VIA Rail Canada

ANNUAL REPORT 2017

CONTENTS


Station St
Joan's Gems and Gifts

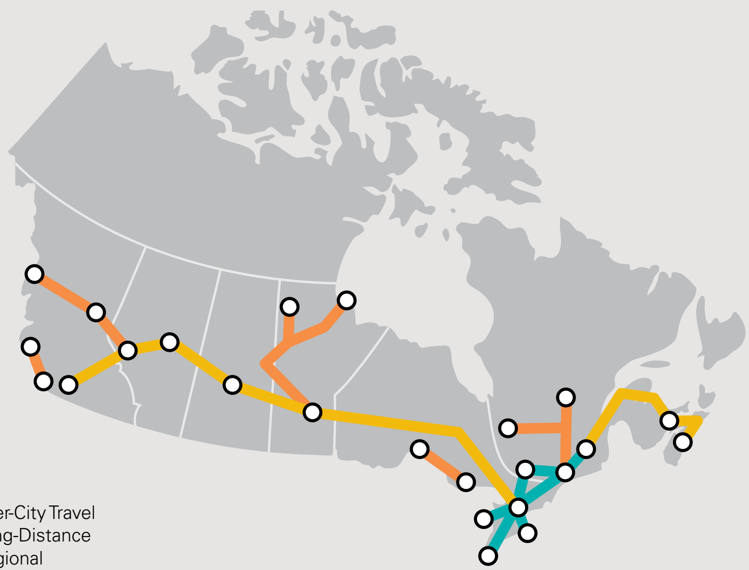
OUR BUSINESS

VIA RAIL AT-A-GLANCE

WHO WE ARE

VIA Rail operates Canada's national passenger rail service on behalf of the Government of Canada. An independent Crown corporation established in 1977, VIA Rail provides a safe, cost-effective and environmentally responsible service from coast to coast in both official languages. The corporation operates close to 514 train departures weekly on a 12,500 km network, connecting over 400 Canadian communities. With 2,899 employees at the end of the calendar year, VIA Rail carried 4.39 million passengers in 2017.

WHERE WE OPERATE



- Inter-City Travel
- Long-Distance
- Regional

INTER-CITY TRAVEL (THE CORRIDOR)

In the densely populated corridor between Québec City, QC and Windsor, ON, VIA Rail trains provide downtown-to-downtown travel between major urban centres, suburban centres and communities.

LONG-DISTANCE TRAVEL AND TOURISM

In Western and Eastern Canada, VIA Rail's trains attract travellers from around the world and support Canada's tourism industry. The *Canadian*, VIA Rail's Western transcontinental train, provides service between Vancouver and Toronto. In Eastern Canada, the *Ocean* runs between Montréal and Halifax.

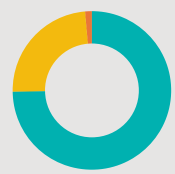
REGIONAL SERVICES

VIA Rail provides passenger service in several rural and remote regions of Canada. Mandated by the Government of Canada to meet essential transportation needs, these trains serve many communities where alternative, year-round transportation is limited or unavailable.

* Services on Vancouver Island and Gaspé are suspended due to infrastructure availability.

PASSENGER REVENUES PER TRAIN ROUTE

- 77 % Inter-City Travel
- 22 % Long-Distance
- 1 % Regional

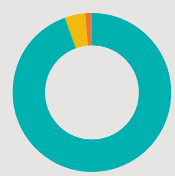


77%

of passenger revenues are from inter-city travel (in the Corridor)

PASSENGER TRIPS PER TRAIN ROUTE

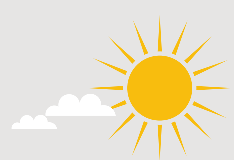
- 95 % Inter-City Travel
- 4 % Long-Distance
- 1 % Regional



95%

of passenger trips consist of inter-city travel (in the Corridor)

COMMUNITIES SERVED



400+

served across Canada

Our key assets reflect the breadth of our business, from our stations and maintenance centers to the fleet of locomotives and train cars we operate, the passengers we serve, the buildings we occupy and the employees who work for us.

FREQUENCY

TRAIN DEPARTURES

514 per week

of which 89% of our trains depart on time

PASSENGERS

PASSENGER TRIPS

4.39 million

covering 1.5 billion kilometres across Canada of which: 95% is inter-city travel, 4% is long-distance and 1% is regional.

EMPLOYEES

ACTIVE EMPLOYEES AS OF THE END OF THE CALENDAR YEAR

2,899

EMPLOYEE DIVERSITY

34%

of our employees are women, 11% are visible minorities, 2% are people with disabilities and 2% are Aboriginal People

FLEET

TRAIN CARS (IN AND OUT OF SERVICE)

428

LOCOMOTIVES

73

of which 71% have been rebuilt for improved operational and environmental efficiency, to run a safe and fluid service

BUILDINGS

TRAIN STATIONS

121

of which 54 are heritage stations

OFFICES

7

1 head office, 6 regional

MAINTENANCE CENTRES

4

state-of-the-art facilities

MESSAGE FROM THE CHAIRPERSON

In April, I was honoured and excited to accept my new mandate as Chair of the Board of Directors of VIA Rail. As the year progressed, I was joined by many other new Board members, who were, like me, inspired by VIA Rail's recent forward-thinking, passengers-first strategy, as outlined in its 2025 strategic plan. Since joining the Board, we have been working to further implement this strategic plan that has been driving the corporation's recent success. My sincerest appreciation goes out to the Board members whose mandates ended this year, who helped lay the foundation for the new Board and the corporation's current successes. In 2017, in order to better meet our aspirations for 2025, and support our successes, we conducted a review and update of our Committees of the Board.

This was a remarkable year in both Canada's and VIA Rail's history. As Canada celebrated its 150th anniversary, VIA Rail celebrated a great year of its own. Thanks to the trust that passengers put in VIA Rail, to those who chose to leave their cars at home, avoiding traffic jams and winter weather, VIA Rail announced significant increases in ridership and revenues once again in 2017.

However, from what I witnessed in even the short time that I've been here, no one at VIA Rail takes these results in stride. We understand, for example, that we continue to experience delays that frustrate both our passengers and our own employees. Though often caused by railway traffic or other circumstances beyond our control, we are still working to reduce or eliminate them. And we are always striving to improve the travel experience for our passengers.

In 2017, the new Board of Directors reviewed and endorsed the corporation's two strategic initiatives that will contribute greatly to addressing these challenges: a plan for a new fleet of trains within the Québec City – Windsor corridor, recently funded in the government of Canada's 2018-2019 federal budget. The second major project, High Frequency Rail, which aims to build a dedicated passenger railway, was also recognized by the government through the allocation of funds to complete study of the plan. On behalf of myself, the Board of Directors, and the entire VIA Rail community, I would like to express our sincerest gratitude to the Government of Canada for this investment in our future. Even as we wait for this plan to become reality we continue to work actively on getting better, every day. Given the challenges VIA Rail still faced in 2017, it became clear what attracts more and more passengers to our trains: our employees. Across all departments, on board our trains, in our stations, maintenance centres and in our offices, VIA Rail's employees make us who we are, and have been the key to facing and overcoming these challenges. I am in awe of their dedication and active participation which has gone above and beyond the call of duty. As well, I'd like to highlight the incredible management team, who kept enthusiasm high and were an inspiration to their crews.

The following report offers a great overview of tangible projects executed in 2017, which are helping VIA Rail evolve into the modern and future-facing corporation it strives to be. Along with the Annual Report, we also publish a Sustainable Mobility Report. With a focus on six sustainable pillars, it outlines our projects, achievements and goals in terms of becoming a leader in Sustainable Mobility. It is available through VIA Rail's website.

I am optimistically looking forward to the coming year, during which VIA Rail will celebrate its 40th anniversary.

The future is on board!

FRANÇOISE BERTRAND
Chair of the Board, VIA Rail

MESSAGE FROM THE PRESIDENT

It has truly been a momentous year for all of us at VIA Rail. Over the past 12 months, I have witnessed our organization grow by leaps and bounds as we continued to strive for excellence in providing Canadians with the highest quality of rail service. We celebrated many watershed moments together, but we also undertook projects that challenged us, allowing us to become stronger and more united than ever before.

In 2017, VIA Rail saw strong ridership and revenue results as well as several impressive long weekends. A testament to our employees' unshakable work ethic, our total ridership increased by 10.5 % while revenues jumped by 12.8 %, compared to 2016. The past year was also marked by festivities as Canada celebrated its milestone 150th anniversary. From Pride Parades to the Invictus Games in Toronto, VIA Rail was there for the year-round celebrations, participating in over 200 events.

VIA Rail also offered the Canada 150 Youth Pass, through which thousands of young people discovered the country by train over the month of July. This great initiative could not have been a success without the exceptional teamwork and diligent preparation by our employees across every department. You can read about the memorable month on page 14.

This unwavering employee dedication was further reflected through several incredible feats of solidarity. Over the spring, VIA Rail was forced to suspend its services between Churchill and Gillam due to massive flooding. As we await the rehabilitation of the railway in the area, VIA Rail employees rose to the occasion to recover a train set that was stranded in Northern Manitoba, which you can read more about on page 25.

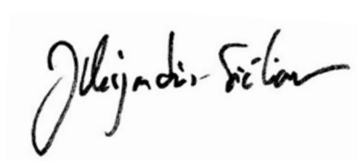
Then on Christmas day, a train travelling through Spy Hill, Saskatchewan, was forced to stop due to treacherous weather, to protect the safety of our passengers and onboard staff. Members of the small community welcomed our employees and passengers with open arms and worked together with our employees to turn an unfortunate situation into an opportunity to do good. It's moments like these that epitomize our perseverance and commitment to serving our passengers.

This year also saw a nice turnout in terms of participation in our Employee Engagement Survey. Over 78 % of our employees voiced their opinions and concerns, which will allow us to further improve ourselves as employers. Furthermore, VIA Rail was recognized for its consistent commitment to safety and the environment and received two awards from the Railway Association of Canada, detailed on p.31.

To add even further to our bright future, as I write this message, the Government of Canada showed its confidence in VIA Rail through its 2018–2019 budget by committing the necessary funds to acquire a brand-new fleet of modern trains to service the Quebec City-Windsor corridor. The government also allocated funding for the conclusion of studies toward our High Frequency Rail project with the goal of creating smarter ways for Canadians to travel. We are most grateful to our shareholder for these tangible signs of confidence.

For these and many other reasons, we are looking forward to the year ahead. In 2018, VIA Rail celebrates its 40th anniversary. Over the last four decades we have served as Canada's national passenger rail service, providing travellers with a unique, safe and comfortable means of transportation across the country. This is a time for reflection, but also an opportunity to look ahead so we can continue to put our passengers first and provide them with the highest quality service for years to come.

Thank you for taking this journey with me,



YVES DESJARDINS-SICILIANO
President and Chief Executive Officer,
VIA Rail

YEAR AT A GLANCE

Financial Results are produced according to International Financial Reporting Standards.
Financial statement results by line have been reclassified to reflect the internal presentation.

	2017	2016	2015	2014	2013
KEY FINANCIAL INDICATORS (IN MILLIONS OF DOLLARS)					
Total passenger revenues [1]	**342.6**	301.1	275.0	259.6	249.6
Total revenues [1]	**365.7**	**324.3**	**297.8**	**280.3**	**270.4**
Operating expenses [1]	**(592.6)**	(554.4)	(520.0)	(509.0)	(482.4)
Contributions for employee benefits [1]	**(38.4)**	(37.4)	(57.8)	(88.4)	(95.6)
Total Operating expenses [1]	**(631.0)**	**(591.8)**	**(577.8)**	**(597.4)**	**(578.0)**
Operating loss	**265.3**	**267.5**	**280.0**	**317.1**	**307.6**
Capital investments	**88.4**	91.0	97.9	81.8	96.2
Total Funding Required	**353.7**	**358.5**	**377.9**	**398.9**	**403.8**
Government Operating Funding	**265.3**	267.5	280.0	317.1	307.6
Government Capital Funding	**88.4**	86.3	97.9	80.9	90.8
Total Government Funding	**353.7**	**353.8**	**377.9**	**398.0**	**398.4**
Asset Renewal Fund	**-**	**4.7**	**-**	**0.9**	**5.4**
KEY OPERATING STATISTICS [2]					
Total passenger-miles (IN MILLIONS)	**954**	858	822	808	832
Total seat-miles (IN MILLIONS)	**1,662**	1,578	1,457	1,349	1,482
Operating deficit per passenger-mile (IN CENTS)	**27.8**	31.2	34.1	39.2	37.0
Yield (CENTS PER PASSENGER-MILE)	**35.0**	34.3	32.5	31.2	29.4
Train-miles operated (IN THOUSANDS)	**6,720**	6,547	6,347	6,160	6,244
Car-miles operated (IN THOUSANDS)	**43,604**	42,637	40,120	36,958	39,699
Average passenger load factor (%)	**57**	54	56	60	56
Average number of passenger-miles per train mile	**142**	131	130	131	133
On-time performance (%)	**73**	73	71	76	82
Number of full time equivalent employees during the year	**3,011**	2,787	2,694	2,608	2,662

(1) Financial statement amounts were adjusted to reflect funded activities.
(2) Key operating statistics are unaudited.

KEY OPERATING STATISTICS BY SERVICE GROUP

Train Service Summary – For the year 2017
(Revenues and costs by train service are unaudited)

Train Services	Revenues (IN THOUSANDS)	Costs (IN THOUSANDS)	Shortfall (IN THOUSANDS)	Subsidy per passenger	Subsidy per passenger-mile	Passengers per week	Passengers per year
Montréal-Ottawa-Toronto	$173,863	$261,472	$87,609	$36.97	$0.16	45,566	2,369,449
Québec-Montréal-Ottawa	$50,573	$75,450	$24,877	$32.73	$0.22	14,617	760,086
Corr East	**$224,436**	**$336,922**	**$112,486**	**$35.94**	**$0.17**	**60,183**	**3,129,535**
Toronto-London-Sarnia-Windsor	$48,531	$72,545	$24,014	$24.56	$0.21	18,804	977,817
Toronto-Niagara	$1,169	$6,407	$5,238	$128.42	$1.62	784	40,787
SWO	**$49,700**	**$78,952**	**$29,252**	**$28.72**	**$0.24**	**19,588**	**1,018,604**
Corridor	**$274,136**	**$415,874**	**$141,738**	**$34.17**	**$0.18**	**79,771**	**4,148,139**
Montréal-Halifax	$11,150	$51,653	$40,503	$514.24	$0.90	1,515	78,763
Toronto-Vancouver	$75,933	$117,166	$41,233	$392.84	$0.32	2,018	104,960
Longhauls	**$87,083**	**$168,819**	**$81,736**	**$444.89**	**$0.47**	**3,533**	**183,723**
Montréal-Gaspé	$0	$0	$0	n/a	n/a	0	0
Montréal-Jonquière	$380	$5,641	$5,261	$529.38	$3.29	191	9,938
Montréal-Senneterre	$374	$5,932	$5,558	$590.21	$3.13	181	9,417
Sudbury-White River	$234	$3,616	$3,382	$532.43	$3.66	122	6,352
Winnipeg-Churchill	$1,632	$17,845	$16,213	$973.99	$4.11	320	16,646
Jasper-Prince Rupert	$1,828	$9,676	$7,848	$435.56	$1.27	347	18,018
Regional services	**$4,448**	**$42,710**	**$38,262**	**$633.78**	**$2.65**	**1,161**	**60,371**
The Pas and Pukatawagan[1]	n/a	$3,589	$3,589	n/a	n/a	n/a	n/a
System	**$365,667**	**$630,992**	**$265,325**	**$60.41**	**$0.28**	**84,465**	**4,392,233**

(1) Service operated by Keewatin Railway Company between The Pas and Pukatawagan.

2017 MILESTONES

JANUARY

- "Why Don't You Take the Train?" marketing campaign (p.20)

FEBRUARY

- VIA Rail brings together 100 participants for Daughters of the Vote, as part of Equal Voice (p.15)
- Launch of VIA Rail's Canada 150 events (p.14)

MARCH

- Yves Desjardins-Siciliano appointed Honorary Lieutenant-Colonel of the Régiment de Maisonneuve (p.29)

APRIL

- Rail Safety Week events (p.27)
- Appointment of Françoise Bertrand as Chair of the Board of Directors (p.43)

MAY

- Severe flooding causes VIA Rail to suspend service between Gillam and Churchill (p.25)
- Annual Public Meeting
- Best performance in eight years for May long weekend (p.24)

JUNE

- Renovated Montréal Customer Centre re-opens (p.23)
- VIA Rail takes part in Toronto Pride parade (p.15)
- Eight new members appointed to the Board of Directors (p.40)

JULY

- Over 4,200 passengers travel with the Canada 150 Youth Pass (p.14)

AUGUST

- VIA Rail takes part in Montréal and Ottawa Pride parades (p.15)

SEPTEMBER

- Centennial celebration of the heritage Alexandria Station in Ontario (p.23)
- Partnership with the Invictus Games Toronto (p.15)
- Ann Bouthillier appointed Chief Communications Officer (p.122)
- Roll-out of electric car charging station (p.17)
- 78,000 passengers — an exceptionally high number — boarded VIA Rail trains over Labour Day weekend (p.24)

OCTOBER

- VIA Rail presented with the RAC's annual Safety Award and biannual Environment Award (p.31)

NOVEMBER

- A tenth train frequency added to the Toronto – Ottawa route (p.16)
- Mario Bergeron appointed Chief Mechanical and Maintenance Officer (p.122)
- Renovated Moncton Customer Centre re-opens (p.23)

DECEMBER

- VIA Rail's return to television through the "Why Don't You Take the Train?" campaign (p.20)
- Six frequencies added to the *Ocean* train schedule during the holidays (p.16)

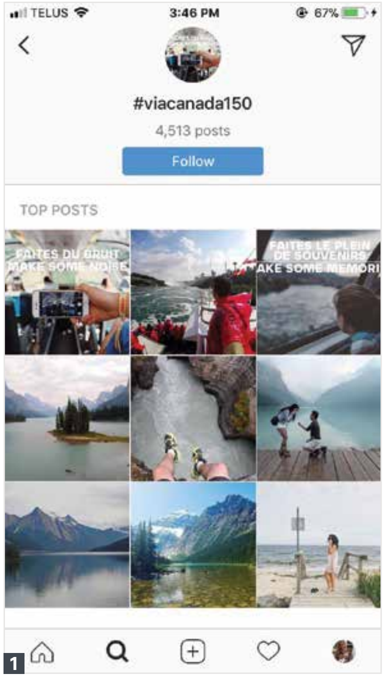
REVIEW OF OPERATIONS

CANADA 150

In 2017, we came together as a nation to celebrate the 150th anniversary of Canadian Confederation. The railway united our country, both physically and figuratively, and the promise of a coast-to-coast connection was a catalyst for uniting the provinces 150 years ago. Today, VIA Rail continues the tradition of connecting people across Canada by train. During this milestone anniversary, VIA Rail was celebrating alongside Canadians by participating in many Canada 150 events across the country, as well as launching several new projects and initiatives. Here are some of the highlights.

1

1/ Thousands of passengers travelled using the Canada 150 Youth Pass in July (© @mireilllestp)



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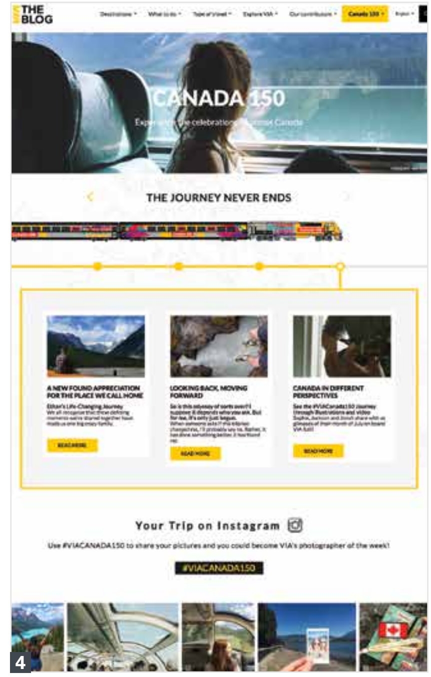

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DRESSING UP FOR THE OCCASION

In 2017, VIA Rail decorated a portion of its trains in the Canada 150 colours. This campaign leveraged VIA Rail's own equipment and infrastructure to promote Canada 150 and encourage people to discover the beauty of Canada. Twenty-two locomotives, 18 passenger cars and the Glen Fraser lounge car were adorned with the names of some of the cities that VIA Rail serves. The exterior design of VIA Rail's trains was recognized at the Specialty Graphic Imaging Association Golden Image Competition, where they won in the category of digitally printed vehicle wraps. We also hung posters and banners in our stations, inviting travellers to join in the festivities.

CANADA 150 YOUTH PASS

As part of this year's 150th anniversary celebrations, VIA Rail offered a Canada 150 Youth Pass for unlimited travel to any destination during the month of July. The pass, commemoratively priced at $150, created a huge buzz online, and 4,283 lucky youth purchased a pass and set off for the summer of a lifetime. VIA Rail prepared well for the adventure in every department: from network planning to safety and security. Meanwhile, the dedicated in-station and on-train staff ensured that our travellers were well cared for, so that they could experience the romance of train travel and create lasting memories.

TELLING THE CANADA 150 STORY

Canada 150 Youth Pass holders shared the stories of their journeys using VIA Rail's hashtag #VIACanada150 on Instagram, Twitter, Facebook and other social media platforms. On Instagram alone the hashtag generated over 4,000 creative posts in July. VIA Rail also let pass holders tell their own longer-form stories of travel and discovery on the dedicated Canada 150 page of our blog. Throughout the year, we also published specially-curated content including interviews with prominent Canadian figures like David Suzuki, Julie Payette and Dan Aykroyd who shared some of their favourite spots across the country with us. We also highlighted the best places to visit and join in on the celebrations each month, like strolling on Halifax's beaches in May or basking in the natural beauty of Jasper in November.

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8

CELEBRATIONS AND EVENTS

Along with welcoming passengers who were discovering the country by train this summer, VIA Rail also partnered with numerous organizations and participated in over 200 events across the country, many of which supported the arts, promoted gender diversity and cultural development, including 11 Heritage Canada signature events. These projects and events were selected based on their ability to bring Canadians together, promote our culture, and foster diversity.

In 2017, VIA Rail brought close to 100 participants to Québec City, Toronto and Ottawa collectively, for the Daughters of the Vote event hosted by Equal Voice. The event marked the 100th anniversary of the first wave of women in Canada to attain the right to vote in federal elections and discussed topics like how far women have come and what still remains to be done, as well as gender parity in Canadian politics.

In celebration of the Canadian music industry, VIA Rail joined forces with Ottawa 2017 and the Canadian Academy of Recording Arts and Sciences for the JUNO Awards weekend to bring over 450 nominees, musicians, media, fans, contest winners, and executives to the nation's capital on board the JUNO Express. VIA Rail also took part in the Montreal, Toronto and Ottawa Pride Parades over the summer, as well as the whimsical La Machine event in Ottawa.

VIA Rail was also proud to be a sponsor of this year's Invictus Games, which took place at the end of September. The Invictus Games is an international adaptive multi-sport event, created by Prince Harry, in which wounded, injured or sick armed services personnel and their associated veterans take part. This year saw over 550 athletes from 17 competing countries and VIA Rail showed its support by transporting the Canadian delegation of military athletes from Ottawa to the games in Toronto. VIA Rail additionally partnered with four other military events as part of the Canada 150 celebrations.

CAPTIONS PAGE 14: 1/ Screenshot of posts using the hashtag #VIACanada150 on Instagram.
2/ VIA Rail commemorative train wraps. **3/** Ottawa Pride Parade. **4/** Screenshot of dedicated Canada 150 page of our blog.
CAPTIONS PAGE 15: 5-6/ Invictus games **7/** La Machine, Ottawa © Jordi Bover **8/** Ryan Bolton on the JUNO Express.

PUTTING PASSENGERS FIRST

SCHEDULE IMPROVEMENTS

In 2017, VIA Rail made several enhancements to its schedule to better serve passenger needs, and adjustments were made to our Southwestern Ontario routes. A tenth frequency between Ottawa and Toronto was also added to the schedule to provide more options for commuters. With these additional frequencies, the number of travellers on this popular segment increased by 39.2% since 2014.

An additional evening departure from Toronto to Kingston was added, along with additional station stops in Guildwood and Trenton Junction. We also increased the number of direct connections on our popular Québec City – Montréal – Ottawa route by adding a Sunday afternoon departure in both directions and one more direct train to Québec City during the week.

In order to further expand commuter options to and from Montréal, two stops were added in Saint-Hyacinthe during rush hour, giving people an opportunity to commute from the city for the work day: one in the morning towards Montréal, and one in the evening back towards Saint-Hyacinthe. Business class service has also been added to the weekday early morning train from Kingston to Toronto and evening train back.

More capacity was made available in the Corridor compared to previous years in order to further accommodate our growing passenger base. Capacity, measured in available seat miles at VIA Rail, increased 5.3% compared to 2016.

Over the holiday season, VIA Rail added six departures to its *Ocean* train schedule to provide better service to the communities along its route. This updated schedule offered 28 trains over the period, representing an increase in total capacity of 64%.

PASSENGER SEAT DIRECTION

Following the recent completion of 50/50 (bi-directional) seating plan in the Corridor, seat direction has been added to passengers boarding passes. Once tickets are purchased, travellers will now know in which direction their seats will be facing prior to departure.

GET CHARGED AT OUR CAR CHARGING STATIONS

In line with our focus on putting passengers first and Sustainable Mobility, VIA Rail has been installing electric car charging stations in the parking lots of several train stations. In partnership with the electric vehicle charging networks Electric Circuit, in Québec, and Flo in the rest of Canada, electric car owners can now "get some juice" at our stations in Windsor, Ontario and Ste-Foy, Québec. Charging stations will also be installed at London, Kingston, Belleville, and Fallowfield train stations (all in Ontario), as well as at our Montréal and Toronto Maintenance Centres (as requested by employees) in 2018.

ONBOARD EXPERIENCE

FUN FOR KIDS

In our ongoing efforts to improve customer experience, we didn't forget about our youngest passengers. The kids program underwent a mini overhaul and kids aged 2 to 11 now receive a "Choo Choo Club" goodie bag when they board our trains. These new kits include an activity book full of educational games like crosswords, mazes, and lots of other fun surprises that will keep them entertained for part of the trip and create lasting memories. This revamped kids program was one of the winning proposals of our Client Innovation Challenge, a national employee recognition program which invited all VIA Rail employees to submit their ideas on how to further improve the customer experience.

BETTER MENU OPTIONS

This year, we made several changes to our menus in both Economy and Business class. Based on customer and employee feedback, we streamlined a number of light meals and introduced five new meal options, including a breakfast box and assorted vegetable plate in Economy class. In Business class, we improved our croissant recipe and made tweaks to several menus on trains in Southwestern Ontario. For passengers aboard the *Ocean*, we implemented a freshly prepared breakfast menu.

GOING LOCAL

With our continued focus on promoting local products, VIA Rail now offers more Canadian food and drinks on our Business class menu. Throughout the Corridor, passengers can savour Montréal's iconic St-Viateur bagels and sip wines from seven Canadian wineries, including the Andrew Peller Winery and Henry of Pelham Winery. We also added a sparkling wine selection from Pelee Island to the menu to round out the offer. For craft beer enthusiasts, we launched a new microbrewery program where passengers can sample regional and local beers like Steam Whistle and Archibald alongside other national brands, which will rotate every six months.

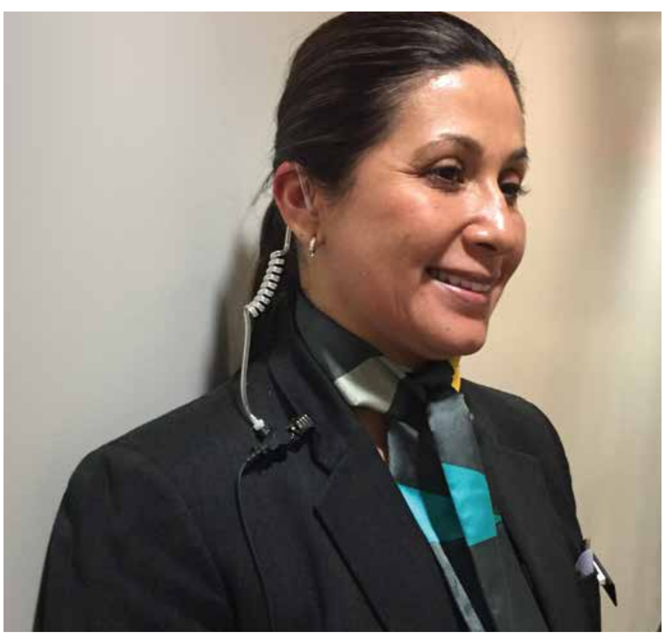
NEW EARPIECES FOR A PEACEFUL TRIP ONBOARD

VIA Rail knows that the customer experience is essential. Although we pride ourselves on our service, there is always room for improvement. In order to provide a service that is pleasant and accommodating, we have opted to use earpieces for onboard employees assigned to the Québec City – Windsor corridor. Providing professional service, these discrete, reliable and safe devices minimize noise while keeping operational communications strictly between employees.

OUR COMMITMENT TO BETTER ACCESSIBILITY

VIA Rail is committed to remaining the most accessible national and inter-city mode of transportation in Canada. Over the years, we have made improvements to our trains, stations, and frontline services (call centres, IT systems, website) to ensure Canadian passenger rail remains at the forefront of accessible transportation for travellers with mobility or other limitations.

VIA Rail revised its accessibility policy in 2017, which took effect in early January 2018. We now offer space for two passengers travelling together on the same train with qualified 3-wheel scooters either by having two tie-down spaces per train or by securing two unoccupied scooters in one tie-down. For more information on our full policy, please consult our website viarail.ca/en/accessibility.



GROWING OUR COMMUNITY

SMART MARKETING

This year, VIA Rail deployed several successful ads as part of the "Why Don't You Take the Train?" campaign across our digital platforms, as well as through print. These smart and timely media messages challenged people to pause and re-evaluate their travel habits, and encouraged them to leave their cars at home and avoid the stress of driving, the hazards of winter roads and traffic, all while reducing their environmental impact. At the end of 2017, VIA Rail made its return to television after a three-year hiatus.

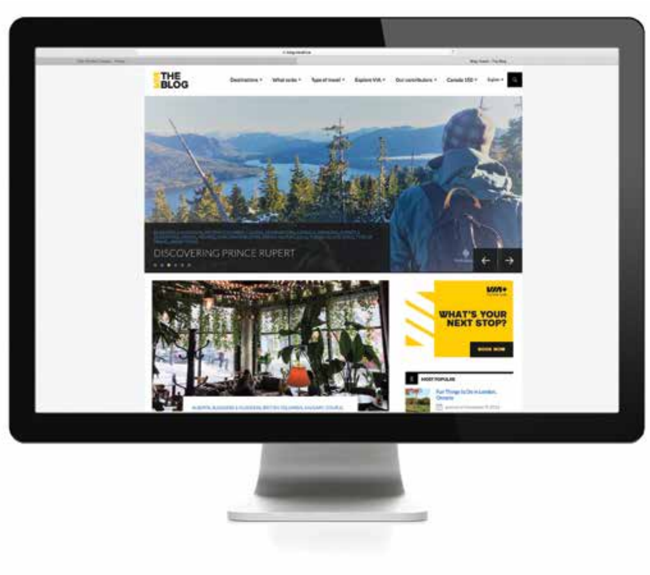
For our "Why Don't You Take the Train?" campaign, VIA Rail teamed up with CAA Québec to create a witty and unscripted ad with Québécois comedian Pierre-Yves Lord. In the video, Lord joins a CAA agent sent to rescue people whose cars have broken down or gotten stuck in a snowbank. This is juxtaposed with clips of him relaxing in comfort on the train. The video promotes the train as the smart choice for winter travel, especially when combined with the 10% discount CAA members receive on their train ticket. The video was hugely popular on Facebook with over 115,000 views.

VIA: THE BLOG

Since 2016, VIA: The Blog has been showcasing Canada's vibrant communities from Kamloops to Truro and everywhere in between through weekly posts. Our writers have covered Manitoba's culinary scene and explored Ontario's charming small towns through the eyes of a local, or as visitors discovering a community for the first time. Readers can filter through the site based on destination, who they are travelling with and even what type of travel they are interested in.

Over the year, in celebration of Canada 150, VIA: the Blog also hosted a section for Canada 150 youth travellers to tell their own stories (see p.14 of this report), and interviewed prominent Canadian figures including Peter Mansbridge and Sarah McLachlan who shared their favourite places in the Great White North.

The blog, fast becoming a resource for travel inspiration and insider's tips on where to go and what to see, has been attracting more and more readers. In 2017 it welcomed over 111,000 visitors to discover what Canada has to offer.



Peter Mansbridge in the Arctic, CBC Media Centre.

OUR ASSETS

VANCOUVER'S BUSINESS LOUNGE GETS A NEW LOOK

To improve our service offer in Vancouver, the Panorama Business class lounge underwent a full makeover. In May, following a five month renovation, our beautiful new lounge was re-opened to passengers. With a sleek and modern style, the new décor places an emphasis on offering a more comfortable visit and is in line with our Business lounges in other cities.

REVAMPING OUR MAINTENANCE CENTRES AND STATIONS

Over the year, we invested approximately $40M in 60 capital projects at our maintenance centres and stations. Projects completed this year include the reroofing of the Montréal, Toronto and Winnipeg centres. Station projects include washroom refurbishment and exterior cladding replacement in London, as well as the waterproofing of the exterior walls of the Gare du Palais in Québec City. The north and south escalators of Kingston station were also replaced.

INFRASTRUCTURE UPGRADES

Throughout the year, several work programs were carried out on VIA Rail-owned infrastructure to maintain safety and improve passenger comfort, some of which were part of the 2014 infrastructure program where the Corporation received $102 million of capital funding. This year, state work continued on bridges of the Beachburg, Smiths Falls and Alexandria subdivisions to maintain a state of good repair, and a new elevator passenger platform was constructed at Ottawa station to facilitate the passenger train boarding and disembarking process, and improve the accessibility standard for passengers with limited mobility.

The renovated Panorama Business class lounge in Vancouver.

1

2

ALEXANDRIA STATION'S CENTENNIAL CELEBRATION

In September, our heritage train station in Alexandria, Ontario celebrated its 100th anniversary. VIA Rail President Yves Desjardins-Siciliano was on site along with Members of Parliament, and the Mayor of the Township of North Glengarry to commemorate this major event. To mark the occasion, VIA Rail gave a gift of 10 sugar maples to residents of the Township of North Glengarry, representing the station's 10 decades of history and the collaboration between the township and VIA Rail.

SMALL CHANGE, BIG ENVIRONMENT IMPACT

At VIA Rail, we are always looking for ways to further reduce our ecological impact and there are many initiatives currently underway. Over the last year, we have made great strides in terms of lowering our carbon footprint. For example, VIA Rail completed the replacement of original lighting fixtures with LED lighting fixtures in the Toronto Maintenance Center's (TMC) outdoor yard, following the TMC's interior lights replacement earlier in 2017. The project helped to reduce energy consumption while improving the lighting quality for employees as well as the safety of our operations. This may seem like a small change, but it is one more step toward a more sustainable future — and the potential savings are significant. The energy savings have been evaluated at approximately 2,200,000 kWh per year for the facility which translates into an annual savings of $250,000 in operating expenses.

BETTER CUSTOMER CENTERS, BETTER SERVICE

In 2017, we invested $2.5M to renovate our two VIA Rail Customer Centers (VCC) located in Montréal and Moncton, as well as the Operation Control Center (OCC) in Montréal. This project aimed to provide a better work environment for employees including new ventilation and lighting, an improved work space configuration along with new office furniture. With these renovations, we ensured that our front-line employees are operating in a safe and comfortable work environment to better serve our customers and enhance their overall experience. Follow up training sessions for our VCC agents have also been planned for 2018.

FROM LEFT TO RIGHT: 1/ Member of the Provincial Parliament of Ontario for Glengarry-Prescott-Russell, Grant Crack, Federal Member of Parliament for Glengarry-Prescott-Russell, Francis Drouin; President and Chief Executive Officer of VIA Rail, Yves Desjardins-Siciliano, Mayor of the Township of North Glengarry, Chris McDonell. **2/** Yves Desjardins-Siciliano at the unveiling of the Moncton VCC following renovations.

PERFORMANCE

PASSENGER INCREASES ACROSS THE BOARD

In 2017, more and more people sought out VIA Rail for their travel needs. In order to accommodate this passenger increase we are using our equipment more efficiently by maximizing the utilization of our fleet. In optimizing our operations, we are liberating more capacity to transport passengers on a daily basis. This is reflected in the capacity increase of 5.3% compared to last year.

SUCCESSFUL LONG WEEKENDS

Due in part to the Canada 150 celebrations, an increasing number of people opted to travel by train for their long weekend escapades. VIA Rail posted its best performance in eight years for the May long weekend with an 8% passenger increase compared to 2016. Over the August long weekend, we saw a 9.5% increase compared to the previous year, while over Labour Day weekend, VIA Rail welcomed aboard 78,000 passengers and boasted double-digit growth with a 15.2% increase compared to the previous year.

With the anniversary festivities in full swing, the Jasper-Prince Rupert service saw an especially high performance over the summer. More and more passengers embarked on our *Adventure* routes to discover some of the country's most breathtaking scenery. Compared to the previous year, the Jasper-Prince Rupert route saw a 20.7% increase in revenue and a 7.3% increase in ridership in 2017.

SERVICE BETWEEN GILLAM AND CHURCHILL SUSPENDED

Despite our best efforts to offer reliable service, there are certain external factors beyond our control. After significant flooding in Northern Manitoba during the spring, our train service between Gillam and Churchill was suspended and in November, VIA Rail announced that it will be temporarily modifying its schedule until tracks are repaired and service is resumed. We now offer return service once per week between Winnipeg and The Pas, twice per week between The Pas and Thompson, and three times per week between Thompson and Gillam. This temporary schedule will be in effect until the tracks are repaired by the railway owners and service to Churchill resumes.

CHURCHILL TRAIN RECOVERY

In October, over 50 VIA Rail employees banded together to recover a train set — two locomotives and five passenger cars — that ended up stranded in Churchill due to the significant flooding in Northern Manitoba over the spring. The decision was made to recover the train set as it was not known when the service would resume, rust had already started forming on the exposed metal, and winter was on its way. VIA Rail employees worked together with the sea transport company and the Port of Churchill owners and the trainset was shipped by sea to the Montréal Maintenance Centre, where it received proper care. Thanks to the recovery, the train set can be kept in a state of good repair and can be made available when service resumes in Churchill.

SAFETY

Safety is VIA Rail's number one priority. We work hard to ensure that our passengers arrive safely at their destinations, that our employees work in a safe environment, and that the public is informed about safety around railways. Ongoing improvements to our risk management practices, and more specifically to our Safety Management System, are reflections of the importance we place on safety.

Operational safety information for the year is addressed below. Additional information about how VIA Rail promoted safety around railroads is included in our 2017 Sustainable Mobility Report, which can be found in the "About VIA Rail" section of our website under "Governance and Reports".

MONITORING OUR SAFETY MANAGEMENT SYSTEM

VIA Rail went above and beyond simply complying with its Safety Management System (SMS) monitoring process this year. We began with a full review of 2016's safety performance to reassess any changes in operational risks. We then implemented a more structured and risk-based approach in our monitoring to measure compliance with controls and regulatory requirements that mitigate our biggest safety hazards. Through these measures we can also address any issues before they arise. This allows us to better monitor leading indicators and adjust our SMS more efficiently to ensure safe operation for both our employees and our passengers.

2

NEW SAFETY INITIATIVES

This year, we launched an initiative to improve the reliability of our Centralized Traffic Control systems and Automatic Warning Devices which protect level crossings during severe weather conditions. The desired outcome is to reduce crossing protection activation — also known as the fail-safe mode — and improve the On-Time Performance of our trains.

RAIL SAFETY WEEK

VIA Rail is firmly committed to educating the general public about safety around railways and partnered once again this year with Operation Lifesaver for Rail Safety Week in April. Informational kiosks were set up in several stations including Halifax, Québec City, Montréal and Kingston to promote awareness. First-person virtual reality videos were used to educate the public about the hazards surrounding railways — by showing them firsthand what it's like to have a close call with a train. The videos challenge some of the most common myths about trains: that a train can stop on a dime, and that you can always see or hear a train coming.

VIA Rail also actively engages with communities about its infrastructure projects to ensure that the public understands where projects are underway and the types of safety precautions to take.

2/ VIA Rail partnered with Operation Lifesaver for Rail Safety Week in April.

AWARDS

VIA RAIL RECOGNIZED FOR DEDICATION TO MILITARY AND ARMED FORCES

VIA Rail has been recognized over the past year thanks to various initiatives including a new leave policy allowing reservist employees to continue their military training or participate in temporary missions during military operations in Canada and abroad. VIA Rail has also entered into several partnerships with programs like the Canada Company Military Employment Transition Program and Commissionaire's MISSION EMPLOI to encourage more veterans as well as reservists to join our company.

BEST EMPLOYER IN QUÉBEC AWARD

VIA Rail was honoured as the best employer in Québec by the Canadian Forces Liaison Council. This award recognizes our support for members of Canada's Reserve Forces and our efforts to encourage them to join and stay at our company.

VIA Rail's President with VIA Rail employees who are veterans and members of Canada's Reserve Forces. **FROM LEFT TO RIGHT:** Sebastien Langlais (Maintenance), Janine Caron (Legal), Jean-Samuel Plante (Customer Relationship Management), Yves Desjardins-Siciliano, Denis Durand (Former member of Board of Directors), Jacques Fauteux (Government and Community Relations), Lucie Tremblay (Corporate Security), and Michel Binette (IT).

MOST SUPPORTIVE EMPLOYER IN CANADA

VIA Rail was honoured to be named the Most Supportive Employer in Canada by the Canadian Forces Liaison Council. VIA Rail is the first Crown Corporation to win this award.

Yves Desjardins-Siciliano, President and Chief Executive Officer, VIA Rail Canada, receives the Most Supportive Employer Award on behalf of VIA Rail.

HONORARY LIEUTENANT-COLONEL

VIA Rail's President and CEO, Yves Desjardins-Siciliano, was appointed the honorary Lieutenant-Colonel of the Régiment de Maisonneuve and accepted the mandate to reinforce the link between the military and Montréal's civilian community and promote esprit de corps. This appointment reflects Mr. Desjardins-Siciliano's leadership in recognizing the value military members can add to the Canadian workforce.

Lieutenant-Colonel Jean-François Latreille, CD, Commanding officer of the Régiment de Maisonneuve; Yves Desjardins-Siciliano, President and CEO of VIA Rail and Honorary Lieutenant-Colonel of the Régiment de Maisonneuve; and Colonel (ret.) Roger Chouinard, CD, Honorary Colonel of the Régiment de Maisonneuve.

MANY HONOURS FOR OUR MARKETING CAMPAIGNS

Our "Winter Way to Travel" campaign won Silver both at the Internationalist Awards for "Innovation in Media" (in New York) and at the International Festival of Media contest (in Rome) for "Best use of Geo-Location". VIA Rail's media strategy partner Touché! also received the award for Agency of the Year at the Strategy contest for this same campaign.

The "Why Don't You Take the Train?" campaign won a prize at the Québec *Les Grands Prix Marketing* for "Best Use of Media in a Marketing Initiative". As well, it was awarded Bronze in the "Products and Services — Best in Travel and Tourism" and Silver in "Best Use of Digital — Best in Location-Based Marketing" at the Media Innovations Awards (in Toronto). Meanwhile, this campaign also stood out and was a finalist in the *Créa* awards recognizing the best advertising in Québec.

HAT TRICK AT THE PRIX MÉDIA D'INFOPRESSE

VIA Rail won three prizes at the *Prix Média d'Infopresse* which highlights creativity and innovation of media strategy in Québec. Our "Winter Way to Travel" campaign won both "Best Use of Digital Media" and "Best Use of Data and Research", while the "Why Don't You Take the Train?" campaign won in the "Best Use of Billboards" prize.

RAC SAFETY AND ENVIRONMENT AWARDS

At the Railway Association of Canada's 2017 Safety and Environment Awards, VIA Rail's Locomotive Engineer tablet initiative won a Safety Award in the Class 1 category. This innovative project was recognized for reducing work-related injuries and allowing Locomotive Engineers to access documents more efficiently through digital platforms. VIA Rail also won an Environment Award which recognized the fuel-saving strategy implemented by the Central Region Transportation team.

Yves Desjardins-Siciliano, President and Chief Executive Officer, with Hoang Tran, Senior Manager, Network Operations, and Douglas Mackenzie, Manager, Transportation, Central Region.

SUSTAINABLE MOBILITY

Sustainable mobility is an integral part of who we are and how we have always conducted our business. Since we issued our first Sustainable Mobility Report which detailed our activities in 2015, we have continued our journey to innovate and transform our business for future growth. For us, sustainable mobility is about contributing to a greener transportation system for Canada, in a way that enables economic prosperity, improves quality of life and provides more environmentally responsible mobility options. The following is a brief overview of our sustainability pillars. For more information, the full 2017 Sustainable Mobility Report can be found in the "About VIA Rail" section of our website under "Governance and Reports".

OUR SUSTAINABILITY PILLARS

Six pillars underline what sustainable mobility means at VIA Rail. These pillars guide our vision to be a smarter way to move people – ensuring we manage operations efficiently, effectively and economically, while providing a safe, secure, reliable and environmentally sustainable rail passenger service.

1

Providing the Best Customer Experience:
by ensuring a reliable, affordable and accessible service for our customers that enables them to experience Canada in a unique way

2

Promote Socio-economic Development:
by using public funds efficiently and effectively, while contributing to Canada's economy by providing access and connectivity to a sustainable transportation system

3

Operate Safely and Securely:
by embedding a culture where safety is everyone's first and foremost concern

4

Reduce our Impact on the Environment:
by being the preferred greener travel choice for Canadians, while reducing our emissions per passenger-kilometer and increasing our resource efficiency

5

Be an Attractive Employer:
by supporting a workplace where each employee feels recognized and rewarded for being of service to passengers, to each other, and to the communities VIA Rail serves

6

Managing Our Business Responsibly:
by ensuring transparency, accountability and integrity in everything we do, while engaging and consulting stakeholders on their viewpoints

2017 HIGHLIGHTS

PROVIDING THE BEST CUSTOMER EXPERIENCE

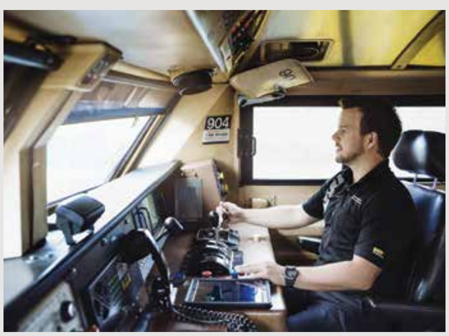
- Revised our Accessibility Policy to better accommodate our diverse population
- Enabled more sustainable mobility options: increased passenger volume from inter-modality

PROMOTE SOCIO-ECONOMIC DEVELOPMENT

- Hosted citizenship ceremonies welcoming new Canadians in our stations
- Became a member of the Canadian Council for Aboriginal Business to forge closer ties with Indigenous businesses and surrounding communities

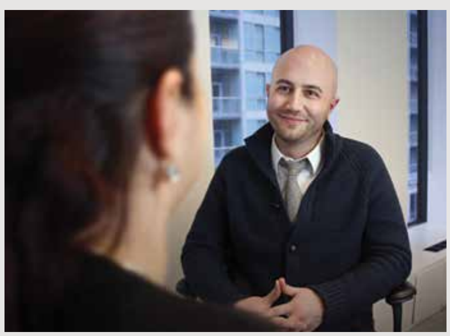
OPERATE SAFELY AND SECURELY

- Instilled a risk preventive safety culture and reduced train incidents
- Integration of condition-based maintenance practices to prevent issues before they occur



REDUCE OUR IMPACT ON THE ENVIRONMENT

- Implementation of effective fuel conservation methods
- Initiated the formalization of sustainability into the procurement process



BE AN ATTRACTIVE EMPLOYER

- Record results for Employee Engagement Survey with 78% participation
- Initiated the VIAWELL Ambassador program nationally to increase awareness on mental health

MANAGING OUR BUSINESS RESPONSIBLY

- Continued to reinforce our commitments on ethics and integrity
- Engaged 340 communities and community leaders across Canada

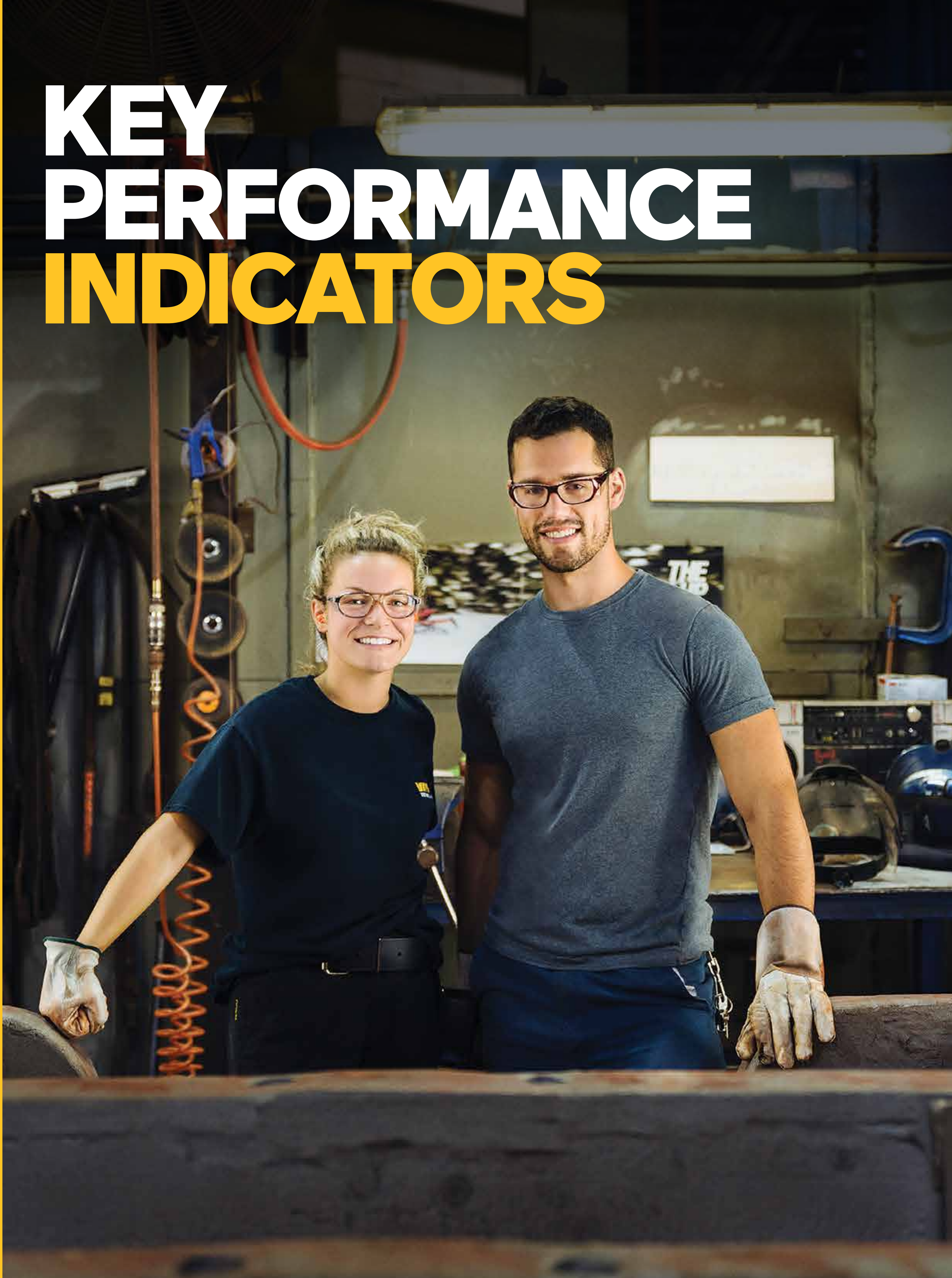
ENVIRONMENT

VIA Rail has defined processes within its Environmental Management System to evaluate the environmental impact of its projects and activities; and to determine if the environmental impacts, if any, are likely to cause significant adverse environmental effects.

In 2017, all new projects, new initiatives and activities were assessed using VIA Rail's Risk Assessment process. This process is implemented by the project manager at the planning phase to identify and assess environmental risks and to identify appropriate controls to mitigate the risks, as required. In addition to the Risk Assessment process, an evaluation of the environmental impacts of projects is performed, when required, to identify the environmental impact, determine if any had significant effect on the environment and implemented appropriate mitigation measures.

In 2017, VIA Rail did not carry out any project or activities that generated significant adverse environmental effects. Major projects for 2017 consisted of renovation and construction work on existing railway property and of regular maintenance and repair activities of railway infrastructure. In all cases, VIA Rail processes were followed, environmental evaluations were completed, identification and implementation of appropriate mitigation measures were performed as per project plan and assessment report, and appropriate permits received.

KEY PERFORMANCE INDICATORS



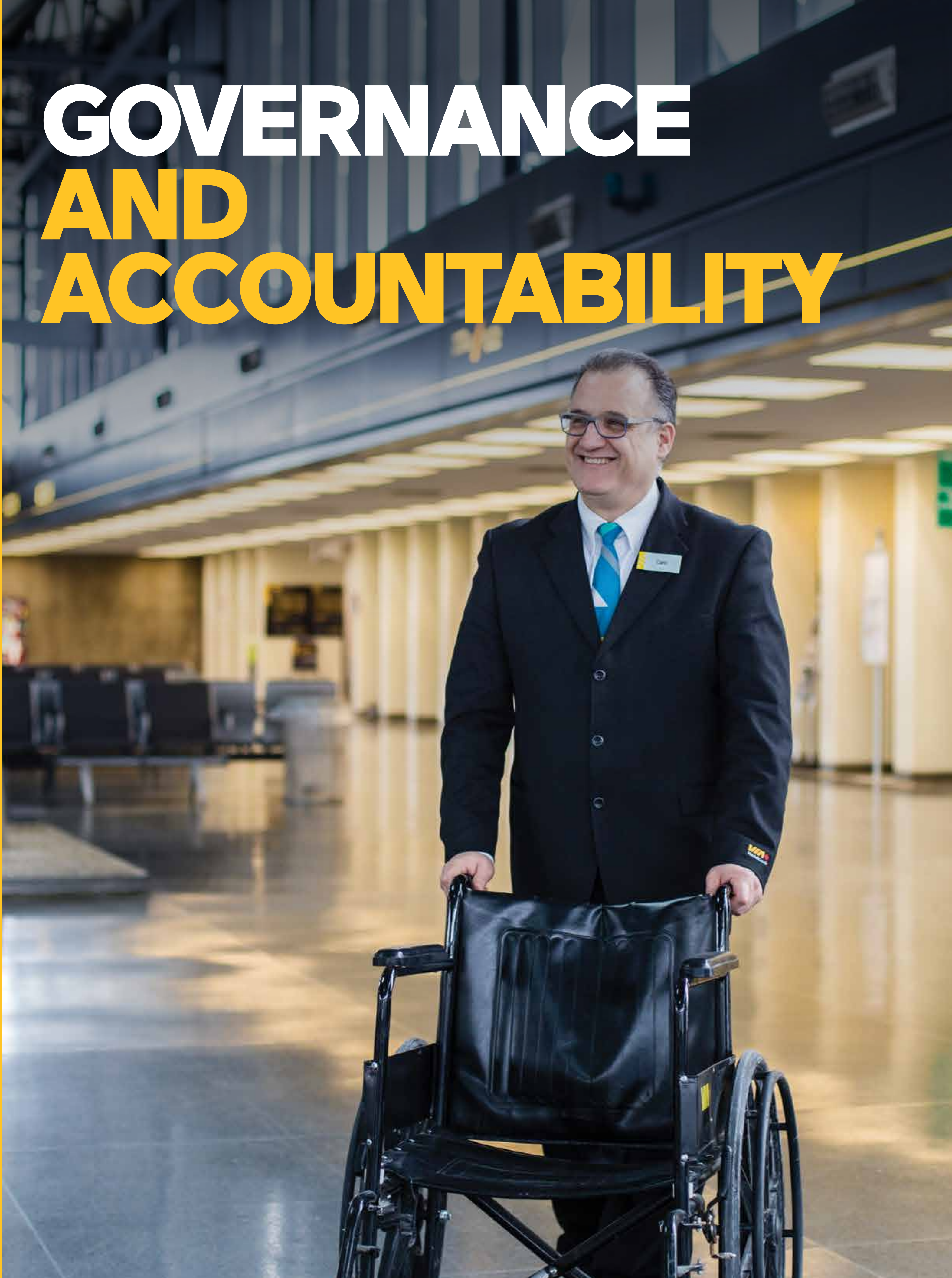
VIA Rail uses the following performance indicators as an integral part of its LEAN Management process. For detailed information on financial and operating performance during the quarter, consult the Management Discussion and Analysis.

KEY PERFORMANCE INDICATORS		Quarters ended December 31			Total year		
INDICATOR	**UNIT**	**2017**	**2016**	**Vs 2016**	**2017**	**2016**	**Vs 2016**
CAPACITY DEPLOYED (IN MILLIONS) Number of available seat-miles (ASM) [(1)]	ASM	413	389	6.0 %	1,662	1,578	5.3 %
TOTAL REVENUES / ASM (RASM) Total revenues divided by total ASM	cents	22.43	20.97		22.00	20.56	
TOTAL COSTS [(2)] / ASM (CASM) Total operating expenses divided by total ASM	cents	39.76	39.69		37.07	36.66	
RASM / CASM Revenues per available seat-mile divided by the costs per available seat-mile	%	56.4	52.8		59.4	56.0	
ON-TIME PERFORMANCE On-Time Performance of all VIA Rail trains	%	72	72		73	73	
ON-TIME PERFORMANCE - VIA RAIL INFRASTRUCTURE On-Time performance of all VIA Rail trains on VIA Rail owned infrastructure	%	95	96		95	96	
TRAIN INCIDENTS Includes mainline derailments, cardinal rule violations, critical speed violations, or critical rule violations which result in injury to passengers and/or employees, or damage to the rolling stock or infrastructure for a value of $25,000 or more	#	1	1		4	9	
EMPLOYEE ATTENDANCE Total hours worked per month divided by the total possible work hours per month	%	94	95		94	94	

(1) Seat-miles are the number of seats available for sale, multiplied by the number of miles travelled.
(2) Total costs include pension costs for current services but exclude past service pension costs.

- Performance on or above previous year.
- Performance slightly below last year (less than 10 %).
- Performance below last year (10 % or more).

GOVERNANCE AND ACCOUNTABILITY



ENTERPRISE RISK MANAGEMENT

Enterprise Risk Management (ERM) is a discipline that aims to identify, assess and address threats and opportunities as they relate to the objectives of an organization. While 2016 was a year of consolidation for the ERM team, 2017 saw many improvements in the way the process is deployed across the organization and how it supports the implementation of key initiatives at VIA Rail.

SUPPORT TO MAJOR PROJECTS

In 2017, risk assessments were conducted in order to mitigate risks related to VIA Rail's key strategic and operational initiatives, such as the Fleet Renewal and High Frequency Rail projects — which you can read more about on our website. Mitigation efforts include transferring risks to third party suppliers through contractual provisions, to the approach regarding the permitting process for capital projects or to how such projects are executed. Risk Management activities were also conducted to support specific special initiatives such as the Canada 150 Youth Pass, commemoratively offered in celebration of the nation's milestone anniversary as well as the Churchill train recovery. Along with the participation of internal experts and stakeholders, our risk management activities helped ensure that our operations were conducted in a safe and financially responsible manner at all times.

IMPROVEMENTS MADE TOWARD RISK REPORTING FOR THE BOARD OF DIRECTORS

The arrival of new members of the Board along with some recent changes created an opportunity to improve how risks are addressed, discussed and debated at the Board level. As such, a revised approach toward ERM was proposed and adopted to better align with current best practices. Rather than only focusing on the reporting of operational indicators, operational risks will now be addressed, discussed and debated within the various committees, while strategic risks will be addressed at the Board level. A three-year plan for ERM was also adopted by management in 2017 in order to define a vision and an appropriate direction for the ERM team and the organization.

RISK CULTURE

In 2017, VIA Rail's risk culture significantly improved as close to 60 employees were trained as risk facilitators to support the growing need for risk analysis within our operations and projects. A first risk perception survey was also conducted to better identify key risks for the Corporation by leveraging the expertise and the experience of a large portion of the workforce. This approach will complement the method used in the past in order to improve our understanding of risks at all levels of the Corporation. In order to improve general awareness regarding risk management and the added value of the Corporation's ERM program, multiple videos were produced in-house and communicated within the organization. VIA Rail's risk culture continues to evolve and improve, which will help the Corporation better manage future short-term and long-term threats and opportunities.

THE BOARD OF DIRECTORS

As of December 31, 2017, the Board of Directors consisted of the Chairperson, the President and Chief Executive Officer and ten other directors appointed by the Government of Canada. Of the 11 directors (not including the CEO of VIA Rail), six are women and five are men. The board is responsible for overseeing the strategic direction and management of the Corporation, and reports on VIA Rail's operations to parliament through the Honourable Marc Garneau, Minister of Transport.

8 Board meetings were held and Committees met a total of 22 times over the course of 2017. The average overall attendance rate of Board members at these meetings was 98.6%. Cumulative fees paid to Board members during this time period totaled $216,093.

COMMITTEES OF THE BOARD

Following the appointment of the new Chairperson of the Board, Françoise Bertrand, the Board and Committee structure, as well as their respective mandates, were reviewed and officially adopted by the Board on August 22, 2017. The new structure is now composed of the following Committees:

AUDIT & PENSION INVESTMENT

Jane Mowat, Chairperson
Daniel Gallivan
Jonathan Goldbloom
Glenn Rainbird
Gail Stephens
Geneviève Tanguay

MAJOR PROJECTS

Kenneth Tan, Chairperson
Kathy Baig
S. Ross Goldsworthy
Ramona Materi
Jane Mowat

HUMAN RESOURCES

Gail Stephens, Chairperson
Ramona Materi
Kenneth Tan
Geneviève Tanguay

COMMUNICATION & STAKEHOLDERS' RELATIONS

Daniel Gallivan, Chairperson
Kathy Baig
Jonathan Goldbloom
S. Ross Goldsworthy
Glenn Rainbird

The Committees mandates are now available under the "Governance and Reports" section of VIA Rail's website.

ACCESS TO INFORMATION AND PRIVACY

VIA Rail believes that openness and transparency are the starting points in building a relationship of trust with its customers, partners and the public in general. VIA Rail has continuously improved its practices related to access to information as provided in the *Access to Information Act* and the *Privacy Act*, to which VIA Rail became subject in 2007.

In the spring of 2017, VIA Rail submitted its 2016-2017 annual reports on access to information and privacy, to the Access to Information Commissioner and the Privacy Commissioner, respectively, as well as to the Minister of Transport.

VIA Rail is committed to responding to information requests from the public, the media and all those interested in our operations in a timely manner. From April 1, 2016, to March 31, 2017, VIA Rail received 51 new requests under the *Access to Information Act* and the *Privacy Act*. This compared to a total of 55 requests received during the corresponding period from April 2015 to March 2016.

VIA Rail in Your Community

VIA Rail is committed to working with local communities to better understand the needs of travellers and to develop plans that promote better service and modern inter-city rail. We are also interested in receiving ongoing feedback from our neighbours and working collaboratively to ensure positive and productive community relations.

We had more than 340 formal meetings with various levels of government, business communities as well as non-governmental organizations to discuss our train service, local interests, and future plans. Beyond formal meetings, VIA Rail interacted with communities through partnerships and events including annual onboard commuter events, targeted focus groups, partnerships promoting inter-modality, station anniversary celebrations, and briefing of our strategic projects to interest groups.

Beyond these ongoing efforts, in 2017 VIA Rail became of member of Canadian Council for Aboriginal Business (CCAB), in order to forge closer ties with Indigenous businesses and surrounding communities. Through the CCAB, VIA Rail is on track to begin work toward achieving a base level Progressive Aboriginal Relations certification.

Furthermore in 2017, to provide more timely and relevant information, we launched a new community webpage and have developed a tool to post updates on the site in a more dynamic user-friendly way. You can visit our community webpage at community.viarail.ca

For more information about VIA Rail's community involvement and how we promote socio-economic development, please see our Sustainable Mobility Report on our website in the "About VIA Rail" section under "Governance and Reports".

TRAVEL, HOSPITALITY AND CONFERENCE EXPENSES

THE FOLLOWING TRAVEL, HOSPITALITY AND CONFERENCE EXPENSES WERE SUBMITTED DURING 2017	
Françoise Bertrand Chairperson of the Board of Directors	$ 1,950
Yves Desjardins-Siciliano President and CEO	$ 64,130
Executive management committee members (9 members)	$ 171,593
Board of Directors (10 members)	$ 60,043
Total VIA Rail (including above expenses)	**$ 1,234,611**

EXECUTIVE COMPENSATION

2017 EXECUTIVE COMPENSATION RANGE DISCLOSURE[1]		
Cash Compensation[2]	**President and CEO**	**Officers**
Base Salary Range	$ 257,900 - $ 303,400	$ 187,000 - $ 300,000
Incentive Program Range	13 % - 26 %	35 % - 50 %
Total Compensation Range per Calendar Year	$ 291,427 - $ 382,284	$ 252,450 - $ 450,000

PERQUISITES PROGRAM		
Car Allowance		
Social, Sport Club Memberships		
Health Care Spending Account	$ 45,000	$ 24,000
Comprehensive Medical Exams		
Financial Planning Services		

1 On December 31st, 2017, Executives were: President and Chief Executive Officer, Chief Communications Officer, Chief Commercial Officer, Chief Transportation and Safety Officer, Chief Asset Management Officer, Chief Financial Officer, Chief Mechanical and Maintenance Officer, Chief Business Transformation Officer, Chief Human Resources, and Chief Legal & Risk Officer and Corporate Secretary.

2 The Cash Compensation does not report the actual salary and incentives paid to Executives but merely the range for their respective positions.

DIRECTORS' BIOGRAPHIES

FRANÇOISE BERTRAND

MONTRÉAL, QUÉBEC

Chairperson of the Board of Directors,
Ex officio member of all Committees

Board member since September 2017

Following a 40-year career trajectory culminating in her role as President and Chief Executive Officer at Federation of Quebec Chambers of Commerce, Françoise Bertrand now dedicates her time to acting as a director at various corporate and civil society organizations. She is currently the Chair of the Board of Directors of Proaction International and serves on the Board of Directors of Osisko Gold Royalties Company. Ms. Bertrand is a Vice Chair of the Board of Governors of Concordia University.

Her career path as senior executive began as the Dean of Resources Management at the *Université du Québec à Montréal*. She later took on the position of Chief Executive Officer of the *Société de radio-télévision du Québec*, known today as *Télé-Québec*. In 1996, Ms. Bertrand became the first woman to Chair the Canadian Radio-television and Telecommunications Commission (CRTC). From 2003 to 2016 she was the chief executive officer of the *Fédération des chambres de commerce du Québec*. She holds a Baccalauréat ès arts in Sociology from the *Université de Montréal* and a Master's Degree in Environmental Studies from York University. She completed her training as a Director at the Institute of Corporate Directors (ICD.D) and received a PhD honoris causa from Concordia University.

Throughout her career, Ms. Bertrand has earned several significant honours, most notably as an Officer of the Order of Canada, a Knight of the National Order of Québec, and a Chevalier of the Legion of Honour of France.

KATHY BAIG

LAVAL, QUÉBEC

Member of the Communication & Stakeholders' Relations Committee, and of the Major Projects Committee

Board member since June 2017

Ms. Baig is the President of the *Ordre des ingénieurs du Québec*. She previously worked as an Infrastructure and Construction Project Manager at Aéroports de Montréal, and an Engineer and ISO 9001 Quality Coordinator for Pyrogenesis Canada Inc. She is a board member of Engineers Canada and the Junior Chamber of Commerce of Montréal. Ms. Baig holds a Bachelor's Degree in Chemical Engineering from *École Polytechnique de Montréal* and a Master of Business Administration from *HEC Montréal*.

DANIEL GALLIVAN

HALIFAX, NOVA SCOTIA

Chairperson of the Communication & Stakeholders' Relations Committee, and member of the Audit & Pension Investment Committee

Board member since June 2017

Mr. Gallivan is a Senior Partner in the Atlantic Canada law firm of Cox & Palmer. He has been the Chief Executive Officer of Cox & Palmer since 2003 and was Managing Partner of the Halifax office from 2003 to 2012. Mr. Gallivan is a member of the Bar Societies for Nova Scotia and Prince Edward Island and was appointed Queen's Counsel in 1997. Throughout his career he has held leadership roles for a variety of organizations including the Bank of Canada, the Nova Scotia Securities Commission, and BrightPath Early Learning Inc. Mr. Gallivan holds a Bachelor of Arts Degree from Loyola College, and LLB from Dalhousie University Law School, and an MBA from the Ivey School of Business at Western University. He is also a certified corporate director (ICD.D).

JONATHAN GOLDBLOOM

MONTRÉAL, QUÉBEC

Member of the Communication & Stakeholders' Relations Committee, and of the Audit & Pension Investment Committee

Board member since June 2017

Mr. Goldbloom is the Founder and President of Jonathan Goldbloom & Associates Inc. Strategic Communications, which specializes in crisis management and stakeholder outreach. He was previously the Vice President and General Manager of Optimum Public Relations at Cossette Communications and a Senior Partner at Columbia Communications. He is currently the Chair of the Board of Governors of Selwyn House School, a member of the Board of Directors of Montreal Medical International, Chair of the Advisory Committee of the Quebec Association of Independent Schools, and Member of the Board of Directors of Centre for Israel and Jewish Affairs. Mr. Goldbloom earned a Bachelor of Arts Degree cum laude from Harvard University, and Master of Arts Degree from Carleton University, and a Masters of Business Administration from Western University.

S. ROSS GOLDSWORTHY

CALGARY, ALBERTA

Member of the Communication & Stakeholders' Relations Committee, and of the Major Projects Committee

Board member since June 2017

Mr. Goldsworthy has been the President of RGoldsworthy Consulting Ltd. since 2007. Previous to that, he started his 25 year career at CN as an accountant and progressed through a number of increasingly senior management positions. He spent 10 years at the Vice President and Assistant Vice President level overseeing the bulk commodities business unit. He currently serves as Vice Chair on the Board of Directors of the Alberta Credit Union Deposit Guarantee Corporation. Mr. Goldsworthy has a Bachelor of Commerce Degree and a Master of Business Administration from the University of Newfoundland and is a certified corporate director (ICD.D). He holds the following accounting designations: Chartered Professional Accountant (CPA), Certified General Accountant (CGA) and Certified Public Accountant (CPA Delaware, USA).

RAMONA MATERI
VANCOUVER, BRITISH COLUMBIA

Member of the Human Resources Committee, and of the Major Projects Committee

Board member since October 2012

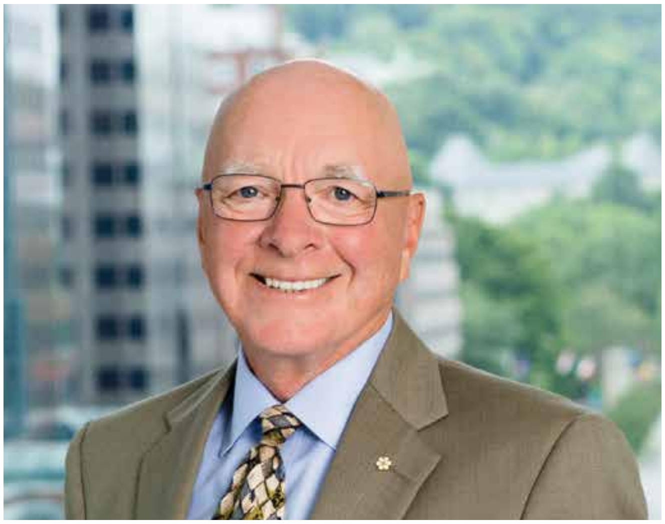
Ms. Materi is the Principal of Ingenia Consulting, which undertakes labour market research to help communities and natural resources firms plan for and address their workforce needs. Under her leadership, Ingenia has completed assignments across Canada and in the United States and Vietnam. Ms. Materi serves on the SME Advisory Board to the Minister of International Trade, as well as Connecting Environmental Professionals, Vancouver. She is a member of the Institute of Corporate Directors, and has served on the boards of numerous non-profits and business associations. Ms. Materi is the author of two books, one on business in Northern British Columbia and a second on sustainable businesses in Canada. Ms. Materi holds a Master of Public Affairs from the University of Texas at Austin, a Master of Education from Athabasca University and a Post-Baccalaureate Diploma in Environmental Science from Capilano University. She completed graduate studies in economics at the *Institut de Hautes Études Internationales et du Développement* in Geneva.

JANE MOWAT
TORONTO, ONTARIO

Chairperson of the Audit & Pension Investment Committee, and member of the Major Projects Committee

Board member since September 2013

Ms. Mowat is a Corporate Director and a former information technology executive who, since 2003, has worked as an independent consultant, advising clients on acquisitions in the software industry, as well as providing advice on corporate finance, borrowings and business valuations. She previously served as Chief Financial Officer of Centrinity, a TSX-listed software company, from 2001 to 2003 General Manager of IBM's financing business in Canada and the United States, from 1996 to 2000, and as Chief Financial Officer of ISM Information System Management Corporation from 1990 to 1995. Ms. Mowat has considerable governance experience, having served on the boards of both private and public companies, including Allstream, Coventree Inc. and Centrinity. She holds a Bachelor of Commerce Degree from the University of Toronto and earned her Chartered Accountant designation while employed with Price Waterhouse.



GLENN RAINBIRD

BELLEVILLE, ONTARIO

Member of the Communication & Stakeholders' Relations Committee, and of the Audit & Pension Investment Committee

Board member since June 2017

Mr. Rainbird is retired from corporate life where he held CEO and senior executive positions in the information and communications technology and energy sectors. He was the President and Chief Executive Officer of TRLabs, Vice President at Nortel Networks and held a variety of senior positions at Imperial Oil. He currently serves on the Board of Directors of IESO, the Board of Governors of the Royal Military College of Canada, is a member of the RCAF Commander's Council and is an RCAF Honorary Colonel. Mr. Rainbird was appointed an Officer of the Order of Canada in recognition of his leadership role in developing Canada's capabilities in the Internet age. He holds a Bachelor of Science in Civil Engineering and a Masters of Business Administration from Queen's University and an Honorary Diploma in Applied Arts and Technology from Loyalist College.

GAIL STEPHENS

VICTORIA, BRITISH COLUMBIA

Chairperson of the Human Resources Committee, and member of the Audit & Pension Investment Committee

Board member since June 2017

Ms. Stephens is the President of Gail Stephens Consulting. She has over 20 years of experience leading large, complex organizations including City Manager of Victoria, CEO of the BC Pension Corporation, and Chief Administrative Officer for the City of Winnipeg. Most recently she was the start-up Chief Operating Officer, then Interim President and Chief Executive Officer for the Canadian Museum for Human Rights. She has sat on numerous Boards including Coast Capital Savings, the David Foster Foundation and the BC Training Authority. Ms. Stephens holds a teaching certificate from the University of Manitoba and completed the Executive Management program at Harvard Kennedy School. She is a Certified Public Accountant (FCPA) and a certified corporate director (ICD.D).

KENNETH TAN

RICHMOND, BRITISH COLUMBIA

Chairperson of the Major Projects Committee, and member of the Human Resources Committee

Board member since June 2017

Mr. Tan is currently managing education innovation for the Faculty of Medicine at the University of British Columbia and consults through Sweetwater Advisors Inc. He previously held positions at the University of Saskatchewan including Director, Strategic Initiatives where he spearheaded programs in cost containment and revenue enhancement. Mr. Tan also served as the CFO of the Transportation Investment Corporation, Executive Director of the Crown Agencies Secretariat, and the Finance Director of Octopus Cards Limited, a subsidiary of major public transport providers in Hong Kong. He was a government-appointed trustee of the BC College Pension Plan and has served on the Board of Directors of several non-profit organizations. Mr. Tan holds a Bachelor of Commerce Degree from the University of Alberta, and a Masters of Business Administration from the University of Saskatchewan, and is a Fellow of the Institute of Canadian Bankers.

GENEVIÈVE TANGUAY

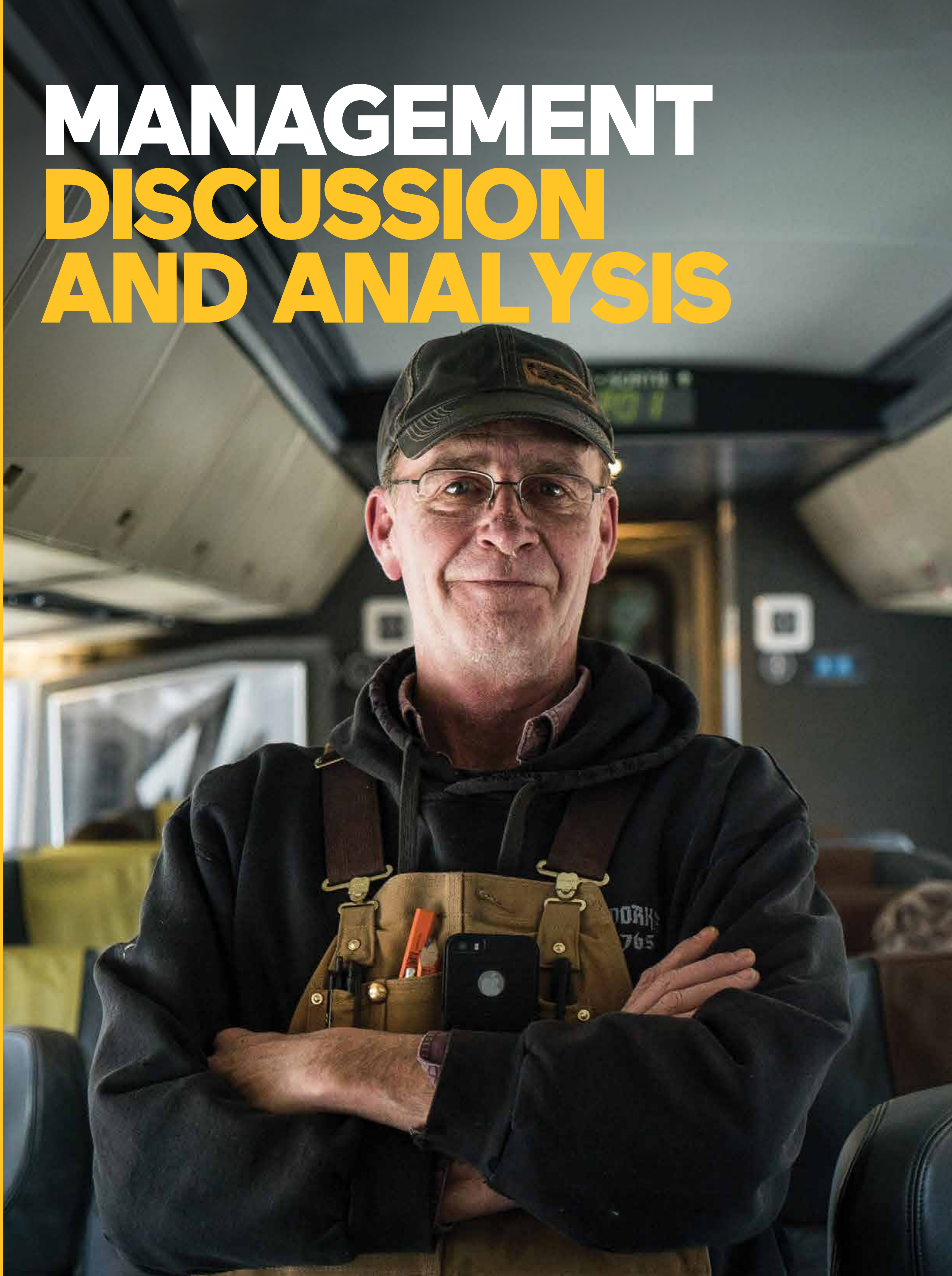
MONTRÉAL, QUÉBEC

Member of the Audit & Pension Investment Committee, and of the Human Resources Committee

Board member since August 2017

With over 15 years' experience in Investment, Ms. Tanguay has been instrumental to numerous transactions in many sectors including metal products, transportation, machinery and life sciences. From 2008 to 2017, Ms. Tanguay held the position of Director of investments at the *Fonds de Solidarité*, the largest Québec development and risk capital fund. She has served on Boards of Directors for several private companies, and contributed to their strategy and development. Ms. Tanguay is also very involved in her community, and has sat on several boards for non-profit organizations. She is currently on the Boards of Directors of both Leucan and the Institute of Corporate Directors. Ms. Tanguay holds a Bachelor's Degree in Business Administration from HEC Montreal.

MANAGEMENT DISCUSSION AND ANALYSIS



This is a review of VIA Rail Canada's (VIA Rail) operations, performance and financial position for the quarter and year ended December 31, 2017, compared with the quarter and year ended December 31, 2016. It should be read in conjunction with the audited financial statements and notes.

1. FINANCIAL HIGHLIGHTS – STATEMENT OF COMPREHENSIVE INCOME

The following table shows the highlights of the Statement of comprehensive income of the Corporation for the quarters and years ended December 31, 2017 and December 31, 2016 as per IFRS (International Financial Reporting Standards).

	Quarters ended December 31				Years ended December 31			
IN MILLIONS OF CANADIAN DOLLARS	**2017**	2016	Var $	Var %	**2017**	2016	Var $	Var %
Passenger Revenues	**93.8**	74.5	19.3	25.9 %	**348.7**	299.5	49.2	16.4 %
Other Revenues	**6.1**	6.6	(0.5)	(7.6 %)	**23.1**	23.3	(0.2)	(0.9 %)
Total Revenues	**99.9**	81.1	18.8	23.2 %	**371.8**	322.8	49.0	15.2 %
Total Operating expenses	**183.9**	179.0	4.9	2.7 %	**720.1**	684.1	36.0	5.3 %
Operating Loss	**84.0**	**97.9**	**(13.9)**	**(14.2 %)**	**348.3**	**361.3**	**(13.0)**	**(3.6 %)**
Operating funding from the Government of Canada	**74.9**	72.9	2.0	2.7 %	**265.3**	267.5	(2.2)	(0.8 %)
Amortization of deferred capital funding	**28.9**	37.3	(8.4)	(22.5 %)	**96.1**	102.3	(6.2)	(6.1 %)
Net income before income taxes	**19.8**	**12.3**	**7.5**	**61.0 %**	**13.1**	**8.5**	**4.6**	**54.1 %**
Income tax expense	**-**	0.2	(0.2)	(100.0 %)	**(0.2)**	(0.2)	-	-
Net income	**19.8**	**12.5**	**7.3**	**58.4 %**	**12.9**	**8.3**	**4.6**	**55.4 %**
Remeasurements of defined benefit component of the pension plans and post-employment benefit plans	**(13.6)**	91.1	(104.7)	(114.9 %)	**9.6**	(30.5)	40.1	131.5 %
Comprehensive income (loss)	**6.2**	**103.6**	**(97.4)**	**(94.0 %)**	**22.5**	**(22.2)**	**44.7**	**201.4 %**

The operating loss for the quarter decreased by $13.9 million compared to last year. This decrease is mainly due to the decrease in non-funded elements ($15.9 million), which is partly offset by the increase of $2.0 million in the funded deficit.

The annual operating loss decreased by $13.0 million, this decrease is attributable to lower non-funded expenses ($10.8 million) and to the decrease in the funded deficit ($2.2 million).

2. COMPARISON OF OPERATING LOSS UNDER IFRS AND FUNDED OPERATING LOSS

The following table provides information on the non-funded elements which are not included in funded results.

	Quarters ended December 31				Years ended December 31			
IN MILLIONS OF CANADIAN DOLLARS	**2017**	2016	Var $	Var %	**2017**	2016	Var $	Var %
IFRS - Results								
Operating Loss	**84.0**	97.9	(13.9)	(14.2 %)	**348.3**	361.3	(13.0)	(3.6 %)
Non-funded elements included in IFRS results								
Revenues - adjustment for VIA Préférence points	**7.4**	(0.4)	7.8	1950.0 %	**6.2**	(1.4)	7.6	542.9 %
Expenses								
Depreciation and amortization and loss on disposal of property, plant and equipment and intangible assets	**(29.2)**	(37.6)	8.4	22.3 %	**(97.3)**	(103.5)	6.2	6.0 %
Unrealized net gain on derivative financial instruments	**5.3**	4.8	0.5	10.4 %	**5.6**	11.8	(6.2)	(52.5 %)
Other	**7.4**	8.2	(0.8)	9.8 %	**2.5**	(0.7)	3.2	457.1 %
Total non-funded elements	**(9.1)**	(25.0)	15.9	63.6 %	**(83.0)**	(93.8)	10.8	11.5 %
FUNDED RESULTS Funded operating loss	**74.9**	**72.9**	**2.0**	**2.7 %**	**265.3**	**267.5**	**(2.2)**	**(0.8 %)**

For the quarter, non-funded elements decreased by $15.9 million compared to last year. The decrease results in part from the revenues associated with the VIA Préférence points program ($7.8 million), this adjustment is due to the change in assumptions relative to the probabilities of the awarded points being converted into tickets. The other main factor generating the decrease is the reduction in depreciation and amortization and loss on disposal of property, plant and equipment and intangible assets ($8.4 million).

For the year, non-funded elements decreased by $10.8 million. The decrease is mainly due to the revenues associated with the VIA Préférence points program ($7.6 million).

3. FINANCIAL HIGHLIGHTS – FUNDED ACTIVITIES

The following table shows the financial results of the Corporation, illustrating the activities which were funded (before non-funded elements and other accounting adjustments) during the quarter and the year.

	Quarters ended December 31				Years ended December 31			
IN MILLIONS OF CANADIAN DOLLARS	2017	2016	Var $	Var %	2017	2016	Var $	Var %
Passenger Revenues	**86.5**	75.2	11.3	15.0 %	**342.6**	301.1	41.5	13.8 %
Total Revenues	**92.6**	**81.6**	**11.0**	**13.5 %**	**365.7**	**324.3**	**41.4**	**12.8 %**
Operating expenses	**158.1**	148.4	9.7	6.5 %	**592.6**	554.4	38.2	6.9 %
Employer contributions for employee benefits	**9.4**	6.1	3.3	54.1 %	**38.4**	37.4	1.0	2.7 %
Total Operating expenses	**167.5**	**154.5**	**13.0**	**8.4 %**	**631.0**	**591.8**	**39.2**	**6.6 %**
Operating Loss	**74.9**	72.9	2.0	2.7 %	**265.3**	267.5	(2.2)	(0.8 %)
Operating funding from the Government of Canada	**74.9**	**72.9**	**2.0**	**2.7 %**	**265.3**	267.5	(2.2)	(0.8 %)

Revenues and sources of funding for the quarter:

Q4 2017

55 % Operating revenues
45 % Government operating funding

Q4 2016

53 % Operating revenues
47 % Government operating funding

Revenues and sources of funding for the year:

Year 2017

58 % Operating revenues
42 % Government operating funding

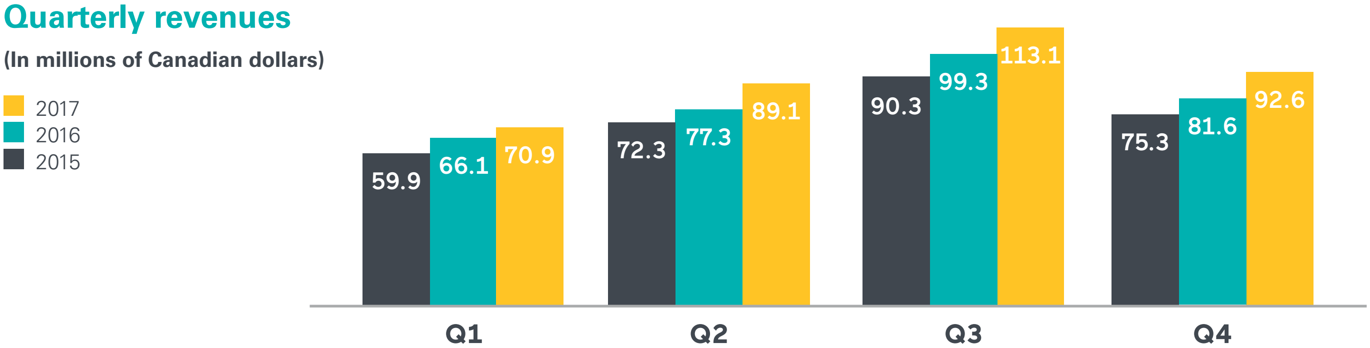
Year 2016

55 % Operating revenues
45 % Government operating funding

The following tables show financial data for the twelve most recent quarters. This quarterly information is based on funded activities. Revenues vary throughout the year, reflecting the seasonality of activities, with the highest demand for services occurring during summer, in the third quarter.

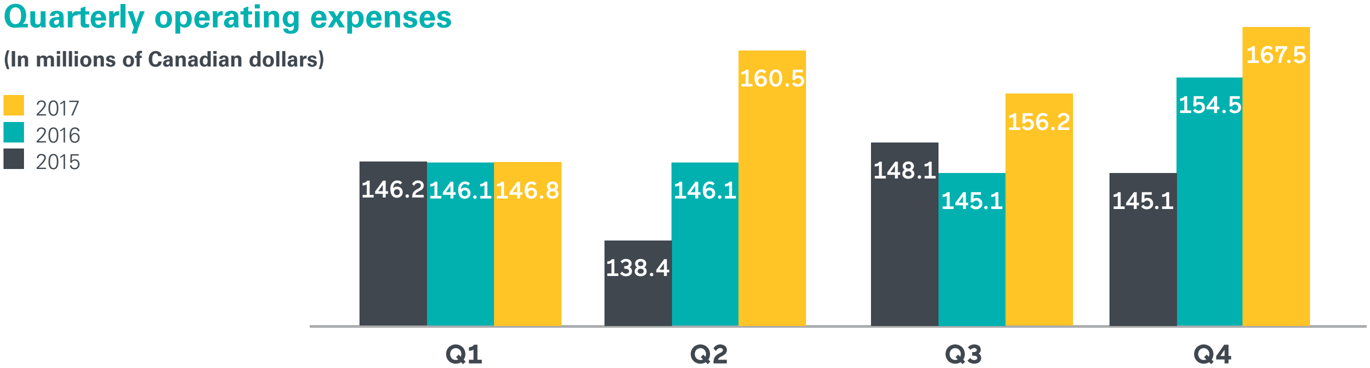
Quarterly revenues

(In millions of Canadian dollars)



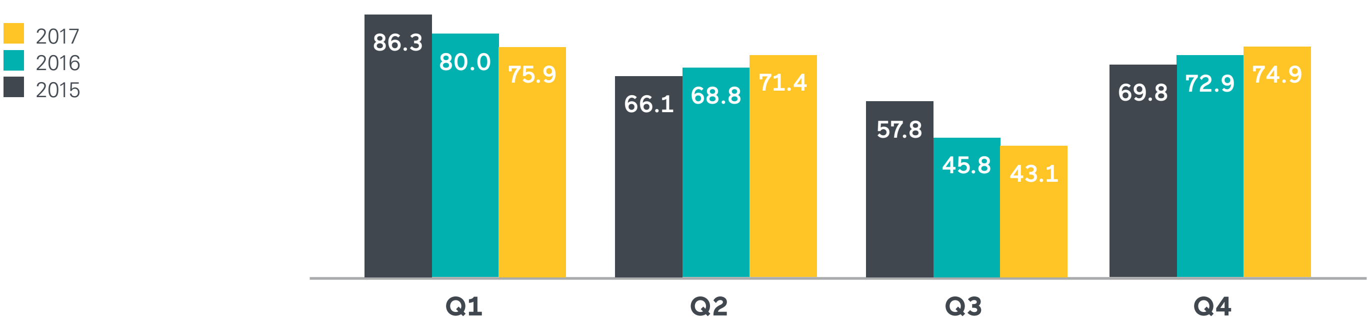
Quarterly operating expenses

(In millions of Canadian dollars)



Quarterly operating deficit

(In millions of Canadian dollars)



The following sections of the document provide comments on the funded activities of the quarter and year ended December 31, 2017 (before non-funded elements and other accounting adjustments), compared to the quarter and year ended December 31, 2016.

4. REVENUES

	Quarters ended December 31				Years ended December 31			
IN MILLIONS OF CANADIAN DOLLARS	2017	2016	Var $	Var %	2017	2016	Var $	Var %
Passenger Revenues	**86.5**	75.2	11.3	15.0 %	**342.6**	301.1	41.5	13.8 %
Other Revenues	**6.1**	6.4	(0.3)	(4.7 %)	**23.1**	23.2	(0.1)	(0.4 %)
Total Revenues	**92.6**	**81.6**	**11.0**	**13.5%**	**365.7**	**324.3**	**41.4**	**12.8%**

For the quarter:

Passenger revenues total $86.5 million, an increase of 15.0 per cent compared to the corresponding quarter last year. The increase results mainly from additional ridership on most major train services.

Other revenues total $6.1 million, a slight decrease of $0.3 million compared to the revenues generated last year.

For the year:

Passenger revenues total $342.6 million, an increase of 13.8 per cent compared to last year. The increase stems from additional ridership on most major train services, as well as improved average revenues.

Other revenues total $23.1 million for the year, in line with the $23.2 million generated in 2016.

a) Passenger Revenues

	REVENUES							
	Quarters ended December 31				Years ended December 31			
IN MILLIONS OF CANADIAN DOLLARS	2017	2016	Var $	Var %	2017	2016	Var $	Var %
Corridor East	**58.4**	49.9	8.5	17.0 %	**212.5**	183.9	28.6	15.6 %
Southwestern Ontario (SWO)	**12.7**	11.5	1.2	10.4 %	**45.4**	42.3	3.1	7.3 %
Quebec-City Windsor Corridor	**71.1**	**61.4**	**9.7**	**15.8%**	**257.9**	**226.2**	**31.7**	**14.0%**
Ocean	**2.2**	2.0	0.2	10.0 %	**10.1**	9.6	0.5	5.2 %
Canadian	**10.3**	8.2	2.1	25.6 %	**61.9**	53.0	8.9	16.8 %
Regional Services	**0.4**	1.4	(1.0)	(71.4 %)	**3.8**	5.2	(1.4)	(26.9 %)
Non Corridor	**12.9**	**11.6**	**1.3**	**11.2%**	**75.8**	**67.8**	**8.0**	**11.8%**
Other	**2.5**	2.2	0.3	13.6 %	**8.9**	7.1	1.8	25.4 %
TOTAL	**86.5**	**75.2**	**11.3**	**15.0%**	**342.6**	**301.1**	**41.5**	**13.8%**

IN THOUSANDS	PASSENGERS							
	Quarters ended December 31				Years ended December 31			
	2017	2016	Var #	Var %	2017	2016	Var #	Var %
Corridor East	**862.3**	739.2	123.1	16.7 %	**3,129.5**	2,778.8	350.7	12.6 %
Southwestern Ontario (SWO)	**286.1**	256.2	29.9	11.7 %	**1,018.6**	953.3	65.3	6.8 %
Quebec-City Windsor Corridor	**1,148.4**	**995.4**	**153.0**	**15.4%**	**4,148.1**	**3,732.1**	**416.0**	**11.1 %**
Ocean	**17.7**	16.8	0.9	5.4 %	**78.8**	77.6	1.2	1.5 %
Canadian	**16.1**	15.7	0.4	2.5 %	**104.9**	93.2	11.7	12.6 %
Regional Services	**10.9**	16.3	(5.4)	(33.1 %)	**60.4**	71.1	(10.7)	(15.0 %)
Non Corridor	**44.7**	**48.8**	**(4.1)**	**(8.4%)**	**244.1**	**241.9**	**2.2**	**0.9%**
TOTAL	**1,193.1**	**1,044.2**	**148.9**	**14.3%**	**4,392.2**	**3,974.0**	**418.2**	**10.5%**

For the quarter:

- Corridor East revenues are 17.0 per cent above last year. This is mostly due to higher ridership (16.7 per cent) resulting in part to the additional capacity deployed (additional frequency introduced in November 2017);
- Revenues in SWO increased by 10.4 per cent. The increase is attributable to higher passenger volumes (11.7 per cent), partly offset by lower average revenues (-1.1 per cent);
- Revenues on the *Ocean* increased by 10.0 per cent as a result of both higher ridership (5.4 per cent) and improved average revenues (4.4 per cent);
- Revenues on the *Canadian* are 25.6 per cent higher than those of the corresponding quarter last year. The performance is mostly attributable to improved average revenues (22.5 per cent). Ridership on the *Canadian* also increased by 2.5 per cent;
- Revenues on Regional services have decreased by 71.4 per cent. The decrease is due in most part by the interruption of the Gillam-Churchill portion of the Winnipeg-Churchill service in May 2017, as a result of severe flooding which damaged some infrastructure.

For the year:

- Corridor East revenues are 15.6 per cent above last year. The increase stems from both higher ridership (increase of 12.6 per cent) associated with the additional capacity deployed during the year, as well as with improved average revenues (2.6 per cent);
- Revenues in SWO increased by 7.3 per cent. The increase is attributable to additional passenger volumes (6.8 per cent) and improved average revenues (increase of 0.4 per cent);
- Revenues on the *Ocean* increased by 5.2 per cent. The *Ocean's* average revenues are 3.6 per cent higher than last year, while ridership increased by 1.5 per cent;
- Revenues on the *Canadian* are 16.8 per cent higher than those generated last year. The performance results from higher ridership (12.6 percent) and improved average revenues (3.6 per cent);
- Revenues on Regional services have decreased by 26.9 per cent. This is a direct result of the interruption of the Gillam-Churchill portion of the Winnipeg-Churchill service since May 2017, as a result of severe flooding which damaged some infrastructure. Ridership has decreased by 15.0 per cent and average revenues are 14.0 per cent lower than last year.

5. FUNDED OPERATING EXPENSES

	Quarters ended December 31				Years ended December 31			
IN MILLION OF CANADIAN DOLLARS	**2017**	2016	Var $	Var %	**2017**	2016	Var $	Var %
Compensation and employee benefits	**74.3**	65.3	9.0	13.8 %	**265.0**	240.4	24.6	10.2 %
Train operations and fuel	**35.8**	30.6	5.2	17.0 %	**133.7**	120.5	13.2	11.0 %
Realized net loss on derivative financial instruments	**0.4**	0.7	(0.3)	(42.9 %)	**4.2**	6.4	(2.2)	(34.4 %)
Income tax expense	**(0.1)**	(0.3)	0.2	66.7 %	**0.2**	0.1	0.1	100.0 %
Other operating expenses	**47.7**	52.1	(4.4)	(8.4 %)	**189.5**	187.0	2.5	1.3 %
Total operating expenses (before employer post-employment and other employee benefits contributions)	**158.1**	**148.4**	**9.7**	**6.5 %**	**592.6**	**554.4**	**38.2**	**6.9 %**
Employer post-employment and other employee benefits contributions	**9.4**	6.1	3.3	54.1 %	**38.4**	37.4	1.0	2.7 %
FUNDED OPERATING EXPENSES	**167.5**	**154.5**	**13.0**	**8.4 %**	**631.0**	**591.8**	**39.2**	**6.6 %**

Year 2017

- **42 %** Compensation and employee benefits ($ 265.0M)
- **6 %** Employer contribution for employee benefits ($ 38.4M)
- **21 %** Train operations and fuel ($ 133.7M)
- **7 %** Stations and property ($ 41.8M)
- **5 %** Marketing and sales ($ 34.4M)
- **6 %** Maintenance material ($ 34.7M)
- **3 %** On-train product costs ($ 21.0M)
- **3 %** Professional services ($ 18.6M)
- **3 %** Telecommunications ($ 18.7M)
- **4 %** Other ($ 24.7M)

Year 2016

- **41 %** Compensation and employee benefits ($ 240.4M)
- **6 %** Employer contribution for employee benefits ($ 37.4M)
- **20 %** Train operations and fuel ($ 120.5M)
- **7 %** Stations and property ($ 39.6M)
- **5 %** Marketing and sales ($ 31.2M)
- **6 %** Maintenance material ($ 33.2M)
- **3 %** On-train product costs ($ 18.3M)
- **4 %** Professional services ($ 23.8M)
- **3 %** Telecommunications ($ 15.1M)
- **5 %** Other ($ 32.3M)

For the quarter:

- Funded operating expenses before employer post-employment and other employee benefit contributions increased by 6.5 per cent and totaled $158.1 million. The variance stemmed from the following major elements:
    - Higher costs for compensation ($9.0 million) attributable to additional capacity deployed, annual salary increases, and higher costs resulting from the poor on-time performance, especially on the *Canadian*;
    - Higher train operations and fuel costs ($5.2 million) stemming from additional capacity and contractual cost increases for infrastructure usage costs, higher fuel costs (additional capacity and higher taxes and fees) and additional on-train costs incurred as a result of the poor on-time performance, especially on the *Canadian*;
    - Lower costs for "other" expenses, due in part to the settlement of a legal claim which resulted in a reimbursement of $1.8 million, as well as lower costs for professional fees ($2.4 million) as less amounts were invested this year in the dedicated track and fleet renewal initiatives.
- Employer post-employment and other employee benefit contributions increased by 54.1 per cent, mostly due to timing in contributions for past services.

For the year:

- Funded operating expenses before employer post-employment and other employee benefit contributions increased by 6.9 per cent and totaled $592.6 million for the year. The variance stemmed from the following major elements:
    - Higher compensation and benefits with an increase of $24.6 million, attributable to additional capacity deployed, annual salary increases, and higher costs resulting from additional ridership and poor on-time performance;
    - Increase of $13.2 million for train operations and fuel, due in part to the additional capacity deployed (generating additional fuel costs and train access fees), the additional taxes and fees on fuel introduced in 2017, and higher on-train expenses resulting from the poor on-time performance;
- Employer post-employment and other employee benefit contributions increased by 2.7 per cent, mostly due to higher pension contributions for current services.

6. GOVERNMENT FUNDING

IN MILLIONS OF CANADIAN DOLLARS	Quarters ended December 31				Years ended December 31			
	2017	2016	Var $	Var %	**2017**	2016	Var $	Var %
Operating funding	**74.9**	72.9	2.0	2.7 %	**265.3**	267.5	(2.2)	(0.8 %)
Capital funding	**36.0**	27.9	8.1	29.0 %	**88.4**	86.3	2.1	2.4 %
Total funding	**110.9**	100.8	10.1	10.0 %	**353.7**	353.8	(0.1)	(0.0 %)
Detail funding from the Government of Canada								
Funded revenues (section 4)	**92.6**	81.6	11.0	13.5 %	**365.7**	324.3	41.4	12.8 %
Funded operating expenses (section 5)	**167.5**	154.5	13.0	8.4 %	**631.0**	591.8	39.2	6.6 %
Funded operating loss	**74.9**	**72.9**	**2.0**	**2.7 %**	**265.3**	**267.5**	**(2.2)**	**(0.8 %)**

For the quarter:

Operating funding increased by $2.0 million (2.7 per cent) compared to the corresponding quarter last year. This is attributable to the increase in the operating loss, as the increase in funded operating expenses exceeded the increase in funded revenues, as shown is sections 4 and 5 of this document.

Capital funding increased by $8.1 million (29.0 per cent) and reflects the fact that more capital investments were made this quarter than during the corresponding quarter last year.

For the year:

Operating funding decreased by 0.8 per cent which reflects the decrease in operating loss for the year. This decrease is the result of higher revenues partly offset by higher funded operating expenses, as shown in sections 4 and 5 of this document.

Capital funding increased by 2.4 per cent mainly due to the fact that more investments were made compared to last year.

Operating government funding is recognized in the comprehensive income statement and is based on the shortfall of revenues as compared to expenses.

Capital funding is recorded as deferred capital funding in the statement of financial position. It is amortized and recognized as revenue over the same periods as the depreciation of related property, plant and equipment, and intangible assets are used for VIA Rail's operations.

7. COMPREHENSIVE INCOME (LOSS)

	Quarters ended December 31				Years ended December 31			
IN MILLIONS OF CANADIAN DOLLARS	2017	2016	Var $	Var %	2017	2016	Var $	Var %
Net income	**19.8**	12.5	7.3	58.4 %	**12.9**	8.3	4.6	55.4 %
Other comprehensive income (loss)								
Remeasurements of defined benefit component of the pension plans and post-employment benefit plans	**(13.6)**	91.1	(104.7)	(114.9 %)	**9.6**	(30.5)	40.1	131.5 %
Comprehensive income (loss)	**6.2**	**103.6**	**(97.4)**	**(94.0 %)**	**22.5**	**(22.2)**	**44.7**	**201.4 %**

In addition to net income, the Corporation recorded an expense of $13.6 million for the quarter, and an income of $9.6 million for the year, both associated with the remeasurements of the defined benefit component of the pension plans and post-employment benefit plans.

These remeasurements are due to the variance between the returns generated on the plans assets compared to the charge associated with the change in actuarial valuation of the plan.

An income is recorded when the returns on assets exceed the charge associated to the change in actuarial valuation of the plan, while an expense is recorded when the charge associated to the change in valuation of the plan exceeds the returns generated on the plans assets.

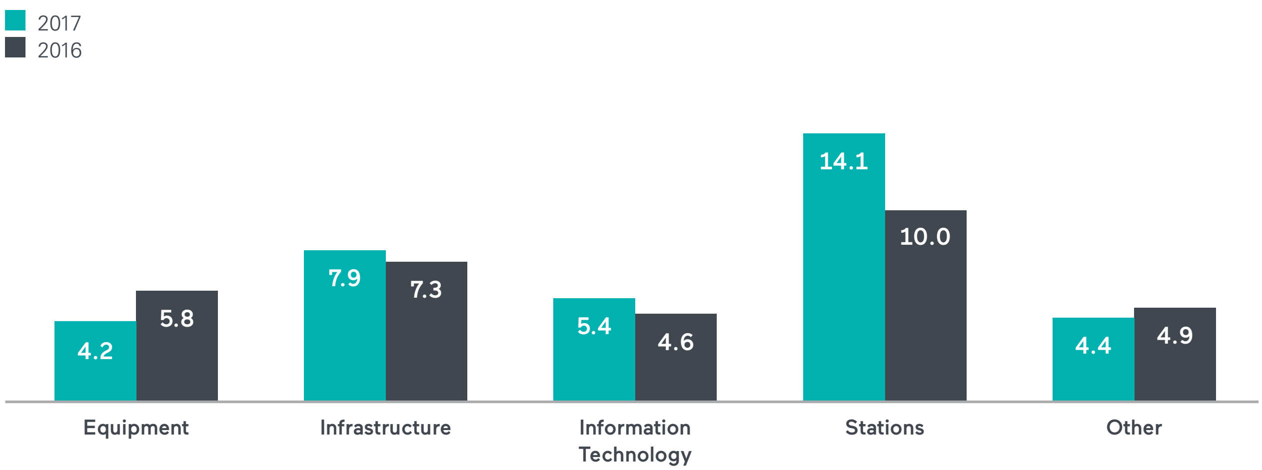
Further information on pension plan is provided in note 19 of the audited financial statements.

8. CAPITAL INVESTMENTS

Property, plant and equipment and intangible assets (net of accumulated depreciation) amounted to $1,253.3 million, an $8.8 million decrease compared to the balance as at December 31, 2016.

Capital investments - for the quarter

(In millions of Canadian dollars)

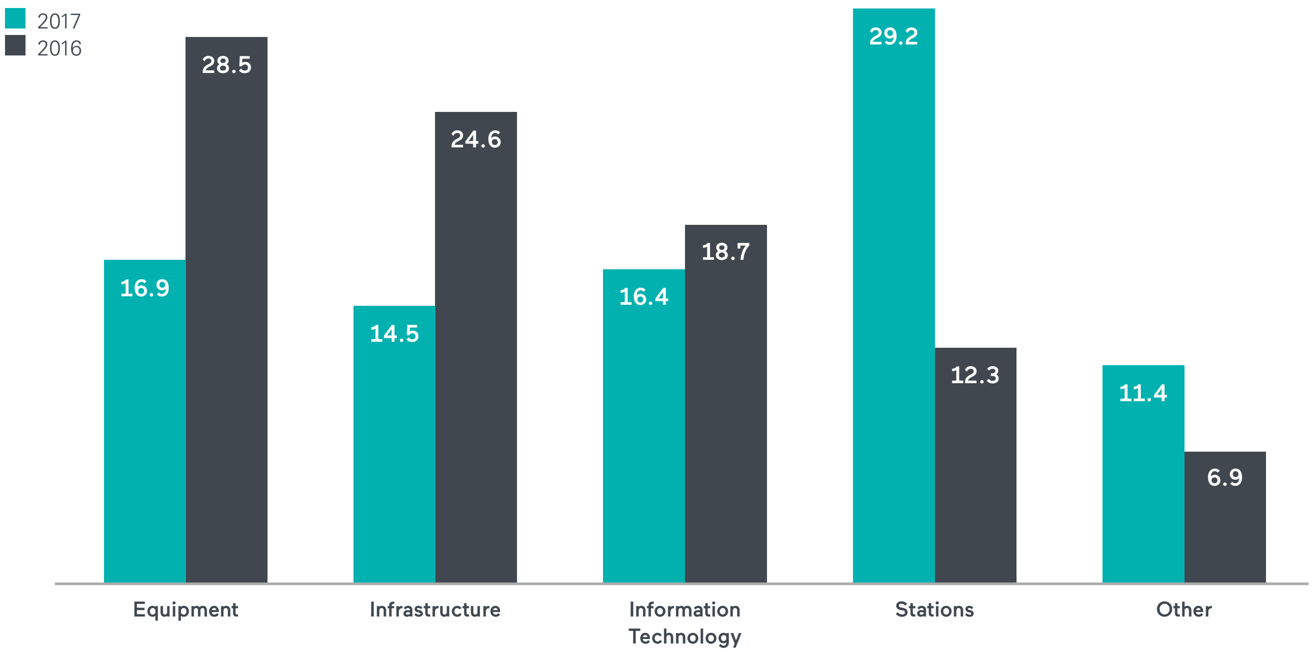


Capital investments totaled $36.0 million for the quarter, composed mainly of:

- Investments of $14.1 million for station projects, including $6.0 million in Ottawa station and $3.2 million for the new Oshawa station;
- Investments of $7.9 million for infrastructure projects of which $2.7 million went to the Newcastle subdivision track upgrade and $1.7 million went to the 2017 track upgrade program on VIA Rail owned infrastructure;
- Investments of $5.4 million for information technology projects including the network planning solution, enhancements to the reservation system, and the identity access and access card management systems;
- Investments of $ 4.2 million for equipment projects, including $1.7 million for the GPA30H traction motor rebuild, and $1.0 million for the LRC car fleet rebuild.

Capital investments - Year 2017

(In millions of Canadian dollars)



Capital investments totaled $88.4 million for the year, composed mainly of:

- Investments of $29.2 million for station projects, including $17.3 million for projects at Ottawa station, and $3.2 million for the new Oshawa station;
- Investments of $16.9 million for equipment projects, of which $11.8 million was for the LRC rebuild program;
- Investments of $16.4 million for information technology projects, including the reservation system enhancement project, the identity access and access cards management projects, the network planning solution, the Locomotive Engineers training program, and the Procure to Pay project;
- Investments of $14.5 million for infrastructure projects, including the 2017 track program for VIA Rail owned infrastructure, the Newcastle subdivision track upgrade, as well as grade crossing upgrades on VIA Rail infrastructure, and $1.0 million for bridge improvements.

9. CASH FLOW AND FINANCIAL POSITION

	Quarters ended December 31				Years ended December 31			
IN MILLIONS OF CANADIAN DOLLARS	**2017**	2016	Var $	Var %	**2017**	2016	Var $	Var %
Balance, beginning	**18.1**	34.5	(16.4)	(47.5 %)	**10.9**	9.3	1.6	17.2 %
Net cash used in operating activities	**(7.5)**	(19.9)	12.4	62.3%	**(1.4)**	(8.8)	7.4	84.1 %
Net cash (used in) provided by investing activities	**(7.4)**	(3.7)	(3.7)	(100.0 %)	**(6.3)**	10.4	(16.7)	(160.6 %)
BALANCE, END OF THE YEAR	**3.2**	**10.9**	**(7.7)**	**(70.6 %)**	**3.2**	**10.9**	**(7.7)**	**(70.6 %)**

The Corporation's cash balance is $3.2 million as at December 31, 2017, which is $7.7 million lower than the balance as at December 31, 2016.

The decrease in cash for the quarter and the year is mostly due to the change in capital funding receivable from the Government of Canada.

10. RISK ANALYSIS (COMPARED TO DECEMBER 31, 2016)

This section highlights VIA Rail's key risks which may have potential impact on the Corporation's financial results. It provides information on risks and shows the current trend in comparison to the status as at December 31, 2016.

NATURE OF RISK	TREND	CURRENT SITUATION
SAFETY OF PASSENGERS, EMPLOYEES AND THE PUBLIC		
Events such as collisions, derailments and pedestrian accidents may negatively impact revenues. Such events and new regulations on grade crossings may also result in significant non-budgeted costs for the Corporation.	Stable	The Corporation has, over the last few years, adopted operational procedures and controls which adhere to government regulations and also aim to go beyond compliance in terms of railway safety, including the implementation, in 2015, of its enhanced Safety Management System (SMS). Transport Canada completed its first audit of VIA Rail's SMS in early 2017 and confirmed the effectiveness of VIA Rail's processes. VIA Rail also completes regular inspections of its equipment, stations and infrastructure. These activities are carried on to manage and mitigate the safety risks of our railway operations, as well as the potential significant unexpected costs which may result from these events. The Corporation has developed a security roadmap and is currently implementing various initiatives to enhance security in some of its stations. Following the issuance by Transport Canada of a new regulatory agenda concerning the safety of grade crossings (which require that upgrades be made to certain infrastructure no later than November 27, 2021), VIA Rail has received a funding envelope over three years to improve grade crossings. The improvements have been initiated on the infrastructure owned by VIA Rail. Discussions are underway with the owners of other railways on which VIA Rail operates for the execution of the work on their infrastructure.

INCREASING STABLE DECREASING

NATURE OF RISK	TREND	CURRENT SITUATION
GOVERNMENT AND STRATEGY		
VIA Rail has limited powers as a non-agent Crown Corporation and is dependent on annual government budgetary allocations to fund its operations, capital and pension obligations. Insufficient funding constitutes a risk in the efficient delivery of its services, as well as in the planning and execution of its medium-to-long term strategies.		VIA Rail has received, as part of the March 2017 federal budget, confirmed capital, operating and pension funding envelopes for the next three government fiscal years (until March 2020).
EMPLOYEE CONTRIBUTION		
Low contribution and engagement of employees could lead to high employee turnover. VIA Rail's workforce is mature and many employees could retire in the next few years, including some with specific technical skills. Without proper succession planning, key knowledge and competencies could be lost. The situation could result in loss of productivity and increased costs.		A new engagement survey was completed in the fall of 2017 and the results of this survey show that employee engagement reached an all-time high of 62%, which is a significant improvement compared to the score of 51% achieved in 2015.

INCREASING STABLE DECREASING

NATURE OF RISK	TREND	CURRENT SITUATION
REVENUE GENERATION		
Failure to meet our revenue plan can cause our funding to be insufficient and lead to cost/service reductions. Current revenue challenges include: - Deterioration of on-time performance due to infrastructure issues - Reduced capacity due to aging fleet - Competition - Deteriorating economic environment	Stable	VIA Rail generated, for another consecutive year, a very strong performance for revenues, with increased ridership and average revenues. While these revenues continue to be very encouraging, the challenges pertaining to on-time performance and limited capacity remain.
COSTS INFLUENCED BY EXTERNAL FACTORS		
Elements exist outside of the Corporation's control such as harsh weather and financial and commodity market conditions that can have an adverse impact on costs such as fuel, equipment maintenance and pension costs. Failure to meet our budgeted costs can cause funding to be insufficient and lead to service reductions.	Stable	The Corporation monitors fuel operating costs closely and used fuel hedging to minimize the potential negative impact of sharp cost increases. For equipment maintenance costs, initiatives have been implemented to optimize the equipment maintenance plan and minimize equipment failures resulting from harsh winter weather conditions. With regards to pension, the financial situation improved over 2017. The Corporation forecasts that the funded basis valuations will be in a modest surplus position. This resulted from very strong investment returns which compensated for the liability pressure from discount rates remaining low.

INCREASING STABLE DECREASING

NATURE OF RISK	TREND	CURRENT SITUATION
EQUIPMENT QUALITY, AVAILABILITY AND RELIABILITY		
VIA Rail's equipment is aging and its reliability has deteriorated in the past few years, resulting in delays and additional operating costs. Maintenance costs could increase significantly in the next few years until a new fleet is introduced as reliability of the aging fleet may continue to deteriorate.		Initiatives to optimize utilization of the current equipment will be pursued in the next few years until the new fleet is introduced. The Corporation has launched a plan to ensure the current capacity is protected until the new fleet is put in service. This plan includes the reconfiguration of HEPI and HEPII cars to match the LRC car configuration, so that they can be used in the Corridor and secure capacity as LRC cars are retired from the fleet.
INFRASTRUCTURE AVAILABILITY, RELIABILITY AND QUALITY		
The services provided by host railways have been deteriorating, resulting in declining on-time performance, which resulted in increased operating costs and which could lead to lower customer satisfaction and passenger revenues. The contracts with major host railways which allow VIA Rail access to their infrastructure will expire at the end of 2018 and could be renewed at terms and conditions which are not known at this time.		Although on-time performance has remained stable in the Corridor, it has deteriorated on the *Ocean*. On the *Canadian* on-time performance has plummeted to less than 8 percent and the length of the delays have significantly increased, at times reaching almost 24 hours. These delays have adversely impacted customer satisfaction and resulted in additional costs for the Corporation. VIA Rail's management has worked on a mitigation plan for 2018 with the objective of minimizing the negative impacts on the passengers affected by the delays, should the situation sustain. With regards to the renewal of the contracts with host railways, VIA Rail has put in place a team of employees who will be involved in the negotiations and work towards concluding a new agreement that provides satisfactory operational and financial terms.

 INCREASING  STABLE  DECREASING

NATURE OF RISK	TREND	CURRENT SITUATION
INFORMATION TECHNOLOGY		
The availability, reliability and responsiveness of existing and new information technology may have a positive or negative impact on the achievement of VIA Rail's strategic objectives and management of other key risks. Under investments in IT technology, security threats and lack of reliability of equipment could have significant impact on the Corporation's performance.		As part of the information technology risk roadmap, the Corporation has undertaken various actions during the last few years to minimize risks, including the implementation of an ongoing security framework, and the monitoring of perimeter and critical systems security. Furthermore, IT process directives and standards were developed, implemented and monitored by the Corporation's corporate project management office.

INCREASING STABLE DECREASING

11. OUTLOOK

2017 has been a successful year for VIA Rail, with increased ridership and revenues, and an improvement of the operating funded deficit. However, the Corporation still faces challenges such as deteriorating on-time performance, which resulted in additional costs, and negatively impacted customer satisfaction.

The new funding envelope received in March 2017 will allow for the implementation of various initiatives aimed at improving customer offers, and maintaining the current fleet in a state of good repair, until new Corridor fleet is introduced.

VIA Rail will also continue to work with Transport Canada on studies related to its dedicated tracks project. In the meantime, VIA Rail's team is focused on putting in place measures to minimize delays and improve our customers' travel experience.

FINANCIAL STATEMENTS

MANAGEMENT'S RESPONSIBILITY STATEMENT

YEAR ENDED DECEMBER 31, 2017

Management of the Corporation is responsible for the preparation and fair presentation of the financial statements contained in the Annual Report. These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and necessarily include certain amounts that are based on management's best estimates and judgment. Financial information contained throughout the Annual Report is consistent with that in the financial statements. Management considers that the financial statements present fairly the financial position of the Corporation and its financial performance and its cash flows.

To fulfil 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 external auditor, the Auditor General of Canada, has audited the Corporation's financial statements for the year ended December 31, 2017 and his report indicates the scope of his audit and his opinion on the financial statements.

The Audit & Pension Investment Committee of the Board of Directors, consisting of independent Directors, meets periodically with the internal auditors PricewaterhouseCoopers, LLP 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 & Pension Investment Committee.

Yves Desjardins-Siciliano
President and Chief Executive Officer

Patricia Jasmin, CPA, CA
Chief Financial Officer

Montréal, Canada
March 20, 2018

Office of the
Auditor General
of Canada

Bureau du
vérificateur général
du Canada

INDEPENDENT AUDITOR'S REPORT

To the Minister of Transport

Report on the Financial Statements

I have audited the accompanying financial statements of VIA Rail Canada Inc., which comprise the statement of financial position as at 31 December 2017, and the statement of comprehensive income, statement of changes in shareholder's deficiency and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of VIA Rail Canada Inc. as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

As required by the *Financial Administration Act*, I report that, in my opinion, the accounting principles in International Financial Reporting Standards have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of VIA Rail Canada Inc. that have come to my notice during my 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 regulations, the articles and by-laws of VIA Rail Canada Inc., and the directives issued pursuant to section 89 of the *Financial Administration Act*.

Tina Swiderski, CPA auditor, CA
Principal
for the Auditor General of Canada

20 March 2018
Montréal, Canada

FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION

As at December 31 (IN THOUSANDS OF CANADIAN DOLLARS)	**2017**	2016
CURRENT ASSETS		
Cash	**$ 3,195**	$ 10,861
Trade and other receivables (NOTE 9)	**11,264**	11,428
Receivable from the Government of Canada	**37,215**	22,593
Other current assets (NOTE 10)	**4,059**	2,927
Derivative financial instruments (NOTE 11)	**3,476**	2,507
Materials (NOTE 12)	**25,465**	24,112
Asset Renewal Fund (NOTE 13)	**7,780**	7,780
	92,454	82,208
NON-CURRENT ASSETS		
Property, plant and equipment (NOTE 14)	**883,847**	879,060
Intangible assets (NOTE 15)	**369,477**	383,075
Asset Renewal Fund (NOTE 13)	**873**	873
Post-employment and other employee benefits (NOTE 19)	**4,566**	4,151
	1,258,763	1,267,159
Total Assets	**$ 1,351,217**	$ 1,349,367
CURRENT LIABILITIES		
Trade and other payables (NOTE 16)	**$ 113,791**	$ 102,409
Provisions (NOTE 17)	**8,872**	13,507
Derivative financial instruments (NOTE 11)	**2,292**	6,962
Deferred revenues (NOTE 18)	**34,613**	39,483
	159,568	162,361
NON-CURRENT LIABILITIES		
Post-employment and other employee benefits (NOTE 19)	**65,620**	75,877
	65,620	75,877
Deferred capital funding (NOTE 21)	**1,239,544**	1,247,163
SHAREHOLDER'S DEFICIENCY		
Share capital (NOTE 22)	**9,300**	9,300
Accumulated deficit	**(122,815)**	(145,334)
	(113,515)	(136,034)
Total Liabilities and Shareholder's deficiency	**$ 1,351,217**	$ 1,349,367

Commitments and Contingencies (Notes 26 and 29, respectively)

The notes are an integral part of the financial statements.

Approved on behalf of the Board,

Françoise Bertrand
Chairperson of the Board
of Directors

Yves Desjardins-Siciliano
President and Chief
Executive Officer

FINANCIAL STATEMENTS

STATEMENT OF COMPREHENSIVE INCOME

Year ended December 31 (IN THOUSANDS OF CANADIAN DOLLARS)	2017	2016
REVENUES		
Passenger	$ 348,726	$ 299,529
Other	23,073	23,282
	371,799	322,811
EXPENSES		
Compensation and employee benefits	302,208	278,519
Train operations and fuel	133,670	120,492
Stations and property	41,830	39,558
Marketing and sales	34,395	31,167
Maintenance material	34,714	33,185
On-train product costs	20,955	18,329
Operating taxes	10,726	10,389
Professional services	18,554	23,791
Telecommunications	18,663	15,100
Depreciation and amortization (NOTES 14 AND 15)	91,694	87,136
Loss on disposal of property, plant and equipment and intangible assets (NOTES 14 AND 15)	5,551	16,374
Unrealized net gain on derivative financial instruments	(5,639)	(11,777)
Realized net loss on derivative financial instruments	4,200	6,358
Other	8,557	15,536
	720,078	684,157
OPERATING LOSS BEFORE FUNDING FROM THE GOVERNMENT OF CANADA AND INCOME TAXES	348,279	361,346
Operating funding from the Government of Canada (NOTE 7)	265,325	267,513
Amortization of deferred capital funding (NOTE 21)	96,053	102,307
Net income before income taxes	13,099	8,474
Income tax expense (NOTE 20)	(176)	(139)
NET INCOME FOR THE YEAR	12,923	8,335
Other comprehensive income (loss)		
Amounts not to be reclassified subsequently to net income (net of tax):		
Remeasurements of defined benefit component of the pension plans and post-employment benefit plans (NOTE 19)	9,596	(30,494)
	9,596	(30,494)
COMPREHENSIVE INCOME (LOSS) FOR THE YEAR	$ 22,519	$ (22,159)

The notes are an integral part of the financial statements.

FINANCIAL STATEMENTS

STATEMENT OF CHANGES IN SHAREHOLDER'S DEFICIENCY

Year ended December 31 (IN THOUSANDS OF CANADIAN DOLLARS)	**2017**	2016
SHARE CAPITAL	**$ 9,300**	$ 9,300
Accumulated deficit		
Balance, beginning of year	**(145,334)**	(123,175)
Net income for the year	**12,923**	8,335
Other comprehensive income (loss) for the year	**9,596**	(30,494)
Balance, end of year	**(122,815)**	(145,334)
Total Shareholder's deficiency	**$ (113,515)**	$ (136,034)

The notes are an integral part of the financial statements.

FINANCIAL STATEMENTS

STATEMENT OF CASH FLOWS

Year ended December 31 (IN THOUSANDS OF CANADIAN DOLLARS)	2017		2016	
OPERATING ACTIVITIES				
Net income for the year	$	12,923	$	8,335
Adjustments to determine net cash (used in) provided by operating activities:				
Depreciation and amortization (NOTES 14 AND 15)		91,694		87,136
Loss on disposal of property, plant and equipment and intangible assets (NOTES 14 AND 15)		5,551		16,374
Amortization of deferred capital funding (NOTE 21)		(96,053)		(102,307)
Interest income		(397)		(355)
Unrealized net gain on derivative financial instruments		(5,639)		(11,777)
Post-employment and other employee benefit expenses (NOTE 19)		37,355		36,331
Employer post-employment and other employee benefit contributions (NOTE 19)		(38,431)		(37,514)
Net change in non-cash working capital items (NOTE 23)		(8,398)		(5,122)
Net cash used in operating activities		(1,395)		(8,899)
INVESTING ACTIVITIES				
Capital funding (NOTE 21)		88,434		86,348
Change in capital funding receivable from the Government of Canada		(8,370)		7,495
Acquisition of property, plant and equipment and intangible assets (NOTES 14, 15 AND 16)		(86,732)		(83,763)
Interest received		397		355
Proceeds from disposal of property, plant and equipment and intangible assets		-		7
Net cash (used in) provided by investing activities		(6,271)		10,442
CASH				
Increase (decrease) during the year		(7,666)		1,543
Balance, beginning of year		10,861		9,318
Balance, end of year	$	3,195	$	10,861
REPRESENTED BY:				
Cash	$	3,195	$	10,861
	$	3,195	$	10,861

The notes are an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31

1. AUTHORITY AND OBJECTIVES

VIA Rail Canada Inc. is a Crown corporation named in Part I of Schedule III to the *Financial Administration Act.* The Corporation was incorporated in 1977 in Canada, under the *Canada Business Corporations Act.* The corporate headquarters is located at 3 Place Ville-Marie, Montréal (Québec). The Corporation's vision is to be a smarter way to move people with a mission to place passengers at the core of everything we do and strives to offer a safe, smart and valued travel experience across Canada. The Corporation uses the roadway infrastructure of other railway companies and relies on them to control train operations.

The Corporation is subject to a directive (P.C. 2013-1354) that was issued on December 9, 2013, and a related subsequent directive (P.C. 2016-443) that was issued on June 3, 2016, pursuant to sections 89.8 and 89.9 of the *Financial Administration Act.* As per these directives, the Corporation must obtain Treasury Board approval on the terms and conditions of employment of its non-unionized employees who are not appointed by Governor in Council. The Corporation confirms that the requirements of these directives have been met.

In July 2015, the Corporation was issued a directive (P.C. 2015-1114) pursuant to section 89(1) of the *Financial Administration Act* to align its travel, hospitality, conference and event expenditure policies, guidelines and practices with Treasury Board policies, directives and related instruments on travel, hospitality, conference and event expenditures in a manner that is consistent with its legal obligations, and to report on the implementation of this directive in the Corporation's next corporate plan. The Corporation confirms that the requirements of the directive have been met.

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

The Corporation has one operating segment, passenger transportation and related services in Canada. The Corporation's activities are considered seasonal since passenger traffic increases significantly during the summer and holiday periods resulting in an increase in revenue for these same periods.

These financial statements were approved and authorized for issue by the Board of Directors on March 20, 2018.

2. BASIS OF PREPARATION

a) Statement of compliance

The Corporation's financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS).

b) Basis of measurement

The financial statements have been prepared on the historical cost basis except when a specific IFRS standard required fair values measurement as explained in the accounting policies below.

c) Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the Corporation's functional currency. All financial information presented in Canadian dollars has been rounded to the nearest thousand in the Corporation's financial statements and rounded to the nearest million in the notes to the financial statements.

3. AMENDMENTS TO IFRS THAT ARE MANDATORILY EFFECTIVE FOR THE CURRENT YEAR

IAS 7 - Statement of cash flows **–** In January 2016, the IASB published amendments to IAS 7, *Statement of cash flows*. The amendments are intended to clarify IAS 7 to improve information provided to users of financial statements about an entity's financing activities. The amendments are effective for annual periods beginning on or after January 1, 2017. The application of these amendments had no impact on the Corporation's financial statements for the period ended December 31, 2017.

IAS 12 - Income Taxes **–** In January 2016, the IASB issued amendments to IAS 12, *Income Taxes* regarding the recognition of deferred tax assets for unrealized losses, effective for annual periods beginning on or after January 1, 2017. The amendments clarify how to account for deferred tax assets related to debt instruments measured at fair value. The application of these amendments had no impact on the Corporation's financial statements for the period ended December 31, 2017.

4. NEW AND REVISED IFRS ISSUED BUT NOT YET EFFECTIVE

IFRS 9 - Financial Instruments **–** In July 2014, the IASB published the final version of IFRS 9 which replaces IAS 39 - *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

This standard will be applied retrospectively for periods beginning January 1, 2018. The Corporation has completed the analysis of IFRS 9 on the Corporation's financial statements.

With respect to the classification and measurement, the number of categories of financial assets under IFRS 9 has been reduced. All recognised financial assets that are currently within the scope of IAS 39 will be subsequently measured at either amortized cost or fair value under IFRS 9. Specially:

- A debt instrument that is held within a business model whose objective is to collect the contractual cash flows and has contractual cash flows that are solely payments of principal and interest on the principal amount outstanding must be measured at amortised cost, unless the asset is designated at fair value through profit or loss (FVTPL) under the fair value option.
- A debt instrument that is held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets and has contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, must be measured at fair value through other comprehensive income (FVTOCI), unless the asset is designated at FVTPL under the fair value option.
- All other debt instruments must be measured at FVTPL.

4. NEW AND REVISED IFRS ISSUED BUT NOT YET EFFECTIVE (CONT'D)

The impairment model under IFRS 9 reflects expected credit losses, as opposed to incurred credit losses under IAS 39. Under the impairment approach in IFRS 9, it is no longer necessary for a credit event to have occurred before credit losses are recognised. Instead, an entity always accounts for expected credit losses and changes in those expected credit losses. The amount of expected credit losses should be updated at each reporting date to reflect changes in credit risk since initial recognition.

The standard contains extensive disclosure requirements, but the monetary impact for the Corporation's financial statement is not significant.

IFRS 15 - Revenue from Contracts with Customers – The standard specifies how and when revenue should be recognized and requires entities to provide more informative and relevant disclosures to users. The standard, which supersedes IAS 18 - *Revenue*, IAS 11 - *Construction Contracts* and a number of revenue-related interpretations applies to nearly all contracts with customers, unless the contracts are within the scope of other IFRS such as IAS 17 - *Leases*. This standard will be applied fully retrospectively for periods beginning January 1, 2018.

Under the basic principle of IFRS 15, a company must recognize revenue to show when the goods or services promised to customers are provided, and to what amount of consideration the entity expects to be entitled to exchange of such goods or services. In particular, the standard proposes a five-step model for the recognition of revenue, identifying customer contracts, identifying contractual obligations, determining the transaction price, transaction price between the various contractual obligations and the recognition of revenue when the entity has (or as it fulfills) a performance obligation.

Under IFRS 15, a company recognizes revenue when a benefit obligation is fulfilled (or as it is met), that is, when control of the underlying goods or services under consideration by this obligation of service is transferred to the client. In addition, the standard contains extensive disclosure requirements.

Passenger revenues and other revenues are not significantly impacted by IFRS 15. Even if the performance obligation related to these revenues are satisfied over time, most of the trips occur on the same day, so VIA Rail uses the departure date to recognise passenger revenues. Other revenues are recognised over time because the Corporation fulfils its performance obligation gradually.

IFRS 15 has no impact on the deferred revenues such as advance ticket sales and gift cards, but has an impact on the deferred revenues related to the loyalty program. In previous reporting periods, the consideration received from the sale of train tickets was allocated to the points using the residual method. Under this method, a part of the consideration equalling the fair value of the points was allocated to the points. The residual part of the consideration was allocated to the train ticket. Under IFRS 15, the total consideration must be allocated to the points based on the relative stand-alone selling prices. The application of this new standard has no impact on the Corporation's financial statements.

The standard contains extensive disclosure requirements, but the monetary impact for the Corporation's financial statement is not significant.

IFRS 16 - Leases – In January 2016, the IASB published a new standard to replace the previous standard IAS 17 – *Leases*. The new standard requires leases to be reported on a lessee's balance sheet as assets and liabilities, provides more transparency and improves comparability between corporations. Lessor accounting remains similar to current practice – i.e. lessors continue to classify leases as finance and operating leases.

This standard is effective for periods beginning on or after January 1, 2019, with early application permitted for corporations that also apply IFRS 15 – *Revenue from Contracts with Customers*. The Corporation does not intend to early apply IFRS 16. The Corporation is currently assessing the impact of applying this standard on its financial statements. An initial scoping of its agreement has identified approximately 50 agreements that will need to be analyzed. The Corporation has also began the analysis of few of these leases and will continue this process during the year 2018.

IFRIC 23 – Uncertainty over Income Tax Treatment – In June 2017, the IASB issued IFRIC 23 - *Uncertainty over Income Tax Treatments*. This IFRIC Interpretation aims to reduce diversity in how corporations recognise and measure a tax liability or tax asset when there is uncertainty over income tax treatments. This standard is effective for periods beginning on or after January 1, 2019, with early application permitted. A full retrospective application is permitted if a corporation can do so without using hindsight. The Corporation has not yet determined the impact of IFRIC 23.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 (See Note 7 for the reconciliation). The funding is determined on the basis of operating expenses less commercial revenues excluding unrealized gains and losses on financial instruments, non-cash employee benefits, non-cash transactions relating to property, plant and equipment, intangible assets, deferred taxes and adjustment for VIA Préférence, and is based on the operating budget approved by the Government of Canada for each year.

Funding for depreciable property, plant and equipment and intangible assets is recorded as deferred capital funding in the statement of financial position and is amortized on the same basis and over the same periods as the funded depreciable property, plant and equipment and intangible assets. Upon disposal of the funded depreciable property, plant and equipment and intangible assets, the Corporation recognizes into net income all remaining deferred capital funding related to the relevant assets.

Funding for non-depreciable property, plant and equipment is recorded as deferred capital funding in the statement of financial position and is amortized on the same basis and over the same periods as the related depreciable property, plant and equipment.

b) Revenue recognition

i) Passenger revenues

The consideration received from the sale of tickets is allocated between the loyalty program (VIA Préférence) and the passenger transportation service. The amount allocated to the loyalty program is based on the points expected rate of redemption and their fair values. The revenue is recorded as deferred revenue until the transportation has been provided or, in the case of the loyalty program, until the points are redeemed for train tickets. When points are redeemed, the revenue is determined based on the number of points that have been redeemed in exchange for train tickets. Deferred revenues related to the loyalty program are also recorded as revenues when it is no longer considered probable that the related loyalty program points will be redeemed.

ii) Other revenues

Other revenues that include revenues from third parties and investment income are recorded as they are earned. The change in fair value of the financial instruments held for trading, other than derivative financial instrument, is recorded in other revenues.

c) Materials

Materials, consisting primarily of items used for the maintenance of rolling stock, are valued at the lower of cost and net realizable value. The cost is determined using the weighted average method and net realizable value is defined as the replacement cost. Materials are presented net of the related obsolescence provision.

d) Property, plant and equipment

Property, plant and equipment are recorded at the cost, less accumulated depreciation and any accumulated impairment losses. The cost includes all expenditures directly attributable to the acquisition of the asset. When major components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment and are depreciated over their respective useful lives.

Maintenance and repair costs are recognized as follows:

i) Rolling stock:
Maintenance expenses incurred during the useful life of equipment (regular maintenance activities to maintain the asset in a good condition) are recorded as operating expenses.

The cost of periodic major overhaul programs are capitalized as a separate component and depreciated over its expected useful life.

ii) Fixed installations:
Maintenance and repair expenses (technical inspections, maintenance contracts, etc.) are recorded as operating expenses.

The costs of periodic major building repair programs are capitalized as a separate component and depreciated over its expected useful life.

Depreciation of property, plant and equipment is calculated on a straight-line basis, from the date they are available for use, at rates sufficient to depreciate the cost of property, plant and equipment, less their residual value, over their estimated useful lives except for leasehold improvements related to the lease of buildings and stations where the depreciation period is the shorter of the lease term or its estimated useful life. The estimated useful lives are as follows:

	Years
Rolling stock	**5 to 75**
Maintenance buildings	**15 to 75**
Stations and facilities	**10 to 50**
Owned infrastructure	**10 to 50**
Leasehold improvements	**10 to 40**
Machinery and equipment	**5 to 15**
Computer hardware	**3 to 7**
Other property, plant and equipment (NOTE 1)	**20**

Note 1: Other property, plant and equipment include mostly office furniture and luggage carts.

The estimated useful life, depreciation method and residual value are reviewed at the end of each annual reporting period taking into account the nature of the assets, past experience, changing technologies and expectations for the in-service period of the assets, with the effect of any changes in estimate being accounted for on a prospective basis. No depreciation is provided for projects in progress and land.

Gains and losses on disposals of property, plant and equipment are determined by comparing the proceeds with the carrying amount of the asset and are recorded under ''Loss on disposal of property, plant and equipment and intangible assets" in the statement of comprehensive income.

e) Intangible assets

Intangible assets acquired separately are recorded at cost less accumulated amortization and accumulated impairment losses. Amortization is recorded on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each annual reporting period, taking into account the nature of the assets, past experience, changing technologies and expectations for the in-service period of the assets, with the effect of any changes in estimate being accounted for on a prospective basis. No depreciation is provided for projects in progress.

For internally-generated intangible assets, the expenditure on research activities is recognized as an expense in the year in which it is incurred and the development expense from the development phase of an internal project is recognized if, and only if, all of the following have been demonstrated:

/ the technical feasibility of completing the intangible asset so that it will be available for use or sale;

/ the intention to complete the intangible asset and use or sell it;

/ the ability to use or sell the intangible asset;

/ how the intangible asset will generate probable future economic benefits;

/ the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and

/ the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognized for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognized, development expenditure is charged to net income in the year in which it is incurred.

The Corporation's intangible assets have a finite useful life and are amortized over their useful life according to the straight-line method over the following years:

	Years
Software	**3 to 5**
Rights of access to rail infrastructure	**38**
Other Intangible assets	**20 to 25**

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

f) Impairment of non-financial assets

The Corporation reviews at each statement of financial position date whether there is any indication of impairment (obsolescence, physical deterioration, significant changes in the method of utilisation, performances falling short of forecasts, decline in revenues, other external indicators) or reversal of impairment loss. Non-financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the non-financial asset, the asset's carrying amount exceeds its recoverable amount. The recoverable amount of an asset is the greater of its value in use and its fair value less costs of disposal. The value in use is determined by the estimated present value of future cash flows generated by the asset. The Corporation does not generate cash flows from the use of its assets, as its operations are funded by Government appropriations on a break-even basis. Therefore, value in use will always be zero.

The fair value is determined using the current replacement cost.

An impairment loss is recognized in net income and calculated as the difference between the carrying amount and the recoverable amount.

When there is a reversal of impairment loss, the carrying amount of the asset is increased to the lower of the recoverable amount and the carrying amount (net of depreciation or amortization) that the asset would have had if previous impairment loss had not been recognized. The reversal of impairment loss is recognized in net income.

g) Provisions and contingencies

Provisions, including provisions for legal litigations, restructuring and environmental issues, are recognized when it becomes probable that a present obligation (legal or constructive) resulting from a past event will require a settlement and when the amount can be estimated reliably.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the statement of financial position date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Contingent liabilities are not recognized in the statement of financial position. Contingent liabilities may arise from uncertainty as to the existence of a liability, or represent an existing liability in respect of which settlement is not probable or the amount cannot be reliably measured. These contingent liabilities are disclosed in Note 29.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

The provision for litigations is determined on a case by case basis by the legal service group of the Corporation. External consultants are solicited for the most significant and complex litigations.

A restructuring provision is recognized when the Corporation has developed a detailed formal plan for the restructuring and has raised a valid expectation that it will carry out the restructuring by starting to implement the plan or announcing its main features to the affected employees. The measurement of a restructuring provision includes only the direct expenditures, mainly severance costs, arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the Corporation.

The environmental provision includes estimated costs to meet Government standards and regulations when such costs can be reasonably estimated. Estimates of the anticipated future costs for remediation work are based on the Corporation's prior experience.

h) Income taxes

The Corporation utilizes the asset and liability method of accounting for taxes under which deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amount and the tax basis of assets and liabilities. Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates that are expected to apply for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in earnings in the year that includes the enactment date. Deferred tax assets are recognized to the extent that realization is considered probable.

i) Employee benefits

i) Post-employment benefits

Post-employment benefits include post-retirement medical and life insurance benefits as well as pension plans with defined benefit and defined contribution components.

Employer contributions related to the defined contribution component of the pension plan are recognized as an expense when employees render the service entitling them to the contributions.

The Corporation's obligations for the defined benefit component of the pension plans as well as for other post-employment benefits are actuarially determined using the projected unit credit method and management's best estimate. The present value of the defined benefit obligations are calculated using discount rates based on an interest rate curve that represents the yields on corporate AA bonds. The new CIA's calculation model establishes the rates for longer maturities by extrapolating the yield curve to maturity of AA-rated corporate bonds based on the observed relationship between the yields of AA-rated corporate bonds or provincial AA-rated bonds and those of Canada in the medium-term maturity range. This relationship is then transposed to the universe of provincial AA-rated bonds with longer maturities to extrapolate the bond yields of AA-rated corporate bonds.

The Corporation determines the net interest expense on the net defined benefit liability for the year by applying the discount rate used to measure the defined obligation at the beginning of the year to the net defined benefit liability.

The current service costs, the net interest cost on the net defined benefit liability, the gains and losses on curtailment or settlement and plan amendments are recognized in net income in the year they are incurred.

Remeasurements arising from defined benefit plans comprised of changes in demographic assumptions, changes in financial assumptions, experience adjustments and the return on plan assets excluding amounts included in net interest on the net defined benefit liability are recognized in other comprehensive income (loss) in the year they are incurred.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

ii) Employment benefits other than post-employment benefits
The Corporation provides employment benefits other than post-employment benefits as follows:

- Compensation and short-term employee benefits include the annual salary, performance bonuses, paid vacations not included in the annual salary, short-term sick leave, health, dental and life insurance benefits. These benefits are measured on an undiscounted basis and are expensed as the related service is provided.

- Long-term employee benefits include workers' compensation benefits as well as long-term disability benefits and continuation of benefit coverage for employees on long-term disability.

  The actuarial obligation for workers' compensation benefits is calculated on an event driven basis. The method involves dividing the obligation into two distinct components: awarded pensions and future awards. The actuarial obligation for awarded pensions is the actuarial present value of all future projected payments for the award determined as at the valuation date. The actuarial obligation for future awards is the discounted value of expected cash flow for awards yet to be made. The Corporation is self-insured for its workers' compensation benefits.

  The actuarial obligation for other long-term disability benefits and continuation of benefit coverage for employees on long-term disability is calculated on an event driven basis. This method incorporates management's best estimate of cost escalation as well as demographic and other financial assumptions.

  Actuarial gains and losses and other changes in the Corporation's obligations are recognized in net income in the year in which they arise.

- Termination benefits include benefits that are payable when an employment contract is terminated before the normal retirement date. They are recognized as a liability and expense for termination benefits at the earlier of the following dates:

  (a) when the Corporation can no longer withdraw the offer of those benefits; and

  (b) when the Corporation recognizes costs for a restructuring (provision) and involves the payment of termination benefits.

- Other long-term employee benefits include job security benefits administered by various union agreements. These benefits are calculated on an event driven basis and represents management's best estimates of the present value of all future projected payments to unionized employees.

j) Financial instruments

Financial instruments are classified by category depending on their nature and characteristics. The classification is established at the time of initial recognition, which usually corresponds to the transaction date. Financial assets and financial liabilities, including derivative financial instruments, are initially measured at fair value at the date they are originated. Subsequent to initial recognition, financial instruments are measured based on their classification: fair value through profit and loss, loans and receivables or other financial liabilities. The Corporation derecognizes a financial instrument when the contractual rights or obligation to the cash flows from the asset or liability expires.

i) Financial instruments at fair value through profit and loss (FVTPL)
Financial instruments are classified as FVTPL when they are principally acquired or incurred for the purpose of selling and repurchasing in the short-term, part of a portfolio of identified financial instruments that are managed together and for which there is evidence of short-term profit taking or derivatives not designated for hedge accounting. A financial instrument is classified at FVTPL if it is held for trading or is designated as such upon initial recognition.

The Asset Renewal Fund and the derivative financial instruments are classified as FVTPL.

Financial instruments recorded at FVTPL are initially and subsequently measured at fair value with changes in those fair values recognized in net income under "Other revenues", except for derivative financial instruments for which fair value changes are recorded under "Unrealized net gain on derivative financial instruments". Transaction costs are expensed as incurred. Regular-way purchases or sales of financial assets are accounted for at settlement-date.

ii) Loans and receivables (L&R)
The L&R classification includes cash as well as trade receivables and other receivables that have fixed or determinable payments and that are not quoted in an active market. These financial instruments are presented as current assets when they are recoverable within 12 months of the end of the year, otherwise they are presented as non-current assets. Assets in this category are initially measured at fair value plus directly attributable transaction costs and subsequently measured at amortized cost, using the effective interest rate method, less any impairment. The fair values of loans and receivables are estimated on the basis of the present value of the expected cash flows. Where the time value of money is not material due to their short-term nature, accounts receivable are carried at the original invoice amount less allowance for doubtful receivables.

iii) Other financial liabilities
Other financial liabilities represent liabilities that are not classified as FVTPL. They are initially measured at fair value plus directly attributable transaction costs and subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis. Where the time value of money is not material due to their short-term nature, they are carried at the original invoice amount. These financial instruments are presented as current liabilities when they are repayable within 12 months following the end of the year, otherwise they are presented as non-current liabilities.

iv) Impairment of financial assets
Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the assets have been affected.

An impairment loss is recognized in net income and calculated as the difference between its carrying amount and the present value of the estimated future cash flows.

When a subsequent event such as a change in the estimates used to determine the recoverable amount, causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through net income.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

k) Non-Monetary Transactions

Non-monetary transactions are recorded at the estimated fair value of the goods or services received. When the fair value of the goods and services received cannot be measured reliably, the transactions are recorded at the estimated fair value of the goods or services given. Revenues from non-monetary transactions are recognized when the related services are rendered. Expenses resulting from non-monetary transactions are recognized during the year when goods or services are provided by third parties.

6. KEY SOURCES OF ESTIMATION UNCERTAINTY AND CRITICAL JUDGMENTS

In the application of the Corporation accounting policies, management is required to make certain judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date.

Estimates and assumptions are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

They are reviewed on an ongoing basis.

Changes to accounting estimates are recognized in the period in which the estimates are revised and in any future period affected. However, uncertainties relating to judgments, assumptions and estimates could result in outcomes that would require a material adjustment to the carrying amount of the asset or liability affected in future years.

a) Useful lives of depreciable assets

The key estimate used for Property, plant and equipment and intangible assets is their useful lives. When determining the expected useful lives of these assets, management takes into account the nature of the assets, past experience, changing technologies and expectations for the in-service period of the assets. Management reviews the useful lives of depreciable assets annually. As at December 31, 2017, management assessed that the useful lives represent the expected utility of the assets to the Corporation.

b) VIA Préférence Program

The "VIA Préférence" program allows members to acquire "award points" as they travel on the train. These award points entitle members to free travel on our trains. In determining the fair value of the award points, the Corporation takes into consideration the probability of the awards being converted into train tickets. The estimated probabilities on point redemption are based on management experience and on changing customer behavior and may not reflect the actual redemption rate in the future. As such, the amount allocated between the transportation service and the award points may have been significantly different if different probability estimates had been used.

c) Post-employment and other employee benefits

Except for the defined contribution component of the pension plans, the cost of post-employment and other employee benefits and the present value of the related obligations are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates used to measure the obligations, expected future salary increases, expected retirement age, expected mortality rates, expected health care cost trends, expected inflation and expected future pension increase. When determining these assumptions, management takes into account past experience, current market conditions and rates, and the expertise of its actuaries. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. Actual results may differ from results that are estimated based on assumptions. A sensitivity analysis of key assumptions is presented in Note 19.

d) Income taxes

Management uses judgment and estimates in determining the appropriate rates and amounts in recording deferred income taxes, giving consideration to timing and probability of realization. Actual taxes could significantly vary from these estimates as a result of a variety of factors including future events, changes in income tax law or the outcome of reviews by tax authorities and related appeals. The Corporation has not recognized any deferred tax assets on its deductible temporary differences and unused tax losses as it has determined that it is not probable that taxable profit will be available against which the deductible temporary differences and unused tax losses can be utilized. The resolution of these uncertainties and the associated final taxes may result in adjustments to the Corporation's deferred and current tax assets and liabilities.

e) Impairment of non-financial assets

The Corporation uses judgment in assessing, at each reporting date, whether there is any indication that non-financial assets may have lost value requiring the completion of an impairment test. These tests are designed, in part, to determine a recoverable amount, which is the fair value, based on current replacement cost, less costs of disposal. The current replacement cost and the costs of disposal calculations are based on management's best estimates. Difference in estimates could materially affect the financial statements in determining both the impairment existence and the amount of impairment.

f) Provisions

Determining whether a past event should be recognized as a provision requires management to exercise judgment. The Corporation must determine if a present obligation arises from past events, if it is probable that the Corporation will be required to settle the obligation and if a reliable estimate can be made of the amount of the obligation. The decision is based on management's experience and judgment. If the Corporation considers that one of the three conditions is not satisfied, it must still determine if a contingent liability should be disclosed in the notes, unless the possibility of any outflow in settlements is remote.

7. RECONCILIATION OF OPERATING LOSS TO GOVERNMENT FUNDING

The Corporation receives its funding from the Government of Canada based primarily on cash flow requirements. Items recognized in the statement of comprehensive income in one year may be funded by the Government of Canada in different years. Accordingly, the Corporation has different net results of operations for the year on a government funding basis than on an IFRS basis. These differences are outlined below:

(IN MILLIONS OF CANADIAN DOLLARS)	2017	2016
Operating loss before funding from the Government of Canada and income taxes	**348.3**	361.3
Items requiring operating funds:		
Income tax expense	**0.2**	0.1
Items (not requiring) not providing operating funds:		
Depreciation and amortization	**(91.7)**	(87.1)
Loss on disposal of property, plant and equipment and intangible assets	**(5.6)**	(16.4)
Post-employment and other employee benefits contributions in excess of expenses	**1.1**	1.2
Unrealized net gain on derivative financial instruments	**5.6**	11.8
Adjustment for accrued compensation	**(0.1)**	(1.9)
Adjustment for VIA Préférence	**6.2**	(1.4)
Other	**1.3**	(0.1)
Operating funding from the Government of Canada	**265.3**	267.5

8. CLASSIFICATION OF FINANCIAL INSTRUMENTS

The financial instruments held by the Corporation are classified as follows:

(IN MILLIONS OF CANADIAN DOLLARS)	2017		
	Carrying Value		Fair Value
	FVTPL	L&R	
Financial Assets:			
Cash	**-**	**3.2**	**3.2**
Trade and other receivables	**-**	**9.7** (1)	**9.7**
Derivative financial instruments	**3.5** (2)	**-**	**3.5**
Asset Renewal Fund	**8.7**	**-**	**8.7**
Total	**12.2**	**12.9**	**25.1**

	FVTPL	Other financial liabilities	
Financial Liabilities:			
Trade and other payables	**-**	**104.3** (3)	**104.3**
Derivative financial instruments	**2.3** (2)	**-**	**2.3**
Total	**2.3**	**104.3**	**106.6**

(IN MILLIONS OF CANADIAN DOLLARS)	2016		
	Carrying Value		Fair Value
	FVTPL	L&R	
Financial Assets:			
Cash	-	10.9	10.9
Trade and other receivables	-	10.0 (1)	10.0
Derivative financial instruments	2.5 (2)	-	2.5
Asset Renewal Fund	8.7	-	8.7
Total	11.2	20.9	32.1

	FVTPL	Other financial liabilities	
Financial Liabilities:			
Trade and other payables	-	94.5 (3)	94.5
Derivative financial instruments	7.0 (2)	-	7.0
Total	7.0	94.5	101.5

FVTPL - Fair Value through profit and loss.
L&R - Loans and receivables.
(1) See detail in Note 9.
(2) Comprised of derivative financial instruments not designated in a hedging relationship.
(3) See detail in Note 16.

9. TRADE AND OTHER RECEIVABLES

The trade and other receivables balance includes the following:

(IN MILLIONS OF CANADIAN DOLLARS)	2017	2016
Trade	**2.8**	2.7
Allowance for doubtful accounts	**(0.1)**	(0.6)
Net receivables	**2.7**	2.1
Other receivables	**7.0**	7.9
Trade and other receivables classified in loans and receivables	**9.7**	10.0
Sales taxes	**1.6**	1.4
Total trade and other receivables	**11.3**	11.4

All trade and other receivables amounts have short-term maturities. Their net book values correspond to a reasonable approximation of their fair value.

The net book value of the past due receivables of the Corporation is $1.1 million (December 31, 2016: $0.4 million) at the closing date. The maturity of these receivables is detailed in the following table:

(IN MILLIONS OF CANADIAN DOLLARS)	2017	2016
Not impaired and past due by:		
0 to 30 days	**0.8**	0.3
31 to 60 days	**0.3**	-
61 to 90 days	**-**	0.1
Over 90 days	**-**	-
Total	**1.1**	0.4

10. OTHER CURRENT ASSETS

The other current assets balance includes the following:

(IN MILLIONS OF CANADIAN DOLLARS)	2017	2016
Prepaids	**3.8**	2.8
Advance on contracts	**0.3**	0.1
Total other current assets	**4.1**	2.9

11. DERIVATIVE FINANCIAL INSTRUMENTS

The Corporation uses commodity swaps where it exchanges cash payments based on changes in the price of a commodity (i.e. heating oil) compared to the agreed benchmark. The Corporation also enters into forward foreign exchange contracts to either buy or sell USD at a specified price and date in the future. These contracts are related to the commodity swaps.

At the end of the year, the fair value of the derivative financial instruments is as follows:

COMMODITY SWAPS	2017		2016	
	Notional Quantity (000's of U.S. Gallons)	**Fair Value CAD (millions)**	Notional Quantity (000's of U.S. Gallons)	Fair Value CAD (millions)
Assets	**14,112**	**3.3**	8,064	2.0
Liabilities	**4,032**	**1.3**	10,080	6.4

As at December 31, 2017, the commodity swaps in USD have a fixed price per U.S. gallon between 1.840 and 2.655 USD and the commodity swaps in CAD have a fixed price per U.S. gallon between 1.950 and 2.431 CAD (December 31, 2016 : between 1.770 and 2.705 USD and between 1.890 and 2.283 CAD). The maturity dates for both currencies range between 2018 to 2019 (December 31, 2016 : 2017 to 2019 for USD and 2017 to 2018 for CAD). These financial instruments have a monthly settlement schedule.

FORWARD FOREIGN EXCHANGE CONTRACTS	2017		2016	
	Notional Amount (USD) (millions)	**Fair Value CAD (millions)**	Notional Amount (USD) (millions)	Fair Value CAD (millions)
Assets	**1.8**	**0.2**	7.3	0.5
Liabilities	**8.2**	**1.0**	15.0	0.6

As at December 31, 2017, the forward contracts rates are between 1.156 and 1.374 in USD (December 31, 2016: between 1.156 and 1.389 in USD) and the maturity dates range between 2018 to 2019 (December 31, 2016: 2017 to 2019). These financial instruments have a monthly settlement schedule.

Amounts recognized in the statement of financial position:

	2017	2016
	Fair Value CAD (millions)	Fair Value CAD (millions)
Total assets	**3.5**	2.5
Total liabilities	**2.3**	7.0

12. MATERIALS

The materials balance includes the following:

(in millions of canadian dollars)	2017	2016
Spare parts	**25.5**	24.8
Provision for obsolete inventory	**(3.3)**	(3.2)
Net	**22.2**	21.6
On-train products	**3.0**	2.2
Fuel	**0.3**	0.3
Total materials	**25.5**	24.1

The cost of materials recorded as an expense during the year amounted to $39.8 million, including an amount of $11.1 million that were transferred to property, plant and equipment (December 31, 2016: $38.0 million, including an amount of $9.5 million that were transferred to property, plant and equipment). The Corporation has recorded an expense of $0.3 million related to write-down of the value of its materials for 2017 (December 31, 2016: $0.2 million).

13. ASSET RENEWAL FUND

The Corporation has been authorized by the Treasury Board of Canada Secretariat to set aside funds in a manner which ensures that these funds are retained for future capital projects. However, the Treasury Board of Canada Secretariat could approve the use of the Asset Renewal Fund to finance operating deficits.

The Treasury Board of Canada Secretariat has authorized the Corporation to use up to $7.8 million (December 31, 2016 : $7.8 million) of the Asset Renewal Fund to meet future working capital requirements. This amount is presented in the current portion of the Asset Renewal Fund. The remaining balance of $0.9 million (December 31, 2016: $0.9 million) is presented in the non-current portion of the Asset Renewal Fund.

The Asset Renewal Fund (ARF) is invested in an interest bearing account.

Liquidities in the Asset Renewal Fund are not considered to be cash for the purpose of the statement of cash flows since they can only be used for specific purposes and cannot serve in meeting regular operating commitments.

14. PROPERTY, PLANT AND EQUIPMENT

(IN MILLIONS OF CANADIAN DOLLARS)	January 1, 2017	Additions	Disposals	Transfers	December 31, 2017
Cost:					
Land	17.0	-	-	-	**17.0**
Rolling stock	935.2	-	(18.9)	26.1	**942.4**
Maintenance buildings	166.1	-	(8.4)	10.1	**167.8**
Stations and facilities	126.8	-	(1.4)	8.4	**133.8**
Owned infrastructures	255.8	-	(1.6)	15.3	**269.5**
Leasehold improvements	84.4	-	(2.7)	8.9	**90.6**
Machinery and equipment	25.1	-	(0.8)	1.7	**26.0**
Computer hardware	35.4	-	(1.7)	4.3	**38.0**
Other property, plant and equipment	6.6	-	-	0.6	**7.2**
Projects in progress	30.9	76.8	-	(75.4)	**32.3**
Total cost	1,683.3	76.8	(35.5)	-	**1,724.6**
Accumulated depreciation and impairment:					
Rolling stock	469.6	43.9	(15.8)	-	**497.7**
Maintenance buildings	119.3	1.8	(8.3)	-	**112.8**
Stations and facilities	42.5	4.8	(1.3)	-	**46.0**
Owned infrastructures	82.0	8.2	(0.5)	-	**89.7**
Leasehold improvements	46.6	3.5	(2.4)	-	**47.7**
Machinery and equipment	18.0	0.7	(0.8)	-	**17.9**
Computer hardware	23.9	4.2	(1.7)	-	**26.4**
Other property, plant and equipment	2.3	0.3	-	-	**2.6**
Total accumulated depreciation and impairment	804.2	67.4	(30.8)	-	**840.8**
Net carrying amount	879.1	9.4	(4.7)	-	**883.8**

14. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

(IN MILLIONS OF CANADIAN DOLLARS)	January 1, 2016	Additions	Disposals	Transfers	December 31, 2016
Cost:					
Land	17.0	-	-	-	**17.0**
Rolling stock	926.9	-	(28.9)	37.2	**935.2**
Maintenance buildings	166.3	-	(1.0)	0.8	**166.1**
Stations and facilities	129.0	-	(2.7)	0.5	**126.8**
Owned infrastructures	243.0	-	(5.2)	18.0	**255.8**
Leasehold improvements	79.6	-	(1.2)	6.0	**84.4**
Machinery and equipment	25.7	-	(1.5)	0.9	**25.1**
Computer hardware	32.9	-	(1.1)	3.6	**35.4**
Other property, plant and equipment	6.8	-	(0.6)	0.4	**6.6**
Projects in progress	27.1	71.2	-	(67.4)	**30.9**
Total cost	1,654.3	71.2	(42.2)	-	**1,683.3**
Accumulated depreciation and impairment:					
Rolling stock	448.0	42.5	(20.9)	-	**469.6**
Maintenance buildings	118.7	1.7	(1.1)	-	**119.3**
Stations and facilities	40.3	4.8	(2.6)	-	**42.5**
Owned infrastructures	75.7	7.4	(1.1)	-	**82.0**
Leasehold improvements	44.5	3.2	(1.1)	-	**46.6**
Machinery and equipment	18.5	1.2	(1.7)	-	**18.0**
Computer hardware	21.2	3.6	(0.9)	-	**23.9**
Other property, plant and equipment	2.6	0.3	(0.6)	-	**2.3**
Total accumulated depreciation and impairment	769.5	64.7	(30.0)	-	**804.2**
Net carrying amount	884.8	6.5	(12.2)	-	**879.1**

Projects in progress primarily consist of rolling stock, improvements to infrastructure and stations. No amount of materials used in the refurbishing of rail cars is included in the projects in progress amount (December 31, 2016 : $2.3 million).

15. INTANGIBLE ASSETS

(IN MILLIONS OF CANADIAN DOLLARS)	January 1, 2017	Additions	Disposals	Transfers	December 31, 2017
Cost:					
Software (NOTE 1)	102.6	-	(6.2)	17.6	**114.0**
Right of access to rail infrastructure	426.5	-	-	3.9	**430.4**
Other intangible assets	4.4	-	-	-	**4.4**
Projects in progress	13.4	11.6	-	(21.5)	**3.5**
Total cost	546.9	11.6	(6.2)	-	**552.3**
Accumulated amortization and impairment:					
Software	71.1	12.7	(5.3)	-	**78.5**
Right of access to rail infrastructure	90.9	11.4	-	-	**102.3**
Other intangible assets	1.8	0.2	-	-	**2.0**
Total accumulated amortization and impairment	163.8	24.3	(5.3)	-	**182.8**
Net carrying amount	383.1	(12.7)	(0.9)	-	**369.5**

Note 1 - Includes mostly software developed in-house.

(IN MILLIONS OF CANADIAN DOLLARS)	January 1, 2016	Additions	Disposals	Transfers	December 31, 2016
Cost:					
Software (NOTE 1)	93.1	-	(10.4)	19.9	**102.6**
Right of access to rail infrastructure	424.9	-	(0.3)	1.9	**426.5**
Other intangible assets	4.4	-	-	-	**4.4**
Projects in progress	15.4	19.8	-	(21.8)	**13.4**
Total cost	537.8	19.8	(10.7)	-	**546.9**
Accumulated amortization and impairment:					
Software	66.4	11.1	(6.4)	-	**71.1**
Right of access to rail infrastructure	80.0	11.1	(0.2)	-	**90.9**
Other intangible assets	1.6	0.2	-	-	**1.8**
Total accumulated amortization and impairment	148.0	22.4	(6.6)	-	**163.8**
Net carrying amount	389.8	(2.6)	(4.1)	-	**383.1**

Note 1 - Includes mostly software developed in-house.

16. TRADE AND OTHER PAYABLES

The Trade and other payables balance includes the following:

(IN MILLIONS OF CANADIAN DOLLARS)	2017	2016
Wages payable and accrued	**40.7**	39.4
Accounts payable and accruals - Capital assets	**23.1**	21.4
Accounts payable and accruals - Trade	**40.5**	33.7
Trade and other payables classified as Other Financial liabilities	**104.3**	94.5
Capital tax, income tax and other taxes payable	**5.8**	4.8
Deductions at sources	**3.7**	3.1
Total trade and other payables	**113.8**	102.4

17. PROVISIONS

The provision balance includes the following:

(IN MILLIONS OF CANADIAN DOLLARS)	January 1, 2017	Charge (used)	Reversal (used)	Reversal (not used)	December 31, 2017
Environmental costs (NOTE A)	0.3	0.2	(0.2)	-	**0.3**
Litigation and equipment repairs (NOTE B)	13.2	3.1	(6.6)	(1.1)	**8.6**
Total provisions	13.5	3.3	(6.8)	(1.1)	**8.9**

a) Environmental costs

The Corporation has made a provision of $0.3 million for environmental costs related to fuel spills (December 31, 2016 : $0.3 million).

b) Litigation and equipment repairs

The Corporation is subject to claims and legal proceedings brought against it in the normal course of business. The timing of settlement of these claims is to a large extent dependent on the pace of negotiation with the various counterparties and legal authorities. The Corporation cannot reliably estimate the timing of settlement of these claims.

Also, the Corporation incurs equipment repair costs as a result of crossing accidents and other incidents causing damages to the rolling stock. These equipment repair claims are mostly settled between 3 and 18 months from the date of initiation, depending on the settlement procedures used.

Such matters are subject to many uncertainties. Management believes that adequate provisions for litigation and equipment repairs have been made where required. The ultimate resolution of those matters is not expected to have a significant adverse effect on the financial position of the Corporation.

18. DEFERRED REVENUES

Deferred revenues are comprised of the following:

(IN MILLIONS OF CANADIAN DOLLARS)	2017	2016
Advance ticket sales	**19.6**	18.3
Gift cards	**1.5**	1.7
Non-monetary transactions	**2.2**	2.0
VIA Préférence (NOTE 1)	**10.8**	17.0
Other	**0.5**	0.5
Total deferred revenues	**34.6**	39.5

Note 1: The deferred revenue related to the loyalty program points is measured at fair value on a recurring basis and is evaluated based on train ticket price (level 2 of fair value hierarchy i.e. on significant input other than quoted prices (unadjusted) included in active markets that are observable for asset or liability, either directly or indirectly).

During the year, the Corporation has revised the probabilities of the awarded points being converted into tickets. The estimated probabilities have been slightly decreased in 2017 in order to take into consideration the new initiatives impact and the experience of the loyalty program. The impact of this change on the actual deferred revenue balance is a decrease of 7.9 million dollars as at December 31, 2017.

19. POST-EMPLOYMENT AND OTHER EMPLOYEE BENEFITS

The Corporation provides a number of pension plans with defined benefit (funded) and defined contributions components. The Corporation also provides unfunded other post-employment benefits, including post-retirement medical and life insurance benefits, and long-term employee benefits such as unfunded self-insured workers' compensation benefits, long-term employee disability benefits and continuation of benefit coverage for employees on long-term disability.

Pension plans

The Corporation pension plans are governed according to applicable federal legislation such as the *Pension Benefits Standards Act* and the *Income Tax Act*. The pension plans are under the jurisdiction of the Office of the Superintendent of Financial Institutions Canada.

All participants to the pension plans are entitled to defined benefits pensions. Pension dispositions vary for a group of unionized employees hired on or after January 1, 2014.

Employees, other than certain unionized employees hired on or after January 1, 2014

Pension benefits are based on years of service and average salary of the employee's best five consecutive calendar years up to retirement.

Benefits increase annually by 50 per cent of the increase in the Consumer Price Index in the 12 months ending in December subject to a maximum increase of 3 per cent in any year.

Participants contribute a fixed percentage of their earnings to the pension plan while the Corporation contributes the amount needed to maintain adequate funding as dictated by the prevailing regulation. The Pension Plans may be required to take measures to offset any funding and solvency deficit by changing the Corporation's and participants' contribution rate. Moreover, additional contributions by the Corporation may be required if these rules are not complied with. The Audit & Pension Investment Committee of the board is responsible for the investment policy with regard to the assets of the fund.

19. POST-EMPLOYMENT AND OTHER EMPLOYEE BENEFITS (CONT'D)

Certain unionized employees hired on or after January 1, 2014

A group of unionized employees hired on or after January 1, 2014 ceased accruing benefits under the current defined benefit plan as of June 18, 2015. Effective June 19, 2015, this group of unionized employees were prospectively provided pension benefits in part from a reduced formula of the defined benefit component of the pension plan, and in part from a defined contribution component.

i) Defined benefit component

Pension benefits under the reduced formula are based on years of service and average salary of the employee's best five consecutive calendar years up to retirement. On each April 1, following the third anniversary of the retirement date, the participant's pension benefits will be indexed by 50 per cent of the increase in the Consumer Price Index subject to a maximum increase of 3 per cent, but only if the plan is in a surplus situation.

The contributions required to fund the defined benefit component of the plan are entirely paid for by the Corporation. The Corporation's contributions vary according to the financial situation of the plan, as determined by the plan's actuary and in accordance with regulatory requirements for pension plan funding.

The Audit & Pension Investment Committee of the board is responsible for the investment policy with regard to the assets of the fund.

ii) Defined contribution component

Participants' contributions to the defined contribution component are mandatory and represent 4 per cent of their salary. Optional contributions to the defined contribution component can be made by the participants to a maximum of 3 per cent of their salary. The Corporation's contribution is equal to 50 per cent of participant's optional contributions but cannot exceed the calculated maximum which is based on the sum of the participant's age and years of service.

The retirement income is based on the accumulation of funds in the individual retirement savings account of the defined contribution component of the plan.

Participants have control over the investment decisions and bear the investment risk.

Actuarial valuations

The actuarial valuations for these employee benefits, except for the defined contribution component of the pension plans, are carried out by external actuaries who are members of the Canadian Institute of Actuaries.

The actuarial valuations of the various employee benefit plans are as follows:

EMPLOYEE BENEFIT PLANS	Actuarial Valuation	
	Latest valuation	**Next valuation**
Pension plans	December 31, 2016	**December 31, 2017**
Supplemental Executive Retirement Plan	December 31, 2017	**December 31, 2018**
Supplemental Retirement Plan for management employees (SRP), with respect to active members	December 31, 2016	**December 31, 2017**
Supplemental Retirement Plan for management employees (SRP), with respect to retired members	December 31, 2017	**December 31, 2018**
Post-employment unfunded plan	May 1, 2016	**May 1, 2019**
Self-insured Workers' Compensation	December 31, 2015	**December 31, 2018**
Long-term employee benefits plans, other than "Self-insured Workers' Compensation"	December 31, 2016	**December 31, 2018**

19. POST-EMPLOYMENT AND OTHER EMPLOYEE BENEFITS (CONT'D)

a) Defined benefit component of the pension plans and post-employment benefits plans

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

(IN MILLIONS OF CANADIAN DOLLARS)	Defined benefit component of the pension plans		Post-employment benefit plans	
	2017	2016	**2017**	2016
DEFINED BENEFIT OBLIGATION:				
Balance at beginning of the year	**2,298.1**	2,223.3	**21.7**	19.7
Service cost	**27.9**	26.1	**0.3**	0.4
Past service cost	**(0.1)**	4.7	**-**	-
Interest expense	**86.3**	88.3	**0.8**	0.8
Employee contributions	**14.3**	13.4	**-**	-
Benefits paid	**(135.0)**	(120.5)	**(0.8)**	(0.6)
Effect of change in demographic assumptions	**(0.1)**	-	**-**	(0.1)
Effect of change in financial assumptions	**118.4**	58.6	**1.8**	0.7
Effect of experience adjustments	**(0.8)**	4.2	**-**	0.8
Balance at end of the year	**2,409.0**	2,298.1	**23.8**	21.7
FAIR VALUE OF PLAN ASSETS:				
Balance at beginning of the year	**2,267.2**	2,223.6	**-**	-
Interest Income	**84.4**	87.4	**-**	-
Return on plan assets (excluding interest income)	**128.9**	33.7	**-**	-
Employer contributions	**33.4**	31.9	**0.8**	0.6
Employee contributions	**14.3**	13.4	**-**	-
Benefits paid	**(135.0)**	(120.5)	**(0.8)**	(0.6)
Administration expenses	**(2.7)**	(2.3)	**-**	-
Balance at end of the year	**2,390.5**	2,267.2	**-**	-
Net defined benefit liability	**18.5**	30.9	**23.8**	21.7

The percentages of the fair value of the defined benefit component of the pension plan assets by major category are as follows:

ASSET CATEGORIES (IN PERCENTAGES)	2017		2016	
	Quoted market price in an active market	Not quoted market price in an active market	Quoted market price in an active market	Not quoted market price in an active market
Cash and short-term notes	**1.1%**	**0.2 %**	1.2 %	0.4 %
Equity securities	**20.5%**	-	19.9 %	0.1 %
Fixed income securities	-	**23.8 % ***	-	26.4 % *
Mutual fund units	**5.8%**	**48.6 % ***	5.5 %	46.5 % *
	27.4%	**72.6 %**	26.6 %	73.4 %

* The fair value of the majority of the above fixed income and mutual fund instruments is determined based on quoted market prices in active markets.

Expected employer contribution for the next year:

(IN MILLIONS OF CANADIAN DOLLARS)	Defined benefit component of the pension plans	Post-employment benefit plans
	2018	2018
Expected employer contribution for the next year	**26.2**	**0.9**

The weighted average duration of the defined benefit obligation is 12.8 years (December 31, 2016: 12.4 years).

19. POST-EMPLOYMENT AND OTHER EMPLOYEE BENEFITS (CONT'D)

	Defined benefit component of the pension plans		Post-employment benefit plans	
	2017	2016	**2017**	2016
WEIGHTED-AVERAGE OF SIGNIFICANT FINANCIAL ASSUMPTIONS:				
Defined benefit obligation:				
Discount rate	**3.40 %**	3.80 %	**3.40 %**	3.90 %
Rate of salary increase	**2.75 % - 3.00 %**	2.75 % - 3.00 %	**3.00 %***	3.00 % *
Initial weighted average health care trend rate	**-**	-	**5.70 %**	5.80 %
Ultimate weighted average health care trend rate	**-**	-	**4.30 %**	4.30 %
Year ultimate rate reached	**-**	-	**2029**	2029
Rate of price inflation	**2.00 %**	2.00 %	**-**	-
Rate of pension increase	**1.00 %**	1.00 %	**-**	-
Defined benefit cost:				
Discount rate	**3.80 %**	4.00 %	**3.90 %**	4.10 %
Rate of price inflation	**2.00 %**	2.00 %	**-**	-
Rate of salary increase	**2.75 % - 3.00 %**	2.75 % - 3.00 %	**3.00 %***	3.00 % *
Rate of pension increase	**1.00 %**	1.00 %	**-**	-
Initial weighted average health care trend rate	**-**	-	**5.80 %**	5.90 %
Ultimate weighted average health care trend rate	**-**	-	**4.30 %**	4.30 %
Year ultimate rate reached	**-**	-	**2029**	2029

* Applicable to executive employees only.

Significant demographic assumptions — Post-retirement mortality tables:	
DEFINED BENEFIT OBLIGATION:	
Defined benefit component of the pension plans:	
2017	**2016**
110 % of CPM2014Priv for unionized plan and 95 % of CPM2014Priv for non-unionized plans. 100 % of CPM scale B for all plans.	110 % of CPM2014Priv for unionized plan and 95 % of CPM2014Priv for non-unionized plans. 100% of CPM scale B for all plans.
Post-employment benefit plans:	
2017	**2016**
110 % of CPM2014Priv for unionized plan and 95 % of CPM2014Priv for non-unionized plans. 100 % of CPM scale B for all plans.	110 % of CPM2014Priv for unionized plan and 95 % of CPM2014Priv for non-unionized plans. 100 % of CPM scale B for all plans.
DEFINED BENEFIT COST:	
Defined benefit component of the pension plans:	
2017	**2016**
110 % of CPM2014Priv for unionized plan and 95 % of CPM2014Priv for non-unionized plans. 100 % of CPM scale B for all plans.	110 % of CPM2014Priv for unionized plan and 95 % of CPM2014Priv for non-unionized plans. 100 % of CPM scale B for all plans.
Post-employment benefit plans:	
2017	**2016**
110 % of CPM2014Priv for unionized plan and 95 % of CPM2014Priv for non-unionized plans. 100 % of CPM scale B for all plans.	110 % of CPM2014Priv for unionized plan and 95 % of CPM2014Priv for non-unionized plans. 100 % of CPM scale B for all plans.

Risk associated with defined benefit plans

The major risk associated with the pension plans is the funding risk, which is the risk that the investment asset growth and the contributions to the pension plans will not be sufficient to cover the pension obligations, resulting in unfunded liabilities.

The funding risk is linked to the following risks: investment risk, interest rate risk, longevity risk, salary risk and inflation risk.

Investment risk: The present value of the defined benefit plan liability is calculated using a discount rate determined by reference to high quality Canadian corporate bond yields; if the return on plan asset is below this rate, it will create a plan deficit. Consequently, the Corporation has adopted a conservative investment policy which is overseen by the Audit & Pension Investment Committee of the Board.

Interest rate risk: A decrease in the bond interest rate will increase the plan liability; however, due to a liability alignment investment policy, this will be partially offset by an increase in value on the plan's debt investments.

Longevity risk: The present value of the defined plan liability is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the plan's liability.

Salary risk: The present value of the defined benefit plan liability is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the plan's liability.

Inflation risk: A significant proportion of the defined benefit liability is linked to inflation. An increase in the inflation rate will increase the Corporation's liability. A portion of the plan assets are in real returns bonds which will mitigate some of the effects of inflation.

19. POST-EMPLOYMENT AND OTHER EMPLOYEE BENEFITS (CONT'D)

Sensitivity analysis

The Corporation has reviewed the assumptions used in the actuarial calculations and has identified the following assumptions as those that could result in a significant impact on the defined benefit obligation:

(IN MILLIONS OF CANADIAN DOLLARS)	Defined benefit obligation Increase / (decrease) 2017	2016
Defined benefit component of the pension plans:		
Inflation rates		
Increase of 25 basis points	**42.1**	39.7
Decrease of 25 basis points	**(41.4)**	(39.0)
Discount rates		
Increase of 25 basis points	**(74.6)**	(69.1)
Decrease of 25 basis points	**78.9**	73.0
Salary increase rates		
Increase of 25 basis points	**5.7**	5.6
Decrease of 25 basis points	**(6.0)**	(6.0)
Mortality tables		
1 year younger	**66.9**	61.1
1 year older	**(67.4)**	(61.8)
Post-employment benefits plans:		
Discount rates		
Increase of 25 basis points	**(1.0)**	(0.8)
Decrease of 25 basis points	**1.0**	0.9

In the sensitivity analysis presented above, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same method as the one applied in calculating the defined benefit obligation recognized in the statement of financial position.

There was no change in the methods and assumptions used in preparing the sensitivity analysis from prior years.

19. POST-EMPLOYMENT AND OTHER EMPLOYEE BENEFITS (CONT'D)

Asset-liability matching strategies

The Corporation reassesses the pension plans investment policy annually to take into account material changes in plan demographics, the investment environment, and the financial circumstances of the plans as well as changes in risk tolerance. Every few years or when significant changes in circumstances warrant it, the Corporation will conduct a more complete asset liability modelling exercise to determine an optimal investment policy asset mix.

The current asset mix, with its sizable allocation to fixed income securities and income based alternative investments, provides a significant amount of interest rate hedging compared to plan liabilities. This policy posture is expected to deliver a lower volatility of required funding while preserving ongoing funding costs at an acceptable level, when considering the plan maturity profile.

b) Defined contribution component of the pension plan

There was no significant expense for the defined contribution component of the pension plan for the year ended December 31, 2017. The employer contributions are not expected to be significant in 2018.

c) Long-term employee benefit plans

Based on these actuarial valuations and projections to December 31, the summary of the principal valuation results for the long-term employee benefits, including self-insured workers' compensation benefits is as follows:

(IN MILLIONS OF CANADIAN DOLLARS)	2017	2016
LONG-TERM EMPLOYEE BENEFIT OBLIGATION:		
Balance at beginning of the year	**18.5**	21.9
Service cost	**3.1**	4.8
Interest expense	**0.6**	0.8
Benefits paid	**(3.8)**	(4.4)
Effect of change in demographic assumptions	**(0.2)**	(1.1)
Effect of experience adjustments	**-**	(3.5)
Balance at end of the year	**18.2**	18.5
FAIR VALUE OF PLAN ASSETS:		
Balance at beginning of the year	**-**	-
Employer contributions	**3.8**	4.4
Benefits paid	**(3.8)**	(4.4)
Balance at end of the year	**-**	-
Net long-term employee benefit liability	**18.2**	18.5

Expected employer contribution for the next year:

(IN MILLIONS OF CANADIAN DOLLARS)	2018
Expected employer contribution for the next year	**4.5**

Weighted-average of significant assumptions:

	2017	2016
LONG-TERM EMPLOYEE BENEFIT OBLIGATION:		
Discount rate	**3.20 %**	3.40 %
Rate of salary increase	**2.75 % - 3.00 %**	2.75 % - 3.00 %
Initial weighted average health care trend rate	**5.00 %**	5.10 %
Ultimate weighted average health care trend rate	**3.80 %**	3.80%
Year ultimate rate reached	**2029**	2029
Rate of price inflation	**2.00 %**	2.00 %
Mortality tables	**Ontario WSIB Workers' compensation 2006-2010 mortality table projected to 2015 for workers' compensation and 2009 CIA study for Other employment benefits**	Ontario WSIB Workers' compensation 2006-2010 mortality table projected to 2015 for workers' compensation and 2009 CIA study for Other employment benefits
LONG-TERM EMPLOYEE BENEFIT COST:		
Discount rate	**3.40 %**	3.30 %
Rate of salary increase	**2.75 % - 3.00 %**	2.75 % - 3.00 %
Initial weighted average health care trend rate	**5.10 %**	5.19 %
Ultimate weighted average health care trend rate	**3.80 %**	3.78 %
Year ultimate rate reached	**2029**	2029
Rate of price inflation	**2.00 %**	2.00 %
Mortality tables	**Ontario WSIB Workers' compensation 2006-2010 mortality table projected to 2015 for workers' compensation and 2009 CIA study for Other employment benefits**	90 % of WC 1996-2000 mortality table projected to 2010 for workers' compensation and 2009 CIA study for Other employment benefits

19. POST-EMPLOYMENT AND OTHER EMPLOYEE BENEFITS (CONT'D)

Sensitivity analysis

The Corporation has reviewed the assumptions used in the actuarial calculations and has identified the following assumption that could result in a significant impact on the long-term employee benefit obligation:

(IN MILLIONS OF CANADIAN DOLLARS)	Long-term employee benefit obligation Increase / (decrease)	
	2017	2016
Discount rates		
Increase of 25 basis points	**(0.3)**	(0.3)
Decrease of 25 basis points	**0.3**	0.3

d) Other long-term employee benefits

Other long-term employee benefits include job security benefits administered by various union agreements. These benefits are calculated on an event driven basis and represent management's best estimates of the present value of all future projected payments to unionized employees. The change in the other long-term employee benefit obligation is explained as follows:

(IN MILLIONS OF CANADIAN DOLLARS)	**2017**	2016
OTHER LONG-TERM EMPLOYEE BENEFIT OBLIGATION:		
Balance at beginning of the year	**0.6**	1.1
Service cost	**0.4**	0.1
Benefits paid	**(0.5)**	(0.6)
Balance at end of the year	**0.5**	0.6
FAIR VALUE OF PLAN ASSETS:		
Balance at beginning of the year	**-**	-
Employer contributions	**0.5**	0.6
Benefits paid	**(0.5)**	(0.6)
Balance at end of the year	**-**	-
Net other long-term employee benefit liability	**0.5**	0.6

e) Summary of pension plans, post-employment benefit plans and long-term employee benefit plans recognized in the financial statements

Total amounts recognized in the statement of financial position:

(IN MILLIONS OF CANADIAN DOLLARS)	2017	2016
Assets:		
Defined benefit component of the pension plans	**4.6**	4.2
Liabilities:		
Defined benefit component of the pension plans	**23.1**	35.1
Post-employment benefit plans	**23.8**	21.7
Long-term employee benefit plans	**18.2**	18.5
Other long-term employee benefits	**0.5**	0.6
Total liabilities	**65.6**	75.9

Total amounts recognized in the statement of comprehensive income:

(IN MILLIONS OF CANADIAN DOLLARS)	2017	2016
Operating expense:		
Defined benefit component of the pension plans	**32.4**	34.0
Post-employment benefit plans	**1.1**	1.2
Long-term employee benefit plans	**3.5**	1.0
Other long-term employee benefits	**0.4**	0.1
Total	**37.4**	36.3

These operating expenses are included in the "Compensation and employee benefits" line item of the statement of comprehensive income.

(IN MILLIONS OF CANADIAN DOLLARS)	2017	2016
Other comprehensive income (loss):		
Defined benefit component of the pension plans	**11.4**	(29.1)
Post-employment benefit plans	**(1.8)**	(1.4)
Total	**9.6**	(30.5)

20. INCOME TAXES

The income tax expense consists of the following:

(IN MILLIONS OF CANADIAN DOLLARS)	2017	2016
Current income tax expense	**0.2**	0.1
Income tax expense	**0.2**	0.1

The overall income tax expense for the year differs from the amount that would be computed by applying the combined Federal and provincial statutory income tax rates of 24.46 per cent (December 31, 2016: 24.45 per cent) to income before taxes. The reasons for the differences are as follows:

(IN MILLIONS OF CANADIAN DOLLARS)	2017	2016
Net income before income taxes	**13.1**	8.5
Computed income tax expense - statutory rates	**3.2**	2.1
Corporate minimum tax	**0.2**	0.1
Non-deductible accounting expenses and other	**0.1**	0.1
Effect of unrecognized tax attributes	**(3.9)**	(2.5)
Effect of tax rate changes on deferred income taxes	**0.6**	0.3
Income tax expense	**0.2**	0.1

Deferred income tax reflects the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Significant components of the deferred income tax assets and (liabilities) are as follows:

Deferred income tax balances December 31, 2017

(IN MILLIONS OF CANADIAN DOLLARS)	Opening Balance	Recognized in net income	Closing Balance
Deferred income tax assets (liabilities):			
Unrealized gain on derivative financial instruments	(0.6)	(0.2)	**(0.8)**
Post-employment and other employee benefits	(1.0)	(0.1)	**(1.1)**
Total deferred income tax liabilities	(1.6)	(0.3)	**(1.9)**
Losses carried forward	1.6	0.3	**1.9**
Deferred income tax assets (liabilities)	-	-	**-**

Deferred income tax balances December 31, 2016

(IN MILLIONS OF CANADIAN DOLLARS)	Opening Balance	Recognized in net income	Closing Balance
Deferred income tax assets (liabilities):			
Unrealized gain on derivative financial instruments	(0.6)	-	**(0.6)**
Post-employment and other employee benefits	(2.3)	1.3	**(1.0)**
Total deferred income tax liabilities	(2.9)	1.3	**(1.6)**
Losses carried forward	2.9	(1.3)	**1.6**
Deferred income tax assets (liabilities)	-	-	**-**

The Corporation has $48.1 million (December 31, 2016: $51.0 million) of unused Federal and other provinces and $50.6 million (December 31, 2016: $53.5 million) of unused Québec non-capital tax losses carried forward and expiring between 2029 and 2035.

The Corporation has not recognized any deferred tax assets on its deductible temporary differences and unused tax losses as it has determined that it is not probable that taxable profit will be available against which the deductible temporary differences and unused tax losses can be utilized.

Unrecognized deductible temporary differences and unused tax losses for which no deferred tax assets have been recognized are attributed to the following:

(IN MILLIONS OF CANADIAN DOLLARS)	2017	2016
Federal and other provinces:		
Property, plant and equipment and intangible assets	**87.3**	83.6
Provisions and other liabilities	**14.2**	23.5
Post-employment and other employee benefits	**65.1**	75.2
Losses carried forward	**40.0**	44.7
	206.6	227.0
Québec:		
Property, plant and equipment and intangible assets	**468.9**	465.2
Provisions and other liabilities	**12.6**	21.9
Post-employment and other employee benefits	**65.1**	75.2
Losses carried forward	**42.6**	47.2
	589.2	609.5

21. DEFERRED CAPITAL FUNDING

Deferred capital funding represents the unamortized portion of the funding used to purchase property, plant and equipment and intangible assets.

(In millions of Canadian dollars)	2017	2016
Balance at beginning of the year	**1,247.2**	1,263.1
Government funding for property, plant and equipment and intangible assets (including the cost of land)	**88.4**	86.4
Amortization of deferred capital funding	**(96.1)**	(102.3)
Balance at end of the year	**1,239.5**	1,247.2

22. SHARE CAPITAL

The authorized share capital of the Corporation is comprised of an unlimited number of common shares with no par value. For all years presented, 93,000 shares at $100 per share are issued and fully paid.

The Corporation defines its capital as share capital and accumulated deficit and is regulated by the *Financial Administration Act*. The Corporation is not allowed to modify its capital structure without Government approval. The Corporation must obtain Government approval to issue debt instruments. Accordingly, the Corporation does not have access to external financing and does not have a flexible capital structure.

The Corporation manages its equity by prudently managing revenues, expenses, assets, liabilities, investments and general financial dealings to ensure that the Corporation effectively achieves its objectives and purpose while remaining a going concern. The Corporation did not change the way it manages its equity in the current year.

23. NET CHANGE IN NON-CASH WORKING CAPITAL ITEMS

(In millions of Canadian dollars)	2017	2016
Trade and other receivables	**0.2**	1.5
Operating funding receivable from Government of Canada	**(6.3)**	(20.7)
Other current assets	**(1.1)**	(1.2)
Materials	**(1.4)**	4.1
Trade and other payables	**9.7**	4.5
Provisions	**(4.6)**	2.7
Deferred revenues	**(4.9)**	4.0
Total	**(8.4)**	(5.1)

24. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value

Financial assets and financial liabilities measured at fair value in the statement of financial position are grouped into three Levels of a fair value hierarchy. The three levels are defined based on the observability of significant inputs to the measurement as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for asset or liability, either directly or indirectly.

Level 3 – Unobservable inputs for the asset or liability.

The following table summarizes the financial assets and financial liabilities held by the Corporation measured at fair value at the end of each reporting period. The table also discloses information about how the fair value of these financial assets and financial liabilities are determined and their fair value hierarchy:

Financial assets / financial liabilities	Fair value hierarchy	Valuation technique(s)	Significant unobservable inputs	Relationship unobservable inputs to fair value
Derivative financial instruments - forward foreign exchange contracts	Level 2	Discounted cash flow. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rate at the end of the reporting period) and forward contract rates, discounted at a market rate that reflects the credit risk of various counterparties	N/A	N/A
Derivative financial instruments - commodity swaps	Level 2	Discounted cash flow. Future cash flows are estimated based on commodity swap price (from observable commodity market price at the end of the reporting period) and contract commodity swap price, discounted at a market rate that reflects the credit risk of various counterparties.	N/A	N/A

There have been no significant transfers between level 1 and level 2 during the year.

There has been no change in the valuation techniques from the prior year.

The following table summarizes the financial assets and financial liabilities held by the Corporation that are not measured at fair value on a recurring basis and their fair value hierarchy:

	2017	2016
Assets:		
Trade and other receivables	**Level 2**	Level 2
Liabilities:		
Trade and other payables	**Level 2**	Level 2

The fair values of the financial assets and financial liabilities included in the level 2 category above have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflect the credit risk counterparties. However, where the time value of money is not material due to their short-term nature, they are carried at the original invoiced amount less required adjustment.

25. FINANCIAL RISKS

a) Risk management

As part of its operations, the Corporation enters into transactions with financial risks exposure such as credit, liquidity and market risks. Exposure to such risks is significantly reduced through close monitoring and strategies that include the use of derivative financial instruments.

Derivative financial instruments such as swaps and certain forward foreign exchange contracts are utilized by the Corporation in the management of its exposure to changes in fuel prices and the value of the U.S. dollar. Commodity swaps are used to manage its exposure to fuel prices on the entirety of its fuel consumption.

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.

b) Foreign exchange risk

The Corporation is exposed to foreign exchange risks on the following balances that are denominated in U.S. dollars (USD):

(IN MILLIONS OF CANADIAN DOLLARS)	2017	2016
Assets:		
Cash	**0.1**	-
Trade and other receivable	**0.7**	0.5
Derivative financial instruments	**0.4**	0.5
Liabilities:		
Trade and other payables	**4.0**	1.1
Derivative financial instruments	**2.3**	7.0

The Corporation's risk management objective is to reduce cash flow risk related to foreign denominated cash flows. To help manage this risk, the Corporation has entered into forward foreign exchange contracts related to commodity swaps.

A variance of 5 per cent in the exchange rate of USD would not have a significant impact on the Corporation's net income.

c) Credit risk

Credit risk is the risk that one party to a financial instrument might not meet its obligations under the terms and conditions of the agreement. The carrying amount of financial assets is $25.1 million (December 31, 2016: $32.1 million) and represents the Corporation's maximum exposure to credit risk. The Corporation does not use credit derivatives or similar instruments to mitigate this risk and, as such, the maximum exposure is the full carrying value or face value of its financial assets. The Corporation minimizes credit risk on cash, the Asset Renewal Fund and derivative financial instruments by dealing only with reputable and high quality financial institutions. The Corporation's exposure to credit risks on trade accounts receivable is reduced by applying a credit policy that establishes limits on the concentration of risk, requires assessing and monitoring of counterparty credit risk and sets credit limits. Only Canadian Government departments and agencies, Crown corporations issuing government travel warrants and travel agents who are members of the International Air Transport Association (Billing and Settlement Plan /Airline Reporting Corporation) are exempt from the Corporation's credit approval process.

As at December 31, 2017, approximately 6.2 per cent (December 31, 2016 : 7.1 per cent) of trade accounts receivable were over 90 days past due, while approximately 82.6 per cent (December 31, 2016 : 89.7 per cent) of trade accounts receivable were current (under 30 days).

As at December 31, 2017, the allowance for bad debt was $0.1 million (December 31, 2016 : $0.6 million). The allowance for bad debt is based on an account by account analysis that considers the aging of the account and the current credit-worthiness of the customer.

d) Fuel price risk

In order to manage its exposure to changes in fuel prices and minimize volatility in operating cash flows, the Corporation enters into derivative contracts with financial intermediaries based on the price of a commodity (i.e. heating oil) or a market index. A fluctuation of 5 per cent in the USD price of heating oil or fuel would not have a significant impact on the financial statements.

25. FINANCIAL RISKS (CONT'D)

e) Liquidity risk

The Corporation manages its liquidity risk by preparing and monitoring detailed forecasts of cash flows from operations and anticipated investing and funding activities. The liquidity risk is low since the Corporation does not have debt instruments to service and receives regular funding from the Government of Canada.

The reported financial liabilities below totaling $106.6 million (December 31, 2016: $101.5 million) represent the maximum liquidity risk exposure for the Corporation.

The following table summarizes the contractual maturities for the derivative and non-derivative financial liabilities, on a gross and undiscounted basis, as at December 31, 2017:

(IN MILLIONS OF CANADIAN DOLLARS)	Less than 3 months	3 to 6 months	6 months to 1 year	1 to 2 years	Over 2 years	**Total**
Trade and other payables	104.3	-	-	-	-	**104.3**
Derivative financial liabilities	0.5	0.5	1.0	0.3	-	**2.3**
Total	104.8	0.5	1.0	0.3	-	**106.6**

The following table summarizes the contractual maturities for the derivative and non-derivative financial liabilities, on a gross and undiscounted basis, as at December 31, 2016:

(IN MILLIONS OF CANADIAN DOLLARS)	Less than 3 months	3 to 6 months	6 months to 1 year	1 to 2 years	Over 2 years	**Total**
Trade and other payables	94.5	-	-	-	-	**94.5**
Derivative financial liabilities	1.1	1.1	2.1	2.6	0.1	**7.0**
Total	95.6	1.1	2.1	2.6	0.1	**101.5**

f) Interest rate risk

Interest rate risk is defined as the Corporation's exposure to a loss of earnings or a loss in the value of its financial instruments as a result of fluctuations in interest rates. As at December 31, 2017 and December 31, 2016, there was no exposure to interest rate risk as all the Corporation's liquidity were invested in cash accounts.

26. COMMITMENTS

The following table presents the contractual commitments of the Corporation that are not included in the statement of financial position:

(IN MILLIONS OF CANADIAN DOLLARS)	2017				2016
	Total commitments	**Less than one year**	**From one to five years**	**More than five years**	Total commitments
COMMITMENTS RELATING TO OPERATIONS:					
Non-cancellable operating leases (NOTE A):					
Lessee	**24.0**	3.6	15.1	5.3	31.1
Total	**24.0**	3.6	15.1	5.3	31.1
COMMITMENTS RELATING TO MAJOR CAPITAL INVESTMENTS:					
Rolling stock	**5.2**	5.2	-	-	1.8
Maintenance buildings	**0.7**	0.7	-	-	-
Stations and facilities	**2.4**	2.4	-	-	8.3
Owned infrastructures	**4.5**	4.5	-	-	1.0
Computer hardware	**0.7**	0.7	-	-	-
Total	**13.5**	13.5	-	-	11.1
Total commitments	**37.5**	17.1	15.1	5.3	42.2

a) The Corporation has operating leases in place mainly for facilities and office spaces. The most important leases are cancellable leases for the Montreal and Toronto stations with respective terms of 10 and 49 years without renewal option as well as a non-cancellable lease for the corporate headquarters in Montreal with a terms of 10 years with a renewal option. The lease payments are increased to reflect normal inflation.

In 2017, an amount of $16.5 million (December 31, 2016: $16.3 million) was recognized as an expense related to facilities operating leases.

b) As mentioned in Note 1, the Corporation has entered into train service agreements for the use of tracks and the control of train operations that expire on December 31, 2018. No amounts are included in the table above regarding those contracts since the amount of the commitments is dependent on the annual usage of the tracks.

c) The Corporation has provided letters of credit from a banking institution totalling approximately $22.8 million (December 31, 2016: $26.5 million) to various provincial government workers' compensation boards as security for future payment streams.

27. RELATED PARTY TRANSACTIONS

A) Government of Canada, its agencies and other Crown corporations

The Corporation is related in terms of common ownership to all Government of Canada created departments, agencies and Crown corporations. The Corporation enters into transactions with these entities in the normal course of business on trade terms similar to those applied to other individuals and enterprises and these transactions are recorded at fair value. Other than disclosed elsewhere in these financial statements, related party transactions are not significant.

B) Key management personnel

The remuneration of key executives with the exception of the President and Chief Executive Officer, is determined by the Human Resources Committee having regard to the performance of individuals and market trends. The Human Resources Committee recommendation is then presented and approved by the Board of Directors. The remuneration of the President and Chief Executive Officer is determined by the Governor in Council.

The Corporation's key executives have been defined as the executive staff members that are members of the Corporate Management Committee.

The compensation of the key executives of the Corporation is as follows:

(IN MILLIONS OF CANADIAN DOLLARS)	2017	2016
Compensation and short-term employee benefits	**3.9**	3.5
Post-employment benefits	**1.0**	1.1
Total	**4.9**	4.6

The Corporation may enter into transactions with corporations who employ close family members of key management personnel or Directors of the Board. These transactions are made in the normal course of business and are recorded at fair value. These transactions are not significant for the year ended December 31, 2017 and not existent for the year ended December 31, 2016.

C) Transactions with post-employment benefits plans

Transactions with the Corporation's post-employment benefits plans are conducted in the normal course of business. The transactions with the Corporation's post-employment benefit plans consist of contributions as determined by actuarial valuations, as disclosed in Note 19. There were no other significant transactions during the year.

28. NON-MONETARY TRANSACTIONS

The Corporation recorded revenue from non-monetary transactions of approximately $2.6 million for the year ended December 31, 2017 (December 31, 2016 : $1.8 million) under "Passenger revenues" in the statement of comprehensive income. The Corporation also recorded expenses from non-monetary transactions of approximately $2.8 million (December 31, 2016 : $1.7 million) mainly under "Marketing and sales" in the statement of comprehensive income. The nature of non-monetary transactions is mainly related to advertising activities.

29. CONTINGENCIES

a) Environment

The Corporation's operations are subject to numerous federal, provincial, and municipal environmental laws and regulations concerning among other things, the management of air emissions, wastewater, hazardous materials, wastes and soil contamination as well as the management and decommissioning of underground and aboveground storage tanks. A risk of environmental liability is inherent in railroad and related transportation operations, real estate ownership and other activities of the Corporation with respect to both current and past operations.

The Corporation has performed a review of all of its operations and of all of its sites and facilities at risk in order to determine the potential environmental risks. The sites and the facilities for which environmental risks were identified were or will be the subject of thorough studies and corrective actions were or will be taken if necessary in order to eliminate or to mitigate these risks. The continuous risk management process that is in place allows the Corporation to monitor its activities and properties under normal operating conditions as well as monitor accidents that occur. The properties likely to be contaminated or the activities or property, plant and equipment likely to cause a contamination are addressed, at the moment of their observation, by the development of an action plan according to the nature and the importance of the impact and the applicable requirements.

When remediation costs can be reasonably estimated, a provision is recorded based on the anticipated future costs.

However, the Corporation's ongoing efforts to identify potential environmental concerns that may be associated with its properties may lead to future environmental investigations, which may result in the identification of additional environmental costs and liabilities. The magnitude of such additional liabilities and the costs of complying with environmental laws and containing or remediating contamination cannot be reasonably estimated due to:

(i) the lack of specific technical information available with respect to many sites;

(ii) the absence of any third-party claims with respect to particular sites;

(iii) the uncertainty regarding the ability to recover costs from any third parties with respect to particular sites;

(iv) the fact that the environmental responsibility has not been clearly attributed.

There can thus be no assurance that material liabilities or costs related to environmental matters will not be incurred in the future, or will not have a material adverse effect on the Corporation's financial position.

b) Asset retirement

The Corporation has entered into certain operating leases where the lessor has the option of requesting that the land/structures or the other assets be returned in the same condition as they were originally leased, or of retaking control of these assets without any compensation to the Corporation for any additions or modifications made to the initial assets. Given the nature of the assets under contract and the options available to the lessor, the asset retirement obligation cannot be reasonably estimated. No liability has been recognized in the financial statements.

30. RECLASSIFICATION

In order to improve disclosure in the financial statements, the Corporation has changed the comparative figures in the statement of cash flows and in the notes to the financial statements. In the statement of cash flows, the Corporation has merged two different lines from the investing activities section into one line. The lines "Change in capital accounts payable and accrued liabilities" (December 31, 2016: $7.2 million) and the line "Acquisition of property, plant and equipment and intangible assets" (December 31, 2016: ($91.0) million) are now presented on one single line, "Acquisition of property, plant and equipment and intangible assets" for an amount of ($83.8) million for year ended December 31, 2016 to reflect the outflow of funds for property, plant and equipment and intangible assets acquisitions.

In the Note 7 Reconciliation of operating loss to government funding, the Corporation has presented separately the amount of adjustment for VIA Préférence of $6.2 million (December 31, 2016: ($1.4) million) that was previously included in the line "Other".

The Corporation also modified the comparative figure in the Note 26 Commitments. In 2016, the elements included in the line "Others" for an amount of $8.3 million represents commitments for stations and facilities investments only and the line has been renamed "Stations and facilities".

CORPORATE DIRECTORY

BOARD OF DIRECTORS

LEAD DIRECTOR OF THE BOARD, VIA RAIL CANADA

Françoise Bertrand
Montréal, Québec

BOARD MEMBERS

Yves Desjardins-Siciliano
Montréal, Québec

Kathy Baig
Laval, Québec

Daniel Gallivan
Halifax, Nova Scotia

Jonathan Goldbloom
Montréal, Québec

S. Ross Goldsworthy
Calgary, Alberta

Ramona Materi
Vancouver, British Columbia

Jane Mowat
Toronto, Ontario

Glenn Rainbird
Belleville, Ontario

Gail Stephens
Victoria, British Columbia

Kenneth Tan
Richmond, British Columbia

Geneviève Tanguay
Montréal, Québec

CORPORATE SECRETARY

Jean-François Legault

SENIOR LEADERSHIP TEAM

Yves Desjardins-Siciliano
President and Chief Executive Officer

Marc Beaulieu
Chief Transportation and Safety Officer

Linda Bergeron
Chief Human Resources Officer

Mario Bergeron**
Chief Mechanical and Maintenance Officer

Ann Bouthillier
Chief Communications Officer

Sonia Corriveau
Chief Business Transformation Officer

Carl Desrosiers*
Chief Mechanical and Maintenance Officer

Patricia Jasmin
Chief Financial Officer

Martin R. Landry
Chief Commercial Officer

Jean-François Legault
Chief Legal & Risk Officer and Corporate Secretary

Robert St-Jean
Chief Asset Management Officer

VIA OFFICE LOCATIONS

Headquarters and Québec
3 Place Ville Marie
Suite 500
Montréal, Québec
H3B 2C9
514 871-6000

895 de la Gauchetiere West
Montréal, Québec
H3B 4G1
514 989-2626

Atlantic
1161 Hollis Street
Halifax, Nova Scotia
B3H 2P6
902 494-7900

Ontario
40 Elgin, 4th floor
Ottawa, Ontario
K1P 1C7
613 907-8353

123 Front Street West
Suite 1500
Toronto, Ontario
M5J 2M3
416 956-7600

West
146-123 Main Street
Winnipeg, Manitoba
R3C 1A3
204 949-7483

1150 Station Street
Vancouver, British Columbia
V6A 4C7
604 640-3700

viarail.ca

* until Nov.6, 2017
**as of Nov.6, 2017

SENIOR LEADERSHIP TEAM BIOGRAPHIES

YVES DESJARDINS-SICILIANO

President and Chief Executive Officer

President and Chief Executive Officer Mr. Desjardins-Siciliano joined VIA Rail in 2010 and was appointed President and CEO in May 2014. Prior to his appointment, he was the Corporation's Chief Corporate & Legal Officer and Corporate Secretary. A seasoned executive, Mr. Desjardins-Siciliano leads with passion, respect and transparency. He is known for embracing innovation and encouraging creative ideas. A natural communicator, he is in high demand as a keynote speaker at conferences, business events and universities. He prides himself on being an accessible CEO, and values every opportunity to meet and converse with both travellers and employees. Prior to Via Rail, Mr. Desjardins-Siciliano held several senior positions in legal, regulatory and government relations, business and corporate development, marketing communications and finance.

In Montréal and Toronto, he worked for private and publicly held companies, in the information technology, telecommunications, marketing and entertainment industries. Past President of the Canadian Bar Association, Québec Division, Mr. Desjardins-Siciliano was also Chief of Staff to the federal Minister of Labour and Minister of State for Transport. Mr. Desjardins-Siciliano holds a law Degree (LL.L.) from l'Université de Montréal and he completed Graduate Studies in Law (GSD) at McGill University. He also has a designation from the Institute of Corporate Directors (ICD.D) and is a member of the Barreau du Québec. In 2016, Mr. Desjardins-Siciliano received the Business Achievement Award from the Québec General Counsel Awards, presented by ZSA Legal Recruitment. He was rewarded for his achievement in developing and implementing the business strategy that has led to VIA Rail's success since his appointment as President and CEO.

His customer-focused vision has persuaded more travellers to come onboard, expanding the company's client base and boosting its revenue for the first time in several years. He was also honoured by Women and Board in the CEO category for his outstanding contributions to advancing the role of women in corporate governance as the President and CEO of VIA Rail. Mr. Desjardins-Siciliano was appointed Honorary Lieutenant-Colonel of the Régiment de Maisonneuve in November 2016.

MARC BEAULIEU

Chief Transportation and Safety Officer

Mr. Beaulieu joined VIA Rail from Canadian National in 1985. As Chief Transportation and Safety Officer, he is responsible for all network operations, transportation and operational safety, and corporate security. Mr. Beaulieu is also responsible for the *Ocean*, and Canadian and Remote services along with VIA Rail's Customer Centres. His mandate is to ensure the safe and efficient operation of VIA Rail's trains. To that end, his responsibilities include oversight of locomotive crews, network operations staff, and safety and security professionals.

In the course of his career with VIA Rail, Mr. Beaulieu progressed through a number of increasingly senior management positions including Director Maintenance, Regional Director, Chief Mechanical Officer, Chief Transportation and Regional General Manager.

With his extensive experience at all levels of the organization, Marc brings comprehensive knowledge, acquired expertise and a strong vision to VIA Rail.

LINDA BERGERON

Chief Human Resources Officer

Ms. Bergeron joined VIA Rail in 2016. As Chief, Human Resources, she is responsible for employee relations, global compensation, consulting services and organizational development, talent acquisition, and training and development. Her mandate is to develop a human resources management strategy that facilitates and supports the realization of our business strategy and achievement of corporate objectives.

Ms. Bergeron has more than 30 years of experience in human resources, and spent several years in the transport sector as Vice President, Human Resources and Development for Nova-bus, a division of Volvo, as Senior Vice President, Strategy and Orientation for Rail Cantech, and as National Director H.R. for GE Aircraft Engines. Her career path demonstrates a strong expertise in improving organizational efficiency and talent management in national and multinational corporations, including time at the Crown corporation Hydro-Québec. A complementary experience in general management and as a business owner underlines the importance of consistency between the strategic management of human resources and business strategy.

Ms. Bergeron has a Bachelor's Degree in industrial relations from l'Université de Montréal and a specialization in Organizational Development from the National Training Laboratory.

MARIO BERGERON

Chief Mechanical and Maintenance Officer **

Mr. Bergeron joined VIA Rail in November 2017. As Chief Mechanical and Maintenance Officer, he is responsible for the maintenance and performance of VIA Rail's car and locomotive fleet. His mandate is to optimize the processes and work methods of the maintenance teams to ensure reliability of the rolling stock. He is responsible for mechanical services, maintenance of our equipment, technical and engineering services, as well as the apprenticeship program. VIA Rail's main maintenance centres are located in Montreal, Toronto, Winnipeg and Vancouver.

Prior to joining VIA Rail, Mr. Bergeron served as the Vice President and Chief Mechanical Officer at Amtrak in the United States. He is an operations executive with over 30 years of experience in the railway industry, and has also held several senior leadership positions at CP Rail in Alberta and Québec.

Mr. Bergeron received his Bachelor's degree in Industrial Engineering from the École Polytechnique de Montréal, holds a Diploma in Management from McGill University and Management Development Program from Darden School of Business, UVA.

ANN BOUTHILLIER

Chief Communications Officer

Ms. Bouthillier joined VIA Rail in 2017. As Chief Communications Officer, she oversees all activities related to communications (internal and external), advertising, strategic partnerships and sponsorships, brand management, customer relationship management and the VIA Preference loyalty program, customer relations and marketing research as well as the associated analytics for VIA Rail.

With over 25 years of experience in management and communications, Ms. Bouthillier is a seasoned, results-driven business leader. Prior to joining VIA Rail, she held the position of CEO for Havas Worldwide Canada operations, until 2015. Her strong leadership and her holistic approach to communications led Ms. Bouthillier to be an industry leader in implementing digital and CRM services at Havas as part of her integrated vision.

Ms. Bouthillier holds a Bachelor of Business Administration and Masters of Management Sciences in Marketing from HEC Montréal. Ms. Bouthillier sits on the Board of Directors of the CHU Sainte-Justine Foundation. She also served as Chairman of the Association of Advertising Agencies in Québec (AAPQ) from 2012 to 2014.

**as of Nov.6, 2017

SONIA CORRIVEAU

Chief Business Transformation Officer

Ms. Corriveau joined VIA Rail in 2014. As Chief Business Transformation Officer, she is responsible for the re-engineering of VIA Rail's business processes. She oversees the transformation and modernization of both internal and customer-facing business improvements. Her responsibilities include the Information Technology group, the Corporate Project Management Office as well as the Corporate Architecture and Innovation team. In 2016, she led the development of the High-Frequency Rail proposal that was tabled with the Corporation's shareholder in December.

Throughout her 25 year career with IBM, she successfully managed complex organizational and operational changes to support business growth. She had several executive positions leading various business units across Canada. Her experience includes all aspects of Information technology, especially in consulting services, systems integration and management services for applications and infrastructures. She has collaborated over the years with several clients in various industries and teams to develop and implement valuable solutions. Before joining VIA Rail, she held the position of Vice President, IBM Global Business Services and President of LGS Group.

Ms. Corriveau holds an MBA from l'Université du Québec à Montréal and a Bachelor's Degree in Business Computing from Université de Sherbrooke.

CARL DESROSIERS

Chief Mechanical and Maintenance Officer*

Carl Desrosiers joined VIA Rail in 2016. As Chief Mechanical and Maintenance Officer, he is responsible for VIA Rail's four rolling stock maintenance centres located in Toronto, Montréal, Vancouver and Winnipeg. His mandate is to optimize the processes and work methods of the maintenance teams to ensure reliability of the rolling stock.

Prior to joining VIA Rail, Mr. Desrosiers was the Director General of the Montreal Transit Corporation (STM), which he joined in 1984. In the course of his career with the STM he progressed through numerous positions in the fields of engineering and network operations. He was notably responsible for merging bus and metro activities into one administration. As Chief Operating Officer of the bus and metro network he supervised the operations, maintenance, engineering, and security of the integrated bus and metro network. He brings his vast operational experience in the transport sector to VIA Rail.

Mr. Desrosiers received his Bachelor's Degree in mechanical engineering from the École Polytechnique de Montréal and is a member of the Order of Engineers of Québec. He also serves on the Board of Directors of the *École Polytechnique* and the *Association Québécoise des Transports et des Routes* (ATQR).

*until Nov.6, 2017

PATRICIA JASMIN

Chief Financial Officer

Ms. Jasmin joined VIA Rail in 2007 and served as the Corporate Comptroller prior to her appointment as Chief Financial Officer. As Chief Financial Officer she is responsible for financial administration, internal and external financial reports, budgets and controls, internal and external audits, corporate purchasing, and pension investment management. Ms. Jasmin is a key contributor to the corporate planning process. Her mandate is to ensure the integrity and accuracy of our financial processes, results and reports. Ms. Jasmin closely works with the Corporation's internal and external auditors and supports the Board of Directors' Audit and Finance Committee.

Before joining the Corporation, Ms. Jasmin worked for large retail organisations such as Costco and Loblaw Companies Ltd., and in the telecommunications sector with Rogers and Téléglobe. Through her extensive experience in finance and administration, Ms. Jasmin brings a unique expertise and vision in terms of financial management, continued improvement, and governance to VIA Rail.

Ms. Jasmin has a Bachelor's Degree in Business Administration from HEC (Université de Montréal) and is a member of the Canadian Institute of Chartered Accountants holding the CPA,CA designation.

MARTIN R. LANDRY

Chief Commercial Officer

Mr. Landry joined VIA Rail in 2014. As Chief Commercial Officer, he oversees all employees and activities related to customer service in stations and on board trains in the VIA Rail Corridor (Ontario and Québec). Mr. Landry also oversees all activities related to B2B sales, commercial planning, product design, new product development, business development, as well as analytics for VIA Rail. In 2016, he led the development of the Québec City – Windsor corridor fleet renewal proposal that was tabled with the Corporation's shareholder in December.

Mr. Landry is a seasoned business executive with more than 35 years of experience, of which 30 were with IBM where he led many business units in both North America and Europe.

He is a graduate of the University of Ottawa with an Honours Degree in Finance.

JEAN-FRANÇOIS LEGAULT

Chief Legal & Risk Officer and Corporate Secretary

Mr. Legault joined VIA Rail in 2014. As Chief Legal & Risk Officer and Corporate Secretary, he is responsible for the Corporation's governance, secretariat, and all legal matters related to VIA Rail's operations. He also oversees the management of its rail safety compliance as well as the implementation of its enterprise risk management and insurance claims program.

Prior to joining VIA Rail, Mr. Legault practiced law for several years in Montréal and held a number of senior leadership roles in the corporate legal sphere, including serving as Vice-President, Legal Affairs at Bell Canada and Gildan Activewear, and as General Counsel and Corporate Secretary at Transat. He possesses a wide range of experience with respect to corporate legal services and management of compliance, including governance, litigation management, contracts, acquisitions and divestitures, with particular expertise in the provision of legal advice aligned to corporate strategies and objectives.

Mr. Legault obtained his law Degree (LL.B) at the University of Ottawa, and is a member of the *Barreau du Québec*.

ROBERT ST-JEAN, CPA, CA

Chief Asset Management Officer

Mr. St-Jean joined VIA Rail in 2006 and served as the Chief Financial and Administration Officer prior to his appointment as Chief Asset Management Officer. As Chief Asset Management Officer, his mandate is to maximize return on assets, improve the customer experience, and reduce operating costs. He is responsible for the acquisition, management, development, monetization and renewal of all of VIA Rail's tangible assets, such rolling stock, track infrastructure, stations and other buildings.

Before joining the Corporation, he held the position of Senior Vice President, Finance and Control, at Loblaw Companies Ltd., spent six years as Vice President, Controller, at Provigo Inc. and close to eight years in various management positions at Club Price Canada. With his extensive experience at major retailers and distributors, Mr. St-Jean brings a unique expertise and vision in strategic and financial management to VIA Rail.

Mr. St-Jean has a Bachelor's Degree in Business Administration from the Université de Sherbrooke and is a member of the Canadian Institute of Chartered Accountants and holds the CPA, CA designation.

CONTRIBUTORS TO THE 2017 ANNUAL REPORT

EDITOR IN CHIEF

Jennifer Bauer
Corporate Communications, VIA Rail

WRITING

Jessica Romera
Corporate Communications, VIA Rail

GRAPHIC DESIGN

Sextans

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