



40 YEARS



**THIRD  
QUARTER  
REPORT  
2018**



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# MESSAGE FROM THE PRESIDENT



Over the past few years, VIA Rail has been undergoing a transformation, inside and out, in our quest to become the smarter way to travel for all Canadians. Our modernization plan is important for many reasons we cherish - like social inclusion, economic development, the environment and improved accessibility for all. Like me, VIA Rail employees live and love the benefits that the train provides to our country, every day.

Since the invention of the automobile in the early 1900's and the construction of our extensive highway system in the 50's and 60's, we have watched travel turn from novelty to utility to inconvenience. Long gone are the days when families would "go for a ride"; when going on a trip meant an all-day adventure of wide-eyed discovery. As the number of cars increased exponentially, congestion has grown and we are now entering a complete renewal of our road infrastructure, for years to come. As a result, our love of inter-city travel is gone.

But at VIA Rail, we never lost our love of the journey. And from what we've seen, neither have our passengers. More and more people are opting out of using a car and choosing alternative transportation. It is in this spirit

that we launched our new communication platform – Love the Way – which stands for everything we are and have worked so hard to become. We believe that travelling should be easy, sustainable and yes, enjoyable.

Love the Way is about reconnecting with the pure joy of travel. It's about getting excited about trips again and about the discoveries we make along the way. And it's about the choices we make. For our passengers, it's about being proud of how they move – whether it be by bus, their bike or the train. And for us, it's about reimagining the Canadian journey by creating smarter ways to travel.

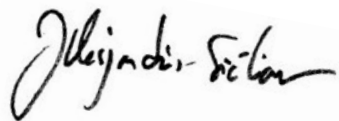
Our new communication platform is not only about ads, it is what drives us as a corporation. To make the journey even better for our passengers, we are in the midst of a huge overhaul of our current train fleet. When the 75 train cars from our Heritage fleet are upgraded and updated, we will proudly welcome passengers into more comfortable and modern cars. And once our new Québec City to Windsor corridor fleet is in place, we will all Love the Way even more.

This quarter is testament to the work we've already put in. Across our largest market in the Québec City to Windsor corridor we performed well, showing passenger growth of 8.3% and an increase in revenues of 11% compared to the same quarter last year. This included noticeable spikes during the Canada Day and Labour Day long weekends, which have been enjoying an upward trend for the last four years.

We continue to have our challenges, of course. However, with the strong support of our employees and our clients, we are proactively facing them. For example, a new schedule for our *Canadian* train, which has suffered from ongoing delays, went into effect on July 26. It hasn't totally fixed the poor on-time performance of this service – but it has helped. And as we develop next year's schedule with our infrastructure partner, we are hopeful that we'll deliver a more predictable journey for our passengers.

In short, our new campaign will inspire you and give you a glimpse of the VIA Rail of tomorrow — the company we are all building together, one that will let us all Love the Way.

I hope to see you on board soon,



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

# THIRD QUARTER AT A GLANCE

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

	Q3 2018	Q3 2017	YTD 2018	YTD 2017
<b>KEY FINANCIAL INDICATORS (IN MILLIONS OF DOLLARS)</b>				
Total passenger revenues <sup>(1)</sup>	112.3	107.3	275.9	256.1
<b>Total revenues <sup>(1)</sup></b>	<b>118.0</b>	<b>113.1</b>	<b>293.5</b>	<b>273.1</b>
Operating expenses <sup>(1)</sup>	156.5	146.6	468.1	434.5
Contributions for employee benefits <sup>(1)</sup>	6.9	9.6	26.6	29.0
<b>Total Operating expenses <sup>(1)</sup></b>	<b>163.4</b>	<b>156.2</b>	<b>494.7</b>	<b>463.5</b>
<b>Operating loss</b>	<b>45.4</b>	<b>43.1</b>	<b>201.2</b>	<b>190.4</b>
Capital Investments	33.7	15.4	78.2	52.4
<b>Total Funding Required</b>	<b>79.1</b>	<b>58.5</b>	<b>279.4</b>	<b>242.8</b>
Government Operating Funding	45.4	43.1	201.2	190.4
Government Capital Funding	31.7	15.4	76.2	52.4
<b>Total Government Funding</b>	<b>77.1</b>	<b>58.5</b>	<b>277.4</b>	<b>242.8</b>
<b>Asset Renewal Fund</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>KEY OPERATING STATISTICS <sup>(2)</sup></b>				
Total passenger-miles (IN MILLIONS)	291	296	742	713
Total seat-miles (IN MILLIONS)	477	454	1,310	1,249
Operating deficit per passenger-mile (IN CENTS)	15.6	14.5	27.1	26.7
Yield (CENTS PER PASSENGER-MILE)	38.1	35.2	36.4	35.0
Train-miles operated (IN THOUSANDS)	1,758	1,718	5,138	5,036
Car-miles operated (IN THOUSANDS)	13,237	12,887	34,288	33,290
Average passenger load factor (%)	61	65	57	57
Average number of passenger-miles per train mile	165	173	144	142
On-time performance (%)	65	70	71	74
Number of full time equivalent employees during the period	3,349	3,240	3,201	2,971

(1) Financial statement amounts were adjusted to reflect funded activities

(2) Key operating statistics are unaudited

## KEY OPERATING STATISTICS BY SERVICE GROUP FOR THE THIRD QUARTER OF 2018

Train Services	Passenger Revenues* (IN THOUSANDS)	Passengers (IN THOUSANDS)	Passenger-Miles (IN THOUSANDS)	Government Funding (PER PASSENGER-MILE)
Québec City - Windsor corridor	\$76,833	1,190	225,828	\$0.11
Longhaul West	\$28,070	38	44,277	\$0.09
Longhaul East	\$4,528	29	16,368	\$0.50
Regional Services	\$1,278	19	4,416	\$1.83
<b>Total</b>	<b>\$110,709</b>	<b>1,276</b>	<b>290,889</b>	<b>\$0.16</b>

## KEY OPERATING STATISTICS BY SERVICE GROUP FOR THE THIRD QUARTER OF 2017

Train Services	Passenger Revenues* (IN THOUSANDS)	Passengers (IN THOUSANDS)	Passenger-Miles (IN THOUSANDS)	Government Funding (PER PASSENGER-MILE)
Québec City - Windsor corridor	\$69,163	1,098	209,495	\$0.11
Longhaul West	\$29,754	53	65,054	\$0.04
Longhaul East	\$4,074	29	16,681	\$0.47
Regional Services	\$1,543	21	5,361	\$1.72
<b>Total</b>	<b>\$104,534</b>	<b>1,201</b>	<b>296,591</b>	<b>\$0.15</b>

\* Excluding off-train and other passenger revenues.

# REVIEW OF OPERATIONS

A Rail Canada





# PUTTING PASSENGERS FIRST

## 40<sup>TH</sup> ANNIVERSARY CARS

Celebrations marking VIA Rail's 40<sup>th</sup> anniversary year continued this summer. As a way of demonstrating our gratitude to passengers, 20 Anniversary cars in Economy class were secretly selected along our routes from Halifax to Vancouver. The interiors of the celebratory cars were decorated so that passengers knew from the moment they boarded that something

special was going to happen. During their trip, each passenger was given a box full of surprises including a free meal, discount coupons and other little mementos. One lucky winner on each Anniversary car found an extra surprise in their gift box: a one-night getaway to the VIA Rail destination of their choice!



## **BUSINESS CLASS MENU ENHANCEMENTS**

We review our menus and offers in all classes on a constant basis. This quarter, updates were made to the selection of Special Service Dietary meals for passengers selecting vegan, gluten-free and diabetic meals. As well, we piloted soy milk as a dairy alternative for coffee and breakfast in the Québec City – Ottawa market.

## **21-DAY ADVANCE FARES**

For its 40<sup>th</sup> anniversary, VIA Rail introduced another incentive to book early. Passengers who reserve their tickets at least 21 days prior to departure will benefit from the lowest fares available on selected trains. This new offer, whose success we will be monitoring, is yet another way, along with other initiatives like Discount Tuesdays and Weekend Getaways, to provide travellers with multiple fare options.



## **NEW PET POLICY**

For many people, pets play an important role in their lives by bringing them comfort and companionship. Therefore, as part of our ongoing efforts to improve the travel experience, VIA Rail has reviewed its pet policy to allow passengers to travel with their small cats or dogs. In August, the new pet policy took effect and passengers travelling in both Economy and Business class on board our trains in the Québec City – Windsor corridor can bring along their furry companion. The [full pet policy](#) can be reviewed on our website.

# GROWING OUR COMMUNITY

## LOVE THE WAY

VIA Rail is in the midst of a remarkable transformation striving to become the smarter way to travel for Canadians. As a rapidly modernizing Crown corporation, our values of innovation, trust and agility are even more important and represent the guiding force behind all our actions. Our new tagline, Love the Way, is a reflection of what makes train travel unique. We hope to encourage more and more Canadians to rediscover the joy of travel and thus contribute to a better future economically, socially and environmentally.

The new communication platform was rolled out through television spots, online video spots and banners, movie theatres, bus shelters, digital out-of-home billboards and print media across the Québec City – Windsor corridor. It was also featured in Toronto on a Flexity streetcar wrap and on the Tec Tower Digital billboard at Dundas Square. Our website at [viarail.ca](http://viarail.ca) has also been updated to reflect the new campaign with an improved user experience, more tailored to clients' needs.



## STRENGTHENING OUR ASSETS

### MAINTAINING OUR INFRASTRUCTURE

VIA Rail is continuing with the safety and improved comfort projects planned for 2018-2019. Maintenance projects have been completed for ties replacement and a rail maintenance program to maintain the overall safety of our infrastructure in the Ottawa region. The program is now continuing in the Chatham region. In the Windsor region, a major fencing program to reduce railway intrusion and increase safety is underway with the collaboration of the City of Windsor and Transport Canada.

### HALIFAX STATION RENOVATION

Work began at Halifax Station to improve the overall condition and showcase the historic architecture of this Heritage building. The renovations will also serve to improve the comfort and well-being of our passengers and optimize accessibility.

The work includes the replacement of the central hall roof and skylight to enhance the Heritage character of the building. The main doors will also be replaced to optimize accessibility for people with reduced mobility. Other work includes the installation of a new air conditioning system and the refurbishment of the main parking lot to meet sustainable development guidelines, among other improvements. The expected completion date is spring of 2019.



### BETTER SIGNAGE ON DIGITAL TOWERS

Our stations are being modernized to provide a better passenger experience. To improve the boarding process and provide clearer signage in stations, digital towers with large vertical screens have been installed in five stations — Toronto, Ottawa, Montréal, Kingston and Québec City.

In addition to essential information like gate and train numbers, destinations and stops, the screens display important messages for passengers about checking baggage and updated seat configurations. It can also broadcast security messages including Amber Alerts. Between boarding periods, the towers show our new advertisements, onboard offers, menus, and information about the kids' CHOO CHOO Club.

## MODERNIZATION PROJECTS

The Corporation made important announcements this year as part of its commitment to leading Canadians towards a more sustainable future. Employing a “reuse-recycle-repurpose” approach that will extend the useful life of our Heritage fleet, 75 train cars will be renovated over the next few years through our Heritage Fleet Refurbishment Project. Bombardier will be renovating 17 cars to full accessibility. Cad Industries will be upgrading and refurbishing 25 stainless steel cars. And at our Montréal Maintenance Centre, VIA Rail is renovating 33 train cars.

These modernization projects are aimed to continue to deliver the best customer experience by improving the reliability, comfort and accessibility of our train cars. The 75 renovated cars are destined for use on VIA Rail’s long-distance route, the *Canadian*.

### FIRST RENOVATED ECONOMY CAR COMPLETE

VIA Rail’s Montréal Maintenance Centre rolled out its first renovated Economy class car. The work consists of refreshing the interior design and overhauling the railcars’ systems to ensure the fleet’s long-term reliability. By the end of this quarter, there will be four



Yves Desjardins-Siciliano, President and Chief Executive Officer, with the Montréal team working on the equipment refurbishment in the first renovated Economy class car

more cars in the production line: three Economy cars and one Business class car.

### FIRST MILESTONE REACHED FOR FULLY ACCESSIBLE CARS

The train refurbishment project being carried out by Bombardier Transport was initiated over the second quarter and is scheduled for completion by early 2020.

During the quarter, the first milestone of this contract was reached through further consultation with organizations representing people with disabilities (the Canadian Council of the Blind, Canadian Association of the Deaf), people with reduced mobility (Rick Hansen Foundation), families and regulating parties including Transport Canada and the Canadian Transport Agency. A full-sized soft mock-up of the new configuration of the accessible areas of the car, which will act as a proof of concept for the design, was constructed and presented to inform and gather feedback from these groups. Overall feedback has been positive, and the soft mock-up will be used for training and familiarization purposes in other locations.

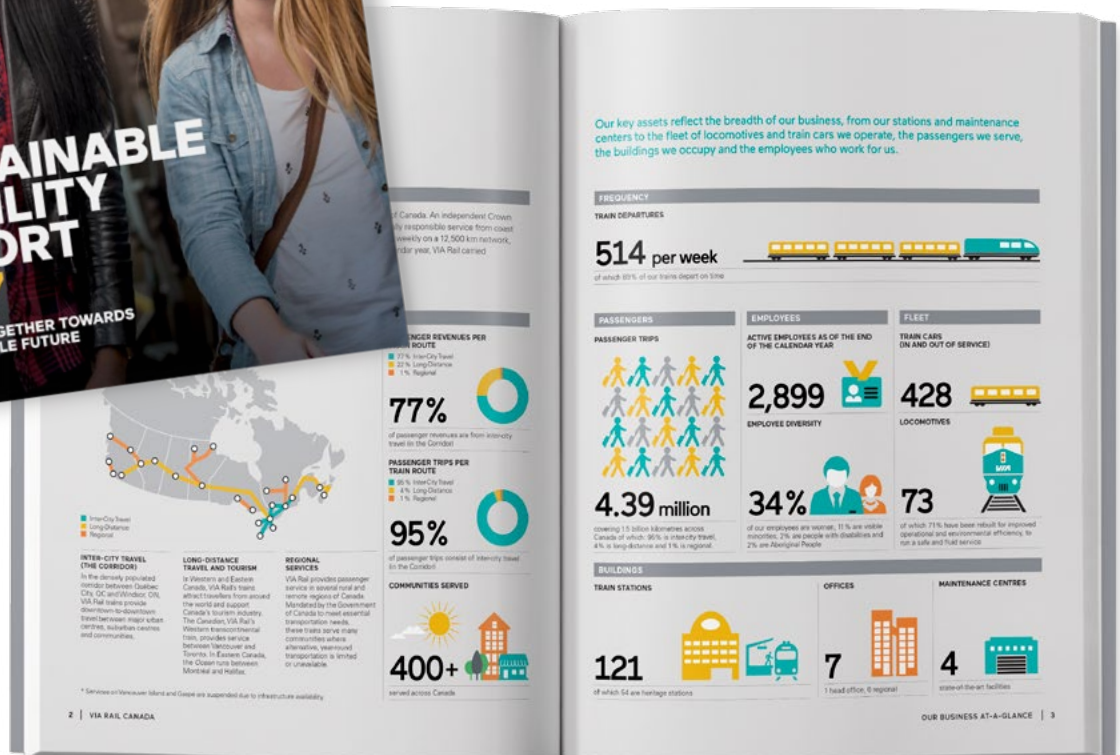


Members of various organizations representing people with disabilities visiting the soft mock-up of our cars being refurbished to full accessibility

# SUSTAINABLE MOBILITY



Sustainable mobility is an integral part of who we are and how we have always conducted our business. Our annual Sustainable Mobility Reports detail our activities and our journey to innovate and transform our business for future growth. For us, sustainable mobility is about contributing to a greener transportation system for Canada, in a way that enables economic prosperity, improves quality of life and provides more environmentally responsible mobility options. The following is a brief overview of our activities this quarter that are aligned with our sustainable mobility pillars. For more information, our Sustainable Mobility Reports can be found in the "About VIA Rail" section of our website under "Governance and Reports".



## PROMOTING SOCIO-ECONOMIC DEVELOPMENT

### CONTINUING TO GIVE BACK FOR VIA RAIL'S 40<sup>TH</sup> ANNIVERSARY

In 2018, VIA Rail celebrates four decades as an autonomous Crown Corporation. To give back and to thank Canadians for their loyalty throughout the years, VIA Rail launched the *40 Sustainable Actions for Our 40<sup>th</sup> Anniversary* national initiative. This community-based initiative touches on the Corporation's sustainability pillars as we undertake 40 collective actions across the country to represent each year of service.

Among our actions this quarter, our maintenance centre in Montréal invited 40 children from the Pointe-Claire YMCA to tour the facilities and learn about our trains and about railway safety. VIA Rail employees welcomed over 600 visitors to Sarnia's Centennial Park where there was a train visit organized for the event, entertainment for all, and a commemorative planting of red maple trees. In Moncton, employees actively participated in the Pride parade, and in Montréal, employees volunteered to help serve meals to over 400 homeless people at the Old Brewery Mission, an organization to which we have been donating non-perishable food not sold on board for over a decade.

### STRONG TIES TO THE CANADIAN ARMED FORCES

In an ongoing effort to highlight the contribution of the Canadian Armed Forces, especially at a time when many face both personal and professional challenges, VIA Rail collaborated with Salus Ottawa, the Wounded Warriors Highway of Heroes Bike Ride, the launch of Supporting Wounded Veterans Canada dedicated to supporting troubled veterans, and the *Grand rassemblement des vétérans* made possible by the *Retour en Force* initiative. VIA Rail also partnered with *Du Régiment aux Bâtiments* organization and VETS Canada to collaborate and recruit more candidates from the defense community.

In addition, VIA Rail was a partner in several events, including the 10<sup>th</sup> edition of the 2018 Army Run.



Rita Toporowski, General Manager, Central Canada planting trees in Sarnia with locals and other VIA Rail employees



## CLOSER COLLABORATION WITH INDIGENOUS COMMUNITIES

This quarter we continued our discussions on our vision for passenger rail and its future implications for its Indigenous partners. Meetings were held with Melissa Santoro Greyeyes-Brant, Indigenous spokeswoman for Operation Lifesaver and the Hiawatha Nation. Meetings were also held with representatives of Indigenous communities of Québec through the assistance of the Canadian Council for Aboriginal Business.

VIA Rail was also proud to be associated with two important events during this period, the Emerging Leaders for Sustainable Community Development conference, and the 16<sup>th</sup> annual Canadian Council for Aboriginal Business Gala, which recognized excellence in Indigenous relations.



James Peters, Manager, Customer Relations and Jacques Fauteux, Director, Government Relations with representatives of Indigenous communities of Québec

## MANAGING OUR BUSINESS RESPONSIBLY

### FORGING TIES WITH COMMUNITIES

VIA Rail works to maintain an in-depth dialogue with stakeholders and associations that represent the interests of Canadians, our passengers and the communities we currently serve as well as those of the future.

As such, we were excited to contribute to the success of such flagship events as the launch of the Ontario Chamber of Commerce's dialogue on the future of transportation in Ontario, the Economic Club's youth exchange program, the Canadian Urban Transit Association's Awareness Days, the Québec Transportation Association's *Sommet de la rentrée*, the 2018 Global Progress Summit, and the Kingston Chamber of Commerce's Connect EXPO Showcase.

## MINI-TRAIN ADVENTURES

### CANADA DAY IN THE CAPITAL

Once again this year, VIA Rail operated its mini-train during a weekend of festivities to highlight Canada Day and express Canadian pride and a common sense of belonging to such a diverse country. Fun-filled activities and live entertainment energized the crowd at Major's Hill Park in Ottawa.

### SMITHS FALLS TRAINFEST

VIA Rail's mini-train also delighted young and old at the Smiths Falls Trainfest in August. Attendees were invited to explore several types of trains and to visit an exhibition about "travelling through times".

### GARRISON KINGSTON FAMILY FUN FEST

For the third consecutive year, VIA Rail was the main sponsor at this major event in Kingston that attracts over 10,000 people. Along with many other activities and prize give-aways at the Fun Fest, VIA Rail's mini-train was there, putting smiles on kids' faces all day long.





## ST-TITE WESTERN FESTIVAL

For many years, VIA Rail has been proud to sponsor the popular Festival in St-Tite by running two special trains to this unique event.

The arrival of the special trains at St-Tite station is an integral and very fun part of the Festival. Both passengers onboard and a crowd of a few hundred people eagerly await the cowboy “hold up” of the train! The train is “held hostage” as the cowboys gather money from passengers. In collaboration with the CN Community Fund, the money collected is donated to Centraide Mauricie.

# OPERATING SAFELY AND SECURELY

## NEW VIDEO SURVEILLANCE SYSTEM

During the past 18 months, VIA Rail has successfully completed an upgrade of its video surveillance and building access control systems to improve the safety and security of our passengers and employees. The new CCTV system covers sites across the country, and is centrally controlled and monitored by VIA Rail Police and Corporate Security. The building access control system now automates the opening and closing of unstaffed stations in line with the train arrival and departure times.

## RELIABILITY IN EXTREME WEATHER

The Signals and Communication group has progressed with its program to improve reliability of crossing warning systems and centralized train control in case of extreme weather conditions such as the tornado in the Ottawa and Gatineau region experienced in September. Improvement of train crossings in compliance with new Transport Canada regulations is continuing with 275 crossings completed, and the completion of 27 more complex crossings to come.

As well, a new web platform allowing third parties to request access to VIA Rail property was put into place. The Rail Request page is now available online at [railrequest.viarail.ca/](http://railrequest.viarail.ca/).

## RAIL SAFETY DAY

VIA Rail was once again an active participant in Operation Lifesaver's Rail Safety Week this year. With the theme of "Stop Track Tragedies" the week focused on the importance of railway safety. The Honourable Marc Garneau, Minister of Transport stopped by downtown Ottawa to participate in this important event.



The Honourable Marc Garneau, Minister of Transport, at Rail Safety Week in Ottawa

## BEING AN ATTRACTIVE EMPLOYER



Françoise Bertrand, Chairperson of the Board of Directors and Yves Desjardins-Siciliano, President and Chief Executive Officer proudly display VIA Rail's Silver Parity Certification alongside other VIA Rail executives and employees

### SILVER PARITY CERTIFICATION FROM WOMEN AND BOARDS

In September, VIA Rail was awarded the Silver Parity Certification at the Women in Governance gala, in recognition of its success in promoting and supporting women in their leadership development, career advancement and representation at all levels of the organization. This is the second time VIA Rail was honoured by Women and Boards. In 2016, our President and CEO Yves Desjardins-Siciliano received an award for his outstanding commitment in the promotion of women at the corporation.

### A SAFE WAY TO SPEAK UP

To ensure that our employees, our suppliers and the public have a high level of confidentiality for reporting wrongdoing or unethical behaviour, VIA Rail launched ClearView, an online platform to report any wrongdoing or unethical behaviour with confidence and in complete anonymity. The system also offers a hotline (telephone operator or voice message), mail, email and online, and it allows for information to be centralized for optimal review.

# KEY PERFORMANCE INDICATORS



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

KEY PERFORMANCE INDICATORS		Quarters ended September 30			Nine-month periods ended September 30		
INDICATOR	UNIT	Q3-2018	Q3-2017	Vs 2017	YTD 2018	YTD 2017	Vs 2017
CAPACITY DEPLOYED (IN MILLIONS) Number of available seat-miles (ASM)	ASM	477	454	5.2%	1,310	1,249	4.9%
TOTAL REVENUES / ASM (RASM) Total revenues divided by total ASM	cents	24.74	24.95	■	22.40	21.86	■
TOTAL COSTS <sup>(1)</sup> / ASM (CASM) Total operating expenses divided by total ASM	cents	34.23	33.57	■	37.15	36.18	■
RASM / CASM Revenues per available seat-mile divided by the costs per available seat-mile	%	72.3%	74.3%	■	60.3%	60.4%	■
ON-TIME PERFORMANCE On-Time Performance of all VIA Rail trains	%	65%	70%	■	71%	74%	■
ON-TIME PERFORMANCE - VIA RAIL INFRASTRUCTURE On-Time performance of all VIA Rail trains on VIA Rail owned infrastructure	%	94%	95%	■	94%	95%	■
TRAIN INCIDENTS Includes mainline derailments, cardinal rule violations, critical speed violations, or critical rule violations which result in injury to passengers and/or employees, or damage to the rolling stock or infrastructure for a value of \$25,000 or more	#	1	1	■	4	3	■
EMPLOYEE ATTENDANCE (EXCLUDING LONG TERM DISABILITY) Total hours worked per month divided by the total possible work hours per month	%	95%	95%	■	95%	95%	■

(1) Total costs include pension costs for current services but exclude cost for past services

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

# GOVERNANCE AND ACCOUNTABILITY





## THE BOARD OF DIRECTORS

As of September 30, 2018, the Board of Directors consists of the Chairperson of the Board of Directors, the President and Chief Executive Officer and nine directors appointed by the Government of Canada. Of the 10 directors (not including the CEO of VIA Rail), six are women and four are men. The Board is responsible for overseeing the strategic direction and management of the Corporation, and reports on VIA Rail's operations to Parliament through the Honourable Marc Garneau, Minister of Transport.

During the third quarter of 2018, one Board meetings was held. As well, the five different Board committees met a total of eight times. The attendance rate at the meetings held during the third quarter was 95 per cent. Cumulative fees paid to Board members during this period totaled \$69,652.

## ACCESS TO INFORMATION AND PRIVACY

VIA Rail believes that openness and transparency are essential to building a trusted relationship with customers, its partners and with the public in general. VIA Rail became subject to both the *Access to Information Act* and the *Privacy Act* in 2007. Since then, we have been committed to responding to information requests from the public, the media and all those interested in VIA Rail's operations. During the third quarter of 2018, VIA Rail received 14 new requests.

## PROMOTING OUR OFFICIAL LANGUAGES

VIA Rail complies with the Official Languages Act and is proud to offer services in both English and French. While more than 1.27 million passengers travelled on our trains over the third quarter, no complaints were made in regards to our serving Canadians in the language of their choice. This reflects VIA Rail's commitment to providing a bilingual service across the country, in our stations, on board our trains and in our call centers.

Over the quarter, VIA Rail promoted Canada's official languages by participating in the Canadian working group in anticipation of the 50<sup>th</sup> anniversary of the Official Languages Act in 2019. VIA Rail also partook in essential cultural gatherings of minority language communities in Ontario and Manitoba through the 50<sup>th</sup> anniversary festivities of the *Théâtre français de Toronto* and the evening of the *Francofonds' Chefs en plein air*.

## TRAVEL, HOSPITALITY AND CONFERENCE EXPENSES

### THE FOLLOWING TRAVEL, HOSPITALITY AND CONFERENCE EXPENSES WERE SUBMITTED DURING THE THIRD QUARTER OF 2018

<b>Françoise Bertrand</b> Chairperson of the Board of Directors	\$5,285
<b>Yves Desjardins-Siciliano</b> President and CEO	\$15,565
Executive management committee members (9 members)	\$79,277
Board of Directors (9 members)	\$16,218
<b>Total VIA Rail (including above expenses)</b>	<b>\$324,170</b>

# MANAGEMENT DISCUSSION AND ANALYSIS



## 1. INTRODUCTION

The management discussion and analysis report outlines the financial results of VIA Rail for the quarter and nine-month period ended September 30, 2018 compared with the quarter and nine-month period ended September 30, 2017. This document should be read in conjunction with the interim condensed financial statements and notes.

### MATERIALITY

In assessing what information is to be provided in this report, management applies the materiality principle as guidance for disclosure. Management considers information material if it is probable that its omission or misstatement, judged in the surrounding circumstances, would influence decisions that VIA Rail's stakeholders make on the basis of the financial information.

## 2. CORPORATE OVERVIEW

VIA Rail is a non-agent Crown corporation which operates Canada's national passenger rail service on behalf of the Government of Canada. The Corporation's objectives are to manage and provide a safe, efficient, reliable, and environmentally sustainable rail passenger service that meets the needs of Canadian 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.

### 3. HIGHLIGHTS OF FINANCIAL RESULTS AND MAJOR KEY OPERATING STATISTICS

(IN MILLION OF CANADIAN DOLLARS)	Quarters ended September 30				Nine-month periods ended September 30			
	2018	2017	Var \$	Var %	2018	2017	Var \$	Var %
<b>FINANCIAL PERFORMANCE</b>								
Passenger revenues (SECTION 4.2)	<b>112.3</b>	106.8	5.5	5.1%	<b>275.7</b>	254.9	20.8	8.2%
Other revenues	<b>5.7</b>	5.9	(0.2)	(3.4%)	<b>17.6</b>	17.0	0.6	3.5%
Total revenues	<b>118.0</b>	112.7	5.3	4.7%	<b>293.3</b>	271.9	21.4	7.9%
Operating expenses (SECTION 4.3)	<b>197.4</b>	178.6	18.8	10.5%	<b>577.1</b>	536.2	40.9	7.6%
Operating loss before funding from the Government of Canada and income taxes (SECTION 4.1)	<b>(79.4)</b>	(65.9)	(13.5)	(20.5%)	<b>(283.8)</b>	(264.3)	(19.5)	(7.4%)
Operating funding from the Government of Canada (SECTION 4.1)	<b>45.4</b>	43.1	2.3	5.3%	<b>201.2</b>	190.4	10.8	5.7%
Amortization of deferred capital funding	<b>25.6</b>	22.3	3.3	14.8%	<b>77.8</b>	67.2	10.6	15.8%
Net loss for the period	<b>(8.4)</b>	(0.6)	(7.8)	(1,300.0%)	<b>(5.0)</b>	(6.9)	1.9	27.5%
Remeasurements of defined benefit components of the pension plans	<b>47.7</b>	72.4	(24.7)	(34.1%)	<b>126.3</b>	23.2	103.1	444.4%
Comprehensive income for the period	<b>39.3</b>	71.8	(32.5)	(45.3%)	<b>121.3</b>	16.3	105.0	644.2%
<b>FINANCIAL POSITION AND CASH FLOWS</b>								
Total assets (SECTION 4.4)	<b>1,459.1</b>	1,327.1	132.0	9.9%	<b>1,459.1</b>	1,327.1	132.0	9.9%
Total liabilities (SECTION 4.4)	<b>1,451.3</b>	1,446.8	4.5	0.3%	<b>1,451.3</b>	1,446.8	4.5	0.3%
Cash (SECTION 4.5)	<b>47.7</b>	18.1	29.6	163.5%	<b>47.7</b>	18.1	29.6	163.5%
Net cash (used in) provided by operating activities (SECTION 4.5)	<b>21.1</b>	(20.0)	41.1	(205.5%)	<b>23.7</b>	6.1	17.6	288.5%
Net cash provided by investing activities (SECTION 4.5)	<b>7.8</b>	1.0	6.8	680.0%	<b>20.8</b>	1.1	19.7	1790.9%
Capital funding (SECTION 4.5)	<b>31.7</b>	15.4	16.3	105.8%	<b>76.2</b>	52.4	23.8	45.4%
<b>KEY OPERATING STATISTICS</b>								
Train-miles operated (IN THOUSANDS)	<b>1,758</b>	1,718	40	2.3%	<b>5,138</b>	5,036	102	2.0%
Seat-miles (IN MILLIONS)	<b>477</b>	454	23	5.1%	<b>1,310</b>	1,249	61	4.9%
Passengers-miles (IN MILLIONS)	<b>291</b>	296	(5)	(1.7%)	<b>742</b>	713	29	4.1%
Average passenger load factor (%)	<b>61</b>	65	(4)	(6.2%)	<b>57</b>	57	-	0.0%
Operating deficit per passenger-mile (IN CENTS)	<b>15.6</b>	14.5	1.1	7.6%	<b>27.1</b>	26.7	0.4	1.5%

## **FINANCIAL HIGHLIGHTS – THIRD QUARTER**

- / VIA Rail recorded a 4.7 per cent increase in total revenues.
- / Operating expenses increased by 10.5 per cent.
- / The operating loss increased by 20.5 per cent.
- / Operating funding increased by 5.3 per cent.
- / VIA Rail generated a comprehensive income of \$39.3M compared to \$71.8M in 2017.  
The variation is due to the remeasurements of defined benefit components of the pension plans.

## **FINANCIAL HIGHLIGHTS – NINE-MONTH PERIOD**

- / VIA Rail recorded a 7.9 per cent increase in total revenues.
- / Operating expenses increased by 7.6 per cent.
- / The operating loss increased by 7.4 per cent.
- / Operating funding increased by 5.7 per cent.
- / VIA Rail generated a comprehensive income of \$121.3M compared to \$16.3M in 2017.  
The variation is due to the remeasurements of defined benefit components of the pension plans.

## **OPERATING STATISTICS HIGHLIGHTS – THIRD QUARTER**

- / Capacity increased compared to previous year (2.3 per cent train-miles and 5.1 per cent seat-miles).
- / Passenger-miles decreased (1.7 per cent) resulting in a decrease in load factor (6.2 per cent).
- / Operating deficit per passenger-mile increased by 7.6 per cent.

## **OPERATING STATISTICS HIGHLIGHTS – NINE-MONTH PERIOD**

- / Capacity increased compared to previous year (2.0 per cent train-miles and 4.9 per cent seat-miles).
- / Passenger-miles increased by 4.1 per cent and load factors maintained at 57 per cent.
- / Operating deficit per passenger-mile increased by 1.5 per cent.

## 4. ANALYSIS OF FINANCIAL RESULTS

### 4.1 COMPARISON OF IFRS AND FUNDED OPERATING RESULTS

(IN MILLIONS OF CANADIAN DOLLARS)	Quarters ended September 30				Nine-month periods ended September 30			
	2018	2017	Var \$	Var %	2018	2017	Var \$	Var %
<b>Operating loss on a funded basis</b>	<b>(45.4)</b>	<b>(43.1)</b>	<b>(2.3)</b>	<b>(5.3%)</b>	<b>(201.2)</b>	<b>(190.4)</b>	<b>(10.8)</b>	<b>(5.7%)</b>
NON-FUNDED ADJUSTMENT TO REVENUES								
Adjustment for VIA Préférence points and other	-	(0.4)	0.4	100.0%	<b>(0.2)</b>	(1.2)	1.0	83.3%
NON-FUNDED ADJUSTMENTS TO EXPENSES								
Pension and other employee future benefits	<b>(3.1)</b>	0.8	(3.9)	487.5%	<b>(4.4)</b>	(0.3)	(4.1)	(1,366.7)%
Depreciation and loss on disposal of property, plant, equipment and intangible assets	<b>(25.7)</b>	(22.6)	(3.1)	(13.7%)	<b>(78.6)</b>	(68.1)	(10.5)	(15.4%)
Other provisions for non-cash items	<b>(5.2)</b>	(0.6)	(4.6)	(766.7%)	<b>0.6</b>	(4.3)	4.9	114.0%
Total non-funded adjustments to expenses	<b>(34.0)</b>	(22.4)	(11.6)	(51.8%)	<b>(82.4)</b>	(72.7)	(9.7)	(13.3%)
<b>Total items not requiring funds from operations</b>	<b>(34.0)</b>	<b>(22.8)</b>	<b>(11.2)</b>	<b>(49.1%)</b>	<b>(82.6)</b>	<b>(73.9)</b>	<b>(8.7)</b>	<b>(11.8%)</b>
<b>Operating loss under IFRS</b>	<b>(79.4)</b>	<b>(65.9)</b>	<b>(13.5)</b>	<b>(20.5%)</b>	<b>(283.8)</b>	<b>(264.3)</b>	<b>(19.5)</b>	<b>(7.4%)</b>
Operating funding from the Government of Canada	<b>45.4</b>	43.1	2.3	5.3%	<b>201.2</b>	190.4	10.8	5.7%
Amortization of deferred capital funding	<b>25.6</b>	22.3	3.3	14.8%	<b>77.8</b>	67.2	10.6	15.8%
<b>Net loss before income taxes</b>	<b>(8.4)</b>	<b>(0.5)</b>	<b>(7.9)</b>	<b>(1,580.0%)</b>	<b>(4.8)</b>	<b>(6.7)</b>	<b>1.9</b>	<b>28.4%</b>
Income tax expense	-	0.1	(0.1)	(100.0)%	<b>0.2</b>	0.2	-	0.0%
<b>Net loss under IFRS for the period</b>	<b>(8.4)</b>	<b>(0.6)</b>	<b>(7.8)</b>	<b>(1,300.0%)</b>	<b>(5.0)</b>	<b>(6.9)</b>	<b>1.9</b>	<b>27.5%</b>
Remeasurements of defined benefit component of the pension plans	<b>47.7</b>	72.4	(24.7)	(34.1%)	<b>126.3</b>	23.2	103.1	444.4%
<b>Comprehensive income for the period</b>	<b>39.3</b>	<b>71.8</b>	<b>(32.5)</b>	<b>(45.3%)</b>	<b>121.3</b>	<b>16.3</b>	<b>105.0</b>	<b>644.2%</b>

### Net loss under IFRS for the quarter:

Net loss of \$8.4M this quarter, compared to a loss of \$0.6M last year, representing a deterioration of \$7.8M mainly due to:

- / higher operating loss (\$13.5M), attributable to higher expenses of \$18.8M and higher revenues of \$5.3M;
- / higher amortization of deferred capital funding (\$3.3M);
- / higher government funding received during the quarter (increase of \$2.3M).

### Net loss under IFRS for the nine-month period:

Net loss of \$5.0M for the period, compared to a loss of \$6.9M last year, for an improvement of \$1.9M mainly due to:

- / higher government funding received during the period (\$10.8M);
- / higher amortization of deferred capital funding (\$10.6M);
- / higher operating loss (\$19.5M) explained by higher expenses of \$40.9M and higher revenues of \$21.4M.

### Remeasurements of defined benefit component of the pension plans

#### **COMPREHENSIVE INCOME OF \$39.3M IN Q3 2018, AND \$121.3M FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2018:**

As at September 30, 2018, the discount rate used to determine the defined benefit obligation was 3.90 per cent, compared to 3.40 per cent as at December 31, 2017, which represents \$88.7M increase in comprehensive income for the quarter, and \$146.0M for the nine-month period. The return on plan assets was (\$41.0M) during the third quarter, and (\$19.7M) for the nine-month period.

#### **COMPREHENSIVE INCOME OF \$71.8M IN Q3 2017, AND \$16.3M FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2017:**

As at September 30, 2017, the discount rate used to determine the defined benefit obligation was 3.75 per cent compared to 3.80 per cent as at December 31, 2016, which represents a \$111.4M income in Q3 2017, and a (\$16.8M) expense for the nine-month period. The return on plan assets generated was (\$39.0M) in Q3 2017, and \$40.0M for the nine-month period.

## 4.2 REVENUES

	Quarters ended September 30				Nine-month periods ended September 30			
(IN MILLIONS OF CANADIAN DOLLARS)	2018	2017	Var \$	Var %	2018	2017	Var \$	Var %
Passenger revenues								
Corridor East	63.8	57.6	6.2	10.8%	173.3	154.1	19.2	12.5%
Southwestern Ontario (SWO)	13.0	11.6	1.4	12.1%	37.0	32.7	4.3	13.1%
<b>Québec-City Windsor corridor</b>	<b>76.8</b>	<b>69.2</b>	<b>7.6</b>	<b>11.0%</b>	<b>210.3</b>	<b>186.8</b>	<b>23.5</b>	<b>12.6%</b>
<i>Ocean</i>	4.5	4.1	0.4	9.8%	8.4	7.9	0.5	6.3%
<i>Canadian</i>	28.1	29.8	(1.7)	(5.7%)	49.1	51.7	(2.6)	(5.0%)
Regional services	1.3	1.5	(0.2)	(13.3%)	2.4	3.3	(0.9)	(27.3%)
<b>Non corridor</b>	<b>33.9</b>	<b>35.4</b>	<b>(1.5)</b>	<b>(4.2%)</b>	<b>59.9</b>	<b>62.9</b>	<b>(3.0)</b>	<b>(4.8%)</b>
Other	1.6	2.2	(0.6)	(27.3%)	5.5	5.2	0.3	5.8%
<b>Total passenger revenues under IFRS</b>	<b>112.3</b>	<b>106.8</b>	<b>5.5</b>	<b>5.1%</b>	<b>275.7</b>	<b>254.9</b>	<b>20.8</b>	<b>8.2%</b>
Other revenues	5.7	5.9	(0.2)	(3.4%)	17.6	17.0	0.6	3.5%
<b>Total revenues under IFRS</b>	<b>118.0</b>	<b>112.7</b>	<b>5.3</b>	<b>4.7%</b>	<b>293.3</b>	<b>271.9</b>	<b>21.4</b>	<b>7.9%</b>
Adjustment for VIA Préférence points and other non-funded element	-	0.4	(0.4)	(100.0%)	0.2	1.2	(1.0)	(83.3%)
<b>TOTAL FUNDED REVENUES</b>	<b>118.0</b>	<b>113.1</b>	<b>4.9</b>	<b>4.3%</b>	<b>293.5</b>	<b>273.1</b>	<b>20.4</b>	<b>7.5%</b>

## PASSENGERS

	Quarters ended September 30				Nine-month periods ended September 30			
(IN THOUSANDS)	2018	2017	Var #	Var %	2018	2017	Var #	Var %
Passengers								
Corridor East	896.3	837.9	58.4	7.0%	2,494.7	2,267.2	227.5	10.0%
Southwestern Ontario (SWO)	293.9	260.8	33.1	12.7%	832.3	732.5	99.8	13.6%
<b>Québec-City Windsor corridor</b>	<b>1,190.2</b>	<b>1,098.7</b>	<b>91.5</b>	<b>8.3%</b>	<b>3,327.0</b>	<b>2,999.7</b>	<b>327.3</b>	<b>10.9%</b>
<i>Ocean</i>	29.0	28.7	0.3	1.0%	60.6	61.1	(0.5)	(0.8%)
<i>Canadian</i>	37.5	52.7	(15.2)	(28.8%)	66.9	88.9	(22.0)	(24.7%)
Regional services	18.9	21.2	(2.3)	(10.8%)	41.8	49.5	(7.7)	(15.6%)
<b>Non corridor</b>	<b>85.4</b>	<b>102.6</b>	<b>(17.2)</b>	<b>(16.8%)</b>	<b>169.3</b>	<b>199.5</b>	<b>(30.2)</b>	<b>(15.1%)</b>
<b>TOTAL PASSENGERS</b>	<b>1,275.6</b>	<b>1,201.3</b>	<b>74.3</b>	<b>6.2%</b>	<b>3,496.3</b>	<b>3,199.2</b>	<b>297.1</b>	<b>9.3%</b>



## PASSENGER REVENUES:

Passenger revenues have increased by \$5.5M (5.1 per cent) during the third quarter, the increase is mainly attributable to higher passenger volumes (6.2 per cent).

Passenger revenues have increased by \$20.8M (8.2 per cent) for the nine-month period, the increase is also mainly attributable to higher passenger volumes (9.3 per cent).

### CORRIDOR EAST:

Revenues for the quarter are \$6.2M (10.8 per cent) higher than last year. The increase stems from higher ridership (7.0 per cent), combined with improved average revenues (3.5 per cent). On a cumulative basis, revenues have increased by \$19.2M (12.5 per cent), and the increase is also due to higher passenger volumes (10.0 per cent), combined with improved average revenues (2.2 per cent).

### SOUTHWESTERN ONTARIO:

Revenues have grown by \$1.4M (12.1 per cent) during the quarter, due to higher passenger levels (12.7 per cent), partly offset by slightly lower average revenues (0.6 per cent). For the nine-month period, revenues have increased by \$4.3M (13.1 per cent), and the increase stems mainly from the increase in ridership (13.6 per cent).

### OCEAN:

Revenues for the quarter have increased by \$0.4M (9.8 per cent) compared to last year. Ridership has increased by 1.0 per cent, while average revenues have improved by 8.6 per cent. On a cumulative basis, revenues have increased by \$0.5M (6.3 per cent), mostly due to improved average revenues (7.2 per cent).

### CANADIAN:

Revenues on the *Canadian* have decreased by \$1.7M (5.7 per cent) for the quarter, and by \$2.6M (5.0 per cent) for the nine-month period. The decrease is mainly attributable to the poor on-time performance of train which resulted in loss of passengers including cancellations from some tour operators.

### REGIONAL SERVICES:

Revenues on Regional services have decreased by \$0.2M (13.3 per cent) during the quarter, and by \$0.9M (27.3 per cent) for the nine-month period.

This decrease is due to the interruption of service on the Gillam-Churchill segment of the Winnipeg-Churchill train. The service was interrupted in May 2017 following severe flooding which damaged the infrastructure. However the service is scheduled to resume on December 2, 2018.

### ADJUSTMENT FOR VIA PRÉFÉRENCE POINTS AND OTHER NON-FUNDED ELEMENT:

VIA Rail has not recorded an adjustment for the quarter, this is \$0.4M lower than last year. The adjustment for the nine-month period is \$0.2M which represents a decrease of \$1.0 M (83.3 per cent) compared to last year. The adjustment of 2017 results from a change in estimate relative to the probabilities of awarded points being converted into tickets. There was no such change in estimate this year.

### OTHER REVENUES:

Other revenues have decreased by \$0.2M (3.4 per cent) for the quarter, and have increased by \$0.6M (3.5 per cent) for the nine-month period. The decrease for the quarter is due to fewer third-party revenues. The decrease for the nine-month period results from higher investment income as well as more third-party revenues generated during the first six months of the year.

### 4.3 OPERATING EXPENSES

(IN MILLIONS OF CANADIAN DOLLARS)	Quarters ended September 30				Nine-month periods ended September 30			
	2018	2017	Var \$	Var %	2018	2017	Var \$	Var %
Compensation and employee benefits	<b>84.9</b>	78.8	6.1	7.7%	<b>246.9</b>	224.8	22.1	9.8%
Train operations and fuel	<b>39.0</b>	34.2	4.8	14.0%	<b>110.2</b>	97.9	12.3	12.6%
Stations and property	<b>8.4</b>	9.0	(0.6)	(6.7%)	<b>30.4</b>	30.3	0.1	0.3%
Marketing and sales	<b>9.5</b>	8.8	0.7	8.0%	<b>27.1</b>	24.4	2.7	11.1%
Maintenance material	<b>8.8</b>	7.9	0.9	11.4%	<b>27.1</b>	26.7	0.4	1.5%
Professional services	<b>5.8</b>	3.9	1.9	48.7%	<b>15.9</b>	11.8	4.1	34.7%
Telecommunications	<b>4.6</b>	4.6	-	0.0%	<b>14.7</b>	14.1	0.6	4.3%
Depreciation and amortization	<b>25.0</b>	22.1	2.9	13.1%	<b>74.5</b>	67.1	7.4	11.0%
Loss on disposal of property, plant and equipment and intangible assets	<b>0.7</b>	0.5	0.2	40.0%	<b>4.1</b>	1.0	3.1	310.0%
Unrealized net gain on derivative financial instruments	<b>(0.6)</b>	(4.5)	3.9	(86.7%)	<b>(7.2)</b>	(0.3)	(6.9)	2,300.0%
Other	<b>11.3</b>	13.3	(2.0)	(15.0%)	<b>33.4</b>	38.4	(5.0)	(13.0%)
<b>Total operating expenses under IFRS</b>	<b>197.4</b>	<b>178.6</b>	<b>18.8</b>	<b>10.5%</b>	<b>577.1</b>	<b>536.2</b>	<b>40.9</b>	<b>7.6%</b>
Non-funded adjustments (SECTION 4.1)	<b>(34.0)</b>	(22.4)	(11.6)	(51.8%)	<b>(82.4)</b>	(72.7)	(9.7)	(13.3%)
<b>Total funded expenses</b>	<b>163.4</b>	<b>156.2</b>	<b>7.2</b>	<b>4.6%</b>	<b>494.7</b>	<b>463.5</b>	<b>31.2</b>	<b>6.7%</b>

(Explanations are provided for expenses for which quarterly variances are of \$3M or more, or 10 per cent or more)

Total operating expenses increased by \$18.8M (10.5 per cent) for the quarter, and by \$40.9M (7.6 per cent) for the nine-month period. The primary variances are:

**COMPENSATION AND EMPLOYEE BENEFITS:**

Increase of \$6.1M (7.7 per cent) for the quarter, and \$22.1M (9.8 per cent) for the nine-month period. The increases for both the quarter and nine-month period are due to higher staffing levels (in part due to the additional capacity deployed), annual salary increases, and higher costs (overtime and additional staffing) resulting from the poor on-time performance and additional trip-times of the *Canadian*.

**TRAIN OPERATIONS AND FUEL:**

Increase of \$4.8M (14.0 per cent) for the quarter, and \$12.3M (12.6 per cent) for the nine-month period. The increase is attributable to higher infrastructure usage fees and fuel resulting from the additional capacity deployed (new frequencies introduced in the fall of 2017), as well as to the annual contractual cost increases (7 per cent) for infrastructure usage fees paid to major infrastructure owners.

The percentage increase in costs of the quarter (14.0 per cent) is higher than the cumulative increase (12.6 per cent), and this is due to the fact during the second quarter VIA Rail received a \$3.2M refund for fuel excise tax paid in prior years.

**MAINTENANCE MATERIALS:**

Increase of \$0.9M (11.4 per cent) for the quarter, mainly due from timing in major overhaul of equipment. Year-to-date expenses have increased by 1.5 per cent.

**PROFESSIONAL SERVICES:**

Increase of \$1.9M (48.7 per cent) for the quarter, and of \$4.1M (34.7 per cent) for the nine-month period. The increase is due in part to more Cloud IT projects, as well as amounts invested in additional high frequency rail and other studies.

**DEPRECIATION AND AMORTIZATION:**

Increase of \$2.9M (13.1 per cent) for the quarter, and \$7.4M (11.0 per cent) for the nine-month period. The increase results from various capital projects completed in 2017 which are now amortized.

**UNREALIZED NET GAIN ON DERIVATIVE FINANCIAL INSTRUMENTS:**

Net gain of \$0.6M for the quarter and \$7.2M for the nine-month period, compared to net gains of \$4.5M and \$0.3M for the quarter and nine-month period ended September 30, 2017. Net gains for the quarter and nine-month period of 2018 reflect the fact that market fuel prices are higher than contract prices. Last year, gains were also generated for the quarter and the nine-month period, as market fuel prices were also higher than the contract prices. The variance in the amount of the gains between 2018 and 2017 reflects the difference between market and contract prices. A higher gain is the result of a more significant variance between market and contract prices.

## 4.4 FINANCIAL POSITION

(IN MILLIONS OF CANADIAN DOLLARS)	September 30, 2018	December 31, 2017	Var \$	Var %
<b>ASSETS</b>				
Current assets	102.1	92.5	9.6	10.4%
Property, plant and equipment	892.0	883.8	8.2	0.9%
Intangible assets	360.9	369.5	(8.6)	(2.3%)
Employee benefit assets	103.3	4.6	98.7	2145.7%
Other	0.8	0.8	-	0.0%
<b>Total assets</b>	<b>1,459.1</b>	<b>1,351.2</b>	<b>107.9</b>	<b>8.0%</b>
<b>LIABILITIES</b>				
Current liabilities	170.9	159.6	11.3	7.1%
Employee benefit liabilities	42.4	65.6	(23.2)	(35.4%)
<b>Total liabilities</b>	<b>213.3</b>	<b>225.2</b>	<b>(11.9)</b>	<b>(5.3%)</b>
<b>Deferred capital funding</b>	<b>1,238.0</b>	<b>1,239.5</b>	<b>(1.5)</b>	<b>(0.1%)</b>
Share capital	9.3	9.3	-	0.0%
Accumulated deficit beginning of period	(122.8)	(145.3)	22.5	15.5%
Net income (loss)	(5.0)	12.9	(17.9)	(138.8%)
Other comprehensive income	126.3	9.6	116.7	1215.6%
<b>Accumulated deficit, end of period</b>	<b>(1.5)</b>	<b>(122.8)</b>	<b>121.3</b>	<b>98.8%</b>
<b>Total liabilities and shareholder's deficit</b>	<b>1,459.1</b>	<b>1,351.2</b>	<b>107.9</b>	<b>8.0%</b>

The main changes in the financial position result from the following major elements:

### ASSETS

Total assets increased by \$107.9M due mainly to the increase in employee benefit assets. This increase is directly attributable to the increase in long-term discount rates on which the determination of the employee benefit assets and liabilities are based.

### OTHER COMPREHENSIVE INCOME

Other comprehensive income has increased due to the increase in discount rates affecting employee benefit assets and liabilities, as explained in section 4.1 of this document.

### LIABILITIES

Employee benefit liabilities decreased by \$23.2M, also as a result of the increase in discount rates.

## 4.5 LIQUIDITY, CASH FLOWS AND CAPITAL INVESTMENTS

### LIQUIDITY AND CASH FLOWS

(IN MILLIONS OF CANADIAN DOLLARS)	Quarters ended September 30				Nine-month periods ended September 30			
	2018	2017	Var \$	Var %	2018	2017	Var \$	Var %
Balance, beginning of period	<b>18.8</b>	37.1	(18.3)	(49.3%)	<b>3.2</b>	10.9	(7.7)	(70.6%)
Net cash (used in) provided by operating activities	<b>21.1</b>	(20.0)	41.1	(205.5%)	<b>23.7</b>	6.1	17.6	288.5%
Net cash provided by investing activities	<b>7.8</b>	1.0	6.8	680.0%	<b>20.8</b>	1.1	19.7	1,790.9%
Balance, end of period	<b>47.7</b>	<b>18.1</b>	<b>29.6</b>	<b>163.5%</b>	<b>47.7</b>	<b>18.1</b>	<b>29.6</b>	<b>163.5%</b>

#### OPERATING ACTIVITIES:

Net cash increased by \$41.1M (205.5 per cent) for the quarter and \$17.6M (288.5 per cent) for the nine-month period. The increase is mainly due to the variance in non-cash working capital items, as shown in Note 18 of the financial statements.

#### INVESTING ACTIVITIES:

Net cash increased by \$6.8M for the quarter and by \$19.7M for the nine-month period. The increase during the quarter results from the change in capital accounts payable and accrued liabilities. The increase for the nine-month period is also attributable to the change in the capital accounts payable and accrued liabilities, as well as from a \$4.7M drawdown from cash in the Asset Renewal Fund during the first quarter.

## CAPITAL INVESTMENTS

Property, plant and equipment and intangible assets amounted to \$1,252.9M as at September 30, 2018, which is a decrease of \$0.4M compared to the balance as at December 31, 2017.

Capital investments of \$33.7M were made during the quarter, and \$78.2M were invested during the nine-month period:

(IN MILLIONS OF CANADIAN DOLLARS)	Quarters ended September 30				Nine-month periods ended September 30			
	2018	2017	Var \$	Var %	2018	2017	Var \$	Var %
Equipment	11.8	3.8	8.0	210.5%	26.7	12.7	14.0	110.2%
Infrastructure	9.2	1.7	7.5	441.2%	16.7	6.6	10.1	153.0%
Information technology	3.9	4.6	(0.7)	(15.2%)	13.3	11.0	2.3	20.9%
Stations	6.4	4.4	2.0	45.5%	13.9	15.1	(1.2)	(7.9%)
Other	2.4	0.9	1.5	166.7%	7.6	7.0	0.6	8.6%
<b>Total</b>	<b>33.7</b>	<b>15.4</b>	<b>18.3</b>	<b>118.8%</b>	<b>78.2</b>	<b>52.4</b>	<b>25.8</b>	<b>49.2%</b>

Note: as at September 30, 2018, there is a \$2.0 million of account payable which will be paid from the Asset Renewal Fund and is not financed by the capital funding received from the Government of Canada (\$31.7 million).

The most significant investments made during the quarter were for the equipment projects including the HEP Corridor Economy cars rebuild projects, track upgrades on infrastructure owned by VIA Rail, and for the Toronto Union station revitalization project.

The most significant projects made during the nine-month period include those made in the current quarter, as well the investments made in Ottawa station for the main concourse roof, electrical room and elevated platform.

## 5. RISK ANALYSIS

This section highlights VIA Rail's key risks which may have potential impact on VIA Rail's financial results, and provides information on risks for which the trend or status has changed compared to the status as at December 31, 2017.

This section must be read in conjunction with the risk section of the Management Discussion and Analysis as at December 31, 2017, included in the 2017 annual report.

The only risk which changed since December 2017 is the following:

### INFRASTRUCTURE AVAILABILITY, RELIABILITY AND QUALITY

#### NATURE OF RISK:

The services provided by host railways have been deteriorating, resulting in declining on-time performance, which resulted in increased operating costs and which could lead to lower customer satisfaction and revenue generation.

#### CHANGE SINCE DECEMBER 2017:

On-time performance deteriorated during the first half of the year, forcing the cancellation of two trains in May. VIA Rail worked with the host railway to address the situation, and a new schedule which adds 12 hours to the trip was launched on July 26, 2018.

Although this new schedule has resulted in improved on-time performance, the delays and additional trip times have resulted in lost revenues and additional expenses.

Earlier this year, VIA Rail and CN agreed to a three year contract extension for the access to their rail infrastructure. Other contracts with major host railways which allow VIA Rail access to their infrastructure will expire in the future and could be renewed at terms and conditions which are not known at this time.

#### THE OTHER RISKS FOR WHICH THERE ARE NO CHANGES SINCE DECEMBER 2017 ARE THE FOLLOWING:

- / Safety of passengers, employees and the public
- / Government and strategy
- / Employee contribution
- / Revenue generation
- / Costs influenced by external factors
- / Equipment quality, availability and reliability
- / Information technology

## 6. OUTLOOK

This quarter again, results were positive in terms of revenues and ridership in the Corridor, however the continued issues with the on-time performance and new schedule of the *Canadian* have negatively impacted revenues and operating expenses.

Given this situation, VIA Rail will continue to control operating costs and delay various planned initiatives to offset the additional expenses associated with the situation on the *Canadian*, and respect the authorized funding levels for the year.

# INTERIM CONDENSED FINANCIAL STATEMENTS





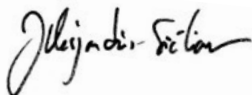
# MANAGEMENT'S RESPONSIBILITY STATEMENT

QUARTER ENDED SEPTEMBER 30, 2018

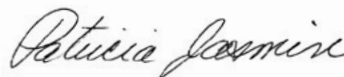
Management is responsible for the preparation and fair presentation of these quarterly financial statements in accordance with the Treasury Board of Canada Standard on Quarterly Financial Reports for Crown Corporations, and for such internal controls as management determines are necessary to enable the presentation of quarterly financial statements that are free from material misstatement.

Management is also responsible for ensuring all other information in this quarterly financial report is consistent, where appropriate, with the quarterly financial statements.

Based on our knowledge, these unaudited quarterly financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of the Corporation, as at the date of and for the periods presented in the quarterly financial statements.



**Yves Desjardins-Siciliano**  
President and Chief Executive Officer



**Patricia Jasmin, CPA, CA**  
Chief Financial Officer

Montréal, Canada  
November 23, 2018

# INTERIM CONDENSED FINANCIAL STATEMENTS

## STATEMENT OF FINANCIAL POSITION

(IN THOUSANDS OF CANADIAN DOLLARS)	September 30, 2018	December 31, 2017
<b>CURRENT ASSETS</b>	<i>(unaudited)</i>	<i>(audited)</i>
Cash	\$ 47,670	\$ 3,195
Trade and other receivables	7,639	11,264
Receivable from the Government of Canada	-	37,215
Other current assets	5,554	4,059
Derivative financial instruments (NOTE 9)	8,860	3,476
Materials	29,234	25,465
Asset Renewal Fund (NOTE 10)	3,096	7,780
	<b>102,053</b>	92,454
<b>NON-CURRENT ASSETS</b>		
Property, plant and equipment (NOTE 11)	892,015	883,847
Intangible assets (NOTE 12)	360,873	369,477
Asset Renewal Fund (NOTE 10)	873	873
Employee benefit assets (NOTE 16)	103,270	4,566
	<b>1,357,031</b>	1,258,763
<b>Total Assets</b>	<b>\$ 1,459,084</b>	<b>\$ 1,351,217</b>
<b>CURRENT LIABILITIES</b>		
Trade and other payables (NOTE 13)	\$ 120,504	\$ 113,791
Provisions (NOTE 14)	7,052	8,872
Deferred government funding related to operating expenses	5,003	-
Derivative financial instruments (NOTE 9)	432	2,292
Deferred revenues (NOTE 15)	37,897	34,613
	<b>170,888</b>	159,568
<b>NON-CURRENT LIABILITIES</b>		
Employee benefit liabilities (NOTE 16)	42,419	65,620
	<b>42,419</b>	65,620
<b>Deferred capital funding</b> (NOTE 17)	<b>1,237,999</b>	1,239,544
<b>SHAREHOLDER'S DEFICIENCY</b>		
Share capital	9,300	9,300
Accumulated deficit	(1,522)	(122,815)
	<b>7,778</b>	(113,515)
<b>Total Liabilities and Shareholder's deficiency</b>	<b>\$ 1,459,084</b>	<b>\$ 1,351,217</b>

Commitments (Note 20)

The notes are an integral part of the interim condensed financial statements.

# INTERIM CONDENSED FINANCIAL STATEMENTS

## STATEMENT OF COMPREHENSIVE INCOME

(IN THOUSANDS OF CANADIAN DOLLARS) (UNAUDITED)	Quarters ended September 30		Nine-month periods ended September 30	
	2018	2017	2018	2017
<b>REVENUES</b> (NOTE 7)				
Passenger	\$ 112,332	\$ 106,908	\$ 275,723	\$ 254,861
Other	5,685	5,876	17,556	17,036
	<b>118,017</b>	<b>112,784</b>	<b>293,279</b>	<b>271,897</b>
<b>EXPENSES</b>				
Compensation and employee benefits	84,878	78,848	246,885	224,766
Train operations and fuel	38,927	34,119	110,151	97,859
Stations and property	8,473	8,987	30,431	30,280
Marketing and sales	9,500	8,827	27,058	24,368
Maintenance material	8,735	7,894	27,063	26,689
On-train product costs	6,976	6,223	17,980	15,540
Operating taxes	2,540	3,226	8,308	8,780
Professional services	5,841	3,925	15,923	11,834
Telecommunications	4,562	4,587	14,653	14,113
Depreciation and amortization (NOTES 11 AND 12)	25,068	22,132	74,537	67,058
Loss on disposal of property, plant and equipment and intangible assets (NOTES 11 AND 12)	772	457	4,124	1,045
Unrealized net gain on derivative financial instruments	(600)	(4,457)	(7,244)	(290)
Realized net loss (net gain) on derivative financial instruments	(1,306)	1,275	(2,483)	3,818
Other	2,978	2,630	9,648	10,324
	<b>197,344</b>	<b>178,673</b>	<b>577,034</b>	<b>536,184</b>
<b>OPERATING LOSS BEFORE FUNDING FROM THE GOVERNMENT OF CANADA AND INCOME TAXES</b>	<b>79,327</b>	<b>65,889</b>	<b>283,755</b>	<b>264,287</b>
Operating funding from the Government of Canada (NOTE 8)	45,460	43,067	201,242	190,384
Amortization of deferred capital funding (NOTE 17)	25,539	22,289	77,770	67,212
Net loss before income taxes	(8,328)	(533)	(4,743)	(6,691)
Income tax expense	77	77	232	223
<b>NET LOSS FOR THE PERIOD</b>	<b>(8,405)</b>	<b>(610)</b>	<b>(4,975)</b>	<b>(6,914)</b>
Other comprehensive income				
Amounts not to be reclassified subsequently to net income (net of tax):				
Remeasurements of defined benefit component of the pension plans (NOTE 16)	47,664	72,428	126,268	23,250
	<b>47,664</b>	<b>72,428</b>	<b>126,268</b>	<b>23,250</b>
<b>COMPREHENSIVE INCOME FOR THE PERIOD</b>	<b>\$ 39,259</b>	<b>\$ 71,818</b>	<b>\$ 121,293</b>	<b>\$ 16,336</b>

The notes are an integral part of the interim condensed financial statements.

# INTERIM CONDENSED FINANCIAL STATEMENTS

## STATEMENT OF CHANGES IN SHAREHOLDER'S DEFICIENCY

(IN THOUSANDS OF CANADIAN DOLLARS) (UNAUDITED)	Quarters ended September 30		Nine-month periods ended September 30	
	2018	2017	2018	2017
SHARE CAPITAL	\$ 9,300	\$ 9,300	\$ 9,300	\$ 9,300
<b>Accumulated deficit</b>				
<b>Balance, beginning of period</b>	<b>(40,781)</b>	(200,816)	<b>(122,815)</b>	(145,334)
Net loss for the period	<b>(8,405)</b>	(610)	<b>(4,975)</b>	(6,914)
Other comprehensive income for the period	<b>47,664</b>	72,428	<b>126,268</b>	23,250
<b>Balance, end of period</b>	<b>(1,522)</b>	(128,998)	<b>(1,522)</b>	(128,998)
<b>Total Shareholder's deficiency</b>	<b>\$ 7,778</b>	\$ (119,698)	<b>\$ 7,778</b>	\$ (119,698)

The notes are an integral part of the interim condensed financial statements.

# INTERIM CONDENSED FINANCIAL STATEMENTS

## STATEMENT OF CASH FLOWS

(IN THOUSANDS OF CANADIAN DOLLARS) (UNAUDITED)	Quarters ended September 30		Nine-month periods ended September 30	
	2018	2017	2018	2017
<b>OPERATING ACTIVITIES</b>				
Net loss for the period	\$ (8,405)	\$ (610)	\$ (4,975)	\$ (6,914)
Adjustments to determine net cash (used in) provided by operating activities:				
Depreciation and amortization (NOTES 11 AND 12)	25,068	22,132	74,537	67,058
Loss on disposal of property, plant and equipment and intangible assets (NOTES 11 AND 12)	772	457	4,124	1,045
Amortization of deferred capital funding (NOTE 17)	(25,539)	(22,289)	(77,770)	(67,212)
Interest income	(172)	(96)	(613)	(271)
Unrealized net gain on derivative financial instruments	(600)	(4,457)	(7,244)	(290)
Post-employment and other employee benefit expenses (NOTE 16)	9,887	8,767	30,951	29,268
Employer post-employment and other employee benefit contributions (NOTE 16)	(6,851)	(9,576)	(26,588)	(28,988)
Net change in non-cash working capital items (NOTE 18)	26,872	(14,316)	31,232	12,369
<b>Net cash (used in) provided by operating activities</b>	<b>21,032</b>	<b>(19,988)</b>	<b>23,654</b>	<b>6,065</b>
<b>INVESTING ACTIVITIES</b>				
Capital funding (NOTE 17)	31,758	15,387	76,225	52,414
Change in capital funding receivable from the Government of Canada	242	(1,387)	12,001	6,150
Drawdown from cash in the Asset Renewal Fund	-	-	4,684	-
Change in capital accounts payable and accrued liabilities	9,420	2,311	5,523	(5,258)
Acquisition of property, plant and equipment and intangible assets (NOTES 11, 12 AND 13)	(33,758)	(15,387)	(78,225)	(52,414)
Interest received	172	96	613	271
<b>Net cash provided by investing activities</b>	<b>7,834</b>	<b>1,020</b>	<b>20,821</b>	<b>1,163</b>
<b>CASH</b>				
Increase (decrease) during the period	28,866	(18,968)	44,475	7,228
Balance, beginning of period	18,804	37,057	3,195	10,861
<b>Balance, end of period</b>	<b>\$ 47,670</b>	<b>\$ 18,089</b>	<b>\$ 47,670</b>	<b>\$ 18,089</b>
<b>REPRESENTED BY:</b>				
Cash	47,670	18,089	47,670	18,089
	<b>\$ 47,670</b>	<b>\$ 18,089</b>	<b>\$ 47,670</b>	<b>\$ 18,089</b>

The notes are an integral part of the interim condensed financial statements.

# NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

FOR THE PERIOD ENDED SEPTEMBER 30, 2018 (UNAUDITED)

## 1. AUTHORITY AND OBJECTIVES

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

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

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

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

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

These interim condensed financial statements were approved and authorized for issue by the Board of Directors on November 23, 2018.

## 2. BASIS OF PREPARATION

### a) Statement of compliance

Section 83 of the *Financial Administration Act* requires that most parent Crown Corporations prepare and make public quarterly financial reports for periods beginning on or after April 1, 2011 compliant with the *Standard on Quarterly Financial Reports for Crown Corporations*.

These unaudited interim condensed financial statements have been prepared in accordance with IAS 34 - *Interim financial reporting*. The interim condensed financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2017, which have been prepared in accordance with the IFRS.

### b) Functional and presentation currency

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

### 3. CHANGES IN ACCOUNTING POLICIES ADOPTED IN THE PERIOD

#### IFRS 9 - *Financial Instruments*

In the period ending September 30, 2018, the Corporation has applied IFRS 9 - *Financial Instruments* (as revised in July 2014). IFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and liabilities, 2) impairment for financial assets and 3) hedge accounting. Details of these new requirements as well as their impact on the Corporation's financial statements are described below.

#### a) Financial assets – Classification and measurement

IFRS 9 replaces classification and measurement models in IAS 39 – *Financial Instruments: Recognition and Measurement* with a single model under which financial assets are classified and measured at amortized cost, at fair value through profit or loss (FVTPL) or at fair value through other comprehensive income (FVTOCI). This classification is based on a business model in which a financial asset is managed and its contractual cash flows characteristics and eliminates the IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. The adoption of IFRS 9 did not, however, change the measurement base on the Corporation's financial assets.

The table below illustrates the classification of financial assets under IFRS 9 and IAS 39 at the date of initial application, as at January 1, 2017 and as at December 31, 2017:

Financial instruments	Original measurement category under IAS 39	New measurement category under IFRS 9
Cash	Loans and receivables	Amortized cost
Trade and other receivables	Loans and receivables	Amortized cost
Derivative financial instruments	FVTPL	FVTPL
Asset Renewal Fund	FVTPL	FVTPL

### 3. CHANGES IN ACCOUNTING POLICIES ADOPTED IN THE PERIOD (CONT'D)

The impairment of financial assets under IFRS 9 is based on an expected credit loss (ECL) model as opposed to an incurred credit loss model under IAS 39. IFRS 9 applies to financial assets measured at amortized cost and contract assets and requires that the Corporation considers factors that include historical, current and forward-looking information when measuring ECL. The Corporation uses the simplified approach for measuring losses based on the lifetime ECL for trade and other receivables. Amounts considered uncollectible are written off and are included in the "Other" expenses line item in the statement of comprehensive income.

The Corporation concluded that no impairment of financial assets is required by IFRS 9.

#### b) Financial liabilities - Classification and measurement

One major change introduced by IFRS 9 in the classification and measurement of financial liabilities relates to the accounting for changes in the fair value of a financial liability designated as at FVTPL attributable to changes in the credit risk of the issuer.

Specifically, IFRS 9 requires that the change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability be presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss, but are instead transferred to retained earnings when the financial liability is derecognized. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at FVTPL was presented in profit or loss.

The application of IFRS 9 has no other impact on the measurement of the Corporation's financial liabilities.

The table below illustrates the classification of financial liabilities under IFRS 9 and IAS 39 at the date of initial application, as at January 1, 2017 and as at December 31, 2017:

<b>Financial instruments</b>	<b>Original measurement category under IAS 39</b>	<b>New measurement category under IFRS 9</b>
Trade and other payables	<b>Other financial liabilities</b>	Amortized cost
Derivative financial instruments	<b>FVTPL</b>	FVTPL



### **c) Derivative financial instruments**

Hedge accounting requirements of IFRS 9 retain the three types of hedge accounting mechanisms in IAS 39. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify as hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an “economic relationship”. Retrospective assessment of hedge effectiveness is no longer required. Far more disclosure requirements about a corporation’s risk management activities have been introduced.

The application of IFRS 9 has no impact on the Corporation’s derivative financial instruments such as commodity swaps and forward contracts.

These derivatives financial instruments are not designated as hedging instruments.

### **IFRS 15 – Revenue from Contracts with Customers**

In the period ending September 30, 2018, the Corporation has applied IFRS 15 - *Revenue from Contracts with Customers* (as amended in April 2016). The standard specifies how and when revenue should be recognized and requires entities to provide more informative and relevant disclosures to users. The standard, which supersedes IAS 18 - *Revenue*, IAS 11 - *Construction Contracts* and a number of revenue-related interpretations applies to nearly all contracts with customers, unless the contracts are within the scope of other IFRS such as IAS 17 - *Leases*.

IFRS 15 introduces a five-step approach to revenue recognition. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Details of these new requirements as well as their impact on the Corporation’s financial statements are described below.

The Corporation has applied IFRS 15 in accordance with the fully retrospective transitional approach.

The Corporation’s accounting policies for its revenue streams are disclosed in detail in Note 5 below. Apart from providing more extensive disclosures on the Corporation’s revenue transactions, the application of IFRS 15 has no significant impact on the financial position and/or financial performance of the Corporation.

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

Under IFRS 15, a corporation recognizes revenue when a benefit obligation is fulfilled (or as it is met), that is, when control of the underlying goods or services under consideration by this obligation of service is transferred to the client.

### 3. CHANGES IN ACCOUNTING POLICIES ADOPTED IN THE PERIOD (CONT'D)

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

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

As required for the condensed interim financial statements, the Corporation disaggregated revenue recognized from contracts with customers into categories that depict how the nature of services rendered. Refer to Note 7 for disclosure on disaggregated revenue.

### 4. NEW AND REVISED IFRS ISSUED BUT NOT YET EFFECTIVE

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

This standard is effective for periods beginning on or after January 1, 2019, with early application permitted for corporations that also apply IFRS 15 – *Revenue from Contracts with Customers*. The Corporation did not early apply IFRS 16 and intend to apply the modified approach. The Corporation is currently assessing the impact of applying this standard on its financial statements. The Corporation expects that the adoption of IFRS 16 will have a significant impact as it will recognize new assets and liabilities under its operating leases mainly for stations and administrative offices. Based on the Corporation's preliminary analysis, the most significant impact will be the recognition of the present value of lease payments related to lease assets and lease liabilities in the statement of financial position. In addition, the amortization of the rights of use assets and the interest expense of the lease obligation will replace the rent expense related to operating leases. An initial scoping of its agreements has identified approximately 100 contracts and only 26 contracts that are currently considered as leases, which have a total undiscounted contract value of \$97.7 million.

**IFRIC 23 – Uncertainty over Income Tax Treatment** – In June 2017 the IASB issued IFRIC 23 - *Uncertainty over Income Tax Treatments*. This IFRIC Interpretation aims to reduce diversity in how Corporations recognize and measure a tax liability or tax asset when there is uncertainty over income tax treatments. This IFRIC Interpretation is effective for periods beginning on or after January 1, 2019. A full retrospective application is permitted if a corporation can do so without using hindsight. IFRIC 23 won't have any impact on the Corporation's financial statements.

## 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied for these condensed interim financial statements are presented in Note 5 to the annual financial statements for the year ended December 31, 2017.

Only the following significant accounting policy had changed since December 31, 2017:

### Revenue recognition

#### i) Passenger revenues

Revenue related to train services is recorded as deferred revenue until the transportation service has been provided. The service is rendered to the customer as the train journey is made. The performance obligation is satisfied over time.

The Corporation offers its customers the opportunity to earn points in a loyalty program. This program allows customers to purchase additional services - future train tickets from the accumulated VIA Préférence points. The Corporation considers that the awarding of points gives rise to a performance obligation separate from the purchase of the train ticket, since they confer on the customer a significant right to which he would not have been entitled if he had not bought a train ticket. The customer pays in advance for future services. The consideration received in respect of ticket sales is split between the points awarded under the VIA Préférence loyalty program and the passenger transportation services. The amount allocated to the loyalty program is based on the expected exchange rate of points estimated by management and their fair value. Revenue related to loyalty program points is recognized as deferred revenue until it is exchanged for train tickets. When points are redeemed, the proceeds are determined by the number of points redeemed in exchange for train tickets.

#### ii) Other revenues

Other revenues including third-party revenue and investment income are recognized as they are earned. The change in fair value of financial instruments that are held for trading and that are not derivative financial instruments is recognized in other revenues.

## 6. KEY SOURCES OF ESTIMATION UNCERTAINTY AND CRITICAL JUDGMENTS

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

Estimates and assumptions are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. They are reviewed on an ongoing basis. Changes to accounting estimates are recognized in the period in which the estimate is revised. However, uncertainties relating to judgments, assumptions and estimates could result in outcomes that would require a material adjustment to the carrying amount of the asset or liability affected in future years. Key sources of estimation uncertainty and assumptions are disclosed in Note 6 of the Corporation's annual financial statements for the year ended December 31, 2017.

## 7. REVENUES

The following table disaggregates the revenue by major sources:

(IN MILLIONS OF CANADIAN DOLLARS)	Quarters ended September 30		Nine-month periods ended September 30	
	2018	2017	2018	2017
<b>REVENUES</b>				
Transportation and accommodation	<b>109.5</b>	104.5	<b>267.8</b>	248.0
On-train food and beverages and off-train revenue / other	<b>2.8</b>	2.4	<b>7.9</b>	6.9
<b>Revenue from passengers</b>	<b>112.3</b>	106.9	<b>275.7</b>	254.9
Investment income	<b>0.2</b>	0.1	<b>0.6</b>	0.3
Third-party servicing	<b>2.1</b>	2.3	<b>6.9</b>	6.8
Rental and sub-lease rental income	<b>3.4</b>	3.5	<b>10.1</b>	9.9
<b>Revenue from other sources</b>	<b>5.7</b>	5.9	<b>17.6</b>	17.0
<b>Total</b>	<b>118.0</b>	112.8	<b>293.3</b>	271.9

## 8. RECONCILIATION OF OPERATING LOSS TO GOVERNMENT FUNDING

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

(IN MILLIONS OF CANADIAN DOLLARS)	Quarters ended September 30		Nine-month periods ended September 30	
	2018	2017	2018	2017
Operating loss before funding from the Government of Canada and income taxes	<b>79.4</b>	65.9	<b>283.8</b>	264.3
Items requiring operating funds:				
Income tax expense	-	0.1	<b>0.2</b>	0.2
Items (not requiring) not providing operating funds:				
Depreciation and amortization	<b>(25.0)</b>	(22.2)	<b>(74.5)</b>	(67.1)
Loss on disposal of property, plant and equipment and intangible assets	<b>(0.7)</b>	(0.4)	<b>(4.1)</b>	(1.0)
Post-employment and other employee benefits contributions in excess of expenses	<b>(3.1)</b>	0.8	<b>(4.4)</b>	(0.3)
Unrealized net gain on derivative financial instruments	<b>0.6</b>	4.5	<b>7.2</b>	0.3
Adjustment for accrued compensation	<b>(5.8)</b>	(5.2)	<b>(6.8)</b>	(4.8)
Adjustment for VIA Pr�f�rence and other	-	(0.4)	<b>(0.2)</b>	(1.2)
<b>Operating funding from the Government of Canada</b>	<b>45.4</b>	43.1	<b>201.2</b>	190.4

## 9. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

COMMODITY SWAPS	September 30, 2018		December 31, 2017	
	Notional quantity (000's of U.S. Gallons)	Fair value CAD (millions)	Notional quantity (000's of U.S. Gallons)	Fair value CAD (millions)
Assets	16,758	8.8	14,112	3.3
Liabilities	336	0.1	4,032	1.3

As at September 30, 2018, the commodity swaps in USD have a fixed price per U.S. gallon between 1.840 and 2.655 USD and the commodity swaps in CAD have a fixed price per U.S. gallon between 1.950 and 2.834 CAD (December 31, 2017: between 1.840 and 2.655 USD and between 1.950 and 2.431 CAD). The maturity dates range between 2018 to 2019 for swaps in USD and from 2018 to 2020 for swaps in CAD (December 31, 2017: 2018 to 2019 for both currencies). These financial instruments have a monthly settlement schedule.

FORWARD FOREIGN EXCHANGE CONTRACTS	September 30, 2018		December 31, 2017	
	Notional amount (USD) (millions)	Fair value CAD (millions)	Notional amount (USD) (millions)	Fair value CAD (millions)
Assets	0.7	0.1	1.8	0.2
Liabilities	3.5	0.3	8.2	1.0

As at September 30, 2018, the forward contracts rates are between 1.156 and 1.374 in USD (December 31, 2017: between 1.156 and 1.374 USD) and the maturity dates are 2018 to 2019 (December 31, 2017: 2018 to 2019). These financial instruments have a monthly settlement schedule.

Amounts recognized in the statement of financial position:

	September 30, 2018		December 31, 2017	
	Fair value CAD (millions)		Fair value CAD (millions)	
<b>Total assets</b>	8.9		3.5	
<b>Total liabilities</b>	0.4		2.3	

## 10. ASSET RENEWAL FUND

### a) Asset Renewal Fund

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

The Treasury Board of Canada Secretariat has authorized the Corporation to use up to \$3.1 million (September 30, 2017 : \$7.8 million) of the Asset Renewal Fund. This amount is presented in the current portion of the Asset Renewal Fund. The remaining balance of \$0.9 million (September 30, 2017: \$0.9 million) is presented in the non-current portion of the Asset Renewal Fund.

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

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

### b) Changes in the Asset Renewal Fund

The changes in the closing balance of the Asset Renewal Fund resulted from the following movements during the period:

(IN MILLIONS OF CANADIAN DOLLARS)	September 30, 2018	December 31, 2017
<b>Balance, beginning of period</b>	<b>8.7</b>	8.7
Less: Cash drawdown during the period (NOTE 1)	<b>(4.7)</b>	-
<b>Balance, end of period</b>	<b>4.0</b>	8.7

Note 1: Authorized cash drawdowns were used to fund capital projects.

## 11. PROPERTY, PLANT AND EQUIPMENT

(IN MILLIONS OF CANADIAN DOLLARS)	January 1, 2018	Additions	Disposals	Transfers	September 30, 2018
<b>Cost:</b>					
Land	17.0		-	-	<b>17.0</b>
Rolling stock	942.4		(8.4)	11.6	<b>945.6</b>
Maintenance buildings	167.8		(1.7)	3.6	<b>169.7</b>
Stations and facilities	133.8		(1.1)	13.6	<b>146.3</b>
Owned infrastructures	269.5		(1.7)	5.8	<b>273.6</b>
Leasehold improvements	90.6		(1.8)	3.0	<b>91.8</b>
Machinery and equipment	26.0		(0.2)	1.4	<b>27.2</b>
Computer hardware	38.0		(3.4)	4.0	<b>38.6</b>
Other property, plant and equipment	7.2		-	0.5	<b>7.7</b>
Projects in progress	32.3	65.7	-	(43.5)	<b>54.5</b>
<b>Total cost</b>	<b>1,724.6</b>	<b>65.7</b>	<b>(18.3)</b>	<b>-</b>	<b>1,772.0</b>
<b>Accumulated depreciation and impairment:</b>					
Rolling stock	497.7	33.3	(5.0)	-	<b>526.0</b>
Maintenance buildings	112.8	1.5	(1.7)	-	<b>112.6</b>
Stations and facilities	46.0	4.0	(0.8)	-	<b>49.2</b>
Owned infrastructures	89.7	6.6	(1.7)	-	<b>94.6</b>
Leasehold improvements	47.7	3.0	(1.6)	-	<b>49.1</b>
Machinery and equipment	17.9	1.1	(0.2)	-	<b>18.8</b>
Computer hardware	26.4	3.8	(3.4)	-	<b>26.8</b>
Other property, plant and equipment	2.6	0.3	-	-	<b>2.9</b>
<b>Total accumulated depreciation and impairment</b>	<b>840.8</b>	<b>53.6</b>	<b>(14.4)</b>	<b>-</b>	<b>880.0</b>
<b>Total carrying amount</b>	<b>883.8</b>	<b>12.1</b>	<b>(3.9)</b>	<b>-</b>	<b>892.0</b>



## 12. INTANGIBLE ASSETS

(IN MILLIONS OF CANADIAN DOLLARS)	January 1, 2018	Additions	Disposals	Transfers	September 30, 2018
<b>Cost:</b>					
Software (NOTE 1)	114.0	-	(5.3)	4.4	<b>113.1</b>
Right of access to rail infrastructure	430.4	-	(0.5)	0.6	<b>430.5</b>
Other intangible assets	4.4	-	-	0.8	<b>5.2</b>
Projects in progress	3.5	12.5	-	(5.8)	<b>10.2</b>
<b>Total cost</b>	<b>552.3</b>	<b>12.5</b>	<b>(5.8)</b>	<b>-</b>	<b>559.0</b>
<b>Accumulated amortization and impairment:</b>					
Software	78.5	12.2	(5.2)	-	<b>85.5</b>
Right of access to rail infrastructure	102.3	8.5	(0.4)	-	<b>110.4</b>
Other intangible assets	2.0	0.2	-	-	<b>2.2</b>
<b>Total accumulated amortization and impairment</b>	<b>182.8</b>	<b>20.9</b>	<b>(5.6)</b>	<b>-</b>	<b>198.1</b>
<b>Total carrying amount</b>	<b>369.5</b>	<b>(8.4)</b>	<b>(0.2)</b>	<b>-</b>	<b>360.9</b>

Note 1: Includes mostly software developed in-house.

## 13. TRADE AND OTHER PAYABLES

The trade and other payables balance includes the following:

(IN MILLIONS OF CANADIAN DOLLARS)	September 30, 2018	December 31, 2017
Wages payable and accrued	<b>44.5</b>	40.7
Accounts payable and accruals - Trade	<b>39.9</b>	40.5
Accounts payable and accruals - Capital assets	<b>28.6</b>	23.1
<b>Trade and other payables classified at amortized cost</b>	<b>113.0</b>	104.3
Capital tax, income tax and other taxes payable	<b>6.9</b>	5.8
Deductions at sources	<b>0.6</b>	3.7
<b>Total trade and other payables</b>	<b>120.5</b>	113.8

## 14. PROVISIONS

The provision balance includes the following:

(IN MILLIONS OF CANADIAN DOLLARS)	January 1, 2018	Charge (used)	Reversal (used)	Reversal (not used)	September 30, 2018
Environmental costs (NOTE A)	0.3	-	(0.1)	-	<b>0.2</b>
Litigation and equipment repairs (NOTE B)	8.6	2.8	(0.8)	(3.7)	<b>6.9</b>
<b>Total provisions</b>	<b>8.9</b>	<b>2.8</b>	<b>(0.9)</b>	<b>(3.7)</b>	<b>7.1</b>

### a) Environmental costs

The Corporation has made a provision of \$0.2 million for environmental costs related to fuel spills (December 31, 2017: \$0.3 million).

### b) Litigation and equipment repairs

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

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

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

## 15. DEFERRED REVENUES

Deferred revenues are comprised of the following:

(IN MILLIONS OF CANADIAN DOLLARS)	September 30, 2018	December 31, 2017
Advance ticket sales	22.8	19.6
Gift cards	1.6	1.5
Non-monetary transactions	2.0	2.2
VIA Préférence	10.9	10.8
Other	0.6	0.5
<b>Total deferred revenues</b>	<b>37.9</b>	<b>34.6</b>

## 16. EMPLOYEE BENEFIT ASSETS AND LIABILITIES

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

### Pension plans

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

Pension disposition may vary for a group of unionized employees hired on or after January 1, 2014 and for non-unionized employees hired on or after January 1, 2018. A group of unionized employees hired on or after January 1, 2014 ceased accruing benefits under the current defined benefit plan as of June 18, 2015. Effective June 19, 2015, this group of unionized employees were prospectively provided pension benefits from a hybrid pension plan. Non-unionized employees hired after January 1, 2018 are prospectively provided pension benefits from a defined contribution pension plan.

### Employees entitled to defined benefits pension

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

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

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

## 16. EMPLOYEE BENEFIT ASSETS AND LIABILITIES (CONT'D)

### Employees entitled to a hybrid pension plan

Employees are provided pension benefits in part from a reduced formula of the defined benefit component of the pension plan, and in part from a defined contribution component.

#### **i) Defined benefit component**

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

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

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

#### **ii) Defined contribution component**

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

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

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

### Employees entitled to defined contributions pension

Participants' contributions to the defined contributions plan are mandatory and represent 4 per cent of their salary. Optional contributions to the defined contribution component can be made by the participants to a maximum of 3 per cent of their salary. The Corporation's contribution is equal to 100 per cent of participant's contributions.

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

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

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

The financial and demographic assumptions used to determine the actuarial valuations of the pension plans were the same assumptions as disclosed in the Corporation's annual financial statements for the year ended December 31, 2017, except for the discount rate used to determine the defined benefit obligation that has increased to 3.90 per cent (December 31, 2017: 3.40 per cent) and the discount rate used to determine the defined benefit cost that has decreased to 3.40 per cent (December 31, 2017: 3.80 per cent).

The financial and demographic assumptions used to determine the actuarial valuations of the post-employment benefits were the same assumptions as disclosed in the Corporation's annual financial statements for the year ended December 31, 2017, except for the discount rate used to determine the defined benefit cost that has decreased to 3.40 per cent (December 31, 2017: 3.90 per cent). The discount rate used to determine the defined benefit obligation of the post-employment benefit plans remains unchanged.

Based on these actuarial valuations and projections to September 30, the summary of the principal valuation results, in aggregate, is as follows:

(IN MILLIONS OF CANADIAN DOLLARS)	Defined benefit component of the pension plans		Post-employment benefit plans	
	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017
<b>DEFINED BENEFIT OBLIGATION:</b>				
<b>Balance, beginning of period</b>	<b>2,409.0</b>	2,298.1	<b>23.8</b>	21.7
Service cost	<b>24.1</b>	27.9	<b>0.3</b>	0.3
Past service cost	-	(0.1)	-	-
Interest expense	<b>69.6</b>	86.3	<b>0.6</b>	0.8
Employee contributions	<b>11.0</b>	14.3	-	-
Benefits paid	<b>(103.8)</b>	(135.0)	<b>(0.6)</b>	(0.8)
Effect of change in demographic assumptions	-	(0.1)	-	-
Effect of change in financial assumptions	<b>(146.0)</b>	118.4	-	1.8
Effect of experience adjustments	-	(0.8)	-	-
<b>Balance, end of period</b>	<b>2,263.9</b>	2,409.0	<b>24.1</b>	23.8
<b>FAIR VALUE OF PLAN ASSETS:</b>				
<b>Balance, beginning of period</b>	<b>2,390.5</b>	2,267.2	-	-
Interest income	<b>68.9</b>	84.4	-	-
Return on plan assets (excluding interest income)	<b>(19.7)</b>	128.9	-	-
Employer contributions	<b>22.3</b>	33.4	<b>0.6</b>	0.8
Employee contributions	<b>11.0</b>	14.3	-	-
Benefits paid	<b>(103.8)</b>	(135.0)	<b>(0.6)</b>	(0.8)
Administration expenses	<b>(2.0)</b>	(2.7)	-	-
<b>Balance, end of period</b>	<b>2,367.2</b>	2,390.5	-	-
<b>Net defined benefit liability (asset)</b>	<b>(103.3)</b>	18.5	<b>24.1</b>	23.8

## b) Long-term employee benefit plans

The financial and demographic assumptions used to determine the actuarial valuations of the long-term employee benefit plans were the same assumptions as disclosed in the Corporation's annual financial statements for the year ended December 31, 2017 except for the discount rate used to determine the benefit cost that has decreased to 3.20 per cent (December 31, 2017: 3.40 per cent). The discount rate used to determine the long-term employee benefit obligation remains unchanged.

## 16. EMPLOYEE BENEFIT ASSETS AND LIABILITIES (CONT'D)

Based on these actuarial valuations and projections to September 30, the summary of the principal valuation results for the long-term employee benefits, including self-insured workers' compensation benefits is as follows:

(IN MILLIONS OF CANADIAN DOLLARS)	September 30, 2018	December 31, 2017
<b>LONG-TERM EMPLOYEE BENEFIT OBLIGATION:</b>		
<b>Balance, beginning of period</b>	<b>18.2</b>	18.5
Service cost	<b>2.5</b>	3.1
Interest expense	<b>0.5</b>	0.6
Benefits paid	<b>(3.3)</b>	(3.8)
Effect of change in demographic assumptions	-	(0.2)
<b>Balance, end of period</b>	<b>17.9</b>	18.2
<b>FAIR VALUE OF PLAN ASSETS:</b>		
<b>Balance, beginning of period</b>	-	-
Employer contributions	<b>3.3</b>	3.8
Benefits paid	<b>(3.3)</b>	(3.8)
<b>Balance, end of period</b>	-	-
<b>Net long-term employee benefit liability</b>	<b>17.9</b>	18.2

### c) Other long-term employee benefits

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

The change in the other long-term employee benefit obligation is explained as follows:

(IN MILLIONS OF CANADIAN DOLLARS)	September 30, 2018	December 31, 2017
<b>OTHER LONG-TERM EMPLOYEE BENEFIT OBLIGATION:</b>		
<b>Balance, beginning of period</b>	<b>0.5</b>	0.6
Service cost	<b>0.3</b>	0.4
Benefits paid	<b>(0.4)</b>	(0.5)
<b>Balance, end of period</b>	<b>0.4</b>	0.5
<b>FAIR VALUE OF PLAN ASSETS:</b>		
<b>Balance, beginning of period</b>	-	-
Employer contributions	<b>0.4</b>	0.5
Benefits paid	<b>(0.4)</b>	(0.5)
<b>Balance, end of period</b>	-	-
<b>Net other long-term employee benefit liability</b>	<b>0.4</b>	0.5

#### d) Summary of pension plans, post-employment benefit plans and long-term employee benefit plans recognized in the interim condensed financial statements

##### Total amounts recognized in the statement of financial position:

(IN MILLIONS OF CANADIAN DOLLARS)	September 30, 2018	December 31, 2017
<b>Assets:</b>		
Defined benefit component of the pension plans	103.3	4.6
<b>Liabilities:</b>		
Defined benefit component of the pension plans	-	23.1
Post-employment benefit plans	24.1	23.8
Long-term employee benefit plans	17.9	18.2
Other long-term employee benefits	0.4	0.5
<b>Total liabilities</b>	<b>42.4</b>	<b>65.6</b>

##### Total amounts recognized in the statement of comprehensive income:

(IN MILLIONS OF CANADIAN DOLLARS)	Quarters ended September 30		Nine-month periods ended September 30	
	2018	2017	2018	2017
<b>Operating expense:</b>				
Defined benefit component of the pension plans	8.5	7.6	26.8	25.3
Post-employment benefit plans	0.3	0.3	0.9	0.9
Long-term employee benefit plans	1.1	0.9	3.0	2.8
Other long-term employee benefits	-	-	0.3	0.3
<b>Total</b>	<b>9.9</b>	<b>8.8</b>	<b>31.0</b>	<b>29.3</b>

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

(IN MILLIONS OF CANADIAN DOLLARS)	Quarters ended September 30		Nine-month periods ended September 30	
	2018	2017	2018	2017
<b>Other comprehensive income:</b>				
Defined benefit component of the pension plans	47.7	72.4	126.3	23.2
<b>Total</b>	<b>47.7</b>	<b>72.4</b>	<b>126.3</b>	<b>23.2</b>

## 17. DEFERRED CAPITAL FUNDING

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

(IN MILLIONS OF CANADIAN DOLLARS)	September 30, 2018	December 31, 2017
<b>Balance, beginning of period</b>	<b>1,239.5</b>	1,247.2
Government funding for property, plant and equipment and intangible assets (including the cost of land)	<b>76.2</b>	88.4
Amortization of deferred capital funding	<b>(77.7)</b>	(96.1)
<b>Balance, end of period</b>	<b>1,238.0</b>	1,239.5

## 18. NET CHANGE IN NON-CASH WORKING CAPITAL ITEMS

(IN MILLIONS OF CANADIAN DOLLARS)	Quarters ended Sep- tember 30		Nine-month periods ended September 30	
	2018	2017	2018	2017
Trade and other receivables	<b>(1.1)</b>	3.0	<b>3.6</b>	2.0
Operating funding receivable from the Government of Canada	<b>36.5</b>	(7.8)	<b>30.2</b>	5.9
Other current assets	<b>1.6</b>	(0.1)	<b>(1.5)</b>	(1.4)
Materials	<b>(1.4)</b>	0.4	<b>(3.8)</b>	0.1
Trade and other payables	<b>2.8</b>	5.0	<b>1.2</b>	(2.1)
Provisions	<b>-</b>	(0.3)	<b>(1.8)</b>	(0.8)
Deferred revenues	<b>(11.6)</b>	(14.5)	<b>3.3</b>	8.7
<b>Total</b>	<b>26.8</b>	(14.3)	<b>31.2</b>	12.4

## 19. FINANCIAL RISKS

The Corporation's financial instruments are exposed to the same risks as disclosed in its annual financial statements for the year ended December 31, 2017.



## 20. COMMITMENTS

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

(IN MILLIONS OF CANADIAN DOLLARS)	September 30, 2018				December 31, 2017
	Total commitments	Less than one year	From one to five years	More than five years	Total commitments
<b>COMMITMENTS RELATING TO OPERATIONS:</b>					
Non-cancellable operating leases (NOTE A):					
Lessee	<b>21.2</b>	3.7	15.3	2.2	24.0
<b>Total</b>	<b>21.2</b>	3.7	15.3	2.2	24.0
<b>COMMITMENTS RELATING TO MAJOR CAPITAL INVESTMENTS:</b>					
Rolling stock	<b>112.0</b>	63.3	48.7	-	5.2
Maintenance buildings	<b>4.3</b>	3.5	0.8	-	0.7
Stations and facilities	<b>3.7</b>	3.3	0.4	-	2.4
Owned infrastructures	<b>4.9</b>	4.4	0.5	-	4.5
Computer hardware	-	-	-	-	0.7
<b>Total</b>	<b>124.9</b>	74.5	50.4	-	13.5
<b>Total commitments</b>	<b>146.1</b>	78.2	65.7	2.2	37.5

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

In 2018, an amount of \$12.5 million (September 30, 2017: \$12.2 million) was recognized as an expense related to facilities operating leases.

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

c) The Corporation has provided letters of credit from a financial institution totalling approximately \$22.7 million (December 31, 2017: \$22.8 million) to various provincial government workers' compensation boards as security for future payment streams.

