Financial Statements

MANAGEMENT'S RESPONSIBILITY STATEMENT

YEAR ENDED DECEMBER 31, 2004

Management of the Corporation is responsible for the preparation and integrity of the financial statements contained in the Annual Report. These statements have been prepared in accordance with Canadian generally accepted accounting principles and necessarily include certain amounts that are based on management's best estimates and judgement. Financial information contained throughout the Annual Report is consistent with that in the financial statements. Management considers that the statements present fairly the financial position of the Corporation, the results of its operations and its cash flows.

To fulfill its responsibility, the Corporation maintains systems of internal controls, policies and procedures to ensure the reliability of financial information and the safeguarding of assets. The internal control systems are subject to periodic reviews by Samson Bélair/Deloitte & Touche, general partnership, as internal auditors. The external auditors, the Auditor General of Canada and Ernst & Young LLP, have audited the Corporation's financial statements for the year ended December 31, 2004, and their report indicates the scope of their audit and their opinion on the financial statements.

The Audit and Finance Committee of the Board of Directors, consisting primarily of independent Directors, meets periodically with the internal and external auditors and with management, to review the scope of their audits and to assess reports on audit work performed. The financial statements have been reviewed and approved by the Board of Directors on the recommendation of the Audit and Finance Committee.

Paul Côté

Paul Côté
Interim President
and Chief Executive Officer and
Chief Operating Officer

J. R. Paquette

J. R. Paquette
Chief Financial Officer

Montreal, Canada
February 11, 2005

AUDITORS' REPORT

TO THE MINISTER OF TRANSPORT

We have audited the balance sheet of VIA Rail Canada Inc. as at December 31, 2004 and the statements of operations and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation'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 required 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 financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, we report that, in our opinion, these principles have been applied, except for the change in the method of accounting for derivative financial instruments as explained in note 3 to the financial statements, on basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Corporation that have come to our notice during our audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canada Business Corporations Act* and the articles and the by-laws of the Corporation.

Ernst & Young LLP

Ernst & Young LLP
Chartered Accountants

Sheila Fraser

Sheila Fraser, FCA
Auditor General of Canada

Montreal, Canada
February 11, 2005

BALANCE SHEET

AS AT DECEMBER 31

(IN THOUSANDS)	2004	2003
Current Assets		
Cash and cash equivalents	**$ 9,814**	$ 2,552
Accounts receivable, trade	**5,323**	4,715
Accounts receivable, other	**2,029**	2,411
Receivable from the Government of Canada	**-**	1,485
Derivative financial instruments (NOTES 3 AND 12)	**3,976**	-
Materials	**15,943**	16,012
	37,085	27,175
Long-term Assets		
Property, plant and equipment (NOTE 4)	**610,012**	651,774
Asset renewal fund (NOTE 5)	**110,706**	104,679
Accrued benefit asset (NOTE 7)	**145,928**	117,282
Derivative financial instruments (NOTES 3 AND 12)	**2,921**	-
Other	**4,752**	5,518
	874,319	879,253
	$ 911,404	$ 906,428
Current Liabilities		
Accounts payable and accrued liabilities (NOTES 3 AND 6)	**$ 86,682**	$ 74,780
Deferred revenues and other credits	**7,961**	7,069
	94,643	81,849
Long-term Liabilities		
Accrued benefit liability (NOTE 7)	**19,345**	17,702
Future corporate taxes (NOTE 8)	**33,832**	25,321
Other	**3,350**	3,788
	56,527	46,811
Deferred Capital Funding (NOTE 9)	**635,666**	674,864
Shareholder's Equity		
Share capital (NOTE 10)	**9,300**	9,300
Contributed surplus	**4,963**	4,963
Retained earnings	**110,305**	88,641
	124,568	102,904
	$ 911,404	$ 906,428

COMMITMENTS AND CONTINGENCIES (NOTES 11 AND 15)

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

On behalf of the Board,

Marlene McGraw, CA
Director and Chairman of the Audit and Finance Committee

Anthony Friend, QC
Director and Acting Chairman of the Board

STATEMENT OF OPERATIONS AND RETAINED EARNINGS

YEAR ENDED DECEMBER 31

(IN THOUSANDS)	**2004**	2003
Revenues		
Passenger	**$ 241,399**	$ 231,379
Other	**18,093**	18,966
	259,492	250,345
Expenses		
Compensation and benefits	**195,726**	191,422
Train operations and fuel (NOTE 12)	**87,560**	91,856
Stations and property	**27,706**	28,089
Marketing and sales	**26,033**	27,709
Maintenance material	**24,382**	27,017
On-train product costs	**16,618**	16,275
Operating taxes	**1,557**	13,720
Employee future benefits (NOTE 7)	**(19,263)**	3,981
Amortization and losses on write-down and disposal of property, plant and equipment	**60,672**	52,048
Other	**47,014**	26,788
	468,005	478,905
Operating loss before funding from the Government of Canada and corporate taxes	**208,513**	228,560
Operating funding from the Government of Canada	**177,444**	181,115
Amortization of deferred capital funding (NOTE 9)	**59,354**	52,272
Income before corporate taxes	**28,285**	4,827
Corporate tax (recovery) expense (NOTE 8)	**(1,890)**	1,589
Future corporate taxes (NOTE 8)	**8,511**	4,097
Net income (loss) for the year	**21,664**	(859)
Retained earnings, beginning of year	**88,641**	89,500
Retained earnings, end of year	**$ 110,305**	$ 88,641

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31

(IN THOUSANDS)	2004	2003
OPERATING ACTIVITIES		
Net income (loss) for the year	**$ 21,664**	$ (859)
Non-cash items relating to operations:		
Amortization of property, plant and equipment	**59,362**	52,285
Losses on write-down and disposal of property, plant and equipment	**1,657**	111
Gain on disposal of asset renewal fund investments	**(766)**	(427)
Amortization of premium and discount on purchase of bonds in the asset renewal fund	**181**	169
Amortization of investment tax credits	**(347)**	(348)
Amortization of deferred capital funding	**(59,354)**	(52,272)
Future corporate taxes	**8,511**	4,097
Unrealized gain on derivative financial instruments	**(4,919)**	-
Change in non-cash working capital related to operations	**8,434**	(12,005)
Change in other long-term assets	**766**	766
Change in accrued benefit asset	**(28,646)**	(5,661)
Change in accrued benefit liability	**1,643**	1,310
Change in other long-term liabilities	**(91)**	(77)
	8,095	(12,911)
FINANCING ACTIVITIES		
Capital funding from the Government of Canada	**20,156**	82,381
Change in capital funding receivable from the Government of Canada	**3,710**	15,312
	23,866	97,693
INVESTING ACTIVITIES		
Acquisition of investments in the asset renewal fund	**(10,659)**	(13,333)
Proceeds from sale and maturity of investments in the asset renewal fund	**5,217**	2,800
Acquisition of property, plant and equipment	**(20,156)**	(77,381)
Proceeds from disposal of property, plant and equipment	**899**	281
	(24,699)	(87,633)
CASH AND CASH EQUIVALENTS		
Increase (decrease) during the year	**7,262**	(2,851)
Balance, beginning of year	**2,552**	5,403
BALANCE, END OF YEAR	**$ 9,814**	$ 2,552
REPRESENTED BY:		
Cash and outstanding cheques	**$ (1,544)**	$ (3,548)
Short-term investments, 2.51%, maturing in January 2005 (2003: 2.74%)	**11,358**	6,100
	$ 9,814	$ 2,552

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

AS AT DECEMBER 31, 2004

1 | AUTHORITY AND OBJECTIVES

VIA Rail Canada Inc. is a Crown corporation named in Part I of Schedule III to the *Financial Administration Act*. It was incorporated in 1977, under the *Canada Business Corporations Act*. The Corporation's vision is to be the Canadian leader in service excellence in passenger transportation with a mission to work together to consistently deliver safe, efficient and environmentally-responsible services for travellers in Canada. The Corporation uses the roadway infrastructure of other railway companies and relies on them to control train operations.

The Corporation is not an agent of Her Majesty and is subject to income taxes.

2 | ACCOUNTING POLICIES

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. The significant accounting policies followed by the Corporation are summarized as follows:

A | FUNDING FROM THE GOVERNMENT OF CANADA

Operating funding, which pertains to services, activities and other undertakings of the Corporation for the management and operation of railway passenger services in Canada, is recorded as a reduction of the operating loss. The amounts are determined on the basis of operating expenses less commercial revenues excluding employee future benefits and non-cash transactions relating to property, plant and equipment and future corporate taxes, and are based on the operating budget approved by the Government of Canada for each year.

Funding for depreciable property, plant and equipment is recorded as deferred capital funding on the Balance Sheet and is amortized on the same basis and over the same periods as the related property, plant and equipment. Upon disposition of the funded depreciable property, plant and equipment, the Corporation recognizes into income all remaining deferred capital funding related to the property, plant and equipment. Funding for non-depreciable property, plant and equipment is recorded as contributed surplus.

B | CASH EQUIVALENTS

Cash equivalents include highly liquid investments purchased three months or less from maturity and are carried at lower of cost or market value.

C | ASSET RENEWAL FUND

Short-term investments are carried at the lower of cost or market value, determined on an aggregate basis.

The other investments in the asset renewal fund are carried at cost. The carrying value of each of these investments is assessed periodically to determine if there has been an other than temporary decline in value. A charge to income is recorded during the period in which such a decline in value is determined.

D | REVENUE RECOGNITION

Revenues earned from passenger transportation are recorded as services are rendered. Amounts received for train travel not yet rendered are included in current liabilities as deferred revenues. Other revenues which includes investment income and third party revenues are recorded as they are earned.

E | FOREIGN CURRENCY TRANSLATION

Accounts in foreign currencies are translated using the temporal method. Under this method, monetary Balance Sheet items are translated at the exchange rates in effect at year-end. Gains and losses resulting from the changes in exchange rates are reflected in the Statement of Operations and Retained Earnings.

Non-monetary Balance Sheet items as well as foreign currency revenues and expenses are translated at the exchange rate in effect on the dates of the related transactions.

F | MATERIALS

Materials, which are valued at the lower of weighted average cost and replacement cost, consist primarily of items used for the maintenance of rolling stock. An allowance for obsolescence is provided for materials.

G | PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment acquired from Canadian National Railway and Canadian Pacific Limited at the start of operations in 1978 were recorded at their net transfer values while subsequent acquisitions, including those acquired under capital leases, are recorded at cost.

The costs of refurbishing and rebuilding rolling stock and costs associated with other upgrading of property, plant and equipment are capitalized if they are incurred to improve the service value or extend the useful lives of the property, plant and equipment concerned; otherwise, such costs are expensed as incurred.

Retired property, plant and equipment are written down to their net realizable value.

Amortization of property, plant and equipment is calculated on a straight-line basis at rates sufficient to amortize the cost of property, plant and equipment, less their residual value, over their estimated useful lives, as follows:

Rolling stock	12 to 30 years
Maintenance buildings	25 years
Stations and Facilities	20 years
Infrastructure improvements	5 to 40 years
Leasehold improvements	3 to 20 years
Machinery and Equipment	4 to 15 years
Information systems	3 to 7 years
Other property, plant and equipment	3 to 10 years

No amortization is provided for projects in progress and retired property, plant and equipment.

H | CORPORATE TAXES

The Corporation follows the liability method of accounting for corporate taxes.

Under this method, the net change in the future corporate tax assets and liabilities is included in income. Future corporate tax assets and liabilities are measured using substantively enacted tax rates expected to apply to taxable income in the years in which temporary differences are expected to reverse.

I | INVESTMENT TAX CREDITS

Investment tax credits are recognized when qualifying expenditures have been made, provided there is reasonable assurance that the credits will be realized. They are amortized over the estimated useful lives of the related property, plant and equipment. The amortization of deferred investment tax credits is recorded as a reduction of the amortization of property, plant and equipment. These credits are included in other long-term liabilities.

J | EMPLOYEE FUTURE BENEFITS

The Corporation accrues obligations under its employee future benefit plans.

The cost of pension and other employee future benefits earned by employees is actuarially determined using the projected benefit method prorated on services and management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected health care costs.

For the purpose of calculating the expected return on plan assets, those assets are valued at fair value.

On January 1, 2000, the Corporation adopted the new accounting standard on employee future benefits using the prospective application method. The Corporation is amortizing the transitional asset on a straight-line basis over 13 to 14 years, which was the average remaining service lives of the active employee groups at the time.

Past service costs are amortized on a straight-line basis over the expected average remaining service lives of the active employee groups which is, in most cases, estimated to be 12 years.

For the pension plans the excess of the accumulated net actuarial gain or loss over 10% of the greater of the accumulated benefit obligation and the fair value of plan assets is amortized on a straight-line basis over the average remaining service lives of the active employee groups which is, in most cases, estimated to be 12 years.

K | DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments such as swaps, call options and forward foreign exchange contracts, are utilized by the Corporation in the management of its exposure to changes in fuel prices. The Corporation does not enter into derivative financial instruments for trading or speculative purposes. The Corporation does not currently apply hedge accounting on these derivative financial instruments.

Derivative financial instruments are recognized on the Balance Sheet at inception and removed when they expire or are terminated. On the inception, each derivative is recognized at fair value as either an asset or a liability on the Balance Sheet and changes in fair value are recognized in the train operations and fuel expenses. Derivative financial instruments with a positive fair value are reported as derivative financial instrument assets and derivatives with a negative fair value are reported as part of accounts payable and accrued liabilities.

L | MEASUREMENT UNCERTAINTY

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as well as revenues and expenses and the disclosure of contingent assets and liabilities. The most significant estimates involve the recognition of liabilities and other claims against the Corporation, employee future benefits, future corporate taxes as well as the useful life of Property, Plant and Equipment. Actual results could differ from these estimates and such differences could be material.

M | *VIA PRÉFÉRENCE* PROGRAM

The incremental costs of providing travel awards under the Corporation's *VIA Préférence* frequent traveler reward program are accrued as the entitlements to such awards are earned and are included in accounts payable and accrued liabilities.

3 | ADOPTION OF NEW ACCOUNTING STANDARD

A | FINANCIAL INSTRUMENTS

In December 2001, the Accounting Standards Board issued Accounting Guideline (AcG-13) "Hedging Relationships," as amended. In June 2002, EIC-128, "Accounting for Trading, Speculative or Non-Hedging Derivative Financial Instruments," was also issued. AcG-13 establishes the criteria for identification, designation, documentation and effectiveness of hedging relationships for the purpose of applying hedge accounting. EIC-128 establishes that a freestanding derivative financial instrument that gives rise to a financial asset or financial liability and is entered into for trading or speculative purposes, or that does not qualify for hedge accounting under AcG-13 should be recognized on the Balance Sheet and measured at fair value, with changes in fair value recognized in income of the period. The Corporation adopted prospectively both AcG-13 and EIC-128 effective January 1, 2004.

As a result of applying the new accounting standards the Corporation recognized an unrealized gain of $4.9 million included in the train operations and fuel. The Balance Sheet impact of recognizing derivative financial instruments at fair value resulted in the recognition of a current asset of $3.9 million, a long-term asset of $2.9 million, a current liability of $1.4 million included in accounts payable and accrued liabilities and a deferred gain of $0.5 million which is included in deferred revenues and other credits. The deferred gain relates to derivative financial instruments that were outstanding at the beginning of the year and is amortized into earnings based on the original maturity date of the contract.

B | ASSET RETIREMENT OBLIGATIONS

Effective January 1, 2004, the Corporation retroactively adopted the method of accounting for asset retirement obligations set by the Canadian Institute of Chartered Accountant's section 3110, "Asset Retirement Obligations." The new rules apply to legal obligations associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development or the normal operations of long-lived assets. The Corporation has assessed its exposure to any asset retirement obligations and has determined that it has none as at December 31, 2004 and December 31, 2003.

4 | PROPERTY, PLANT AND EQUIPMENT

(IN MILLIONS OF DOLLARS)	2004			2003		
	COST	ACCUMULATED AMORTIZATION	NET	COST	ACCUMULATED AMORTIZATION	NET
Land	**5.0**	**-**	**5.0**	5.0	-	5.0
Rolling stock	**738.2**	**378.1**	**360.1**	673.7	343.4	330.3
Maintenance buildings	**179.9**	**116.3**	**63.6**	178.0	107.9	70.1
Stations and Facilities	**44.1**	**24.4**	**19.7**	43.3	22.2	21.1
Infrastructure improvements	**137.0**	**46.5**	**90.5**	130.8	43.0	87.8
Leasehold improvements	**112.8**	**82.3**	**30.5**	107.7	77.2	30.5
Machinery and Equipment	**33.7**	**27.5**	**6.2**	31.9	26.4	5.5
Information systems	**42.6**	**36.5**	**6.1**	36.6	32.4	4.2
Other property, plant and equipment	**20.0**	**19.1**	**0.9**	19.9	19.0	0.9
	1,313.3	**730.7**	**582.6**	1,226.9	671.5	555.4
Projects in progress			**25.3**			93.0
Retired property, plant and equipment (at net realizable value)			**2.1**			3.4
			610.0			651.8

Projects in progress as at December 31, 2004, primarily consist of rolling stock for $21.1million (2003: $76.9 million) and improvements to infrastructure and information systems for $3.4 million (2003: $7.6 million).

5 | ASSET RENEWAL FUND

The Corporation has been authorized by the Treasury Board of the Government of Canada to segregate proceeds from the sale or lease of surplus assets as well as up to $5 million of annual funding approved but not expended during the fiscal year to 2006.

The asset renewal fund includes the following investment instruments:

(IN MILLIONS OF DOLLARS)	**2004**		2003	
	COST	**MARKET VALUE**	COST	MARKET VALUE
Government of Canada bonds	**19.8**	**26.2**	19.4	24.2
Other Canadian bonds and debentures	**20.8**	**22.8**	16.1	17.5
Pooled equity unit trust	**57.7**	**67.6**	54.8	59.6
Cash and short-term investments	**12.4**	**12.4**	14.4	14.4
	110.7	**129.0**	104.7	115.7

The Treasury Board has approved an amount of $39.5 million (2003: $39.5 million) to fund prior years' operating deficits and certain property, plant and equipment while the balance of the asset renewal fund of $71.2 million (2003: $65.2 million) represents the funds that are retained for future investments in property, plant and equipment.

The weighted average effective rate of return on bonds and debentures as well as short-term investments as at December 31, 2004 was 5.01% (2003: 5.18%) and the weighted average term to maturity as at December 31, 2004 is 8 years (2003: 9 years).

The market value of bonds and debentures, pooled equity unit trust and short-term investments is based on the current bid price at the Balance Sheet date.

The Corporation is subject to credit risk from its holdings of the asset renewal fund. The Corporation minimizes its credit risks by adhering to the *Minister of Finance of Canada Financial Risk Management Guidelines for Crown Corporations* and the Corporate Investment Policy and by investing in high quality financial instruments.

6 | ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The Accounts payable and accrued liabilities include the following:

(IN MILLIONS OF DOLLARS)	2004	2003
Accrued liabilities	**31.5**	17.1
Wages payable and accrued	**25.6**	22.6
Trade payables	**22.6**	19.3
Capital tax and sales taxes payable	**4.0**	12.7
Derivative financial instruments	**1.4**	-
Current portion of Network Restructuring	**0.8**	3.1
Account payable to the Government of Canada	**0.7**	-
Other	**0.1**	-
	86.7	74.8

7 | EMPLOYEE FUTURE BENEFITS

The Corporation provides a number of funded defined benefit pension plans as well as unfunded post retirement and post-employment benefits that include life insurance, health coverage and self insured Workers' Compensation benefits, to all its permanent employees.

The defined benefit pension plans are based on years of service and final average salary.

Pension benefits increase annually by 50% of the increase in the Consumer Price Index in the 12 months ending in December subject to a maximum increase of 3% in any year.

The latest actuarial valuation for the post-retirement and post-employment unfunded plans was carried out as at December 31, 2004. The results of this valuation are recorded in the 2004 Financial Statements.

The latest actuarial valuations of the pension plans were carried out as at December 31, 2001 by external actuaries who are members of the Canadian Institute of Actuaries. The next actuarial valuation will be carried out as at December 31, 2004 and will be available in June 2005. The actuarial valuation of the Supplemental Executive Retirement Plan is carried out annually. The last actuarial valuation was carried out as at December 31, 2003.

Based on these actuarial valuations and projections to December 31, 2004, the summary of the principal valuation results, in aggregate, is as follows:

(IN MILLIONS OF DOLLARS)	PENSION PLANS		OTHER BENEFIT PLANS	
	2004	2003	**2004**	2003
ACCRUED BENEFIT OBLIGATION:				
Balance at beginning of year	**1,260.6**	1,192.0	**29.5**	27.9
Current service cost	**14.7**	14.0	**4.0**	4.0
Employee contributions	**10.2**	10.2	**-**	-
Interest cost	**74.4**	76.6	**1.7**	1.8
Benefits paid	**(78.8)**	(66.9)	**(6.1)**	(5.0)
Plan amendments	**-**	-	**0.2**	-
Actuarial (gain) loss	**70.5**	34.7	**(1.8)**	0.8
Accrued benefit obligation at end of year	**1,351.6**	1,260.6	**27.5**	29.5
FAIR VALUE OF PLAN ASSETS:				
Balance at beginning of year	**1,370.1**	1,217.8	**-**	-
Actual return on plan assets	**162.5**	208.1	**-**	-
Employer contributions	**1.2**	0.9	**6.1**	5.0
Employee contributions	**10.2**	10.2	**-**	-
Benefits paid	**(78.8)**	(66.9)	**(6.1)**	(5.0)
Balance at end of year	**1,465.2**	1,370.1	**-**	-

The percentage of the fair value of the total pension plan assets by major category as at December 31 was as follows:

	2004	2003
ASSET CATEGORIES:		
Equity securities (public market)	**58.3%**	57.6%
Fixed income securities (public market)	**34.7%**	34.4%
Private equity, hedge funds and other	**5.7%**	6.0%
Real Estate	**1.3%**	2.0%
	100.0%	100.0%

(IN MILLIONS OF DOLLARS)	PENSION PLANS		OTHER BENEFIT PLANS	
	2004	2003	**2004**	2003
RECONCILIATION OF THE FUNDED STATUS:				
Fair value of plan assets	**1,465.2**	1,370.1	**-**	-
Accrued benefit obligation	**1,351.6**	1,260.6	**27.5**	29.5
Funded status of plans – surplus (deficit)	**113.6**	109.5	**(27.5)**	(29.5)
Unamortized net actuarial losses (gain)	**311.7**	319.2	**(0.3)**	1.5
Unamortized past service costs	**3.5**	4.0	**0.6**	0.5
Unamortized transitional (asset) obligation	**(282.9)**	(315.4)	**9.3**	11.7
	145.9	117.3	**(17.9)**	(15.8)
Network Restructuring long-term liability	**-**	-	**(1.4)**	(1.9)
Accrued benefit asset (liability)	**145.9**	117.3	**(19.3)**	(17.7)

ELEMENTS OF DEFINED BENEFIT COSTS RECOGNIZED IN THE YEAR:				
Current service cost	**14.7**	14.0	**4.0**	4.0
Interest cost	**74.4**	76.6	**1.7**	1.8
Actual return on plan assets	**(162.5)**	(208.1)	**-**	-
Actuarial losses (gains)	**70.5**	34.7	**(1.8)**	0.8
Plan amendments	**-**	-	**0.2**	-
Elements of employee future benefits (income) costs before adjustment to recognize the long-term nature of these costs	**(2.9)**	(82.8)	**4.1**	6.6
Adjustments to recognize the long-term nature of employee future benefits costs:				
Differences between:				
Expected return and actual return on plan assets for the year	**62.8**	119.2	**-**	-
Actuarial (loss) gain recognized for the year and the actual actuarial loss on accrued benefit obligation for the year	**(55.2)**	(9.1)	**1.7**	(0.7)
Amortization of past service costs for the year and the actual plan amendments for the year	**0.4**	0.4	**(0.1)**	-
Amortization of transitional (asset) obligation	**(32.5)**	(32.5)	**2.5**	2.5
Defined benefit (income) costs recognized	**(27.4)**	(4.8)	**8.2**	8.4

The employee future benefits expense in the Statement of Operations and Retained Earnings includes the pension plans net income, the other benefit plans net costs as well as the adjustment of the network restructuring accrual of $(0.1) million (2003: $0.4 million).

	PENSION PLANS		OTHER BENEFIT PLANS	
	2004	2003	**2004**	2003
WEIGHTED-AVERAGE OF SIGNIFICANT ASSUMPTIONS:				
Accrued benefit obligation as at December 31:				
Discount rate	**5.75%**	6.00%	**5.75%**	6.00%
Rate of compensation increase	**3.25%**	3.00%	**3.25%**	3.00%
Benefit costs for the year ended December 31:				
Discount rate	**6.00%**	6.50%	**6.00%**	6.50%
Expected long-term rate of return on plan assets	**7.50%**	7.50%	**-**	-
Rate of compensation increase	**3.00%**	3.50%	**3.00%**	3.50%
Assumed health care cost trend rates as at December 31:				
Initial health care cost trend rate	**-**	-	**7.12%**	5.93%
Cost trend rate declines to	**-**	-	**3.37%**	3.16%
Year ultimate rate is reached	**-**	-	**2011**	**2007**

SENSITIVITY ANALYSIS

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects for 2004:

(IN THOUSANDS OF DOLLARS)	INCREASE	DECREASE
Total service and interest cost	21	(22)
Accrued benefit obligation	197	(178)

8 | CORPORATE TAXES

The future corporate tax liabilities result from temporary differences relating to the accrued benefit asset and the unrealized gain on derivative financial instruments less the tax benefits relating to losses carryforwards, contingencies, the accrued benefit liability, other long-term liabilities and property, plant and equipment net of the valuation allowance.

The corporate tax (recovery) expense is represented by the large corporation tax recovery of $1.9 million (2003: expense of $1.6 million).

9 | DEFERRED CAPITAL FUNDING

(IN MILLIONS OF DOLLARS)	2004	2003
Balance, beginning of year	**674.9**	644.8
Government funding for depreciable property, plant and equipment	**20.2**	82.4
Amortization of deferred capital funding	**(59.4)**	(52.3)
Balance, end of year	**635.7**	674.9

10 | SHARE CAPITAL

The authorized share capital of the Corporation is comprised of an unlimited number of common shares with no par value. As at December 31, 2004 and 2003, 93,000 shares at $100 per share are issued and fully paid.

11 | COMMITMENTS

A | The future minimum payments relating to operating leases mainly for real estate and computer equipment are as follows:

(IN MILLIONS OF DOLLARS)	
2005	8.8
2006	9.0
2007	9.1
2008	8.1
2009	2.1
Subsequent years proportionately to 2049	118.0
	155.1

B | As at December 31, 2004, the Corporation has outstanding purchase commitments amounting to $12.3 million consisting mainly of the completion of rolling stock projects.

C | The Corporation has entered into train service agreements for the use of tracks and control of train operations expiring on December 31, 2008.

D | The Corporation has issued letters of credit totalling approximately $21.8 million (2003: $20.1 million) to various provincial government workers' compensation boards as security for future payment streams.

12 | DERIVATIVE FINANCIAL INSTRUMENTS

At year-end the corporation had the following Swaps and Call Option for Heating oil:

DESCRIPTION	MATURITY DATE	AVERAGE FIXED PRICE PER U.S. GALLON (USD)	NOTIONAL QUANTITY (U.S. GALLONS)	FAIR VALUE CAD (000'S)
Crude Swap	April 30, 2005	1.321	2,520,000	(293)
Crude Swap	December 31, 2005	0.737	7,560,000	3,803
Crude Swap	December 31, 2006	0.818	4,536,000	1,516
Crude Swap	December 31, 2007	0.800	4,536,000	1,250
				6,276

DESCRIPTION	MATURITY DATE	CAP PRICE PER U.S. GALLON (USD)	TRIGGER LEVEL PER U.S. GALLON (USD)	NOTIONAL QUANTITY (U.S. GALLONS)	FAIR VALUE CAD (000'S)
Crude Call Option	December 31, 2005	1.140	1.450	3,696,000	172
Crude Call Option	December 31, 2006	1.065	1.450	2,520,000	155
					327

At year-end the Corporation had the following U.S. forward foreign exchange contracts convertible into Canadian dollars:

DESCRIPTION	MATURITY DATE	FORWARD RATE CAD/USD	NOTIONAL AMOUNT (USD)	FAIR VALUE CAD (000'S)
Foreign Exchange	Monthly in 2005	1.3140	5,570	(619)
Foreign Exchange	Monthly in 2005	1.2900	2,177	(191)
Foreign Exchange	Monthly in 2005	1.2680	1,565	(102)
Foreign Exchange	Monthly in 2006	1.2900	2,117	(188)
Foreign Exchange	Monthly in 2006	1.2773	357	(27)
				(1,127)

The fair value of the positive balance of the above derivative financial instruments at December 31, 2004 is $6.9 million and the negative balance is $1.4 million. The $1.4 million is included in "Account payable and Accrued liabilities" as a short-term derivative financial instrument liability.

Included in the "Train operation and fuel" expense is a gain of $10.3 million on derivative financial instruments.

The Corporation is exposed to credit risk in the event of non-performance by the counterparty to its derivative financial instruments but does not expect such non-performance as the counterparty is of high credit quality.

13 | FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair value of the recognized financial instruments, except for the asset renewal fund, approximates their carrying value due to their current nature.

14 | RELATED PARTY TRANSACTIONS

The Corporation is related in terms of common ownership to all Government of Canada created departments and agencies. The Corporation enters into transactions with these entities in the normal course of business on trade terms applicable to all individuals and enterprises and these transactions are recorded at exchange value.

15 | CONTINGENCIES

A | The Canadian Transportation Agency (CTA) rendered a decision in October 2003 against the Corporation in favour of the Council for Canadians with Disabilities. The Corporation was directed to re-design and re-construct its Renaissance rail cars to remove certain undue obstacles to persons with disabilities.

In December 2003, the Corporation sought and obtained a stay of that decision from the Federal Court of Appeal and also sought and obtained leave to appeal the decision which was granted by Order of the Federal Court in March, 2004. The appeal was heard in November, 2004. The decision is under reserve.

If the CTA decision is upheld the cost of modifying the Renaissance cars would be significant. Management is of the opinion that this could cost between $50 million and $100 million an amount that would exceed funding approved by the Government of Canada for the Renaissance project. No provision has been made in the financial statements for the CTA decision.

B | The Corporation began a restructuring of its labour force in 1997 which resulted in the elimination of a number of positions. The changes became subject to various Canadian Industrial Relations Board (CIRB) decisions, mediations and arbitrations.

In May 2003, the CIRB rendered a decision directing the Corporation to pay back wages under certain circumstances to former conductors. The Supreme Court decided not to grant the Corporation leave to appeal a Federal Court of Appeal ruling supporting the decision of the CIRB.

The Corporation has made a provision for this estimated expense in its 2004 financial results.

C | The Corporation has performed an assessment of all of its operations and of all of its manned facilities in order to determine the environmental risks. The sites that are suspected to be contaminated will be further investigated in the coming years. Certain sites could eventually require decontamination measures or mitigation.

D | The Corporation is subject to claims and legal proceedings brought against it in the normal course of business. Such matters are subject to many uncertainties. Management believes that adequate provisions have been made in the accounts where required and the ultimate resolution of such contingencies are not expected to have a material adverse effect on the financial position of the Corporation.

16 | RECLASSIFICATION

The comparative financial statements have been reclassified from the statements previously presented to conform to the presentation of the 2004 financial statements.