Summary of the 2013 – 2017 Corporate Plan

And

2013 Operating and Capital Budgets

September 27, 2013

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EXECUTIVE SUMMARY

Background

VIA Rail Canada operates national passenger rail services on behalf of the Government of Canada. The Corporation's objectives are to provide and manage a safe, efficient, and reliable passenger rail service in Canada. VIA's plans and funding are approved by the Treasury Board of Canada through VIA's annual Corporate Plan.

Operating Performance in 2012

VIA's passenger revenues have deteriorated compared to 2010 and 2011, largely due to lower passenger volumes on VIA's Quebec City – Windsor Corridor (Corridor) train services, and lower yields (revenue per passenger-mile). In 2012, the Corporation's passenger revenues were $257.4 million, which represents an $8 million decrease compared to the previous year. In addition to passenger revenues, VIA generated $19.5 million in non-passenger revenues in 2012, which is an improvement upon 2011 non-passenger revenues of $17.4 million.

In 2012, total operating expenses were $556 million, including pension expenses of $70.2 million. Total operating expenses in 2012 were $12.3 million higher than in 2011. Pension costs that were $26.1 million higher than in 2011 more than offset the decline of $13.8 million in other operating expenses. Other operating expenses declined as a result of productivity improvements, as well as a decrease in passenger volumes.

2013-2017 Plan Operating Requirements

VIA proposed several efficiency improvements leading to possible savings of up to 5% and 10% of its 2011-2012 operating funding reference levels. These proposals can be separated into two broad categories: efficiency improvements yielding $8.8 million in annual savings by FY 2014-2015, and train service reductions resulting in annual savings of $10.8 million by 2014-2015. VIA's proposals were largely accepted, and the Corporation's funding levels were reduced by $5.1 million in fiscal year (FY) 2012-2013, $15.1 million in FY 2013-2014, and $19.6 million in FY 2014-2015 and ongoing.

As outlined initially in the 2011-2015 Corporate Plan, and revised in the 2012-2016 Corporate Plan, VIA has developed a new operating strategy that will improve revenues, and reduce the Corporation's operating deficit. This strategy will increase frequencies and optimize train schedules between Quebec City, Montreal, Ottawa, and Toronto and will be made possible by the Government's $923 million capital investment. VIA has already implemented some elements of this initiative. The train service reductions began in July 2012, and were fully implemented by the end of October.

VIA has introduced a series of productivity improvement initiatives to reduce the operating deficit by focusing on four areas: traffic and revenue growth, compensation management, operating and maintenance efficiencies, and capital investment benefits.

Despite implementing these initiatives, VIA expects to incur a funding deficit over the 2013-2017 period due to pension costs and operating shortfalls.

Capital Expenditures in 2012

The Government had previously announced two separate allotments of funding for VIA, totaling $923 million, which includes $903 million for capital projects and $20 million of operating funding for equipment maintenance and overhaul (MOS). The first allotment of $516 million was made in 2007, and was to cover major equipment and infrastructure projects. The second allotment of $407 million, which is comprised of funding from the Economic Action Plan, was made in 2009 for a three-year period, ending in March 2012. The capital funding was intended to modernize VIA's passenger equipment, upgrade stations, and improve infrastructure in the Quebec City – Windsor Corridor, to permit VIA to increase the frequency of trains, decrease trip times, and improve reliability.

VIA's capital expenditures in 2012 were $170.4 million, including $49.1 million spent on equipment projects, $70 million on infrastructure projects, and $51.3 million on other projects. The capital funding remaining from prior Budgets is already fully committed, and is expected to be spent by the end of FY 2014-2015.

2013-2017 Plan Requirements

VIA's capital requirements over the 2013-2017 Plan period are forecast at $443.4 million. During the planning horizon, approved government capital funding will be spent on major capital projects as outlined in Sections 6.2 and 6.3 of this Corporate Plan, as well as several "state of good repair" capital projects as described in Section 6.3.5. VIA's Asset Renewal Fund provides funding for the remaining investment in Toronto Union Station and equipment improvements of $14.1 million.

It is important to note that VIA requires ongoing capital funding in order to fulfill its mandate and to maintain its asset base. VIA will continue to work with Transport Canada to address these funding requirements.

Major Risks and Mitigation Strategies

This section provides a summary of some of the more significant risks over the period of the Plan. An exhaustive risk assessment, and a list of risk mitigation measures is provided in Section 7 of this Plan.

VIA cannot fund its pension plan costs within its operating funding reference level. The accumulated funding shortfall in VIA's pension plans over the Plan period is $295 million. A number of amendments to the structure of unionized and non-unionized pension plans have been introduced to reduce current service contributions on the part of VIA. These mitigation measures include the reduction of administrative costs, the removal of the automatic consent that allowed employees under 55 years of age who leave the organization to claim the full value of both the employee and the corporation's pension contributions, and increased employee contributions. Other mitigating measures are being evaluated by the corporation.

Deteriorating travel market and enhanced competition. VIA's ridership and revenue depend on a healthy travel market and are impacted by competitive pressures from other modes. VIA will continue to react to the market by adjusting its new revenue management system strategies (seat allocation and pricing offers) and developing new intermodal partnerships domestically, primarily with commuter agencies, and with foreign air carriers, in order to extend VIA's network reach, and diversify the current portfolio of tour operators. As well, VIA will continue to leverage on-board and station technology investments, applying market strategies that emphasize the advantages of rail travel, and focusing on better use of time (Wi-Fi, congestion avoidance, mobile telephone access).

Over the course of the Plan period, VIA's operating deficit is projected to exceed its reference levels by $582.1 million. Productivity initiatives are being implemented to reduce operating funding requirements by $181 million over the Plan period. VIA also continues to implement revenue growth initiatives to reduce the operating gap.

Completion of equipment projects. Following the bankruptcy of VIA's contractor, IRSI, the completion of the Light, Rapid, Comfortable (LRC) rebuild project, the Renaissance car modifications, and the RDC rebuild project will not be completed on-schedule or on-budget. VIA has therefore elected to complete some portions of the rebuild projects its facilities in Montreal, and reactivate the IRSI facilities in Moncton under the supervision of IRSI's bankruptcy trustee.

VIA requires additional capital funding during the period covered by this Corporate Plan. Capital funding is required in order to offset critical health, safety, environmental and security requirements. VIA will use the Asset Renewal Fund (ARF) to complete modifications on a project to install a Centralized Traffic Control (CTC) system between Ottawa and Brockville. As noted, VIA is exploring options with Transport Canada for a long-term solution to its capital funding requirements.

Discontinuance of service. In the past, VIA has acquired sections of track where train operations were at risk of service discontinuance by the track owner. Without access to capital funding to secure the necessary infrastructure, the discontinuance of service on sections of track could lead to the suspension or re-routing of passenger train operations. CN has included a portion of the Newcastle subdivision, over which VIA's Montreal-Halifax train operates, as part of its discontinuance program. VIA has evaluated the impact of transferring the operation of the Montreal-Halifax service to the CN main line between Moncton and St. André Junction.

VIA will work with Transport Canada to develop a long-term solution to its operating deficits. Moreover, to ensure that VIA has the capital funding required to deliver its mandate, the Corporation will work with Transport Canada to develop a long-term capital plan to sustain its network beyond 2013-2014.

1. MANDATE

VIA Rail Canada operates a passenger rail service, providing intercity passenger service and regional and essential remote passenger rail transportation. The Corporation's objectives are to provide a safe, efficient, and reliable passenger rail service in Canada. VIA is mandated to operate its network with the corresponding funding through the annual approval of its Corporate Plan.

2. CORPORATE PROFILE

2.1 Background

VIA was established in 1977 as a subsidiary of Canadian National Railway (CN). VIA became a Crown Corporation in 1978, and was incorporated under the *Canada Business Corporations Act.* VIA does not have its own enabling legislation. VIA is a Schedule III, Part I Crown Corporation, is appropriation-dependent, and is not an Agent of Her Majesty.

When VIA was created, the rolling stock required to operate the passenger rail service was purchased from CN and CP. However, the rail infrastructure remained the property of CN and CP. VIA pays for access to the rail infrastructure that it does not own (90% of train miles operated).

2.2 VIA's Train Service Network

VIA operates three distinct types of services: intercity services in the Quebec City – Windsor Corridor, transcontinental services between Toronto and Vancouver and between Montreal and Halifax, and regional and remote services designated by the Government in regions where alternative transportation is limited.

VIA has developed strategic objectives for each of the three categories of train service, namely the markets that exist for each train service, their respective financial performance, and their potential have been taken into consideration when developing these objectives, which are summarized below:

1. *Corridor:* The market for Corridor train services exists year-round, and VIA considers that Corridor train services could be financially viable on a partly allocated cost basis (when passenger revenues recover all direct wages, fuel, track access charges, equipment maintenance, station costs, plus a share of costs common to several services, but excluding items such as past service pension costs, and corporate overhead costs and depreciation). During the period of the Plan, VIA will focus on improving the financial performance of Corridor trains, including improving revenue management strategies, continuously reviewing operating costs, and increasing the number of trains to key markets in order to achieve its cost recovery objectives.

2. *Transcontinental Services*: The markets for VIA's two long distance train services – *The Canadian* and *The Ocean* – are highly seasonal. *The Canadian* attracts both domestic and international tourists during the peak season, namely from May to October. In more favourable economic climates, *The Canadian* has been financially viable on a partly allocated basis. During the off-peak season, demand is not sufficient to justify current train

frequencies from a commercial perspective. This is also true of *The Ocean,* where cost recovery is low even during the peak season, and is steadily declining due to competition from road and air travel.

3. *Regional and Remote Services:* VIA's regional and remote train services are not commercially viable. The financial performance of these train services is expected to decline over the period of the Plan, as passenger revenues remain relatively constant and operating costs increase with inflation. Where ownership of the infrastructure has been transferred to shortline operators, train performance and reliability have deteriorated, and in some cases, VIA has had to suspend service altogether. In April 2011, VIA ceased operating daily train service between Victoria and Courtenay on Vancouver Island, and in August 2013, VIA announced that service along the Gaspé Peninsula would be suspended. In both cases, unsafe rail infrastructure has led to the suspension of service. The infrastructure owners for both services have not yet confirmed when they will make the repairs necessary for safe passenger rail operations.

2.3 VIA's Rail Infrastructure

VIA has Train Services Agreements (TSA) in place with the Class 1 and shortline freight railways that govern VIA's access to rail infrastructure.

The ownership (route-miles) and operation (train-miles) of VIA's train services network in 2012 is divided as follows:

	Route-miles					**Train-miles**			
	CN	CP	VIA	Shortlines		CN	CP	VIA	Shortlines
Corridor	*13%*	*>1%*	*2%*	*2%*		*52%*	*2%*	*10%*	*6%*
Transcontinental	*43%*	-	-	-		*15%*	-	-	-
Regional/Remote-East	-	*4%*	-	*11%*		-	*1%*	-	*4%*
Regional/Remote-West	*14%*	-	-	*10%*		*6%*	-	-	*4%*
	70%	*4%*	*2%*	*24%*		*72%*	*4%*	*10%*	*14%*

As shown above, approximately 24% of the rail infrastructure that VIA operates on is owned by shortline railways. Some shortline railways do not have the financial capacity to make adequate investments in their railway infrastructure to allow VIA to maintain passenger train speeds. As a result, train travel times have increased, and on-time performance of some of VIA's regional train services has declined significantly in recent years.

With respect to operations on CN infrastructure, growth in freight traffic and increases in freight train lengths have eroded track capacity over the years, adversely impacting the on-time performance of VIA's Corridor and transcontinental train services. Elsewhere, CN has reduced maintenance on lines that have seen significant decreases in freight traffic. These actions have led to the need to significantly increase scheduled train travel times, which has had an impact on VIA's ability to compete with other modes. VIA has also had to acquire pieces of track that are necessary to sustain operations, and is faced with the possibility that further acquisitions may be necessary, otherwise, train schedules may need to be modified.

The recent investments that VIA made to upgrade track and signalling infrastructure has added capacity to the Corridor, thereby improving both passenger and freight train operations, and providing the means to meet future traffic growth. VIA has taken advantage of the additional capacity by introducing additional frequencies on its most promising Corridor routes in December 2012, and has plans to introduce additional frequencies in 2016.

2.4 Station and Maintenance Facilities

The maintenance of VIA's rolling stock is carried out in facilities located in Vancouver, Winnipeg, Toronto, and Montreal. These facilities perform regular maintenance, including inspections, servicing and cleaning, along with major maintenance and refurbishments. The Montreal Maintenance Center facilities were reorganized in 2012, to complete the LRC Business-class and Renaissance car accessibility projects. In addition, train servicing, which consists of light maintenance and cleaning, is carried out in Halifax, Windsor, Quebec City, and Ottawa and at other linepoints across the country.

The two busiest stations in VIA's network are Toronto Union Station and Montreal Central Station. VIA's facilities at both of these stations are leased. In most cases, the day-to-day upkeep and long-term maintenance of leased facilities in these buildings are VIA's responsibility. As part of the $923 million investment program, and ongoing capital funding, VIA has invested in its stations across the network. As a result of these investments, new stations were built, and badly needed repairs were completed at the Corporation's station facilities throughout Canada.

VIA's infrastructure also includes two telephone sales offices in Montreal and Moncton, and six commissary centres across Canada, which provide food, beverages and provisions for the trains.

2.5 VIA's Organizational Structure

An independent Board of Directors governs VIA. VIA's President and CEO and the Board members are appointed by the Governor-in-Council on recommendation of the Minister of Transport.

VIA's Board of Directors is responsible for overseeing the strategic direction and management of the Corporation, and reports on VIA's operations to Parliament. The Corporation and its Board of Directors are committed to implementing principles and best practices of good governance. All members of the Board sign a code of ethics reflecting the spirit and intent of the *Accountability Act*, which sets out standards of transparency and accountability for the officers and directors of Crown corporations.

The Board is assisted in oversight by five committees of the Board. An organizational diagram of VIA's Board Committee structure appears below. The committees of the Board consist of the Audit, Risk and Finance Committee, the Human Resources Committee, the Investment Committee, the Corporate Governance Committee, and the Real Estate, Environment and Major Capital Program Committee.

The term of the current Chairman of the Board expires on December 8, 2014. A June 2013 reorganization of senior management responsibilities realigned responsibilities with the commercial planning activities and marketing and sales activities being divided into two branches: the Chief Commercial Planning Officer now oversees revenue management, pricing, network planning, and the development of intermodal agreements, the Chief Marketing and Sales Officer oversees marketing communications, sales, and product management. Since June 1, 2013, VIA has had seven Chief Officers that report directly to the CEO and are appointed by a special committee of the Board.

2.6 VIA's Management Plan

VIA's Management Plan articulates the Corporation's Vision, Mission, and guiding principles, which provide a framework for the behaviour of the organization and ensure that VIA's Mission and corporate objectives are understood by all employees. Key performance indicators are linked to performance goals, and are central to tracking VIA's performance by activity and by region.

The six key performance indicators:

1. Total Revenues per Full-Time Employee
2. Employee Attendance
3. Passenger Revenues per Available Seat-Mile
4. Direct Costs per Available Seat-Mile
5. On-time Performance
6. Train Incidents per Million Train-Miles

These indicators are monitored by VIA's Management Committee and the results are published on VIA's intranet on a monthly basis and shared with the Board of Directors and all VIA employees.

2.7 VIA's Past Financial Performance

In response to the 1990 funding reductions, VIA has acted aggressively in terms of growing revenues and controlling expenses. Cost recovery, which measures the ratio of revenues to costs, has improved by 72%, rising from 29¢ per passenger mile in 1990 to 50¢ in 2012. During that same period, VIA has doubled its revenues, absorbed inflation, and maintained expenses at 1990 levels (excluding pension contributions). At the same time, VIA has consistently improved the quality of passenger rail service, with 46% of travellers reporting VIA exceeded their expectations in 2012, while another 51% reported VIA met their expectations.

2.8 Safety

VIA maintains a Safety Management System (SMS) that is submitted to Transport Canada yearly. VIA's SMS ensures the integration of safety responsibility in day-to-day activities. It confirms that VIA has processes and procedures in place to identify, mitigate, and monitor risks, to report and log incidents, and that corrective and preventive actions are taken when they happen. VIA has maintained an excellent safety record since its inception. For example, incidents per million train-miles have decreased from 3.6 in 2009 to 1.3 to date in 2013.

The Safety Management System was recently reviewed by external auditors. Seven practices were evaluated, and noted as being good. It was observed that a safety culture is well imbedded throughout the organization.

VIA rigorously adheres to all applicable government regulations. VIA regularly inspects and maintains all of its infrastructure components. Main line tracks undergo ultrasonic testing and electronic track geometry tests, and an independent audit is performed every year. VIA has closed more than 70 crossings on its own infrastructure over the last two years, and a High Risk Area management program is in place.

Similarly, VIA's rolling stock undergoes rigorous inspection. A scheduled maintenance program is in place to ensure safety and reliability, with basic visual inspection and brake tests performed every day, before the first train departure in the Corridor, and before every departure from a terminal point for longhaul trains, with a full pit inspection performed regularly.

VIA's personnel is trained to the highest standards of safety and refresher courses are given regularly. There is a rigorous performance management program, which includes mentoring and auditing, and VIA is implementing new technology to reduce human errors in the cab. For example, some fail-safe train controls, have been installed, and more safety-related measures are planned.

3. STRATEGIC CONSIDERATIONS

3.1 Productivity Improvements

VIA's productivity improvement initiatives are already underway. Employees are actively engaged, and the initiatives have been well received by VIA's workforce. Moreover, iniatives have been implemented towards VIA's automatic ticketing, attendance management and electronic invoicing systems. Beginning in 2012 and continuing in 2013, new information technology (IT) systems are being introduced to automate business processes and reduce costs. Savings from productivity improvements are expected to reach $8.8 million per year by FY 2014-2015.

The impact on VIA's workforce due to reductions will be mitigated, as VIA will address workforce reductions by attrition as much as possible.

3.2 Train Service Rationalization

At the end of June 2012, VIA announced that service reductions on the eastern and western transcontinental services as well as service rationalizations planned for Southwestern Ontario (SWO) routes would be implemented in October 2012, with some SWO train cancellations occurring at the end of July. VIA's collective agreements require that the Corporation notify Canadian Auto Workers (CAW) employees 90 days, and Teamsters Canada Rail Conference (TCRC) employees 120 days, in advance of significant workforce adjustments. Delays in issuing these notices to employees decreased planed savings from $6.5 million to $5.1 million in FY 2012-13. Overall, the train service reductions that VIA implemented in 2012 are expected to generate net savings (cost savings less foregone revenues) of $10.8 million by FY 2014-2015.

On Vancouver Island, the suspension of train service (described in section 2.2) will not be terminated until the rail infrastructure has been repaired to ensure operational safety, schedule reliability, and a new service agreement with the Island Corridor Foundation, owner of the infrastructure, and Southern Rail of Vancouver Island (SVI), the railway that maintains the infrastructure, is obtained. VIA, ICF, and SVI are currently negotiating the terms and conditions whereby this service will be reinstated.

3.3 Asset Renewal Fund

The Asset Renewal Fund (ARF) consists of financial assets administered internally by an investment policy director based on an investment policy approved by VIA's Board of Directors. External auditors audit the ARF every year. A Treasury Board decision requires VIA to seek approval from the Minister of Transport and the President of the Treasury Board to access funding from the ARF.

VIA has sought and received approval, most recently in January and March 2012, to withdraw funds from the ARF as a supplementary source of funding. The ARF was intended as a means to allow VIA to maintain an internal source of funding to bridge capital shortfalls, or unexpected capital expenses, such as acquisition of abandoned track or property required to sustain operations.

The financial position of the ARF at the end of 2012 (see Table 4 of this Plan) reflects withdrawals for committed capital expenditures previously approved by the Treasury Board to complete the acquisition of the former CN Chatham Subdivision, undertake accessibility modifications to the Renaissance car fleet mandated by the Canadian Transportation Commission (CTA), and proceed with ongoing work on the Union Station modernization project. Proceeds from sales of surplus assets, including the Levis train station, five non-standard sleeping cars, redundant components and various scrap metal, have contributed additional funding to the ARF during 2012.

As of January 1, 2013, VIA would no longer segregate proceeds from the disposal of assets in the ARF. In the future, proceeds from the sale of assets may be required to be returned to the government's Consolidated Revenue Fund. VIA expects all committed capital projects funded from the ARF will be completed by December 31, 2015, and intends to seek an authority to close the ARF at a later date once all funds have been depleted.

3.4 Labour Relations

VIA has recently negotiated a three-year labour agreement with the CAW which represents all on-train personnel (excluding locomotive engineers), off-train and shop workers, which was ratified by the CAW in late July 2013.

The other major labour agreement at VIA is with the Teamsters Canada Rail Conference who represent VIA's 326 locomotive engineers. This agreement expires on December 31, 2014.

With the passage of Bill C-60, *The Economic Action Plan 2013 Act*, in the last Parliament, there could be more active oversight by the Treasury Board, as Bill C-60 provides the authority to the Governor-in-Council to direct a Crown corporation to have its negotiating mandate approved by the Treasury Board prior to commencing negotiations and have the results of the negotiations approved prior to entering into a collective agreement. Additionally, the Treasury Board would be entitled to have a representative monitor the negotiations.

4. CURRENT YEAR (2012)

4.1 Current Business and Travel Industry Environment

After a solid rebound in 2010, the travel market recovery now appears curtailed by a softening domestic economy that emerged late in 2011, largely in response to external factors, such as continued global economic uncertainty. In addition, federal and provincial government austerity measures are expected to take hold, as fiscal stimulus initiatives are withdrawn, affecting growth over the next several years.

During the 2008-09 recession, consumer confidence (as measured by the Conference Board of Canada's Monthly Index) declined to 52 in December 2008. The index had been trending steadily upward, reaching 89 in February 2011, but has retreated since then, falling to 76 in August 2012, as consumers show concern over their future income and job prospects. The Conference Board of Canada's Index of Business Confidence dropped in the second quarter of 2012. After falling steadily over the first nine months of 2011, the Index of Business Confidence rose in the last quarter of 2011 and the first quarter of 2012, going from 92.6 to 101.8, before beginning its second quarter decline.

According to the Canadian Tourism Commission, demand for international travel to Canada is shifting away from traditional Eurozone "core" markets due to unfavourable exchange rates and slow growth, in favour of emerging /transition markets (principally Brazil, China, India).

4.2 Competition with Other Modes

Information compiled by the Official Airline Guide shows that available domestic airline seat capacity among member carriers increased by 2.5% in 2012. Canadian carriers have accelerated route expansion plans as part of a competitive strategy to grow market share in the Quebec City – Windsor Corridor markets. Having acquired new landing rights at Toronto City Airport in May 2011, Air Canada (AC) now operates 15 daily return flights between Toronto City Airport and Montreal, in direct competition with Porter Airlines, which operates 16 daily flights. Porter announced its first expansion of service in Southwestern Ontario in April 2011, with 3 daily return flights between Toronto and Windsor, providing business travellers in the Detroit-Windsor region with more travel choices.

The frequency of flights, the advantage of an easy to remember schedule with hourly departures, plus competitive pricing renders airlines a significant competitor to passenger rail growth in medium-distance Montreal-Toronto and Ottawa-Toronto markets. VIA's business class revenues have been especially affected. Travellers can choose close to 100 return flights a day between Montreal, Ottawa and Toronto, operating from both Pearson International and City Airports serving the Toronto market. In its shorthaul markets, especially Montreal-Quebec City and Montreal-Ottawa, VIA's financial results have improved compared to 2011. The recent capacity increases and discount pricing by domestic air carriers directly threaten VIA's end-to-end revenues, and these airline tactics will substantially increase the cost of securing and promoting future passenger growth.

In the Corridor, VIA also faces competition from the automobile, as it provides a comparable end-to-end trip time and a flexible schedule. While VIA continues to target the automobile traveller by leveraging the benefits of rail travel such as Wi-Fi service, time to relax, and productive time, reduced trip times and increased frequencies are the most compelling ways to attract automobile travellers to rail.

4.3 Operating Performance in 2012

Under pressure from softening demand, revenues in 2012 deteriorated compared to 2010 and 2011. Passenger revenues were $257.4 million in 2012, which represents an $8 million decrease, or 3%, below those generated in 2011. Lower passenger volumes in the wake of severe airline competition and weak tourism demand are responsible for the deterioration in passenger revenues. Passenger volumes went from 4.13 million in 2011 to 3.92 million in 2012, representing a decline of 5%, while yields (revenue per passenger-mile) decreased by 1.3%. VIA generated $19.5 million in non-passenger revenues in 2012, including station lease and concession income, and equipment servicing and rental contract revenues.

Total operating expenses in 2012 were $556 million. This is $12.3 million higher than in 2011 when operating expenses totalled $543.7 million, an increase of 2.3%. The higher operating expenses are a result of a $26.1 million increase in pension costs ($70.2 million in 2012, compared to $44.1 million in 2011). Excluding pension costs, operating expenses have declined by $13.8 million (including $3.3 million in savings from the 2012 train service changes) reflecting lower passenger volumes, despite wage increases and inflation.

Corridor

Direct revenues for the Quebec City – Windsor Corridor were $200.9 million in 2012, down 2.1% from 2011. This decline is due to lower ridership (especially in the Montreal, Toronto and Windsor end-to-end markets), offset partly by premium pricing and yield management strategies. Closer partnerships with local commuter transit, including GO Transit and Agence Métropolitaine de Transport, are generating more connecting traffic, and an improved mobile communications network is producing higher revenue growth from on-board Wi-Fi services.

In June 2011, VIA modified the schedules of some of its trains operating between Montreal, Ottawa, and Toronto in order to create new travel connections between Montreal and Toronto via Ottawa. In a second phase in January 2012, one Montreal-Toronto frequency was re-routed through Ottawa, creating an additional frequency on each of VIA's Montreal-Ottawa and Ottawa-Toronto routes. The convenience of the additional departures combined with more choice among direct (non-stop) trains should make a positive contribution to VIA's revenue growth. As infrastructure investments are completed between Brockville and Toronto, VIA will increase frequencies between these points. These changes are described in Section 5.1.1 of this Corporate Plan.

VIA began adjusting train schedules in Southwestern Ontario, beginning in July 2012, and concluded the process in October with its fall timetable. While operating funding requirements associated with Southwestern Ontario services declined following implementation of the changes, the total loss of revenue on the selected routes totalled $1.7 million in 2012.

Transcontinentals

Revenues from the western transcontinental, *The Canadian*, were $45.3 million in 2012, which represents a 0.7% decline from the revenues generated in 2011. Revenues from the eastern transcontinental, *The Ocean*, were $14.3 million in 2012, a decrease of 2.9% compared to 2011.

Regional and Remotes

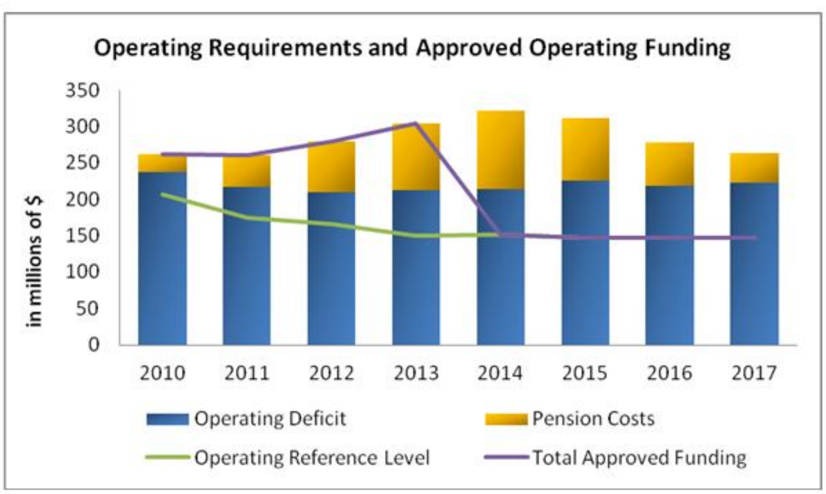
Revenues from VIA's regional and remote train services were $7.2 million in 2012, which represents a 10.9% decline compared to 2011, a consequence of the need to suspend passenger service on Vancouver Island since April 2011, and along the Gaspe Peninsula since April 2012, due to unsafe track infrastructure. The cost recovery ratio for most of these services is below 21%, and the growth potential is limited by a declining population base.

4.4 Capital Expenditures in 2012

VIA spent $170.4 million on capital in 2012. Of the $170.4 million, $49.1 million was spent on equipment projects, $70 million was spent on infrastructure projects, and $51.3 million was spent on other capital projects. As a result of delays to committed capital projects, VIA is proposing to reprofile $63.8 million of capital funds, originally budgeted in 2012, in order to re-align capital funding with 2013 project expenditures. Specific capital projects are discussed in detail in Section 6 of this Corporate Plan.

5. OVERVIEW OF THE 2013-2017 OPERATING BUDGET

During the period covered by this Corporate Plan, VIA expects to incur a $582.1 million funding deficit, compared to a total operating expense budget of 2.58 billion. Pension costs will account for $107 million of funding in 2014 and are forecasted to decline to $41 million in 2017.



The preceding graph illustrates VIA's operating requirements and approved operating funding. As indicated, VIA does not expect to be able to operate within its $146.8 million reference level.

5.1 Revenues

VIA forecasts a 14.1% increase in total operating revenues over the period of the Plan, from $276.9 million in 2012 to $315.8 million in 2017. This increase assumes recovery from current market conditions and a return to stable growth by 2015, and the implementation of fare actions described above. Incremental revenues will accrue from introducing new train frequencies beginning in 2016, and additional revenue benefits will be realized as IT investments come online. The growth forecasts mentioned above include revenue enhancement initiatives generated by investments to improve revenue management and reservation systems. As more passenger booking data is accumulated by the revenue management system, strategies can be fine-tuned to improve allocation of seat capacity to different fare classes in order to stimulate and retain customers. New fare offers that match travel preferences can be readily promoted to customers accessing VIA's reservation system. These offers extend from low 'escape' fares available on weaker trains to 'premium' fares reserved for trains where capacity is limited and demand is strong. Strategic alliances with other transportation providers enable VIA customers desiring airline reservations or commuter connections to plan and reserve their complete itineraries with a single transaction.

5.1.1 New Corridor frequencies

VIA has stated in previous Corporate Plans its belief that the greatest potential for revenue growth lies in improving train services between Montreal, Ottawa and Toronto.

Beginning in June 2011, and again in January 2012, VIA implemented a new operating strategy that should grow revenues and reduce the Corporation's operating deficit. This strategy increases frequencies and optimizes train schedules by reorganizing and converting some Montreal-Ottawa and Ottawa-Toronto trains into through trains serving the Montreal-Toronto market, and by re-routing one Montreal-Toronto frequency through Ottawa, adding a new frequency to serve these markets. Trains travelling directly between Montreal and Toronto now offer express or semi-express service, shortening the express trip time to approximately 4h35min. compared with average schedules which exceed 5h00.

In addition to the changes above, VIA has increased service between Montreal and Quebec City from 4 to 5 frequencies on weekdays.

VIA estimates the additional Quebec City – Montreal – Ottawa - Toronto frequencies, including the frequencies to be introduced in 2016, will generate approximately $92 million in passenger revenues, producing $25 million in net contribution (revenues net of incremental operating costs) during the period of the Plan. The operating budget included in this 2013-2017 Corporate Plan forecasts $1.39 billion of passenger revenue between 2013 and 2017. The passenger revenue forecast in the 2013-2017 Corporate Plan is lower than the 2012-2016 passenger revenue forecast, and are explained in part by deferred revenue growth arising from the weak 2012 results mentioned above, as well as the introduction of fewer new frequencies in 2013 and 2014. The addition of Quebec City service will produce a positive contribution.

5.1.2 Land Development

VIA owns vacant parcels of land adjacent to Ottawa Station. In order to maximize the revenue potential of the assets it owns, VIA is contemplating seeking third-party partners with whom, through the mechanism of public-private partnerships, it would develop these vacant parcels of land and construct commercial properties. These commercial properties would complement Ottawa Station and provide additional convenience and amenities to both the travelling and non-traveling public.

The long-term steady revenue stream generated would allow VIA to pursue its strategy of improving the customer experience, while increasing revenues and reducing the Corporation's funding requirements.

5.1.3 Property Divesture

VIA will consider opportunities to divest itself of properties should that prove to be a better choice economically. A possible example would be the sale of a station to a third-party with VIA then becoming a tenant through a lease.

5.2 Expenses

VIA has been actively reviewing its costs in order to ensure that growth in operating expenses is minimized. The cost containment and productivity measures outlined in this Corporate Plan, and those that have been carried out as part of the 2011-2015 and 2012-2016 Corporate Plans, reflect the intent of the administrative cost containment measures outlined in the Government of Canada's Budgets 2011 and 2012.

Further, VIA will implement efficiency initiatives that will reduce the corporation's funding requirements by $19.6 million by 2015.

It is important to note that the increase in VIA's operating expenses over the period of the Plan is essentially attributable to the new frequencies that VIA introduced in December 2012, negotiated increases in TSA charges, and higher fuel expenses.

5.2.1 Pension Contributions

Pension contributions of $387 million between 2013 and 2017 are required in order to offset the pension deficit within five years as required by the *Pension Benefits Standard Act* and the Office of the Superintendent of Financial Institutions (OSFI) regulations. The estimate of pension contributions required is based on Canadian long-term bond rates (yields) and annual returns on the assets.

The federal government's Office of the Superintendent of Financial Institutions conducts regular audits of VIA's pension plans. In addition, VIA conducts an annual actuarial valuation in order to assess pension liabilities and pension funding requirements. The results of VIA's most recent actuarial valuation were received in March 2013 and identified the requirement for increasing contributions in 2013 and 2014, which taper off over the following three years. The reduction over the years in the projected pension funding requirement is based on Budget 2013 data that forecast an upward trend on long-term bond yields, thus progressively eliminating a portion of the solvency deficit.

5.2.2 Fuel

VIA purchases financial instruments in order to mitigate its exposure to rising fuel prices. VIA's foreign exchange and fuel hedging activities add a degree of certainty to future prices, and have effectively delayed the impact of rising fuel prices in the past while reducing volatility resulting from short-term price fluctuations. Fuel remains a significant portion of VIA's operating costs, averaging 9% of total operating expenses over the past five years. VIA's fuel costs in 2012 were $41 million, which represents 7.3% of total operating expenses. Approximately 80% of VIA's fuel requirements in 2012 were hedged. As well, due to the more efficient locomotives gained from the F-40 rebuild program and further augmented by optimized equipment deployment, VIA has decreased fuel consumption from 29.8 million litres in 2008 to 22.9 million litres in 2012 and is forecasting consumption of 21.5 million litres in 2013.

5.2.3 Train Services Agreement Charges

Train Service Agreement charges form a significant portion of VIA's operating costs. VIA and CN concluded a ten-year Train Services Agreement in 2009 that provides for annual rate escalation over the 2009-2018 period.

5.3 Productivity Initiatives

VIA's 2013 Operating Budget outlines initiatives to reduce the Corporation's funding requirements by $181 million between 2013 and 2017. The initiatives implemented have reduced VIA's operating costs by $2.2 million in 2012.

5.3.1 Traffic and Revenue Enhancement

VIA expects to realize $34 million of incremental revenues from improving its revenue management and passenger reservation systems, attracting new customers with more flexible and convenient pricing and scheduling of trains, and retaining customers by adding value to the travel experience.

VIA has introduced new Escape and Premium fare offers and has removed or simplified advance purchase conditions to encourage incremental passenger growth. VIA expects these revenue enhancement initiatives will yield a $7 million improvement in the operating deficit in 2013.

5.3.2 Managing Compensation Expenses and Improving Productivity

VIA expects to save $102 million over the period through a number of process initiatives related to reduced staffing, lower absenteeism and efficiencies generated by VIA's Lean Management program, among other items. Lean is a management philosophy, developed by Toyota, that aims to eliminate waste in business processes. Waste is defined as any activity that does not add value for the customer.

In 2012 VIA introduced new technologies to automate some customer and supplier business processes and reduce costs. By way of example, in June 2012, VIA began introducing electronic ticketing at selected locations, eliminating the need for employees to issue printed tickets and minimizing queuing at stations.

5.3.3 Other Operating Initiatives

VIA will also proceed with a number of operating practice changes over the period of the Plan. As with previous plans, VIA has targeted operating areas where current performance differs from industry "benchmarks." Where such gaps in performance exist, improvement targets are being created and managers are being tasked with identifying initiatives to achieve these targets. Among the initiatives identified to improve operating practices, VIA has targeted $20 million of potential savings from more efficient equipment overhauls and maintenance, lower fuel and track access charges, economies in advertising and other expenses over the Plan period. These initiatives will stimulate revenues by improving on-time train performance and reliability.

5.3.4 Capital Investment Benefits - Infrastructure

As a result of the $516 million capital funding program approved in Budget 2007 and the $387 million of Economic Action Plan funding approved in Budget 2009, VIA will be in a position to introduce new train frequencies between Montreal, Ottawa and Toronto. These new train frequencies and their revenue impact are described in detail in Section 5.1.1 of this Plan, and are expected to improve VIA's bottom line by $25 million over the period of the Plan, with close to $1 million realized in 2013.

6. CAPITAL FUNDING BETWEEN 2013 AND 2017

6.1 Capital Budget

The 2007 and 2009 Budgets provided VIA with $903 million in capital funding, along with $20 million in new major maintenance and overhaul (MOS) funding. The remaining capital funding of $115.7 million will be spent by 2015. In addition, Budget 2012 provided VIA with $60 million in capital funding to address ongoing capital requirements. These funds will allow VIA to make significant investments in equipment, rail infrastructure, stations and information technology systems. These investments will contribute to VIA's viability, sustainability and growth.

VIA's forecasted capital expenditures over the 2013 to 2017 Plan period are $443.4 million. The $407 million provided in the 2009 Budget under Canada's Economic Action Plan was spent by the March 31, 2012 deadline. With $117.8 million of committed capital to be spent in 2013, VIA's approved capital funding, including the remaining Asset Renewal Fund, will be entirely depleted by the end of 2015.

VIA is seeking authority to reprofile $3.2 million from FY 2011-2012 capital funding and $75.9 million from FY 2012-2013 capital funding to FY 2013-2014 ($42.9 million) through the 2013-

2014 Supplementary Estimates (B) and FY 2014-2015 ($36.2 million) through the 2014-2015 Annual Reference Level Update to complete work on committed capital projects. These funds were originally approved in the $516 million capital program provided to VIA in Budget 2007 and in the $60 million supplementary capital funding approved in Budget 2012.

6.2 Major Equipment

In terms of the $903 million capital program, $284.7 million is allocated to equipment rebuild projects. Of the five major equipment rebuild projects described in greater detail below, a total of $216 million has been spent on work completed prior to 2013, including the rebuild of the fleet of F-40 locomotives. During the period of this Plan, VIA expects to spend $68.7 million on equipment projects. Further details pertaining to each of these equipment projects are provided below.

6.2.1 Rebuild of LRC Cars

The total funding originally allocated to the LRC rebuild was $120 million. The benefits of rebuilding these cars include the extension of their useful life by 15 to 20 years, savings related to decreased regular and major maintenance, increased reliability, enhanced passenger comfort, fuel savings and environmental enhancements.

The project to rebuild 98 LRC (Light, Rapid, Comfortable) cars was awarded to Industrial Rail Services (IRSI) in Moncton, New Brunswick in April 2009. IRSI, despite the technical support, acceptance of revised delivery dates and other assistance provided by VIA, could not meet any reasonable timeframe for completion. IRSI's delays, which were caused due to design mistakes compounded by poor production planning, culminated in the lay-off of approximately half of the company's workforce in March, 2012. In April 2012, work on the LRC cars ceased completely when IRSI was placed in receivership due to the company's inability to meet financial obligations to the Government of New Brunswick. Ernst & Young was appointed to act as Receiver to the IRSI assets.

As a result of IRSI's inability to fulfill contractual obligations, the following measures have been taken to complete the project:

- The New Brunswick Court approved the appointment of CAD Railway Industries Inc. to compete 10 unfinished coach cars in Moncton.
- VIA developed an interim scope of work for the LRC Business-class cars, and has tendered work packages to complete all 26 cars, including performing basic overhaul of mechanical systems, at VIA's maintenance facility in Montreal.

VIA has also prepared a revised scope of work to complete the 52 remaining LRC coaches and is considering adding these cars to the production plan being prepared by CAD Railway Industries Inc. Based on the revised scope of work, VIA has adjusted the original capital funding to rebuild the LRC cars downward by $13.5 million, to $106.5 million. The $13.5 million has been used to fund other equipment projects.

6.2.2 Transcontinental Stainless Steel (HEP 1) Modernization

A total of 87 cars assigned to *The Canadian* have benefited from investments made as part of the $903 million capital program. The improvements include mechanical system overhauls together with a new modernized interior look. As well, 12 of *The Canadian* cars (8 Chateau and 4 Park) are undergoing a rebuild and will have a modern configuration and amenities commensurate to current travellers expectations. Moreover, the four Park cars will be equipped with wheel chair accessible cabins and integrated on-board wheel chair lifts. This work is being completed at Julien Inc. in the Quebec City area. The first of these cars, a Park car and two Manor cars, will be available for service in the spring of 2014. All 12 cars are expected to be completed by the end of 2014.

6.2.3 Renaissance Cars – Accessibility Improvements and Other Modifications

Within the context of the $903 million capital program, $8 million has been allocated to carry out accessibility, safety and other modifications on the Renaissance equipment.

A brief summary of the modifications designed in accordance with the Canada Transportation Agency (CTA) Code of Practice for Passenger Rail Car Accessibility is outlined below:

- Three sleeping cars have been modified so that each of the trainsets assigned to *The Ocean* has an accessible bedroom.

- Nine coach cars – one for each of the six Renaissance Corridor trains and one for each of the three *Ocean* trainsets – now have a large accessible washroom.

- Every coach car (47 cars) will be modified in order to provide sufficient space for passengers who are traveling with service animals.

- In addition, at least two additional moveable aisle armrests will be installed on the double-seat side in all 47 coaches. These moveable aisle armrests allow for increased ease of entry into the seat for mobility impaired individuals.

This work was originally awarded to IRSI, however due to IRSI's inability to fulfill contractual obligations, VIA has transferred the accessibility modifications to its maintenance facilities in Montreal. As of October 2012, all coaches with accessible washrooms have been completed. All sleeping cars equipped with an accessible cabin were completed by August 2012. Therefore, as of October 2012, every Renaissance train is equipped with a coach equipped with an accessible cabin, and every overnight Renaissance train also includes a sleeping car with an accessible cabin. Due to IRSI's non-performance, VIA opted to complete work on the 35 remaining coaches at the Montreal maintenance facility, while outsourcing some elements of the project, in order to achieve the scheduled completion date of June 2014.

6.2.4 Rail Diesel Cars (RDC)

VIA has six Rail Diesel Cars (RDC) that are assigned to the Victoria – Courtenay and Sudbury – White River services. VIA is investing $15.8 million to rebuild its RDC car fleet. The rebuild was contracted to IRSI in Moncton, New Brunswick, and two rail cars had been completed but not delivered to VIA at the time IRSI was placed in receivership. The New Brunswick Court has approved the appointment of a new contractor with responsibility for restarting production at the Moncton facilities, and completing the four remaining RDCs. The Court order also allows VIA to regain possession of the two RDCs currently awaiting delivery in Moncton. CAD has completed two of the remaining 4 RDCs, with the last two expected to be completed by the fourth quarter of 2013.

6.3 Infrastructure

Between 2007 and 2017, $478.3 million will have been allocated to infrastructure projects to enhance safety, improve reliability, increase capacity and effectively reduce trip times in the Quebec City – Windsor Corridor. Track and signal improvement projects are being executed in conjunction with major station improvements on the Kingston subdivision, which have the same objective of increasing capacity. Further details pertaining to specific infrastructure projects are provided in the following sections.

6.3.1 Montreal – Ottawa - Toronto

VIA believes that its long-term viability rests with improving and growing passenger rail service in the Montreal-Ottawa-Toronto corridor, which accounts for approximately 50% of VIA’s revenue, and which has the greatest market potential. In order to support growth in this market, VIA has made significant investments in order to improve track capacity and increase the number of train connections between Montreal, Ottawa and Toronto.

A number of infrastructure projects between Montreal, Ottawa and Toronto have already been completed. VIA has undertaken upgrades to track on the Alexandria subdivision between Ottawa and Coteau, as well as the acquisition and upgrade of the Smiths Falls subdivision from Richmond to Smiths Falls. As a result of this acquisition, VIA now owns all the infrastructure over which its trains operate between Coteau, Ottawa and Smiths Falls.

In addition, investments in automatic warnings and gate protection at public crossings, security fencing and Centralized Traffic Control signal systems, as well as new rail and ties have been installed from Coteau to Brockville via Ottawa.

6.3.2 Ottawa – Brockville

Of the $40.3 million investment to be spent on the infrastructure between Ottawa and Brockville, $2.4 million remains to be spent over the period of this Plan on the installation of Centralized Traffic Control signal systems, as well as fencing and additional sidings on the infrastructure between Ottawa and Brockville. This project will result in the elimination of non-signaled territory on the entire length of the CP Brockville and VIA Smiths Falls subdivisions, as well as improved operations, at higher speeds, through the town of Smiths Falls, on the CP main line.

As a result of the infrastructure investments between Ottawa and Toronto, VIA will achieve an improvement in effective trip times and will also be able to add additional frequencies (four trains) on this service, the first already in place since December 2012, with additional trains planned in 2016.

6.3.3 Brockville – Toronto

In October 2009, VIA concluded an agreement with CN to add four sections of triple track between Brockville and Toronto. This infrastructure investment also includes station improvements of $55 million between Brockville and Oshawa. The improvements at Belleville Station have been completed and Oshawa Station is almost complete. The improvements to Brockville and Cobourg are currently ongoing. As a result, the total investment between Brockville and Toronto will be $373.1 million.

The need to decontaminate portions of leased CN land uncovered during construction of the overhead walkway and island platform at Oshawa has extended the schedule for rebuilding the station access track at Oshawa. Following the commissioning of the overhead pedestrian walkway and platforms in September, CN finalized the work to realign the third (station) track. As a result of these infrastructure improvements VIA has introduced the additional frequencies as described in in Section 5.1.1 of this Corporate Plan.

6.3.4 Toronto – London (Guelph-North Main Line)

An amount of $28 million is allocated to improving signalling and safety on CN's North Main Line in Southwestern Ontario (between Toronto and London via Kitchener). The Guelph Subdivision is non-signaled territory with train movements controlled by an Occupancy Control System (OCS). Operational safety will be enhanced by installing new automated Centralized Traffic Control on the non-signaled portions. Upgrades will be made to automate highway crossing protection warning systems where required which will improve safety on the North Main Line. The infrastructure is now operated by Genesse & Wyoming (GWRR) under a long-term lease from CN.

6.3.5 Other Capital

VIA forecasts $52.7 million in capital expenditures to address ongoing capital requirements in 2013. These projects include the following:

- On-board bearing monitoring on all rolling stock;
- Replacement of heat tracing systems;
- Tie replacement and ballast upgrade on VIA-owned infrastructure;
- Centralized Traffic Control (CTC) signalling upgrade at Coteau/De Beaujeu;
- Maintenance centre track repairs and tie replacement;
- Signalling improvements;
- Completion of the upgrade of potable water systems;
- Upgrade of Oracle (accounts payable and inventory system);
- Reservation system improvements;

- Replacement of obsolete network equipment;
- Improvement to information technology security;
- Renovation of Winnipeg Station;
- Upgrade to baggage handling equipment;
- Implementation of Telemetric system to measure train systems performance;
- Maintenance of the Wi-Fi system.

7. CHALLENGES

This section outlines the issues and risks that the Corporation will face over the planning horizon, and describes the Corporation's strategies aimed at mitigating these risks.

7.1 Contributions to Pension Plans

In early 2010, VIA made changes to its unionized and management pension plan practices, which reduced the solvency deficit by $200 million in 2012 and administrative costs by $4 million per year. Despite these changes, employer pension contributions will continue to be required, subject to capital market conditions. VIA expects annual pension contributions will increase to $107 million in 2014, and subsequently decline to $41 million by 2017. The accumulated funding shortfall in VIA's pension plans over the Plan period is $295 million.

The level of reserves needed in the plan to meet projected payouts is determined through audits conducted by the Office of the Superintendent of Financial Institutions. VIA is legally obligated to comply with the results of the audit.

VIA continues to review potential amendments to the structure of both pension plans and is introducing changes to plan practices in order to reduce current service payments, which are estimated at $22 million in 2013. VIA has advised unionized and non-unionized employees that the share of employee pension contributions will be progressively increased to 50% over the medium-term, which aligns with Government of Canada efforts to shift to a balanced 50/50 contribution rate for the federal public service, as announced in Budget 2012.

7.2 Passenger Revenues

Passenger revenues are forecast to reach $264.3 million in 2013, a 2.6% increase over 2012, then increase annually by 1.5% in 2014, 2.8% in 2015, and by 4.8% in 2016 as new frequencies are introduced in the Corridor. In 2017, passenger revenues are forecast at $295 million, a 14.6% increase during the planning horizon.

The airline and motorcoach industries are dealing with weakening business and non-business travel markets by continuing to improve product and service offerings to preserve their markets. In the absence of an expanding market, growth depends on diverting traffic from competing modes by reacting quickly to competitors' offerings, as well as leveraging investments in equipment and infrastructure. The entry of low-price carriers into regional markets and the availability of more fuel-efficient vehicles have succeeded in lowering the perceived cost of these travel alternatives to rail. Furthermore, the recovery of consumer and business confidence has flattened out, and reductions in debt-financed spending by households and government is reducing travel spending. VIA will ensure that lower price points are more readily available, especially to travellers in shorter-distance markets where car travel is the dominant mode, and will target advertising expenditures to encourage car travellers in these markets to shift to rail. While economic conditions require short-term tactical pricing as a means of stimulating and retaining customers, long-term market share growth depends on successfully leveraging VIA's on-board technology and station investments. VIA is implementing market strategies that emphasize the benefits of rail travel, focusing on better use of time, access to Wi-Fi, avoidance of highway (and airport) congestion and availability of e-ticketing and mobile reservations.

The new Montreal-Ottawa-Toronto operating plan is expected to generate $92 million in new revenues during the period of the Plan. This revenue increment accounts for 7% of VIA's forecast 2013-2017 revenues and relates directly to the planned 18% increase in Montreal-Ottawa-Toronto frequencies, with one frequency already introduced between Ottawa and Toronto and an additional frequency planned for 2016. In addition to the round trip that VIA introduced between Ottawa and Toronto in December, VIA also introduced a Friday/Sunday round trip between Montreal and Toronto. In addition to the Montreal-Ottawa-Toronto improvements, VIA also introduced an additional round trip between Montreal and Quebec City.

7.3 **2013-2017 Operating Deficit exceeds Government Reference Levels**

VIA expects to incur an operating funding shortfall over the period of the Plan. To reduce the operating shortfall, VIA is in the process of implementing a number of initiatives that were developed as part of this Corporate Plan and the 2011-2015 Corporate Plan. However, even with successful implementation of ongoing initiatives to reduce its operating requirements, VIA will be unable to operate within its revised operating reference levels.

7.4 **Equipment Rebuild Projects Cannot be Completed with Available Funding.**

Work on the LRC rebuild project, Renaissance equipment project and RDC rebuild contracts ceased in April 2012 when the contractor, IRSI, was placed into receivership by the Province of New Brunswick. As well, work in the Transcontinental Stainless Steel (HEP 1) Modernization project has been transferred to Julien Inc. As noted in Section 6.2, VIA has instituted mitigation measures and will offset the additional capital costs resulting from the bankruptcy of IRSI and the non-performance of Avalon by revising both the scope of work and the quantity of LRC cars to be rebuilt, and/or through the use of new ongoing capital funding, should additional capital funding be approved. It is estimated that $80 million is required to complete the entire fleet of LRC cars. As a result of the project delays, the benefits expected from deploying the modernized rebuilt cars will be deferred. Additional measures are being identified to contain costs, such as improved cycling in the Corridor and the introduction of efficiencies in stations.

7.5 **2014-2017 Capital Funding**

VIA requires ongoing capital funding to keep its capital assets in a state of good repair through regular maintenance and replacement of equipment, track and other infrastructure. Capital funding is one of the components that contributes to VIA achieving its objectives as described in this Plan, including the health, safety, security, environmental and basic operational objectives and plans.

7.6 Fuel Cost Fluctuations

Fuel is a significant cost element for VIA. VIA has taken measures to reduce its fuel consumption, such as rebuilding locomotives and limiting excessive engine idling. As a result, locomotive fuel consumption continues to decline (by 14 M litres since 2007 or 24% by the end of 2012). VIA uses financial instruments to hedge its exposure to fuel prices and related currency risk, which adds certainty to future fuel costs and has delayed the impact of fuel price fluctuations.

For 2013, VIA has hedged 83% of its diesel fuel requirements, at an average hedged price of $97.75 USD per barrel for crude oil positions and $2.97 USD per gallon for heating oil positions. Given the current hedged position, for every $5 variation in the price per barrel of West Texas Intermediate, VIA's cost could increase/decrease by $0.30 million all else being equal in 2013. VIA has hedged approximately 50% of its commodity price exposure related to fuel purchases in 2014 and 10% for 2015.

Given that contracts used to hedge fuel prices are denominated in USD, VIA also hedges against foreign exchange risk. VIA has hedged 77% of its U.S. dollar exposure related to fuel purchases in 2013. For the remaining 23% that is unhedged, VIA estimates that a 5% variation in the exchange rate would result in an increase/decrease of fuel costs by $0.3 million in 2013 all else being equal. At the time of writing, VIA has hedged approximately 50% of its foreign currency exposure related to fuel purchases in 2014.

7.7 Compensation and Succession Planning

VIA has recently concluded negotiations for a three-year labour agreement with its on-train personnel (excluding engineers), off-train, and shop workers. The new labour agreement contains wage increases that are partially offset by increased employee pension plan contributions. In addition, VIA is currently negotiating the introduction of a redesigned pension plan for new hires.

VIA has a succession planning program in place to retain talent and replace critical positions as they are vacated. VIA has also launched a Locomotive Engineer Development Program to address succession needs in this area as locomotive engineers are VIA’s most senior employees and are not easily replaced.

7.8 Infrastructure

7.8.1 Cost and Adequacy of Track Access

CN owns 70% of the infrastructure on which VIA passenger trains operate, and shares in the benefits accruing from the infrastructure investments that VIA is making in the Corridor. The new infrastructure has been integrated within CN’s regular maintenance-of-way programs to protect improvements in reliability and on-time performance, as well as reduce the impact of track maintenance on passenger train operations.

VIA and CN have agreed on an incentive framework that should maintain high levels of on-time train reliability and ensure VIA is able to introduce new frequencies and schedules between Montreal-Ottawa-Toronto now that the infrastructure improvement projects have been completed.

These new frequencies (described in section 5.1.1 above) emphasize faster, more convenient schedules for trains operating between Brockville and Toronto. Train schedules are now adjusted in anticipation of seasonal work programs through better consultation with CN. This will avoid systemic train delays that erode customer satisfaction and lead to increased service recovery costs (the additional operating costs and potential customer accommodation costs associated with delayed trains).

In addition, the CTA has rendered a decision in answer to VIA's appeal to set aside a complaint by CP Rail that new frequencies would interfere with its train operations at Smiths Falls. The CTA's decision, rendered on May 17, 2013 was favourable to VIA as CP has been ordered to allow VIA's requested three additional round trips on CP's infrastructure without the need for VIA to make any additional infrastructure investments.

7.8.2 Discontinuance of Service

The *Canada Transportation Act* provides a mechanism for the discontinuance of service on sections of track that the infrastructure owner considers no longer economically viable. The mechanism provides an opportunity for potentially interested parties to acquire the rail line before service is discontinued. If no interested buyer can be found, the railway company has the right to discontinue service on the line and abandon it. In the past, where train operations have been at risk from planned service discontinuance, VIA has often been able to acquire sections of the infrastructure to maintain its service.

Currently, a major section of track on which *The Ocean* operates through New Brunswick, the Newcastle subdivision, has changed ownership several times in recent years. The current owner, CN, identified this portion of its track for service discontinuance in August 2012.

7.8.3 Shortline Infrastructure Condition

Infrastructure on some shortlines is not maintained to the same standards as Class 1 Railroads. To maintain safety, speeds are often reduced through slow orders, which results in poorer on-time performance and reliability. In certain instances, VIA has had to suspend service altogether. Mitigation measures are dependent upon specific circumstances and conditions, but are largely restricted to schedule adjustments. However, mitigation measures can, if necessary, include service truncation, temporary alternate transportation or service cancellation.

The majority of VIA's regional and remote train services depend on shortlines for track access, and train performance has steadily deteriorated due to deferred maintenance and lack of investment in the infrastructure. For this reason, train service has been suspended on Vancouver Island and along the Gaspé coast, pending repairs to deteriorating track and bridge structures by the shortline railways who own the infrastructure.

8. FUNDING CONSIDERATIONS

8.1 Operating, Pension and Capital

The last major consideration of VIA's multi-year funding was in 2007 when funding levels for five years were set. VIA will work with Transport Canada and Central Agencies to address requirements for its operating, pension and capital for the next five years.

9. SPECIFIC APPROVALS REQUESTED

Treasury Board approved the Minister of Transport's recommendations for approval of VIA's 2013-2017 Corporate Plan, with conditions, and the 2013 Operating and Capital Budgets on September 27, 2013.

FINANCIAL TABLES

VIA RAIL CANADA INC.
2013 - 2017 CORPORATE PLAN SUMMARY
OPERATING FUNDING STATEMENT

VIA FISCAL YEAR ENDING DECEMBER 31ST									
(MILLIONS OF DOLLARS)	ACTUAL	ACTUAL			PLAN			TOTAL	% Change
	2011	2012	2013	2014	2015*	2016	2017	2013-2017	2017 vs 2012
REVENUES									
Total Operating Revenues	**282.8**	**276.9**	**283.4**	**287.9**	**295.9**	**309.5**	**315.8**	**1,492.6**	**14.1%**
EXPENSES									
Total Operating Expenses	**499.6**	**485.8**	**495.4**	**502.0**	**520.8**	**527.1**	**538.1**	**2,583.4**	**10.8%**
Operating Deficit Before Government Subsidy and Pension Costs	**(216.8)**	**(208.9)**	**(212.0)**	**(214.1)**	**(224.9)**	**(217.6)**	**(222.3)**	**(1,090.8)**	**6.4%**
PENSION COSTS									
Total Pension Costs	**44.1**	**70.2**	**92.0**	**107.0**	**86.0**	**61.0**	**41.0**	**387.0**	**-41.6%**
Operating Deficit Before Government Subsidy	**(260.9)**	**(279.1)**	**(304.0)**	**(321.1)**	**(310.9)**	**(278.6)**	**(263.3)**	**(1,477.8)**	**-5.7%**
less: Government Operating Funding	175.3	166.4	153.8	147.9	146.8	146.8	146.8	742.1	
less: Transfer between capital and operating	(8.3)	-	-	-	-	-	-	-	
less: Supplementary Government Operating Funding	98.0	113.0	150.2	3.5	-	-	-	153.7	
Operating Funding Surplus / (Deficit)	**4.2**	**0.3**	**-**	**(169.7)**	**(164.1)**	**(131.8)**	**(116.5)**	**(582.1)**	

NOTE: May not add due to rounding

*** Including an additional pay period**

VIA RAIL CANADA INC.
2013 - 2017 CORPORATE PLAN SUMMARY
SUMMARY - TOTAL CAPITAL EXPENDITURES

VIA FISCAL YEAR ENDING DECEMBER 31ST									
(MILLIONS OF DOLLARS)	ACTUAL	ACTUAL	PLAN					TOTAL	TOTAL
	2007-2011	2012	2013	2014	2015	2016	2017	2013-2017	2007-2017
MAJOR CAPITAL PROGRAMS									
Equipment Projects	166.9	49.1	27.3	32.5	8.9	-	-	68.8	284.7
Infrastructure Projects	366.5	70.0	30.6	11.2	-	-	-	41.7	478.3
Other Capital Program	143.6	51.3	59.8	86.0	67.1	60.0	60.0	332.9	527.8
Total Capital Expenditures	**677.0**	**170.4**	**117.8**	**129.7**	**76.0**	**60.0**	**60.0**	**443.4**	**1,290.8**
less: use of Asset Renewal Fund (ARF)	(12.3)	(3.1)	(2.5)	(4.5)	(7.1)	-	-	(14.1)	(29.5)
Transfer of Operating Funding	(10.0)	(8.3)	-	-	-	-	-	-	(18.3)
Gov't Capital Funding Required	**654.7**	**159.0**	**115.2**	**125.2**	**68.9**	**60.0**	**60.0**	**429.3**	**1,243.0**
Total Gov't Capital Funding	**654.7**	**159.0**	**115.2**	**80.2**	**8.9**	**-**	-	**204.3**	**1,018.0**
Funding Shortfall / (Surplus)	**-**	**-**	**-**	**45.0**	**60.0**	**60.0**	**60.0**	**225.0**	**225.0**
Additional Funding Required	**-**	**-**	**-**	**45.0**	**60.0**	**60.0**	**60.0**	**225.0**	**225.0**

NOTE: May not add due to rounding

VIA RAIL CANADA INC.

2013 - 2017 CORPORATE PLAN SUMMARY

FUNDING REQUIREMENTS AND SOURCES

VIA FISCAL YEAR ENDING DECEMBER 31ST	ACTUAL	ACTUAL	PLAN					TOTAL	TOTAL
(MILLIONS OF DOLLARS)	2007-2011	2012	2013	2014	2015	2016	2017	2013-2017	2007-2017
GOVERNMENT FUNDING AVAILABLE									
Reference Level	1,008.9	169.0	169.0	169.0	169.0	169.0	169.0	845.0	2,022.9
Funding Reduction - Gov't Efficiency Tax	(5.5)	(2.6)	(2.6)	(2.6)	(2.6)	(2.6)	(2.6)	(13.1)	(21.2)
Funding Reduction - VIA efficiencies	-	-	(12.6)	(18.5)	(19.6)	(19.6)	(19.6)	(89.9)	(89.9)
Total Operating Funding	**1,003.5**	**166.4**	**153.8**	**147.9**	**146.8**	**146.8**	**146.8**	**742.1**	**1,911.9**
Funding for MOS - Stimulus Package	20.0	-	-	-	-	-	-	-	20.0
Additional Operating Funding Approved	173.0	113.0	150.2	3.5	-	-	-	153.7	439.7
Total Operating Funding - 2012 Corp Plan (2012-13 ARLU)	**1,196.5**	**279.4**	**304.0**	**151.4**	**146.8**	**146.8**	**146.8**	**895.8**	**2,371.6**
Total Capital Funding - 2012 Corp Plan (2012-13 ARLU)	**654.7**	**222.8**	**123.3**	**17.2**	**-**	**-**	**-**	**140.5**	**1,018.0**
Total Gov't Funding Available - 2012 corp plan (2012-13 ARLU)	**1,851.1**	**502.2**	**427.3**	**168.6**	**146.8**	**146.8**	**146.8**	**1,036.3**	**3,389.6**
VIA FUNDING REQUIREMENTS									
Operating Deficit	1,198.4	279.1	304.0	321.1	310.9	278.6	263.3	1,477.8	2,955.4
Less Use of Asset Renewal Fund (ARF)	(35.0)	-	-	-	-	-	-	-	(35.0)
Transfer Operating Funding to Capital Funding	18.3	-	-	-	-	-	-	-	18.3
Total Operating Funding required	**1,181.8**	**279.1**	**304.0**	**321.1**	**310.9**	**278.6**	**263.3**	**1,477.8**	**2,938.7**
Capital Expenditures	677.0	170.4	117.8	129.7	76.0	60.0	60.0	443.4	1,290.8
Less Use of Asset Renewal Fund (ARF) - Capital	(12.3)	(3.1)	(2.5)	(4.5)	(7.1)	-	-	(14.1)	(29.5)
Transfer Operating Funding to Capital Funding	(10.0)	(8.3)	-	-	-	-	-	-	(18.3)
Total Capital Funding required	**654.7**	**159.0**	**115.2**	**125.2**	**68.9**	**60.0**	**60.0**	**429.3**	**1,243.0**
Total Via Gov't Funding Required	**1,836.5**	**438.2**	**419.2**	**446.3**	**379.8**	**338.6**	**323.3**	**1,907.1**	**4,181.7**
FUNDING DEFICIT									
Operating Funding Surplus / (Deficit)	14.7	0.3	-	(169.7)	(164.1)	(131.8)	(116.5)	(582.1)	(567.1)
Capital Funding Surplus / (Deficit)	-	63.8	8.1	(108.0)	(68.9)	(60.0)	(60.0)	(288.8)	(225.0)
Total Funding Surplus/(deficit)	**14.7**	**64.1**	**8.1**	**(277.7)**	**(233.0)**	**(191.8)**	**(176.5)**	**(870.9)**	**(792.1)**
ADDITIONAL FUNDING REQUESTED									
Additional Operating Funding - Operating Deficit Before Pension	-	-	-	62.7	78.1	70.8	75.5	287.1	287.1
Additional Operating Funding - Pension Plans	-	-	-	107.0	86.0	61.0	41.0	295.0	295.0
Additional Capital Funding (1)	-	-	-	45.0	60.0	60.0	60.0	225.0	225.0
Total Additional Funding Requested	**-**	**-**	**-**	**214.7**	**224.1**	**191.8**	**176.5**	**807.1**	**807.1**
CAPITAL FUNDING REPROFILLING									
New Proposed Reprofiling of Capital Funding	-	(63.8)	(8.1)	63.0	8.9	-	-	63.8	-
Total Capital Funding Reprofilling Requested	**-**	**(63.8)**	**(8.1)**	**63.0**	**8.9**	**-**	**-**	**63.8**	**-**

NOTE: May not add due to rounding

VIA RAIL CANADA INC.

2013 - 2017 CORPORATE PLAN SUMMARY

FUNDING REQUIREMENTS AND SOURCES

GOV FISCAL YEAR YEAR ENDING MARCH, 31ST									
	ACTUAL	ACTUAL	PLAN					TOTAL	TOTAL
(MILLIONS OF DOLLARS)	2008-2012	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018	2013-2018	2008-2018
GOVERNMENT FUNDING AVAILABLE									
Reference Level	1,020.9	169.0	169.0	169.0	169.0	169.0	169.0	845.0	2,035.0
Funding Reduction - Gov't Efficiency Tax	(7.6)	(2.6)	(2.6)	(2.6)	(2.6)	(2.6)	(2.6)	(13.1)	(23.3)
Funding Reduction - VIA efficiencies	-	(5.1)	(15.1)	(19.6)	(19.6)	(19.6)	(19.6)	(93.5)	(98.6)
Total Operating Funding	**1,013.3**	**161.3**	**151.3**	**146.8**	**146.8**	**146.8**	**146.8**	**738.4**	**1,913.1**
Funding for MOS - Stimulus Package	20.0	-	-	-	-	-	-	-	20.0
Additional Operating Funding Approved	173.0	113.0	153.7	-	-	-	-	153.7	439.7
Total Operating Funding - 2012 Corp Plan (2012-13 ARLU)	**1,206.3**	**274.3**	**305.0**	**146.8**	**146.8**	**146.8**	**146.8**	**892.1**	**2,372.8**
Total Capital Funding - 2012 Corp Plan (2012-13 ARLU)	**704.7**	**221.6**	**91.5**	**0.1**	**-**	**-**	**-**	**91.6**	**1,018.0**
Total Gov't Funding Available - 2012 corp plan (2012-13 ARLU)	**1,911.0**	**495.9**	**396.5**	**146.9**	**146.8**	**146.8**	**146.8**	**983.8**	**3,390.8**
VIA FUNDING REQUIREMENTS									
Operating Deficit	1,223.0	283.6	305.0	333.3	299.3	274.9	260.5	1,473.0	2,979.6
Less Use of Asset Renewal Fund (ARF) - Operating	(34.9)	-	-	-	-	-	-	-	(34.9)
Transfer Operating Funding to Capital Funding	18.3	(9.3)	-	9.3	-	-	-	9.3	18.3
Total Operating Funding required	**1,206.3**	**274.3**	**305.0**	**342.6**	**299.3**	**274.9**	**260.5**	**1,482.3**	**2,962.9**
Capital Expenditures	732.1	139.6	136.8	110.1	67.1	60.0	60.0	434.0	1,305.8
Less Use of Asset Renewal Fund (ARF) - Capital	(12.3)	(3.2)	(2.4)	(4.5)	(7.1)	-	-	(14.0)	(29.5)
Transfer Operating Funding to Capital Funding	(18.3)	9.3	-	(9.3)	-	-	-	(9.3)	(18.3)
Total Capital Funding required	**701.5**	**145.7**	**134.4**	**96.3**	**60.0**	**60.0**	**60.0**	**410.7**	**1,258.0**
Total Via Gov't Funding Required	**1,907.9**	**420.0**	**439.4**	**438.9**	**359.3**	**334.9**	**320.5**	**1,893.0**	**4,220.9**
FUNDING DEFICIT									
Operating Funding Surplus / (Deficit)	-	-	-	(195.9)	(152.5)	(128.1)	(113.7)	(590.2)	(590.2)
Capital Funding Surplus / (Deficit)	3.2	75.9	(42.9)	(96.2)	(60.0)	(60.0)	(60.0)	(319.1)	(240.0)
Total Funding Surplus/(deficit)	3.2	**75.9**	**(42.9)**	**(292.1)**	**(212.5)**	**(188.1)**	**(173.7)**	**(909.3)**	**(830.2)**
ADDITIONAL FUNDING REQUESTED									
Additional Operating Funding - Operating Deficit Before Pension	-	-	-	88.7	72.8	72.1	72.8	306.4	306.4
Additional Operating Funding - Pension Plans	-	-	-	107.2	79.8	56.0	40.9	283.8	283.8
Additional Capital Funding (1)	-	-	-	60.0	60.0	60.0	60.0	240.0	240.0
Total Additional Funding Requested	-	-	**-**	**255.9**	**212.5**	**188.1**	**173.7**	**830.2**	**830.2**
CAPITAL FUNDING REPROFILLING									
New Proposed Reprofiling of Capital Funding	(3.2)	(75.9)	42.9	36.2	-	-	-	79.1	-
Total Capital Funding Reprofilling Requested	**(3.2)**	**(75.9)**	**42.9**	**36.2**	**-**	**-**	**-**	**79.1**	**-**

NOTE: May not add due to rounding

VIA RAIL CANADA INC.
2013 - 2017 CORPORATE PLAN SUMMARY
STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME
(MILLIONS OF DOLLARS)

	ACTUAL	ACTUAL			PLAN		
Year ended December 31	2011	2012	2013	2014	2015	2016	2017
Revenues							
Passenger	264.8	257.0	264.3	268.3	275.8	289.1	295.0
Other	17.8	20.6	19.2	19.6	20.0	20.4	20.8
	282.6	**277.6**	**283.5**	**287.9**	**295.8**	**309.5**	**315.8**
Expenses							
Compensation and employee benefits	263.7	266.9	271.4	270.2	273.4	281.0	287.2
Train operations and fuel	126.5	123.9	121.5	123.1	128.8	134.1	136.9
Stations and property	33.3	34.0	35.5	36.1	36.8	37.5	38.2
Operating taxes	6.9	9.6	10.5	10.7	10.9	11.1	11.3
Professional services	7.8	9.6	9.8	10.0	10.2	10.4	10.6
Amortization and losses on write-down and disposal of property, plant and equipment and intangible assets	49.7	71.9	71.8	79.8	85.8	87.0	83.7
Unrealized loss (gain) on derivative financial instruments	2.4	1.4	-	-	-	-	-
Realized loss (gain) on derivative financial instruments	(6.3)	(1.6)	-	-	-	-	-
Other	24.6	22.6	23.5	29.2	29.0	29.0	28.8
	585.8	**612.3**	**622.7**	**638.2**	**655.6**	**673.3**	**681.6**
Operating loss before funding from the Government of Canada and corporate taxes	**303.2**	**334.7**	**339.2**	**350.3**	**359.8**	**363.8**	**365.8**
Operating funding from the Government of Canada	260.9	279.1	304.0	151.4	146.8	146.8	146.8
Amortization of deferred capital funding	46.5	82.0	70.3	77.7	83.6	84.8	81.5
Income (loss) before corporate taxes	**4.2**	**26.4**	**35.1**	**(121.2)**	**(129.4)**	**(132.2)**	**(137.5)**
Corporate tax expense (recovery)	(4.9)	-	-	-	-	-	-
Net income (loss) and comprehensive income (loss) for the year	**20.2**	**21.5**	**35.1**	**(121.2)**	**(129.4)**	**(132.2)**	**(137.5)**
Amounts not to be reclassified subsequently to net income:							
Actuarial gains (losses) on defined benefit plans	(288.1)	(101.2)	-	-	-	-	-
Other comprehensive income (loss) for the year	**(288.1)**	**(101.2)**	-	-	-	-	-
Total comprehensive income (loss) for the year	**(279.4)**	**(74.8)**	**35.1**	**(121.2)**	**(129.4)**	**(132.2)**	**(137.5)**
Reconciliation of Net income (loss) for the year to Government Funding Basis							
Total comprehensive income (loss) for the year	**(279.4)**	**(74.8)**	**35.1**	**(121.2)**	**(129.4)**	**(132.2)**	**(137.5)**
Items not requiring (not providing) operating funds:							
Amortization and losses on write-off and disposal of capital assets	50.0	82.7	71.8	79.8	85.8	87.0	83.7
Employee benefits to be funded in subsequent years	273.7	74.0	(37.6)	(51.6)	(29.5)	(3.4)	17.8
Unrealized net loss (gain) on derivative financial instruments	2.4	1.4	-	-	-	-	-
Deferred corporate taxes expenses	(1.4)	-	-	-	-	-	-
Adjustment for accrued compensation	1.6	(0.7)	0.6	0.6	(7.8)	1.2	0.6
Change in investment fair value	(0.4)	(1.1)	-	-	-	-	-
Other	-	0.5	0.4	0.4	0.4	0.4	0.4
Operating funding surplus (deficit) for the year	-	-	-	**(169.7)**	**(164.1)**	**(131.8)**	**(116.5)**

Pro-forma Financial Statements prepared in accordance with International Financial Reporting Standards

VIA RAIL CANADA INC.
2013 - 2017 CORPORATE PLAN SUMMARY
BALANCE SHEET
(MILLIONS OF DOLLARS)

	ACTUAL	ACTUAL			PLAN		
Year ended December 31	2011	2012	2013	2014	2015	2016	2017
Current assets							
Cash and cash equivalents	13.3	15.9	3.0	3.0	3.0	3.0	3.0
Accounts receivable, trade	10.7	6.8	8.1	8.2	8.5	8.9	9.0
Prepaids, advances on contracts and other receivables	11.1	6.0	5.5	5.0	5.2	5.4	5.6
Receivable from the Government of Canada	-	10.4	35.0	-	-	-	-
Derivative financial instruments	2.2	0.8	0.8	0.8	0.8	0.8	0.8
Materials	21.3	22.6	25.0	26.0	27.0	28.0	29.0
Asset renewal fund	24.0	13.2	4.5	7.1	-	-	-
Intangible assets	337.2	398.3	419.5	420.5	403.1	384.0	368.5
Asset renewal fund	9.9	2.5	7.1	-	-	-	-
Sub Total	**1,162.0**	**1,241.1**	**1,291.7**	**1,334.5**	**1,324.7**	**1,297.7**	**1,274.0**
TOTAL ASSETS	**1,244.6**	**1,316.8**	**1,373.6**	**1,384.6**	**1,369.2**	**1,343.8**	**1,321.4**
Current liabilities							
Accounts payable and accrued liabilities	103.8	103.0	29.7	59.0	130.3	202.7	278.9
Provisions	18.1	12.5	12.8	13.1	13.4	13.7	14.0
Deferred government funding	6.1	-	-	-	-	-	-
Derivative financial instruments	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Deferred revenue	26.7	27.4	24.7	26.0	27.6	28.9	30.2
Sub Total	**155.9**	**144.1**	**68.4**	**99.3**	**172.5**	**246.5**	**324.3**
Long-term liabilities							
Accrued benefit liability	314.4	388.3	441.1	494.9	550.4	608.0	666.8
Deferred corporate tax liabilities	-	-	-	-	-	-	-
Deferred investment tax credits	0.6	0.3	-	-	-	-	-
Other	-	-	-	-	-	-	-
Sub Total	**315.0**	**388.6**	**441.1**	**494.9**	**550.4**	**608.0**	**666.8**
Deferred capital funding	**1,143.8**	**1,229.0**	**1,273.9**	**1,321.4**	**1,306.7**	**1,281.9**	**1,260.4**
Shareholder's equity (deficiency)							
Share capital	9.3	9.3	9.3	9.3	9.3	9.3	9.3
Retained earnings (deficit)	(379.4)	(454.2)	(419.1)	(540.3)	(669.7)	(801.9)	(939.4)
Sub Total	**(370.1)**	**(444.9)**	**(409.8)**	**(531.0)**	**(660.4)**	**(792.6)**	**(930.1)**
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	**1,244.6**	**1,316.8**	**1,373.6**	**1,384.6**	**1,369.2**	**1,343.8**	**1,321.4**

Pro-forma Financial Statements prepared in accordance with International Financial Reporting Standards

VIA RAIL CANADA INC.
2013 - 2017 CORPORATE PLAN SUMMARY
STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY
(MILLIONS OF DOLLARS)

	ACTUAL	ACTUAL			PLAN		
Year ended December 31	2011	2012	2013	2014	2015	2016	2017
Share Capital	9.3	9.3	9.3	9.3	9.3	9.3	9.3
Retained Earnings							
Balance, beginning of year	66.3	(379.4)	(454.2)	(419.1)	(540.3)	(669.7)	(801.9)
Impact of adoption of revised accounting standards	(166.3)	-	-	-	-	-	-
Restated Balance Beginning of year	(100.0)	(379.4)	(454.2)	(419.1)	(540.3)	(669.7)	(801.9)
Net income (loss) for the year	8.7	26.4	35.1	(121.2)	(129.4)	(132.2)	(137.5)
Other comprehensive income (loss) for the year	(288.1)	(101.2)	-	-	-	-	-
Balance, end of year	**(379.4)**	**(454.2)**	**(419.1)**	**(540.3)**	**(669.7)**	**(801.9)**	**(939.4)**