

Second Quarter Report 2022



Management's Discussion and Analysis

1. Introduction

Management's discussion and analysis report outlines the financial results of VIA Rail Canada Inc. (The Corporation) for the quarter and the six-month period ended June 30, 2022, compared with the quarter and the six-month period ended June 30, 2021. 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 the Corporation's stakeholders make on the basis of the financial information.

Forward-Looking Statement Disclosure

This Management's discussion and analysis report contains forward-looking statements which may be identified with the words "may", "likely to", "could". These statements reflect our evaluation of the information currently available and are subject to a number of risks and uncertainties referred to in the risk section of this document.

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 passenger rail service that meets the needs of travellers in Canada.

The Government of Canada determines the Corporation's role within the overall structure and services provided by the Federal government and provides appropriations to subsidize passenger rail services.

3. COVID-19 Pandemic

The Corporation, as well as all other passenger transportation providers, remains affected by the COVID-19 pandemic. Although the Corporation increased its levels of operations since the beginning of the pandemic, they still remain below pre-pandemic levels, but are significantly better than the corresponding quarter of 2021. As a result, capacity has increased by more than 76.5 per cent in terms of train-miles, and by 276.3 per cent in terms of seat-miles.

Safety of passengers and employees remains the Corporation's key priority as services resume and new health and safety measures were implemented to address health & safety requirements. These measures include the requirement for passengers and staff who interact with customers to wear protective face covering. Sanitizing products are distributed to passengers in key contact points and additional cleaning protocols have also been put in place on board trains, in stations, maintenance centres and offices. The Corporation continues to monitor federal safety requirements as well as those in all provinces in which trains operate to ensure they are all respected.

4. Highlights of Financial Results and Major Key Operating Statistics

	Quarters ended June 30				Six-month periods ended June 30			
<i>(in millions of Canadian dollars)</i>	2022	2021	Var \$	Var %	2022	2021	Var \$	Var %
Financial Performance								
Passenger revenues <i>(section 5.2)</i>	74.5	11.9	62.6	526.1%	106.0	20.7	85.3	412.1%
Other revenues	3.9	3.9	–	0.0%	7.0	7.6	(0.6)	(7.9%)
Total revenues	78.4	15.8	62.6	396.2%	113.0	28.3	84.7	299.3%
Operating expenses <i>(section 5.3)</i>	191.6	136.6	55.0	40.3%	359.5	270.2	89.3	33.0%
Operating loss before funding from the Government of Canada and income taxes <i>(section 5.1)</i>	(113.2)	(120.8)	7.6	6.3%	(246.5)	(241.9)	(4.6)	(1.9%)
Net (loss) income for the period	(12.4)	4.6	(17.0)	(369.6%)	11.1	2.4	8.7	362.5%
Remeasurements of defined benefit components of the pension plans and post-employment benefit plans (net of tax)	428.0	44.1	383.9	870.5%	302.9	254.9	48.0	18.8%
Comprehensive income for the period	415.6	48.7	366.9	753.4%	314.0	257.3	56.7	22.0%
Financial Position and Cash Flows								
Total assets <i>(section 5.4)</i>	2,712.1	1,958.5	753.6	38.5%	2,712.1	1,958.5	753.6	38.5%
Total liabilities and deferred capital funding <i>(section 5.4)</i>	2,244.1	1,860.0	384.1	20.7%	2,244.1	1,860.0	384.1	20.7%
Cash <i>(section 5.5)</i>	18.8	30.5	(11.7)	(38.4%)	18.8	30.5	(11.7)	(38.4%)
Net cash provided by operating activities <i>(section 5.5)</i>	15.3	22.6	(7.3)	(32.3%)	33.6	46.4	(12.8)	(27.6%)
Net cash (used in) investing activities <i>(section 5.5)</i>	(21.1)	(0.1)	(21.0)	(21,000.0%)	(16.9)	(26.7)	9.8	36.7%
Net cash (used in) financing activities <i>(section 5.5)</i>	(1.0)	(0.7)	(0.3)	(42.9%)	(2.3)	(1.4)	(0.9)	(64.3%)
Government Funding								
Operating <i>(section 6)</i>	79.9	97.3	(17.4)	(17.9%)	200.2	193.5	6.7	3.5%
Capital <i>(section 6)</i>	65.1	48.2	16.9	35.1%	119.9	95.1	24.8	26.1%
Total Government funding	145.0	145.5	(0.5)	(0.3%)	320.1	288.6	31.5	10.9%
Key Operating Statistics								
Train-miles operated <i>(in thousands)</i>	1,227	695	532	76.5%	2,212	1,307	905	69.2%
Seat-miles <i>(in millions)</i>	301	80	221	276.3%	479	157	322	205.1%
Passenger-miles <i>(in millions)</i>	177	37	140	378.4%	268	64	204	318.8%
Passengers <i>(in thousands)</i>	766.9	172.6	594.3	344.3%	1,190.4	299.7	890.7	297.2%
Average passenger load factor (%)	59	46	13	28.3%	56	41	15	36.6%
RASM (revenue per available seat-mile) <i>(in cents) – Note 1</i>	26.05	19.75	6.30	31.9%	23.53	17.90	5.63	31.5%
CASM (cost per available seat-mile) <i>(in cents) – Note 1</i>	52.59	141.38	(88.79)	(62.8%)	65.32	141.15	(75.83)	(53.7%)
Cost recovery ratio (%) – Note 1	49.5	14.0	35.5	253.6%	36.0	12.7	23.3	183.5%
Operating deficit per passenger-mile <i>(in cents) – Note 1</i>	45.1	263.0	(217.9)	(82.9%)	74.7	302.3	(227.6)	(75.3%)
On-time performance (%)	53	82	(29)	(35.4%)	62	84	(22)	(26.2%)

(Amounts in bracket represent decreases)

Note 1: based on funded results

Financial Highlights – Second Quarter

- Total revenues increased by 396.2 per cent resulting from an increase in frequencies led by higher demand.
- Operating expenses increased by 40.3 per cent primarily due to the operating costs associated to the additional frequencies.
- The operating loss decreased by 6.3 per cent due to an increase in revenues.
- Operating funding decreased by 17.9 per cent, reflecting the lower amounts required for funded activities.
- The Corporation generated a comprehensive income of \$415.6 million compared to a comprehensive income of \$48.7 million in 2021. The variation is due to the remeasurements of the defined benefit components of the pension plans and post-employment benefit plans.

Six-Month Period

- Total revenues increased by 299.3 per cent also resulting from an increase in frequencies led by higher demand.
- Operating expenses increased by 33.0 per cent due to the higher costs directly associated to the additional frequencies operated compared to the corresponding six-month period of 2021.
- The operating loss increased by 1.9 per cent due to an increase in operating expenses partly offset by an increase in revenues.
- Operating funding increased by 3.5 per cent, reflecting by higher amounts required for funded activities.
- The Corporation generated a comprehensive income of \$314.0 million compared to a comprehensive income of \$257.3 million in 2021. The variation is due to the remeasurements of the defined benefit components of the pension plans and post-employment benefit plans.

Most of the operating statistics including train-miles, seat-miles, passenger-miles, as well as revenues and cost per available seat miles were positively impacted during the second quarter and on a cumulative basis due to the increase in frequencies. On-time performance was negatively impacted as a result of various slow orders imposed by infrastructure owners as well a large storm in June.

5. Analysis of Financial Results

5.1 Comparison of IFRS and Funded Operating Results

	Quarters ended June 30				Six-month periods ended June 30			
(in millions of Canadian dollars)	2022	2021	Var \$	Var %	2022	2021	Var \$	Var %
Operating loss on a funded basis	(79.9)	(97.3)	17.4	17.9%	(200.2)	(193.5)	(6.7)	(3.5%)
NON-FUNDED ADJUSTMENT TO REVENUES								
Adjustment for VIA Préférence points and other	–	–	–	n/a	0.3	0.2	0.1	50.0%
NON-FUNDED ADJUSTMENTS TO EXPENSES								
Pension and other employee future benefits	(1.8)	(2.1)	0.3	14.3%	(1.1)	(5.1)	4.0	78.4%
Depreciation of property, plant and equipment, amortization of intangible assets, depreciation of right-of-use assets and loss on disposal	(26.2)	(29.0)	2.8	9.7%	(51.8)	(52.9)	1.1	2.1%
Other provisions for non-cash items	(5.3)	7.6	(12.9)	(169.7%)	6.3	9.4	(3.1)	(33.0%)
Total non-funded adjustments to expenses	(33.3)	(23.5)	(9.8)	(41.7%)	(46.6)	(48.6)	2.0	4.1%
Total items not requiring funds from operations	(33.3)	(23.5)	(9.8)	(41.7%)	(46.3)	(48.4)	2.1	4.3%
Operating loss under IFRS	(113.2)	(120.8)	7.6	6.3%	(246.5)	(241.9)	(4.6)	(1.9%)
Operating funding from the Government of Canada	79.9	97.3	(17.4)	(17.9%)	200.2	193.5	6.7	3.5%
Amortization of deferred capital funding	25.0	28.2	(3.2)	(11.3%)	49.2	51.0	(1.8)	(3.5%)
Net (loss) income before income taxes	(8.3)	4.7	(13.0)	(276.6%)	2.9	2.6	0.3	11.5%
Income tax expense (recovery)	4.1	0.1	(4.0)	(4,000.0%)	(8.2)	0.2	8.4	4,200.0%
Net (loss) income under IFRS for the period	(12.4)	4.6	(17.0)	(369.6%)	11.1	2.4	8.7	362.5%
Remeasurements of the defined benefit component of the pension plans and post-employment benefit plans	538.4	44.1	494.3	1,120.9%	403.0	254.9	148.1	58.1%
Income tax expense	(110.4)	–	(110.4)	n/a	(100.1)	–	(100.1)	n/a
Comprehensive income for the period	415.6	48.7	366.9	753.4%	314.0	257.3	56.7	(22.0%)

(Amounts in bracket represent decreases)

Net (loss) under IFRS for the quarter:

Net loss of \$12.4 million this quarter, compared to a net income of \$4.6 million last year, representing a deterioration of \$17.0 million mainly due to:

- Lower government funding recognized during the quarter (\$17.4 million).
- Lower amortization of deferred capital funding (\$3.2 million).
- Lower operating loss (\$7.6 million), resulting from additional revenues (\$62.6 million), partly offset by higher expenses (\$55.0 million).
- Higher deferred income tax expense of \$4.0 million.

Net income under IFRS for the six-month period:

Net income of \$11.1 million for the six-month period, compared to a net income of \$2.4 million last year, representing an improvement of \$8.7 million mainly due to:

- Higher government funding recognized during the six-month period (\$6.7 million).
- Lower deferred income tax expense of \$8.4 million.
- Higher operating loss (\$4.6 million), attributable to by higher expenses of \$89.3 million partially offset by higher revenues of \$84.7 million.

Comprehensive income

Remeasurement of defined benefit component of the pension plans and post-employment benefit plans is composed of quarterly non-cash remeasurements resulting from changes in actuarial assumptions and the return on pension plan assets.

Comprehensive income of \$415.6 million in the second quarter of 2022 and comprehensive income of \$314.0 million for the six-month period ended June 30, 2022, include the following:

Remeasurement of the defined benefit component of the pension plans and post-employment benefit plans of \$428.0 million in the second quarter of 2022 is due to an actuarial gain of \$304.3 million on the defined benefit obligation arising from a 100 basis point increase in the discount rate since March 31, 2022, and to a remeasurement gain of \$230.4 million resulting from higher actual rate of return on plan assets. The remeasurement also includes an actuarial gain of \$3.7 million due to the increase in the discount rate used to determine the post-employment benefit obligation. The remeasurement is partly offset by a deferred income tax expense of \$110.4 million due to the employee benefit assets.

The remeasurement of the defined benefit component of the pension plans and post-employment benefit plans of \$302.9 million for the six-month period is due to the increase in the discount rate used to determine the defined benefit obligation (5.00 per cent as at June 30, 2022, compared to 3.00 per cent as at December 31, 2021), which resulted in an actuarial gain of \$411.1 million, combined with a remeasurement loss of 15.7 million resulting from lower actual rate of return on plan assets during the six-month period. The remeasurement also includes an actuarial gain of \$7.6 million due to the increase in the discount rate used to determine the post-employment benefit obligation (5.10 per cent as at June 30, 2022, compared to 3.00 per cent as at December 31, 2021). The remeasurement is partly offset by a deferred income tax expense of \$100.1 million due to the employee benefit assets.

Comprehensive income of \$48.7 million in the second quarter of 2021 and comprehensive loss of \$257.3 million for the six-month period ended June 30, 2021, include the following:

Remeasurement of the defined benefit component of the pension plans and post-employment benefit plans of \$44.1 million in the second quarter of 2021 is due to an actuarial loss of \$68.7 million on the defined benefit obligation arising from a 20 basis point decrease in the discount rate since March 31, 2021, and to a remeasurement gain of \$113.3 million resulting from higher actual rate of return on plan assets. The remeasurement also includes an actuarial loss of \$0.5 million due to the decrease in the discount rate used to determine the post-employment benefit obligation.

The remeasurement of the defined benefit component of the pension plans and post-employment benefit plans of \$254.9 million for the six-month period is due to the increase in discount rate used to determine the defined benefit obligation (3.10 per cent as at June 30, 2021, compared to 2.50 per cent as at December 31, 2020), which resulted in an actuarial gain of \$223.6 million, combined with a return on plan assets of \$28.7 million during the period. The remeasurement also includes an actuarial gain of \$2.6 million due to the increase in the discount rate used to determine the post-employment benefit obligation (3.20 per cent as at June 30, 2021, compared to 2.60 per cent as at December 31, 2020).

5.2 Revenues

	Quarters ended June 30				Six-month periods ended June 30			
(in millions of Canadian dollars)	2022	2021	Var \$	Var %	2022	2021	Var \$	Var %
Passenger revenues								
Corridor East	50.6	9.1	41.5	456.0%	75.1	15.4	59.7	387.7%
Southwestern Ontario (SWO)	8.0	1.9	6.1	321.1%	12.5	3.2	9.3	290.6%
Québec City – Windsor corridor	58.6	11.0	47.6	432.7%	87.6	18.6	69.0	371.0%
Ocean	2.0	–	2.0	n/a	2.8	–	2.8	n/a
Canadian	12.4	0.4	12.0	3,000.0%	13.7	0.6	13.1	2,183.3%
Regional services	0.6	0.3	0.3	100.0%	0.9	0.4	0.5	125.0%
Non-Corridor	15.0	0.7	14.3	2,042.9%	17.4	1.0	16.4	1,640.0%
Other	0.9	0.2	0.7	350.0%	1.0	1.1	(0.1)	(9.1%)
Total passenger revenues under IFRS	74.5	11.9	62.6	526.1%	106.0	20.7	85.3	412.1%
Other revenues	3.9	3.9	–	0.0%	7.0	7.6	(0.6)	(7.9%)
Total revenues under IFRS	78.4	15.8	62.6	396.2%	113.0	28.3	84.7	299.3%
Adjustment for VIA Préférence points (non-funded) and other	–	–	–	–	(0.3)	(0.2)	(0.1)	(50.0%)
TOTAL FUNDED REVENUES	78.4	15.8	62.6	396.2%	112.7	28.1	84.6	301.1%

(Amounts in bracket represent decreases)

Passengers	Quarters ended June 30				Six-month periods ended June 30			
(in thousands)	2022	2021	Var #	Var %	2022	2021	Var #	Var %
Passengers								
Corridor East	583.7	124.2	459.5	370.0%	904.0	214.7	689.3	321.1%
Southwestern Ontario (SWO)	150.0	39.7	110.3	277.8%	239.8	71.4	168.4	235.9%
Québec City – Windsor corridor	733.7	163.9	569.8	347.7%	1,143.8	286.1	857.7	299.8%
Ocean	11.0	–	11.0	n/a	16.6	–	16.6	n/a
Canadian	12.5	2.0	10.5	525.0%	15.4	3.3	12.1	366.7%
Regional services	9.7	6.7	3.0	44.8%	14.6	10.3	4.3	41.7%
Non-Corridor	33.2	8.7	24.5	281.6%	46.6	13.6	33.0	242.6%
TOTAL PASSENGERS	766.9	172.6	594.3	344.3%	1,190.4	299.7	890.7	297.2%

(Amounts in bracket represent decreases)

Passenger revenues

Passenger revenues have increased by \$62.6 million (526.1 per cent) during the quarter and by \$85.3 million (412.1 per cent) for the six-month period. The increase during the quarter and the six-month period are mainly attributable to the adjustments made to service levels for most train services driven by the significant increase in demand.

Québec City – Windsor corridor

Revenues have increased by \$47.6 million (432.7 per cent) during the quarter as a result of the reintroduction of frequencies to match passenger demand (increase in ridership of 347.7 per cent), as well as improved average revenues (19.6 per cent).

Capacity (in terms of seat-miles offered) increased by 269.4 per cent compared to the corresponding quarter last year.

On a cumulative basis, revenues have increased by \$69.0 million (371.0 per cent) for the six-month period, ridership has increased by 299.8 per cent and capacity increased by 200.7 per cent, while average revenues have improved by 18.2 per cent.

Ocean

Revenues total \$2.0 million for the quarter and \$2.8 million for the six-month period as compared to \$0 in the corresponding quarter and period last year as the service did not operate during the first half of 2021.

Canadian

Revenues have increased by \$12.0 million (3,000.0 per cent) compared to the same quarter last year and by \$13.1 million (2,183.3 per cent) compared to last six-month period. The increases result from the resumption of the second round-trip frequency between Vancouver and Toronto.

Regional services

Revenues have increased by \$0.3 million (100.0 per cent) for the quarter. Capacity in terms of seat-miles was increased by 72.3 per cent, ridership increased by 44.8 per cent and average revenues grew by 63.7 per cent. On a cumulative basis, revenues have increased by \$0.5 million (125.0 per cent) due in most part to the improved average revenues (59.1 per cent).

Other revenues

Other revenues remain stable for the quarter and have decreased by \$0.6 million (7.9 per cent) for the six-month period. This decrease is mainly attributable to lower third-party revenues.

5.3 Operating Expenses

	Quarters ended June 30				Six-month periods ended June 30			
<i>(in millions of Canadian dollars)</i>	2022	2021	Var \$	Var %	2022	2021	Var \$	Var %
Compensation and employee benefits	81.7	58.7	23.0	39.2%	153.5	122.4	31.1	25.4%
Train operations and fuel	36.8	17.1	19.7	115.2%	67.1	33.7	33.4	99.1%
Stations and property	9.7	10.4	(0.7)	(6.7%)	20.3	21.1	(0.8)	(3.8%)
Marketing and sales	8.2	3.0	5.2	173.3%	11.7	4.7	7.0	148.9%
Maintenance material	8.7	6.1	2.6	42.6%	17.5	11.9	5.6	47.1%
Professional services	3.3	3.3	–	0.0%	6.8	4.9	1.9	38.8%
Telecommunications	5.4	5.5	(0.1)	(1.8%)	13.0	11.0	2.0	18.2%
Depreciation and amortization	24.8	26.3	(1.5)	(5.7%)	50.4	49.9	0.5	1.0%
Loss on disposal of property, plant and equipment and intangible assets	1.4	2.7	(1.3)	(48.1%)	1.4	3.1	(1.7)	(54.8%)
Unrealized net gain on derivative financial instruments	(0.7)	(2.7)	2.0	74.1%	(4.0)	(6.1)	2.1	34.4%
Other	12.3	6.2	6.1	98.4%	21.8	13.6	8.2	60.3%
Total operating expenses under IFRS	191.6	136.6	55.0	40.3%	359.5	270.2	89.3	33.0%
Non-funded adjustments <i>(section 5.1)</i>	(33.3)	(23.5)	(9.8)	(41.7%)	(46.6)	(48.6)	2.0	4.1%
Total funded expenses	158.3	113.1	45.2	40.0%	312.9	221.6	91.3	41.2%

(Amounts in bracket represent decreases)

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

The Corporation, in its objective to reduce costs and minimize the impact of the pandemic on its revenues and deficit, continues its cost mitigation measures including:

- The reduction of some of its operating expenses which can be adjusted based on the level of operations,
- Reduction of administrative costs and the postponement of non-essential initiatives.

The Corporation's cost structure includes a substantial portion of fixed costs which cannot easily be reduced on a short-term basis, the Corporation is therefore constantly looking for different ways to maintain fixed costs at the lowest level possible.

Total operating expenses increased by \$55.0 million (40.3 per cent) for the quarter and by \$89.3 million (33.0 per cent) for the six-month period. The primary variances are:

Compensation and employee benefits

The expenses increased by \$23.0 million (39.2 per cent) during the quarter and by \$31.1 million (25.4 per cent) for the six-month period. The increases for both the quarter and the six-month period are attributable to higher staffing costs associated to the additional frequencies operated compared to the corresponding quarter in 2021 as well as the impact of annual salary increases and one additional pay period in 2022 (timing of pay periods during the year).

Train operations and fuel

The expenses increased by \$19.7 million (115.2 per cent) during the quarter and by \$33.4 million (99.1 per cent) for the six-month period. The increases for both the quarter and the six-month period are a result of the additional frequencies operated in 2022 as well as from contractual cost increases and higher market fuel prices.

Marketing and sales

The expenses increased by \$5.2 million (173.3 per cent) during the quarter and by \$7.0 million (148.9 per cent) for the six-month period. These increases are mainly attributable to advertising campaigns launched to inform passengers of the reintroduction of frequencies in the Corridor.

Maintenance material

The expenses have increased by \$2.6 million (42.6 per cent) for the quarter and by \$5.6 million (47.1 per cent) for the six-month period. These increases are mainly due to the cost associated with the additional frequencies and increase in price for parts.

Professional services

The expenses for the quarter remain stable and increased by \$1.9 million (38.8 per cent) for the six-month period. The increase is due in part to costs associated with Cloud projects, as well as to costs incurred for ongoing negotiations for access to third-party infrastructure and labour agreements.

Telecommunications

The expenses decreased by \$0.1 million (1.8 per cent) during the quarter and increased by \$2.0 million (18.2 per cent) for the six-month period. This increase results from support and license costs associated with newly implemented systems.

Loss on disposal of property, plant and equipment and intangible assets

The expenses decreased by \$1.3 million (48.1 per cent) during the quarter and by \$1.7 million (54.8 per cent) for the six-month period as fewer assets were disposed for both the quarter and the six-month period.

Unrealized net gain on derivative financial instruments

Net gain of \$0.7 million for the quarter and of \$4.0 million for the six-month period compared to a net gain of \$2.7 million for the quarter ended June 30, 2021, and of \$6.1 million for the six-month period. Net gain for the cumulative period ending June 30, 2022, reflects the fact that market fuel prices are higher than contract prices.

Other expenses

The expenses increased by \$6.1 million (98.4 per cent) for the quarter and by \$8.2 million (60.3 per cent) for the six-month period. The increase for the quarter and six-month period stems mainly from higher on-train product costs (\$5.1 million or 204 per cent) resulting from the increased ridership in all service classes (Economy, Business and Sleeper).

5.4 Financial Position

<i>(in millions of Canadian dollars)</i>	June 30, 2022	December 31, 2021	Var \$	Var %
ASSETS				
Current assets	183.3	115.0	68.3	59.4%
Advances on contracts	49.2	52.5	(3.3)	(6.3%)
Property, plant and equipment	1,349.4	1,285.9	63.5	4.9%
Right-of-use assets	86.1	87.8	(1.7)	(1.9%)
Intangible assets	369.6	356.1	13.5	3.8%
Employee benefit assets	674.5	280.2	394.3	140.7%
Total Assets	2,712.1	2,177.5	534.6	24.6%
LIABILITIES				
Current liabilities	257.3	192.7	64.6	33.5%
Other payables	25.3	22.2	3.1	14.0%
Deferred income tax	114.2	22.6	91.6	405.3%
Lease liabilities	84.5	86.3	(1.8)	(2.1%)
Employee benefit liabilities	34.0	41.6	(7.6)	(18.3%)
Total Liabilities	515.3	365.4	149.9	41.0%
Deferred capital funding	1,728.8	1,658.1	70.7	4.3%
Share capital	9.3	9.3	–	0.0%
Accumulated surplus (deficit), beginning of period	144.7	(168.2)	312.9	186.0%
Net income (loss)	11.1	(26.3)	37.4	142.2%
Other comprehensive income	302.9	339.2	(36.3)	(10.7%)
Accumulated surplus, end of period	458.7	144.7	314.0	217.0%
Total Liabilities and Shareholder's equity	2,712.1	2,177.5	534.6	24.6%

(Amounts in bracket represent decreases)

The main changes in the Statement of Financial Position result from the following major elements:

Assets

Total assets have increased by \$534.6 million due mainly to an increase in employee benefit assets by \$394.3 million due to an increase of discount rates, a higher return on assets and by an increase in property, plant and equipment by \$63.5 million.

Liabilities and deferred capital funding

Total liabilities have increased by \$149.9 million mainly due to an increase in deferred income tax liabilities due to an increase of the employee benefits assets and by an increase in current liabilities. Deferred capital funding has increased by \$70.7 million due to capital investments. The decrease in employee benefit liabilities of \$7.6 million is due to an increase in the discount rates.

Comprehensive income

Other comprehensive income decreased due to a lower rate of return on pension plan assets partly offset by an increase in discount rates affecting employee benefit assets and liabilities, as explained in section 5.1 of this document.

5.5 Liquidity, Cash Flows and Capital Investments

Liquidity and cash flows

	Quarters ended June 30				Six-month periods ended June 30			
<i>(in millions of Canadian dollars)</i>	2022	2021	Var \$	Var %	2022	2021	Var \$	Var %
Balance, beginning of period	25.6	8.7	16.9	194.3%	4.4	12.2	(7.8)	(63.9%)
Net cash provided by operating activities	15.3	22.6	(7.3)	(32.3%)	33.6	46.4	(12.8)	(27.6%)
Net cash (used in) investing activities	(21.1)	(0.1)	(21.0)	(21,000.0%)	(16.9)	(26.7)	9.8	36.7%
Net cash (used in) financing activities	(1.0)	(0.7)	(0.3)	(42.9%)	(2.3)	(1.4)	(0.9)	(64.3%)
Balance, end of period	18.8	30.5	(11.7)	(38.4%)	18.8	30.5	(11.7)	(38.4%)

(Amounts in bracket represent decreases)

Operating activities

Net cash decreased by \$7.3 million (32.3 per cent) for the quarter and by \$12.8 million (27.6 per cent) for the six-month period. The variances are mainly due to the variance in working capital items (\$21.8 million for the quarter and \$31.7 million for the six-month period) as shown in Note 18 of the interim condensed financial statements.

Investing activities

Net cash decreased by \$21.0 million for the quarter and increased by \$9.8 million for the six-month period. The decrease is mainly due to the timing whereby the amount of government funding received during the quarter was lower than the amount of acquisition of property, plant and equipment and intangible assets. The increase for the six-month period is attributable to the fact that the amount of government funding received was higher than the amounts paid for the acquisition of fixed assets.

5.5 Liquidity, Cash Flows and Capital Investments (cont'd)

Funded capital investments

Property, plant and equipment and intangible assets totalled \$1,719.0 million at June 30, 2022, which is an increase of \$77.0 million compared to the balance as at December 31, 2021.

Funded capital investments of \$119.9 million were made during the six-month period.

	Quarters ended June 30				Six-month periods ended June 30			
<i>(in millions of Canadian dollars)</i>	2022	2021	Var \$	Var %	2022	2021	Var \$	Var %
Equipment	8.9	14.5	(5.6)	(38.6%)	19.7	29.6	(9.9)	(33.4%)
Infrastructure	3.5	0.7	2.8	400.0%	4.7	2.7	2.0	74.1%
Information technology	10.7	8.2	2.5	30.5%	22.6	14.8	7.8	52.7%
Stations	2.5	3.2	(0.7)	(21.9%)	4.6	5.9	(1.3)	(22.0%)
Corridor Fleet Replacement Program	38.0	18.5	19.5	105.4%	65.1	36.9	28.2	76.4%
Other	1.5	3.1	(1.6)	(51.6%)	3.2	5.2	(2.0)	(38.5%)
Total	65.1	48.2	16.9	35.1%	119.9	95.1	24.8	26.1%

(Amounts in bracket represent decreases)

The most significant investments made during the quarter and the six-month period were in the Corridor Fleet Replacement Program, in the HEP (head-end power) long-haul and Corridor equipment rebuild program (referred to as the "Heritage program"), as well as investments in Information Technology projects such as the new reservation system.

6. Results compared to the 2021-2025 Corporate Plan ⁽¹⁾

(1): The Corporate plan provides information on funded activities, therefore comparison between actual and planned results are based on funded activities.

The Corporation continues to work towards achieving the goals and strategies identified in its corporate plan. The financial results of the quarter and the six-month period are below planned results due to impact of Omicron during the first quarter of 2022.

In terms of capital expenditures, although investments for the quarter were below planned expenditures, work progresses on the major strategic projects identified in the plan such as the Corridor Fleet Replacement Program, our HEP equipment rebuild program and new reservation system.

Government funding relating to operating expenses: <i>(in millions of Canadian dollars)</i>	June 30, 2022	June 30, 2021
Balance, beginning of period	63.3	47.0
Received to fund operating expenses	(207.6)	(223.2)
Recognized in financial results	200.2	193.5
Balance, end of period	55.9	17.3

Government funding relating to capital expenditures: <i>(in millions of Canadian dollars)</i>	June 30, 2022	June 30, 2021
Balance, beginning of period	(7.4)	(36.5)
Received to fund the acquisition of property, plant and equipment and intangible assets (including the cost of land)	(62.3)	(48.3)
Used to fund capital expenditures	119.9	95.1
Balance, end of period	50.2	10.3

6. Results compared to the 2021-2025 Corporate Plan ⁽¹⁾ (cont'd)

Parliamentary appropriations

The Corporation receives its funding from the Government of Canada based on the Government's fiscal year which begins April 1 and ends March 31. Thus, parliamentary appropriations for operating expenses and capital expenditures are based on the Government's fiscal year.

	For the three-month period ending June 30, 2022	For the three-month period ending June 30, 2021
Parliamentary appropriation for operating expenses		
Original parliamentary appropriation	308.8	326.4
Supplementary parliamentary appropriation (Note 1)	–	97.8
Revised annual parliamentary appropriation	308.8	424.2
Appropriation recognized for the three months ended June 30	79.9	97.3
Appropriation requested for remainder of the government fiscal year	228.9	326.9

Note 1: For 2021-22 – includes \$95 million in Suppl A and \$2.8 million in Suppl C through after December 31, 2021, through Suppl C Estimates (related to the additional funding received for COVID-19 relief)

	For the three-month period ending June 30, 2022	For the three-month period ending June 30, 2021
Parliamentary appropriation for capital expenditures		
Original parliamentary appropriation	671.8	443.4
Supplementary parliamentary appropriation (Note 1)	–	32.4
Revised annual parliamentary appropriation	671.8	475.8
Appropriation recognized for the three months ended June 30	65.1	48.2
Appropriation requested for remainder of the government fiscal year	606.7	427.6

Note 1: Amount for the year 2021-22 approved through after December 31, 2021, through Suppl C Estimates (related to the additional funding received for COVID-19 relief)

7. Risk Analysis

This section highlights the Corporation's key risks which may have potential impact on the Corporation's financial results and provides information on risks for which the trend or status has changed compared to the status as at December 31, 2021.

As at the quarter ended June 30, 2022, the status of the following risks has changed since December 31, 2021.



Increasing



Stable



Decreasing

Nature of Risk	Trend	Current Situation
Asset Management		
<p>The Corporation's HEP rolling stock equipment is aging and nearing the end of its life. Its reliability has deteriorated in the past few years, resulting in delays and additional operating costs to maintain a state of good repair.</p> <p>Maintenance costs are projected to increase significantly in upcoming years until a replacement fleet of equipment is introduced, both in the Corridor where the Corporation counts on 31 HEP2 coaches representing more than 25 per cent of current Corridor capacity and non-Corridor services, as reliability of the aging fleet will continue to deteriorate.</p>		<p>The Corporation is running an aging fleet requiring more inspections and repairs, as a result of which service revenues and costs as well as equipment availability might be impacted in the future.</p>
Financial Sustainability		
<p>The Corporation has limited powers as a non-agent Crown Corporation and is dependent on annual government budgetary allocations to fund its operations, capital and pension obligations.</p> <p>Government funding constitutes a risk in the efficient delivery of the Corporation's services, as well as in the planning and execution of its medium-to-long term strategies.</p>		<p>The Corporation has been faced with increasing costs in 2022 due to the high inflation, particularly in compensation costs but also across all material expense categories including fuel and third-party access costs, as well as negative pressures on revenues due to reduced car inventory. The Corporation has sufficient funding for the year 2022 however, expected cost increases coupled with limited ability to generate additional revenues due to fleet availability will generate an additional financial pressure and result in potential additional funding shortfalls.</p> <p>The Corporation is closely monitoring the situation and is in communication with Transport Canada concerning potential additional funding requirements to address this unprecedented situation.</p>

8. Outlook

The results of the second quarter improved compared to those of the corresponding quarter of 2021, as customer demand increased, and frequencies were reintroduced following the Omicron wave of the COVID-19 pandemic that led the Corporation's successful deployment of its return to service plan where the Corporation reintroduced almost all its frequencies across the network. The Corporation continues to monitor customer demand as the pandemic evolves with potential new waves and contagious variants of the virus. The reintroduction of frequencies in services which do not all cover their costs, will increase the Corporation's deficit and could result in a funding shortfall for the next government fiscal year (2022-23). Management is closely monitoring the situation and is in communication with Transport Canada concerning potential additional funding requirements during this unprecedented and sustaining situation.

In the meantime, work continues to pursue initiatives to minimize operating costs. In parallel, strategic projects such as the Corridor Fleet Replacement Program, Heritage Program, High Frequency Rail (HFR) and the new reservation system are progressing. In addition to working on its transformation, and pursuant to the P.C. directive 2022-259 issued on March 24, the Corporation is working closely with the Government of Canada towards the creation of a wholly owned subsidiary with the mandate to develop and implement High Frequency Rail project as well as to provide all necessary support to facilitate the subsidiary's role and fulfillment of its mandate.

Interim Condensed Financial Statements



Management's Responsibility Statement

Montréal, Canada
August 24, 2022

Quarter ended June 30, 2022

Management of the Corporation is responsible for the preparation and fair presentation of these quarterly financial statements in accordance with The Treasury Board of Canada's *Directive on Accounting Standards: GC 5200 Crown Corporations Quarterly Financial Reports*, and for such internal controls as management determines are necessary to enable the presentation of quarterly financial statements that are free from material misstatements.

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.



Martin R Landry

Interim President and Chief Executive Officer



Marie-Claude Cardin, CPA

Chief Financial Officer

Interim Condensed Financial Statements

Statement of Financial Position

<i>(in thousands of Canadian dollars)</i>	June 30, 2022 <i>(unaudited)</i>	December 31, 2021 <i>(audited)</i>
CURRENT ASSETS		
Cash	\$ 18,844	\$ 4,400
Trade and other receivables (Note 7)	116,610	71,186
Other assets	11,533	4,924
Derivative financial instruments (Note 8)	6,225	2,341
Materials	28,061	30,191
Asset Renewal Fund	1,969	1,969
	183,242	115,011
NON-CURRENT ASSETS		
Advances on contracts	49,164	52,405
Property, plant and equipment (Note 9)	1,349,432	1,285,893
Right-of-use assets (Note 12)	86,113	87,834
Intangible assets (Note 10)	369,592	356,119
Employee benefit assets (Note 15)	674,544	280,231
	2,528,845	2,062,482
Total Assets	\$ 2,712,087	\$ 2,177,493
CURRENT LIABILITIES		
Trade and other payables (Note 11)	\$ 198,287	\$ 161,637
Lease liabilities (Note 12)	3,885	3,681
Provisions (Note 13)	3,780	5,214
Derivative financial instruments (Note 8)	–	113
Deferred revenues (Note 14)	51,225	21,999
	257,177	192,644
NON-CURRENT LIABILITIES		
Other payables	25,262	22,206
Deferred income tax (Note 16)	114,204	22,580
Lease liabilities (Note 12)	84,526	86,316
Employee benefit liabilities (Note 15)	34,023	41,629
	258,015	172,731
Deferred capital funding (Note 17)	1,728,848	1,658,109
SHAREHOLDER'S EQUITY		
Share capital	9,300	9,300
Accumulated surplus	458,747	144,709
	468,047	154,009
Total Liabilities and Shareholder's equity	\$ 2,712,087	\$ 2,177,493

Commitments (Note 20)

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

Interim Condensed Financial Statements

Statement of Comprehensive Income

	Quarters ended June 30		Six-month periods ended June 30	
(in thousands of Canadian dollars) (unaudited)	2022	2021	2022	2021
REVENUES (Note 5)				
Passenger	\$ 74,471	\$ 11,931	\$ 105,950	\$ 20,732
Other	3,907	3,933	7,019	7,617
	78,378	15,864	112,969	28,349
EXPENSES				
Compensation and employee benefits	81,691	58,681	153,450	122,410
Train operations and fuel	36,752	17,166	67,091	33,730
Stations and property	9,763	10,393	20,324	21,076
Marketing and sales	8,130	3,039	11,678	4,696
Maintenance material	8,701	6,177	17,473	11,943
On-train product costs	7,639	2,499	11,534	4,749
Operating taxes	3,324	2,745	6,693	5,586
Professional services	3,329	3,315	6,809	4,877
Telecommunications	5,403	5,546	12,958	11,005
Depreciation of property, plant and equipment (Note 9)	18,899	19,845	38,466	37,429
Amortization of intangible assets (Note 10)	4,750	5,686	9,472	10,831
Depreciation of right-of-use assets (Note 12)	1,130	785	2,442	1,608
Loss on disposal of property, plant and equipment (Note 9)	1,405	2,685	1,406	3,068
Loss on disposal of intangible assets (Note 10)	–	–	–	6
Unrealized net gain on derivative financial instruments	(717)	(2,669)	(3,997)	(6,063)
Realized net gain on derivative financial instruments	(3,438)	(355)	(5,231)	(231)
Interest expense on lease liabilities	650	224	1,150	448
Other	4,152	856	7,752	3,098
	191,563	136,618	359,470	270,266
OPERATING LOSS BEFORE FUNDING FROM THE GOVERNMENT OF CANADA AND INCOME TAXES	(113,185)	(120,754)	(246,501)	(241,917)
Operating funding from the Government of Canada (Note 6)	79,877	97,294	200,184	193,534
Amortization of deferred capital funding (Note 17)	24,958	28,198	49,152	51,017
Net (loss) income before income taxes	(8,350)	4,738	2,835	2,634
Income tax expense (recovery)	4,063	76	(8,249)	152
NET (LOSS) INCOME FOR THE PERIOD	(12,413)	4,662	11,084	2,482
Other comprehensive income				
Amounts not to be reclassified subsequently to net income: Remeasurements of the defined benefit component of the pension plans and post-employment benefit plans (Note 15)	538,356	44,088	402,977	254,885
Income tax expense	(110,291)	–	(100,023)	–
	428,065	44,088	302,954	254,885
COMPREHENSIVE INCOME FOR THE PERIOD	\$ 415,652	\$ 48,750	\$ 314,038	\$ 257,367

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

Interim Condensed Financial Statements

Statement of Changes in Shareholder's Equity

	Quarters ended June 30		Six-month periods ended June 30	
<i>(in thousands of Canadian dollars) (unaudited)</i>	2022	2021	2022	2021
SHARE CAPITAL	\$ 9,300	\$ 9,300	\$ 9,300	\$ 9,300
Accumulated surplus (deficit)				
Balance, beginning of period	43,095	40,429	144,709	(168,188)
Net (loss) income for the period	(12,413)	4,662	11,084	2,482
Other comprehensive income for the period	428,065	44,088	302,954	254,885
Balance, end of period	458,747	89,179	458,747	89,179
Total Shareholder's equity	\$ 468,047	\$ 98,479	\$ 468,047	\$ 98,479

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

Interim Condensed Financial Statements

Statement of Cash Flows

	Quarters ended June 30		Six-month periods ended June 30	
(in thousands of Canadian dollars) (unaudited)	2022	2021	2022	2021
OPERATING ACTIVITIES				
Net (loss) income for the period	\$ (12,413)	\$ 4,662	\$ 11,084	\$ 2,482
Adjustments to determine net cash (used in) provided by operating activities:				
Depreciation of property, plant and equipment (Note 9)	18,899	19,845	38,466	37,429
Amortization of intangible assets (Note 10)	4,750	5,686	9,472	10,831
Depreciation of right-of-use assets (Note 12)	1,130	785	2,442	1,608
Loss on disposal of property, plant and equipment (Note 9)	1,405	2,685	1,406	3,068
Loss on disposal of intangible assets (Note 10)	-	-	-	6
Other payables variations	16	-	49	-
Advances on contracts variations	(117)	(367)	(219)	(367)
Amortization of deferred capital funding (Note 17)	(24,958)	(28,198)	(49,152)	(51,017)
Deferred income tax	3,913	-	(8,399)	-
Interest income	(199)	(87)	(277)	(149)
Interest paid	(650)	(224)	(1,150)	(448)
Unrealized net gain on derivative financial instruments	(717)	(2,669)	(3,997)	(6,063)
Post-employment and other employee benefit expenses (Note 15)	4,698	8,669	10,651	17,157
Employer post-employment and other employee benefit contributions (Note 15)	(2,943)	(6,645)	(9,593)	(12,112)
Interest expense on lease liabilities	650	224	1,150	448
Net change in working capital items (Note 18)	21,847	18,268	31,734	43,569
Net cash provided by operating activities	15,311	22,634	33,667	46,442
INVESTING ACTIVITIES				
Government funding received related to acquisition of property, plant and equipment and intangible assets (Notes 7, 17, 18)	14,268	35,319	62,268	48,319
Acquisition of property, plant and equipment and intangible assets (Notes 9, 10, 11 and 18)	(35,594)	(35,540)	(79,463)	(75,264)
Interest received	199	87	277	149
Proceeds from the disposal of property, plant and equipment	2	1	2	1
Net cash (used in) investing activities	(21,125)	(133)	(16,916)	(26,795)
FINANCING ACTIVITIES				
Payment of the lease liabilities	(977)	(697)	(2,307)	(1,388)
Net cash (used in) financing activities	(977)	(697)	(2,307)	(1,388)
CASH				
(Decrease) Increase during the period	(6,791)	21,804	14,444	18,259
Balance, beginning of period	25,635	8,668	4,400	12,213
Balance, end of period	\$ 18,844	\$ 30,472	\$ 18,844	\$ 30,472
REPRESENTED BY:				
Cash	18,844	30,472	18,844	30,472
	\$ 18,844	\$ 30,472	\$ 18,844	\$ 30,472

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

Notes to the Interim Condensed Financial Statements

For the period ended June 30, 2022 (unaudited)

1. Authority, Objectives and General Information

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 companies and relies on them to control train operations.

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

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

In March 2022, the Corporation was issued a directive (P.C. 2022-259) pursuant to section 89 of the *Financial Administration Act* to:

- a. procure the incorporation under the *Canada Business Corporations Act* of a wholly-owned subsidiary, yet to be named, the mandate of which is to develop and implement the High Frequency Rail project, including the design, construction, financing, operation and maintenance of passenger rail services in Ontario and Québec through one or more agreements with the private sector, in cooperation with the Minister of Transport;
- b. provide all necessary support, expertise, and co-operation to the subsidiary to facilitate the subsidiary's role and fulfilment of its mandate; and
- c. provide all necessary support, expertise, and co-operation to the Minister of Transport to facilitate the Minister's role in the development and implementation of the High Frequency Rail project.

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 August 24, 2022.

On March 11, 2020, the World Health Organization characterized the outbreak of a strain of the novel coronavirus ("COVID-19") as a pandemic which has resulted in a series of public health and emergency measures that have been put in place to combat the spread of the virus. In response to the COVID-19 outbreak, the Corporation enforced special health and safety measures for its passengers and employees, and subsequently reduced service levels for most major train services. In 2020 and 2021, as well as in the first quarter of 2022, the Corporation faced severe and abrupt drops in services and corresponding declines in revenue as a result of the numerous waves of the COVID-19 pandemic. These impacts include significant increases in operating loss and substantial decline in cash from operations, increasing required funding from the Government of Canada. With a limited visibility on travel demand and potential additional waves of COVID-19, the Corporation cannot predict the full impact of the pandemic and therefore continues to actively monitor the situation.

The Corporation, in its objective to reduce costs and minimize the impact of the pandemic on its deficit, continues its cost mitigation measures including:

- The reduction of some of its operating expenses which can be adjusted based on the level of operations,
- Reduction of administrative costs and the postponement of nonessential initiatives.

The Corporation has received the additional funding from the Government of Canada and has the adequate resources to continue in operational existence for the foreseeable future. Thus, management continues to adopt the going concern basis of accounting in preparing the financial statements.

2. Basis of Preparation

a) Statement of compliance

These interim condensed financial statements have been prepared in accordance with Section 131.1 of the *Financial Administration Act* and International Accounting Standards IAS 34 – *Interim Financial Reporting* as issued by the International Accounting Standards Board (IASB) and approved by the Accounting Standards Board of Canada.

Section 131.1 of the *Financial Administration Act* requires that most parent Crown corporations prepare and make public quarterly financial reports in compliance with The Treasury Board of Canada's *Directive on Accounting Standards: GC 5200 Crown Corporations Quarterly Financial Reports*.

These interim condensed financial statements have not been audited and should be read in conjunction with the annual financial statements for the year ended December 31, 2021, 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. Summary of Significant Accounting Policies

The significant accounting policies applied for these condensed interim financial statements are presented in Note 4 of the Corporation's annual financial statements for the year ended December 31, 2021.

4. Key Sources of Estimation Uncertainty and Critical Judgments

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

Assumptions and estimates 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 and in any future period affected. However, uncertainties relating to assumptions, estimates and judgments 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 critical judgments are disclosed in Note 5 of the Corporation's annual financial statements for the year ended December 31, 2021.

5. Revenues

The following table disaggregates the revenue by major sources:

	Quarters ended June 30		Six-month periods ended June 30	
<i>(in millions of Canadian dollars)</i>	2022	2021	2022	2021
REVENUES				
Transportation and accommodation	72.6	11.5	103.2	20.0
On-train food and beverages	1.7	0.3	2.5	0.5
Other revenues <i>(Note 1)</i>	0.2	0.1	0.3	0.2
Revenues from passengers	74.5	11.9	106.0	20.7
Investment income	0.2	–	0.3	0.1
Third party servicing	2.0	1.9	3.4	3.5
Rental income and other	1.7	2.0	3.3	4.0
Revenues from other sources	3.9	3.9	7.0	7.6
Total revenues	78.4	15.8	113.0	28.3

Note 1: includes sales commissions and baggage revenues.

6. 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:

	Quarters ended June 30		Six-month periods ended June 30	
<i>(in millions of Canadian dollars)</i>	2022	2021	2022	2021
Operating loss before funding from the Government of Canada and income taxes	113.2	120.7	246.5	241.9
Items requiring operating funds:				
Income tax expense	0.2	0.1	0.2	0.2
Items (not requiring) not providing operating funds:				
Depreciation of property, plant and equipment	(18.9)	(19.8)	(38.5)	(37.4)
Amortization of intangible assets	(4.8)	(5.7)	(9.5)	(10.8)
Depreciation of right-of-use assets	(1.1)	(0.8)	(2.4)	(1.6)
Loss on disposal of property, plant and equipment	(1.4)	(2.7)	(1.4)	(3.1)
Post-employment and other employee benefit expenses in excess of contributions	(1.8)	(2.1)	(1.1)	(5.1)
Unrealized net gain on derivative financial instruments	0.7	2.7	4.0	6.1
Non-cash transactions relating to lease liabilities	1.7	0.9	3.5	1.8
Interest expense on lease liabilities	(0.7)	(0.2)	(1.2)	(0.4)
Adjustment for accrued compensation	(7.2)	3.9	(0.1)	1.7
Adjustment for VIA Préférence loyalty program	0.1	–	0.2	–
Other	(0.1)	0.3	–	0.2
Operating funding from the Government of Canada	79.9	97.3	200.2	193.5

7. Trade and Other Receivables

The trade and other receivables balance include the following:

<i>(in millions of Canadian dollars)</i>	June 30, 2022	December 31, 2021
Trade	2.5	2.8
Other receivables	6.9	5.3
Loss allowance	(0.5)	(0.5)
Trade and other receivables classified at Amortized cost	8.9	7.6
Amount receivable from the Government of Canada – Operating funding	55.9	63.3
Amount receivable from (payable to) the Government of Canada – Capital funding <i>(Note 18)</i>	50.2	(7.4)
Total receivable from the Government of Canada	106.1	55.9
Sales taxes	1.6	7.7
Total trade and other receivables	116.6	71.2

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

The net book value of the past due receivables of the Corporation is \$0.6 million (December 31, 2021: \$0.9 million) at the closing date. The maturity of these receivables is detailed in the following table:

<i>(in millions of Canadian dollars)</i>	June 30, 2022	December 31, 2021
Not impaired and past due by:		
0 to 30 days	0.4	0.4
31 to 60 days	0.1	0.4
61 to 90 days	0.1	0.1
Over 90 days	–	–
Total	0.6	0.9

The Corporation has recognized in the current period an amount of \$0.1 million of impairment loss arising from contracts with customers and other receivables, which is presented in the line “Other” in the Statement of Comprehensive Income (June 30, 2021: \$0.1 million).

8. Derivative Financial Instruments

The Corporation uses commodity swaps where it exchanges cash payments based on variations in the price of a commodity (i.e., heating oil) compared to the agreed benchmark price.

At the end of the period, the fair values of the derivative financial instruments are as follows:

	June 30, 2022		December 31, 2021	
	Notional quantity (000's of U.S. gallons)	Fair value CAD (millions)	Notional quantity (000's of U.S. gallons)	Fair value CAD (millions)
Commodity swaps				
Assets	2,688	6.2	4,032	2.3
Liabilities	-	-	1,008	0.1

As at June 30, 2022, the commodity swaps in CAD have a fixed price per U.S. gallon between 1.950 and 2.978 CAD (December 31, 2021: between 1.950 CAD and 2.978 CAD). The maturity dates are in 2022 (December 31, 2021: 2022). These financial instruments have a monthly settlement schedule.

9. Property, Plant and Equipment

<i>(in millions of Canadian dollars)</i>	Land	Rolling stock	Maintenance buildings	Stations and facilities <i>(Note 1)</i>	Owned infrastructures	Leasehold improvements	Machinery and equipment	Computer hardware	Other	Projects in progress	Total
Cost:											
January 1, 2022	17.6	938.3	177.9	192.6	323.2	98.6	38.4	40.5	10.1	441.8	2,279.0
Additions	–	–	–	–	–	–	–	–	–	103.5	103.5
Disposals	–	(5.0)	–	(0.2)	(1.2)	(0.2)	–	(0.3)	–	–	(6.9)
Transfers	–	8.7	1.1	0.3	1.2	0.8	–	0.2	0.5	(12.8)	–
Total cost	17.6	942.0	179.0	192.7	323.2	99.2	38.4	40.4	10.6	532.5	2,375.6
Accumulated depreciation and impairment:											
January 1, 2022	–	585.8	108.3	66.5	122.9	58.5	22.2	24.4	4.5	–	993.1
Additions	–	21.1	1.6	4.1	5.0	2.1	1.1	3.1	0.4	–	38.5
Disposals	–	(4.7)	–	(0.1)	(0.2)	(0.2)	–	(0.2)	–	–	(5.4)
Total accumulated depreciation and impairment	–	602.2	109.9	70.5	127.7	60.4	23.3	27.3	4.9	–	1,026.2
Total carrying amount	17.6	339.8	69.1	122.2	195.5	38.8	15.1	13.1	5.7	532.5	1,349.4

Note 1 – The Corporation leases to third parties a small surface area of certain stations belonging to it. Given that this is only a non-significant proportion of certain stations, these assets are not presented on a separate line.

10. Intangible Assets

	External software	In-house developed software	Right of access to rail infrastructure	Other	Projects in progress	Total
<i>(in millions of Canadian dollars)</i>						
Cost:						
January 1, 2022	113.6	7.8	438.3	4.5	52.9	617.1
Additions	–	–	–	–	22.9	22.9
Transfers	0.6	–	–	–	(0.6)	–
Total cost	114.2	7.8	438.3	4.5	75.2	640.0
Accumulated amortization and impairment:						
January 1, 2022	102.3	7.8	147.8	3.1	–	261.0
Additions	3.6	–	5.7	0.1	–	9.4
Total accumulated amortization and impairment	105.9	7.8	153.5	3.2	–	270.4
Total carrying amount	8.3	–	284.8	1.3	75.2	369.6

11. Trade and Other Payables

The trade and other payables balance includes the following:

<i>(in millions of Canadian dollars)</i>	June 30, 2022	December 31, 2021
Wages payable and accrued	45.5	44.1
Accounts payable and accruals – Trade	47.0	53.6
Accounts payable and accruals – Capital assets	94.4	54.0
Trade and other payables classified at Amortized cost	186.9	151.7
Capital tax, income tax and other taxes payable	8.0	7.1
Deductions at sources	3.4	2.8
Total trade and other payables	198.3	161.6

12. Leases

The Corporation as a lessee:

The Corporation leases several assets including lands, office spaces, stations and facilities and information-technology equipment. The carrying amounts of right-of-use assets recognized and the movement during the period are as follows:

	Land	Office spaces	Stations and facilities	Information technology equipment	Total
<i>(in millions of Canadian dollars)</i>					
Cost:					
January 1, 2022	0.5	14.3	80.4	0.8	96.0
Additions	-	-	-	0.7	0.7
Disposals	-	-	(0.1)	-	(0.1)
Total cost	0.5	14.3	80.3	1.5	96.6
Accumulated depreciation:					
January 1, 2022	0.1	4.9	2.7	0.5	8.2
Additions	-	1.0	1.0	0.4	2.4
Disposals	-	-	(0.1)	-	(0.1)
Transfers	-	(0.2)	0.2	-	-
Total accumulated depreciation	0.1	5.7	3.8	0.9	10.5
Net carrying amount	0.4	8.6	76.5	0.6	86.1

Amount recognized in the Statement of Comprehensive Income:

	Quarters ended June 30		Six-month periods ended June 30	
<i>(in millions of Canadian dollars)</i>	2022	2021	2022	2021
Short-term leases	-	0.2	-	0.6
Low-value assets	-	0.1	0.1	0.1

Total cash outflow is \$1.8 million for the quarter and \$3.6 million for the six-month period (June 30, 2021: \$1.2 million for the quarter and \$2.5 million for the six-month period).

The Corporation has not entered into any sale and leaseback transactions in the current or prior period and has no income from subleasing right-of-use assets. The Corporation has not entered in any variable leases that do not depend on an index or rate.

The carrying amounts of lease liabilities and the movements of the period are as follows:

<i>(in millions of Canadian dollars)</i>	June 30, 2022	December 31, 2021
Balance, beginning of period	90.0	35.1
Additions	0.7	57.5
Accretion of interest	1.2	0.9
Payments	(3.5)	(3.5)
Balance, end of period	88.4	90.0
Current	3.9	3.7
Non-current	84.5	86.3
Total lease liabilities	88.4	90.0

13. Provisions

The provisions balance includes the following:

<i>(in millions of Canadian dollars)</i>	January 1, 2022	Additional provisions recognized	Provisions utilized	Unused amounts reversed	June 30, 2022
Environmental costs	0.3	0.5	(0.4)	–	0.4
Litigation and equipment repairs <i>(Note 1)</i>	4.9	2.2	(3.6)	(0.1)	3.4
Total provisions	5.2	2.7	(4.0)	(0.1)	3.8

Note 1: 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 depends to a large extent on the pace of negotiation with the various counterparties and legal authorities. The Corporation cannot reliably estimate when these claims will be resolved.

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.

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

14. Deferred Revenues

Deferred revenues are comprised of the following:

<i>(in millions of Canadian dollars)</i>	June 30, 2022	December 31, 2021
Advance ticket sales	35.9	6.4
VIA Préférence loyalty program	11.0	11.2
Non-monetary transactions	1.4	1.5
Gift cards	1.7	1.7
Other	1.2	1.2
Total deferred revenues	51.2	22.0

Advance ticket sales, which represent contract liabilities, relate to payments received in advance of performance under the contract. Contract liabilities are recognized as revenue as the Corporation performs the contract.

15. Employee Benefit Assets and Liabilities

The Corporation provides a number of pension plans with defined benefits (funded) and defined contribution 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.

As disclosed in Note 22 Employee benefit assets and liabilities of the Corporation's 2021 audited annual report, the Corporation reviews its actuarial assumptions at each reporting period to ensure that the net defined benefit asset (liability) recognized in the financial statements is updated for significant changes arising from non-recurring events. The impact on the net defined benefit asset (liability) arising from any such changes in assumptions is recognized in other comprehensive income as remeasurement for the period.

The significant actuarial assumptions used for the purposes of determining the defined benefit obligation and pension benefit costs were:

	June 30, 2022	December 31, 2021
ASSUMPTIONS — DISCOUNT RATES		
Assumptions for the calculation of the obligation		
Defined benefit component of the pension plans	5.00%	3.00%
Post-employment benefit plans	5.10%	3.00%
Long-term employee benefit plans	2.80%	2.80%
Assumptions for the calculation of the costs		
Defined benefit component of the pension plans	3.00%	2.50%
Post-employment benefit plans	3.00%	2.60%
Long-term employee benefit plans	2.80%	2.20%

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

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

	Defined benefit component of the pension plans		Post-employment benefit plans	
	June 30, 2022	December 31, 2021	June 30, 2022	December 31, 2021
<i>(in millions of Canadian dollars)</i>				
DEFINED BENEFIT OBLIGATION:				
Balance, beginning of period	2,519.8	2,746.4	26.3	28.1
Service cost	13.5	34.3	0.2	0.4
Past service cost	–	0.1	–	–
Interest expense	62.6	67.3	0.3	0.7
Employee contributions	6.2	11.0	–	–
Benefits paid	(73.7)	(145.1)	(0.3)	(0.9)
Effect of change in financial assumptions	(411.1)	(180.3)	(7.6)	(1.9)
Effect of experience adjustments	–	(13.9)	–	(0.1)
Balance, end of period	2,117.3	2,519.8	18.9	26.3
FAIR VALUE OF PLAN ASSETS:				
Balance, beginning of period	2,800.0	2,696.6	–	–
Interest income	69.3	66.3	–	–
Return on plan assets (excluding interest income)	(15.7)	153.2	–	–
Employer contributions	7.0	20.0	0.3	0.9
Employee contributions	6.2	11.0	–	–
Benefits paid	(73.7)	(145.1)	(0.3)	(0.9)
Administration expenses	(1.3)	(2.0)	–	–
Balance, end of period	2,791.8	2,800.0	–	–
Net defined benefit (asset) liability	(674.5)	(280.2)	18.9	26.3

15. Employee Benefit Assets and Liabilities (cont'd)

b) Long-term employee benefit plans

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

<i>(in millions of Canadian dollars)</i>	June 30, 2022	December 31, 2021
LONG-TERM BENEFIT OBLIGATION:		
Balance, beginning of period	15.1	17.6
Service cost	1.8	3.5
Interest expense	0.3	0.4
Benefits paid	(2.3)	(4.2)
Effect of change in financial assumptions	-	(0.9)
Effect of experience adjustments	-	(1.3)
Balance, end of period	14.9	15.1
FAIR VALUE OF PLAN ASSETS:		
Balance, beginning of period	-	-
Employer contributions	2.3	4.2
Benefits paid	(2.3)	(4.2)
Balance, end of period	-	-
Net long-term employee benefit liability	14.9	15.1

c) 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:

<i>(in millions of Canadian dollars)</i>	June 30, 2022	December 31, 2021
Assets:		
Defined benefit component of the pension plans	674.5	280.2
Liabilities:		
Post-employment benefit plans	18.9	26.3
Long-term employee benefit plans	14.9	15.1
Other long-term employee benefits	0.2	0.2
Total liabilities	34.0	41.6

Total amounts recognized in the Statement of Comprehensive Income:

	Quarters ended June 30		Six-month periods ended June 30	
<i>(in millions of Canadian dollars)</i>	2022	2021	2022	2021
Operating expenses:				
Defined benefit component of the pension plans	3.4	7.3	8.1	14.5
Post-employment benefit plans	0.2	0.4	0.5	0.7
Long-term employee benefit plans	1.1	1.1	2.1	2.0
Total	4.7	8.8	10.7	17.2

These operating expenses are included in the "Compensation and employee benefits" line item of the Statement of Comprehensive Income.

	Quarters ended June 30		Six-month periods ended June 30	
<i>(in millions of Canadian dollars)</i>	2022	2021	2022	2021
Other comprehensive income (loss):				
Defined benefit component of the pension plans	534.7	44.6	395.4	252.3
Post-employment benefit plans	3.7	(0.5)	7.6	2.6
Total	538.4	44.1	403.0	254.9

16. Income Taxes

The income tax expense consists of the following:

	Quarters ended June 30		Six-month periods ended June 30	
<i>(in millions of Canadian dollars)</i>	2022	2021	2022	2021
Current	0.2	0.1	0.2	0.2
Deferred	3.9	–	(8.4)	–
Income tax expense	4.1	0.1	(8.2)	0.2

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

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

Deferred income tax balances June 30, 2022 <i>(in millions of Canadian dollars)</i>	Opening Balance	Recognized in net income	Recognized in OCI	Closing Balance
Deferred income tax assets (liabilities):				
Unrealized net gain on derivative financial instruments	(0.6)	(0.9)	–	(1.5)
Right-of-use assets	(21.6)	0.3	–	(21.3)
Employee benefit assets	(69.0)	1.7	(100.0)	(167.3)
Total deferred income tax liabilities	(91.2)	1.1	(100.0)	(190.1)
Property, plant and equipment	20.8	9.4	–	30.2
Provisions	1.7	(0.6)	–	1.1
Lease liabilities	22.2	(0.3)	–	21.9
Employee benefit liabilities	10.2	(1.8)	–	8.4
Losses carry-forward	13.7	0.6	–	14.3
Total deferred income tax assets	68.6	7.3	–	75.9
Deferred income tax liabilities	(22.6)	8.4	(100.0)	(114.2)

17. Deferred Capital Funding

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

<i>(in millions of Canadian dollars)</i>	June 30, 2022	December 31, 2021
Balance, beginning of period	1,658.1	1,538.7
Government funding for property, plant and equipment and intangible assets (including the cost of land)	119.9	226.4
Amortization of deferred capital funding	(49.2)	(107.0)
Balance, end of period	1,728.8	1,658.1

18. Supplemental Cash Flows Information

Net change in working capital items:

	Quarters ended June 30		Six-month periods ended June 30	
<i>(in millions of Canadian dollars)</i>	2022	2021	2022	2021
Trade and other receivables	2.8	12.8	12.2	36.6
Other assets	(3.9)	0.1	(6.6)	(0.3)
Materials	0.6	(1.2)	2.1	(1.4)
Trade and other payables	10.7	7.2	(3.8)	5.4
Provisions	(2.7)	(3.1)	(1.4)	0.1
Deferred revenues	14.3	2.4	29.2	3.1
Total	21.8	18.2	31.7	43.5

The change in trade and other receivables excludes an amount of (\$57.6) million (June 30, 2021: (\$46.8) million) in relation to government funding receivable from the Government of Canada for capital expenditures, as the amount relates to investing activities.

The change in trade and other payables excludes an amount of \$40.4 million (June 30, 2021: \$19.9 million) in relation to the acquisition of property, plant and equipment and intangible assets, as this amount relates to investing activities.

18. Supplemental Cash Flows Information (cont'd)

Investing activities supplemental information:

	Quarters ended June 30		Six-month periods ended June 30	
<i>(in millions of Canadian dollars)</i>	2022	2021	2022	2021
Government funding invoiced for property, plant and equipment and intangible assets	65.1	48.2	119.9	95.1
Change in amount receivable from the Government of Canada – Capital funding	(50.8)	(12.9)	(57.6)	(46.8)
Total Government funding received related to acquisition of property, plant and equipment and intangible assets	14.3	35.3	62.3	48.3
Acquisition of property, plant and equipment and intangible assets	(68.7)	(50.3)	(126.4)	(99.3)
Additions to property, plant and equipment and intangible assets not affecting cash as they were previously cashed out through the advances on contracts	1.9	1.0	3.5	2.2
Change in accounts payable and accruals – Capital assets	29.5	12.8	40.4	19.9
Change in other payables	1.7	0.9	3.0	1.9
Total cash out for acquisition of property, plant and equipment and intangible assets	(35.6)	(35.6)	(79.5)	(75.3)

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, 2021.

20. Commitments

The following table presents the contractual commitments of the Corporation that are not included in the Statement of Financial Position.

	June 30, 2022				December 31, 2021
	Total commitments	Less than 1 year	From 1 to 5 years	More than 5 years	Total commitments
<i>(in millions of Canadian dollars)</i>					
COMMITMENTS RELATING TO OPERATIONS:					
Non-cancellable leases: Lessee	148.8	5.8	17.2	125.8	148.8
Technical services	356.0	4.3	67.1	284.6	356.0
Usage of tracks	41.1	1.4	5.6	34.1	41.8
TOTAL	545.9	11.5	89.9	444.5	546.6
COMMITMENTS RELATING TO MAJOR CAPITAL INVESTMENTS:					
Rolling stock	643.0	313.3	329.7	–	700.6
Maintenance buildings	1.0	1.0	–	–	1.8
Stations and facilities	18.4	16.1	2.3	–	2.0
Owned infrastructures	23.4	12.3	11.1	–	1.2
Software	–	–	–	–	1.7
Computer hardware	0.8	0.8	–	–	1.2
Total	686.6	343.5	343.1	–	708.5
Total commitments	1,232.5	355.0	433.0	444.5	1,255.1

a) 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 depends on the annual usage of the tracks.

b) The Corporation has provided letters of credit from a banking institution totaling approximately \$26.4 million (December 31, 2021: \$24.6 million) to various provincial government workers' compensation boards as security for future payment streams.

