significantly. As set out in the November 2004 Shareholder's Letter of Expectations, the Shareholder has revised BCRC's mandate and instructed the Board of Directors to continue to wind down and/or to dispose of the remaining business units, assets and non-railway related real estate owned by BCRC and/or its subsidiaries. BCRC will continue to own the railway right-of-way, railbed and track infrastructure that supports the freight railway.

Due to the significant restructuring of BCRC that resulted from the CN transaction in 2004, this annual report does not track a chain of events set out in a service plan but rather reports on the events and achievements of 2004 and presents an outlook for the future which reflects BCRC's revised mandate.

The 2004 British Columbia Railway Company Annual Report was prepared under my direction in accordance with the *Budget Transparency and Accountability Act*. I am accountable for the contents of the report. The information presented reflects the actual performance of the Crown agency for the twelve months ended December 31, 2004. All significant decisions, events and identified risks, as of December 31, 2004, have been considered in preparing the report.

John McLernon, Chair
British Columbia Railway Company

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CORPORATE RESTRUCTURING IN 2004

The last annual service plan prepared by the British Columbia Railway Company (BCRC) was for the fiscal years 2003-2005. That plan maintained and expanded the course set in 2002, when BCRC focused on a return to its core business of operating the freight railway. The implementation of the 2003-2005 service plan resulted in significant organizational changes in 2003, with the disposition of Casco Terminals and Canadian Stevedoring and the discontinuance of passenger rail services.

Early in 2003 the Province of British Columbia announced its intention to restructure BCRC and seek a private sector operator for the freight railway. In light of this corporate restructuring initiative, the Province granted an exemption to BCRC from the service planning requirements of the *Budget Transparency and Accountability Act* for fiscal years 2004-2006. The granting of this exemption recognized that it would have been impractical to carry out a meaningful planning process with the likelihood of a significant transaction concluding during the planning period that could fundamentally alter BCRC's on-going operations.

After a lengthy competitive process, the Province announced the BC Rail/Canadian National Railway (CN) Investment Partnership in November 2003. This partnership meant that CN, as the successful proponent, would assume the freight railway operations.

At the time of the Investment Partnership announcement, it was anticipated that the transaction with CN would conclude on or before March 31, 2004. However, the transaction did not conclude until July 14, 2004, after the review and approval of the federal Competition Bureau.

Due to the significant corporate restructuring of BCRC that resulted from the CN transaction in 2004, this annual report does not track a chain of events set out in a service plan but rather reports on the events and achievements of 2004 and presents an outlook for the future which reflects BCRC's revised mandate.

ORGANIZATIONAL OVERVIEW

Mandate

BCRC's original mandate was to construct and operate a freight railway in British Columbia. Upon the disposition of the freight railway operations to CN, the mandate of BCRC changed significantly. The residual assets and entities currently owned and operated by BCRC and its subsidiaries, with the exception of the railway right-of-way, railbed and track infrastructure, are not required to be publicly owned. As a result, the Shareholder has revised BCRC's mandate and instructed the Board of Directors to continue to wind down and to dispose of the remaining business units, assets and non-railway related real estate owned by BCRC and/or its subsidiaries.

Over the long-term, BCRC will continue to own the railway right-of-way, railbed and track infrastructure that supports the freight railway. Therefore, BCRC's recently revised mandate includes the effective management of the Revitalization Agreement between BCRC, as landowner and CN, as tenant. This entails establishing a management system for the Revitalization Agreement.

In recognition of its revised mandate, BCRC's 2005-2007 Annual Service Plan establishes a framework to guide the development of appropriate accountability measures for BCRC's long-term mandate as landowner of the railway right-of-way, railbed and track and for the disposition of BCRC's remaining business units, assets and non-railway related real estate.

Mission

BCRC's revised mission is set out in its 2005 to 2007 Annual Service Plan. Its mission is to "*establish an effective management system for the Revitalization Agreement between BCRC and CN while ensuring the efficient wind down and/or disposition of BCRC's remaining businesses, assets, and non-railway related real estate*."

Enabling Legislation

BCRC is a Crown corporation governed by two principal pieces of legislation. The *British Columbia Railway Act* establishes the corporation's structure, responsibilities and accountabilities. The *British Columbia Railway Finance Act* establishes the borrowing and investment framework for BCRC. BCRC must also meet the requirements of the *Financial Administration Act*, *Financial Information Act* and the *Budget Transparency and Accountability Act*.

Core Business Areas and Services

BCRC continues as a commercial Crown corporation with all of its remaining business activities operating in competition with the private sector. BCRC operates without government subsidies. Borrowing is done through the Ministry of Finance and full financial reporting is provided in accordance with the provisions of both the *Financial Information Act* and the *Budget Transparency and Accountability Act*.

BCRC continues to operate several subsidiaries, including:

BCR Port Subdivision Ltd.

~ This subsidiary operates the 37-kilometre railway line connecting three major railways (CN, Canadian Pacific Railway and Burlington Northern Santa Fe Corporation) with the port terminals at Roberts Bank. While operating none of its own trains on this railway line, the BCR Port Subdivision maintains the track and manages the operations on a shared cost basis of the users it serves. The Port Subdivision is regulated provincially under the *Railway Act*.

BCR Properties Ltd.

~ This subsidiary owns and manages the real estate portfolio not required to support railway operations. The portfolio consists of approximately 395 parcels of commercial, industrial and vacant land and buildings. Much of the industrial land is leased to long-term tenants.

BCR Captive Insurance Co. Ltd.

~ This wholly owned insurance company provides primary property, general liability, terminal operator's liability, automobile physical damage and excess automobile liability coverage to BCRC and any subsidiary in which BCRC has a controlling interest. BCR Captive is regulated by the Financial Institutions Commission.

Vancouver Wharves Limited Partnership

~ Based in North Vancouver, this port facility handles inbound and outbound shipments of mineral concentrates, pulp, sulphur, fertilizers and agri-products.

In addition, there are other non-operational subsidiaries, many of which are currently in the process of being wound down and/or dissolved.

2004 HIGHLIGHTS

BC Rail/CN Investment Partnership

Early in 2003, the Province of British Columbia announced its intention to restructure BCRC and seek a private sector operator for the freight railway. This initiative came as a result of the "Northern Priorities 2002 Transportation Symposium." The Symposium brought together a comprehensive group of stakeholders, including local governments and industry representatives, from across northern British Columbia to identify solutions to regional transportation challenges, including those associated with the freight railway.

A report of final conclusions and recommendations suggested that British Columbia's transportation infrastructure needed renewal and one key way of achieving this renewal was to seek an experienced private sector operator for BCRC's freight railway. This initiative would resolve some of the railway's financial challenges and provide the investment necessary to grow and revitalize the railway infrastructure.

After a lengthy competitive process, which involved consultation with communities, shippers and other stakeholders, the Province announced the BC Rail/CN Investment Partnership in November 2003. This partnership meant that CN, as the successful proponent, would assume the freight railway operations.

On July 14, 2004, the transaction concluded with CN assuming the operations of BCRC's freight railway business by acquiring the shares of BC Rail Ltd., the partnership interests of BC Rail Partnership, and railcars from a related entity for proceeds of $1.0 billion. Through the Revitalization Agreement, CN acquired the long-term right to uninterrupted and exclusive use of the BCRC's railway right-of-way, railbed and track for the sole purpose of operating the freight railway. CN's substantial billion-dollar investment in the BC Rail system underlines its commitment to protect the long-term integrity of the freight railway operations.

The benefits of the BC Rail/CN Investment Partnership are significant and allowed the Province, as Shareholder, to complete the following initiatives:

- Eliminate BCRC's more than $500 million debt;
- Establish the $135 million Northern Development Initiative to support investments in forestry, pine beetle recovery, transportation, tourism, mining, Olympic opportunities, small business and sustainable economic development; and
- Establish the $15 million BC Rail First Nations Benefits Trust to support economic development, educational advancement and cultural renewal for the 25 First Nations along the BC Rail corridor.

BCR Port Subdivision Ltd.

In 2003, BCRC established a stand-alone subsidiary, the BCR Port Subdivision Ltd. In 2004, the subsidiary assumed the Port Subdivision operations and became responsible for the rail line, performing as infrastructure provider and operations coordinator. This subsidiary has ensured the effective and efficient continuation of the Port Subdivision operations.

The real estate which supports the Port Subdivision right-of-way, railbed and track was transferred from BCR Properties Ltd. and BC Rail Ltd. to BCRC at the end of 2003 and has been leased by BCRC to BCR Port Subdivision Ltd.

BCR Properties Ltd.

In 2004, close to 3000 properties were transferred from BCR Properties Ltd. and BC Rail Ltd. to BCRC to support the BC Rail/CN Investment Partnership. These lands comprise the railway right-of-way and will be held by BCRC over the long-term.

BCR Properties Ltd. also undertook significant work in the later half of 2004 to prepare to dispose of its non-railway related real estate.

BCR Captive Insurance Co. Ltd.

While the BCR Captive Insurance Co. Ltd. realized no significant events in 2004, the company did end the year with substantial retained earnings over 2003.

Vancouver Wharves Limited Partnership

Vancouver Wharves handled over 3.5 million tonnes of product in 2004, more than 200,000 tonnes over budget. The excess tonnage was a result of increased shipments of sulphur and pulp.

MANAGEMENT DISCUSSION AND ANALYSIS

BCRC underwent significant corporate restructuring in 2004 and the revised mandate creates certain challenges for the management team.

The Board of Directors, management team and retained staff, while substantially reduced from pre-restructuring levels, have extensive organizational knowledge of both the previous operations of BCRC and the expectations of the Shareholder. To date, management has focussed on ensuring a smooth transition of the freight railway to the new operator and has directed significant effort towards establishing appropriate financial management and information technology systems for the new organization.

Going forward, BCRC's new role as landlord to CN requires the development of an effective management system for the new lease. As the planning time line to complete the bulk of the wind down and disposition process is limited, a transition strategy for the residual entity must be developed to ensure outstanding issues are dealt with and the ongoing landlord-tenant relationship is effectively managed.

Delivering on the Shareholder's expectations in an effective and efficient manner will require cooperation from various stakeholders including other levels of government. Many of the approvals required to complete the non-rail related real estate dispositions are beyond the control of BCRC. Furthermore, for some of the real estate properties scheduled for sale, management must resolve outstanding issues related to environmental remediation and subdivision requirements. Finally, access to professional services relating to real estate appraisal and land surveys may be restricted with the increase in demand for these services in British Columbia.

There are, however, two factors which can assist BCRC in this area of its new mandate:

1. There is significant community support for the disposition of the residual businesses, assets and non-railway related real estate; and
2. The economy in British Columbia is stable and shows sign of continued improvement.

These factors should encourage private sector investment which will be helpful for the BCRC disposition process and could prove to be beneficial for many communities in British Columbia.

2004 Results

During the first half of 2004, BCRC continued to own and operate the freight railway. On July 14, 2004, the transaction closed and CN assumed the operations of the freight railway.

2004 Results (continued)

During the year, BCRC's consolidated operating income decreased by $74.0 million to $4.3 million. The decrease in operating income relates primarily to the sale of the freight railway operations in July 2004 and provisions relating to Vancouver Wharves' operations. Consolidated net income of $195.3 million was significantly higher than in 2003 due entirely to the gain on the freight railway transaction with CN of $198.6 million.

Revenues

Consolidated revenues in 2004 decreased by $121.7 million to $242.3 million. The revenues, broken down by business unit, are as follows:

($ thousands)	**2004**	**2003** (restated)
Freight Railway	$165,080	$296,093
Vancouver Wharves	44,074	42,568
BCR Properties	22,869	16,847
BCR Port Subdivision	7,547	5,555
Other	2,702	2,942
Total	**$242,272**	**$364,005**

The decrease in freight railway revenue was the primary reason for the variance from 2003 with a reduction of $131.0 million during the year. The freight railway transaction in July 2004 caused this 44% drop in annual revenues.

Results from the remaining operating business units stayed relatively flat as compared to 2003. Vancouver Wharves had a better than expected operating year with increased revenues of $1.5 million over 2003. The increase was mostly attributable to a higher volume of product handled through the terminal during the year. Sulphur, which accounted for 51% of the total volumes, saw the greatest increase, up almost 17% over the previous year. The handling of sulphur is a relatively high margin line of the business therefore the increase in revenues also had a positive impact on operating income.

BCR Properties manages the real estate not required to support the railway operations. Its revenues are earned from two main sources: lease and rental charges on property and buildings and, sale of land and buildings. Rental revenue has remained relatively constant over the last several years. Property sales, however, were significantly higher in 2004 due primarily to the donation of a parcel of land (Nexen lands) with a value of $8.1 million that BCR Properties made during the year as directed by the Province. An offsetting donation expense was also recorded resulting in a net loss of just under $0.1 million.

Revenues (continued)

Prior to January 1, 2004, the Port Subdivision operations were incorporated into the BC Rail operations and supported by the BC Rail infrastructure. As part of the transition of the freight railway to CN, it was necessary for the Port Subdivision operations to be separated from the BC Rail operations and set up as a separate stand-alone business. Transition costs as well as ongoing operating costs of the Port Subdivision are recovered from the third party user railways on a cost recovery basis. Higher costs incurred during 2004 have therefore resulted in an increase to revenues of $2.0 million.

Expenses

Consolidated operating expenses were $238.0 million for 2004 down $47.7 million or 17% from 2003. The consolidated operating expenses, broken down by business unit, are as follows:

($ thousands)	**2004**	**2003** (restated)
Freight Railway	$126,640	$211,302
Vancouver Wharves	79,324	71,424
BCR Properties	17,434	6,558
BCR Port Subdivision	4,049	2,886
Other	10,575	(6,432)
Total	**$238,022**	**$285,738**

Similar to revenues, the reduction in expenses is again almost entirely due to the freight railway transaction with CN. Freight railway expenses were $84.7 million or 40% lower in 2004 due to the mid-year conclusion of the transaction. Offsetting this decrease was an increase in Vancouver Wharves' expenses of $7.9 million - a result of an asset impairment write-down of $14.0 million net of a reduction in amortization expense of $8.2 million. The operating expenses of Vancouver Wharves were consistent with 2003 levels.

Also offsetting the reduction in freight railway expenses is the increase in BCR Properties operating expenses of $10.9 million, due primarily to the $8.2 million donation expense relating to the Nexen land transfer discussed earlier in the revenue section.

The BCR Port Subdivision expenses increased by $1.2 million during 2004. This increase reflects a move to running the business as a stand-alone operation.

Other expenses relate primarily to administrative and overhead costs associated with running the new restructured group of companies and include amortization expense of $3.9 million for the railway assets now owned directly by BCRC and under lease to CN and for other surplus assets.

Disposal of Assets

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

As discussed earlier, BCRC completed the transaction with CN for the freight railway, which resulted in a gain of $198.6 million in 2004. The revenues and expenses from the BC Rail freight operations to July 14, 2004, have been presented as continuing operations.

At the end of the year, BCRC recorded certain real estate assets with a book value of $14.6 million as available for sale as required by generally accepted accounting principles (GAAP). The remaining assets, although being prepared for sale, do not meet the requirements under GAAP for separate presentation therefore they continue to be included with Property and Equipment.

Discontinued operations reporting was used for the sale of the operations and assets of Canadian Stevedoring and Casco Terminals to P&O Ports for proceeds of $105.0 million. This transaction was completed in February 2003. This transaction resulted in a net gain before tax of $37.0 million, of which $28.0 million was recognized in 2003.

Liquidity and Capital Resources

One of BCRC's key strategic goals over the past few years has been to restructure and reduce its debt. Due to its Crown ownership, BCRC is not able to obtain financing through the issuance of new equity. All capital resources, both sustaining and growth or investment capital, must be generated out of retained earnings, or where there is a shortfall, through debt.

The $1.0 billion proceeds that BCRC received from the transaction with CN was used to repay all outstanding debt due to the Province at a cost of $509.5 million and to pay a dividend of $443.0 million to the Province. The balance was retained to cover transaction costs and fund future corporate requirements.

Cash provided from operating activities was $50.8 million for the year ended December 31, 2004, as compared to $71.9 million for 2003. The reduction is due primarily to the loss of income from the freight railway after July 2004.

Liquidity and Capital Resources (continued)

Cash provided by investing activities was $936.5 million for the year ended December 31, 2004, as compared to $67.4 million for 2003. The freight railway transaction with CN and the freight railway operations, contributed net proceeds of almost $970.0 million, after transaction costs and cash left behind and assumed by CN. Offsetting this cash inflow, were purchases of property and equipment of $31.6 million relating primarily to capital acquisitions made by BC Rail prior to July 14, 2004, and property transfer tax payments made with respect to land transfers associated with the CN transaction.

Cash used in financing activities was $956.2 million for the year ended December 31, 2004, as compared to $106.4 million for 2003. The payments made in 2004 relate primarily to the repayment of outstanding debt to the Province and the dividend payment. In 2003 proceeds received from the sale of Canadian Stevedoring and Casco Terminals were used to pay down $66.0 million of long-term debt and $37.0 million of short-term debt.

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

Financial Outlook

The goals and objectives of BCRC were formally developed and are included in the 2005 to 2007 Annual Service Plan as follows:

1. Ensure effective and efficient management of the Revitalization Agreement between BCRC and CN; and

2. Complete disposition activities for all remaining business units, assets, and non-railway related real estate while maximizing the financial return to the Shareholder, where possible.

The budget for 2005 assumes that Vancouver Wharves and BCR Port Subdivision will be sold on December 31, 2005. It is possible, however, due to circumstances beyond management's control that these transactions may take place at some other point either during or after 2005.

The budget assumed that BCR Captive Insurance Co. would no longer provide insurance to BCRC and its subsidiaries as of September 30, 2005, and that BCR Captive would be wound up as soon as possible after that time. However, given the timing of the closing of the BC Rail/CN transaction and the on-going requirements of BCRC and its subsidiaries, Captive will continue to provide insurance until such time as the subsidiaries are wound down and/or disposed of. BCRC will work with Risk Management Branch, Ministry of Finance to ensure appropriate on-going management of Captive post-2005 as it is anticipated that outstanding claims and litigation may delay its wind up for several years.

Financial Outlook (continued)

BCR Properties Ltd. is assumed to continue with its mandate to dispose of all of its property holdings by the end of 2006. BCRC plans to have a full administration office during 2005. After 2005 the remaining functions and responsibilities of BCRC are expected to be assumed by a ministry or other Crown agency. BCRC will have an annual amortization cost of the assets leased to CN of approximately $7.0 million.

Based on the above key assumptions, the financial outlook through 2007 is as follows:

($ thousands)	**2005**	**2006**	**2007**
Total revenue	62,435	4,585	285
Total expenses	60,864	13,030	7,239
Operating income	**1,571**	**(8,445)**	**(6,954)**
Financing income	1,735	3,657	4,302
Gain on disposal of assets	76,129	24,980	7,693
Other	(3,500)	–	–
Net income	**75,935**	**20,192**	**5,041**
Capital expenditures	**21,722**	**5,810**	**–**

Forecast Risk and Sensitivities

The expected proceeds from the sales of the remaining operating units and non-railway related real estate are management's best estimate based on current knowledge and market conditions. Any difference between the actual and estimated proceeds will have a direct impact on the gain/loss on sales included in the financial outlook.

REPORT OF MANAGEMENT

The accompanying consolidated financial statements of British Columbia Railway Company and all other information contained in the Annual Report are the responsibility of management. The consolidated financial statements were prepared in conformity with GAAP appropriate in the circumstances in a manner consistent with the previous year and, accordingly, include some amounts based on management's best judgments and estimates. The financial information contained elsewhere in this Annual Report is consistent with that in the consolidated financial statements.

Management is responsible for maintaining a system of internal accounting controls and procedures to provide reasonable assurance, at an appropriate cost/benefit relationship, that assets are safeguarded and transactions are authorized, recorded and reported properly. The internal accounting control system is augmented by appropriate reviews by management, written policies and guidelines and a written Code of Business Conduct adopted by the Board of Directors, applicable to all employees of the Company. Management believes that the Company's internal accounting controls provide reasonable assurance that assets are safeguarded against material loss from unauthorized use or disposition and that the financial records are reliable for preparing financial statements and other data and maintaining accountability for assets.

The Audit, Finance and Risk Management Committee meets with the independent auditors and management periodically to discuss internal accounting controls, auditing and financial reporting matters. The committee reviews with the independent auditors the scope and results of the audit effort. The committee also meets with the independent auditors without management present to ensure that the independent auditors have free access to the committee. The committee reviews the consolidated annual financial statements and recommends their approval by the Board of Directors.

The independent auditors, KPMG LLP Chartered Accountants, are appointed by the Board of Directors to examine the financial statements of British Columbia Railway Company and conduct such tests and related procedures as they deem necessary in conformity with generally accepted auditing standards. The opinion of the independent auditors, based upon their examination of the financial statements, is contained in this Annual Report.

K. Mahoney, *President and Chief Executive Officer*

C. Yaremko, *Vice President Finance and Chief Financial Officer*

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AUDITORS' REPORT

To the Lieutenant Governor in Council
Province of British Columbia

We have audited the consolidated balance sheet of British Columbia Railway Company as at December 31, 2004 and the consolidated statement of income and deficit and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2004 and the results of its operations and the cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Vancouver, Canada
February 16, 2005

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2004 and 2003

CONSOLIDATED BALANCE SHEET (in thousands of dollars)

December 31	2004	2003 Restated -Note 1
ASSETS		
Current		
Cash and cash equivalents	**$ 75,844**	$44,782
Accounts receivable	**24,542**	53,761
Inventories and other items	**5,315**	26,678
Investment in preferred shares - Note 2 (a)	**112,000**	-
	217,701	125,221
Assets available for sale - Note 2 (b)	**14,612**	-
Property and equipment - Note 4	**351,342**	925,792
Other assets - Note 5	**77,212**	93,233
	$ 660,867	$ 1,144,246
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current		
Accounts payable and accrued liabilities	**$ 42,038**	$ 99,955
Current obligations on long-term debt - Note 7	-	4,585
Short-term loan - Note 2 (a)	**112,000**	-
	154,038	104,540
Deferred lease revenue	**282,195**	-
Other liabilities - Note 6	**121,484**	158,442
Long-term debt - Note 7	**-**	489,187
	557,717	752,169
Shareholder's equity		
Share capital - Note 8	**257,688**	257,688
Contributed surplus	**277,547**	277,547
Deficit	**(432,085)**	(143,158)
	103,150	392,077
	$ 660,867	$ 1,144,246

Commitments - Note 9

Contingent liabilities - Note 10

See accompanying notes to the consolidated financial statements.

On behalf of the Board

Director

Director

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

For the years ended December 31	2004	2003 Restated -Note 1
Revenues	$ 242,272	$ 364,005
Expenses		
Labour costs	67,905	107,091
Amortization of property and equipment	31,528	45,312
Purchased services and other	33,456	35,761
Environmental costs	33,005	26,681
Lease expense	14,653	25,397
Materials and supplies	13,709	19,095
Fuel	15,411	26,371
Operating and other taxes	4,797	5,337
Asset impairment write-down - Note 4	14,029	-
Other	9,529	(5,307)
	238,022	285,738
Operating income	4,250	78,267
Other income (expenses)		
Income tax recovery from prior years	5,565	-
Gain on CN Transaction - Note 2	198,635	-
Net interest expense - Note 11	(13,143)	(39,399)
Income before discontinued CSCL operations	195,307	38,868
Income from discontinued CSCL operations - Note 3	-	24,960
Net income	195,307	63,828
Deficit, beginning of year	(143,158)	(199,917)
Asset retirement obligation	-	(7,069)
Cost of debt settlement - Note 7 (a)	(40,779)	-
Dividend	(443,455)	-
Deficit, end of year	$ (432,085)	$(143,158)

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (in thousands of dollars)

For the years ended December 31	2004	2003 Restated - Note 1
Operating activities		
Income before discontinued CSCL operations	$ 195,307	$ 38,868
Adjustment for items not involving cash		
Gain on CN Transaction - Note 2	(198,635)	-
Amortization of property and equipment	31,528	45,312
Amortization of other assets and liabilities	149	(3,016)
Pension and post employment benefit income and contributions - Note 12	(7,146)	(4,602)
Income tax recovery from prior years	(5,565)	-
Accretion of asset retirement obligation	1,787	1,694
Asset impairment write-down - Note 4	14,029	-
Net change in non-cash working capital - Note 13 (a)	(10,833)	(17,454)
Change in other liabilities - Note 13 (b)	30,147	11,134
Cash provided by operating activities	50,768	71,936
Investing activities		
Purchase of property and equipment	(31,596)	(35,077)
Net proceeds of sale of property and equipment	7,670	4,082
Net proceeds from the CN Transaction - Note 2	969,921	-
Proceeds from the sale of Canadian Stevedoring Company Limited - Note 3	-	105,051
Deferred property transfer tax - Note 5	(9,007)	-
Changes in other assets	(523)	(6,644)
Cash provided by investing activities	936,465	67,412
Financing activities		
Short-term notes repaid to the Province	-	(41,517)
Payments and interest earned on sinking funds	(4,360)	(5,322)
Sinking fund retirements - Note 7 (a)	28,369	11,608
Repayment of long-term debt - Note 7 (a)	(536,725)	(71,202)
Dividend	(443,455)	-
Cash used in financing activities	(956,171)	(106,433)
Increase in cash and cash equivalents from continuing operations	31,062	32,915
Cash used in discontinued CSCL operations	-	(9,179)
Cash and cash equivalents, beginning of year	44,782	21,046
Cash and cash equivalents, end of year	$ 75,844	$ 44,782

See accompanying notes to the consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004 (Tabular amounts in thousands of dollars)

British Columbia Railway Company ("BCRC") is owned by the Province of British Columbia (the "Province") and was incorporated under the *British Columbia Railway Act*. BCRC and its subsidiaries (collectively the "Company") own and lease railway right-of-way, railbed and track infrastructure in British Columbia, provide bulk terminal services through Vancouver Wharves Limited Partnership ("VWLP"), operate the railway running into the Roberts Bank port terminal and owns and manage a portfolio of real estate property within British Columbia.

1. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of consolidation

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

Use of estimates

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

December 31, 2004 (Tabular amounts in thousands of dollars)

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

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. Repairs and non-programmed replacements of track structure are charged against current operations. Betterments and major track relocations are capitalized.

Property and equipment is amortized on a straight-line basis over the estimated useful lives of the assets. The Company previously expensed all labour costs and deferred all gains or losses on disposals in accordance with the generally accepted accounting practices of railways ("Railway GAAP"). Effective January 1, 2004, in accordance with the requirements of CICA Handbook Section 1100, the Company ceased to apply Railway GAAP and prospectively changed its accounting policies to capitalize labour costs on capital projects and recognize in income any gain or loss on assets retired or disposed.

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

Equipment under capital lease is amortized over its lease term. Leasehold improvements are amortized over the term of the related lease.

Deferred revenue

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

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

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

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 are translated to equivalent Canadian amounts at the exchange rate in effect on that date.

Post employment benefits

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

i) The cost of retirement benefits earned by employees is actuarially determined using the projected benefit method 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 are amortized on a straight-line basis over the expected average remaining service period of active employees. Experience gains and losses and any changes in assumptions in excess of 10% of the greater of the accrued benefit obligation and the market value of plan assets are amortized over the expected average remaining service period of active employees. The amortization of past service costs, experience gains and losses and any changes in assumptions are included in the pension expense for the year.

v) The supplementary plan is amortized over the expected remaining life expectancy of plan members.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

Income taxes

The Company follows the asset 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. As at December 31, 2004, the remaining entities are tax exempt.

Derivative financial instruments

Derivative financial instruments were utilized by the Company to manage its exposure to market risks relating to fuel prices and manage foreign exchange risks related to debt denominated in foreign currencies (Note 7). During fiscal 2003 the instruments were accounted for as hedges and gains and losses were deferred and recognized in income in the period that the hedged exposure is recognized in income, which is the same period the instrument is settled. On January 1, 2004, the Company adopted Accounting Guideline 13 – Hedging relationships, which had no impact on the financial statements. The fuel contracts were assumed by CN as part of the CN Transaction described in Note 2 and the foreign currency instrument was settled as described in Note 7.

Environmental expenditures and liabilities

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

Asset retirement obligations

On January 1, 2004, the Company adopted the new provisions of the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3110 regarding asset retirement obligations in relation to a related party lease. Under this standard, future costs to retire an asset including dismantling, remediation and ongoing treatment and monitoring of the site are recognized and recorded as a liability at fair value, assuming a credit adjusted risk-free discount rate of 5.5% and an inflation factor of 2.5%. The liability is accreted over time through periodic charges to earnings. In addition, the asset retirement cost is capitalized as part of the assets' carrying value and amortized over the assets' useful life. This change in accounting policy was adopted retroactively and resulted in an increase in long-term liabilities of $32.5 million, an increase in property and equipment of $22.9 million as at January 1, 2004, an increase in amortization expense of $0.8 million and interest expense of $1.7 million in 2003 and a decrease to opening retained earnings for 2004 of $7.1 million.

Although the ultimate amount to be incurred is uncertain, the liability for retirement and remediation on an undiscounted basis before applying an inflation factor of 2.5% is estimated to be approximately $73.7 million.

December 31, 2004 (Tabular amounts in thousands of dollars)

2. DISPOSAL OF ASSETS

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

(a) CN Transaction

On July 14, 2004, BCRC and BCR Properties Ltd. completed a transaction with Canadian National Railway Company ("CN") pursuant to an agreement signed between the parties on November 25, 2003 (the "CN Transaction"). Under the terms of the agreement, CN assumed the Company's industrial freight railway business by purchasing the shares of BC Rail Ltd., the partnership interests of BC Rail Partnership and railcars from a related entity (collectively "BC Rail") for cash proceeds of $1.0 billion. The gain on the CN Transaction included in the financial statements is $198.6 million, calculated as follows:

Proceeds	$1,000,000
Disposition costs	(18,973)
Cash assumed by CN	(11,106)
	969,921
Net assets of BC Rail	(771,286)
Gain on CN Transaction	$198,635

The proceeds from the CN Transaction were used to repay all outstanding debt due to the Province at a cost of $509.5 million, to pay a $443 million dividend to the Province and the balance was retained to pay transaction costs and fund future corporate requirements.

Prior to the CN Transaction, BCRC and BC Rail Partnership entered into a Revitalization Agreement, under which BC Rail Partnership leased the railbed and related infrastructure from BCRC under a long-term lease. BC Rail Partnership prepaid all lease payments under the Revitalization Agreement. The lease of certain items included in railbed assets is being accounted for as an operating lease (Note 4). The lease of the remaining railbed assets and track infrastructure has been treated as a capital lease. CN assumed responsibility for the Revitalization Agreement as part of the CN Transaction.

As part of the CN Transaction, the Company acquired 112,000,000 redeemable and retractable preferred shares of a subsidiary of CN and borrowed $112 million from CN. The loan matures in March 2005 and is non-interest bearing.

December 31, 2004 (Tabular amounts in thousands of dollars)

2. DISPOSAL OF ASSETS (continued)

The proceeds from the redemption of the preferred share investment will be used to repay this loan.

The Company's share of BC Rail's net assets and net operating income for the 196 days ending July 14, 2004, and the year ending December 31, 2003, is as follows:

	July 14 2004	December 31 2003
Working capital (excluding cash)	**$ 7,540**	$ (22,941)
Prepaid operating lease	**282,326**	-
Capital assets and other	**572,459**	834,761
Other liabilities	**(91,039)**	(82,977)
Net assets	**$ 771,286**	$728,843

	For the 196 days ending July 14 2004	For the year ending December 31 2003
Operating revenues	**$165,080**	$296,093
Expenses		
Labour costs	**48,866**	86,510
Amortization of property and equipment	**22,412**	37,437
Purchased services and other	**17,785**	23,041
Environmental costs	**22**	487
Lease expense	**10,657**	21,011
Materials and supplies	**11,234**	15,261
Fuel	**14,597**	25,394
Operating and other taxes	**1,067**	2,161
Net operating income	**$38,440**	$84,791

The Province and BCRC have provided commercial indemnities to CN with respect to the CN Transaction and indemnities related to income tax attributes of BC Rail at closing. The maximum present value (calculated at 9%) of amounts payable under the tax indemnities related to income tax attributes (excluding any reimbursement of professional fees, tax arrears, interest or taxes payable, if any, on indemnity payments) is $366 million. These indemnities remain in effect until 90 days after the last date on which a tax assessment or reassessment can be issued in respect of the income tax attributes. Management believes it is unlikely that the Province or BCRC will ultimately be held liable for any amounts under the commercial and tax indemnities.

December 31, 2004 (Tabular amounts in thousands of dollars)

2. DISPOSAL OF ASSETS (continued)

(b) Assets available for sale

As at the end of the year, the Company held real estate assets with a book value of $14.6 million as available for sale. The remaining assets are being prepared for sale, but do not meet the requirements under CICA Handbook Section 3475 and therefore have not been classified as available for sale.

3. DISCONTINUED CSCL OPERATIONS

On February 25, 2003, the Company sold the assets of Canadian Stevedoring Company Limited ("CSCL"), which includes the operations of Casco Terminals and Canadian Stevedoring, to P&O Ports Canada Inc. for proceeds of $105.1 million. The Company realized a net gain of $37.1 million on the sale, of which $27.7 million was recognized in 2003. The proceeds were used to repay long-term and short-term debt.

The Company's share of the revenues and expenses of CSCL for the year ended December 31, 2003, is as follows:

	2003
Revenues	$11,007
Expenses	(13,770)
Gain on sale	27,723
	$24,960

4. PROPERTY AND EQUIPMENT

	2004			2003 Restated - Note 1		
	Cost	**Accumulated Amortization**	**Net**	Cost	Accumulated Amortization	Net
Land, roads and buildings	**$ 760,395**	**$ 427,356**	**$ 333,039**	$1,682,769	$1,019,734	$663,035
Equipment	**17,557**	**3,481**	**14,076**	366,419	114,119	252,300
Equipment under capital lease	**48**	**12**	**36**	12,651	6,917	5,734
Construction in progress	**4,191**	**-**	**4,191**	4,723	-	4,723
	$ 782,191	**$ 430,849**	**$ 351,342**	$2,066,562	$1,140,770	$925,792

As part of the CN Transaction described in Note 2, the Company leased assets with a book value of $523.4 million to CN. Of these assets, $239.9 million have been accounted for as an operating lease and continue to be recorded in the financial statements of the Company. Assets under operating lease include land, grade, ballast and track laying and surfacing.

December 31, 2004 (Tabular amounts in thousands of dollars)

4. PROPERTY AND EQUIPMENT (continued)

At December 31, 2004, the recoverable amount of the Company's equipment has been written down to its estimated fair value. Consequently, an impairment charge of $14 million was recognized.

During the year, the Company donated land with a value of $8.1 million as directed by the Province.

Interest of $NIL (2003 - $280,000) was capitalized during the year.

5. OTHER ASSETS

	2004	2003
Insurance deposits	**$ 35,497**	$ 33,349
Accrued pension benefit asset - Note 12 (a)	**16,561**	39,985
Mortgages receivable	**9,278**	109
Deferred property transfer tax	**9,003**	-
Long-term notes receivable from BC Rail	**5,132**	-
Foreign currency contract - Note 7 (c)	**-**	8,085
Long-term debt discounts	**-**	5,780
Other	**1,741**	5,925
	$ 77,212	$ 93,233

Insurance deposits are funds required to be put on deposit as part of the Company's self-insurance program, calculated as the excess of the premiums paid over the actual losses incurred, plus investment income. The amounts are invested in pooled funds of short-term Canadian debt instruments.

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

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

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

December 31, 2004 (Tabular amounts in thousands of dollars)

6. OTHER LIABILITIES

	2004	2003 Restated-Note 1
Environmental liability accrual - Note 10	**$ 74,087**	$ 46,529
Accrued non-pension benefit obligation - Note 12 (a)	**1,162**	49,959
Asset retirement obligation	**34,285**	32,498
Deferred gain on sale of real estate	**9,168**	-
Restructuring costs	**-**	9,566
Worker's compensation actuarial liability	**-**	12,883
Other	**2,782**	7,007
	$ 121,484	$ 158,442

The restructuring costs, worker's compensation actuarial liability, and non-pension benefits of BC Rail were included in the CN Transaction described in Note 2.

7. LONG-TERM DEBT

(a) On July 19, 2004, the Company and the Province entered into an agreement to allow the Company to repay all of its outstanding debt owing to the Province. Debt with a book value, including accrued interest, of $505.6 million was repaid on July 22, 2004, at its fair market value of $509.5 million. Related sinking fund investments of $28.4 million and the foreign currency hedge contract with a carrying value of $8.5 million were also assumed by the Province. Under the related party transaction rules, the difference between the book value and fair value of the debt of $40.8 million has been recorded as a charge to the retained earnings of the Company.

December 31, 2004 (Tabular amounts in thousands of dollars)

7. LONG-TERM DEBT (continued)

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

		2004	2003
Sinking fund bonds, notes and debentures payable to the Province of British Columbia:			
6.00%	due June 2008	$ -	$ 50,000
5.875%	due July 2009	-	158,085
8.00%	due June 2026	-	50,000
6.15%	due November 2027	-	25,000
5.70%	due June 2029	-	175,000
5.75%	due January 2039	-	50,000
		-	508,085
Other long-term debt		-	279
Capital lease obligations		-	9,417
		-	517,781
Less:			
Sinking funds		-	24,009
Current portion		-	4,585
		-	489,187
Foreign currency contract		-	(8,085)
Net long-term debt outstanding after hedging		$ -	$ 481,102

(c) The 5.875% note is a French franc 636,959,470 note subject to swap agreements which hedged the Company against foreign exchange changes arranged by the Company's fiscal agent on the Company's behalf. The value of the foreign currency contract is included in other assets (Note 5). This swap was assumed as part of the debt settled above.

(d) In March 2003, $68.5 million of outstanding long-term debt, together with related sinking fund investments of $11.6 million, was removed from the Company's balance sheet under a defeasance agreement with the Province. The Province has unconditionally relieved the Company of any further obligations regarding these securities. The loss on the debt defeasance of $8.6 million is included in interest expense (Note 11).

December 31, 2004 (Tabular amounts in thousands of dollars)

8. SHARE CAPITAL

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

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

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

9. COMMITMENTS

The following is a schedule of future minimum payments at December 31, 2004, required under non-cancelable operating leases:

2005	$ 821
2006	145
2007	73
	$ 1,039

At December 31, 2004, the Company had outstanding commitments to acquire material and equipment amounting to $0.7 million (2003 - $5.4 million).

10. CONTINGENT LIABILITIES

(a) 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.

(b) The Company leases a portion of its property used in its operations in North Vancouver from Canada Lands Company Limited ("CLCL"). The Company received a notice of default on its lease from CLCL on February 6, 2003. The current lease with CLCL expired April 11, 2004, and CLCL has advised the Company that based on the alleged defaults under the lease, it had no right to renew the lease. The Attorney General of Canada and CLCL filed a Petition on August 6, 2004, seeking a writ of possession of the leased lands. Vancouver Wharves Ltd. and BCRC carrying on business as VWLP, and VWLP and BC Rail Ltd. are named as respondents in the Petition. It is expected that the Petition will proceed to a hearing in late 2005. In the event that the lease is not renewed, the Company is reviewing plans to reconfigure the site and continue operations.

10. CONTINGENT LIABILITIES (continued)

(c) On June 14, 2002, the Attorney General of Canada commenced legal proceedings in the B.C. Supreme Court against Vancouver Wharves Ltd. (formerly BCR Marine Ltd.), BC Rail Ltd., BCR Properties Ltd., British Columbia Wharves Ltd., and Vancouver Wharves Ltd. (formerly BCR Marine Ltd.), CSCL and BCRC carrying on business as VWLP, and VWLP alleging that those entities are responsible for soil and groundwater contamination on a site adjacent to the VWLP operation and in Burrard Inlet adjacent to that property as included in the lease described in (b) above. The Attorney General has not filed a Statement of Claim or quantified the damages claimed. The Company has been advised that approximately $18 million has been spent to date by the landlord in remediating the site. The parties are currently carrying out further investigations to determine the extent of further remediation required. 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.

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

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

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

December 31, 2004 (Tabular amounts in thousands of dollars)

11. NET INTEREST EXPENSE

	2004	2003
Interest on long-term debt and short-term notes owing to the Province	**$ 17,080**	$ 32,749
Interest on capital lease obligations	**499**	932
Other interest expense	**2,014**	2,026
Loss on debt defeasance - Note 7 (d)	**-**	8,633
	19,593	44,340
Less:		
Sinking fund earnings	**718**	1,457
Interest earned on temporary investments	**5,732**	1,643
Interest capitalized	**-**	280
Interest allocated to discontinued CSCL operations	**-**	1,561
	6,450	4,941
	$ 13,143	$ 39,399

12. EMPLOYEE BENEFITS

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

December 31, 2004 (Tabular amounts in thousands of dollars)

12. EMPLOYEE BENEFITS (continued)

	Pension Plans		Other Plans	
	2004	2003	**2004**	2003
Reconciliation of accrued benefit obligation				
Opening balance	**$ (469,701)**	$ (415,511)	**$ (73,623)**	$ (53,377)
Current service cost	**(9,005)**	(10,728)	**(878)**	(1,464)
Benefits paid	**24,472**	36,009	**1,354**	1,858
Interest cost	**(22,763)**	(29,203)	**(2,620)**	(4,762)
Disposition of BC Rail	**460,401**	-	**75,090**	-
Settlements	**-**	167	**-**	-
Curtailments	**-**	47	**-**	349
Actuarial losses	**(2,621)**	(50,482)	**(89)**	(16,227)
Ending balance	**(19,217)**	(469,701)	**(766)**	(73,623)
Reconciliation of plan assets				
Opening balance	**557,279**	536,058	**-**	-
Actual return on plan assets	**64,466**	53,580	**-**	-
Employer contributions	**7,776**	3,899	**1,354**	1,858
Employee contributions	**7**	14	**-**	-
Disposition of BC Rail	**(579,257)**	-	**-**	-
Settlements	**-**	(263)	**-**	-
Benefits	**(24,472)**	(36,009)	**(1,354)**	(1,858)
Ending balance	**25,799**	557,279	**-**	-
Fund status - surplus (deficit)	**6,582**	87,578	**(766)**	(73,623)
Employer contributions during period from measurement date to fiscal year end	**(461)**	219	**-**	-
Unamortized past service costs	**2,220**	2,422	**-**	-
Unamortized transitional obligation	**995**	(83,313)	**-**	-
Unamortized net actuarial loss (gain)	**7,225**	33,079	**(396)**	23,664
Accrued benefit asset (liability)	**$ 16,561**	$ 39,985	**$ (1,162)**	$ (49,959)

The BC Rail Ltd. Pension Plan and the majority of its post-employment non-pension benefit plans were included in the CN Transaction described in Note 2.

December 31, 2004 (Tabular amounts in thousands of dollars)

12. EMPLOYEE BENEFITS (continued)

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

	Pension Plans		Other Plans	
	2004	2003	**2004**	2003
Discount rate for liabilities	**6.00% / 6.50%**	6.50%	**6.00%**	6.50%
Expected long-term rate of return on plan assets	**7.00% / 3.50%**	7.00%	**-**	-
Salary escalation rate	**3.50% / N/A**	0% to and including 2005; 3.5% from 2006	**-**	-

The weighted average rate of increase in the per capita cost of future covered health care benefits was assumed to be 8.80% grading down to 4.60% in 2010.

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

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

	Pension Plans		Other Plans	
	2004	2003	**2004**	2003
Current service cost	**$ 6,494**	$ 10,714	**$ 878**	$1,464
Interest cost	**16,436**	29,203	**2,620**	4,762
Expected return on plan assets	**(20,375)**	(35,951)	**-**	-
Amortization of transitional asset	**(5,201)**	(10,104)	**-**	1,102
Settlement loss (gain)	**-**	137	**-**	(568)
Plan amendments	**202**	202	**-**	-
Net actuarial loss (gain)	**257**	220	**673**	(25)
	$ (2,187)	$ (5,579)	**$ 4,171**	$ 6,735

December 31, 2004 (Tabular amounts in thousands of dollars)

12. EMPLOYEE BENEFITS (continued)

(d) VWLP is a member of the British Columbia Maritime Employers Association ("BCMEA") and the Waterfront Foremen Employers Association ("WFEA"). Both organizations have unfunded liabilities for pensions and/or retiring allowances (BCMEA - approximately $19.3 million; WFEA - approximately $7.5 million). Due to the transient work force, it is not practical to allocate these liabilities to the individual companies but rather, the organizations will recover required funding based on hours worked. In 2004, VWLP's share of the total paid by the Waterfront Employers of BC in longshore and foreman wages was approximately 3.5%.

13. STATEMENT OF CASH FLOWS – SUPPLEMENTAL INFORMATION

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

	2004	2003
Accounts receivable	**$ (14,703)**	$ 1,073
Inventories and other items	**5,441**	(2,617)
Accounts payable and accrued liabilities	**(1,571)**	(15,910)
	$ (10,833)	$ (17,454)

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

	2004	2003
Restructuring costs	**$ (425)**	$ (14,895)
Environmental liability accrual	**30,572**	26,029
	$ 30,147	$ 11,134

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

	2004	2003
Interest paid to third parties	**$ 17,863**	$ 44,721
Interest received from third parties	**(6,450)**	(3,109)
	$ 11,413	$ 41,612

December 31, 2004 (Tabular amounts in thousands of dollars)

14. FINANCIAL INSTRUMENTS

The Company's financial instruments include cash and cash equivalents, accounts receivable, investment in preferred shares, accounts payable and accrued liabilities, short-term loan, long-term debt, and foreign currency contracts. The carrying amounts approximate fair value due to their immediate or short-term maturity, except as disclosed in the following table:

	2004 Carrying Value	Fair Value	2003 Carrying Value	Fair Value
Bonds, notes and debentures	$ -	$ -	$ (508,085)	$ (540,270)
Sinking funds	-	-	24,009	25,815
Foreign currency contracts	-	-	8,085	8,546

15. COMPARATIVE FIGURES

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

GOVERNANCE

BCRC's seven-member Board of Directors, appointed by the Province, reports to the Minister of Transportation and is responsible for overseeing the conduct of business, directing management and ensuring that all major issues affecting BCRC and its subsidiary companies are given appropriate consideration.

The Board of Directors is comprised of the following appointees:

John R. McLernon, Chair
Bev A. Briscoe
Brian G. Kenning
Len S. Marchand
Gerald P. Offet
Bob Phillips[1]
Jim R. Yeates

The Board functions though a series of committees appointed to deal with specific matters. There are currently three standing committees of the Board:

Audit, Finance and Risk Management Committee
Members: Brian G. Kenning (Chair), Bev Briscoe

~ Assists the Board of Directors in fulfilling its obligations and oversight responsibilities relating to the audit process, financial reporting, and the system of corporate controls, governance of financial investments and various aspects of risk management.

Environment and Safety Committee
Members: Bob Phillips (Chair), Gerry Offet, Jim Yeates

~ Assists the Board of Directors in fulfilling its obligations and oversight responsibilities related to adherence to environmental laws and regulations and the safety of employees and the general public who may be impacted by BCRC's activities.

Human Resources, Governance and Nominating Committee
Members: Len Marchand (Chair), John McLernon

~ Assists the Board of Directors by fulfilling obligations relating to senior management human resource and compensation issues, ensuring that appropriate corporate governance policies and procedures are put in place, and to ensure that the membership of the Board is relevant to the obligations of BCRC.

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[1] Prior to his appointment to the Board in September 2004, Bob Phillips served as President and Chief Executive Officer of BCRC from February 2001 until July 2004.

GOVERNANCE (continued)

BCRC's officers are:

Kevin Mahoney, President and Chief Executive Officer
John Leighton, Secretary
John Lusney, President, BCR Properties Ltd.
Yvette Wells, Vice President, Corporate Initiatives
Cheryl Yaremko, Vice President Finance and Chief Financial Officer

Sound corporate governance principles are essential to the success of every commercial enterprise. BCRC is committed to ensuring corporate governance principles guide the organization's continued success. A *Code of Conduct* for all BCRC employees, officers, agents and directors was introduced in 1995 which, amended as required, remains in effect today. The Code reflects and emphasizes the organization's values of integrity, fiscal responsibility, accountability, safety and respect. The Board of Directors adopted *Standards of Ethical Conduct for Directors and Officers* in 1999 which, amended as required, remains in effect today. The Standards recognize the additional responsibilities and duties that directors and officers have to BCRC. The implementation of the *Standards of Ethical Conduct for Directors and Officers* includes the appointment by the Board of Directors of an Ethics Advisor to provide advice to directors and officers on the application and interpretation of the standards.

In accordance with present guidelines for corporate governance, all members of the Board are independent and unrelated, and have no other affiliation with BCRC beyond their role as directors. Each Board meeting begins with a declaration and review of any conflicts directors may have. The roles of the Chair and the Chief Executive Officer are separate and distinct, with no overlap of responsibilities.

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

The service plan and forecast are reviewed and approved by the Board prior to the start of the fiscal year. The approval of the service plan and budget establishes the authority of senior management to take the actions indicated in the service plan and their responsibility for implementation. Other material matters not reflected in the budget, including raising capital, acquisitions and divestitures require approval of the Board. Through reports distributed to the Board, and at quarterly directors' meetings, management reviews with the Board the progress of business units in meeting the service plan and budgets.

GOVERNANCE (continued)

Management has primary responsibility for establishing objectives for BCRC which are designed to exploit all opportunities available to diminish the risks to which its business is subject so as to enhance returns to the Shareholder. Management regularly reviews the objectives to ensure that they are in keeping with the state of the environment within which BCRC operates. In pursuit of these objectives, management prepares an annual service plan and a three-year strategic plan, including financial forecasts.

During 2004 management continued to use the 2003-2005 Service Plan until the CN transaction concluded. Once the transaction had concluded, the Board of Directors sought revised instruction from the Shareholder (Shareholder's Letter of Expectations, dated November 2004).

CONSOLIDATED FIVE-YEAR REVIEW

	FISCAL YEAR				
	2004	2003	2002	2001	2000
		(Note 3)			
Income Statement (thousands)					
Revenues	**$ 242,272**	$ 364,005	$ 366,681	$ 356,301	$ 388,894
Expenses	**238,022**	285,738	301,201	315,274	356,215
Operating income	**4,250**	78,267	65,480	41,027	32,679
Financing costs and income taxes	**(7,578)**	(39,399)	(17,167)	(30,352)	(30,377)
Gain on BC Rail transaction (Note 1)	**198,635**	-	-	-	-
Asset write-downs	**-**	-	(118,955)	-	-
Restructuring charges	**-**	-	-	(88,274)	-
Income (loss) from discontinued operations	**-**	24,960	(13,556)	(29,308)	(9,023)
Net income (loss)	**$ 195,307**	$ 63,828	$ (84,198)	$ (106,907)	$ (6,721)
Other Financial Highlights					
Capital additions of continuing operations (millions)	**$ 32**	$ 35	$ 44	$ 57	$ 117
Total assets (millions)	**$ 661**	$ 1,144	$ 1,188	$ 1,308	$ 1,348
Operating ratio	**98%**	78%	82%	88%	92%
Debt to equity ratio	**1.09**	1.24	1.77	1.54	1.18
Employees (number)	**86**	1,351	1,618	1,953	1,999
Traffic and Operating Statistics					
BC Rail Business Unit (Note 1)					
Revenue ton-miles (millions)	**2,233**	4,523	4,695	4,865	5,058
Gross ton-miles (millions)	**3,353**	8,121	8,205	8,696	8,914
Net : gross ton-miles	**40:60**	36:64	36:64	36:64	36:64
Revenue tons (thousands)	**6,114**	12,875	14,283	13,988	15,273
Carloadings	**72,614**	151,063	164,848	168,120	184,125
Revenue tons per carload	**84**	85	87	83	83
Revenue ton-miles per BC Rail employee (thousands)	**3,430**	3,473	3,059	2,900	2,882
Number of locomotives at year-end	**-**	119	121	125	129
Number of freight cars at year-end	**-**	9,246	9,002	9,186	9,563
BCR Marine Business Unit					
Vancouver Wharves Limited Partnership					
Tonnage shipped (thousands)	**3,537**	3,502	3,681	4,046	4,292
Tons handled per employee	**22,611**	20,449	22,175	22,603	20,321
Canadian Stevedoring Company Limited (Note 2)					
Tonnage handled (thousands)	**-**	903	7,550	9,633	10,041
Tons handled per employee	**-**	14,111	13,726	17,030	15,763
BCR Properties Business Unit					
Leased square feet (thousands)	**537**	536	536	536	309
Revenue per employee (thousands)	**$ 1,218**	$ 653	$ 877	$ 914	$ 1,192

Note 1: On July 14, 2004, Canadian National Railway assumed the operations of the freight railway when it purchased the shares of BC Rail Ltd. and the partnership interests of BC Rail Partnership.

Note 2: On February 25, 2003, Canadian Stevedoring Company Limited was sold to P&O Ports Canada Inc.

Note 3: Certain of the comparative figures have been restated to conform with the current year's financial statement presentation.

BRITISH
COLUMBIA
RAILWAY
COMPANY

Location and Contact Information

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Additional copies of this report can be found at:

http://www.bcrproperties.com/