Second Quarter Report 2020

Management's Discussion and Analysis

1. Introduction

Management's discussion and analysis report outlines the financial results of VIA Rail for the quarter and the six-month period ended June 30, 2020 compared with the quarter and the six-month period ended June 30, 2019. 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.

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 travelers 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. COVID-19 Pandemic

VIA Rail, as well as all other passenger transportation providers, has been significantly affected by the COVID-19 pandemic. The Corporation reduced its capacity by 93 per cent as demand for travel plummeted, resulting in a decrease of 97.6 per cent in revenues compared to the corresponding quarter last year.

Operating expenses for the quarter decreased in part due to the impact of the reduction in services but also as a result of cost cutting measures implemented, such as reduced pay for employees not at work or partly at work, and the cancellation or delay of operating initiatives non-essential to current operations.

The cost savings will not be sufficient to offset the reduction in revenues, the Corporation is therefore in discussion with Transport Canada to obtain additional emergency funding.

Safety of passengers and employees remains the Corporation's key priority and new health and safety measures have been implemented to address health and safety requirements. These measures include physical distancing in stations, health screening procedures for passengers boarding trains and 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 centers and offices.

4. Highlights of Financial Results and Major Key Operating Statistics

	Quarters ended June 30				Six-month periods ended June 30			
(in millions of Canadian dollars)	**2020**	**2019**	**Var $**	**Var %**	**2020**	**2019**	**Var $**	**Var %**
Financial Performance								
Passenger revenues *(section 4.2)*	**2.3**	94.3	(92.0)	(97.6%)	**48.4**	174.0	(125.6)	(72.2%)
Other revenues	**3.4**	5.6	(2.2)	(39.3%)	**8.3**	11.2	(2.9)	(25.9%)
Total revenues	**5.7**	99.9	(94.2)	(94.3%)	**56.7**	185.2	(128.5)	(69.4%)
Operating expenses *(section 4.3)*	**144.8**	202.1	(57.3)	(28.4%)	**347.5**	396.9	(49.4)	(12.4%)
Operating loss before funding from the Government of Canada and income taxes *(section 4.1)*	**(139.1)**	(102.2)	(36.9)	(36.1%)	**(290.8)**	(211.7)	(79.1)	(37.4%)
Operating funding from the Government of Canada *(section 4.1)*	**119.6**	74.4	45.2	60.8%	**224.4**	158.6	65.8	41.5%
Amortization of deferred capital funding	**24.1**	25.1	(1.0)	(4.0%)	**47.5**	51.0	(3.5)	(6.9%)
Income tax expense	**0.1**	-	0.1	n/a	**0.2**	0.1	0.1	100.0%
Net income (loss) for the period	**4.5**	(2.7)	7.2	266.7%	**(19.1)**	(2.2)	(16.9)	(768.2%)
Remeasurements of defined benefit components of the pension plans and post-employment benefit plans	**(133.6)**	(69.3)	(64.3)	(92.8%)	**(56.5)**	(107.6)	51.1	47.5%
Comprehensive loss for the period	**(129.1)**	(72.0)	(57.1)	(79.3%)	**(75.6)**	(109.8)	34.2	31.1%
Financial Position and Cash Flows								
Total assets *(section 4.4)*	**1,692.0**	1,597.9	94.1	5.9%	**1,692.0**	1,597.9	94.1	5.9%
Total liabilities and deferred capital funding *(section 4.4)*	**1,904.4**	1,734.8	169.6	9.8%	**1,904.4**	1,734.8	169.6	9.8%
Cash *(section 4.5)*	**35.9**	41.5	(5.6)	(13.5%)	**35.9**	41.5	(5.6)	(13.5%)
Net cash (used in) provided by operating activities *(section 4.5)*	**(4.7)**	18.8	(23.5)	(125.0%)	**(4.7)**	2.7	(7.4)	(274.1%)
Net cash provided by (used in) investing activities *(section 4.5)*	**32.1**	(2.5)	34.6	1,384.0%	**38.6**	25.3	13.3	52.6%
Net cash (used in) financing activities *(section 4.5)*	**(0.7)**	(0.6)	(0.1)	(16.7%)	**(1.4)**	(1.3)	(0.1)	(7.7%)
Capital funding *(section 4.5)*	**84.7**	28.5	56.2	197.2%	**140.2**	146.7	(6.5)	(4.4%)
Key Operating Statistics								
Train-miles operated *(in thousands)*	**371**	1,743	(1,372)	(78.7%)	**1,516**	3,431	(1,915)	(55.8%)
Seat-miles *(in millions)*	**32**	444	(412)	(92.8%)	**299**	866	(567)	(65.5%)
Passengers-miles *(in millions)*	**12**	256	(244)	(95.3%)	**137**	480	(343)	(71.5%)
Passengers *(in thousands)*	**60**	1,203	(1,143)	(95.0%)	**703**	2,348	(1,645)	(70.1%)
Average passenger load factor *(%)*	**39**	58	(19)	(32.8%)	**46**	55	(9)	(16.4%)
RASM *(revenue per available seat-mile) (in cents) – Note 1*	**7.19**	21.24	(14.05)	(66.1%)	**16.19**	20.09	(3.90)	(19.4%)
CASM *(cost per available seat-mile) (in cents) – Note 1*	**452.50**	45.52	406.98	894.1%	**116.22**	45.83	70.39	153.6%
Cost recovery ratio *(%) – Note 1*	**3.9**	49.4	(45.5)	(92.1%)	**16.3**	46.7	(30.4)	(65.1%)
Operating deficit per passenger-mile *(in cents)*	**964.5**	29.1	935.4	3,214.4%	**163.3**	33.0	130.3	394.8%
On-time Performance *(%)*	**66**	75	(9)	(12.0%)	**74**	68	6	8.8%

(Amounts in bracket represent decreases)

Note 1: based on funded results

Financial Highlights

Second quarter

- Total revenues decreased by 94.3 per cent due to the decreased ridership and associated service adjustments caused by the impact of COVID-19.
- Operating expenses decreased by 28.4 per cent primarily due to the lower costs for train operations and fuel, reflecting the service adjustments made during the quarter.
- The operating loss increased by 36.1 per cent due to a higher decrease in revenues than the decrease in operating expenses.
- Operating funding increased by 60.8 per cent, reflecting the higher amounts required for funded activities.
- VIA Rail generated a comprehensive loss of $129.1 million compared to a comprehensive loss of $72.0 million in 2019. 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 decreased by 69.4 per cent also due to lower ridership in all train services caused by the impact of COVID-19.
- Operating expenses decreased by 12.4 per cent, reflecting the decrease in capacity deployed at the end of the first quarter and during the second quarter of 2020.
- The operating loss increased by 37.4 per cent because the decrease in revenues was greater than the decrease in operating expenses.
- Operating funding increased by 41.5 per cent, reflecting the higher amounts required for funded activities.
- VIA Rail generated a comprehensive loss of $75.6 million compared to a comprehensive loss of $109.8 million in 2019. The variation is due to the remeasurements of the defined benefit components of the pension plans and post-employment benefit plans.

All key operating statistics were negatively impacted, during the second quarter and on a cumulative basis, by the events described, except for the OTP which improved, on a cumulative basis only, as a result of the reduction in freight traffic on the host rail network.

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)	**2020**	**2019**	**Var $**	**Var %**	**2020**	**2019**	**Var $**	**Var %**
Operating loss on a funded basis	**(119.6)**	**(74.4)**	**(45.2)**	**(60.8%)**	**(224.4)**	**(158.6)**	**(65.8)**	**(41.5%)**
NON-FUNDED ADJUSTMENT TO REVENUES								
Adjustment for VIA Préférence points and other	**0.4**	-	0.4	n/a	**0.3**	(0.4)	0.7	175.0%
NON-FUNDED ADJUSTMENTS TO EXPENSES								
Pension and other employee future benefits	**(6.5)**	(4.4)	(2.1)	(47.7%)	**(12.6)**	(5.8)	(6.8)	(117.2%)
Depreciation of property, plant and equipment, depreciation of right-of-use assets, amortization of intangible assets and loss on disposal	**(25.1)**	(26.2)	1.1	4.2%	**(49.5)**	(52.6)	3.1	5.9%
Other provisions for non-cash items	**11.7**	2.8	8.9	317.9%	**(4.6)**	5.7	(10.3)	(180.7%)
Total non-funded adjustments to expenses	**(19.9)**	(27.8)	7.9	28.4%	**(66.7)**	(52.7)	(14.0)	(26.6%)
Total items not requiring funds from operations	**(19.5)**	**(27.8)**	**8.3**	**29.9%**	**(66.4)**	**(53.1)**	**(13.3)**	**(25.0%)**
Operating loss under IFRS	**(139.1)**	**(102.2)**	**(36.9)**	**(36.1%)**	**(290.8)**	**(211.7)**	**(79.1)**	**(37.4%)**
Operating funding from the Government of Canada	**119.6**	74.4	45.2	60.8%	**224.4**	158.6	65.8	41.5%
Amortization of deferred capital funding	**24.1**	25.1	(1.0)	(4.0%)	**47.5**	51.0	(3.5)	(6.9%)
Net income (loss) before income taxes	**4.6**	**(2.7)**	**7.3**	**270.4%**	**(18.9)**	**(2.1)**	**(16.8)**	**(800.0%)**
Income tax expense	**0.1**	-	0.1	n/a	**0.2**	0.1	0.1	100.0%
Net income (loss) under IFRS for the period	**4.5**	**(2.7)**	**7.2**	**266.7%**	**(19.1)**	**(2.2)**	**(16.9)**	**(768.2%)**
Remeasurements of the defined benefit component of the pension plans and post-employment benefit plans	**(133.6)**	(69.3)	(64.3)	(92.8%)	**(56.5)**	(107.6)	51.1	47.5%
Comprehensive loss for the period	**(129.1)**	**(72.0)**	**(57.1)**	**(79.3%)**	**(75.6)**	**(109.8)**	**34.2**	**31.1%**

(Amounts in bracket represent decreases)

Net income (loss) under IFRS for the quarter:

Net income of $4.5 million this quarter, compared to a net loss of $2.7 million last year, representing an improvement of $7.2 million mainly due to:

- Higher government funding received during the quarter ($45.2 million), as a consequence of:
- Higher operating loss ($36.9 million), attributable to lower revenues of $94.2 million partly offset by lower expenses of $57.3 million.
- Partly offset by lower amortization of deferred capital funding ($1.0 million).

Net loss under IFRS for the six-month period:

Net loss of $19.1 million for the six-month period, compared to a net loss of $2.2 million last year, representing a deterioration of $16.9 million mainly due to:

- Higher operating loss ($79.1 million), attributable to lower revenues of $128.5 million partly offset by lower expenses of $49.4 million, as well as:
- Lower amortization of deferred capital funding ($3.5 million).
- Partly offset by higher government funding received during the six-month period ($65.8 million).

Comprehensive loss of $129.1 million in the second quarter of 2020 and comprehensive loss of $75.6 million for the six-month period ended June 30, 2020 include the following:

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.

Remeasurement of the defined benefit component of the pension plans and post-employment benefit plans of ($133.6) million in the second quarter of 2020 is due to an actuarial loss of $330.3 million on the defined benefit obligation arising from a 100 basis point decrease in the discount rate since March 31, 2020 and to a remeasurement gain of $200.9 million resulting from higher actual rate of return on plan assets. The remeasurement also includes an actuarial loss of $4.2 million due to the decrease in discount rate used to determine the post-employment obligation.

The remeasurement of the defined benefit component of the pension plans and post-employment benefit plans of ($56.5) million for the six-month period is due to the decrease in discount rate used to determine the defined benefit obligation (2.80 per cent as at June 30, 2020 compare to 3.10 per cent as at December 31, 2019), which resulted in an actuarial loss of $107.1 million, partly offset by a return on plan assets of $52.0 million during the period. The remeasurement also includes an actuarial loss of $1.4 million due to the decrease in discount rate used to determine the post-employment benefit obligation (2.80 per cent as at June 30, 2020 compared to 3.10 per cent as at December 31, 2019).

Comprehensive loss of $72.0 million in the second quarter of 2019 and comprehensive loss of $109.8 million for the six-month period ended June 30, 2019 include the following:

The remeasurement of the defined benefit component of the pension plans of ($69.3) million for the second quarter of 2019 is due to an actuarial loss of $124.5 million arising from a 40 basis point decrease in the discount rate since March 31, 2019 and to a remeasurement gain of $59.1 million resulting from higher return on assets. The remeasurement also includes an actuarial loss of $3.9 million due to the decrease in discount rate used to determine the post-employment obligation.

The remeasurement of the defined benefit component of the pension plans of ($107.6) million for the six-month period ended June 30, 2019 was due to the decrease of the discount rate used to determine the defined benefit obligation (2.90 per cent as at June 30, 2019 compared to 3.90 per cent as at December 31, 2018) which resulted in an actuarial loss of $299.4 million for the period, partly offset by a higher return on plan assets of $195.7 million generated during the period. The remeasurement also includes an actuarial loss of $3.9 million due to the decrease in discount rate used to determine the post-employment obligation.

5.2 Revenues

(in millions of Canadian dollars)	Quarters ended June 30				Six-month periods ended June 30			
	2020	**2019**	**Var $**	**Var %**	**2020**	**2019**	**Var $**	**Var %**
Passenger revenues								
Corridor East	**0.9**	60.9	(60.0)	(98.5%)	**31.8**	118.4	(86.6)	(73.1%)
Southwestern Ontario (SWO)	**-**	12.1	(12.1)	(100.0%)	**8.2**	24.7	(16.5)	(66.8%)
Québec City – Windsor corridor	**0.9**	**73.0**	**(72.1)**	**(98.8%)**	**40.0**	**143.1**	**(103.1)**	**(72.0%)**
Ocean	**-**	2.7	(2.7)	(100.0%)	**1.1**	4.3	(3.2)	(74.4%)
Canadian	**-**	15.3	(15.3)	(100.0%)	**3.1**	20.7	(17.6)	(85.0%)
Regional services	**0.2**	1.0	(0.8)	(80.0%)	**0.6**	1.5	(0.9)	(60.0%)
Non corridor	**0.2**	**19.0**	**(18.8)**	**(98.9%)**	**4.8**	**26.5**	**(21.7)**	**(81.9%)**
Other	**1.2**	2.3	(1.1)	(47.8%)	**3.6**	4.4	(0.8)	(18.2%)
Total passenger revenues under IFRS	**2.3**	**94.3**	**(92.0)**	**(97.6%)**	**48.4**	**174.0**	**(125.6)**	**(72.2%)**
Other revenues	**3.4**	5.6	(2.2)	(39.3%)	**8.3**	11.2	(2.9)	(25.9%)
Total revenues under IFRS	**5.7**	**99.9**	**(94.2)**	**(94.3%)**	**56.7**	**185.2**	**(128.5)**	**(69.4%)**
Adjustment for VIA Préférence points (non-funded) and other	**(0.4)**	-	(0.4)	n/a	**(0.3)**	0.4	(0.7)	(175.0%)
TOTAL FUNDED REVENUES	**5.3**	**99.9**	**(94.6)**	**(94.7%)**	**56.4**	**185.6**	**(129.2)**	**(69.6%)**

(Amounts in bracket represent decreases)

Passengers

(in thousands)	Quarters ended June 30				Six-month periods ended June 30			
	2020	**2019**	**Var #**	**Var %**	**2020**	**2019**	**Var #**	**Var %**
Passengers								
Corridor East	**41.5**	869.4	(827.9)	(95.2%)	**488.0**	1,697.3	(1,209.3)	(71.2%)
Southwestern Ontario (SWO)	**14.3**	278.4	(264.1)	(94.9%)	**189.7**	560.8	(371.1)	(66.2%)
Québec City – Windsor corridor	**55.8**	**1,147.8**	**(1,092.0)**	**(95.1%)**	**677.7**	**2,258.1**	**(1,580.4)**	**(70.0%)**
Ocean	**-**	17.8	(17.8)	(100.0%)	**8.2**	31.9	(23.7)	(74.3%)
Canadian	**-**	21.7	(21.7)	(100.0%)	**5.7**	32.1	(26.4)	(82.2%)
Regional services	**4.9**	15.8	(10.9)	(69.0%)	**11.6**	26.1	(14.5)	(55.6%)
Non corridor	**4.9**	**55.3**	**(50.4)**	**(91.1%)**	**25.5**	**90.1**	**(64.6)**	**(71.7%)**
TOTAL PASSENGERS	**60.7**	**1,203.1**	**(1,142.4)**	**(95.0%)**	**703.2**	**2,348.2**	**(1,645.0)**	**(70.1%)**

(Amounts in bracket represent decreases)

Passenger revenues

Passenger revenues have decreased by $92.0 million (97.6 per cent) during the quarter and have decreased by $125.6 million (72.2 per cent) for the six-month period. These decreases are mainly attributable to events that started during the first quarter of 2020.

Blockades started on February 6, 2020 and forced VIA Rail to cancel all its services on the network except for the Sudbury-White river and Churchill-The Pas routes. Most services resumed at the end of February and in early March, except for the service on the Prince Rupert-Prince George-Jasper route which resumed on July 5.

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. On March 12, 2020, in response to the COVID-19 outbreak, VIA Rail enforced special health and safety measures for its passengers and employees, and subsequently reduced service levels for most major train services.

Québec City – Windsor Corridor

Revenues and ridership for the quarter and the six-month period were directly impacted by the COVID-19 pandemic.

Corridor service was partially reduced to 50 per cent on March 17, with further reductions on March 23 (operations reduced to 33 per cent), further reduced to 18 per cent on March 31 and gradually increased back to 28 per cent during the second quarter.

Revenues of the Corridor were also negatively impacted by the reimbursement of passes which had been sold in previous quarters. In Southwestern Ontario, the reversal of revenue associated with the refunds for passes totally offset the revenues generated during the quarter.

Corridor East

Revenues for the quarter have decreased by $60.0 million (98.5 per cent) and have decreased by $86.6 million (73.1 per cent) for the six-month period. These decreases stem in most part from lower ridership of 95.2 per cent for the quarter and of 71.2 per cent on a cumulative basis.

Southwestern Ontario

Revenues have decreased by $12.1 million (100.0 per cent) during the quarter and have decreased by $16.5 million (66.8 per cent) for the six-month period due to lower passenger levels (94.9 per cent) for the quarter and (66.2 per cent) for the six-month period.

5.2 Revenues (cont'd)

Ocean

No revenues were generated on this service since it ceased operating in March 2020.

The service was initially shut down on February 14 as a result of the blockades and resumed on February 28. It was shut down again on March 13 and on May 6, the suspension of the service has been extended until November 2020 because of the COVID-19 pandemic.

Revenues for the quarter have therefore decreased by $2.7 million (100.0 per cent) and by $3.2 million (74.4 per cent) for the six-month period. Ridership also decreased by 100.0 per cent for the quarter and by 74.3 per cent for the six-month period.

Canadian

No revenues were generated on this service since it also ceased operating in March 2020.

The service was initially shut down on February 12 as a result of the blockades and resumed on March 4. It was shut down again on March 13 because of the COVID-19 pandemic. On May 6, in light of the continued expansion of travel limitations as well as the physical distancing and isolation measures, the suspension of the service has been extended until November 2020.

Revenues for the quarter are $15.3 million (100.0 per cent) lower than last year and have decreased by $17.6 million (85.0 per cent) for the six-month period. Ridership has decreased by 100.0 per cent for the quarter and by 82.2 per cent for the six-month period.

Regional services

Revenues on Regional services have decreased by $0.8 million (80.0 per cent) for the quarter, and by $0.9 million (60.0 per cent) for the six-month period.

The Jasper to Prince-Rupert service was cancelled on February 14 due to the blockades and resumed on July 5.

The Winnipeg to Churchill service was interrupted South of The Pas between February 15 and February 28 as a result of the blockades. Since March 24 and as a result of the COVID-19 pandemic, the service has been operating with Economy class only and remains the only VIA Rail train service operating on a regular schedule.

The Montreal-Jonquière and Montreal-Senneterre services were interrupted between February 14 and March 4 due to the February blockades. Together with the Sudbury-White River service (which was not affected by the February blockades), they have been operating at one third of their regular frequencies since March 23 because of the COVID-19 pandemic.

Other revenues

Other revenues for the quarter have decreased by $2.2 million (39.3 per cent) and by $2.9 million (25.9 per cent) for the six-month period. These decreases are attributable to lower station revenues due to the loss of tenants in some stations and to rent relief provided to some tenants as part of the Canada Emergency Commercial Rent Assistance (CECRA) program, as well as to lower third-party revenues at the Toronto Maintenance Center.

5.3 Operating Expenses

	Quarters ended June 30				Six-month periods ended June 30			
(in millions of Canadian dollars)	**2020**	**2019**	**Var $**	**Var %**	**2020**	**2019**	**Var $**	**Var %**
Compensation and employee benefits	**74.3**	86.7	(12.4)	(14.3%)	**158.5**	168.5	(10.0)	(5.9%)
Train operations and fuel	**10.9**	36.4	(25.5)	(70.1%)	**38.6**	74.4	(35.8)	(48.1%)
Stations and property	**8.7**	8.7	-	0.0%	**20.4**	20.6	(0.2)	(1.0%)
Marketing and sales	**1.9**	8.0	(6.1)	(76.3%)	**9.8**	17.0	(7.2)	(42.4%)
Maintenance material	**7.0**	10.2	(3.2)	(31.4%)	**17.2**	19.6	(2.4)	(12.2%)
Professional services	**2.8**	4.8	(2.0)	(41.7%)	**5.7**	10.0	(4.3)	(43.0%)
Telecommunications	**5.8**	5.3	0.5	9.4%	**11.7**	10.6	1.1	10.4%
Depreciation and amortization	**24.7**	26.0	(1.3)	(5.0%)	**49.1**	52.1	(3.0)	(5.8%)
Loss on disposal of property, plant and equipment and intangible assets	**0.4**	0.2	0.2	100.0%	**0.4**	0.5	(0.1)	(20.0%)
Unrealized (net gain) net loss on derivative financial instruments	**(3.7)**	2.2	(5.9)	268.2%	**9.9**	(3.5)	13.4	(382.9%)
Other	**12.0**	13.6	(1.6)	(11.8%)	**26.2**	27.1	(0.9)	(3.3%)
Total operating expenses under IFRS	**144.8**	**202.1**	**(57.3)**	**(28.4%)**	**347.5**	**396.9**	**(49.4)**	**(12.4%)**
Non-funded adjustments *(section 4.1)*	**(19.9)**	(27.8)	7.9	28.4%	**(66.7)**	(52,7)	(14.0)	(26.6%)
Total funded expenses	**124.9**	**174.3**	**(49.4)**	**(28.3%)**	**280.8**	**344.2**	**(63.4)**	**(18.4%)**

(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)

5.3 Operating Expenses (cont'd)

The Corporation, in its objective to reduce costs, has implemented various cost saving measures including the reduction of its operating expenses in proportion to the level of operations, reduction of compensation for employees not working or working part-time, reduction of publicity and advertising activities, reduction of services in stations as well as reduction of administrative costs and the postponement of non-essential initiatives.

VIA Rail'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 variable costs as the lowest level possible.

Total operating expenses decreased by $57.3 million (28.4 per cent) for the quarter, and by $49.4 million (12.4 per cent) for the six-month period. The primary variances are:

Compensation and employee benefits

The expenses decreased by $12.4 million (14.3 per cent) during the quarter and by $10.0 million (5.9 per cent) for the six-month period. The decreases result mainly from the reduced level of operations as a consequence of the COVID-19 pandemic.

Train operations and fuel

The expenses decreased by $25.5 million (70.1 per cent) during the quarter and by $35.8 million (48.1 per cent) for the six-month period. The decreases result mainly from the reduced level of operations as a consequence of the COVID-19 pandemic.

Marketing and sales

The expenses decreased by $6.1 million (76.3 per cent) during the quarter, and by $7.2 million (42.4 per cent) for the six-month period as a consequence of lower credit card commissions as less sales were generated given the reduced level of frequencies as well as to the suspension of advertising campaigns.

Maintenance material

The expenses have decreased by $3.2 million (31.4 per cent) for the quarter, and by $2.4 million (12.2 per cent) for the six-month period. The decrease reflects the lower utilization of equipment with the reduced level of services.

Professional services

The expenses decreased by $2.0 million (41.7 per cent) during the quarter and by $4.3 million (43.0 per cent) for the six-month period. These decreases are attributable to the fact that because of the COVID-19 pandemic, various initiatives requiring consulting services non-essential for current operations have been postponed or cancelled.

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

The expenses increased by $0.2 million (100.0 per cent) during the quarter and have decreased by $0.1 million (20.0 per cent) for the six-month period.

The increases for the quarter and the six-month period are due to the fact that as part of capital projects, replaced assets with remaining book value were written off.

Unrealized (net gain) net loss on derivative financial instruments

Net gain of $3.7 million for the quarter and net loss of $9.9 million for the six-month period compared to a net loss of $2.2 million for the quarter ended June 30, 2019 and a net gain of $3.5 million for the six-month period. Net loss for the cumulative period ending June 30, 2020 reflects the fact that market fuel prices are lower than contract prices, explaining the loss of $9.9 million, however market prices have increased compared to what they were as at March 31, 2020 justifying the gain during the second quarter.

5.4 Financial Position

(in millions of Canadian dollars)	June 30, 2020	December 31, 2019	Var $	Var %
ASSETS				
Current assets	**128.0**	128.4	(0.4)	(0.3%)
Advance on contract	**60.5**	63.6	(3.1)	(4.9%)
Property, plant and equipment	**1,129.0**	1,023.2	105.8	10.3%
Right-of-use assets	**30.5**	32.3	(1.8)	(5.6%)
Intangible assets	**340.0**	345.2	(5.2)	(1.5%)
Other	**0.9**	0.8	0.1	12.5%
Employee benefit assets	**3.1**	4.4	(1.3)	(29.5%)
Total assets	**1,692.0**	**1,597.9**	**94.1**	**5.9%**
LIABILITIES				
Current liabilities	**214.9**	209.2	5.7	2.7%
Other payables	**14.2**	9.4	4.8	51.1%
Lease liabilities	**28.9**	30.3	(1.4)	(4.6%)
Employee benefit liabilities	**146.7**	78.9	67.8	85.9%
Total liabilities	**404.7**	**327.8**	**76.9**	**23.5%**
Deferred capital funding	**1,499.7**	**1,407.0**	**92.7**	**6.6%**
Share capital	**9.3**	9.3	-	0.0%
Accumulated deficit, beginning of period	**(146.2)**	(94.9)	(51.3)	(54.1%)
Net loss	**(19.0)**	(10.9)	(8.1)	(74.3%)
Other comprehensive loss	**(56.5)**	(40.4)	(16.1)	(39.9%)
Accumulated deficit, end of period	**(221.7)**	**(146.2)**	**(75.5)**	**(51.6%)**
Total liabilities and shareholder's deficit	**1,692.0**	**1,597.9**	**94.1**	**5.9%**

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

Assets

Total assets have increased by $94.1 million due mainly to acquisitions of property, plant and equipment partly offset by lower advance on contract due to an amount transferred in work in progress.

Liabilities and deferred capital funding

Total liabilities have increased by $76.9 million mainly due to an increase in employee benefit liabilities by $67.8 million because of the decrease in discount rates. Deferred capital funding has also increased by $92.7 million due to capital investments.

Other comprehensive loss

Other comprehensive loss increased due to the decrease in discount rates affecting employee benefit assets and liabilities, as explained in section 4.1 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			
(in millions of Canadian dollars)	**2020**	**2019**	**Var $**	**Var %**	**2020**	**2019**	**Var $**	**Var %**
Balance, beginning of period	**9.2**	25.8	(16.6)	(64.3%)	**3.4**	14.8	(11.4)	(77.0%)
Net cash (used in) provided by operating activities	**(4.7)**	18.8	(23.5)	(125.0%)	**(4.7)**	2.7	(7.4)	(274.1%)
Net cash provided by (used in) investing activities	**32.1**	(2.5)	34.6	1,384%	**38.6**	25.3	13.3	52.6%
Net cash (used in) financing activities	**(0.7)**	(0.6)	(0.1)	(16.7%)	**(1.4)**	(1.3)	(0.1)	(7.7%)
Balance, end of period	**35.9**	**41.5**	**(5.6)**	**13.5%**	**35.9**	**41.5**	**(5.6)**	**(13.5%)**

(Amounts in bracket represent decreases)

Operating activities

Net cash decreased by $23.5 million (125.0 per cent) for the quarter and by $7.4 million (274.1 per cent) for the six-month period. The decrease for the quarter is mainly due to the variance of ($27.0) million in working capital items, as shown in Note 17 of the interim condensed financial statements. The decrease for the six-month period is also mainly due to the variance of ($11.5) million in working capital items.

Investing activities

Net cash increased by $34.6 million for the quarter and by $13.3 million for the six-month period. These increases are mainly due to the higher amount of government funding received during the quarter and for the six-month period compared to previous year as well as higher investments in property, plant and equipment, partly offset by lower payment of an advance on contract.

Financing activities

Net cash remained stable for the quarter and for the six-month period compared to previous year. The application of IFRS 16 as at January 1, 2019 provide comparable figures for the year 2020.

Funded capital investments

Property, plant and equipment and intangible assets totaled to $1,469.0 million as at June 30, 2020, which is an increase of $100.6 million compared to the balance as at December 31, 2019.

Funded capital investments of $140.2 million were invested during the six-month period.

They exclude an amount of $4.8 million which is not payable now and will therefore be requested to the Government of Canada in the coming years (refer to note 17 of the interim condensed financial statements). Total investments for the year include an amount of $2.5 million relating to an advance on contract which was received during the period and will be transferred to property, plant and equipment in future years.

	Quarters ended June 30				Six-month periods ended June 30			
(in millions of Canadian dollars)	**2020**	**2019**	**Var $**	**Var %**	**2020**	**2019**	**Var $**	**Var %**
Equipment	**7.5**	10.3	(2.8)	(27.2%)	**15.9**	22.6	(6.7)	(29.6%)
Infrastructure	**0.5**	1.9	(1.4)	(73.7%)	**4.0**	4.1	(0.1)	(2.4%)
Information technology	**4.8**	5.4	(0.6)	(11.1%)	**8.1**	9.5	(1.4)	(14.7%)
Stations	**4.8**	4.4	0.4	9.1%	**9.1**	6.5	2.6	40.0%
Fleet Replacement Program	**66.4**	3.4	63.0	1,852.9%	**97.9**	5.0	92.9	1,858.0%
Other	**0.7**	3.1	(2.4)	(77.4%)	**2.7**	5.0	(2.3)	(46.0%)
Capital investments	**84.7**	**28.5**	**56.2**	**197.2%**	**137.7**	**52.7**	**85.0**	**161.3%**
Advance on contract – Fleet Replacement Program	**-**	19.6	(19.6)	(100.0%)	**2.5**	94.0	(91.5)	(97.3%)
Total	**84.7**	**48.1**	**36.6**	**76.1%**	**140.2**	**146.7**	**(6.5)**	**(4.4%)**

(Amounts in bracket represent decreases)

The most significant investments made during the quarter were in equipment projects such as the Fleet Replacement Program as well as the HEP long haul and Corridor equipment rebuild program.

6. Results compared to the 2019-2023 Corporate Plan [1]

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

Although the Corporation is working towards achieving the goals and strategies identified in its corporate plan, the financial results of the quarter differ from the plan as a result of the impact of the February blockades and the COVID-19 pandemic, mostly due to lower revenues reflecting the sharp decrease in travel and the associated reductions in capacity.

In terms of capital expenditures, work progresses on the major strategic projects identified in the plan such as the Fleet Replacement Program, rolling equipment modernisation and station upgrades.

7. Risk Analysis

This section highlights VIA Rail'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, 2019.

This section must be read in conjunction with the risk section of the Management Discussion and Analysis as at December 31, 2019, included in the 2019 Annual Report.

The COVID-19 pandemic has not only significantly affected VIA Rail's operations during the second quarter and six-month period, it also has an impact on the following risks.

Nature of risk	Trend	Current Situation
Government and Strategy		
VIA Rail has limited powers as a non-agent Crown Corporation and is dependent on annual government budgetary allocations to fund its operations, capital and pension obligations. Insufficient funding constitutes a risk in the efficient delivery of its services, as well as in the planning and execution of its medium-to-long term strategies.	↑	VIA Rail received, in July 2020, confirmation of funding envelopes for operations, capital and pension costs for the next five years. However, the February blockades and the COVID-19 pandemic have significantly impacted VIA Rail's financial results, and if the situation sustains, even with the confirmation of a new funding envelope, funding levels will not be sufficient to offset the potential operating deficit. Significant additional funding will be required and VIA Rail is in discussion with Transport Canada representatives to address the additional funding.
Revenue generation		
Failure to meet the Corporation's revenue plan can cause the funding to be insufficient and lead to cost/service reductions. Current revenue challenges include: • Deterioration of on-time performance • Infrastructure access challenges (freight congestion, speed issues, blockades) • Reduced capacity due to aging fleet • Competition • Deteriorating economic environment (recession or other decisions to limit travel).	↑	VIA Rail's service levels have been dramatically reduced as a result of the COVID-19 pandemic with its impact on travel demand. VIA Rail's current service levels represent approximately 28 per cent of normal levels, and with very low ridership, revenues are significantly lower than normal. Should the situation sustain in the future months, the revenue plan will not be achieved, and even with cost containment measures additional funding will be required to compensate for lost revenues.

↑ Increasing → Stable ↓ Decreasing

7. Risk Analysis (cont'd)

Nature of risk	Trend	Current Situation
Equipment quality, availability and reliability		
VIA Rail's equipment is aging and its reliability has deteriorated in the past few years, resulting in delays and additional operating costs. Maintenance costs could increase significantly in upcoming years until a new fleet is introduced as reliability of the aging fleet may continue to deteriorate.	↑	The COVID-19 pandemic and some structural issues have impacted the refurbishment of our HEP equipment as part of our Heritage Program. These delays could result in additional costs as well as issues related to the availability of the equipment and potential impact on our available capacity. Management is working with suppliers involved in the various projects to mitigate the risks and ensure delivery timelines are met whenever possible and that potential delays will be minimal.
Costs influenced by external factors		
Elements exist outside the Corporation's control such as harsh weather and financial and commodity market conditions that can have an adverse impact on costs such as fuel, equipment maintenance and pension costs. Failure to meet the budgeted costs can cause funding to be insufficient and lead to service reductions.	↑	As a result of the COVID-19 pandemic, capital market developments year to date have negatively impacted the financial position of defined benefit pension plans, with absent changes in pension funding regulation, is likely to result in an increase in pension costs in future years, subject to future market developments.

↑ Increasing → Stable ↓ Decreasing

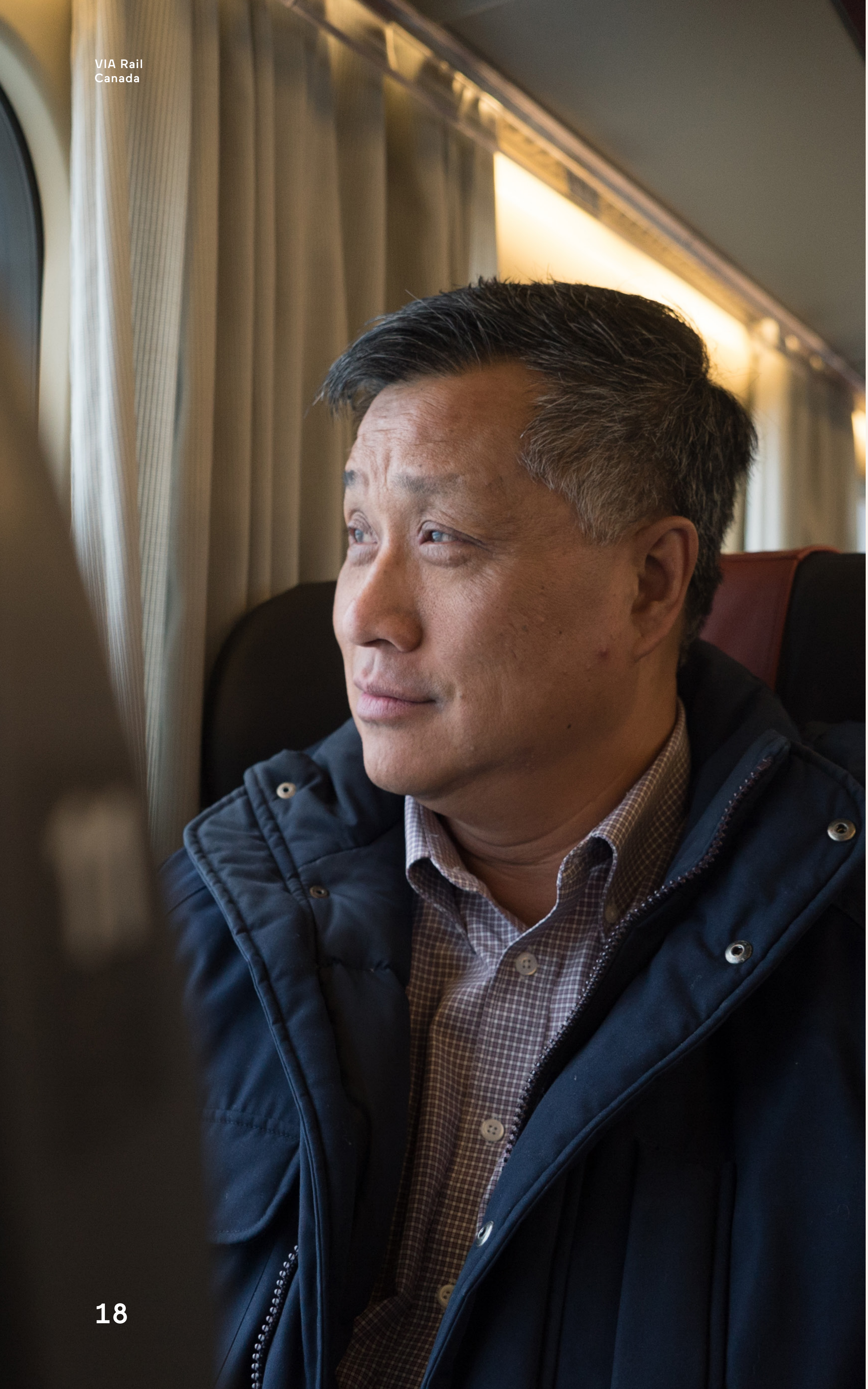
8. Outlook

The results of the second quarter have been significantly impacted by the COVID-19 pandemic and have greatly deteriorated compared to last year.

Service levels have been reduced in the Corridor and terminated on the *Canadian* and the *Ocean* until November 2020, resulting in some cost savings however the revenue loss is so significant that it is not offset by the savings in expenses.

The situation with regards to the COVID-19 pandemic is such that it is hard to assess when operations will return to more normal levels. The future revenue potential is currently unknown and will be based on the ability to have both essential and non-essential travel and the level of confidence travelers have regarding the safety of train travel. Presently, it is most likely that the 2020 financial results will be well below planned levels and those achieved in 2019, resulting in additional funding requirements.

In the meantime, management continues its focus on minimizing operating costs by implementing measures such as temporarily laying off a portion of its workforce and cancelling/delaying non-essential operational initiatives and is also reviewing capital projects to ensure appropriate prioritization and best use of cash at the time. Major strategic projects such as the Fleet Replacement Program, Heritage Program and the new reservation system have been maintained. With regards to funding requirements, management is in close contact with the Government of Canada to assess the situation and identify additional funding options during this unprecedented situation.



Interim Condensed Financial Statements

Management's Responsibility Statement

Quarter ended June 30, 2020

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 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 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.

Cynthia Garneau

Cynthia Garneau
President and Chief Executive Officer

Patricia Jasmin

Patricia Jasmin, CPA, CA
Chief Financial Officer

Montréal, Canada
August 25, 2020

Interim Condensed Financial Statements

Statement of Financial Position

(in thousands of Canadian dollars)	June 30, 2020 (unaudited)	December 31, 2019 (audited)
CURRENT ASSETS		
Cash	$ 35,878	$ 3,355
Trade and other receivables *(Note 7)*	50,499	87,808
Other assets	9,637	5,193
Derivative financial instruments *(Note 8)*	53	834
Materials	30,863	30,082
Asset Renewal Fund	1,096	1,096
	128,026	128,368
NON-CURRENT ASSETS		
Advance on contract	60,514	63,582
Property, plant and equipment *(Note 9)*	1,128,994	1,023,194
Right-of-use assets *(Note 12)*	30,527	32,291
Intangible assets *(Note 10)*	340,022	345,152
Asset Renewal Fund	873	873
Employee benefit assets *(Note 15)*	3,093	4,435
	1,564,023	1,469,527
Total Assets	$ 1,692,049	$ 1,597,895
CURRENT LIABILITIES		
Trade and other payables *(Note 11)*	$ 168,005	$ 158,593
Deferred operating funding from the Government of Canada	6,385	-
Lease liabilities *(Note 12)*	2,786	2,771
Provisions *(Note 13)*	8,542	8,399
Derivative financial instruments *(Note 8)*	10,701	1,546
Deferred revenues *(Note 14)*	18,602	37,928
	215,021	209,237
NON-CURRENT LIABILITIES		
Other payables	14,230	9,404
Lease liabilities *(Note 12)*	28,924	30,300
Employee benefit liabilities *(Note 15)*	146,675	78,878
	189,829	118,582
Deferred capital funding *(Note 16)*	1,499,720	1,407,023
SHAREHOLDER'S DEFICIENCY		
Share capital	9,300	9,300
Accumulated deficit	(221,821)	(146,247)
	(212,521)	(136,947)
Total Liabilities and Shareholder's deficiency	$ 1,692,049	$ 1,597,895

Commitments (Note 19)

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 June 30 2020	Quarters ended June 30 2019	Six-month periods ended June 30 2020	Six-month periods ended June 30 2019
REVENUES *(Note 5)*				
Passenger	**$ 2,307**	$ 94,295	**$ 48,407**	$ 173,976
Other	**3,475**	5,601	**8,342**	11,209
	5,782	99,896	**56,749**	185,185
EXPENSES				
Compensation and employee benefits	**74,294**	86,656	**158,521**	168,475
Train operations and fuel	**10,902**	36,385	**38,562**	74,354
Stations and property	**8,622**	8,660	**20,354**	20,553
Marketing and sales	**1,883**	8,034	**9,808**	17,030
Maintenance material	**7,022**	10,176	**17,239**	19,609
On-train product costs	**3,778**	6,661	**9,260**	12,253
Operating taxes	**2,591**	3,308	**5,472**	6,458
Professional services	**2,788**	4,852	**5,692**	10,032
Telecommunications	**5,795**	5,315	**11,736**	10,579
Depreciation of property, plant and equipment *(Note 9)*	**18,176**	18,745	**35,943**	37,613
Depreciation of right-of-use assets *(Note 12)*	**881**	820	**1,764**	1,637
Amortization of intangible assets *(Note 10)*	**5,688**	6,431	**11,406**	12,863
Loss on disposal of property, plant and equipment *(Note 9)*	**408**	209	**406**	488
Loss on disposal of intangible assets *(Note 10)*	**4**	-	**2**	-
Unrealized (net gain) net loss on derivative financial instruments	**(3,631)**	2,278	**9,936**	(3,469)
Realized net loss (net gain) on derivative financial instruments	**3,811**	(394)	**5,432**	(567)
Interest expense on lease liabilities	**240**	255	**484**	441
Other	**1,644**	3,749	**5,565**	8,570
	144,896	202,140	**347,582**	396,919
OPERATING LOSS BEFORE FUNDING FROM THE GOVERNMENT OF CANADA AND INCOME TAXES	**(139,114)**	(102,244)	**(290,833)**	(211,734)
Operating funding from the Government of Canada *(Note 6)*	**119,616**	74,443	**224,449**	158,616
Amortization of deferred capital funding *(Note 16)*	**24,153**	25,138	**47,508**	51,020
Net income (loss) before income taxes	**4,655**	(2,663)	**(18,876)**	(2,098)
Income tax expense	**76**	71	**152**	138
NET INCOME (LOSS) FOR THE PERIOD	**4,579**	(2,734)	**(19,028)**	(2,236)
Other comprehensive loss				
Amounts not to be reclassified subsequently to net income (net of tax): Remeasurements of the defined benefit component of the pension plans and post-employment benefit plans *(Note 15)*	**(133,611)**	(69,268)	**(56,546)**	(107,592)
	(133,611)	(69,268)	**(56,546)**	(107,592)
COMPREHENSIVE LOSS FOR THE PERIOD	**$ (129,032)**	$ (72,002)	**$ (75,574)**	$ (109,828)

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

Interim Condensed Financial Statements

Statement of Changes in Shareholder's Deficiency

	Quarters ended June 30		Six-month periods ended June 30	
(in thousands of Canadian dollars) (unaudited)	**2020**	2019	**2020**	2019
SHARE CAPITAL	**$ 9,300**	$ 9,300	**$ 9,300**	$ 9,300
Accumulated deficit				
Balance, beginning of period	**(92,789)**	(132,726)	**(146,247)**	(94,900)
Net income (loss) for the period	**4,579**	(2,734)	**(19,028)**	(2,236)
Other comprehensive loss for the period	**(133,611)**	(69,268)	**(56,546)**	(107,592)
Balance, end of period	**(221,821)**	(204,728)	**(221,821)**	(204,728)
Total Shareholder's deficiency	**$ (212,521)**	$ (195,428)	**$ (212,521)**	$ (195,428)

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 June 30		Six-month periods ended June 30	
	2020	2019	**2020**	2019
OPERATING ACTIVITIES				
Net income (loss) for the period	**$ 4,579**	$ (2,734)	**$ (19,028)**	$ (2,236)
Adjustments to determine net cash (used in) provided by operating activities:				
Depreciation of property, plant and equipment *(Note 9)*	**18,176**	18,745	**35,943**	37,613
Depreciation of right-of-use assets *(Note 12)*	**881**	820	**1,764**	1,637
Amortization of intangible assets *(Note 10)*	**5,688**	6,431	**11,406**	12,863
Loss on disposal of property, plant and equipment *(Note 9)*	**408**	209	**406**	488
Loss on disposal of intangible assets *(Note 10)*	**4**	-	**2**	-
Amortization of deferred capital funding *(Note 16)*	**(24,153)**	(25,138)	**(47,508)**	(51,020)
Interest income	**(103)**	(263)	**(275)**	(565)
Interest paid	**(240)**	(255)	**(484)**	(441)
Unrealized (net gain) net loss on derivative financial instruments	**(3,631)**	2,278	**9,936**	(3,469)
Post-employment and other employee benefit expenses *(Note 15)*	**12,857**	11,374	**24,769**	20,943
Employer post-employment and other employee benefit contributions *(Note 15)*	**(6,340)**	(6,907)	**(12,176)**	(15,096)
Interest expense on lease liabilities	**240**	255	**484**	441
Net change in working capital items *(Note 17)*	**(13,058)**	13,984	**(9,917)**	1,556
Net cash (used in) provided by operating activities	**(4,692)**	18,799	**(4,678)**	2,714
INVESTING ACTIVITIES				
Government funding received related to acquisition of property, plant and equipment and intangible assets *(Notes 7, 16, 17)*	**87,444**	47,444	**145,962**	92,745
Government funding received related to an advance on contract *(Note 16)*	**-**	-	**2,482**	93,999
Cash drawdown from the Asset Renewal Fund	**-**	-	**-**	2,000
Acquisition of property, plant and equipment and intangible assets *(Notes 9, 10, 11 and 17)*	**(53,039)**	(30,698)	**(107,675)**	(70,071)
Payment of an advance on contract	**(2,482)**	(19,600)	**(2,482)**	(93,999)
Interest received	**103**	263	**275**	565
Proceeds from the disposal of property, plant and equipment and intangible assets	**-**	-	**-**	1
Net cash provided by (used in) investing activities	**32,026**	(2,591)	**38,562**	25,240
FINANCING ACTIVITIES				
Payment of the lease liabilities	**(688)**	(592)	**(1,361)**	(1,279)
Net cash (used in) financing activities	**(688)**	(592)	**(1,361)**	(1,279)
CASH				
Increase during the period	**26,646**	15,616	**32,523**	26,675
Balance, beginning of period	**9,232**	25,882	**3,355**	14,823
Balance, end of period	**$ 35,878**	$ 41,498	**$ 35,878**	$ 41,498
REPRESENTED BY:				
Cash	**35,878**	41,498	**35,878**	41,498
	$ 35,878	$ 41,498	**$ 35,878**	$ 41,498

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, 2020 (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 companies and relies on them to control train operations.

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

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

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

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

These interim condensed financial statements were approved and authorized for issue by the Board of Directors on August 25, 2020.

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, 2019, 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, 2019.

4. Key Sources of Estimation Uncertainty and Critical Judgments

In the application of the Corporation's accounting policies, management is required to make certain estimates, judgments 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 and in any future period affected. However, uncertainties relating to estimates, judgments and assumptions 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 5 of the Corporation's annual financial statements for the year ended December 31, 2019.

5. Revenues

The following table disaggregates the revenue by major sources:

	Quarters ended June 30		Six-month periods ended June 30	
(in millions of Canadian dollars)	**2020**	**2019**	**2020**	**2019**
REVENUES				
Transportation and accommodation	**2.3**	91.5	**47.1**	168.7
On-train food and beverages and other	**-**	2.8	**1.3**	5.3
Revenues from passengers	**2.3**	94.3	**48.4**	174.0
Investment income	**0.1**	0.2	**0.3**	0.5
Third-party servicing	**1.4**	2.4	**3.3**	4.5
Rental income and other *(Note 12)*	**1.9**	3.0	**4.7**	6.2
Revenues from other sources	**3.4**	5.6	**8.3**	11.2
Total revenues	**5.7**	99.9	**56.7**	185.2

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	
(in millions of Canadian dollars)	**2020**	**2019**	**2020**	**2019**
Operating loss before funding from the Government of Canada and income taxes	**139.1**	102.2	**290.8**	211.7
Items requiring operating funds:				
Income tax expense	**0.1**	-	**0.2**	0.1
Items (not requiring) not providing operating funds:				
Depreciation of property, plant and equipment	**(18.1)**	(18.7)	**(35.9)**	(37.6)
Depreciation of right-of-use assets	**(0.9)**	(0.8)	**(1.8)**	(1.6)
Amortization of intangible assets	**(5.7)**	(6.5)	**(11.4)**	(12.9)
Loss on disposal of property, plant and equipment	**(0.4)**	(0.2)	**(0.4)**	(0.5)
Post-employment and other employee benefit contributions in excess of expenses	**(6.5)**	(4.4)	**(12.6)**	(5.8)
Unrealized net gain (net loss) on derivative financial instruments	**3.7**	(2.2)	**(9.9)**	3.5
Non-cash transactions relating to lease liabilities	**0.9**	0.8	**1.8**	1.7
Interest expense on lease liabilities	**(0.3)**	(0.2)	**(0.5)**	(0.4)
Adjustment for accrued compensation	**7.3**	4.4	**3.7**	0.8
Adjustment for VIA Préférence	**(0.1)**	(0.2)	**(0.4)**	(0.3)
Other	**0.5**	0.2	**0.8**	(0.1)
Operating funding from the Government of Canada	**119.6**	74.4	**224.4**	158.6

7. Trade and Other Receivables

The trade and other receivables balance includes the following:

(in millions of Canadian dollars)	June 30, 2020	December 31, 2019
Trade	2.7	3.5
Other receivables	4.0	4.3
Loss allowance	(0.9)	(0.2)
Trade and other receivables classified at Amortized cost	5.8	7.6
Amount receivable from the Government of Canada – Operating funding	-	36.1
Amount receivable from the Government of Canada – Capital funding *(Note 17)*	34.8	43.0
Sales taxes	9.9	1.1
Total trade and other receivables	50.5	87.8

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

The net book value of the past due receivables of the Corporation is $1.0 million (December 31, 2019: $1.5 million) at the closing date. The maturity of these receivables is detailed in the following table:

(in millions of Canadian dollars)	June 30, 2020	December 31, 2019
Not impaired and past due by:		
0 to 30 days	0.7	1.1
31 to 60 days	0.2	0.3
61 to 90 days	0.1	-
Over 90 days	-	0.1
Total	1.0	1.5

The Corporation has recognized in the current period an amount of $0.7 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, 2019: $0.6 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.

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

	June 30, 2020		December 31, 2019	
Commodity swaps	**Notional quantity** (000's of U.S. gallons)	**Fair value CAD** (millions)	**Notional quantity** (000's of U.S. gallons)	**Fair value CAD** (millions)
Total assets	**1,008**	**0.1**	10,584	0.8
Total liabilities	**16,170**	**10.7**	7,560	1.5

As at June 30, 2020, the commodity swaps in CAD have a fixed price per U.S. gallon between 1.730 and 3.040 CAD (December 31, 2019: between 2.374 and 3.040 CAD). The maturity dates range between 2020 and 2022 (December 31, 2019: 2020 and 2021). These financial instruments have a monthly settlement schedule.

As at June 30, 2020 and December 31, 2019, there were no forward foreign exchange contracts.

9. Property, Plant and Equipment

(in millions of Canadian dollars)	Land	Rolling stock	Maintenance buildings	Stations and facilities *(Note 1)*	Owned infrastructures	Leasehold improvements	Machinery and equipment	Computer hardware	Other property, plant and equipment	Projects in progress	Total
Cost:											
January 1, 2020	17.0	958.1	173.2	165.0	307.2	95.8	33.9	48.5	9.3	178.6	1,986.6
Additions	-	-	-	-	-	-	-	-	-	142.1	142.1
Disposals	-	(0.7)	(0.6)	(0.3)	(1.7)	-	(0.1)	-	-	-	(3.4)
Transfers	-	4.5	1.6	4.3	0.7	0.1	1.5	0.1	0.4	(13.2)	-
Total cost	17.0	961.9	174.2	169.0	306.2	95.9	35.3	48.6	9.7	307.5	2,125.3
Accumulated depreciation and impairment:											
January 1, 2020	-	586.1	108.9	54.4	105.4	53.1	19.6	32.4	3.5	-	963.4
Additions	-	19.9	1.2	3.4	5.1	2.0	0.9	3.1	0.3	-	35.9
Disposals	-	(0.6)	(0.6)	(0.3)	(1.4)	-	(0.1)	-	-	-	(3.0)
Total accumulated depreciation and impairment	-	605.4	109.5	57.5	109.1	55.1	20.4	35.5	3.8	-	996.3
Total carrying amount	**17.0**	**356.5**	**64.7**	**111.5**	**197.1**	**40.8**	**14.9**	**13.1**	**5.9**	**307.5**	**1,129.0**

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

(in millions of Canadian dollars)	External software	In-house developed software	Right of access to rail infrastructure	Other intangible assets	Projects in progress	Total
Cost:						
January 1, 2020	109.5	7.8	438.2	5.4	6.8	567.7
Additions	-	-	-	-	6.2	6.2
Disposals	-	-	-	-	-	-
Transfers	0.2	-	0.1	-	(0.3)	-
Total cost	109.7	7.8	438.3	5.4	12.7	573.9
Accumulated amortization and impairment:						
January 1, 2020	87.1	7.8	124.6	3.0	-	222.5
Additions	5.3	-	5.8	0.3	-	11.4
Disposals	-	-	-	-	-	-
Total accumulated amortization and impairment	92.4	7.8	130.4	3.3	-	233.9
Total carrying amount	**17.3**	**-**	**307.9**	**2.1**	**12.7**	**340.0**

11. Trade and Other Payables

The trade and other payables balance includes the following:

(in millions of Canadian dollars)	June 30, 2020	December 31, 2019
Wages payable and accrued	**38.1**	46.5
Accounts payable and accruals – Trade	**25.7**	38.9
Accounts payable and accruals – Capital assets	**93.7**	63.3
Trade and other payables classified at Amortized cost	**157.5**	148.7
Capital tax, income tax and other taxes payable	**7.7**	6.9
Deductions at sources	**2.8**	3.0
Total trade and other payables	**168.0**	158.6

12. Leases

The Corporation as a lessee:

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

(in millions of Canadian dollars)	Land	Office spaces	Stations and facilities	Information technology equipment	Total
Cost:					
January 1, 2020	0.5	10.0	23.4	1.7	35.6
Total cost	0.5	10.0	23.4	1.7	35.6
Accumulated depreciation:					
January 1, 2020	-	1.7	1.1	0.5	3.3
Additions	-	0.9	0.6	0.3	1.8
Total accumulated depreciation	-	2.6	1.7	0.8	5.1
Net carrying amount	**0.5**	**7.4**	**21.7**	**0.9**	**30.5**

Amount recognized in the Statement of Comprehensive Income:

Quarters ended June 30 (in millions of Canadian dollars)	**2020**	**2019**
Expense relating to short-term leases	**1.3**	0.8
Expense relating to low-value assets	**0.1**	-

Total cash outflow is $3.3 million (June 30, 2019: $2.5 million).

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 follow:

(in millions of Canadian dollars)	**June 30, 2020**	**December 31, 2019**
Balance, beginning of period	**33.1**	35.0
Additions	**-**	0.6
Accretion of interest	**0.5**	1.0
Payments	**(1.9)**	(3.5)
Balance, end of period	**31.7**	33.1
Current	**2.8**	2.8
Non-current	**28.9**	30.3
Total lease liabilities	**31.7**	33.1

13. Provisions

The provisions balance includes the following:

(in millions of Canadian dollars)	January 1, 2020	Additional provisions recognized	Provisions utilized	Unused amounts reversed	June 30, 2020
Environmental costs	0.6	-	-	-	**0.6**
Litigation and equipment repairs *(Note 1)*	7.8	2.1	(1.2)	(0.8)	**7.9**
Total provisions	8.4	2.1	(1.2)	(0.8)	**8.5**

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:

(in millions of Canadian dollars)	June 30, 2020	December 31, 2019
Advance ticket sales	**2.5**	21.4
VIA Préférence	**11.6**	11.2
Non-monetary transactions	**1.5**	1.5
Gift cards	**1.7**	1.8
Other	**1.3**	2.0
Total deferred revenues	**18.6**	37.9

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 21 Employee benefit assets and liabilities of the Corporation's 2019 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, 2020	December 31, 2019
ASSUMPTIONS — DISCOUNT RATES		
Assumptions for the calculation of the obligation		
Defined benefit component of the pension plans	**2.80%**	3.10%
Post-employment benefit plans	**2.80%**	3.10%
Long-term employee benefit plans	**2.90%**	2.90%
Assumptions for the calculation of the costs		
Defined benefit component of the pension plans	**3.10%**	3.90%
Post-employment benefit plans	**3.10%**	4.00%
Long-term employee benefit plans	**2.90%**	3.60%

a) Defined benefit component of the pension plans and post-employment benefits 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	
(in millions of Canadian dollars)	**June 30, 2020**	**December 31, 2019**	**June 30, 2020**	**December 31, 2019**
DEFINED BENEFIT OBLIGATION:				
Balance, beginning of period	**2,535.3**	2,284.0	**26.1**	22.1
Service cost	**19.0**	27.8	**0.2**	0.3
Past service cost	**-**	-	**-**	0.2
Interest expense	**35.3**	88.0	**0.3**	0.9
Employee contributions	**6.7**	14.1	**-**	-
Benefits paid	**(66.5)**	(135.1)	**(0.3)**	(0.7)
Effect of change in demographic assumptions	**-**	(1.2)	**-**	-
Effect of change in financial assumptions	**107.1**	257.7	**1.4**	3.2
Effect of experience adjustments	**-**	-	**-**	0.1
Balance, end of period	**2,636.9**	2,535.3	**27.7**	26.1
FAIR VALUE OF PLAN ASSETS:				
Balance, beginning of period	**2,506.4**	2,301.4	**-**	-
Interest income	**34.7**	87.8	**-**	-
Return on plan assets (excluding interest income)	**52.0**	219.3	**-**	-
Employer contributions	**9.4**	21.1	**0.3**	0.7
Employee contributions	**6.7**	14.1	**-**	-
Benefits paid	**(66.5)**	(135.1)	**(0.3)**	(0.7)
Administration expenses	**(2.3)**	(2.2)	**-**	-
Balance, end of period	**2,540.4**	2,506.4	**-**	-
Net defined benefit liability	**96.5**	28.9	**27.7**	26.1

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:

(in millions of Canadian dollars)	June 30, 2020	December 31, 2019
LONG-TERM EMPLOYEE BENEFIT OBLIGATION:		
Balance, beginning of period	**19.2**	17.3
Service cost	**1.9**	3.5
Interest expense	**0.3**	0.6
Benefits paid	**(2.3)**	(5.4)
Effect of change in demographic assumptions	**-**	0.8
Effect of change in financial assumptions	**-**	(2.2)
Effect of experience adjustments	**-**	4.6
Balance, end of period	**19.1**	19.2
FAIR VALUE OF PLAN ASSETS:		
Balance, beginning of period	**-**	-
Employer contributions	**2.3**	5.4
Benefits paid	**(2.3)**	(5.4)
Balance, end of period	**-**	-
Net long-term employee benefit liability	**19.1**	19.2

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:

(in millions of Canadian dollars)	June 30, 2020	December 31, 2019
Assets:		
Defined benefit component of the pension plans	**3.1**	4.4
Liabilities:		
Defined benefit component of the pension plans	**99.6**	33.3
Post-employment benefit plans	**27.7**	26.1
Long-term employee benefit plans	**19.1**	19.2
Other long-term employee benefits	**0.3**	0.3
Total liabilities	**146.7**	78.9

Total amounts recognized in the Statement of Comprehensive Income:

	Quarters ended June 30		Six-month periods ended June 30	
(in millions of Canadian dollars)	**2020**	**2019**	**2020**	**2019**
Operating expenses:				
Defined benefit component of the pension plans	**11.4**	10.1	**21.9**	18.2
Post-employment benefit plans	**0.2**	0.1	**0.5**	0.4
Long-term employee benefit plans	**1.1**	1.0	**2.2**	2.1
Other long-term employee benefits	**0.2**	0.1	**0.2**	0.2
Total	**12.9**	11.3	**24.8**	20.9

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	
(in millions of Canadian dollars)	**2020**	**2019**	**2020**	**2019**
Other comprehensive loss:				
Defined benefit component of the pension plans	**(129.4)**	(65.4)	**(55.1)**	(103.7)
Post-employment benefit plans	**(4.2)**	(3.9)	**(1.4)**	(3.9)
Total	**(133.6)**	(69.3)	**(56.5)**	(107.6)

16. 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)	June 30, 2020	December 31, 2019
Balance, beginning of period	**1,407.0**	1,257.0
Government funding for property, plant and equipment and intangible assets (including the cost of land)	**137.7**	204.1
Government funding for an advance on contract	**2.5**	63.6
Total Government funding for property, plant and equipment, intangible assets and advance on contract	**140.2**	267.7
Amortization of deferred capital funding	**(47.5)**	(117.7)
Balance, end of period	**1,499.7**	1,407.0

17. Supplemental Cash Flows Information

Net change in working capital items:

	Quarters ended June 30		Six-month periods ended June 30	
(in millions of Canadian dollars)	2020	2019	2020	2019
Trade and other receivables	**11.5**	20.4	**29.1**	0.1
Other assets	**(2.0)**	(2.2)	**(4.4)**	(3.0)
Materials	**0.1**	(1.5)	**(0.8)**	(2.3)
Trade and other payables	**(17.0)**	(5.3)	**(21.0)**	(6.3)
Deferred operating funding from the Government of Canada	**6.4**	-	**6.4**	-
Provisions	**0.3**	-	**0.1**	0.7
Deferred revenues	**(12.3)**	2.6	**(19.3)**	12.4
Total	**(13.0)**	14.0	**(9.9)**	1.6

The change in trade and other receivables excludes an amount of ($8.2) million (June 30, 2019: $23.6 million) in relation to government funding for capital expenditures, as the amount relates to investing activities.

The change in trade and other payables excludes an amount of $30.4 million (June 30, 2019: ($17.4) million) in relation to the acquisition of property, plant and equipment and intangible assets, as this amount relates to investing activities. As at June 30, 2020, there is no advance on contract payable in relation to investing activities (June 30, 2019: ($74.4) million).

Investing activities supplemental information:

	Quarters ended June 30		Six-month periods ended June 30	
(in millions of Canadian dollars)	**2020**	**2019**	**2020**	**2019**
Acquisition of property, plant and equipment and intangible assets	**(92.0)**	(28.5)	**(148.4)**	(52.7)
Advance on contract transferred in work in progress	**3.6**	-	**5.5**	-
Change in accounts payable and accruals – Capital assets	**32.1**	(2.2)	**30.4**	(17.4)
Change in other payables	**3.2**	-	**4.8**	-
Total cash out for acquisition of property, plant and equipment and intangible assets	**(53.1)**	(30.7)	**(107.7)**	(70.1)
Government funding invoiced for property, plant and equipment and intangible assets	**84.7**	28.5	**137.7**	52.7
Change in amount receivable from the Government of Canada – Capital funding	**2.7**	18.9	**8.2**	40.0
Total Government funding received for property, plant and equipment and intangible assets	**87.4**	47.4	**145.9**	92.7

18. Financial Risks

The Corporation's financial instruments are exposed to the same risks, except for the fuel price risk, as disclosed in its annual financial statements for the year ended December 31, 2019. Due to the greater volatility of the markets, the potential fluctuations of the fuel prices could have a significant impact on the financial statements.

19. Commitments

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

	June 30, 2020				December 31, 2019
(in millions of Canadian dollars)	Total commitments	Less than 1 year	From 1 to 5 years	More than 5 years	Total commitments
COMMITMENTS RELATING TO OPERATIONS:					
Non-cancellable leases: Lessee	**11.9**	2.6	7.4	1.9	13.1
Technical services	**356.1**	–	27.3	328.8	356.1
Total	**368.0**	2.6	34.7	330.7	369.2
COMMITMENTS RELATING TO MAJOR CAPITAL INVESTMENTS:					
Rolling stock	**892.0**	216.8	675.2	–	935.2
Maintenance buildings	**-**	–	–	–	0.2
Stations and facilities	**10.5**	10.5	–	–	4.7
Owned infrastructures	**4.6**	4.6	–	–	6.3
Software	**5.1**	5.1	–	–	3.1
Computer hardware	**2.9**	1.2	1.7	–	5.1
Total	**915.1**	238.2	676.9	–	954.6
Total commitments	**1,283.1**	240.8	711.6	330.7	1,323.8

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 $24.2 million (December 31, 2019: $24.2 million) to various provincial government workers' compensation boards as security for future payment streams.

20. Events After the Reporting Period

Global Coronavirus Pandemic

Temporary layoff of unionized and non-unionized employees:

On July 24, 2020, in light of the evolving situation with regards to COVID-19 and the reduced level of operations across the Corporation's network, approximately 1,000 unionized employees of the Corporation were temporarily laid off.

Furthermore, on August 13, the Corporation proceeded to the temporary layoff of approximately 30 non-unionized employees.

The Corporation has been adjusting its operations and deploying a strict protocol of sanitary measures on board its trains based on public health authorities' recommendations, in its stations, maintenance centers and call centers in response to the pandemic and in order to minimize the spread of COVID-19.

The Corporation continues to monitor the developments of COVID-19 and remains in close contact with public health agencies and the federal and provincial governments.

Decline in fair value of employee benefit assets:

Since December 31, 2019, the outbreak of COVID-19 and related global responses have caused material disruptions to businesses around the world, leading to an economic slowdown. Global equity markets have experienced significant volatility and weakness. As at June 30, 2020, the employee benefit liabilities have increased compared to December 31, 2019, due to the decline in discount rates. Should discount rates continue to decrease, employee benefit liabilities for 2020 and subsequent years would increase as well as pension cost for future years.

While governments and central banks have reacted with monetary interventions designed to stabilize economic conditions, the duration and the extend of the impact of the COVID-19 outbreak, as well as the effectiveness of government and central bank responses, remains unclear at this time.