VIA Rail Canada

THE FUTURE IS ON BOARD
L'AVENIR EST À BORD

SUMMARY OF THE 2018 – 2022 CORPORATE PLAN AND 2018 OPERATING AND CAPITAL BUDGETS

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EXECUTIVE SUMMARY

VIA Rail, which celebrates its 40th anniversary this year, operates Canada's national passenger rail service on behalf of the Government of Canada. Originally formed as a wholly owned subsidiary of Canadian National (CN), VIA Rail became an autonomous Crown Corporation devoted to rail passengers in 1978, and gradually acquired the former passenger services of CN and Canadian Pacific (CP) in that year. VIA Rail today is a non-agent, independent Crown corporation.

VIA Rail operates the national passenger rail service on behalf of the Government of Canada, providing intercity service and regional and essential remote rail transportation.

Services are divided between the Québec–Windsor corridor (the Corridor), connecting major cities in Central Canada, the Long-Haul overnight services connecting Halifax to Montréal and Vancouver to Toronto and a long list of communities in between, and Regional and Remote services, serving communities with limited or no other transportation services. The Corridor service attracts a wide range of passengers seeking a convenient and affordable means of travel for business or personal reasons, and the Long-Hauls are heavily used by tourists and by a base of intercity travellers. The Regional and Remotes, while not commercially viable, provide an essential public service to communities with limited access to supplies and services, while also making them accessible to some seasonal tourist traffic. As well, the Corporation is committed to making passenger rail the most accessible mode of intercity transport for Canadians who are physically disabled.

VIA Rail's Operating Environment

Since mid-2014 VIA Rail has experienced significant ridership and revenue growth, with 2017 having double digit growth year-over-year. Continuing into 2018 and beyond, the combination of service improvements, which have included increased frequencies (for example four additional daily Ottawa – Toronto frequencies), and improved service offerings have resulted with VIA Rail serving almost six hundred thousand additional Canadians. These improvements combined with the adjusted pension plan strategy resulted in a betterment of the Corporation's bottom line by over $51 million over the same period. Furthermore, whenever we have been able to improve services and add frequencies, the results have been positive.

In 2017, VIA Rail had $365.7 million in revenue, while carrying 4.4 million passengers, the best ridership results since 2011. This revenue and ridership growth, clearly demonstrates that Canadians value passenger rail. Remarkably, VIA Rail's cost per passenger mile has declined by 11 cents per mile, from 39 to 28 cents since 2014, a 28% reduction in the cost of providing mobility to Canadians.

VIA Rail employees, the most engaged workforce of any Crown corporation, strove hard to achieve these impressive results.

This growth has been accomplished despite battling against two crucial structural constraints of:

(1) an obsolete Québec-Windsor Corridor fleet; and

(2) a poor offering related to convenience (lack of frequency), lack of reliability (deteriorating on-time performance), longer trip times, and operating deficits consistently greater than the government funding reference level resulting from operating passenger trains on increasingly congested freight railway infrastructure. It should also be noted that long lead times and expensive capacity studies are required to negotiate additional frequencies.

Previously, despite favourable conditions, from 2003 to mid-2014, intercity passenger rail ridership in Canada declined, and VIA Rail's operating deficit increased. By the means of a major shift to a customer-centric passenger lead strategy, VIA Rail has, despite the constraints noted further on, managed to reverse that trend as noted above.

VIA Rail continues to build the customer-centric passenger-lead strategy with:

- The Heritage Fleet Modernization program, funded by the 2017 Federal Budget;
- The Corridor Fleet Renewal, as announced in the 2018 Federal Budget; and
- The possible approval of High Frequency Rail by 2019.

VIA Rail ranks high in Canadian public opinion with regard to trustworthiness, social responsibility, environmental responsibility and ethical practices, as evidenced in a recent independent study by the Faculty of Management of Dalhousie University. Overall, VIA Rail ranked highest among six transportation companies (three ground carriers and three airlines) in the Social License to Operate study.

Achieving Passenger Rail's Potential

VIA Rail's services enhance mobility and accessibility for all Canadians.

The Corporation provides extensive services to Indigenous communities across Canada, many of which depend on the train as the only viable or reliable means of transportation, in many cases for both the transportation of people and goods. In fact, VIA Rail's Long-Haul and Regional/Remote trains serve 192 First Nations reserves across Canada.

Every VIA Rail train provides a high level of accessible transportation to persons with disabilities. For those aged 15 or older, one in seven Canadians (14% in 2012) suffers from a disability. That ratio increases to 43% above 75 years of age. As the Canadian population continues to grow and age rapidly, the ratio and the actual number of people with disabilities will also markedly grow. VIA Rail trains provide a more accessible service than automobiles, buses, or airplanes, and VIA Rail is committed to continuing to make improvements particularly with the renewal of the fleet and continuing upgrades to stations.

Since 2014, as described in VIA Rail's Corporate Plans, the Corporation has been pursuing financially viable growth through its ongoing operations. VIA Rail is exploring opportunities to improve its offerings to Canadians and generate growth and financial viability through the expansion or addition of train services, including the acquisition or construction of new infrastructure. Initiatives that VIA Rail is currently analyzing and some others which have been underway for several years are part of these opportunities.

In December 2016, VIA Rail submitted business cases to Transport Canada with respect to two strategic initiatives with the objective of substantially modernizing and enhancing the importance and availability of VIA Rail service to Canadians, while improving its financial viability. The first initiative, the renewal of the Québec–Windsor corridor fleet, has been approved by the Government.

Corridor Fleet Renewal

On March 19, 2018, the Honourable Marc Garneau, Minister of Transport announced the replacement of our Québec City–Windsor corridor fleet with 32 new and modern trainsets that are more accessible and more reliable. Additionally, they will have improved amenities and will be more environmentally friendly. With this announcement, the constraint of an ageing and obsolete Corridor fleet is being addressed. The funding for this initiative has been identified in Budget 2018.

This is a strong sign of the Federal Government's continuing commitment to passenger rail and its confidence in VIA Rail. This new fleet will enhance Canadians' mobility and accessibility, reduce greenhouse gas emissions (GHGs), increase revenues and economic growth.

VIA Rail is well prepared for this procurement and has started, following Treasury Board approval, the Procurement Phase of the Corridor Fleet Renewal project and issued the Request for Qualifications (RFQ) to the market. On June 18, 2018 VIA Rail announced the names of the shortlisted applicants that will participate in the Request for Proposals (RFP) to manufacture the rolling stock. The qualified manufacturers will have until October 5, 2018 to submit a proposal.

Contract award is expected to take place in December 2018. Transport Canada will be an integral participant in this process.

Capacity Protection Plan

A number of LRC cars will be retired imminently. Prior to the fleet announcement, VIA Rail had prudently developed a Capacity Protection Plan to offset and mitigate some of the impact of fleet withdrawal.

With the approval of the Corridor Fleet Renewal, and the deliveries of the new fleet, the capacity issues will be mitigated and will be less disruptive than originally anticipated under the previous status quo through the implementation of the Capacity Protection Plan.

Further details may be found in Section 6.

High Frequency Rail

This initiative proposes to develop the practical and achievable strategy of High Frequency Rail (HFR) and build a dedicated passenger rail line between Québec, Montréal, Ottawa, and Toronto. Overall, that will increase Canadian rail capacity and optimize it by segregating, where possible, passenger and freight trains.

This would be achieved by building dedicated track on lightly used or abandoned freight railway rights-of-way (ROW). By decoupling freight and passenger rail services, more capacity is created for the sustainable transportation of both people and goods. Currently, the mixture of express passenger trains and slower freight trains allows for the movement of fewer trains than if all trains operated at similar speeds.

Increased frequencies, improved OTP and reliability, and travel times – are critical for growing ridership, increasing revenues, and reducing or eliminating the annual government subsidy provided to VIA Rail. Owning only 3% of the tracks over which it operates, these elements remain largely outside of VIA Rail's control.

VIA Rail continues to work with Transport Canada in the analysis and implementation of this modernization strategy and is very encouraged that the Government of Canada has reiteriated its interest in the dedicated tracks project by confirming that an additional $8 million dollars (to the original amount of $3.3 million from Budget 2016) has been allocated to Transport Canada for the continued study and analysis necessary before its implementation.

An efficient and reliable passenger rail alternative will also provide a more sustainable future for Canada, contribute to curbing climate change, and promote economic prosperity and socio-economic benefits while reducing the burden on the taxpayer.

While HFR is not a direct remedy for the terrible OTP of the *Canadian* (detailed hereafter), for which other solutions must be implemented, the performance of the *Canadian* should serve as the *'canary in a coal mine'* for what will happen sooner or later in the Corridor if no action is taken.

VIA Rail is hopeful that a positive response will be forthcoming from the Government of Canada regarding its HFR proposal. This would, coupled with the recently approved Fleet Renewal, represent a great leap for passenger rail service in Canada and be of great benefit to Canadians.

Long-Haul

VIA Rail's Long-Haul train services are facing serious threats, due to worsening OTP, track access and extended trip times.

The *Canadian*

Deterioration of the OTP of the *Canadian* is becoming unsustainable. During the peak 2017 season (May-October), 53% of all *Canadian* arrivals in Toronto were more than eight hours late. Additionally, as shown

below, the average delay for train 1, the Westbound *Canadian*, is closing in on 30 hours for the month of January 2018, with the longest observed delay being 43 hours. Moreover, due to late arrivals, many Westbound departures are delayed from an evening departure to early morning or next day.

Between the last quarter of 2017 and the first quarter 2018, average delay increased from 10 and 9.5 to 23 and 14 hours, for trains 1 and 2 respectively.

It is well established that the *Canadian*'s operating performance is directly related to CN's traffic volume. In 2016 CN's traffic volume was down by 5%, while the *Canadian*'s OTP improved by 16 percentage points. Whereas, in 2017 CN's traffic volume increased by 10.5%, while OTP deteriorated 46 percentage points. With a mounting grain backlog in western Canada, and the pressures on freight rail operators to alleviate the situation, we do not expect improvement in OTP, but rather even more delays as our peak 2018 season approaches.

Evolution of the *Canadian* OTP

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017
OTP	84%	84%	74%	70%	60%	33%	38%	54%	8%

Month	OTP West (#001)	OTP East (#002)	Maximum Delay (hours)		Average Delay (hours)	
			Train 001	Train 002	Train 001	Train 002
November 2017	0%	0%	13	17	9	11
December 2017	0%	11%	26	16	17	10
January 2018	0%	0%	43	33	29	19
February 2018	0%	13%	37	22	21	12
March 2018	0%	0%	26	15	20	15

This is not the first time that poor OTP has troubled the *Canadian*. In 2009, VIA Rail needed to add one additional night to the total journey, thus allowing more schedule "float" to insure that connections were met. Despite having lengthened by one additional night, OTP continued to deteriorate in the long-term. It has now reached the point of being truly detrimental to the viability of the service.

This results in an obvious adverse impact on our customer's experience and satisfaction, and also impacts our on-train, station and equipment maintenance employee's health and well-being.

As 2018 progressed, OTP continued to deteriorate.

Tourism operators have indicated their displeasure and many are contemplating leaving the *Canadian* off their offerings putting further pressure on the service. It is, as well, becoming increasingly difficult to arrange alternate accommodations, both for passengers and our crews. This situation is a serious embarrassment for Canada's reputation and the Canada brand, in North America and abroad. Travellers return home with the lasting impression wondering how a G7 nation cannot operate its trains on time.

Notwithstanding the cooperation towards the revised schedule, VIA Rail believes a better system for managing performance is needed. A mechanism to ensure reasonable and predictable OTP for the Canadian (as well as for all passenger trains) requires implementation, as currently there are no repercussions for the host railway for such poor performance. As this issue will not likely be resolved through negotiations, Transport Canada must consider intervening and provide assistance in delivering an equitable arrangement.

On May 25, 2018 two departures on the *Canadian* were cancelled with the goal of ending a series of excessive delays. This added to the urgency of finding and implementing solutions to improve the train's on-time performance.

As a result, VIA Rail has modified the schedule, as proposed by CN, of train 2 (Vancouver–Toronto) by adding nine additional hours to the schedule as well as increasing the station dwell times by one additional hour in both Winnipeg and Jasper for both East and Westbound trains.

The modified schedules will come into effect on July 26 for train No. 1, and on July 27 for train No. 2. VIA Rail will of course closely monitor the OTP of the Canadian following implementation of the new schedule.

Train 001	**Train 002**
• Departure from Toronto at 10 pm (status quo) • Extended travel times for an arrival in Vancouver at 6 pm (instead of 9:42 am)	• Departure from Vancouver at 12:00 pm (instead of 8:30 pm) • Extended travel times for an arrival in Toronto at 2 pm (instead of 9:30 am)

Additional mitigations contemplated: an optimal arrival window that permits the same day turn-around, add train riders (on-board mechanical staff) to further shorten turnarounds, augment staff to a level which assumes continuing delays, initiate a Rest Relief Plan, and training station agents with new protocols.

Without improvement in OTP, VIA Rail cannot effectively provide mandatory services, as the service is no longer a viable travel alternative in between and around Winnipeg, Saskatoon, Edmonton, Jasper, and Vancouver. The unreliability exacerbates the divide between the very schedule sensitive travellers and less schedule sensitive tourist travellers. In light of this, VIA Rail has for some time been advising passengers not to book same day connections. Mandatory services have seen significant drop-offs since the last quarter of 2017 which is directly linked to the lack of viability of the service for this purpose.

Also, due to operational issues with the host railway, in 2019, between Toronto and Edmonton, there will be a partial suspension of one peak-season frequency on the *Canadian*. Providing passenger rail service is a joint responsibility of VIA Rail and CN as a host infrastructure owner. Therefore, VIA Rail can only fulfill its mandate in close cooperation with CN. The actions proposed herein were arrived to in concert with CN as a solution to the current infrastructure capacity shortage which exists in Western Canada.

As noted above the *Canadian* experienced OTP issues with delays of up to 43 hours, an unsustainable situation. During a meeting held on May 30 between CN and VIA Rail executive to address the situation CN raised the possibility of suspending one peak frequency of the Canadian in 2019 due both to the increasing rail traffic congestion (increasing grain and oil shipments) and the major infrastructure work programs they would be instituting, primarily between Winnipeg and Edmonton, to increase rail traffic capacity.

On August 16, VIA Rail and CN agreed conceptually to a third peak season frequency where the *Canadian* would be partially suspended between Toronto and Edmonton until capacity issues have been resolved. This protects the third frequency through the Rockies and protects and maintains the relationship with the tour operators.

The *Ocean*

Insufficient Frequencies

While the Ocean (Halifax–Montréal) has maintained a respectable OTP, with only three one-way departures per week, it does not have sufficient frequencies to deliver an adequate travel alternative in the intercity and regional markets serving between Québec City and among intermediary cities between Rivière-du-Loup, Campbellton, Moncton and Halifax.

Infrastructure Access

VIA Rail's *Ocean* service uses a rail loop to turn around its trains (reverse direction) in Halifax, to allow for the return trip back to Montréal. The rail loop, located within the Port of Halifax, is situated on Port Authority land owned by the Crown and leased to Halterm, which is owned by the Australian-based Macquarie Group of Companies.

Halterm had provided formal notice to VIA Rail that it intended to terminate VIA Rail's access to the loop effective June 11, 2018. This would have caused immediate and cascading impacts, as the train could no longer be turned (reverse direction), push-pull equipment would be required. The *Ocean*'s Renaissance equipment cannot be used in a push-pull configuration, and would have to be withdrawn from service, resulting with an immediate reduced fleet capacity.

With the support and mediation of Transport Canada, VIA Rail, reached an agreement with Halterm, effective June 11, 2018, to continue to access the loop track at the Port of Halifax up to November 1st, 2020. With this access VIA Rail can therefore maintain service to Halifax and the Maritimes. VIA Rail will continue to work on an operations plan to ensure service continuity after November 1st, 2020.

In addition to VIA Rail's current average access fee to use the loop track VIA Rail will cover Halterm's additional incremental costs based on labour, equipment usage and capital depreciation to forgo the usage ground slots represented by the footprint of the loop track. VIA Rail will also be charged additional rent charged by the Port of Halifax to Halterm, for the additional land space necessary to use the ground slots.

Strategic Changes

As a result of the above, VIA Rail will continue to work on an operations plan to ensure service continuity after November 1st, 2020, and is planning the following strategic changes:

- Reconfigure the consist, and optimize the cycling and allocation of VIA Rail's Long-Haul equipment;
- Introduce an Eastern Intercity service in the Maritimes between Campbellton–Moncton and Moncton–Halifax to better serve the local market;

Calibrating these services appropriately to better meet these tourist and regional / intercity traveller markets, while leveraging the inherent appeal of the iconic status and rolling stock of the *Canadian*, VIA Rail could provide a more relevant product and better serve Canadians.

Infrastructure Quality

Over the past decade, the rail infrastructure had degraded to the point where service was threatened. In 2014, a 44-mile section of CN track on which the *Ocean* operates through New Brunswick (the Newcastle Subdivision) was in jeopardy of service discontinuance (due to CN deciding to abandon the track), which would have resulted in either re-routing or in cancellation of the service. This abandonment of track between Bathurst and Miramichi would have truncated the route of the *Ocean*. Between Campbellton and Moncton, due to the condition of the infrastructure, VIA Rail is limited to only 30 mph, much slower than the automobile. Therefore, VIA Rail will invest $18.2 million for infrastructure repairs.

As noted in Section 3.4.2, VIA Rail is exploring the possible acquisition of the entire Newcastle Subdivision a total length of 172.3 miles together with a short section of the Mont-Joli Subdivision.

Heritage Fleet Modernization and other Major Equipment Programs

After the Corridor fleet acquisition outlined in Section 6, VIA Rail's major equipment project is the refurbishment of its heritage fleet. Known under the umbrella "Heritage Fleet Modernization", this program aims to modernize the aging fleet of HEP cars and protect the Corridor seat capacity until the new fleet trainsets are in service.

The interiors of 17 HEP cars will be refurbished and reconfigured to meet the seating and accessibility requirements that were previously satisfied by LRC cars; these cars will be known as HEPIII. The contract for this work is underway and was awarded to Bombardier Transportation on April 3, 2018.

An additional 25 HEP cars will see their interiors renewed in kind, without reconfiguration, and their systems will also be completely re-engineered in order to serve as a secondary capacity protection in the case of unplanned events. The lifecycle of these cars will extend well beyond the Capacity Protection Plan and the vehicles will continue to provide value for Long-Haul services once the plan reaches its end.

VIA Rail is also in the process of, or planning to, modernize the interiors, critical systems and kitchens of its diner, Chateau, and Skyline cars.

The Montréal Maintenance Center (MMC) is preparing to issue a variety of upgrades to the combination of 33 business and economy HEP II cars. These include systems modernization and / or overhaul, as well as interior redesign and / or improvement.

P42 locomotives will receive reliability enhancements that will reduce maintenance costs, increase the equipment's availability and improve the work environment for on board crews. As well, the F40 fleet will have components modified to permit them to serve in push-pull operations. Both projects will take place at the MMC.

Train Services Agreement

VIA Rail owns approximately 3% of the tracks over which it operates, with most of the track over which VIA Rail operates owned by CN and the rest being owned by other freight and commuter rail service providers. VIA Rail operates on these tracks owned by other entities through negotiated Train Service Agreements (TSAs). The current TSA with CN is substantially the same as the one put in place by the Government prior to the 1995 privatization of CN. CN has demonstrated that its key strategic focus is to optimize its freight operations, not its infrastructure. CN has limited incentives to allocate more capacity to passenger rail service providers like VIA Rail if such allocation has the potential to impact its operations.

In anticipation of the HFR decision, which would considerably change VIA Rail's operating environment, VIA Rail exercised prudence and sought and obtained an extension of the current agreement (which was to expire on December 31, 2018). The negotiations have resulted with a three year extension of the existing TSA.

Notwithstanding this extension, VIA Rail believes that future access agreements should leverage best practices from the European rail industry model regarding punctuality and capacity management. The damage caused by poor OTP, well-illustrated by what has transpired with the *Canadian* in 2017 and into 2018, is a continuing and growing concern for all of VIA Rail's services.

Unlike commuter passenger rail service providers which own and control most of their infrastructure, VIA Rail is dependent on CN's infrastructure and dispatch services, accordingly continuously litigating access rights with CN before the Agency would not be conducive to a positive operating relationship. The consequences of the TSA's shortcomings are financial, with fewer passengers and therefore lower revenues, thus increased Government subsidies, and reputational, harming Canada and the "Canada

brand". VIA Rail therefore believes that it is in the Government's interest to address the inherent imbalance in bargaining power between freight railway infrastructure owners and passenger rail operators.

More Trains to Serve Canadians

VIA Rail's Board and Management believe that train services should be expanded where markets can financially support the operation and there is no negative impact on VIA Rail's Government funding.

A greater number of frequencies and connections are necessary for passenger rail to be commercially viable, as has been demonstrated in the U.S. (see Section 3.2.1). Expansion of train frequencies in the Corridor is necessary if passenger rail is to grow and reach critical mass.

The reintroduction of services and / or additional services are being considered between Toronto, Southwestern Ontario (Kitchener, London, Sarnia, Windsor, Niagara Falls) and the Corridor East (Belleville, Kingston, Cornwall), as well as between Montréal and Québec City. VIA Rail is also looking into adding weekday intercity trains in the Maritimes between Campbellton–Moncton–Halifax. The Corporation will also look to leverage its assets in the Halifax area by working with the City of Halifax to operate the proposed commuter train on behalf of the Halifax Regional Municipality.

Major Hub Station Issues

VIA Rail's performance is also highly dependent on access to its two major hubs, Toronto Union Station and Montreal Central Station, where approximately 50% of all VIA Rail passengers either start or end their trips. This access is affected by commuter operators in the Toronto and Montreal regions who are expanding rapidly, acquiring their own track from freight railroads, and are in the midst of multi-billion dollar development plans:

Union Station
VIA Rail and Metrolinx have created a joint committee to optimize the use of the station. This committee has identified several operating and capital solutions that will allow all trains to continue serving this critical transportation hub. Metrolinx and VIA Rail management are committed to making Union Station a key intermodal hub for local, regional and intercity trains in the Québec City–Windsor Corridor.

Central Station
While the construction and operation of the REM are expected to impact VIA Rail's current and future operations, VIA Rail is convinced of its ability to implement solutions and make the necessary adjustments to minimize their impact on the one million VIA Rail passengers currently transiting through Central Station as well as new travellers acquired through growth in the future.

VIA Rail, Transport Canada and CDPQ are currently assessing extent of these impacts. VIA Rail and Transport Canada are also evaluating options to protect future interoperability if it is not available immediately.

VIA Rail considers access to downtown stations through interoperability an essential part of any modern transportation system that strives to maximize the use of collective transport by more Canadians and minimize the use of automobiles for better environmental and economic outcomes through GHG reductions and minimization of the impact of congestion on the economy.

Government Funding

VIA Rail has sufficient government operating, pension, and capital funding for status quo operations until March 31, 2020, at which point VIA Rail's base funding level reverts back to $147 million annually. VIA Rail will require an additional infusion of government funds of an average of $300 million annually for 2020 and 2021.

In addition to the above, as mentioned earlier, funding has been identified for the Corridor Fleet Renewal as well as further funding towards detailed study of the High Frequency Rail initiative to Transport Canada. VIA Rail expects that the result of the study could lead to a positive HFR decision in the coming year.

Also, after 2020, VIA Rail would require capital funding to make major investments in stations and existing infrastructure, in addition to what is needed to maintain the assets in a state of good repair.

Conclusion

With the beginning of the Corridor Fleet Renewal, VIA Rail finds itself upon solid foundations for a brighter future.

Indeed, VIA Rail's renewal and revitalization is already well underway and is built on four pillars:

- The customer centric passenger lead strategy which, since mid-2014 halted and reversed VIA Rail passenger and revenue decline;
- Execution of the Heritage Fleet Modernization program;
- The recently announced procurement of new Corridor fleet;
- And with confidence and optimism, we look forward to the possible approval of High Frequency Rail.

High Frequency Rail, leveraging and building upon a new Corridor Fleet and all of VIA Rail's initiatives will represent a great leap for passenger service in Canada and will substantially contribute to:

- Meeting Canada's environmental (GHG reduction) targets;
- Reducing road congestion and improving labour productivity;
- Reducing the burden on the taxpayer;
- Enhancing mobility and accessibility for all Canadians;
- Increasing revenue and economic growth.

VIA Rail's plan for dedicated tracks will give travellers a more convenient, efficient, and reliable alternative to the automobile, which makes up 90% of the total travel market in the Québec City–Windsor corridor. This will enhance Canada's economic productivity by improving passenger mobility in the country's busiest travel corridor and ultimately provide a greater quality of life for all Canadians.

1. MANDATE

VIA Rail Canada Inc. operates Canada's national passenger rail service, providing intercity and long-haul services as well as regional and essential remote rail transportation. Its objective is to provide safe, secure, accessible, environmentally sustainable, efficient, and reliable passenger service across Canada.

2. CORPORATE MISSION, OBJECTIVES, PROFILE AND GOVERNANCE

2.1 Corporate Objectives and Profile

VIA Rail operates the nation's passenger rail services on behalf of the Government of Canada, as approved by the Governor in Council through the annual Corporate Plan. The Corporation's objectives are to manage and to provide a safe, efficient, reliable, and environmentally sustainable rail passenger service that meets the needs of travellers in Canada. The Government of Canada determines VIA Rail's role within the overall structure and services provided by the Federal Government, and provides appropriations to subsidize passenger rail services.

Over the past five years, VIA Rail has made significant efforts to contain the growth of its operating deficit and thus, its reliance on government funding. As the Corporation pursues commercial strategies to increase its ridership, the relevance of its services, and to grow its revenues, it is imperative that these strategies not negatively impact the Corporation's bottom line.

Starting in 2014, and continued beyond, these service improvements, which have included increased frequencies (for example four additional daily Ottawa–Toronto frequencies), and improved service offerings have resulted with VIA Rail serving almost six hundred thousand additional Canadians. These improvements combined with other strategies have resulted in a betterment of the Corporation's bottom line by over $51 million over the same period. This revenue and ridership growth clearly demonstrates that Canadians value passenger rail.

2.2 Governance and Accountability

2.2.1 Board of Directors

Like all Crown corporations, VIA Rail is established to allow it to operate at arm's length from its sole shareholder, the Government of Canada. As a non-Agent Crown corporation, VIA Rail's Board of Directors is responsible for overseeing the strategic direction and management of the Corporation, the analysis of business cases and service levels, the expenditure of operating and capital funds granted by the Government, the approval of all strategies, initiatives, investments, budgets, Corporate Plans, and high-value contracts and also reports on VIA Rail's operations to the Canadian federal government. In order to ensure the Board of Directors' maximum efficiency, the Board of Directors is comprised of individuals who possess a strong mix and balance of skills, knowledge and experience to support the achievement of VIA Rail's vision and strategic objectives.

Both the Chair of the Board and the President and CEO are appointed by the Governor in Council on the recommendation of the Minister of Transport and the Board of Directors is appointed by the Minister of Transport with the approval of the Governor in Council.

In April of 2017, Ms. Françoise Bertrand was appointed as Chair of the Board of Directors for a five year term. In order to oversee strategic direction and management of the Corporation, the Board of Directors meets at least once a quarter, with other meetings scheduled as needed.

Mr. Yves Desjardins-Siciliano joined VIA Rail in 2010 and was appointed President and Chief Executive Officer in May 2014 for five-year term. Along with VIA Rail's Executive team, he is responsible for directing the operations of the Corporation.

The Board of Directors also initiates the succession planning for the President and CEO for renewal / replacement when required.

The Board of Directors reports to the Minister of Transport and consists of the Chair, the President and Chief Executive Officer and nine other Directors, who are appointed by the Governor in Council on the recommendation of the Minister of Transport. All members of the Board sign a code of ethics reflecting the spirit and intent of the *Federal Accountability Act*, which sets out standards of transparency and accountability for the officers and directors of Crown corporations.

VIA Rail Canada – Board of Directors

FRANÇOISE BERTRAND – CHAIR
YVES DESJARDINS-SICILIANO – PRESIDENT AND CEO
KATHY BAIG, Laval (Quebec)
DANIEL GALLIVAN, Halifax (Nova Scotia)
JONATHAN GOLDBLOOM, Montreal (Quebec)
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, Montreal (Quebec)

The biographies of the Board of Directors are available at:
http://www.viarail.ca/en/about-via-rail/governance-and-reports/board-directors

Committees of the Board of Directors

Four committees assist the Board in oversight: the Human Resources Committee, Audit & Pension Investment Committee, Communication & Stakeholders' Relations Committee, and Major Projects Commitee.

The Human Resources Committee is responsible of overseeing and monitoring of the following:

1. The performance evaluation and compensation of the Chief Executive Officer;
2. The performance evaluation and compensation of Executive Officers;
3. The design and implementation of employee compensation, incentives, benefits and retirement plans;
4. The effectiveness of the organizational structure;
5. The design and implementation of management's development and succession plans;

6. The management of employee and labour relations, including negotiation mandates for unionized employees;
7. The design and implementation of the human resources strategic plan;
8. The occupational health and safety framework; and
9. The risk identification, evaluation and treatment related to each topic listed above.

The Audit & Pension Investment Committee is responsible of overseeing and monitoring of the following:

1. The Corporation's financial reporting and disclosure such as the quarterly and annual reports, the financial statements, the MD&A and the related press release;
2. The five year Corporate Plans along with the annual operating and capital budgets;
3. The Corporation's internal control practices, including the internal audit process;
4. The Corporation's external audit process, including any special examination launched by the Corporation's external auditors;
5. The legal and regulatory compliance framework applicable to the Corporation;
6. The standards of integrity and behaviour adopted by the Corporation;
7. The pension plans and supplemental retirement plans investment performances, policies and related matters thereto; and
8. The risk identification, evaluation and treatment related to each topic listed above.

The Communication & Stakeholders' Relations Committee is responsible of overseeing and monitoring of the following:

1. The Corporation's communication strategy to ensure that it supports the strategic and commercial objectives of the Corporation and to maintain positive and productive relationships with all the Corporation's stakeholders;
2. The Corporation's value proposition statement in support of its strategic objectives;
3. Any modifications to the service offering which may have a material impact on the Corporation's value proposition; and
4. The risk identification, evaluation and treatment related to the topics listed above.

Major Projects Committee is responsible of overseeing and monitoring of the following:

1. The major projects & programs identified as such by the Major Projects Committee;
2. The business cases for major projects & programs requiring expenses in capital or considered out of "normal course of business" exceeding $5M, the whole in accordance with the Corporation's Authority Matrix;
3. The Corporation's policies, practices and procedures regarding management of major projects & programs;

4. The monitoring of capital spending;
5. The management of capital assets; and
6. The risk identification, evaluation and treatment related to each topic listed above.

2.2.2 Travel Policy Guidelines and Reporting

The Corporation's Travel Policy is aligned with the July 16, 2015 Treasury Board directive for Crown corporations guidelines and practices on travel, hospitality, conference and event expenditures for Directors and the CEO.

2.2.3 Audit Regime

VIA Rail is subject to three types of audits: internal audits, external annual financial audits, and periodic special examinations. An independent firm, currently PricewaterhouseCoopers (PwC), performs internal audits on an on-going basis and provides findings and recommendations to the Audit & Pension Investment Committee of VIA Rail's Board of Directors and to the Office of the Auditor General of Canada. The Office of the Auditor General of Canada is responsible for performing the annual external financial audits and the special examinations every few years. The most recent special examination was completed in 2016.

As per *Financial Administration Act* requirements, these audits ensure that VIA Rail's:

- transactions comply with the regulations, the charter and by-laws of the Corporation, and any directive given to the Corporation;
- operations are carried out effectively;
- financial, human, and physical resources are managed economically and efficiently; and
- assets are safeguarded and controlled.

2.2.4 Office of the Auditor General: Special Examination Results

The 2008 Special Examination Report noted a significant deficiency in that the Auditor General of Canada could not obtain a reasonable assurance that VIA Rail would be able to meet the strategic challenges that it was then facing as:

- VIA Rail does not own most of the rails that it uses on a daily basis. Any extra usage must be negotiated with the owners of the rail networks. VIA Rail's growth was predicated upon successful completion of negotiations with the principal provider of access to the railway track network, within VIA Rail's prescribed envelope of funding;
- The Corporation's management exerted considerable effort to increase train frequency and train on-time performance, but without achieving the expected results; and
- The rail network is becoming increasingly congested and there is a risk that the situation may become acrimonious due to current economic and environmental pressures.

The 2016 Special Examination Report noted:

- That there was a significant deficiency in VIA Rail's governance, despite the good practices identified;
- That VIA Rail had made efforts to define a long-term strategic direction. However, despite its efforts, the Corporation still had no long-term plan or direction approved by the Federal Government; and
- For a number of years, VIA Rail has received from the government only short-term approval of its funding and five-year Corporate Plan, and often late in the Corporation's fiscal year. In this context, VIA Rail could not fulfill its mandate as economically, efficiently, and effectively as desired. The significant deficiency could also compromise the Corporation's medium- and long-term viability.

The report also notes:

- The existing rail service agreements with the main track-owning railway companies did not give VIA Rail trains the right-of-way. Because of this as well as rail network congestion, the on-time performance of VIA Rail trains worsened significantly since 2010, varying overall between 84% and 63%; and
- Following improvements made to Kingston Subdivision Rail Infrastructure (tracks belonging to CN), VIA Rail could not gain the expected additional trains and reduced travels times despite increased costs.

Both the 2008 Special Examination Report and the 2016 Special Examination Report are available at http://www.viarail.ca/en/about-via-rail/governance-and-reports/corporate-information.

The constraints noted by Office of the Auditor General of Canada remain essentially unchanged today and continue to remain outside of VIA Rail's control..

2.2.5 *Canada Transportation Act* Review

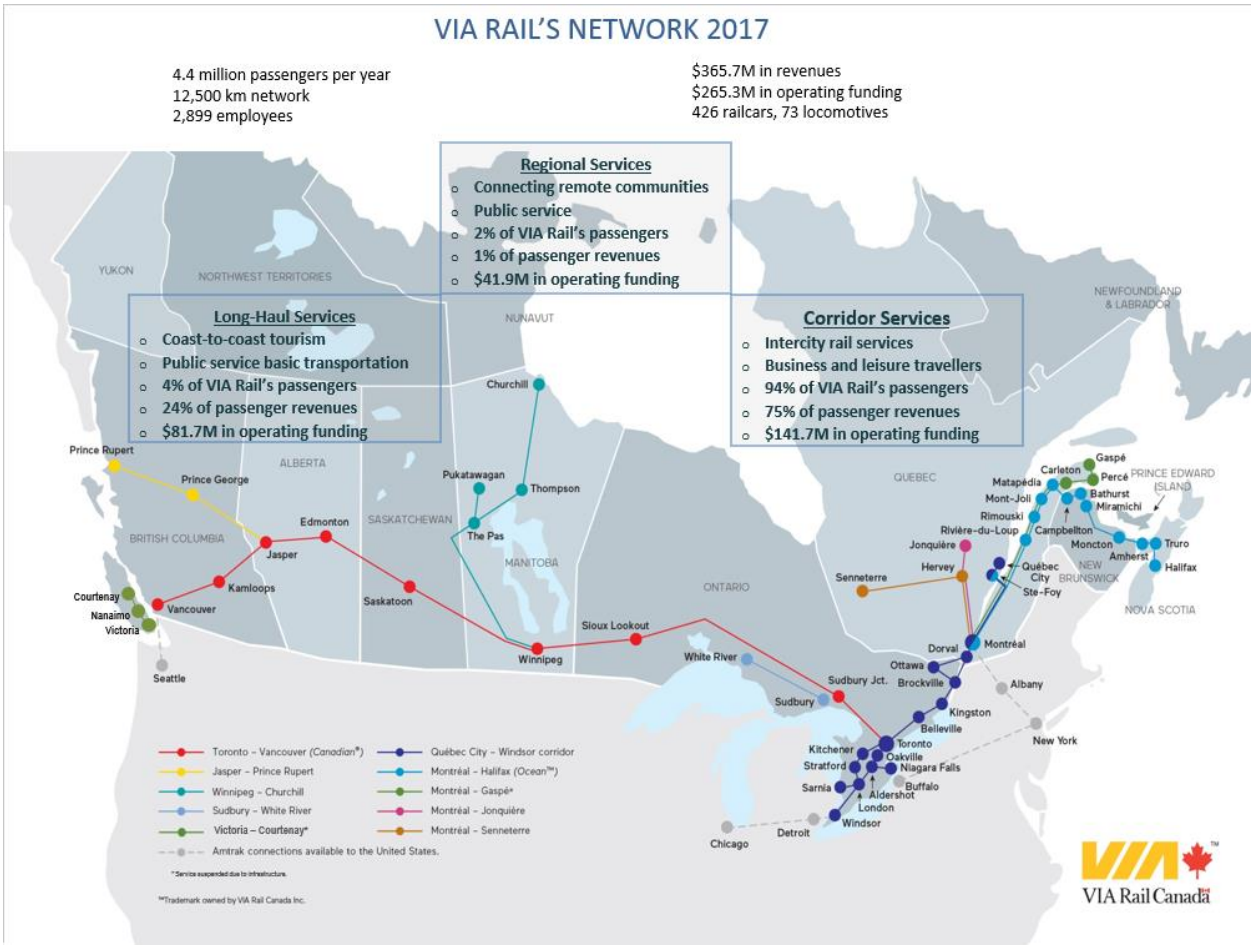
On June 25, 2014, the Minister of Transport initiated a review of the Canada Transportation Act, and appointed the Honourable David Emerson as Chair to this review. The entire report may be found at: *Pathways: Connecting Canada's Transportation System to the World*.

Its review of passenger rail is summarized as follows:

"Demographic change, urbanization, and evolving preferences among transportation choices all point to significant growth opportunities for intercity passenger rail in the densest routes. Modernizing VIA Rail is long overdue: it must be allowed to operate as a commercial entity, empowered to construct and finance a dedicated track where viable. This will support sustainable and improved services and long-term separation of freight and passenger rail traffic, improving mobility and reducing congestion around Canada's largest cities. A National Corridor Protection Program would secure existing and new corridors and rights-of-way from incompatible development to meet future supply chain needs."

2.3 Overview of VIA Rail's Business

VIA Rail operates over 500 trains per week in all regions of Canada over approximately 12,500 kilometres of rail infrastructure. In 2017, VIA Rail, carried 4.4 million passengers yielding 955 million passenger-miles and 6.8 million total train-miles ran (miles rather than kilometres are the rail industry standard). For 2018, VIA Rail forecasts that ridership will exceed 4.5 million passengers, the best ridership results since 2009. Historically, the Corporation has divided its business into three distinct types of services: Corridor, Long-Haul, and Regional.



2.3.1 VIA Rail Services

VIA Rail organizes its businesses along four product groups: Central Canada (the Québec City–Windsor corridor), Eastern Canada, Western Canada, and Regional Services.

Central Canada: Corridor Services

In the Québec–Windsor corridor, VIA Rail provides intercity service between Canada's largest business and residential communities. This market consists of both business and leisure travel. For operational and marketing reasons, VIA Rail divides the Corridor into Corridor East, which reaches between Toronto and Quebec City, and Southwestern Ontario (SWO), which serves Toronto, Sarnia, London, Kitchener and Windsor.

The Corridor is a year-round market. Reliability, on-time performance, number and choice of departures (frequencies), trip times, and connectivity to other modes of transportation are the critical factors that determine success in this type of high-density market.

This segment of VIA Rail's network is the most commercially viable and has the greatest potential for growth. With its different levels of fares ranging from the lower cost *Escape* fare to the highest *Business* fare, VIA Rail provides excellent opportunities to travel at prices that match the needs of every market segment.

VIA Rail operates four types of rail cars in the Corridor: the LRC (Light, Rapid, Comfortable), the stainless steel HEP I and HEP II, and the Renaissance.

Long-Haul Services

i. The *Canadian*

The *Canadian* runs between Toronto and Vancouver, with three trips in each direction per week during the peak summer period from May to October, and two trips in each direction per week during the off-peak period.

The *Canadian* is an iconic, world-renowned train. In a tribute to Canada's railway heritage, the current ten dollar banknote depicts a portrait of Sir John A. Macdonald and the *Canadian* in the Rockies along with a VIA Rail route map.

The *Canadian* has three classes, Economy, Sleeper Plus, and *Prestige*. These classes offer coach seating or sleeping accommodations, meals service, and dome cars for sightseeing. The *Canadian* is a hybrid travel product, serving both tourism and intercity travellers along the route, including some remote communities. VIA Rail operates this service with stainless-steel HEP cars built in the 1950s. The interiors of some of the cars have been refinished to provide a refreshed and more updated look.

The *Canadian*'s Sleeper Plus class offers meals service, sleeping accommodations, a dome car for sightseeing, and transportation services to intercity travellers along the route.

VIA Rail has also introduced twelve rebuilt cars, with eight sleepers and four dome / lounge / sleeper cars that have accessible sleeping accommodations, with total travel accommodations for up to 24 passengers per train. With these rebuilt cars that form the *Prestige* Class service, VIA Rail now provides accessible accommodations on the *Canadian* that fully comply with the Canadian Transportation Agency's *Code of Practice - Passenger Rail Car Accessibility and Terms and Conditions of Carriage by Rail of Persons with Disabilities*.

ii. The *Ocean*

The *Ocean* operates between Montreal and Halifax three times a week year-round. This train is used by a combination of end-to-end users and intermediate point travellers, particularly between Miramichi, Campbellton, Moncton, and Halifax. VIA Rail offers overnight service using Renaissance cars with coach seating, enclosed sleeping accommodations, dining facilities, and a HEP dome car for sightseeing. For 2017 / 2018, the updated holiday schedule, which ran from December 15, 2017 to January 7, 2018, offered 28 trains, and an increase in total capacity of 64% over the period.

Regional Services

Regional services satisfy the essential transportation needs of communities where alternative and affordable transportation is limited or unavailable. These services are the following:

- Jasper – Prince-Rupert (AB, BC);
- Victoria – Courtenay (BC);
- Winnipeg – Churchill (MB through a portion of SK);
- The Pas – Pukatawagan (MB) - managed by the Keewatin Railway Corporation;
- Sudbury – White River (ON) – Canadian Pacific;
- Montreal – Senneterre / Jonquière (QC); and
- Matapédia – Gaspé (QC).

Regional services required an average subsidy of $634 per passenger carried in 2017. These are public services offered as part of the Government of Canada's transportation system and are designed to provide transportation to all Canadians and communities, including those in remote areas. These services offer some seasonal peak volume, whether during cottage season in Quebec and Northern Ontario, or tourist season (Canadian and international) in Northern British Columbia and Northern Manitoba (for example, polar bear season in the Hudson Bay area in October).

Both the Victoria–Courtenay and Matapédia–Gaspé services have been suspended for safety reasons due to the poor condition of the rail infrastructure. Reinstatement of service will take place only once the quality of the infrastructure has been restored and VIA Rail is satisfied that it is safe to operate and that reasonable track speeds, schedules, and connectivity (for Gaspé) are achievable.

On June 9th, 2017, Winnipeg–Churchill service from Amery (north east of Gillam, Manitoba) to Churchill, was suspended for an indefinite period. Service will be reinstated once the quality of the infrastructure has been restored and VIA Rail is satisfied that it is safe to operate.

All active services currently offer three round trips per week with the exception of Northern Manitoba, where weekly frequencies, due to the logistics of the track closure, are three between The Pas and Gillam, two between The Pas and Thompson, and one between The Pas and Winnipeg.

2.3.2 VIA Rail's 40th Anniversary

This year, VIA Rail plans on continuing to bring Canadians together and help them discover our great country with the celebration of VIA Rail's 40th anniversary. Throughout the year, a television and web ad will be broadcasted, building on the announcement of Fleet Renewal and VIA Rail's intent to lead

Canadians towards a more sustainable future. Moreover, the Corporation will wrap 17 locomotives and 24 cars, and will install posters and banners in stations to celebrate the event.

Additionally, for the occasion, VIA Rail plans on launching other communication initiatives around this memorable event. From May until June 2018, the general public will be given the opportunity to enter VIA Rail's 40th anniversary contest and run the chance to win 40 pairs of tickets to travel to the destination of their choice. Other events are planned along the year and on the anniversary date on October 29, 2018 to thank and surprise our passengers. VIA Rail will also adapt its numerous communications tools to highlight this special event.

2.3.3 Military Support

VIA Rail is proud to recognize the service of Canada's veterans and reservists by implementing initiatives such as special fare offers that provide significant discounts for Military members and veterans and their families that target to carry over 35,000 people annually. VIA Rail also expresses its support with partnerships with the Royal Canadian Legion's Nation Poppy Campaign or the Vimy Foundation, and its initiatives such as Wounded Warriors, True Patriot Love, and Women in Defense and Security which aim to improve the morale and welfare of active service personnel, veterans, and their families. VIA Rail distributes poppies on its trains across the country to mark Remembrance Day and pay tribute to the military community. In addition, some VIA Rail cars will have a large poppy decal on their exterior.

2.3.4 Assets Used to Support the Services

Rail infrastructure

VIA Rail operates under Train Service Agreements (TSAs) with the host railways (CN, CP and other railways that own the majority of the track on which VIA Rail operates). The TSA between VIA Rail and CN has been extended to 2021.

Infrastructure owners are mostly rail operators (primarily freight carriers) that conduct their own business on the same infrastructure. As a result, VIA Rail competes with the host for capacity. As freight traffic has increased drastically since the financial crisis of 2007-2008, VIA Rail has been unable to obtain the infrastructure access required for reliable, frequent, and on-time operations, which limits its competitiveness, cost recovery, profitability, and relevancy to travellers. This is a serious constraint noted by the Auditor General of Canada with its Special Examination Report that "existing rail service agreements with the main track-owning railway companies did not give VIA Rail trains the right-of-way".

However, VIA Rail management is of the view that priority access would not resolve the problem which relates to system capacity. Amtrak, which has legislative priority, suffers from the same issues as VIA Rail.

The following table outlines the route-miles (the standard distance measure used by North American railways) over which VIA Rail operates by type of service and by infrastructure owner:

Route-miles over which VIA Rail operates, by type of service and by infrastructure owner

Service	CN	HBR	CP(1)	VIA Rail (6)	Metrolinx (5)	GEXR (2)	SCFG (3)	SRVI (4)	Total
Corridor	758		0.2	186	98	55			1,099
Long-Haul	3,600				14				3,614
Regional & Remote	1,833	570	301				0	0	2,704
Total	**6,191**	**570**	**302**	**186**	**112**	**55**	**0**	**0**	**7,417**
% of Total	**83%**	**8%**	**4%**	**3%**	**2%**	**1%**	**0%**	**0%**	

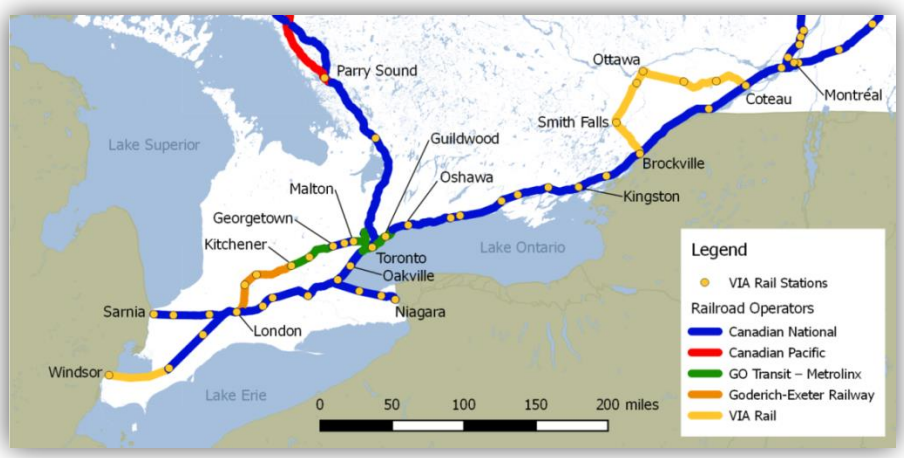
Note: Total may not add up to 100% due to rounding.
(1) & (6) CP – Brockville sub change of property (purchased by VIA Rail), continued use of CP Smith Falls; (2) & (5) GEXR – 33 Miles purchased by Metrolinx from CN, but operated by GEXR; (3) SCFG – Société du Chemin de Fer de la Gaspésie – 202 actual, current value of 0 due to no current operation and no indication as to when operations will continue; (4) SRVI – Southern Railway of Vancouver Island - 139 actual, but shows 0 due to no current operations.

The rail infrastructure is single track except for portions in the Corridor. CN owns the majority of the rail infrastructure (83%), while other freight and commuter railways own the rest (15%).

Although VIA Rail owns only 3% of the infrastructure, it operates 12% of its train-miles on the portion it owns in the Corridor where several round trips per day occur. VIA Rail's infrastructure is comprised of segments between Chatham and Windsor in Ontario, and between Coteau, Ottawa and Brockville around Ottawa. In 2015, VIA Rail purchased the Brockville Subdivision from CP which it utilizes to avoid CN's congested lines and the bottleneck at Coteau Junction. VIA Rail had invested over $70 million into this subdivision since the mid-eighties and, at the time of purchase, it represented 90% of traffic. VIA Rail gains demonstrable benefits with far better OTP where it owns and controls its infrastructure (see Annex 3).

Consistent with its long-term strategy of infrastructure acquisitions in the Corridor, VIA Rail will continue to analyze the potential to increase its track ownership by purchasing the Kitchener to London segment of the Goderich-Exeter rail line, and as appropriate, other segments that may become available.

Infrastructure owners/leasees in Corridor Montréal - Windsor



The following table provides the distribution of train-miles by train service and infrastructure owner.

Train-miles over which VIA Rail operates, by type of service and by infrastructure owner ('000)

Service	CN	VIA	CP	GEXR	HBR	SCFG	Metrolinx	SVI	Total
Corridor	3,694	837	1	81	-	-	400	-	5,014
Long-Haul	983	-	-	-	-	-	3	-	987
Regional	524	-	94	-	179	-	-	-	797
Total	**5,202**	**837**	**95**	**81**	**179**	**-**	**404**	**-**	**6,797**
% of Total	77%	12%	1%	1%	3%	0%	6%	0%	

In addition, CN has reduced maintenance on lines that have seen significant decreases in freight traffic. These actions have led to a need to greatly lengthen passenger train schedules as train speeds have to be lowered on freight standard maintained tracks. Longer travel times had an impact on VIA Rail's ability to offer an attractive travel option while also substantially increasing labour and fuel costs. VIA Rail had to acquire track that was necessary to sustain operations and recognizes that further acquisitions may be necessary, otherwise scheduled travel times will deteriorate further increasing VIA Rail's deficit.

For the most part, short line railways[1] own the infrastructure purchased from CN and CP when they divested track. The short line railways generally do not have the financial capacity to invest in infrastructure in order to maintain higher than freight train speeds. This limits the speed at which passenger trains can travel and leads to rail infrastructure deterioration. Further signs of the deterioration trend emerged as operational issues were faced in 2014 in Northern Manitoba (Hudson Bay Railway owned infrastructure) and even in Southwestern Ontario (GEXR operated infrastructure), leading to service cancellations and suspensions or slow orders.

In a development that illustrates access vulnerability, VIA Rail's *Ocean* service uses a rail loop to turn around its trains (reverse direction) in Halifax, to allow for the return trip back to Montreal. The rail loop, located within the Port of Halifax, is situated on Port Authority land owned by the Crown and leased to Halterm, which is owned by the Australian-based Macquarie Group of Companies. Its 75-acre terminal is the largest of its kind in Eastern Canada. It is the only super/post-Panamax terminal on the East Coast and a key revenue generator for the Port of Halifax. Under its service agreement, Halterm had provided formal notice to VIA Rail that an anticipated increase in shipments at its facility located at the Port of Halifax compelled it to terminate our access to the rail loop, which would have made it impossible to operate the current service with Renaissance equipment as of June 11, 2018, due to an inability to turn our train in Halifax. The *Ocean*'s Renaissance equipment cannot be used in a push-pull configuration and its withdrawal from service would cause immediate and cascading impacts, resulting with reduced fleet capacity.

With the support and mediation of Transport Canada, VIA Rail, reached an agreement with Halterm, effective June 11, 2018, to continue to access the loop track at the Port of Halifax up to November 1st, 2020. With this access VIA Rail can therefore maintain service to Halifax and the Maritimes. VIA Rail will continue to work on an operations plan to ensure service continuity after November 1st, 2020.

In addition to VIA Rail's current average access fee to use the loop track VIA Rail will cover Halterm's additional incremental costs based on labour, equipment usage and capital depreciation to forgo the usage of 280 ground slots represented by the footprint of the loop track. VIA Rail will also be charged additional rent charged by the Port of Halifax to Halterm, at the Port of Halifax's rebated square foot rate, for the additional land space necessary to use up to 280 ground slots. The 2018 increase operating cost increase will be contained within current funding; additional funding will be requested for subsequent years.

As noted earlier, VIA Rail will continue to work on an operations plan to ensure service continuity after November 1st, 2020.

Stations

VIA Rail has an extensive network of stations. While it owns many stations, some are leased, including the key busy hubs of Toronto Union Station and Montreal Central Station, both of which share space with local commuter train services.

In the Corridor, VIA Rail owns Ottawa, Kingston, London, and Windsor stations, along with suburban stations in major cities, including Sainte-Foy, Dorval, Fallowfield, and Oshawa jointly with Metrolinx (GO Transit). A new Oshawa station building, which is shared with VIA Rail, has been constructed by Metrolinx. The previous station, built over 50 years ago reached the end of useful life, and was demolished. The new station, constructed to LEED building standards, will meet both GO Transit's and VIA Rail's growing needs and will offer improved passenger accessibility and amenities at this important intermodal hub.

Long-Haul services also operate out of Montreal Central Station and Toronto Union Station. Major stations along the Long-Haul routes include Vancouver, Edmonton, Winnipeg, Moncton, and Halifax. Many stops on these lines as well as on the Regional lines are simply signposts and platforms; these stops are important for the communities they serve. The following table outlines VIA Rail's station network:

[1] Former branch lines of larger railroads or abandoned portions of main lines that serve a small number of towns and industries or haul cars for larger railroads

Stations and Stops

Service	Stations	Shelters	Sign-posts/Platforms	Total
Corridor	42	4	2	48
Long-Haul	28	4	75	107
Regional & Remote	25	6	244	275
Total	**95**	**16**	**321**	**430**

As well, based on the recent inventory of some closed stations, some have been found to be in poor condition and are not economically viable to repair. Some of these stations are not intended to re-open and it may be more economical to demolish them.

VIA Rail tries to maximize the use of its assets by leasing out space in stations to directly enhance service to its passengers (concessions, restaurants) or by generating traffic in the buildings and their surroundings, leading to potential customers for VIA Rail.

The fact that VIA Rail does not control its access to Toronto Union or Montréal Central stations is a major business risk. Downtown to downtown service is key for intercity passenger rail success. VIA Rail's performance is highly dependent on these two major hubs. This access is affected by commuter operators in the Toronto and Montreal regions who are expanding rapidly, acquiring their own track from freight railroads, and are in the midst of multi-billion dollar development plans.

- Toronto Union Station – VIA Rail and Metrolinx have created a joint committee to optimize the use of Union Station. This committee has identified several operating and capital solutions that will allow all local, regional, and intercity trains to continue serving this critical transportation hub.

- Montréal Central Station – While the construction and operation of the REM are expected to impact VIA Rail's current and future operations, VIA Rail is convinced of its ability to implement solutions and make the necessary adjustments to minimize their impact on the one million VIA Rail passengers currently transiting through Central Station as well as new travellers acquired through growth in the future.

  VIA Rail, Transport Canada and CDPQ are currently assessing extent of these impacts. VIA Rail and Transport Canada are also evaluating options to protect future interoperability if it is not available immediately.

Property Divesture and Development

VIA Rail considers opportunities to divest of properties should that prove to be a better economic choice. These are low passenger volume stations where typically train travellers only require the use of these stations twice a day or less.

VIA Rail will, where possible and beneficial, transfer ownership of some stations to municipalities, with VIA Rail leasing space within the stations. Communities will benefit from a station that can be used in a manner that better serves their needs.

VIA Rail will also continue the development or divesture of underutilized parcels of land it owns through partnerships or joint ventures, providing additional services and amenities to customers, or improving the Corporation's financial or strategic position.

Maintenance Centres

VIA Rail operates maintenance centres located in Vancouver, Winnipeg, Toronto, and Montreal where it performs servicing, cleaning, scheduled inspections and other repairs; major maintenance and other projects are also performed in Montreal. In addition, lighter maintenance activities, including servicing and cleaning, are performed at various points, such as Halifax, Quebec City, Ottawa, Windsor, and Jasper. Whenever possible, VIA Rail seeks to maximize the use of its facilities through service contracts with third parties or through the lease of space. Its long-standing relationship with Amtrak and West Coast Express (Vancouver's commuter train service) are examples, but many ad-hoc projects and smaller contracts, such

as with Rocky Mountaineer Railtours, Agence Métropolitaine de Transport (AMT), now part of the Réseau de transport métropoliitain (RTM), or CAD Railways have been performed as well.

Equipment

VIA Rail's fleet of active equipment comprises 73 locomotives and 431 cars (see Annex 4). Moreover, every VIA Rail train provides a high level of accessible transportation to persons with disabilities. For those aged 15 or older, one in seven Canadians (14% in 2012) suffers from a disability. That ratio increases to 43% above 75 years of age. As the Canadian population continues to grow and age rapidly, the ratio and the actual number of people with disabilities will grow dramatically. VIA Rail trains provide a more accessible service than automobiles, buses, or airplanes, and VIA Rail is committed to continuing to make improvements particularly with the renewal of the fleet and continuing upgrades to stations.

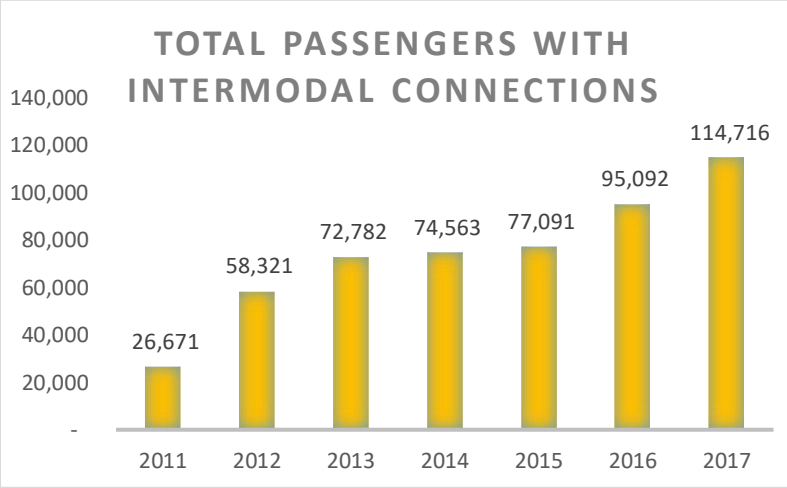
Additionally, as part of Budget 2017 and Budget 2018, VIA Rail received funding to prevent the early retirement of its fleet and to modernize its equipment. The Heritage Fleet Modernization program will allow VIA Rail to extend the life of its fleet until the new equipment is in service. More details on the Fleet Renewal and the Heritage Modernization Fleet Program can be found in Section 6.

Intermodal Partnerships

VIA Rail's vision is to be a smarter way to move people. All travellers undertake a journey to go from one physical location to another location, and almost invariably, every journey involves more than one mode of transport (which may include walking, car sharing, taxi, or public transit to or from a train station). As one of the most sustainable mobility options, we focus on providing the best customer experience and this inevitably includes providing passengers with a simplified and seamless travel experience. We are actively facilitating the move towards true sustainable mobility through intermodal partnerships. In recognition of its leadership on intermodality, in 2013, VIA Rail was awarded the Global AirRail award for "AirRail Concept of the Year - Making VIA the Hub".

VIA Rail has a relationship with Amtrak dating back to VIA Rail's beginning, with a reciprocal agreement whereby each company sells tickets on the other's behalf. In addition, VIA Rail and Amtrak jointly operate the train between Toronto and New York City, through Niagara Falls.

In June 2015, VIA Rail partnered with Union Pearson Express (UP Express) - a dedicated airport rail link connecting Canada's two busiest transportation hubs, Toronto Pearson International Airport and Union Station in downtown Toronto. Travel time is 25 minutes with departures every 15 minutes between 5:30am and 1:00am daily. Passengers can purchase tickets to Pearson Airport in one single transaction on VIA Rail's website.



VIA Rail also offers complimentary shuttle to Montreal Trudeau Airport and provides wayfinding direction for Porter's complimentary shuttle to Billy Bishop Toronto City Airport. With additional frequencies and improved reliability, VIA Rail is becoming a true feeder partner to the Canadian airline industry thus reducing pressure on Canadian airports.

VIA Rail has partnered with Discount Car and Truck Rentals Ltd. as its official rental car partner to provide customers with a seamless travel connection option when they arrive at the train stations. The QuickCar™ white-blue-and-green branded rental kiosks have been installed in 10 high-traffic VIA Rail stations.

VIA Rail has also partnered with Maritime Bus to simplify travel experience in Eastern Canada. Starting July 14, 2016, travellers are able to purchase Maritime Bus tickets online on VIA Rail's website for trips such as Montreal to Charlottetown.

3. THE BUSINESS ENVIRONMENT, STRATEGIC DIRECTION, RESULTS OVERVIEW

3.1 General

The major determinants of travel demand growth are gross domestic product (GDP) and population growth. Between 2013 and 2017, Canada's real GDP grew 2.4% per year for a total growth of 12.4%. Over the same period, Canada's population grew by 1.1% per year for a total growth of 5.6%. Another determinant of travel demand from foreign visitors is Canada's attractiveness and affordability as a destination. The depreciation of the Canadian dollar has made Canada a more desirable destination.

From 2013 to 2017, the economic recovery translated into a 14.9% rate of growth of Canadian tourism GDP (nominal) and a 25.6% increase in foreign tourism.

During this same period, VIA Rail saw its:

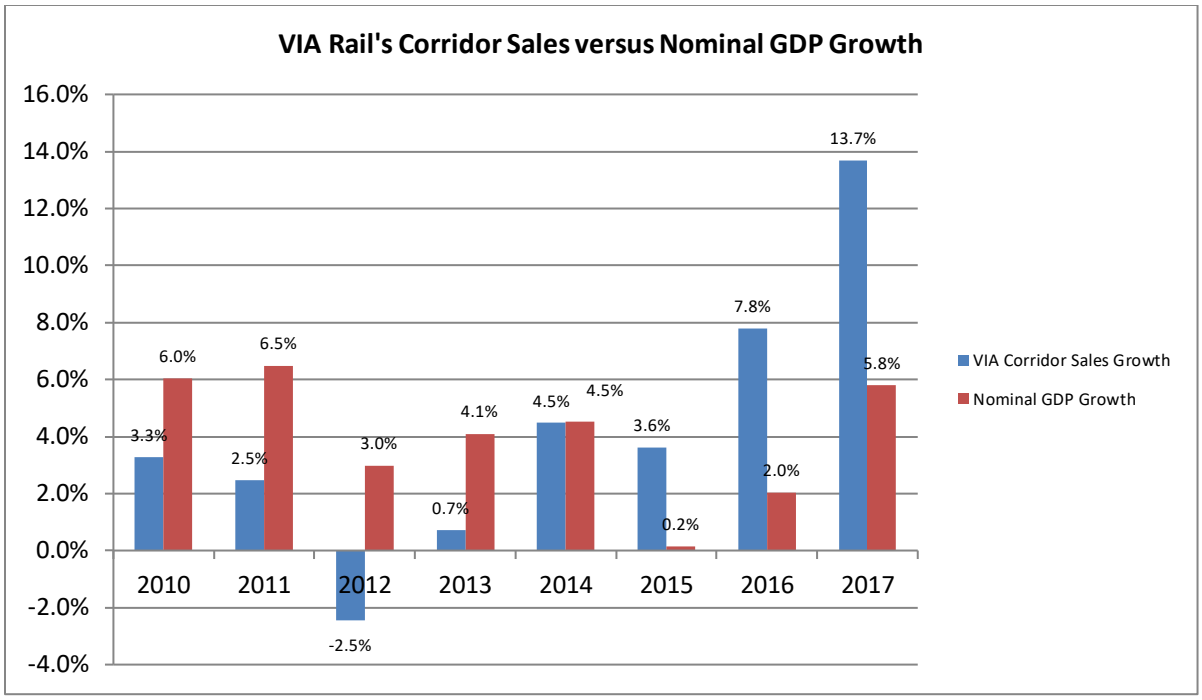
- Ridership grow by 12.9%, increasing from 3.89 million to 4.39 million; and
- Passenger revenues grow by 36.8%, increasing from $249.6 million to $341.4 million.

In mid-2014, VIA Rail shifted to a new customer-centric strategy and reversed the decline in revenues. As a result, VIA Rail achieved its best revenues ever for a given month in August 2017 with revenues exceeding $35 million.

VIA Rail has achieved these results by:

- Adding new frequencies and new stations stops;
- Adding new Québec City to Ottawa direct trains;
- Optimizing schedules and equipment cycling;
- Having trains at the times that are most advantageous for our customers;
- Improving service offerings with revamped *Business* and *Prestige* services;
- Improving meal and on board offerings;
- Improving revenue management strategies aligned to above;
- Sharpening and modernizing its message using targeted and efficient marketing and advertising, including digital media;
- Providing more value for its customers and charging more for it while also retaining price conscious passengers in a targeted way;
- Having strong contribution from Pass Products;
- Enhancing media and website; and
- Launching mobile application.

With these and other improvements, VIA Rail has attained new markets and revenue veins and achieved impressive passenger revenue growth for 2017 (+10.5% over 2016), which has led to improved contribution.



3.2 Passenger Rail examples and the Canadian context

3.2.1 Developments Outside of Canada

a) Northeast Corridor

The United States continues to improve its rail network. In the Northeast Corridor where Amtrak offers a mix of local service and express service (the "Acela Express") to achieve impressive market shares, Amtrak is investing $2.45 billion to modernize and expand the Acela Express service. As part of this modernization, Amtrak has awarded a contract to Alstom to produce 28 next-generation trainsets that will replace the existing Acela equipment, which was constructed between 1999 and 2001.

The new trainsets, that will enter revenue service in 2021, will have one-third more passenger seating capacity while maintaining the current seating comfort. The new trainsets will operate along the Washington – New York – Boston Northeast Corridor initially at speeds up to 160 mph and will be capable of speeds up to 186 mph taking advantage of future infrastructure improvements.

b) Brightline

An initiative of All Aboard Florida, the Brightline service is a privately owned and operated high-speed rail connection that will connect Orlando and Miami. The introductory service began in January 2018, it offers a 35 minute trip between Fort Lauderdale and West Palm Beach. Phase one, Miami to West Palm Beach, is expected to operate in full within the year. Phase two will extend the line to Orlando. Upon completion the project is expected to cost $3 billion, operate at a top speed close to 125mph, and complete the 235 mile trip in 3 hours.

3.2.2 The Canadian Context: Dedicated High Frequency Passenger Rail

In Europe, trains were built in the mid-19th century to link populations (cities, towns, and villages). In Canada, the transcontinental railway was built to bring materials west to build the towns and villages that

became a part of this great country. This is why Canada's rail infrastructure was made for freight carriage and not passenger travel.

Catching up to the rest of the world does not mean leapfrogging to the fastest train. It means building the proper mix of conventional speed trains and high speed trains over time in order to achieve the most competitive mix of low Greenhouse Gas emissions in order to attract passengers from less energy efficient means such as the car.

The most successful passenger rail systems around the world invest in modest, incremental improvements to the existing rail network. Eventually, some make major investments in new rail technology, but dedicated passenger tracks are essential for success. In Canada's case, improving the current network by investing in Dedicated High Frequency Passenger Rail will lead to most of the benefits of high-speed rail, at a much lower capital cost, with less risk, and in a shorter time period.

The key is to secure and invest in dedicated track for passenger rail in high-density corridors such as Toronto-Ottawa-Montreal. By offering more frequencies when passengers want them and freeing up rail capacity for freight and commuter operators, passenger rail can become much more reliable and better meet market demand. Dedicated track allows speeds up to 110 mph (177 km/h) which would significantly improve trip times. Relieving congestion on the rest of the rail infrastructure would provide the maximum economic benefits to the Canadian economy and Canadians.

While there are no universally accepted passenger rail speed definitions, generally accepted speed ranges are as follows:

- Conventional rail speed: maximum speed of up to 90-110 mph (145-177 km/h);
- Higher-speed (medium-speed) rail: above 90-110 mph (145-177 km/h), but no faster than 125-150 mph (200-240 km/h); and
- High-speed rail: beyond 125-150 mph (200-240 km/h).

3.3 Corridor

3.3.1 Financial Performance – 2013 to 2017

In 2017, VIA Rail has achieved unprecedented passenger and revenue growth due to the strategic shift the Company made in 2014. In mid-2014, VIA Rail aggressively adopted a customer-centric strategy aimed at putting trains where passengers wanted them. This has led to a substantial improvement in the Company's performance.

a) Revenues

In 2017, 4.1 million passengers travelled in the Corridor, representing 94% of VIA Rail's traffic and 77% of passenger revenue. Following a noticeable increase of ridership from 3.6 million in 2013, revenues increased from $194.3 to $263.4 million due to better revenue management strategies.

Between 2011 and 2013, VIA Rail adopted a strategy of eliminating shorter services, and focusing on long-distance intercity. This, coupled with a price reduction strategy to increase volumes, resulted in a drop in revenue and total of passengers during that period.

In the second half of 2014, the Corporation revised its pricing strategy to better reflect the value offered and restored services to intermediate points. As a result, while revenue had been decreasing in 2012 and 2013, revenues increased 35.5% between 2013 and 2017. This new strategy, supported by efficient seat inventory management, together with other initiatives such as enhanced on board services, new menus, new student pass product, etc., resulted in a substantial improvement of the Corporation's relative performance on all matrices. This turnaround occurred despite continuing issues with OTP and trip time.

Notwithstanding considerable improvements brought about by tactical moves, the issues of trip time and reliability will continue to put pressure on the Corporation's revenue unless strategic action is taken.

Although it will continue to identify value added segments where services can be provided at better prices, VIA Rail believes it is reaching the limits of its broad price increase strategy and therefore will return to revenue stagnation.

b) Operating Expenses

For the period between 2013 and 2017, variable expenses increased $44.0 million (20.8%) due to increased compensation costs (mainly due to poor OTP), track access costs, and maintenance costs.

c) Contribution and Efficiency

In 2017, the Corridor's variable operating ratio (variable revenue/variable expenses) recovered to 133% from a low 126% in 2013.

From 2013 to 2017, the Corridor's variable contribution has increased by 62.4% from $40.2 million to $65.3 million.

Contribution measures the amount contributed to paying VIA Rail's overhead costs.

3.3.2 Business Environment, Threats and Opportunities, and Strategy

a) Business Environment

The Corridor market consists of mostly Canadian residents travelling between Québec City, Montreal, Ottawa, Kingston, Toronto, London, Kitchener, Sarnia, and Windsor for a host of reasons (business, school, family matters, or simply visiting).

The primary determinants of passenger rail demand are convenience (frequencies), reliability (OTP), efficiency (trip time), connectivity (ability to make seamless connections) and price. These determinants (apart from price) are a function of the infrastructure environment in which the Corporation operates coupled with the reliability of the equipment used. The industrial plant (infrastructure and equipment) is the essential determinant of capability, capacity, and resilience. VIA Rail does not own or control 97% of the infrastructure it uses and its rolling stock is old, increasingly less reliable, and more costly to maintain.

VIA Rail believes that, if its operating environment was to continue to deteriorate, the Corporation would no longer be capable of offering the high value product that is demanded by Canadians. Expected growth in Canada's cities, and ensuing increased congestion, should improve passenger rail's competiveness/attractiveness to the car. Furthermore, airport congestion – particularly at Pearson airport – should make passenger rail an essential part of Canada's mobility mix. It is VIA Rail's firm belief that passenger rail, as demonstrated in many developed nations, fills an important role in alleviating congestion.

The inability to overcome the obstacles of low frequencies, ever increasing trip times, and the deterioration of OTP impacts VIA Rail's competitiveness. Ongoing surveys of current VIA Rail passengers indicate that they only make one third of their trips by passenger rail. Of these same passengers, 40% indicate that this low number, despite their preference for rail, is due to inadequate frequencies and scheduling. To add perspective, the fastest travel time from Montreal to Toronto in Canada's Sesquicentennial year took almost one hour longer than it did in the country's Centennial year.

The potential impact on VIA Rail's plans and operations of the Ontario Government's announcement of the possible investment in high speed rail between Toronto - Kitchener - London by 2025, and eventually London – Windsor, cannot be assessed or incorporated at this time. Such an investment would have a significant impact but should complement VIA Rail's own plans. VIA Rail will engage with the Ontario planners and officials at the earliest opportunity to ensure that whatever the final design of the project, it is compatible and complementary to VIA Rail's own initiatives. The objective would be to provide the

maximum degree of inter-operability and inter-modality across the network and ensure a seamless and fluid passenger experience to enhance the benefit that intercity passenger rail can provide to all Canadians.

One of the most common misconceptions is that VIA Rail's main competitor is the airplane. However, due to the distances between the three large cities within the Corridor (Toronto, Ottawa, Montreal), VIA Rail's main competitor is in fact the car, which makes up 90% of the total travel market within the Corridor. If the total car and train trip time market is isolated, VIA Rail currently only captures 5%, which compares unfavorably to two other popular international corridors shown below:

Characteristics of Selected Intercity Corridors

	Rail Share	Frequency	Avg. Speed	Equipment	Total Pop.	Distance	Infrastructure
Toronto-Ottawa-Montreal	5%	11 / day	98 km/h	Conventional	12 M	573 km	Shared
New York City - Washington DC	14% (in 2003)	40 / day	127 km/h	Conventional	29 M	361 km	Mostly Dedicated
Rome - Milan	69%	40 / day	200 km/h	High Speed	9 M	574 km	Dedicated

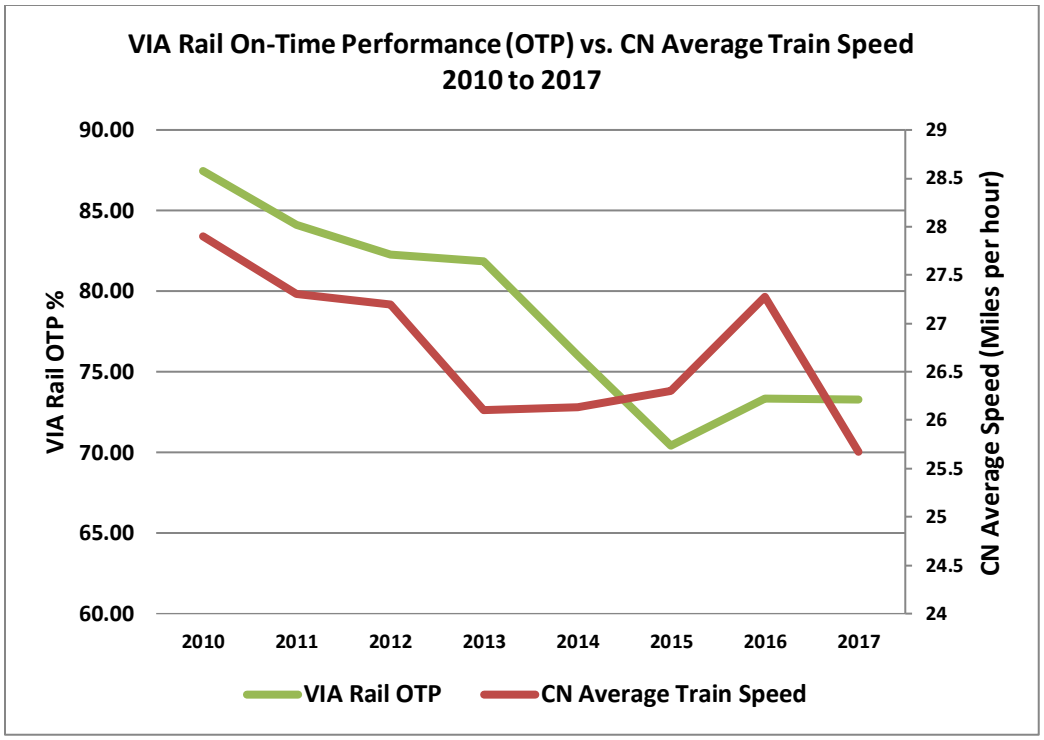
It is evident that if VIA Rail were to increase frequency and acquire its own dedicated infrastructure, its market share relative to the car would increase considerably.

b) Future Trends: Threats and Opportunities

i. Rail Infrastructure Access

VIA Rail operates primarily on CN infrastructure. In fact, VIA Rail only owns 3% of the tracks on which it operates. As is the case with roads, increased traffic on rail infrastructure leads to congestion, which causes increased trip times, unreliable performance and poor OTP. In fact, OTP on segments owned by VIA Rail is much higher than on average (see Annex 3). It also perpetuates the lack of availability of passenger rail frequencies to meet market demand due to competing freight demand.

Notwithstanding the short lived temporary reduction, long-term growth in Carloads per Route Mile (a traditional North American measure of freight traffic) coupled with longer, heavier, and slower CN trains has had a disastrous effect on VIA Rail's OTP and trip times. A secondary effect has been the accelerated deterioration of tracks leading to ever increasing slow orders for track repairs. In addition, the recent government directive to slow the speed of oil trains will further restrict rail traffic flow. The following graph shows the relationship of VIA Rail's OTP and CN's average train speed:



ii. Station Access

In addition to the above noted infrastructure congestion, VIA Rail relies on continued access to Union Station and Central Station, where over 50% of all VIA Rail passengers start or end their trips.

Union Station

In April 2016, Metrolinx and VIA Rail established a joint taskforce which explicitly addresses the need for operational and infrastructure changes in order to meet the GO Regional Express Rail (RER) program commitments and the planned increase in VIA Rail services with the overall objective to "maximize the efficiency of existing operations in order to reduce the demands for extensive capital investments". So far, the taskforce has looked into operational solutions (such as changes in the track allotment) and potential infrastructure modifications (e.g. additional and/or extending platforms), but increasing the station capacity to accommodate more than twice as many trains during peak hour will require more drastic solutions, which are to be identified through the help of external consultants. VIA Rail and Metrolinx have also agreed to harmonize their Train Control Systems to increase capacity at Union Station.

Thanks to the strong cooperation between Metrolinx and VIA Rail, management is convinced that Union Station will become a major intermodal hub in the heart of the Quebec-Windsor Corridor giving direct access to Torontonians to local, regional and intercity trains making Union a major engine for Canadian economic development.

Metrolinx notes that it will collaborate with VIA Rail in its *2041 Regional Transportation Plan for the Greater Toronto and Hamilton Area*: "Coordinate planning and implementation of In Delivery and In Development projects with the Province, the federal government and VIA Rail Canada, focusing on: high speed rail, high frequency rail, optimizing shared resources including Union Station and rail corridors, and integrating services for a seamless experience."

Montréal Central Station

Montréal Central Station has not reached the level of congestion of Union Station. In addition to coexisting with Réseau de Transport Métropolitain (RTM, formerly AMT) and Amtrak, VIA Rail will also coexist with the CDPQ's proposed new light rail system, the REM project.

The proposed REM project entails a 67 kilometre, 24 station, electric light rail transit (LRT) system operating from downtown Montréal, the Montréal South Shore (Brossard), the Montréal West Island (Sainte-Anne-de-Bellevue), the North Shore (Deux-Montagnes) and the Montréal–Pierre Elliott Trudeau International Airport (Dorval) in a fully automated, electric light rail transit (LRT) system.

VIA Rail believes that the REM project will have positive environmental impacts for Montréal since this project will provide a sustainable-mobility alternative to the car. VIA Rail management supports this project and believes it should be implemented without delay.

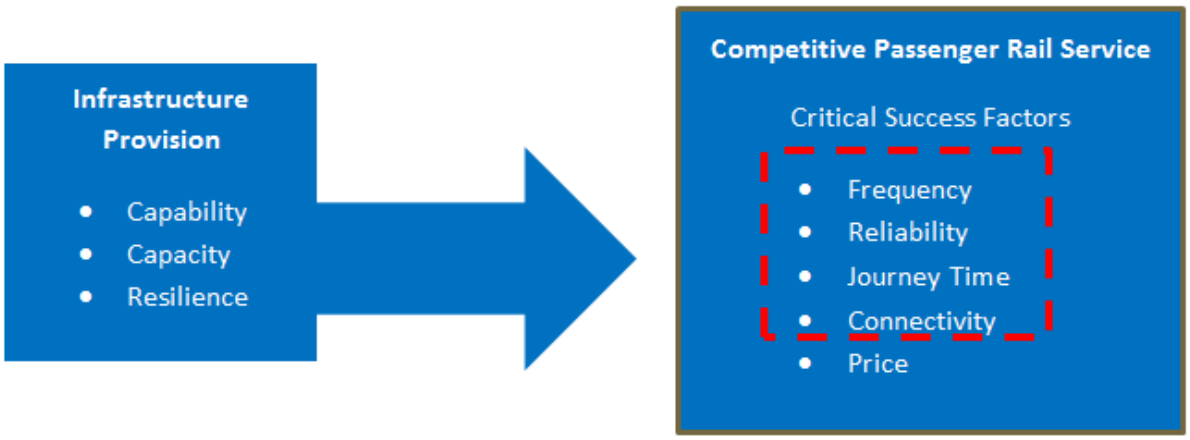
While the construction and operation of the REM project is expected to impact VIA Rail's current and future operations, once the REM project is operating, VIA Rail will coexist and employ its best efforts to offer travellers an integrated alternative to the car, both within and beyond the metropolitan area. The combined impact of the two operations will therefore be crucial in many respects: metropolitan ridership will double and intercity ridership could almost triple; GHGs will decrease by almost 70,000 tonnes, between Montréal and Québec City alone, through the elimination of more than 250 million kilometres otherwise travelled by car; and the optimization of public investments will further stimulate our economy.

Taken together, the REM project and VIA Rail's continued growth can help prepare for a more sustainable future for Canada, by paving the way for economic prosperity, and improving quality of life and the environment. Passenger rail service provides an affordable, accessible alternative to the car and is part of the solution for curbing climate change in Canada.

3.3.3 Corridor Strategy

a) Strategic Environment

VIA Rail operates within an environment with an inherent limiting factor: the sharing of capacity with freight. Because of capacity issues, it is incapable of offering an attractive alternative to automobile travel. A competitive passenger rail service is dependent on the provision of high quality infrastructure that drives four of the five critical success factors when it comes to competitive passenger rail services: frequency, reliability, journey time, and connectivity.



A passenger rail service that cannot rely on its infrastructure finds itself in a position where it cannot provide a valuable alternative to other modes of transportation.

Besides its dysfunctional infrastructure environment, VIA Rail suffers from two major strategic weaknesses:

1. A strong substitute product: the car

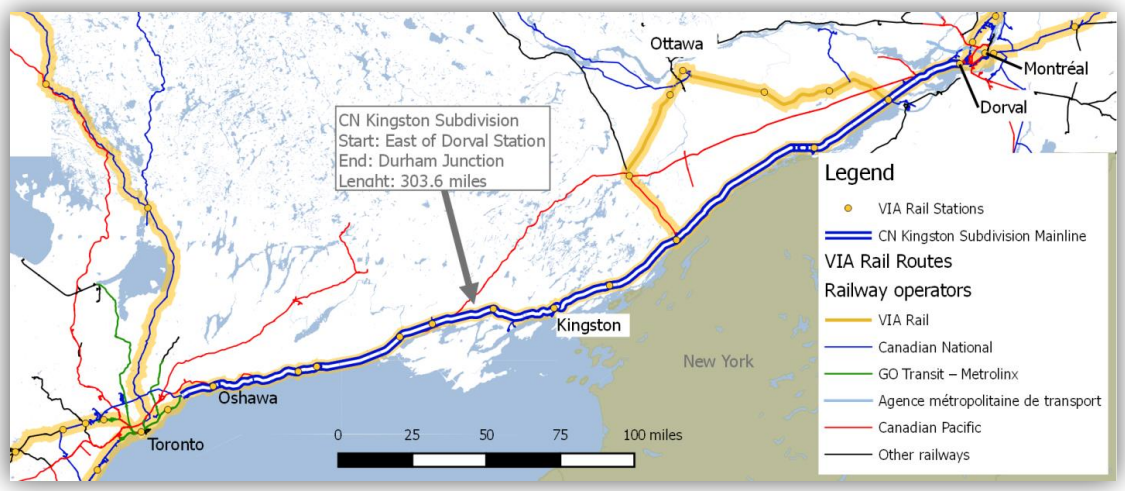
Rail has one advantage over the car, access to the downtown core on an uncongested right-of-way. This advantage has promoted commuter and regional rail and can promote intercity rail.

Critical Success Factor	**Car**	**VIA Rail Current**	**VIA Rail High Frequency Rail Proposal**
Convenience	Always available for departure	Very limited frequencies	Train every hour
Reliability	Subject to road congestion	Subject to freight congestion	Dedicated tracks
Journey Time	Increasing	Increasing	Reduced
Connectivity	Maximum	Limited by suboptimal timetable and reliability	Optimized
Price	Full cost of ownership not considered in incremental trip decision	Challenge to increase prices while providing deteriorating value	Accessible

2. A key supplier with overwhelming negotiating power:

Essentially, CN is in a monopoly position when it comes to supplying VIA Rail in the Toronto-Ottawa-Montreal Corridor: the Kingston Subdivision, the shortest most direct route (which runs along the lakeside) between Montreal Central Station and Toronto Union Station is largely owned by CN.

Kingston Subdivision



As the track owner, CN will naturally favour its trains. As noted earlier, unlike elsewhere, passenger trains in Canada do not have operational priority. CN can essentially veto or unilaterally alter any request to improve passenger travel times and frequencies. Consequently, the host railways are able to:

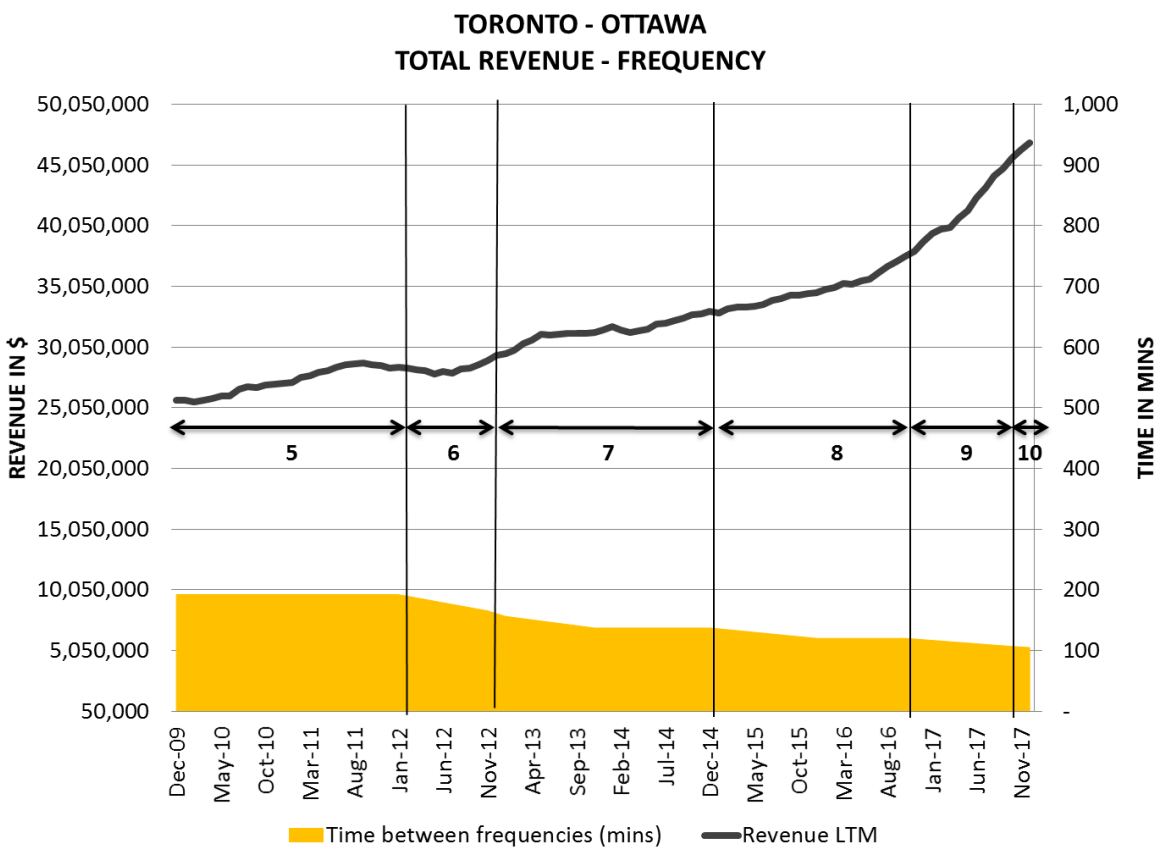
1. Charge a premium for additional frequencies by requiring capital expenditures for enhancing their infrastructure, without any offset in operating cost charged;
2. Deny liability for performance;
3. Limit frequencies;
4. Dictate schedules; and
5. Control travel times.

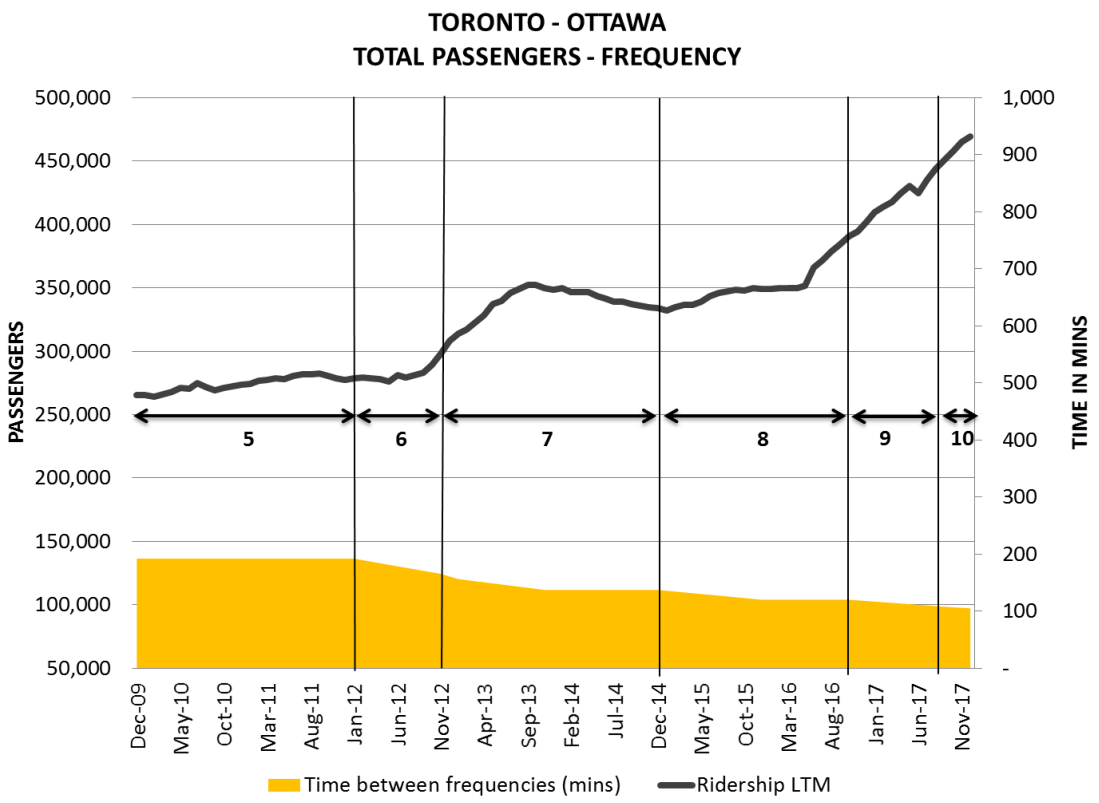
As result of the host railways' bargaining position, passenger rail's competitiveness with the car has decreased and has added significant operating costs and capital requirements. These have resulted in an increasing VIA Rail deficit and further cost to the Government of Canada.

b) Current Market: Frequency Increases

Increases in frequency clearly have a positive effect on both ridership and revenue.

As illustrated below, increases in frequency in VIA Rail's Toronto - Ottawa route have resulted in both increased ridership and revenue.





The following table illustrates key attributes of highlighted Corridor routes in the current environment.

Key Route Attributes

	Montreal-Ottawa	Toronto-Ottawa	Toronto-Montreal
Trip Time			
Car*	2:00	4:30	5:30
VIA Rail**	1:47	4:05	4:49
Frequency			
Car	Unlimited	Unlimited	Unlimited
VIA Rail	6	9	6
Average Fare* **	*$43.71*	*$63.73*	*$69.06*
Average Fare per Route-Mile* **	*$0.38*	*$0.19*	*$0.25*

**Car trip time – Google Map*
***VIA Rail trip time – Scheduled Fastest Train*
****As of 2017*

Generally speaking, depending upon frequencies and trip time, the ideal distance for intercity passenger rail is between 150 to 600 kilometres.

c) Strategic Direction

In the Québec City–Windsor corridor, VIA Rail will not be capable of adequately fulfilling its mandate if it does not take corrective actions.

Essentially, the core issue is that:

- VIA Rail operates in an increasingly congested environment that will lead to deteriorating service and financial performance.

To fully revitalize passenger rail across Canada so that it better contributes to national economic and environmental well-being, VIA Rail's financial viability must be improved. VIA Rail's proposal for High Frequency Rail (further detailed in Section 7) provides the practical opportunity to transform the role of passenger rail services in Canada, materially contribute to government objectives and secure its long-term financial sustainability.

In addition to High Frequency Rail, VIA Rail has implemented or is considering various initiatives to reduce the rate of increase of required government funding including:

1. Adding new frequencies and station stops in the Quebec City–Windsor Corridor;
2. Potentially acquiring the north mainline between Kitchener and London (for improved track access, control, trip times, reliability and OTP);
3. Implementing a push-pull strategy (mode of operation allowing the trains to be driven from either end, reducing operating costs and station turn-around times and improving equipment utilization); and
4. Improving train cycling (optimizing the use of personnel and the fleet to better match supply to demand).

In Southwestern Ontario, VIA Rail is considering changing train cycling and frequencies aimed at increasing ridership and revenue while optimizing operating cost structures and improving the bottom line by giving the market what it needs. This would be done by optimizing schedules, train cycling, and travel and connecting opportunities to improve service to passengers and communities. The key concept is to better deploy the existing trains, crews, assets, and operating costs, and add additional trains in order to increase revenues more than the increase in operating costs. VIA Rail also has a good cooperative relationship with Metrolinx that can help in optimizing the use of infrastructure.

d) Strategic Options

VIA Rail can implement one of two strategic options:

- Continue operating Status Quo but with Fleet Renewal; or
- Implement High Frequency Rail with Fleet Renewal.

i. Continue operating Status Quo but with Fleet Renewal

The procurement will entail the acquisition of 32 new bi-directional trainsets with a capacity of 9,100 seats.

The replacement of the LRC cars supports VIA Rail's short and long-term fleet renewal strategy. The initial investments are offset by lower lifecycle costs, operating and maintenance cost savings, and increased revenues. Passenger amenities and overall experience will be markedly improved. Reliability will increase. The environmental benefits of new locomotives on local air quality are substantial and best support federal and provincial environmental objectives.

Information with regard to VIA Rail's fleet renewal strategy can be found in Section 6 of this Corporate Plan.

ii. High Frequency Rail with Fleet Renewal

VIA Rail has proposed a $4.0 billion plan to achieve High Frequency Rail (HFR) service in the Windsor-Quebec City corridor, in particular between Toronto, Ottawa, Montreal and Quebec City. As the Government

of Canada noted in Budget 2016: Growing the Middle Class: *"VIA Rail has developed a proposal for a high frequency rail service within the Windsor-Quebec City corridor that could see VIA Rail operate on dedicated tracks exclusive to its services. This could permit increased service frequencies, improved on-time performance and reduced trip times."*

An additional benefit of this infrastructure project is, that it would leverage the investment made for the new Corridor fleet.

The HFR project would contribute to the growth of the middle class, which the government addressed in its 2015 Speech from the Throne. It would extend the commutable distance to metropolitan areas allowing greater access to home ownership "out of town" while maintaining employment in cities. In itself, the construction of dedicated tracks and HFR infrastructure would create 50,000 person-years of work.

Detailed information with regard to VIA Rail's High Frequency Rail proposal can be found in Section 7 of this Corporate Plan.

iii. Other Strategic and Tactical Initiatives

VIA Rail continues to implement new strategies to improve its current services. As mentioned earlier, revenue growth has been and will continue to be achieved through the introduction of new direct trains, push-pull operation, improved service offerings, and the remaining initiatives outlined in Section 3.1.

In addition, VIA Rail will also implement strategies that will provide customers, employees and communities with a personalized and authentic experience by leveraging data intelligence, tailoring content, and providing a customizable workplace for employees.

VIA Rail also intends to implement strategic station investments that will enhance the customer travel experience, provide a seamless experience, improve accessibility, intermodality, and sustainable mobility.

Improvements to operational performance will be gained by replacing or upgrading assets that have reached their end of life; and, leveraging technology across trains, stations, maintenance centres, and systems, to run a fluid, safe and, secure service.

3.4 Long-Haul and Regional

VIA Rail's Long-Haul trains provide a hybrid product aimed at servicing the tourist sleeper market, which is akin to the cruise ship tourism segment, as well as the intercity service aimed at connecting communities along the routes. VIA Rail operates two Long-Haul trains, the *Canadian* between Toronto and Vancouver and the *Ocean* between Montreal and Halifax.

The Sleeper class targets travellers who wish to discover Canada's scenery at a leisurely pace. Global conditions and the depreciating Canadian dollar currently provide favourable conditions for these services.

The Corporation provides extensive services to Indigenous communities across Canada, many of which depend on the train as the only viable or reliable means of transportation, in many cases for both the transportation of people and goods. VIA Rail's Long-Haul and Regional/Remote trains serve 192 First Nations reserves across Canada.

Unfortunately, as of June 9th, 2017, VIA Rail had to suspend service to Churchill indefinitely due to infrastructure condition. Once the track has been repaired and inspected, VIA Rail will resume service to Churchill.

VIA Rail Canada (VIA Rail) was advised by Omnitrax that service on the railway from Amery (north east of Gillam, MB) to Churchill, in northern Manitoba, has been suspended indefinitely. VIA Rail is communicating with customers who have reservations on the impacted trains. No alternative mode of transportation will be

provided. VIA Rail will resume its services between Gillam and Churchill once inspections of the railway have been completed and the track is back in operation.

3.4.1 The *Canadian*

Financial Performance – 2013 to 2017

a) Revenues

From 2013 to 2017, the *Canadian's* revenues increased 62.1% primarily due to the popularity of the *Prestige* sleeper class, and increased fares in 2014. From a high of 112,000 passengers in 2012, ridership has steadily declined to a low of 93,000 in 2016. This reflects a cut in frequencies and deterioration in OTP. In 2017, despite a continuous decline in OTP (from 54% in 2016 to 8% in 2017), ridership has recovered to 105,000, notably due the popularity of the Canada 150 Youth Passes. In 2017, the *Canadian* generated $63.8 million in passenger revenue.

b) Variable Expenses

Between 2013 and 2017, the *Canadian's* variable expenses increased by 18.4%, due to increased compensation costs (mainly due to poor OTP) and inflation.

c) Contribution and Efficiency

Between 2013 and 2017, the Canadian's variable contribution greatly improved, going from -$14.9 million to $0.8 million. The operating ratio rose from 74% in 2013 to 101% in 2017. This was achieved in part due to an improved environment for Canadian tourism but, also, because the addition of value added products such as the Prestige product, which is directly targeted to high-value passengers.

d) Operational Issues

Apart from the 12 newly renovated *Prestige* cars, the *Canadian* operates with an aging fleet of HEP I equipment that is over 60 years old, and that has not been overhauled since the early 1990s. Additional information on VIA Rail's fleet is available in Section 6.

The following tables outline the on-time performance (for delays of less than an hour) of the *Canadian* over the last several years:

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017
OTP	84%	84%	74%	70%	60%	33%	38%	54%	8%

Month	OTP West (#001)	OTP East (#002)	Maximum Delay (hours)		Average Delay (hours)	
			Train 001	Train 002	Train 001	Train 002
November 2017	0%	0%	13	17	9	11
December 2017	0%	11%	26	16	17	10
January 2018	0%	0%	43	33	29	19
February 2018	0%	13%	37	22	21	12
March 2018	0%	0%	26	15	20	15

From 2010, the *Canadian*'s OTP has deteriorated drastically with some delays being as long as 43 hours. 85% of the delays are attributable to traffic on CN's rails. From 2016 to 2017, minutes of delays related to CN increased 47%. The trend follows the pattern displayed by CN's carloads; down 10% and up 11% in 2016 and 2017 respectively.

These delays lead to substantial difficulties for tourists who schedule connections between the *Canadian* with a cruise ship or some other leg of their vacation; unreliability is one of the major sources of negative comments on travel social media. As VIA Rail's flagship train, poor reliability may also reflect poorly on Canadian Tourism itself. To mitigate this, VIA Rail has posted a public advisory, suggesting to avoid same day connections, for passengers booking the *Canadian*. This results in an obvious adverse impact on our customer's experience and satisfaction, and also impacts our on-train, station and equipment maintenance employee's health and well-being.

This is not the first time that poor OTP has troubled the *Canadian*. In 2009, VIA Rail needed to add one additional night to the total journey, thus allowing more schedule "float" to insure that connections were met. Despite having lengthened by one additional night OTP continued to deteriorate in the long term.


Reviewed 1 week ago

reliability of The Canadian

Freight rail transportation in Canada has priority over passenger trains which can sometimes lead to substantial delays. We were due to travel at 14:00 on the 27/08/17 from Jasper to Vancouver on the prestigious Canadian only to be informed the day before that the train was running 14 hours late. This was a regular occurrence this summer so beware! luckily we were able to make alternate arrangements by road.


Reviewed 25 September 2017 via mobile

Beware VIA Rail!

I am writing while waiting for a VIA Rail train from Jasper to Vancouver which is now 18 hours late! Not a mechanical problem, just tracks overcrowded with freight traffic.
If you are contemplating using VIA rail, I'd check closely the fine print regarding not planning a connection on the day of your VR travel.
I will never use this "service" again. If there is an alternative, I'd suggest you consider it.
It's amazing that a first world country can have such totally unreliable trains.


Reviewed 21 September 2017 via mobile

Nightmare of a railway

We had booked from Edmonton to Harper and Prince George to Prince Rupert. The first train was running 12 hours late and they could not confirm it would even make it by midnight. The second train running at least 3 hours late. We gave up on both. Turns out via rail uses CN Rail tracks. And they prioritize freight over people. Not to mention US majority owned. All the ticket people in the statiob can do is apologize and say it happens all the time. Add floods in the east and fires in the west this year. Canadian government should be ashamed of its treasured railroads.

On May 25, 2018 two departures on the *Canadian* were cancelled with the goal of ending a series of excessive delays. This added to the urgency of finding and implementing solutions to improve the train's on-time performance.

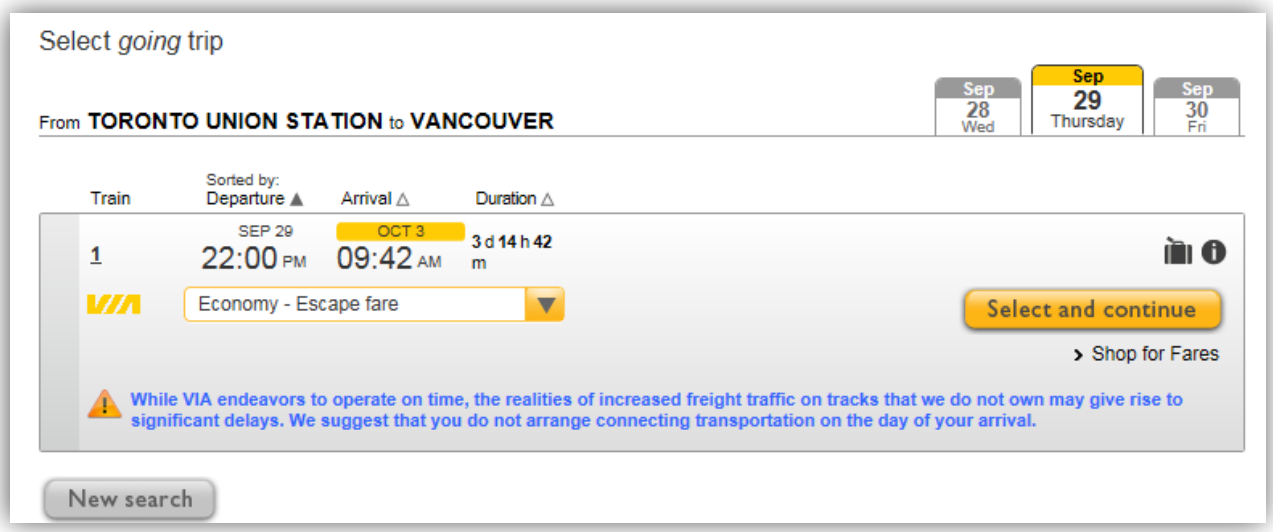
As a result, VIA Rail has modified the schedule, as proposed by CN, of train 2 (Vancouver–Toronto) by adding nine additional hours to the schedule as well as increasing the station dwell times by one additional hour in both Winnipeg and Jasper for both East and Westbound trains.

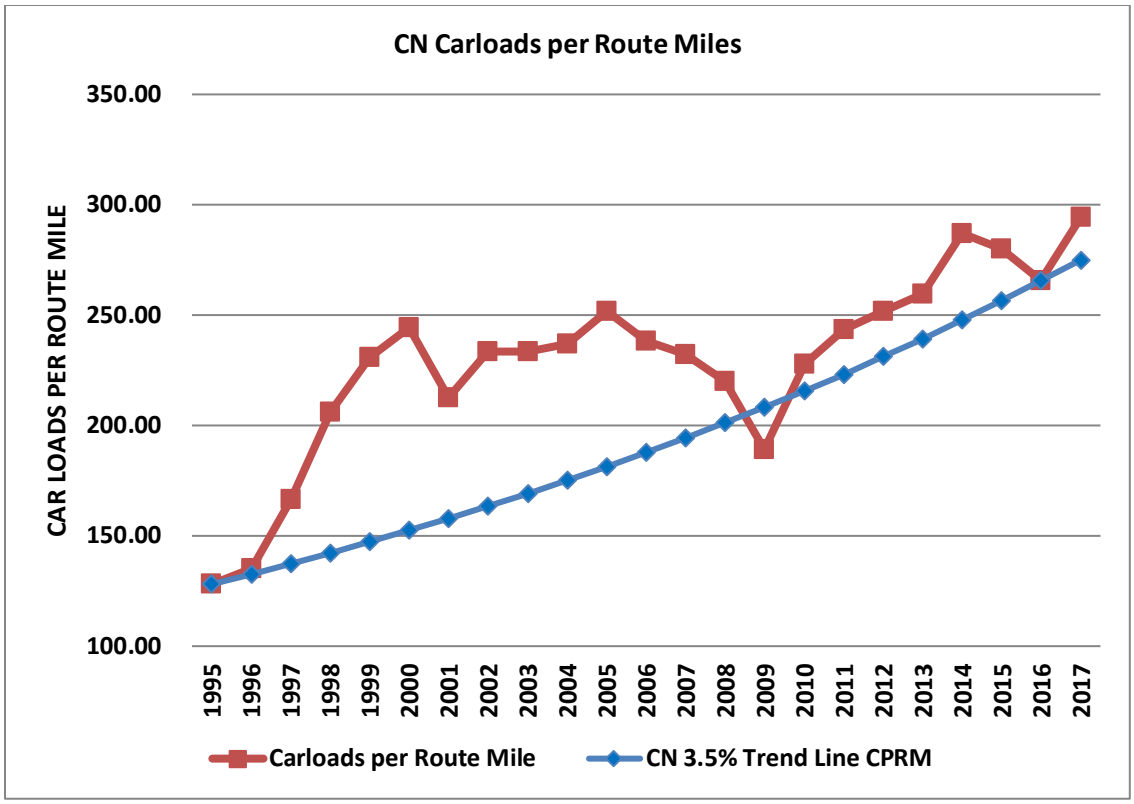
The modified schedules have come into effect on July 26 for train No. 1, and on July 27 for train No. 2. VIA Rail will of course closely monitor the OTP of the *Canadian* following implementation of the new schedule.

Train 001	Train 002
• Departure from Toronto at 10 pm (status quo) • Extended travel times for an arrival in Vancouver at 6 pm (instead of 9:42 am)	• Departure from Vancouver at 12:00 pm (instead of 8:30 pm) • Extended travel times for an arrival in Toronto at 2 pm (instead of 9:30 am)

Additional mitigations contemplated: an optimal arrival window that permits the same day turn-around, add train riders (on-board mechanical staff) to further shorten turnarounds, augment staff to a level which assumes continuing delays, initiate a Rest Relief Plan, and training station agents with new protocols.

With this OTP, VIA Rail cannot effectively provide mandatory services, as the service is no longer a viable travel alternative in between and around Winnipeg, Saskatoon, Edmonton, Jasper, and Vancouver. The unreliability exacerbates the divide between the very schedule sensitive travellers and less schedule sensitive tourist travellers. In light of this, VIA Rail has for some time been advising passengers not to book same day connections.





With three frequencies per week during the peak season and two during the off-season, the *Canadian* cannot provide adequate frequencies to deliver a viable travel alternative in the intercity and regional markets between and around Winnipeg, Saskatoon, Edmonton, Jasper, and Vancouver. Nor does it serve the major cities of Regina and Calgary.

Also, as noted in the Executive Summary, due to operational issues with the host railway, in 2019 there will be a partial suspension of one peak-season frequency on the *Canadian* between Toronto and Edmonton. Providing passenger rail service is a joint responsibility of VIA Rail and CN as a host infrastructure owner. Therefore, VIA Rail can only fulfill its mandate in close cooperation with CN. The actions proposed herein were arrived to in concert with CN as a solution to the current infrastructure capacity shortage which exists in Western Canada.

As noted above the *Canadian* experienced deleterious OTP issues with delays of up to 43 hours, an unsustainable situation. During a meeting held on May 30 between CN and VIA Rail executive to address the situation CN raised the possibility of suspending one peak frequency of the Canadian in 2019 due both to the increasing rail traffic congestion (increasing grain and oil shipments) and the major infrastructure work programs they would be instituting, primarily between Winnipeg and Edmonton, to increase rail traffic capacity.

On August 16, VIA Rail and CN agreed conceptually to a third peak-season frequency where the *Canadian* would be partially suspended between Toronto and Edmonton until capacity issues have been resolved. This protects the third frequency through the Rockies and protects and maintains the relationship with the tour operators.

3.4.2 The *Ocean*

Financial Performance – 2013 to 2017

a) Revenues

From 2013 to 2017, while the *Ocean*'s ridership reduced 14.6%, revenue increased 20.8% over the period. Average miles per passengers also increased 6.0% from 504 miles to 534 reflecting less usage for local intercity travel. In 2017, the *Ocean* generated $10.4 million in revenue and carried about 79,000 passengers, of which about 20,000 were in Sleeper class and 59,000 were in Economy class.

b) Variable Expenses

Between 2013 and 2017, the *Ocean*'s variable expenses increased by 17.4%, due to increased compensation costs and inflation.

c) Contribution and Efficiency

The Ocean's negative variable contribution has moderately deteriorated over the period, increasing from $10.5 to $12.0 million (+14.0%).

d) Operational Issues

As stated in the executive summary, VIA Rail will continue to work on an operations plan to ensure service continuity on the *Ocean* after November 1st, 2020. Over the past decade, the rail infrastructure between Campbellton and Moncton had degraded to the point where the *Ocean* service was threatened. CN announced their intention to cease rail service in Northern New Brunswick by abandoning a section of the Newcastle Subdivision. CN officially formally added the Newcastle Subdivision to its discontinuance list, part of the legislated process defined in the Canadian Transportation Act (CTA) to abandon the line.

In January 2014, the Government of New Brunswick announced that it would invest $25 million in track infrastructure improvements on the Newcastle Subdivision towards ensuring continued service for active freight rail customers on the northern and southern sections of the rail line. In return, CN committed to spending a comparable amount for a 15-year period on the same portion of rail infrastructure.

While this agreement preserved rail freight service in northern New Brunswick, a 44-mile section of the Newcastle Subdivision between Bathurst and Miramichi would have no upgrades and would be abandoned "due to the significant investments required to maintain the line and the lack of both originating and terminating freight traffic on that section." (CN – New Brunswick January 24, 2014 Press Release)

After a review and evaluation of alternatives, in order to maintain the existing Ocean passenger service, it was decided that VIA Rail would invest a then estimated amount of $10.2 million on infrastructure and bridge repairs for that 44-mile section. A Memorandum of Understanding between VIA Rail and CN was signed on May 9, 2014 and work started. The 30 minute trip time reduction originally anticipated as a result of this work did not materialize.

The estimated amount of $10.2 million was firm except for the underwater work for the two bridges at mileage 62.2 and 63.0, both near Miramichi, which was subject to possible change following underwater inspection. CN has since revised its cost estimate for the underwater bridge work and the current repair cost now stands at ~ $18.2 million.

VIA Rail did engage in discussions with the New Brunswick Government on sharing the potential additional costs, however no participation was forthcoming. The expected completion date for this work is November 2019.

VIA Rail is also exploring the possible acquisition of the entire Newcastle Subdivision, a total length of 172.3 miles together with a short section of the Mont-Joli Subdivision. With the potential to improve trip times together with the possible introduction of an eastern intercity service from Halifax to Campbellton, ownership and control of this subdivision would be worthwhile.

While the *Ocean* has maintained a respectable OTP, frequencies were reduced from six one-way departures per week to three one-way departures. With this reduction, the *Ocean* does not have sufficient frequencies to deliver an adequate travel alternative in the intercity and regional markets.

VIA Rail is currently investigating the possibility of an eastern intercity corridor service from Halifax to Campbellton, as further detailed in Section 3.4.4 of this Plan.

3.4.3 Regional services

Financial Performance – 2013 to 2017

a) Revenues

In June 2017, VIA Rail had to suspend service to Churchill indefinitely due to infrastructure condition. This led to a substantial decrease in revenues from $5.8 to $3.8 million (-33.2%) between 2013 and 2017. After listening to community feedback late in 2014 and early 2015, VIA Rail tailored the Regional service to better match its customers' needs. As a result, from 2014 to 2015, passenger revenues increased for the first time in five years by $0.8 million (19.8%), and once again from 2015 to 2016 by $0.4 million (9.6%).

b) Variable Expenses

For the period between 2013 and 2017 expenses decreased by $2.6 million (9.5%). This is mostly due to the suspension of service to Churchill.

c) Contribution and Efficiency

While revenues decreased considerably, the negative variable contribution slightly decreased over the period, from $21.8 million to $21.1 million (3.2%).

d) Operational Issues

VIA Rail has suspended the Victoria-Courtenay (since 2011) and Matapédia-Gaspé (since 2013) services for safety reasons due to the poor condition of the rail infrastructure. For Victoria-Courtenay the infrastructure owner, the Island Corridor Foundation, is responsible for the restoration of the rail infrastructure. In Matapédia-Gaspé the infrastructure owner is the Sociéte du Chemin de Fer de la Gaspésie (SCFG), which was recently purchased by the Government of Quebec in May 2015.

Reinstatement of service will take place only once the infrastructure work is completed and VIA Rail is satisfied that it is safe to operate on the rail infrastructure and that reasonable track speeds, schedules and connectivity (for Gaspé) are achievable.

3.4.4 Strategic Direction

a) Long-Haul Strategies

The *Ocean* and the *Canadian* do not represent a large proportion of VIA Rail's frequencies, but they account for very significant portions of VIA Rail's operating costs, fleet, staffing, and deficit.

These trains serve:

- Canadian and international tourists attracted to the scenic views, overnight accommodations, and (in the case of the *Canadian*) the unique heritage art deco, sleeping, viewing and dining rail equipment;
- Regional and intercity travellers, many who reside in remote areas without year-round roads, reliable driving conditions for private car/bus travel, or who face long drives; and
- To a far lesser degree, long-distance intercity travellers unable to, or seeking to avoid, travel by air.

VIA Rail is currently exploring strategic changes to the Long-Haul services.

By segmenting and calibrating these services appropriately to better meet these tourist and regional/intercity traveller markets, while leveraging the inherent appeal of the iconic status and rolling stock of the *Canadian*, VIA Rail could better serve Canadians.

VIA Rail continues to examine routing options by using the best of CN's or CP's routes from a customer's perspective, such as the CP route along the picturesque north shore of Lake Superior.

i. Eastern Intercity

In 2012, the *Ocean*'s frequencies were cut from six to three per week. With this reduction of frequencies, the *Ocean* does not have sufficient frequencies to deliver an adequate travel alternative in the intercity and regional markets such as between Quebec City and among Rivière-du-Loup, Campbellton, Moncton and Halifax.

VIA Rail is currently exploring an eastern intercity corridor service from Halifax to Campbellton, which would fill in the frequency gap that was created when the *Ocean* was reduced from six to three weekly frequencies and benefit local travellers. This initiative is pending infrastructure updates and equipment testing by the host railway.

As previously noted, passenger rail service is important to the communities of Nova Scotia and New Brunswick, as illustrated by this excerpt from the CTA Review:

"Passenger rail service may be the only viable transportation option for many residents living in communities in Nova Scotia and New Brunswick. The need for this passenger service is becoming more acute given the ageing demographic in Atlantic Canada that is highly dependent on public transportation services. We recommend that the CTA include an appropriate provision that would commit the federal government to guarantee the existing level of service as a minimum and provide appropriate resources to VIA Rail as required to continue pursuing and implementing new initiatives to rebuild the service." — Atlantic Canada Ministers of Transportation Submission to the CTA Review January 23, 2015

An infrastructure study provided preliminary rail upgrade costs estimated at $6.3 million and Rail Diesel Car (RDC) testing has taken place on the Newcastle Subdivision. The final results are conclusive, with all crossing automatic warning devices activating as intended. In early February 2018, CN responded that the RDCs will be allowed to operate at passenger speed on the Springhill and Bedford subdivisions.

ii. Sudbury - Winnipeg Regional Intercity

VIA Rail's Vancouver–Toronto and Montreal–Halifax service option includes a weekly round trip between Winnipeg–Sudbury Junction providing predominantly coach service to ensure current service levels are maintained at three weekly frequencies during the peak season and two during the off-peak season. For the few passengers who travel in Sleeper class, this option would remain available.

This new regional service originating in Winnipeg and Sudbury Junction would significantly reduce delays for travellers as this would eliminate the accumulated delay caused elsewhere on the *Canadian*'s route. While VIA Rail cannot predict OTP performance of the new regional service, experience on the parallel CP Mainline where VIA's Sudbury-White River remote service runs suggests regularly occurring large delays can be mostly eliminated through scheduling adjustments.

b) Regional Strategies

VIA Rail, as part of its mandate, provides service to regions not easily accessible by other modes of transportation. As such, the potential markets and competitive landscape are restricted and only account for 1.2% of VIA Rail's revenues. Historically, these services have not undergone much change other than when faced with track abandonments. However, VIA Rail has made, and continues to make, efforts to meet with key community representatives to understand the needs of the current and potential users relying on these services. VIA Rail has been proactive in implementing improvements to these services and intends to support the communities it serves by maintaining access. The service that VIA Rail provides is highly valued by these communities, and as a result of these improvements and initiatives, revenues have increased by 9.5% over 2015 following a 20% increase YoY over 2014. These results cannot be replicated however due to the suspension of service to Churchill.

The *Ocean* provides transportation services to rural areas in New Brunswick and Nova Scotia who use the service for access to regional centres (Moncton, Halifax) and neighbouring communities. It also passes adjacent to several First Nations reserves.

Looking at travel patterns on the *Ocean*, two clear travel market segments can be seen: long-distance travellers between the Maritimes and Central Canada (CBTN-HLFX↔MTRL-QBEC) and regional travellers (CBTN-MCTN↔HLFX) where passengers remain within the Maritimes.

For regional travellers who do not use sleeper accommodations, a smaller fleet with coach seating would lower operating costs, enabling greater frequencies. This would enhance the appeal for regional travellers, effectively providing a daily service (when combined with the Vancouver–Toronto and Montreal–Halifax service) for the Maritimes.

c) Halifax Regional Municipality (HRM) Commuter Rail

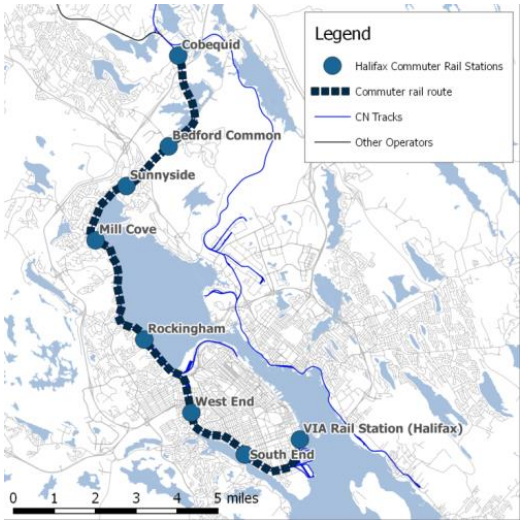
In 2014, the Halifax Regional Municipality (HRM) engaged the rail consulting firm of CPCS Transcom to conduct a Commuter Rail Feasibility Study. The study was completed in the spring of 2015 and proposed various options with capital cost estimates ranging from $26 million to $45 million together with estimated annual operating costs of $14 to $16 million.

HRM, having been previously briefed by VIA Rail regarding the proposed "Regional Service in Atlantic Canada", requested a review of the CPCS Commuter Rail Feasibility Study. Following briefing on the proposed "Regional Service in Atlantic Canada" in the Fall of 2015, HRM officials asked VIA Rail to review the report.

VIA Rail concluded that the commuter service could be provided at lower cost than what is proposed within the CPCS study, with some route and operational adjustments. VIA Rail would be well positioned to provide maintenance and operational commuter services in Halifax, by using its existing infrastructure and resources. This would provide the opportunity for VIA Rail to optimize existing assets, share the costs of other VIA Rail train services in the region, and generate revenues. HRM would benefit from lower operating costs and VIA Rail's operational expertise. It is understood that HRM would cover capital and operating costs.

VIA Rail has met with HRM to assess a possible three year-pilot program for commuter train service between VIA Rail's Halifax station and Windsor Junction. Train Service Agreement fees would be on a pass-through basis. This service would be contingent upon an agreement with CN for the appropriate train

frequencies. VIA Rail could provide RDC (Rail Diesel Car; self-propelled diesel multiple units that do not require a locomotive) in a manner similar to that of the Victoria – Courtenay service.



VIA Rail would operate the commuter service on behalf of the Halifax Regional Municipality, who would be the owner and financial backer of the service. VIA Rail is not the promoter of the project but is responding to the HRM request for help in bringing commuter rail to the people of Halifax.

As noted within Section 2.3.4 of this Plan, VIA Rail has a great deal of expertise in supporting commuter operations, most notably providing maintenance and servicing to West Coast Express in Vancouver.

3.5 Other Revenues and Expenses

3.5.1 Semi-Variable and Fixed Revenues and Expenses

VIA Rail's operating deficit before pensions improved from $235.5 million in 2016 to $231.9 million in 2017 (-1.5%). Please refer to Annex 1 for further details.

3.5.2 Capital Expenditures

Equipment

After the Corridor fleet acquisition outlined in Section 6, VIA Rail's major equipment project is the refurbishment of its heritage fleet. Known under the umbrella "Heritage Fleet Modernization", this program aims to modernize the aging fleet of HEP cars and protect the corridor seat capacity until the new fleet train sets are in service.

The interiors of 17 HEP cars will be refurbished and reconfigured to meet the seating and accessibility requirements that were previously satisfied by the LRC cars being retired; these cars will be known as HEPIII. The contract for this work is underway and was awarded to Bombardier Transportation on April 3, 2018.

An additional 25 HEP cars will see their interiors renewed in kind, without reconfiguration, and their systems will also be completely re-engineered in order to serve as a secondary capacity protection in the case of unplanned events. The lifecycle of these cars will extend well beyond the Capacity Protection Plan and the vehicles will continue to provide value for Long-Haul services once the plan reaches its end.

VIA Rail is also in the process of, or planning to, modernize the interiors, critical systems and kitchens of its diner, Chateau, and Skyline cars.

The Montréal Maintenance Center (MMC) is preparing to issue a variety of upgrades to the combination of 33 business and economy HEP II cars. These include systems modernization and / or overhaul, as well as interior redesign and / or improvement.

P42 locomotives will receive reliability enhancements that will reduce maintenance costs, increase the equipment's availability and improve the work environment for on board crews. As well, the F40 fleet will have components modified to permit them to serve in push-pull operations. Both projects will take place at the MMC.

Infrastructure

Infrastructure projects include infrastructure repairs on the Newcastle Subdivision between Bathurst and Miramichi, New Brunswick (required for continuance of service), as well as ongoing track work programs, bridge repairs, and signaling repairs on VIA Rail's infrastructure.

Maintenance Infrastructure

The major maintenance projects comprise mostly of upgrades to the maintenance infrastructure and consist of parking and access road upgrades, emergency generators, rolling stock damper and spring testing infrastructure and roof replacement, amongst many others.

Station Upgrades

Station projects include the addition of a new primary electrical supply for the Ottawa Station, Ottawa Station Elevated Passenger Platform, Vancouver station upgrades and Brockville station upgrades; together with various building, mechanical, electrical, and architectural upgrades, signage painting, and other repairs and upgrades.

Union Station

The remaining allocated capital for Union Station will be used in 2018 for revitalization initiatives.

IT Projects

The major projects in Information Technology are: Network Planning Solutions, Workforce Management software, Integrated Financial and Forecast Reporting software, iVIA upgrades, ReserVIA (reservation system modernization), new mobile application, Evergreening and hardware updates, as well as Stations Screen Expansions.

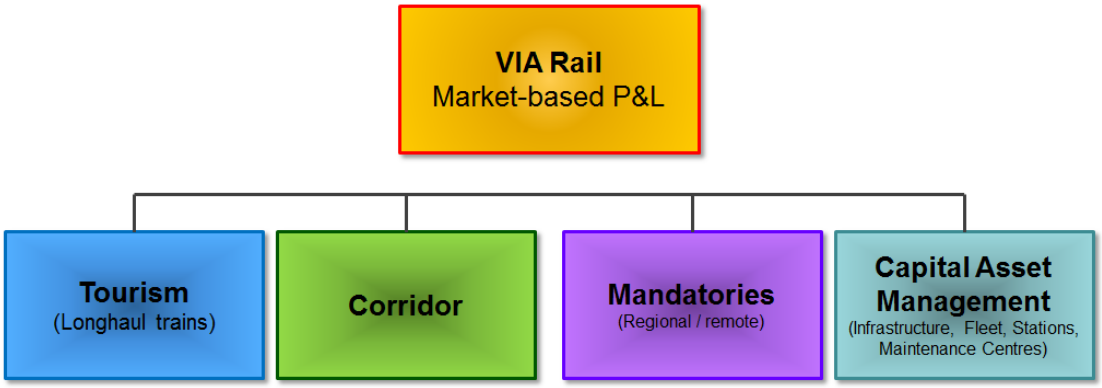
Total Capital Expenditures for 2016 and 2017

(Millions of Dollars)	Actual 2016	Actual 2017
Equipment Projects	28.5	16.9
Infrastructure Projects	24.6	14.5
Maintenance Projects	6.1	10.9
Station Upgrading Projects	7.6	29.2
Union Station	4.7	0
Information Technology Projects	18.7	16.4
Administration Projects	0.8	0.6
Total Capital Expenditures	**91.0**	**88.5**

3.6 Vision 2020 and Destination 2025

In 2014, VIA Rail introduced a new organizational structure to serve the Canadian population in a more efficient manner. This new vision for VIA Rail is a market-based organization where the actions by the people of VIA Rail will address the mobility needs of the people of Canada.

The new organization was approved by the Board of Directors and on a high-level basis, it resembles the table below:



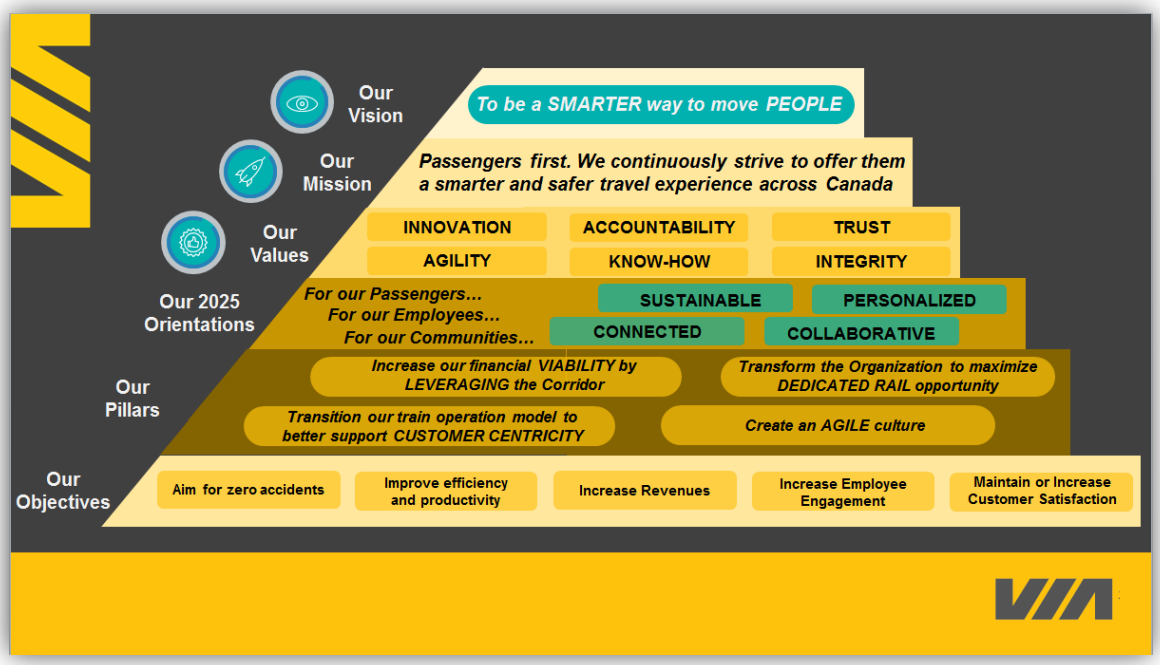
The vision realigns VIA Rail's activities to improve customer service, financial efficiency, and operational excellence. In this market-based structure, each business line will become its own "Profit and Loss" (P&L) centre. These business lines are responsible for the operations, capital investment, and financial performance of their respective passenger rail services, on a train-by-train basis.

In addition, a Capital Asset Management organization supplies VIA Rail's infrastructure, rolling stock, and station assets. The Capital Asset Management organization is also responsible for the possible commercialization to third parties of any asset not required/used for VIA Rail operations.

The implementation of this vision was based on a number of guiding principles including:

- Further advancing VIA Rail's position as the most customer focused transportation company in Canada and passenger railway in the world;
- Continuing to invest, when funding is available, primarily in VIA Rail's own infrastructure in order to:
  - enhance the safety and security of operations;
  - improve train reliability and on-time performance; and
  - introduce more train frequencies and significantly improve reliability and decrease trip times to grow revenue, thereby reducing dependence on the Government of Canada;
- Owning more infrastructure Rail or possibly sharing with other passenger rail organizations;
- Investing in third party infrastructure only when there are no viable alternatives and benefits would be contractually guaranteed;
- Focusing on enhancing value to customers and pricing as close as possible to the real inherent value of the product to maximize revenue per passenger, while continuing to serve as many communities in Canada as possible;
- Continuing to be as efficient as possible and frugal with taxpayers dollars (financial excellence resulting in a minimum Government of Canada subsidy);
- Being a public service company with a commercial delivery; and
- Engaging employees and the community.

VIA Rail has and continues to develop strategies and initiatives to enhance the Corporation's market, financial, operational, safety, and security performance as highlighted below:



These strategies will further advance VIA Rail's position as the most customer focused transportation company in Canada and passenger railway in the world by:

- Being willing to try new things and take calculated business risks;
- Anticipating customer needs and staying ahead of technological and behavioral trends ;
- Making all Interactions with customers simple, seamless, and satisfying;
- Identifying and communicating with current, infrequent and new customers through the least costly and most effective means;
- Fully implementing Customer Relationship Management (CRM);
- Replacing the obsolete reservation system;
- Making stations attractive and appealing to customer, easy to navigate and efficient to operate;
- Continuing to add Inter-modal connections;
- Increasing partnerships with other carriers and related industries;
- Modernizing and outsourcing food and beverage service;
- Streamlining and automating all processes, systems, and procedures, both customer contact and internal;
- Continuing to introduce industry-leading technology such as GPS Train Control, locomotive engineer tablets, and automated crew calling;
- Ensuring that VIA continues as one of Canada's top 100 employers;
- Compensating staff on the basis of merit, performance, and achievement;
- Hiring, training, and retaining, high quality, customer-focused staff throughout the organization;
- Hiring 10% of new employees from the ranks of Veterans and Reservists and 15% from diverse minorities;
- Promoting gender parity throughout the organization;
- Using Equipment Maintenance "Centres of Excellence" to engage employees and to tap into their knowledge;
- Implementing an apprenticeship program for skilled trade equipment maintenance and other employees; and
- Continuously improving culture in Equipment Maintenance with focus on equipment safety, reliability, availability and efficiency.

In addition, VIA Rail has started to develop a strategic direction up to the year 2025 to lay the groundwork for future successes. Following several internal planning sessions and workshops with 100 executives, directors, and managers, the Corporation created the roadmap for its future: Destination 2025. Four strategic orientations have been identified. They will guide our company in the coming years and help us fulfil our vision to be a smarter way to move people while putting passengers first. Destination 2025 is the path to securing VIA Rail's future and positioning ourselves as leaders in the passenger rail industry.

RESPONSIBLE

Be a responsible organization by capitalizing on advanced modular technologies

PERSONALIZED

Provide our customers, employees and communities with an authentic and personalized experience

COLLABORATIVE

Foster collaborative relationships that drive synergistic results

CONNECTED

Leverage innovative solutions and ideas to connect our passengers, employees and assets

4. OVERVIEW OF THE 2018-2022 OPERATING PLAN

In December 2016, VIA Rail submitted business cases to Transport Canada with respect to two strategic initiatives with the objective of substantially modernizing and enhancing the importance and availability of VIA Rail service to Canadians, while improving its financial viability. The first initiative is the renewal of the Québec City–Windsor corridor car and locomotive fleet, which has been approved by the Federal Government. The second proposes to build a dedicated passenger rail line between Québec, Montréal, Ottawa, and Toronto. In the context of modernization, VIA Rail also provided Transport Canada with its views with respect to its Long-Haul and Regional services. VIA Rail continues to work with Transport Canada in the analysis and implementation of these modernization strategies.

Since 2014, as described in VIA Rail's corporate plans, the Corporation has been pursuing financially viable growth through its ongoing operations. VIA Rail is exploring opportunities to improve its offerings to Canadians and generate growth and financial viability through the expansion or addition of train services, including the acquisition or construction of new infrastructure. Initiatives that VIA Rail is currently analyzing and some others which have been underway for several years are part of these opportunities.

A key element of Vision 2020 is refocusing the organization into segmented market-based business units accountable for their respective "Profit and Loss", with the added responsibility of making revenue and expense based decisions within their defined markets. This Corporate Plan will provide revenue and expense information in the same manner.

4.1 Revenues

Total system passenger revenues are forecast to increase by 20.4%, from $341.4 million in 2017 to $411.0 million in 2022.

Corridor

Total revenue will grow 28.3% in the Corridor, with annual revenues increasing from $263.4 million in 2017 to $337.9 million in 2022. This equates to a compounded average annual growth of 5.1%, which reflects the ability to protect capacity, and therefore revenues, pending the arrival of the new fleet starting 2022. Growth is however restricted by the previously discussed combination of limited frequencies, increasing trip times, and deteriorating OTP.

The *Canadian*

Passenger revenues for the *Canadian* are forecast to decline by -4.0% (from $63.8 to $61.2 million) over the Plan period. This equates to a compounded average annual growth of -0.8%.

Deteriorating OTP and long trip time delays, and consequently uncertain arrival times, will continue to weigh on growth. This forecast also reflects the partial supspension of a one peak-season frequency between Toronto and Edmonton starting in 2019. VIA Rail is currently studying the possibility of changing the *Canadian* service (reduced frequencies, increase scheduled trip time, or other means).

The *Ocean*

Passenger revenues for the *Ocean* are forecast to decline by -20.6%, from $10.4 million in 2017 to $8.3 million in 2022, mainly due to the impact of the Halifax rail loop. This will result with the proposed replacement of the Renaissance with HEP equipment which in turn yields reduced passenger capacity. This equates to a compounded average annual growth of -4.5%.

Regional

Passenger revenues for Regional services are forecast to decline by -6.2% (from $3.8 to $3.6 million) over the Plan period, chiefly due to the indeterminate suspension of the Churchill service.

Semi-Variable and Fixed Revenues

Semi-variable and fixed revenues are categorized as revenues not incurred from direct passenger revenues. They can be categorized as revenues from station activity, marketing and sales activity, maintenance operations, or corporate activities. Semi-variable and fixed revenues are forecast to grow 8.7% (from $24.2 to $26.3 million) over the Plan period.

4.2 Operating Expenses

VIA Rail will continue to have difficulties offsetting compensation increases and inflation within the Plan period, even though the Corporation strives to implement productivity measures. Certain expenses are tied to agreements that include provisions for price escalation based on inflation indices. VIA Rail expects predictability in these expenses thanks to the signing of long term labour agreements with its main unions (see Section 5).

Variable expenses are expected to increase from $308.5 million in 2017 to $358.8 million in 2022, or 16.3% over that period.

Corridor

Variable expenses are forecast to increase from $198.1 million in 2017 to $244.2 million in 2022, or 23.3% over the period.

The *Canadian*

Variable expenses for the *Canadian* are forecast to experience a limited increase from $63.0 million in 2017 to $64.7 million in 2022, or 2.8% over the period, due mainly to the suspension of the third peak-season frequency between Toronto and Edmonton.

The *Ocean*

While expenses decreased by 19.6% from 2012 to 2016 on account of frequency reductions, variable expenses are forecast to grow from $22.4 million in 2017 to $22.9 million in 2022, or 2.0% over the period.

Regional

Expenses for Regional services are forecast to increase from $25.0 million in 2017 to $26.9 million in 2022, or 7.8% over the period, due mainly to salary increase and inflation.

Semi-Variable and Fixed Expenses

Semi-variable and fixed expenses are categorized as expenses not incurred from direct passenger operations. They include expenses related to station activity, marketing and sales activity, maintenance operations, or corporate activities. Semi-variable and fixed expenses are forecast to grow 23.3% (from $289.1 to $356.5 million) over the Plan period.

4.3 Capital Expenditures

The shareholder approved $60 million annually, which was used for ongoing capital requirements for FY 2014-2015, through 2016-2017. This funding was invested towards the upkeep of VIA Rail's asset base and to maintain a state of good repair. Budget 2017 granted VIA Rail $424.3 million for FY 2017-2018 through 2019-2020. This funding is only sufficient to keep VIA Rail's assets in a state of good repair, not for any major replacement or acquisition program. In addition, Budget 2018 identified funding for VIA Rail's Corridor Fleet Renewal initiative for purchase of 32 new, modern trainsets that are safer, more accessible, reliable, will have improved amenities, and will be more environmentally friendly.

On-going capital requirements identified in the last three years of this Corporate Plan remain unfunded.

4.4 New Federal Government Infrastructure Investments

On November 24, 2014, the Prime Minister announced that the Federal Government would be investing $5.8 billion to build and renew infrastructure across the country. A total of $102 million in capital funding has been earmarked for VIA Rail: $18.6 million for FY 2015-2016 and $83.4 million for FY 2017-2018. This funding targets infrastructure, safety, and trip time improvements in the Ottawa–Montréal rail corridor.

Budget 2016 provided $3.3 million to Transport Canada over three years to support an in-depth assessment of VIA Rail's Windsor-Québec City corridor dedicated track high-frequency rail proposal. Moreover, Budget 2018 provided an additional $8.0 million to further the analysis of this initiative.

The Federal Budget 2016 also provided $37.9 million for improvements to VIA Rail's maintenance centres and stations, including upgrades to electrical and mechanical systems, roof upgrades, safety upgrades, and for investments in improved security at VIA Rail's stations.

4.5 New Grade Crossings Regulations

On December 17, 2014, the Government of Canada published Grade Crossings Regulations that establish new safety standards aimed at reducing the frequency of accidents at grade crossings. One of the key elements of the new regulations is that road authorities, private entities, and railway companies will be required to maintain sightlines at grade crossings. A period of seven years is allowed for the standards to be phased-in for existing grade crossings.

Sightlines will be preserved by prohibiting the construction or placement of structures and objects that obstruct them, including the control of tree and brush growth. Sightline modifications may also be required on vehicle roadways. Due to their higher speeds, passenger trains generally require longer sightlines, therefore, the implementation costs will proportionately have a greater impact on VIA Rail than other railways.

On October 16, 2017 the Railway Association of Canada (RAC) met with Transport Canada. The RAC requested this meeting as they identified challenges for railways, road authorities and private authorities towards compliance of the Grade Crossing Regulations by 2021. The rail industry hopes to be proactive in identifying these issues and collaborating with Transport Canada to resolve them.

The new regulations allow increased train speeds over which trains can operate without the need to eliminate road crossings at grade, that is, without having to build over or under passes. The increase in speed is from 100 mph (161 km/h) to 110 mph (177 km/h) and will be beneficial to VIA Rail, particularly with dedicated track and new equipment.

4.6 Additional Requirements for 2018 to 2022

VIA Rail is at a decision point as it faces increasing pressure in its operating environment. In its relationship with the host railways, VIA Rail has essentially little or no control over the key factors of operating in an efficient businesslike manner. The Corporation cannot readily add frequencies, control trip times, or reverse deteriorating OTP, which together compose the key measures required to attract and retain ridership.

Lengthening trip times and poor OTP create a less desirable and thereby harder to sell product, while simultaneously increasing operating costs. This, in turn, will necessitate greater government operating funding support, service reductions, layoffs, or a combination thereof.

Paradoxically, these increasing operating losses and service reductions will occur in an environment where intercity passenger rail should be experiencing steady growth. Continued economic growth, increased road congestion, increased air congestion, increased environmental awareness, increasing energy prices, and

an aging population, together with a train-oriented younger generation (as shown by student segment ticket growth) create an environment where passenger rail should thrive. Failing the implementation of a new passenger rail operating paradigm, Canada will continue to lag behind other countries in implementing a modern passenger railway system and will forego its inherent socio-economic benefits, such as improved employment mobility and business connectivity.

VIA Rail is at the boundary of its current operating environment, and eventually any tactical or strategic improvement sought by management will prove to be ineffective within this context.

4.6.1 Ongoing Capital

These funds are required as VIA Rail must adhere to health, safety, security, and regulatory requirements that result in continuous modifications and improvements to the rolling stock, infrastructures, systems, stations, facilities, and its information technology software and hardware.

Ongoing capital is also required to ensure reliable, efficient, and economical operations in support of the various revenue optimization and productivity improvements initiatives. Failing the availability of funds, VIA Rail will not be capable of maintaining a state of good repair, and not be in a position to deliver its mandate.

4.6.2 Station Renewal

This Corporate Plan provides for continued investments at levels that will ensure the protection of the assets' integrity and state of good repair; of proposed strategic investments that will help in supporting the growth of the business, improving operations, and the customer experience, while contributing to VIA Rail's commitment towards sustainable mobility. VIA Rail has performed a detailed condition based review of its stations and maintenance centres.

4.6.3 Infrastructure Investments

Investment in VIA Rail's own infrastructure has demonstrated positive financial returns for VIA Rail and the shareholder, and improved service to the travelling public. VIA Rail intends to invest primarily in its own track for additional frequencies and increased reliability, and will identify and consider pursuing strategic infrastructure acquisitions in the Corridor. Third-party infrastructure investments will be considered only when necessary and when there is a contractual guarantee of clear, tangible, and substantial benefits.

With a view towards continuing through on this strategy and ensuring its continued key access within Montréal's downtown Central Station, VIA Rail was in the preliminary process of purchasing the Montréal Central Station rail corridor, and was in discussions with CN. VIA Rail had not yet gained shareholder approval for this purchase.

On August 24, 2016, CDPQ Infra and CN entered into an agreement for the sale of Montréal Central Station rail corridor for the CDPQ's proposed new REM light rail system.

VIA Rail believes that the REM project will have positive environmental impacts for Montréal since this project will provide a sustainable-mobility alternative to the car. VIA Rail management supports this project and believes it should be implemented without delay.

While the construction and operation of REM are expected to impact VIA Rail's current and future operations, VIA Rail is convinced of its ability to implement solutions and make the necessary adjustments to minimize their impact on the one million VIA Rail passengers currently transiting through Central Station as well as new travellers acquired through growth in the future.

VIA Rail, Transport Canada and CDPQ are currently assessing extent of these impacts. VIA Rail and Transport Canada are also evaluating options to protect future interoperability if it is not available immediately, in order to avoid actions by the CDPQ that would make it impossible or prohibitively expensive in the future.

The combined impact of the two operations will be crucial in many respects: metropolitan ridership will double and intercity ridership could almost triple; the GHGs will decrease by almost 70,000 tonnes, between Montréal and Québec City alone, through the elimination of more than 250 million kilometres otherwise travelled by car; and the optimization of public investments will further stimulate our economy.

VIA Rail is considering purchasing a 55 mile section of the Guelph Subdivision between Kitchener and London. This potential purchase has key strategic value as it would secure continued track access to London, allow for future growth, permit the addition of new frequencies, and improve trip times. VIA Rail already forms the majority of rail traffic on this section. An investment for the replacement of jointed rail with continuous welded rail, crossings upgrades, and addition of new sidings would improve safety and further improve operational performance, provide a better customer experience, and increase revenues.

VIA Rail is considering requesting capital funding for new track infrastructure between Montréal and Ottawa connecting VIA Rail tracks to CP tracks, which can be utilized to avoid CN's congested lines and the bottleneck at Coteau Junction.

VIA Rail has also completed and provided a detailed feasibility study and business case to enable a high-frequency Toronto–Ottawa–Montréal Corridor service over exclusive passenger tracks to be acquired between Smiths Falls, Peterborough, and Toronto. In conjunction, VIA Rail will also develop a plan for the Toronto–Peterborough line and will seek approval to obtain access to the specific funding set aside for that project.

Lastly, VIA Rail will consider investing in RTM and Metrolinx infrastructure proportionate to usage, which should provide similar guaranteed benefits.

5. HUMAN RESOURCES

5.1 Workforce

As of December 31, 2017, VIA Rail had 2,899 employees. Of these a total 2, 277 employees were under collective agreements and non-unionized staff made up the remaining 622 employees. The latter includes a wide range of positions, such as front line, middle and senior managers, professionals, administrative support and technical specialists, as well as the eight executive positions.

5.1.1 Inclusion and Diversity

Inclusion and diversity is part of the objectives of VIA Rail's President and Chief Executive Officer. The Chief Human Resources Officer is the Corporation's inclusion and diversity Champion and is responsible for the overall definition and implementation of the program in such matters. Within the Corporation, all Chiefs in their own division are accountable for reaching the Corporate Diversity Targets. VIA Rail's inclusion and diversity programs are overseen by a national committee and supported by several regional diversity committees. In 2017, the committees met to plan and execute inclusion and diversity awareness initiatives and/or activities.

VIA Rail is currently developing/implementing the following programs:

For all women:

- Provide co-development groups for women in managerial positions; and
- Collaborate with unions to promote women in non-traditional occupations.

For women identified as high-potential:

- Encourage their participation in a 14-week development coaching and networking program called "L'EFFET A";
- Introduce quarterly lunch and learn sessions with our female executives;
- Identify opportunities to increase visibility with all executives; and
- Continue to offer conferences, luncheons, development programs, and co-development through the Women Executive Network (WXN).

For women identified as top talent:

- Offer a mentorship program by a member of the executive, or external coaching, for those currently identified as successors for executive positions.

5.1.2 Employment of Veterans and Reservists

VIA Rail recognizes that transitioning members of the Canadian Armed Forces, Veterans, or Reservists share common values such as discipline, dedication to country, and service to fellow Canadians. Military members and Veterans are highly qualified professional individuals with years of acquired know-how and leadership that will help VIA Rail succeed.

VIA Rail has been honoured as the best employer in Quebec by the Canadian Forces Liaison Council (CFLC), having received on March 18, 2017, the Award of Excellence for Best Practice in Employer Support for Canada's Reserve Forces at a ceremony held at the Charles-Michel de Salaberry Armoury in Laval. The event was attended by nearly a hundred representatives from the military community and hosted by Brigadier General Louis de Sousa.

VIA Rail was honoured on May 26, 2017 by the Canadian Forces Liaison Council as the Most Supportive Employer in Canada at a gala held at the Canadian War Museum in Ottawa, which brought together some

100 representatives of the military community. VIA Rail is the first-ever federal Crown corporation and main passenger rail transport company to receive this award.

In honour of his commitment to the Canadian Armed Forces, his support for veterans and reservists and loyalty to Canada, on March 23, 2017, VIA Rail's President and Chief Executive Officer, Yves Desjardins-Siciliano, was appointed as Honorary Lieutenant-Colonel of the Régiment de Maisonneuve. Founded in 1880, the Régiment de Maisonneuve is the official regiment of the City of Montréal.

VIA Rail has set a goal that 10% of new hires be veterans and reservists. To that end, VIA Rail is working with Veterans Affairs Canada, Canada Company Military Employment Transition (MET), and the Mission Emploi employment programs, to connect potential applicants from the Canadian Armed Forces members and Veterans with VIA Rail jobs.

VIA Rail has also put into effect an employment Policy for reservists to ensure that these members of our workforce are able to take an authorized leave of absence for their military training and service without impacting their pay, benefits, and career progression.

5.1.3 Apprenticeship Program

VIA Rail continues the deployment of its new Mechanical Services' Apprenticeship program. Under the Chief Mechanical and Maintenance Officer, this uses a mentoring approach to build on the skills of more experienced workers and ensure the transfer of knowledge to new hires. The program was revamped in the last quarter of 2016.

Currently, more than one third of the trades at VIA Rail are apprentices. Thus, this program is critical for the execution of present and future maintenance operations, in particular with the arrival of the new fleet in the Corridor. After only a few months of implementation, key indicators already show the positive impact of the revamped program. The results reveal a more skilled and safer workforce of trade men with significant increases of the training hours received, improved results of the apprentices' technical evaluations and a global satisfaction towards the program concurrently with a decrease in the frequency and severity of work accidents.

5.2 Labour relations and collective agreements

VIA Rail deals with two unions covering several collective agreements:

5.2.1 Unifor (formerly CAW)

Unifor is the largest private sector union in Canada, representing more than 315,000 workers across every major sector of the Canadian economy and accounts for the majority of unionized employees at VIA Rail. The previous agreement with Unifor expired on December 31, 2015. A four-year tentative agreement was reached on Sunday June 12, 2016, and was ratified on July 14, 2016.

5.2.2 Teamsters Canada Rail Conference (TCRC)

The TCRC represents locomotive engineers. VIA Rail, on October 20, 2017, reached a memorandum of agreement for the application of wage increases and other changes covering the years 2018 to 2022. This 5-year agreement will ensure labour continuity.

5.3 Compensation

VIA Rail's total compensation strategy aims at attracting and engaging talented employees who will contribute to the Corporation's success. It fosters a culture of pay for performance as a key compensation strategy.

VIA Rail must balance cost containment efforts with reasonable and competitive compensation in order to attract and retain skilled employees, particularly employees whose jobs are identical or very similar to others within the railway industry, such as locomotive engineers at CN and CP.

5.4 Alignment with Government of Canada Pension Plans

VIA Rail's pension plans are significantly less generous than the Public Service pension plan.

VIA Rail has two defined benefit plans: one for its unionized employees, and the other for its non-unionized staff. Because on a solvency basis, liabilities are calculated by discounting them using long-term Government bond yields, the all-time record low long-term interest rates we are experiencing have negatively affected most Canadian defined benefit pension plans.

To contain pension costs and to align with government cost reduction initiatives, VIA Rail has implemented a number of initiatives over the past few years:

- Changing the administration of automatic consent to withdraw the full pension value for those leaving VIA Rail before age 55;
- Streamlining pension plan administration costs, resulting in investment costs below the Canadian median (according to a 2016 survey done by CEM Benchmarking of 74 Canadian funds);
- Increased employee contributions to the government's 50/50 target, in line with the Budget 2012 and Budget 2013 objectives; and
- Implementing the portfolio replication methodology for the solvency valuation reducing the solvency deficit.

5.5 Employee Engagement

Engaged employees are essential for VIA Rail to reach its business goals, to maintain excellent customer service, and ultimately, to improve employee retention and generate a positive impact on financial performance. When a prior employee Engagement Survey was conducted in 2011, this resulted with the clear definition of certain corporate priorities. One of the key drivers of engagement is the quality of leadership and the ability for a manager to coach and develop his own team.

In order to help employees' progress, VIA Rail has introduced new capabilities to the talent management system: career planning, succession planning and talent review. These new capabilities, together with the new two rating axis (potential and performance), will enable VIA Rail to determine available internal talent, and what specific training programs could help VIA Rail employees develop and progress within the Corporation.

Open employee communication is also a key element to engage employees. One such example is the town-hall meeting that VIA Rail's President and Chief Executive Officer holds periodically with employees across the country. In addition, improving the visibility of the senior management team and recognizing the work and dedication of employees are some of the keys to having a committed workforce.

VIA Rail is pleased to report that its workforce is the most engaged amongst the Crown corporations in Canada. Moreover, with a year-over-year increase of 5%, VIA Rail largely surpasses the average annual engagement increase of large companies, which is between 1.5% and 2%.

VIA Rail's September 2017 Engagement Survey showed positive results: unionized employees' engagement increased to 59% from 54% in 2016 and non-unionized employees engagement increased to 67% from 64% in 2016. The overall increase of engagement since 2011 is a noteworthy 16% (62% vs. 46%), and the number of employees who are very disengaged is decreasing (18% vs. 33% in 2011). This year, the participation rate reached 78%, an increase of 7% compared to last year.

5.6 Succession planning

With a large cohort of its workforce being 50 years and older, VIA Rail puts a great emphasis on managing succession through all levels of management to guarantee business continuity.

In order to minimize gaps in the pipeline for key senior management positions, VIA Rail provides opportunities for top talent to develop skills necessary for future roles. The goal is to merge talented employees' capabilities and career aspirations with VIA Rail's business strategy and talent needs.

In addition, the Corporation updated its career site to be better aligned with its new branding and employee value proposition, as well as to promote ethics, diversity, and inclusion. In 2017, approximately 34% of our employees were women, 11% visible minorities, 2% people with disabilities and 2% Aboriginal People. VIA Rail continues to improve its selection processes to ensure that it identifies the best candidates to fill positions.

6. FLEET CONDITION AND RENEWAL

6.1 Fleet Condition

There are currently 97 LRC, 33 HEP II, and 30 Renaissance cars representing 60.6%, 20.6%, 18.8% of the currently operated corridor fleet.

VIA Rail's HEP cars remain sound in so far as it concerns their stainless steel bodies, however their bogies and interiors are in need of replacement. The HEP cars will continue to be an integral part of VIA Rail's strategy to serve customers by supporting the transition towards a new fleet and later the Long-Haul services.

Of VIA Rail's 40 locomotives, neither, the 19 F40s or the 21 P42s, currently comply with Canada's minimum environmental regulatory requirements or the industry Best Practice exhaust emission standards. Furthermore, neither complies with the newly proposed crashworthiness standards. It has been identified that the F40 locomotives represent an opportunity to be overhauled such that they can satisfy both of the aforementioned requirements. Unfortunately, the monocoque design of the P42 implies that this model can be made environmentally compliant though not crashworthy.

6.2 Corridor Fleet Renewal, Implementation, and Reporting

The Honourable Marc Garneau, Minister of Transport announced on March 19, 2018 the replacement of our Québec City–Windsor corridor fleet with 32 new, modern trainsets that are safer, more accessible, reliable, will have improved amenities, and will be more environmentally friendly. With this announcement, the constraint, of an ageing and obsolete Corridor fleet, is on its way to being addressed. The funding for this initiative has been identified in Budget 2018.

We are pleased and appreciative of the Federal Government's continuing commitment to passenger rail and its confidence in VIA Rail. This new fleet will enhance Canadians' mobility and accessibility, reduce greenhouse gas emissions (GHGs), increase revenues and economic growth.

VIA Rail is well prepared for this procurement and has started, following the Treasury Board approval, the Procurement Phase of the Corridor Fleet Renewal project and issued the Request for Qualifications (RFQ) to the market. On June 18, 2018 VIA Rail announced the names of the shortlisted applicants that will participate in the Request for Proposals (RFP) to manufacture the rolling stock. The qualified manufacturers will have until October 5, 2018 to submit a proposal.

April and May will consist of managing proponent questions, establishing evaluation criteria, finalizing evaluations, selecting prequalified proponents, and training team members.

The RFQ Period will see VIA Rail issue the Request for Proposal (RFP) to prequalified proponents; hold design, technical, and commercial terms meetings (Commercially Confidential meetings); manage Requests for Information (RFI); and, revise and finalize RFP documents.

Closing out the proposal phases will be the reception and evaluation of the proponent submissions, the negotiations following the selection of the top two proponents.

7. HIGH FREQUENCY RAIL

VIA Rail has proposed a $4 billion plan to achieve High Frequency Rail (HFR) service in the Windsor–Québec City corridor, in particular between Toronto, Ottawa, Montreal, and Québec City. As the Government of Canada noted in Budget 2016: Growing the Middle Class: "VIA Rail has developed a proposal for a high frequency rail service within the Windsor–Québec City corridor that could see VIA Rail operate on dedicated tracks exclusive to its services. This could permit increased service frequencies, improved on-time performance, and reduced trip times."

This infrastructure project would leverage the investment in a new Corridor fleet and would be spread over a four-year deployment period.

The investment in the HFR project would contribute to the growth of the middle class, which the Government addressed in its 2015 Speech from the Throne. It would extend the commutable distance to metropolitan areas allowing greater access to home ownership "out of town" while maintaining employment in cities. In itself, the construction of dedicated tracks and HFR infrastructure would create 50,000 person-years of work.

Further, it is estimated that the HFR project would create up to 334,400 person-years of permanent employment across Canada over the next 30 years from the increased productivity linked to stronger connections between people, companies and regions. VIA Rail's project would do its part in growing the middle class by supporting inclusive growth strategies through improved regional accessibility.

As stated by the Prime Minister on November 29, 2016: "Canadians know that strong action on the environment is good for the economy". In Canada, the transportation sector emitted 171 million tonnes of GHG in 2014, a close second to the oil and gas sector, which emitted 192 million tonnes. In Québec and Ontario, transportation-related emissions are currently the largest and fastest growing source of GHG emissions in both provinces, with 44% and 35% of GHGs respectively coming from transportation. The greatest contribution to GHGs is privately driven cars. This is why transforming car drivers and their passengers into train travellers is paramount in our nation-wide effort to combat global warming.

By decoupling freight and passenger rail services, more capacity is created for the sustainable transportation of both people and goods. Currently, the mixture of express passenger trains and slower freight trains allows for the movement of fewer trains than if all trains operated at similar speeds. The train could focus on better connecting small- and medium-sized communities to major city centres through improved scheduling and more stops. This plan also aligns perfectly with the Transportation 2030 Strategy announced by the Minister of Transport, by enhancing the mobility and productivity of Canadians in this important trade corridor.

There are over 18 million Canadians living in the Windsor–Québec City corridor, half the population of Canada and the third largest population by region in North America. In the Québec City–Montréal–Ottawa–Toronto area alone, there are 15 million Canadians, nearly 42% of the population of Canada. By adding to the current frequencies running on freight railways, for instance, up to 15 new return frequencies per day in the Corridor, VIA Rail projects there would be nearly three times as many passengers, up to 9.9 million per year by 2030. As shown in Annex 4, based on an example of Amtrak, increases in frequency clearly have a positive effect on both ridership and revenues.

The reasons are clear, by running on dedicated track between Toronto–Ottawa–Montréal–Québec City, VIA Rail will be able to offer hourly frequencies, while reducing trip times by 25% and improving on-time performance to over 95% from the current low 70s. In order to compete with the advantages of private car travel, train services must become more available and frequent. A new fleet with modern amenities and accessibility features, as described in the VIA Rail Fleet Renewal Business Case, will further increase the attractiveness of intercity passenger rail compared to driving.

For example, rather than driving from Ottawa to Toronto, a four-and-a-half hour drive down Highways 417, 416, and 401, more Canadians could make the same trip (which would be offered every hour) in three hours

or less, all in the comfortable and stress-free environment that VIA Rail is known for. Such a service would divert car drivers and car passengers to the train, making a return day trip by train a practical option.

Passenger rail is by far the most environmentally friendly mode of travel. Diesel HFR pollutes nearly five to six times less than auto and air on a passenger-km basis. On a per-seat basis, a new diesel passenger-km has nearly one-fifth the environmental impact of travel by auto, while an HFR electrical train has 1/31th such impact.

7.1 Building a Dedicated Track

This would be achieved by building dedicated track on lightly used or abandoned freight railway rights-of-way (ROW). For example, on the Toronto–Ottawa–Montréal route, VIA Rail already owns track between Brockville and Ottawa, as well as between Ottawa and Coteau, just outside Montréal.

The importance of proprietary track is demonstrated by Amtrak, which owns the railway in its highly profitable Boston–Washington corridor on the East Coast of the United States. Throughout most of the rest of its system, Amtrak operates on freight-owned track. Despite having full access rights and legal priority on these privately-owned tracks, Amtrak struggles to run services on time. Thus, legal priority is not a solution.

7.2 Benefits of HFR

- The creation of a commercially successful, modern national passenger rail service will spur increased productivity in the most populous part of the country. It connects provinces and post-secondary research institutions and leaves a legacy for future generations of Canadians who are increasingly inclined not to own a car, or if they do, to leave their cars at home, avoid road congestion and stay connected as they travel for work, study and leisure; and
- The HFR project will also serve as a paradigm of inclusive growth, with affordable travel for lower-income Canadians, including to regional destinations beyond metropolitan areas where affordable housing opportunities are more accessible, allowing Canada to grow the middle class. Passenger trains are also much more accessible for persons with disabilities.

HFR is a winning solution for all stakeholders: for the environment, for the economy, for travellers, for taxpayers, for the Government. Like its forebears 150 years ago, VIA Rail is ready for nation-building.

7.3 Recommendations and Next Steps

VIA Rail asks for approval to proceed with the HFR project.

Budget 2016 proposed to provide $3.3 million over three years to Transport Canada to support an in-depth assessment of VIA Rail's High Frequency Rail proposal. As well, Budget 2018 provided Transport Canada with an additional $8 million allocated across the next three fiscal years for further analysis. Following the assessments, VIA Rail asks for approval to proceed with the HFR project.

Assuming project approval, VIA Rail will proceed with pre-construction activities such as:

- Set up a project office and associated technical team;
- Select a preferred supplier;
- Discuss with Environment and Climate Change Canada regarding potential environmental impacts;
- Initiate the land acquisitions process;
- Communicate with local communities; and
- Other permitting requirements.

As well, if requested by the Government, it will develop financing options for the realization of the project, in cooperation with representatives of the Government of Canada.

8. CORPORATE SECURITY STRATEGY

As Canada's national passenger rail service, VIA Rail recognizes the important responsibility it has to ensure Canadians move reliably, comfortably, and conveniently across Canada, reaching their destinations safely and securely. A strong sense of security in VIA Rail's service improves the customer experience, builds passenger confidence.

Security concerns within the passenger rail environment can be broad in nature, ranging from public disorders, theft, vandalism, assault and weapon offences, trespassing, aggressive and anti-social behaviour, to terrorist threats and violent crime. The vulnerabilities of passenger rail to terrorism and violent crime are amongst the most significant concerns facing mass transit today, with the potential to cause massive casualties, extensive economic damage and disruption, and receive widespread attention nationally and abroad. Violent armed attacks against passenger rail systems in Europe have highlighted the vulnerability of rail travel and the necessity to improve rail security here at home.

In North America, law enforcement agencies have thwarted several planned attacks on rail systems, including a failed terrorist plot to derail a VIA Rail train in 2013. In 2015, Transport Canada and the Integrated Terrorism Assessment Centre jointly assessed the terrorist threat level to Canada's passenger rail network at medium, which "indicates that an individual or group within Canada or abroad has the intent and capability to commit an act of terrorism and that a violent act of terrorism could occur" aboard a commuter or intercity passenger train, in a station, or on railway lines used by commuter or intercity passenger trains.

Amidst a heightened intercity passenger rail threat environment in Canada, VIA Rail developed a Security Strategy in 2015 with industry experts to define key security elements to address VIA Rail's security needs, tailored to the Corporation's unique intercity passenger rail environment.

9. ENTERPRISE RISK MANAGEMENT

Prior to 2015, different groups within VIA Rail would perform their own risk assessments.

VIA Rail has since appointed a Director of Risk Management, and implemented an ERM framework. Key risk appetites and tolerances were established; risk treatments were documented, validated, and adapted as needed. In addition, mechanisms were implemented to monitor emerging risks and best practices while reacting to global industry situations. This resulted in a process that provides an improved and integrated risk management framework aligned with VIA Rail's strategic objectives. These processes are part of the ongoing efforts to continuously enhance safety, improve the preparedness and efficiency of the Corporation's operations, as well as ensure business continuity in the event of a business disruption.

In doing so, VIA Rail now performs regular risk assessments and quarterly monitoring of key risks, which allows the Executive Committee to update risks for review with the Governance, Risk and Strategy Committee of the Board.

VIA Rail would also like to acknowledge that it has already received recognition for its new, comprehensive ERM approach. In 2015, the Institute of Risk Management (IRM) in London, England nominated VIA Rail's Director of Risk Management for the Risk Management Newcomer of the Year Award. He is the only nominee from North America on the shortlist of ERM specialists from around the world. Additionally, in September 2015, VIA Rail was named as the winner of a Safety and Environment Award from the Railway Association of Canada for its Enterprise Risk Management system. More recently, in 2016, VIA Rail won the IRM's Delivering Value Through Risk Management Award.

The following section details the key risks that could potentially affect VIA Rail's strategic objectives.

9.1 Safety of Passengers, Employees and the Public

The safety and security of passengers, employees, and the public constitute VIA Rail's primary concern. A collision, derailment, or crossing/pedestrian accident would have tremendous human impact. Similarly, contaminated food items or beverages could also pose a safety concern to passengers. In addition to the human impacts, these occurrences can also pose financial, environmental, and reputational impacts. Events such as the 2013 terrorist plot against a VIA Rail train or the detonation of an explosive device in a taxicab in Strathroy, Ontario in August 2016 are a reminder of the importance of remaining vigilant at all times.

In addition, the safety of passengers, employees, or the public may be negatively impacted by train collisions or derailments on the main line, crossing, or pedestrian accidents, or other events.

9.2 Employee Contribution

Employee contribution is crucial to VIA Rail's continued success in a highly competitive travel and tourism sector. Despite scoring well on customer service surveys, strong employee contribution continues to be an important competitive advantage that VIA Rail is cautious to preserve.

The contribution of employees through their skills, competencies, experience and engagement may have a positive or negative impact on the achievement of VIA Rail's strategic objectives, including the provision of a safe travel experience and customer service that meets the expectations of passengers.

Risk components included are:

- Skills gap for strategic goals achievement;
- Locomotive engineer staffing and experience;
- Resiliency of critical operational positions; and
- Relationships with employees and engagement.

9.3 Government and Strategy

VIA Rail's limited powers under its current Crown corporation status and insufficient annual funding by the Government constitute a risk in the efficient delivery of its services, and in the planning and execution of any medium-to-long-term strategy.

Risk components included are:

- New regulations; and
- Pension liabilities.

9.4 Operating Funding

Without sufficient timely funding, VIA Rail would be obliged to make drastic cuts, which is a significant business and reputational risk, exacerbated by layoffs (detrimental to employee contribution and loss of critical competencies), significant restructuring costs, including employment security and severance payments, and start-up costs when the service resumes.

While funding issues over and above reference levels stems from revenue and expense imbalances, the most volatile elements come from revenues and from certain cost items, such as the price of fuel on the operational side. Some mitigation strategies are deployed to compensate for these volatile elements.

Risk Treatments:

- Managing revenues to obtain the right balance of yield per passenger and the number of passengers;
- Developing and deploying commercial strategies to increase ridership, grow revenues, and augment the relevance of VIA Rail and its services;
- Continuing cost management;
- Obtaining approval of sufficient operating funding to secure the operations over the planning period;
- Working with Transport Canada on a long-term solution to identify and revise an appropriate level of base funding; and
- Managing fuel cost fluctuations through consumption analysis and initiatives to reduce fuel consumption, and deploying a hedging strategy to manage the price risk component.

9.5 Funding of Pension Plan Liabilities

The long period of low interest rates used to discount pension liabilities continues to put pressure on the pension plans, which forces continued employer contributions and consistently threatens plan sustainability. The level of reserves needed in the Plan to meet the projected payouts is determined through audits conducted by the Office of the Superintendent of Financial Institutions and by federal legislation, namely the *Pension Benefits Standards Act*. VIA Rail is legally required to comply with the results of the audit. As interest rates rise, mandatory three-year smoothing will slow the improvement in the solvency deficit. The current situation still poses a risk, which VIA Rail is mitigating through a series of measures.

9.6 Capital Funding

Budget 2017 provides VIA Rail $424 million for FY 2017-2018 through 2019-2020. This funding is only sufficient to keep VIA Rail's assets in a state of good repair, not for any major replacement or acquisition program, whether of equipment or infrastructure. Beyond April 2020, capital requirements are unfunded.

9.7 Revenue Generation

Revenue generation represents a major risk that directly impacts the previous risk of funding sufficiency.

Risk components include:

- Passenger tickets revenues;
- On board revenues; and
- Other revenues.

9.8 Infrastructure Availability, Reliability and Quality

The availability, reliability and quality of the rail infrastructure used by VIA Rail may have a positive or negative impact on OTP, trip time and the ability to add frequencies to effectively meet market demand, influencing passenger satisfaction, their propensity to take the train and, eventually, the number of VIA Rail passengers served and revenues earned.

The services provided by host railways, such as CN and CP, have been deteriorating and represent a risk. Host railways and VIA Rail often have conflicting peak demands and we must reach compromises for adequate track access. While not a panacea, passenger trains in Canada do not enjoy the operational priority as in virtually all other countries, including the United States, where Amtrak also happens to pay approximately 50% less for track access.

The growing segmentation of rail ownership also increases the complexity of access (e.g. Metrolinx acquisitions around Union Station in Toronto), leading us to believe that dedicated track access might be a better longer-term solution.

Furthermore, the *Canada Transportation Act* provides a mechanism for the discontinuation of service on sections of track that the infrastructure owner considers no longer economically viable. Before a federally regulated railway corporation can abandon a section of track, it must list the line on its three-year network plan for at least one year. The line can then be listed for sale, lease, or transfer—first to private interests and then to each level of government. The process to find a buyer can take up to six months or longer. If no interested buyer is found, the railway corporation has the right to discontinue service on the line and abandon it.

9.9 Equipment Availability, Reliability and Quality

The availability, reliability, and quality of VIA Rail's equipment may have a positive or negative impact on the satisfaction of passengers, their propensity to take the train and, eventually, on the number of VIA Rail passengers served and revenues earned.

9.10 Information Technology

The availability, reliability, and responsiveness of existing and new information technology (IT) may have an impact on the achievement of VIA Rail's strategic objectives and management of other key risks. VIA Rail has no appetite for a decrease in the availability, reliability, responsiveness, and optimization of its IT platforms. VIA Rail has a risk appetite for the development of new cost-effective, integrated, engaging, or revenue-generating IT strategies that support the achievement of strategic objectives.

Security risks such as hacking attempts materialize regularly around the world and affect financial institutions and large retail companies in particular. No corporation can afford to neglect IT security risk and VIA Rail intends to continue managing that risk and improving its risk treatments.

VIA Rail will reassess these risks and consider new treatments within the planning horizon.

Risk components included in the map are:

- Security;
- Consultants;
- Underinvestment in IT (equipment, support personnel, supplier management); and
- Reliability and resiliency.

ANNEX 1 – KEY FINANCIAL TABLES

VIA RAIL CANADA INC.
2018-2022 CORPORATE PLAN
OPERATING FUNDING STATEMENT

Table 1 VIA

VIA FISCAL YEAR ENDING DECEMBER 31									
(MILLIONS OF DOLLARS)	Actual	Actual	PLAN					TOTAL	% Change
	2016	2017	2018	2019	2020	2021	2022	2018-2022	2022 vs 2017
REVENUES									
Total Revenues	**324.3**	**365.7**	**394.4**	**392.3**	**419.7**	**417.3**	**437.3**	**2,060.9**	**19.6%**
EXPENSES									
Total Expenses	**559.9**	**597.6**	**644.0**	**650.4**	**682.3**	**691.1**	**715.2**	**3,383.0**	**19.7%**
Operating Deficit Before Government Subsidy and Pension Costs	**235.5**	**231.9**	**249.7**	**258.1**	**262.6**	**273.8**	**278.0**	**1,322.1**	**19.8%**
Government Subsidy	241.8	240.1	249.7	258.1	160.4	146.8	146.8	961.8	
Operating Funding Surplus / (Deficit) before Pension Costs	**6.3**	**8.2**	**0.0**	**0.0**	**(102.2)**	**(127.0)**	**(131.2)**	**(360.4)**	
PENSION COSTS									
Total Pension Costs	**32.0**	**33.4**	**26.9**	**37.0**	**37.0**	**37.0**	**37.0**	**174.9**	**10.8%**
less: Supplementary Government Pension Funding	54.0	49.0	42.0	37.0	10.0	0.0	0.0	89.0	
Pension Costs Funding Surplus / (Deficit)	**22.0**	**15.6**	**15.1**	**0.0**	**(27.0)**	**(37.0)**	**(37.0)**	**(85.9)**	
Operating Surplus / (Deficit) after Government Funding	**28.3**	**23.8**	**15.1**	**0.0**	**(129.2)**	**(164.0)**	**(168.2)**	**(446.3)**	

NOTE 1: May not add due to rounding

VIA RAIL CANADA INC.
2018-2022 CORPORATE PLAN
SUMMARY - TOTAL CAPITAL EXPENDITURES

Table 2 VIA

VIA FISCAL YEAR ENDING DECEMBER 31								
(MILLIONS OF DOLLARS)	Actual	Actual	PLAN					TOTAL
	2016	2017	2018	2019	2020	2021	2022	2018-2022
MAJOR CAPITAL PROGRAMS								
Equipment Projects	28.5	16.9	39.8	300.8	401.7	419.5	385.4	1,547.2
Infrastructure Projects	24.6	14.5	33.1	83.5	67.8	20.0	20.0	224.5
Sub-Total Major Programs	53.2	31.4	72.9	384.4	469.5	439.5	405.4	1,771.6
Other Capital Programs	37.8	57.1	59.8	71.9	39.1	43.0	43.0	256.9
Total Capital Expenditures	**91.0**	**88.4**	**132.7**	**456.3**	**508.6**	**482.5**	**448.4**	**2,028.5**
less: use of Asset Renewal Fund (ARF)	(4.7)	0.0	(3.1)	0.0	0.0	0.0	0.0	(3.1)
Gov't Capital Funding Required	**86.3**	**88.4**	**129.6**	**456.3**	**508.6**	**482.5**	**448.4**	**2,025.4**
Additonal Funding Approved	86.3	88.4	129.6	456.3	378.5	378.6	347.9	1,691.0
Total Gov't Capital Funding	**86.3**	**88.4**	**129.6**	**456.3**	**378.5**	**378.6**	**347.9**	**1,691.0**
Funding Shortfall / (Surplus)	**0.0**	**0.0**	**0.0**	**0.0**	**130.1**	**103.8**	**100.5**	**334.4**

NOTE: May not add due to rounding

VIA RAIL CANADA INC.
2018-2022 CORPORATE PLAN
FUNDING REQUIREMENTS AND SOURCES

Table 3 VIA

VIA FISCAL YEAR ENDING DECEMBER 31									
		Actual	Actual			PLAN			TOTAL
	(MILLIONS OF DOLLARS)	2016	2017	2018	2019	2020	2021	2022	2018-2022
APPROVED FUNDING	Operating Funding Reference Level	146.8	146.8	146.8	146.8	146.8	146.8	146.8	733.9
	Additional Operating Funding Approved	95.0	93.3	102.9	111.3	13.6	0.0	0.0	227.8
	Total Operating Funding - Approved	**241.8**	**240.1**	**249.7**	**258.1**	**160.4**	**146.8**	**146.8**	**961.8**
	Pension Funding Approved	54.0	10.2	0.0	0.0	0.0	0.0	0.0	0.0
	Additional Pension Funding (1)	0.0	38.8	42.0	37.0	10.0	0.0	0.0	89.0
	Total Pension Funding - Approved	**54.0**	**49.0**	**42.0**	**37.0**	**10.0**	**0.0**	**0.0**	**89.0**
	Capital Funding Approved	86.3	99.6	118.4	456.3	378.5	378.6	347.9	1,679.9
	Total Capital Funding - Approved	**86.3**	**99.6**	**118.4**	**456.3**	**378.5**	**378.6**	**347.9**	**1,679.9**
	Total Gov't Funding Approved	**382.1**	**388.7**	**410.1**	**751.4**	**548.9**	**525.4**	**494.7**	**2,730.6**
FUNDING REQUIREMENTS	**Operating Funding required**	**235.5**	**231.9**	**249.7**	**258.1**	**262.6**	**273.8**	**278.0**	**1,322.1**
	Pensions Costs Funding required	**32.0**	**33.4**	**26.9**	**37.0**	**37.0**	**37.0**	**37.0**	**174.9**
	Capital Funding Requested	86.3	88.4	129.6	456.3	508.6	482.5	448.4	2,025.4
	Total Capital Funding required	**86.3**	**88.4**	**129.6**	**456.3**	**508.6**	**482.5**	**448.4**	**2,025.4**
	Total Via Gov't Funding Required	**353.8**	**353.8**	**406.2**	**751.4**	**808.2**	**793.2**	**763.4**	**3,522.4**
FUNDING DEFICIT	Operating Funding Surplus / (Deficit)	6.3	8.2	0.0	0.0	(102.2)	(127.0)	(131.2)	(360.4)
	Pension Costs Funding Surplus / (Deficit)	22.0	15.6	15.1	0.0	(27.0)	(37.0)	(37.0)	(85.9)
	Capital Funding Surplus / (Deficit)	(0.0)	11.2	(11.2)	0.0	(130.1)	(103.8)	(100.5)	(345.5)
	Total Funding Surplus/(deficit)	**28.3**	**35.0**	**3.9**	**0.0**	**(259.3)**	**(267.8)**	**(268.6)**	**(791.8)**
ADDITIONAL FUNDING REQUIRED (2)	Additional Operating Funding - Operating Deficit Before Pension	0.0	0.0	0.0	0.0	102.2	127.0	131.2	360.4
	Additional Operating Funding - Pension Plans	0.0	0.0	0.0	0.0	27.0	37.0	37.0	101.0
	Additional Capital Funding (2)	0.0	0.0	0.0	0.0	130.1	103.8	100.5	334.4
	Total Additional Funding Requested	**0.0**	**0.0**	**0.0**	**0.0**	**259.3**	**267.8**	**268.6**	**795.7**
CAPITAL FUNDING REPROFILING	Proposed Reprofiling of Capital Funding (3)	0.0	(11.2)	11.2	0.0	0.0	0.0	0.0	11.2
	Total Capital Funding Reprofilling Requested	**0.0**	**(11.2)**	**11.2**	**0.0**	**0.0**	**0.0**	**0.0**	**11.2**

(1) Total Funding provided through Budget 2017.
(2) No funds has yet been identified and VIA is requesting this additionnal funding
(3) Subject to the approval by the Department of Finance through the ARLU process. In the absence of the approval of this requested reprofiling , VIA will have to cancel current capital projects.

VIA RAIL CANADA INC.
2018-2022 CORPORATE PLAN
STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME

Table 5 VIA

VIA FISCAL YEAR ENDING DECEMBER 31							
(MILLIONS OF DOLLARS)	ACTUAL 2016	ACTUAL 2017	2018	2019	PLAN 2020	2021	2022
Operating Deficit Before Government Subsidy	**(267.5)**	**(265.3)**	**(276.6)**	**(295.1)**	**(299.6)**	**(310.8)**	**(315.0)**
Non Funded Items:							
Depreciation, amortization, impairment and losses on disposal of property, plant and equipment and intangible assets	(103.5)	(97.3)	(71.6)	(73.4)	(102.4)	(140.5)	(180.1)
Post-employment and other employee benefits contrbutions in excess of expenses and remeasurements of defined benefit plans	1.2	1.1	(3.0)	7.1	7.1	7.1	7.1
Adjustment for accrued compensation	(1.9)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Other	(1.7)	7.3	0.0	0.0	0.0	0.0	0.0
Operating loss before funding from the Government of Canada	**(361.5)**	**(348.5)**	**(351.1)**	**(361.3)**	**(394.8)**	**(444.1)**	**(487.9)**
Operating funding from the Government of Canada	267.5	265.3	291.7	295.1	170.4	146.8	146.8
Amortization of deferred capital funding	102.3	96.1	69.4	71.2	100.2	138.3	176.9
Net income (loss) for the year	**8.3**	**12.9**	**10.0**	**5.0**	**(124.2)**	**(159.0)**	**(164.2)**

VIA RAIL CANADA INC.
2018-2022 CORPORATE PLAN
BALANCE SHEET

(MILLIONS OF DOLLARS)	ACTUAL 2016	ACTUAL 2017	2018	2019	PLAN 2020	2021	2022
Current assets	82.2	92.4	69.6	65.9	67.5	68.5	69.9
Long-term assets	1,267.2	1,258.8	1,319.9	1,702.8	2,108.1	2,450.1	2,718.4
TOTAL ASSETS	**1,349.4**	**1,351.2**	**1,389.5**	**1,768.7**	**2,175.6**	**2,518.6**	**2,788.3**
Current liabilities	162.4	159.6	124.7	120.9	250.7	415.6	585.1
Long-term liabilities	75.9	65.6	68.6	61.5	54.4	47.3	40.2
Deferred capital funding	1,247.2	1,239.5	1,299.7	1,684.8	2,093.2	2,437.4	2,708.9
TOTAL LIABILITIES	**1,485.5**	**1,464.7**	**1,493.0**	**1,867.2**	**2,398.3**	**2,900.3**	**3,334.2**
Share capital	**9.3**	**9.3**	**9.3**	**9.3**	**9.3**	**9.3**	**9.3**
Balance, beginning of year	(123.2)	(145.4)	(122.8)	(112.8)	(107.8)	(232.0)	(391.0)
Net income (loss) for the year	(22.2)	22.5	10.0	5.0	(124.2)	(159.0)	(164.2)
Balance, ending of year	**(145.4)**	**(122.8)**	**(112.8)**	**(107.8)**	**(232.0)**	**(391.0)**	**(555.2)**
SHAREHOLDER'S EQUITY (DEFICIENCY)	**(136.1)**	**(113.5)**	**(103.5)**	**(98.5)**	**(222.7)**	**(381.7)**	**(545.9)**
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	**1,349.4**	**1,351.2**	**1,389.5**	**1,768.7**	**2,175.6**	**2,518.6**	**2,788.3**

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

VIA RAIL CANADA INC.
2018-2022 CORPORATE PLAN
STATEMENT OF CASH FLOWS

Table 6 VIA

VIA FISCAL YEAR ENDING DECEMBER 31							
(MILLIONS OF DOLLARS)	ACTUAL 2016	ACTUAL 2017	PLAN 2018	2019	2020	2021	2022
Operating activities							
Net income (loss) for the year	8.3	12.9	10.0	5.0	(124.2)	(159.0)	(164.2)
Adjustments to determine net cash from (used in) operating activities:							
Amortization of property, plant and equipment and intangible assets	103.5	97.3	71.6	73.4	102.4	140.5	180.1
Amortization of deferred capital funding	(102.3)	(96.1)	(69.4)	(71.2)	(100.2)	(138.3)	(176.9)
Post-employment benefits funding in excess of amount expensed	(1.2)	(1.1)	3.0	(7.1)	(7.1)	(7.1)	(7.1)
Net change in non-cash working capital items and other minor items (operating and investment activities)	(17.3)	(14.4)	(8.4)	(4.8)	129.1	163.9	168.1
Net cash (used in) provided by operating activities	**(9.0)**	**(1.4)**	**6.8**	**(4.7)**	**0.0**	**0.0**	**0.0**
Investment activities							
Capital funding from the Government of Canada	101.1	80.1	129.6	456.3	508.6	482.5	448.4
Change in asset renewal fund	0.0	0.0	3.1	4.7	0.0	0.0	0.0
Acquisition of property, plant and equipment and intangilble assets	(91.0)	(86.7)	(132.7)	(456.3)	(508.6)	(482.5)	(448.4)
Interest received	0.4	0.4	0.0	0.0	0.0	0.0	0.0
Net cash (used in) provided by investing activities	**10.4**	**(6.2)**	**0.0**	**4.7**	**0.0**	**0.0**	**0.0**
Cash and cash equivalents							
Increase (decrease) during the year	1.5	(7.6)	6.8	0.0	0.0	0.0	0.0
Balance, beginning of year	9.3	10.9	3.2	10.0	10.0	10.0	10.0
Balance, end of year	**10.9**	**3.2**	**10.0**	**10.0**	**10.0**	**10.0**	**10.0**

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

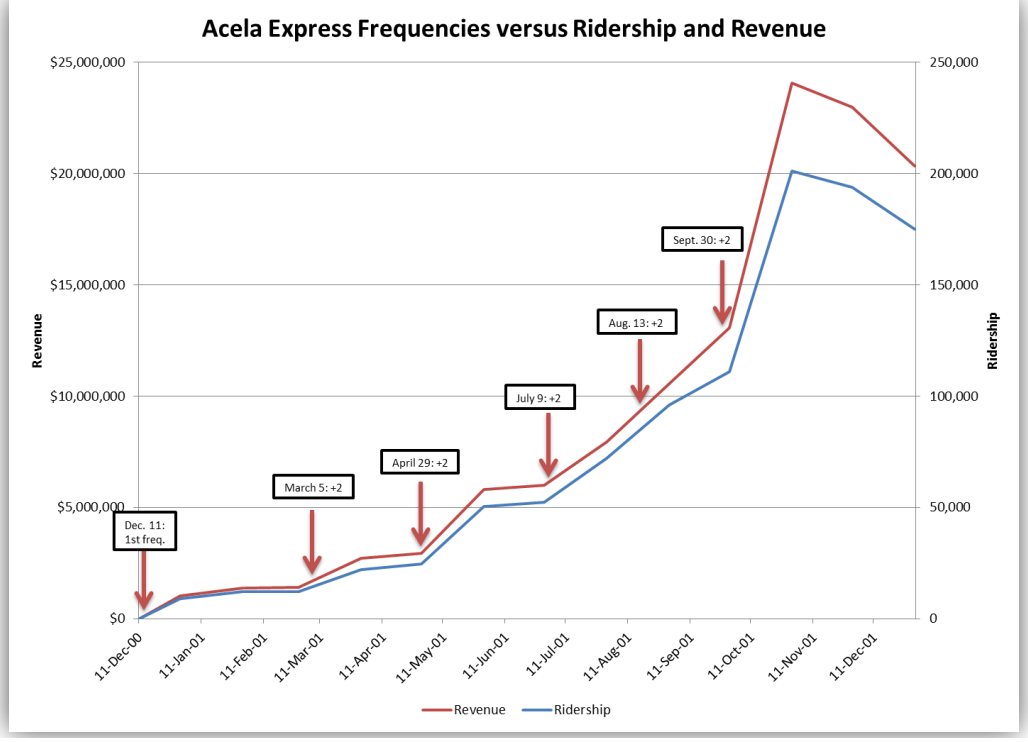
VIA RAIL CANADA INC.
2018-2022 CORPORATE PLAN
FUNDING REQUIREMENTS AND SOURCES

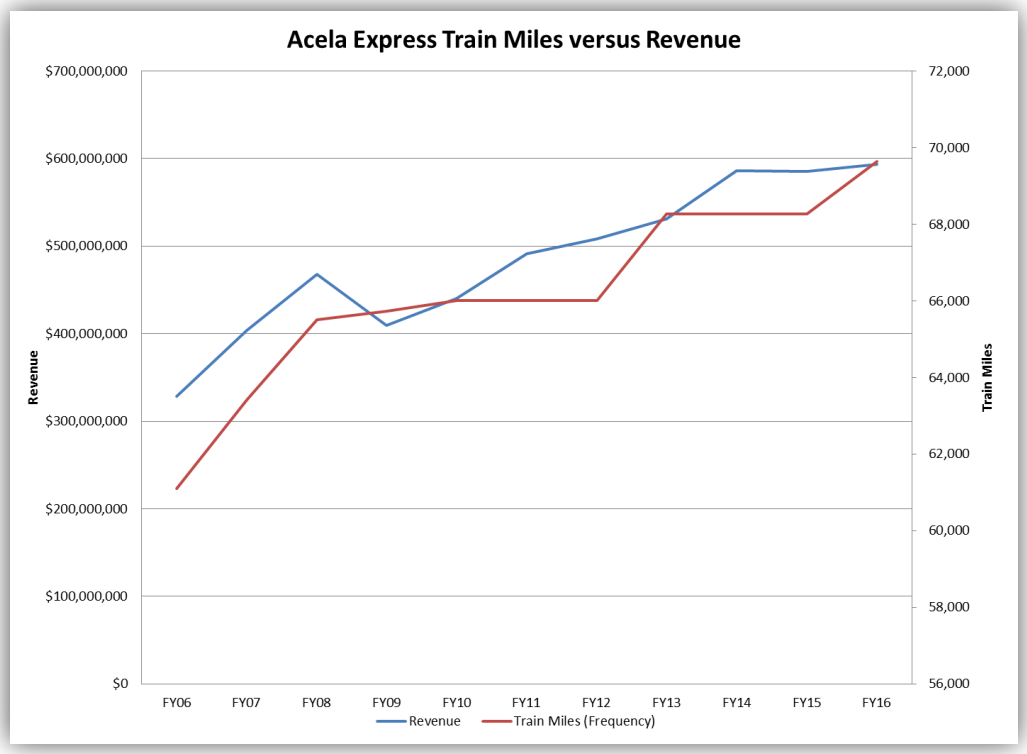
Table 3 GOV'T

GOVERNMENT FISCAL YEAR ENDING MARCH 31									
		Actual	Forecast	PLAN					TOTAL
	(MILLIONS OF DOLLARS)	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023	2018-2022
APPROVED FUNDING	Operating Funding Reference Level	146.8	146.8	146.8	146.8	146.8	146.8	146.8	733.9
	Additional Operating Funding Approved	96.6	97.1	105.0	113.5	0.0	0.0	0.0	218.5
	Total Operating Funding - Approved	**243.4**	**243.9**	**251.8**	**260.3**	**146.8**	**146.8**	**146.8**	**952.4**
	Pension Funding Approved	47.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	Additional Pension Funding	0.0	51.5	40.5	35.8	0.0	0.0	0.0	76.3
	Total Pension Funding - Approved	**47.5**	**51.5**	**40.5**	**35.8**	**0.0**	**0.0**	**0.0**	**76.3**
	Capital Funding Approved	85.0	96.1	256.1	409.0	361.2	384.5	335.8	1,746.5
	Total Capital Funding - Approved	**85.0**	**96.1**	**256.1**	**409.0**	**361.2**	**384.5**	**335.8**	**1,746.5**
	Total Gov't Funding Approved	**375.9**	**391.5**	**548.4**	**705.0**	**508.0**	**531.2**	**482.5**	**2,775.1**
FUNDING REQUIREMENTS	**Operating Funding required**	**237.6**	**237.2**	**251.8**	**260.3**	**265.2**	**286.0**	**279.8**	**1,343.0**
	Pensions Costs Funding required	**25.7**	**34.4**	**25.4**	**35.8**	**37.0**	**37.0**	**37.0**	**172.1**
	Capital Funding Required	85.0	85.6	212.8	452.7	533.7	479.8	438.0	2,117.0
	Total Capital Funding required	**85.0**	**85.6**	**212.8**	**452.7**	**533.7**	**479.8**	**438.0**	**2,117.0**
	Total Via Gov't Funding Required	**348.3**	**357.2**	**490.0**	**748.7**	**836.0**	**802.7**	**754.7**	**3,632.1**
FUNDING DEFICIT	Operating Funding Surplus / (Deficit)	5.7	6.7	0.0	0.0	(118.5)	(139.2)	(133.0)	(390.6)
	Pension Costs Funding Surplus / (Deficit)	21.8	17.1	15.1	0.0	(37.0)	(37.0)	(37.0)	(95.9)
	Capital Funding Surplus / (Deficit)	(0.0)	10.5	43.3	(43.7)	(172.5)	(95.3)	(102.2)	(370.4)
	Total Funding Surplus/(deficit)	**27.6**	**34.3**	**58.4**	**(43.7)**	**(328.0)**	**(271.5)**	**(272.2)**	**(857.0)**
ADDITIONAL FUNDING REQUIRED (1)	Additional Operating Funding - Operating Deficit Before Pension	0.0	0.0	0.0	0.0	118.5	139.2	133.0	390.6
	Additional Operating Funding - Pension Plans	0.0	0.0	0.0	0.0	37.0	37.0	37.0	111.0
	Additional Capital Funding (1)	0.0	0.0	0.0	0.0	162.4	95.3	102.2	359.9
	Total Additional Funding Requested	**0.0**	**0.0**	**0.0**	**0.0**	**317.9**	**271.5**	**272.2**	**861.5**
CAPITAL FUNDING REPROFILING	Proposed Reprofiling of Capital Funding (2)	0.0	(10.5)	(43.3)	43.7	10.1	0.0	0.0	10.5
	Total Capital Funding Reprofilling Requested	**0.0**	**(10.5)**	**(43.3)**	**43.7**	**10.1**	**0.0**	**0.0**	**10.5**

(1) No funds has yet been identified and VIA is requesting this additionnal funding
(2) Subject to the approval by the Department of Finance through the ARLU process. In the absence of the approval of this requested reprofiling , VIA will have to cancel current capital projects.

ANNEX 2 – AMTRAK FREQUENCY VERSUS RIDERSHIP AND REVENUE





ANNEX 3 – OTP ON VIA RAIL SEGMENTS

January 2017 – December 2017		
***OTP* on segments owned by VIA Rail** (10 min tolerance)		***OTP* of Overall Trip** (15 min tolerance)
Coteau – Ottawa	**91.8%**	**80.1%**
Smiths Falls – Ottawa	**95.1%**	**75.2%**
Brockville – Smiths Falls	**91.5%**	**75.2%**
Bloomfield – Windsor	**98.7%**	**83.9%**

Note: Comparison of ratios is not entirely appropriate as i) OTP of Overall Trip values are increased by the stronger performance on segments owned by VIA ii) OTP of Overall Trip values are increased by the larger tolerance allowed on these segments (15 minutes vs. 10 minutes).

ANNEX 4 – VIA RAIL'S FLEET PROFILE

Equipment Type and Description	Quantity	Year Built	Latest Rebuild	No. of Major Rebuilds	Age by 2020 (Years)	Deployment
Locomotives						
General Motors F-40	52	1986	2009	1	34	All Services
General Electric P-42	21	2001			19	Corridor
Total Locomotive	73					
Cars:						
Light, Rapid, Comfortable (LRC)	97	1981	2011	1	39	Corridor
Head End Power (HEP 1&2 - stainless steel heritage)	204	1947	1995	1	73	Corridor, Canadian & Regional
Renaissance (from U.K.)	106	1995	2001			Corridor & Ocean
Other	24	1954 - 2000	1994-2012			Regional
Total Cars	431				20-66	
TOTAL FLEET	504					
Total Corridor Fleet	200(40 Locos & 160 cars)					

As of July 2018

ANNEX 5 – 2012-2016: CORRIDOR

RIDERSHIP IS DIRECTLY AFFECTED BY OTP AND FREQUENCY - BOTH ARE UNDER HOST RAILWAYS CONTROL

- As VIA Rail reduces service, ridership is negatively affected
- This ridership is highly negatively affected by OTP deterioration
- VIA Rail's OTP is primarily determined by the host railways on which it operates
- Furthermore, service level is decided by the host railway, who determine the number of frequencies available to VIA Rail