

Consolidated Financial Statements

BRITISH COLUMBIA RAILWAY COMPANY

December 31, 2005 and 2004



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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, 2005 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, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Vancouver, Canada
February 17, 2006

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

December 31	2005	2004
ASSETS		
Current		
Cash and cash equivalents	\$ 137,067	\$ 85,078
Accounts receivable	8,083	24,542
Inventories and other items	2,330	5,315
Investment in preferred shares - Note 2 (c)	-	112,000
	147,480	226,935
Assets available for sale	36,976	14,612
Property and equipment - Note 3	283,779	351,342
Other assets - Note 4	37,022	67,978
	\$ 505,257	\$ 660,867
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current		
Accounts payable and accrued liabilities	\$ 12,772	\$ 42,001
Current portion of other liabilities - Note 5	12,901	2,782
Short-term loan - Note 2 (c)	-	112,000
	25,673	156,783
Deferred lease revenue	281,910	282,195
Other liabilities - Note 5	129,949	118,739
	437,532	557,717
Shareholder's equity		
Share capital - Note 7	257,688	257,688
Contributed surplus	277,547	277,547
Deficit	(467,510)	(432,085)
	67,725	103,150
	\$ 505,257	\$ 660,867

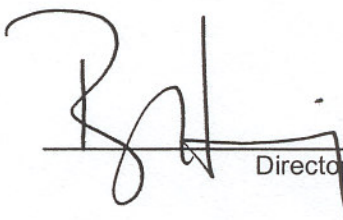
Commitments - Note 8
Contingent liabilities - Note 9

See accompanying notes to the consolidated financial statements.

On behalf of the Board



Director



Director

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

For the years ended December 31	2005	2004
Revenues	\$ 68,947	\$ 242,272
Expenses		
Labour costs	18,162	67,905
Amortization of property and equipment	12,812	31,528
Purchased services	17,486	33,456
Environmental costs	6,859	33,005
Lease expense	5,972	14,653
Materials and supplies	2,482	13,709
Fuel	341	15,411
Operating and other taxes	4,530	4,797
Asset impairment write-down - Notes 3 and 4	40,669	14,569
Other	826	8,989
	110,139	238,022
Operating income (loss)	(41,192)	4,250
Other income (expenses)		
Gain on property sales	9,888	-
Income tax recovery from prior years	-	5,565
Gain (loss) on CN Transaction - Note 2	(5,602)	198,635
Net interest income (expense) - Note 10	1,481	(13,143)
Net income (loss)	(35,425)	195,307
Deficit, beginning of year	(432,085)	(143,158)
Cost of debt settlement - Note 6	-	(40,779)
Dividend	-	(443,455)
Deficit, end of year	\$ (467,510)	\$ (432,085)

See accompanying notes to the consolidated financial statements.

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

For the years ended December 31	2005	2004
Operating activities		
Net income (loss)	\$ (35,425)	\$ 195,307
Adjustment for items not involving cash		
Gain on property sales	(9,888)	(142)
Loss on land donation	21	70
Loss (gain) on CN Transaction - Note 2	5,602	(198,635)
Amortization of property and equipment	12,812	31,528
Amortization of other assets and liabilities	(1,272)	149
Pension and post employment benefit income and contributions - Note 11	2,850	(7,146)
Accretion of asset retirement obligation	2,527	1,787
Asset impairment write-down - Note 3 and 4	40,669	14,569
Income tax recovery from prior years	-	(5,565)
Net change in non-cash working capital - Note 12 (a)	(11,886)	(10,833)
Change in other liabilities - Note 12 (b)	4,380	30,147
Cash provided by operating activities	10,390	51,236
Investing activities		
Purchase of property and equipment	(13,885)	(31,596)
Net proceeds on sale of property and equipment	17,600	7,812
Net proceeds from the CN Transaction - Note 2	-	969,921
Insurance deposits received from reinsurer - Note 4	26,263	-
Deferred property transfer tax - Note 4	-	(9,007)
Proceeds from lease modification - Note 5	10,800	-
Changes in other assets	837	(3,391)
Cash provided by investing activities	41,615	933,739
Financing activities		
Payments and interest earned on sinking funds	-	(4,360)
Sinking fund retirements - Note 6	-	28,369
Repayment of long-term debt and capital lease obligations	(16)	(536,725)
Dividend	-	(443,455)
Cash used in financing activities	(16)	(956,171)
Increase in cash and cash equivalents	51,989	28,804
Cash and cash equivalents, beginning of year	85,078	56,274
Cash and cash equivalents, end of year	\$ 137,067	\$ 85,078

See accompanying notes to the consolidated financial statements.

BRITISH COLUMBIA RAILWAY COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005
(tabular amounts in thousands of dollars)

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

BCRC 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 to the Roberts Bank port terminal and own and manage a portfolio of real estate property within British Columbia.

As at December 31, 2005, the Company is continuing its plan of winding down or disposing of the remaining business units, assets and non-railway related real estate. On completion of the plan, there are expected to 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. Subsequent to year end, the Shareholder and the Company are reassessing the strategic value of the remaining business units and any resulting impact to its plan.

1. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of consolidation

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

Use of estimates

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

Cash and cash equivalents

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

Inventories

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

Property and equipment

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

Property and equipment are amortized on a straight-line basis over the estimated useful lives of the assets. Management annually assesses the value of its property and equipment. When indicators of impairment exist, management performs a fair value assessment and reduces the asset's carrying value to its estimated fair value.

BRITISH COLUMBIA RAILWAY COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005
(tabular amounts in thousands of dollars)

1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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

	Number of Years
Road and buildings:	
Grade	100
Rail, ties and ballast	25 - 35
Wharves and buildings	10 - 40
Equipment:	
Handling and other equipment	3 - 20

Leasehold improvements and equipment under capital lease is amortized over its lease term.

Assets available for sale

The Company is preparing real estate assets for sale and once they meet the requirements under CICA Handbook Section 3475, the assets are classified as held for sale.

Deferred lease revenue

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

Revenue recognition

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

Post employment benefits

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

- i) The cost of retirement benefits earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected health care costs.
- ii) The expected interest cost on any prior service obligation is calculated using management's estimate for the long-term rate of return.
- iii) The expected return on plan assets is calculated at a market-related value for the assets.

BRITISH COLUMBIA RAILWAY COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005
(tabular amounts in thousands of dollars)

1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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

Income taxes

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

Environmental expenditures and liabilities

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

Asset retirement obligation

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

2. CN TRANSACTION

The CN transaction was a main component of a continuing plan to dispose of all of the assets and activities of the Company.

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

BRITISH COLUMBIA RAILWAY COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005
(tabular amounts in thousands of dollars)

2. CN TRANSACTION (cont'd)

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. The final working capital settlement payment of \$ 16.3 million was accrued in 2004 and paid to CN in fiscal 2005.'

- (b) 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. The lease of the remaining railbed assets and track infrastructure has been treated as a capital lease. As a result of the CN Transaction, the Revitalization Agreement has been assumed by CN.
- (c) 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 matured in March 2005 the preferred shares were redeemed and were used to repay this loan.
- (d) As provided for in the Revitalization Agreement, certain aspects of the transaction were finalized in fiscal 2005 and as a result a \$5.6 million reduction in the gain was recorded.
- (e) The Company's share of BC Rail's net operating income for the 196 days ended July 14, 2004 is as follows:

	For the 196 days ending July 14, 2004
Operating revenues	\$ 165,080
Expenses	
Labour costs	48,866
Amortization of property and equipment	22,412
Purchased services and other	17,785
Environmental costs	22
Lease expense	10,657
Materials and supplies	11,234
Fuel	14,597
Operating and other taxes	1,067
Net operating income	\$ 38,440

BRITISH COLUMBIA RAILWAY COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005
(tabular amounts in thousands of dollars)

3. PROPERTY AND EQUIPMENT

	2005			2004		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Roads and buildings	\$ 676,456	\$ 407,627	\$ 268,829	\$ 760,395	\$ 427,356	\$ 333,039
Equipment	3,824	1,142	2,682	17,557	3,481	14,076
Equipment under capital lease	48	28	20	48	12	36
Construction in progress	12,248	-	12,248	4,191	-	4,191
	\$ 692,576	\$ 408,797	\$ 283,779	\$ 782,191	\$ 430,849	\$ 351,342

At December 31, 2005, the Company recognized an impairment charge of \$39 million (2004 - \$14 million) to write down the value of wharfs, buildings, and equipment to their estimated fair value.

During the year, the Company donated land with a value of \$2.1 million (2004 - \$8.1 million) as directed by the Province.

4. OTHER ASSETS

	2005	2004
Insurance deposits	\$ -	\$ 26,263
Accrued pension benefit asset - Note 11 (a)	13,672	16,561
Mortgage receivable	8,636	9,111
Deferred property transfer tax	8,994	9,003
Long-term notes receivable from CN	5,552	5,132
Timber rights	-	1,500
Other	168	408
	\$ 37,022	\$ 67,978

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 were invested in pooled funds of short-term Canadian debt instruments. On September 30, 2005, the contract with the reinsurer expired and was commuted. The balance of insurance deposits of approximately \$26 million was returned to the Company and included with cash and cash equivalents, of which \$25 million is retained by the Company's captive insurance company to fund future possible insurance claims.

A mortgage receivable was provided to a purchaser 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(b). The cost is being amortized over the lease term of 990 years.

BRITISH COLUMBIA RAILWAY COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005
(tabular amounts in thousands of dollars)

4. OTHER ASSETS (cont'd)

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

During the year, management assessed its ability to recover the value of timber rights via logging opportunities. The rights were written down to estimated fair value and an impairment charge of \$1.5 million was recognized.

5. OTHER LIABILITIES

	2005	2004
Environmental liability accrual - Note 9	\$ 78,444	\$ 74,087
Asset retirement obligation	41,192	34,285
Deferred revenue from lease modification	10,615	-
Deferred gain on sale of real estate	9,168	9,168
Accrued non-pension benefit obligation - Note 11(a)	1,123	1,162
Other	2,308	2,819
	142,850	121,521
Less current portion	(12,901)	(2,782)
	\$ 129,949	\$ 118,739

(a) During 2005, the Company renegotiated a lease with the Vancouver Port Authority (VPA) in exchange for a non refundable payment of \$10.8 million which is being amortized over the remaining 29 years of the lease. In conjunction, a purchase and sale agreement was signed with VPA for a future date based on certain conditions. The Company anticipates the sale to be completed by March 2006 and have accordingly recorded the deferred revenue as a current liability as at December 31, 2005.

(b) Asset retirement obligation:

	2005	2004
Opening asset retirement obligation	\$ 34,285	\$ 32,498
Addition of obligation on VPA water lot lease	3,678	-
Increase in estimate	702	-
Accretion expense on obligation	2,527	1,787
Ending asset retirement obligation	\$ 41,192	\$ 34,285
Discount rate	4.5%	5.5%
Inflation	2.5%	2.5%

Although the ultimate amount to be incurred is uncertain, the liability for retirement and remediation on an undiscounted basis before applying an inflation factor of 2.5% is estimated to be approximately \$80.4 million (2004 - \$73.7 million).

BRITISH COLUMBIA RAILWAY COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005
(tabular amounts in thousands of dollars)

6. COST OF DEBT SETTLEMENT

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 was recorded as a charge to the retained earnings of the Company.

7. SHARE CAPITAL

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

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

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

8. COMMITMENTS

The following is a schedule of future minimum payments at December 31, 2005, required under non-cancelable operating leases:

2006	\$ 1,710
2007	1,101
2008	454
2009	99
2010	-
	<hr/> \$ 3,364 <hr/>

At December 31, 2005, the Company had outstanding commitments to acquire material and equipment amounting to \$0.6 million (2004 - \$0.7 million).

9. CONTINGENT LIABILITIES

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

BRITISH COLUMBIA RAILWAY COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005
(tabular amounts in thousands of dollars)

9. CONTINGENT LIABILITIES (cont'd)

- (a) 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. The Petition is scheduled to be heard by the court in a proceeding commencing October 23, 2006. In the event that the lease is not renewed, the Company is reviewing plans to reconfigure the site and continue operations. The site reconfiguration costs are currently estimated to be \$23 million.
- (b) On June 14, 2002, the Attorney General of Canada commenced legal proceedings in the B.C. Supreme Court against Vancouver Wharves Ltd. (formerly BCR Marine Ltd.), BC Rail Ltd., BCR Properties Ltd., British Columbia Wharves Ltd., CSCL, BCRC carrying on business as VWLP and VWLP, alleging that those entities are responsible for soil and groundwater contamination on a site adjacent to the VWLP operation and in Burrard Inlet adjacent to that property as included in the lease described in (a) above. The Attorney General has not filed a Statement of Claim or quantified the damages claimed. The Company has been advised that approximately \$20 million (2004 - \$18 million) has been spent to date by the landlord in remediating the site. The parties are currently assessing remediation options for the site.
- (c) The risk of environmental liability is inherent in the operation of the Company's business with respect to both current and past operations. As a result, the Company incurs costs, on an ongoing basis, associated with environmental regulatory compliance and clean-up requirements.

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

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

- (d) The Province and BCRC have provided commercial indemnities to CN with respect to the CN Transaction and indemnities related to income tax attributes of BC Rail at closing. As at December 31, 2005, 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 \$415 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.

BRITISH COLUMBIA RAILWAY COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005
(tabular amounts in thousands of dollars)

10. NET INTEREST INCOME (EXPENSE)

	2005	2004
Interest earned on temporary investments	\$ 3,107	\$ 5,732
Sinking fund earnings	-	718
Interest on long-term debt and short-term notes owing to the Province	-	(17,080)
Interest on capital lease obligations	(3)	(499)
Accretion expense	(2,527)	(1,787)
Other interest income (expense)	904	(227)
	\$ 1,481	\$ (13,143)

11. EMPLOYEE BENEFITS

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

	Pension Plans		Other Plans	
	2005	2004	2005	2004
Reconciliation of accrued benefit obligation				
Opening balance	\$ (19,217)	\$ (469,701)	\$ (766)	\$ (73,623)
Current service cost	(78)	(9,005)	(13)	(878)
Benefits paid	406	24,472	76	1,354
Interest cost	(938)	(22,763)	(44)	(2,620)
Disposition of BC Rail	-	460,401	-	75,090
Settlement	4,788	-	-	-
Actuarial gains (losses)	(2,548)	(2,621)	90	(89)
Ending balance	(17,587)	(19,217)	(657)	(766)
Reconciliation of plan assets				
Opening balance	25,799	557,279	-	-
Actual return on plan assets	1,339	64,466	-	-
Employer contributions	1,124	7,776	76	1,354
Employee contributions	7	7	-	-
Disposition of BC Rail	-	(579,257)	-	-
Settlement	(4,978)	-	-	-
Benefits	(406)	(24,472)	(76)	(1,354)
Ending balance	22,885	25,799	-	-
Fund status - surplus (deficit)	5,298	6,582	(657)	(766)
Employer contributions during period from measurement date to fiscal year end	-	(461)	-	-
Unamortized past service costs	2,018	2,220	-	-
Unamortized transitional obligation	497	995	-	-
Unamortized net actuarial loss (gain)	5,859	7,225	(466)	(396)
Accrued benefit asset (liability)	\$ 13,672	\$ 16,561	\$ (1,123)	\$ (1,162)

BRITISH COLUMBIA RAILWAY COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005
(tabular amounts in thousands of dollars)

11. EMPLOYEE BENEFITS (cont'd)

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

	Pension Plans		Other Plans	
	2005	2004	2005	2004
Discount rate for liabilities	5.25%	6.0%/6.5%	5.25%	6.00%
Expected long-term rate of return on plan assets	7.0% / 3.5%	7.0% / 3.5%	-	-
Salary escalation rate	2.5% / N/A	3.5% / N/A		

The weighted average rate of increase in the per capita cost of future covered health care benefits was assumed to be 7.0% grading down to 5.00% 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	
	2005	2004	2005	2004
Current service cost	\$ 72	\$ 6,494	\$ 13	\$ 878
Interest cost	938	16,436	44	2,620
Actual return on plan assets	(805)	(20,375)	-	-
Amortization of transitional asset	498	(5,201)	-	-
Plan amendments	202	202	-	-
Plan settlement loss	2,553	-	-	-
Net actuarial loss (gain)	554	257	(19)	673
	\$ 4,012	\$ (2,187)	\$ 38	\$ 4,171

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

BRITISH COLUMBIA RAILWAY COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005
(tabular amounts in thousands of dollars)

12. STATEMENT OF CASH FLOWS – SUPPLEMENTAL INFORMATION

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

	2005	2004
Accounts receivable	\$ 15,814	\$ (14,703)
Inventories and other items	3,012	5,441
Accounts payable and accrued liabilities	(30,712)	(1,571)
	\$ (11,886)	\$ (10,833)

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

	2005	2004
Restructuring costs	\$ -	\$ (425)
Environmental liability accrual	4,357	30,572
Other	23	
	\$ 4,380	\$ 30,147

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

	2005	2004
Interest paid to third parties	\$ 3	\$ 17,863
Interest received from third parties	(3,106)	(6,450)
	\$ (3,103)	\$ 11,413

13. FINANCIAL INSTRUMENTS

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

14. COMPARATIVE FIGURES

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