VIA Rail Canada

FIRST QUARTER REPORT 2018

CONTENTS

MESSAGE FROM THE PRESIDENT

From anniversaries and announcements to increases in ridership and revenue, VIA Rail has many reasons to celebrate in 2018. Over the first quarter, we reached our objectives as our total revenues increased by 11.4% compared to the previous year, while ridership showed double-digit growth, increasing by 12.4%.

This passenger vote of confidence was seen early on in the first quarter when we faced some harsh weather conditions. More and more people sought to travel with us over the holiday season to avoid the stress of winter driving. In fact, over 300,000 people boarded our trains across the country, representing a 10% increase compared to the same period last year. Then, over the Easter long weekend, VIA Rail saw its best performance in a decade for this period. Though we continue to grow as a Corporation, we are still continuously striving to find new ways to better serve our passengers.

Over the last 40 years, we have humbly served as Canada's passenger rail service, offering you a safe, comfortable and unforgettable coast-to-coast experience. To mark the anniversary, we have adorned 41 of our train sets with the bright VIA 40 logo and colours alongside our motto, "The future is on board," which supports our sustainable and forward-looking position. If you haven't seen them on the rails already, have a look in this report for a picture.

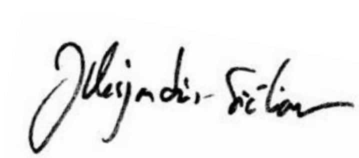
In its 2018-2019 budget, the federal government announced the allocation of funds needed to acquire a brand-new fleet of modern trains to service the Québec City – Windsor corridor. This great news is thanks to the growing number of Canadians who put their trust in VIA Rail each year. The fleet renewal program is part of a larger modernization plan that VIA Rail has been focusing on to lead Canadians toward a more sustainable future. Also included in this plan are three other initiatives we are excited to announce. Our 40th year is off to a wonderful start!

First, as part of our commitment to offering Canadians the highest quality of service, we will be retrofitting 17 train cars to full accessibility destined for use on our long distance service. At VIA Rail, we are committed to offering the most accessible national and intercity transportation services. This new generation of cars will promote social inclusiveness, increase mobility for all, and ensure that we offer the same exceptional level of service to all our passengers, taking into account their individual needs. Second, we will be upgrading 25 cars, also intended for use on our long distance service, which will extend their useful life by several decades. These two projects are in addition to the refurbishment of another 33 cars for our long distance service, which was initiated last year. These three projects represent an investment of over $138M.

Through this year's budget, the government also allocated funds for the completion of studies toward our High Frequency Rail plan, a dedicated passenger track initiative, which will help them make a decision in the near future. Meanwhile, in March, VIA Rail was recognized for this proposed project and received this year's award in sustainability at the 11th Global Infrastructure Leadership Forum.

I would like to thank all of our passengers who make the smart and sustainable choice to travel by train, as well as all of our employees whose perseverance and dedication make this all possible.

In 2018, and more than ever in its recent history, at VIA Rail the future is on board!



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

FIRST QUARTER AT A GLANCE

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

	Q1 2018	Q1 2017
KEY FINANCIAL INDICATORS (IN MILLIONS OF DOLLARS)		
Total passenger revenues (1)	**73.5**	65.7
Total revenues (1)	**79.1**	**71.0**
Operating expenses (1)	**(150.8)**	(137.5)
Contributions for employee benefits (1)	**(10.5)**	(9.3)
Total Operating expenses (1)	**(161.3)**	**(146.9)**
Operating loss	**82.2**	**75.9**
Capital Investments	**18.3**	20.8
Total Funding Required	**100.5**	**96.7**
Government Operating Funding	**82.2**	75.9
Government Capital Funding	**18.3**	20.8
Total Government Funding	**100.5**	**96.7**
Asset Renewal Fund	**0.0**	**0.0**
KEY OPERATING STATISTICS (2)		
Total passenger-miles (IN MILLIONS)	**211**	191
Total seat-miles (IN MILLIONS)	**394**	378
Operating deficit per passenger-mile (IN CENTS)	**39.0**	39.7
Yield (CENTS PER PASSENGER-MILE)	**33.9**	33.3
Train-miles operated (IN THOUSANDS)	**1,654**	1,627
Car-miles operated (IN THOUSANDS)	**9,200**	9,004
Average passenger load factor (%)	**54**	51
Average number of passenger-miles per train mile	**128**	117
On-time performance (%)	**73**	77
Number of full time equivalent employees during the quarter	**2,920**	2,721

(1) Financial statement amounts were adjusted to reflect funded activities
(2) Key operating statistics are unaudited

KEY OPERATING STATISTICS BY SERVICE GROUP FOR THE FIRST QUARTER OF 2018

Train Services	Passenger Revenues* (IN THOUSANDS)	Passengers (IN THOUSANDS)	Passengers-Miles (IN THOUSANDS)	Government Funding (PER PASSENGER-MILE)
Québec City - Windsor corridor	$65,011	1,057.3	191,005	$0.23
Longhaul West	$4,678	8.9	11,198	$1.46
Longhaul East	$1,540	14.3	6,965	$1.63
Regional Services	$415	9.0	1,883	$5.45
Total	**$71,644**	**1,089.5**	**211,051**	**$0.39**

KEY OPERATING STATISTICS BY SERVICE GROUP FOR THE FIRST QUARTER OF 2017

Train Services	Passenger Revenues* (IN THOUSANDS)	Passengers (IN THOUSANDS)	Passengers-Miles (IN THOUSANDS)	Government Funding (PER PASSENGER-MILE)
Québec City - Windsor corridor	$57,427	932.8	169,541	$0.24
Longhaul West	$4,481	10.2	11,445	$1.20
Longhaul East	$1,507	14.4	6,923	$1.52
Regional Services	$748	11.8	3,079	$3.45
Total	**$64,163**	**969.2**	**190,988**	**$0.40**

* Excluding off-train and other passenger revenues.

REVIEW
OF OPERATIONS

CELEBRATING VIA RAIL'S 40TH ANNIVERSARY

In 2018, VIA Rail celebrates its 40th anniversary as an autonomous, Canadian Crown Corporation dedicated to passenger rail. Following the momentum of Canada 150, VIA Rail is once again leveraging its own equipment to encourage people to discover the country by train. Our vision toward a more sustainable future for Canada is reflected in our motto "The future is on board" which is displayed and supported through creative and eye-catching wraps. Since January, these wraps, also adorned with our VIA 40 logo and colours, have been visible on the 41 designated train sets.

PUTTING PASSENGERS FIRST

LOCALLY SOURCED MENU OPTIONS AND MORE

As part of VIA Rail's efforts to promote and support local products, new menu items were selected this quarter. Our craft beer offering on board the *Ocean* now includes Maybee Brew from New Brunswick, and passengers were able to sip on different brews produced in the provinces our trains run through. As well, the menu on the *Canadian* train has been updated to accommodate unforeseeable schedule changes; we have now added an extra breakfast, lunch and dinner option, available when needed.

For tea lovers, the popular onboard offering by Toronto-based Sloane Tea will see a simplification of their line-up with the five most popular flavours always available to our passengers. Also, through the VIA Rail app, passengers aboard trains in the Québec City – Windsor corridor can now find information about the Business class menu, including meal descriptions. Passengers can also find information on the Economy class menus through the app using their booking information.

MY RECIPE CHALLENGE

VIA Rail employees donned their chef hats once again during the "My Recipe in Business Class" challenge to come up with a mouthwatering dish for passengers in the Corridor. The two winning recipes were: Michael McBride's "Grilled Atlantic Salmon on a Bed of Leek" and Danielle Werbrouck's "Breaded Coconut Chicken with Cranberry Sauce". A menu card was developed to accompany these two winning dishes which are now being served in Business class.

Michael McBride, Senior Service Attendant in Toronto

Danielle Werbrouck, Senior Service Attendant in Montréal

Historic Announcements

Important announcements were made over the first quarter for the Corporation. In February, the federal government announced in their 2018-2019 budget they will be allocating funds for the acquisition of a new fleet of trains for the Québec City – Windsor corridor, as the current one is reaching the end of its useful life. During this period, a new Board committee, entitled the Special Committee on New Fleet Procurement, was created to oversee the fleet renewal project. Information about this project is available on VIA Rail's website.

The government also allocated funding for the conclusion of studies toward our High Frequency Rail project, also known as HFR, which will help them make a decision in the near future. These initiatives are key components of VIA Rail's plan to transform passenger rail service for Canadians through the control and operation of dedicated passengers tracks and a new fleet of modern trains. HFR will provide communities within the Toronto-Ottawa-Montréal – Québec City corridor with improved scheduling, more frequent service, reduced trip times, and better on-time performance.

The Honourable Marc Garneau, Minister of Transport, alongside Yves Desjardins-Siciliano, President and CEO, and Françoise Bertrand, Chairperson of the Board of Directors, at the Toronto Maintenance Centre during the Québec City-Windsor corridor fleet announcement

AUDIO ON BOARD: PODCASTS AND STINGRAY MUSIC

In 2017, VIA Rail was asked to be part of a new podcast series about meeting and listening to our passengers. The series was led by six researchers working on behalf of not-for-profit media organization Challenge for Change. The six spent the summer travelling across Canada by train, striking up discussions with passengers. The results were incredible, and the conversations captured were thought-provoking, touching, at times dealt with delicate topics, and they offer an important window on what it means to be Canadian today. The podcast series, called C4C Conversations, is the first available through our On Train Entertainment system, in the Québec City – Windsor corridor.

If you're in the mood for some tunes instead, passengers in the Corridor can also groove to different melodies thanks to the Stingray Music app, VIA Rail's first music partner. By downloading the app while on board, passengers can use it for free for up to six months. Stingray Music offers 50 channels, handpicked for VIA Rail commuters, along with 2,000 other channels catering to every musical taste from Franco Country and Pop Classics, to Reggae and Canadian Indie. Stingray Music places a special focus on supporting local musicians — 15,000 Canadian bands and artists are broadcast through the app.

WINTER FUN IN QUÉBEC CITY

Visitors to Québec City were treated to some real winter fun during the annual *Carnaval de Québec* and VIA Rail was there, once again. In order to provide festival-goers with a truly memorable experience, VIA Rail created the Great Slide where visitors could glide their way past banners that represented the different cities served from Vancouver to Halifax. More than 20,000 Carnaval visitors made their way down the slide over the course of the 17-day festival.

PERFORMANCE

STRONG RESULTS FOR HOLIDAYS AND LONG WEEKENDS

More and more passengers took our "Winter Way to Travel" campaign to heart and chose to travel by train with VIA Rail over the holiday season. From December 18, 2017 to January 7, trains from coast to coast carried 308,000 passengers, representing a 10% increase over the same period the year before.

As well, more passengers chose to travel by train for their long weekend excursions. VIA Rail posted its best performance in 10 years for the Easter long weekend: between March 29 and April 3, over 83,000 people travelled in the Québec City – Windsor corridor, representing an 18% increase compared to 2017. Following an upward trend that began in 2014, passenger revenue was up nearly 20% compared to the same period last year.

ON-TIME PERFORMANCE

Despite our best efforts to offer reliable service, there are certain external factors beyond our control. VIA Rail's On-Time Performance was challenged mainly due to severe weather affecting mechanical failures for both VIA Rail as well as host railway owners. Freight train congestion, which is beyond VIA Rail's control, and station delays also added to the lower OTP over the first quarter especially in Western Canada, where OTP deteriorated to the point where over 73% of Toronto evening departures for Vancouver were postponed to the next day. In addition to customer dissatisfaction, these delays created additional costs to western service. We are taking taken several mitigation measures in order to limit the impact on the customer experience and on our employees' work environment.

STRENGTHENING OUR ASSETS

VIA Rail made progress on its planned projects for 2018-2019, including work on VIA Rail-owned tracks, bridges and signals, for which $23.5M was allocated. A further $11.5M has been allocated for network improvements and other network projects, including a double trackage project in Ottawa for which preliminary work has begun. Other projects included:

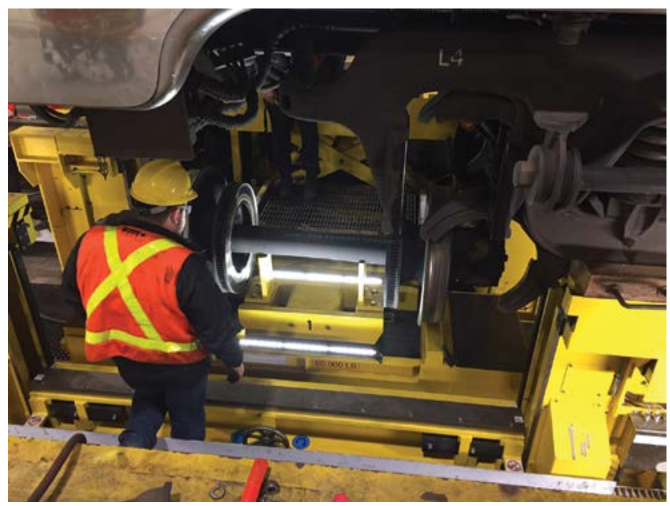
OTTAWA STATION

In the first quarter, upgrades were made to Ottawa station to increase accessibility as well as enhance its overall safety and security. These include upgrades to the roof and canopies which will improve insulation as well as extend the life of the station.

TORONTO MAINTENANCE CENTRE

A new wheelset replacement system in the servicing area was installed at the Toronto Maintenance Center. This new system will allow for more efficient servicing of trains by increasing the capacity to change wheelsets, reducing down times and train movements, as well as improving cycling efficiency.

Roof upgrades at Ottawa Station



The new wheelset replacement system at the TMC

SUSTAINABLE MOBILITY

Sustainable mobility is an integral part of who we are and how we have always conducted our business. Since we issued our first Sustainable Mobility Report detailing our activities for 2015, we have continued our journey to innovate and transform our business for future growth. For us, sustainable mobility is about contributing to a greener transportation system for Canada in a way that enables economic prosperity, improves quality of life and provides more environmentally responsible mobility options. The following is a brief overview of our activities this quarter that are aligned with our sustainable mobility pillars. For more information, the full 2017 Sustainable Mobility Report can be found on our website.

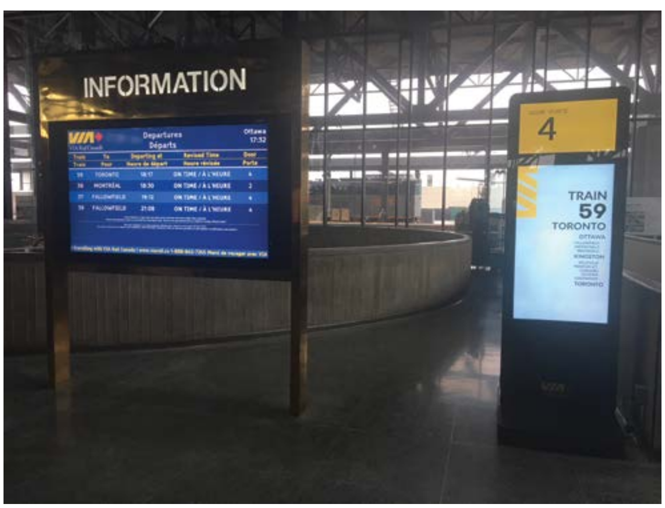
PROVIDING THE BEST CUSTOMER SERVICE EXPERIENCE

BETTER SIGNAGE IN STATIONS

In order to improve the customer experience in our major stations (Toronto, Ottawa, Montréal, Kingston and Québec City), VIA Rail is implementing digital signage to replace the magnet towers currently used to display detailed information such as train number, final destination and stops at each gate. They will also allow us to display important messages right beneath the train information, such as reminders for special baggage checks or seat assignment modifications. Between boarding periods, digital signage will show marketing ads which reduce printing costs. A process has also been developed in collaboration with the Ontario Provincial Police and the *Sûreté du Québec* which will allow us to display Amber Alerts on the towers.

VIA: THE BLOG REACHES BROADER AUDIENCES

Through its travel blog, VIA Rail showcases Canada's vibrant cities and communities from coast to coast. In the first quarter, VIA: The Blog began a collaboration with Passion Passport, a community of influencers and travel writers, photographers, videographers who inspire others to travel through their stories and experiences. Writers from Passion Passport will be travelling by rail to different cities VIA Rail serves including Ottawa, Halifax and Vancouver, and sharing their journeys on our blog.



New digital signage at Ottawa Station

A visit to Ottawa's National Gallery with Passion Passport

PROMOTE SOCIO ECONOMIC DEVELOPMENT

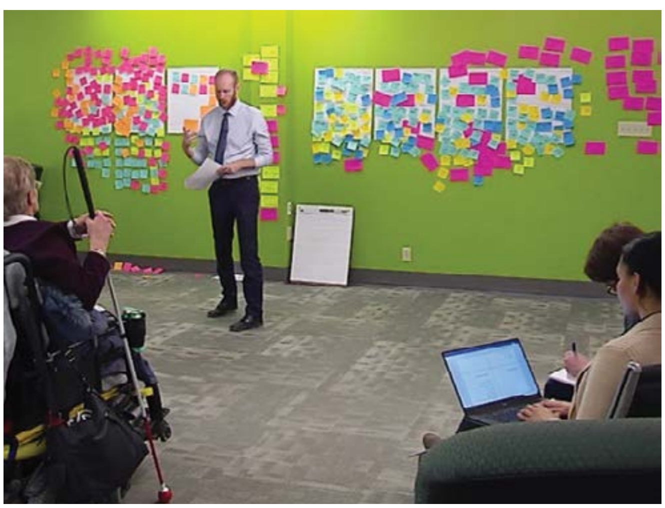
PROMOTING ACCESSIBILITY FOR THE BLIND AND PARTIALLY SIGHTED

VIA Rail has a longstanding partnership with the Canadian Council of the Blind (CCB). In February, we were presented with a certification of appreciation from the CCB for our sponsorship of White Cane Week, an initiative that aims to promote awareness and equality for people living with visual restrictions. VIA Rail was also a sponsor of the Visually Impaired Curling Championship.

Over the first quarter, in collaboration with the Canadian National Institute for the Blind (CNIB), CCB, and UIC, VIA Rail also began preliminary work on "Clear Station" — an exploratory initiative that aims to make Ottawa station more accessible for the blind and partially sighted so that their travel experience is more autonomous.

Led by VIA Rail, members of the CCB and CNIB were invited to participate in a full day of workshops. During these sessions, participants were asked what would make for a better travel experience, and what would make it easier for them to navigate through the station. The workshops aimed to get first-hand input from people who will benefit from these services in order to understand the realities of travelling for the blind and partially sighted. A prototype solution will be tested mid-summer.

Partnerships such as these enable us to optimize programs related to the accessibility of stations, trains, equipment and associated services.



VIA Rail's Sean Schofield leading the Clear Station workshops in Ottawa

Pamela O'Leary receives a certification of appreciation from Louise Gillis, National President of the CCB, on behalf of VIA Rail

SUPPORTING BLACK HISTORY MONTH

In February, VIA Rail transported over 200 young Canadians from the Children's Breakfast Club of Toronto to Ottawa as part Black History Month. During this event, the participants visited Parliament Hill, met with parliamentarians and learned about Black History Month as well as the prominent and noteworthy black figures who played a key role in our government and shaped Canadian history.

Members of the Children's Breakfast Club of Toronto during a visit to Parliament Hill

STRENGTHENING TIES WITH INDIGENOUS COMMUNITIES

The first quarter of 2018 has been pivotal in establishing new connections between VIA Rail and Canada's Indigenous communities; initial consultations have given way to constructive discussions with representatives of the Iroquois and Algonquin Nations of Ontario.

Thanks to our collaboration with the Canadian Council for Aboriginal Business (CCAB), we continued working towards attaining the base level CCAB Progressive Aboriginal Relations Certificate. To be considered for certification, we must demonstrate leadership actions, equitable employment programs, business development with Aboriginal-owned businesses, and establish and maintain positive community relations. VIA Rail also participated in round tables co-organized by Indigenous Work and the Canadian Chamber of Commerce to encourage the inclusion of Indigenous people in the Canadian economy.

VIA Rail was also a partner of the 2018 edition of the Soaring Conferences in Winnipeg organized by Indspire, an organization whose mission is to empower and support Indigenous youth by providing them with educational resources. At the event, VIA Rail was present to offer information and insight on the corporation and an employee of Indigenous descent shared his experience working with VIA Rail.

VIA Rail at the 2018 edition of the Soaring Conferences in Winnipeg

BE AN ATTRACTIVE EMPLOYER

The 2018 Distinction Awards in Montréal

CELEBRATING EMPLOYEE ACCOMPLISHMENTS

Every year, VIA Rail holds regional Distinction Awards which allow employees throughout the organization to recognize their colleagues through peer-nomination in four categories: Five-Star Service, Excellence in Maintenance, Team Spirit and Success Story. In 2017, a record-breaking 215 nominations were received, an increase of 162% over the previous year. Following the evaluation by regional selection committees, comprised of unionized and non-unionized employees, four winners were selected in each of our four regions. Distinction evenings were held in January and February to recognize the winners, and to celebrate employee service milestones and retirees.

PROMOTING DIVERSITY

In February, President and Chief Executive Officer Yves Desjardins-Siciliano represented VIA Rail on the international stage at the Diversity Brand Summit (DBS) in Milan, Italy. After previously speaking at the Gender Summit 11 in Montréal, Mr. Desjardins-Siciliano was invited to attend the DBS based on his efforts and commitment to promoting diversity and inclusion in the workforce. The summit is an opportunity to raise awareness and open the conversation among top global managers about the positive outcomes of embracing diversity in the workplace.

MANAGING OUR BUSINESS RESPONSIBLY

FORGING TIES WITH COMMUNITIES

VIA Rail is committed to working with local communities to better understand the needs of travellers in order to develop plans for improved service. During the first quarter, President and Chief Executive Officer, Yves Desjardins-Siciliano, travelled to Drummondville, Québec, to meet with Mayor Alexandre Cusson, who is also the President of the *Union des Municipalités du Québec*. This was an opportunity to discuss VIA Rail's present and future plans as well as to see how the proposed High Frequency Rail project could provide more sustainable transport options for people living in small, medium and large communities across Québec.

THANK YOU, SPY HILL

In January, VIA Rail President and Chief Executive Officer, Yves Desjardins-Siciliano, along with Chief Communications Officer, Ann Bouthillier, Chief Commercial Officer, Martin R. Landry, and Chief Mechanical and Maintenance Officer, Mario Bergeron, travelled to Spy Hill, Saskatchewan to thank the small community who helped turn an unfortunate situation into a moment of solidarity. On Christmas day, a train travelling through Spy Hill was forced to stop due to extremely harsh weather conditions to protect the safety of our passengers and onboard staff. Members of the community welcomed our employees and our passengers with open arms and prepared a holiday meal with the help of our staff.

Yves Desjardins-Siciliano with Drummondville Mayor Alexandre Cusson

LEFT TO RIGHT: Mario Bergeron, Ann Bouthillier, Martin R. Landry, and Yves Desjardins-Siciliano in Spy Hill, Saskatchewan

KEY PERFORMANCE INDICATORS

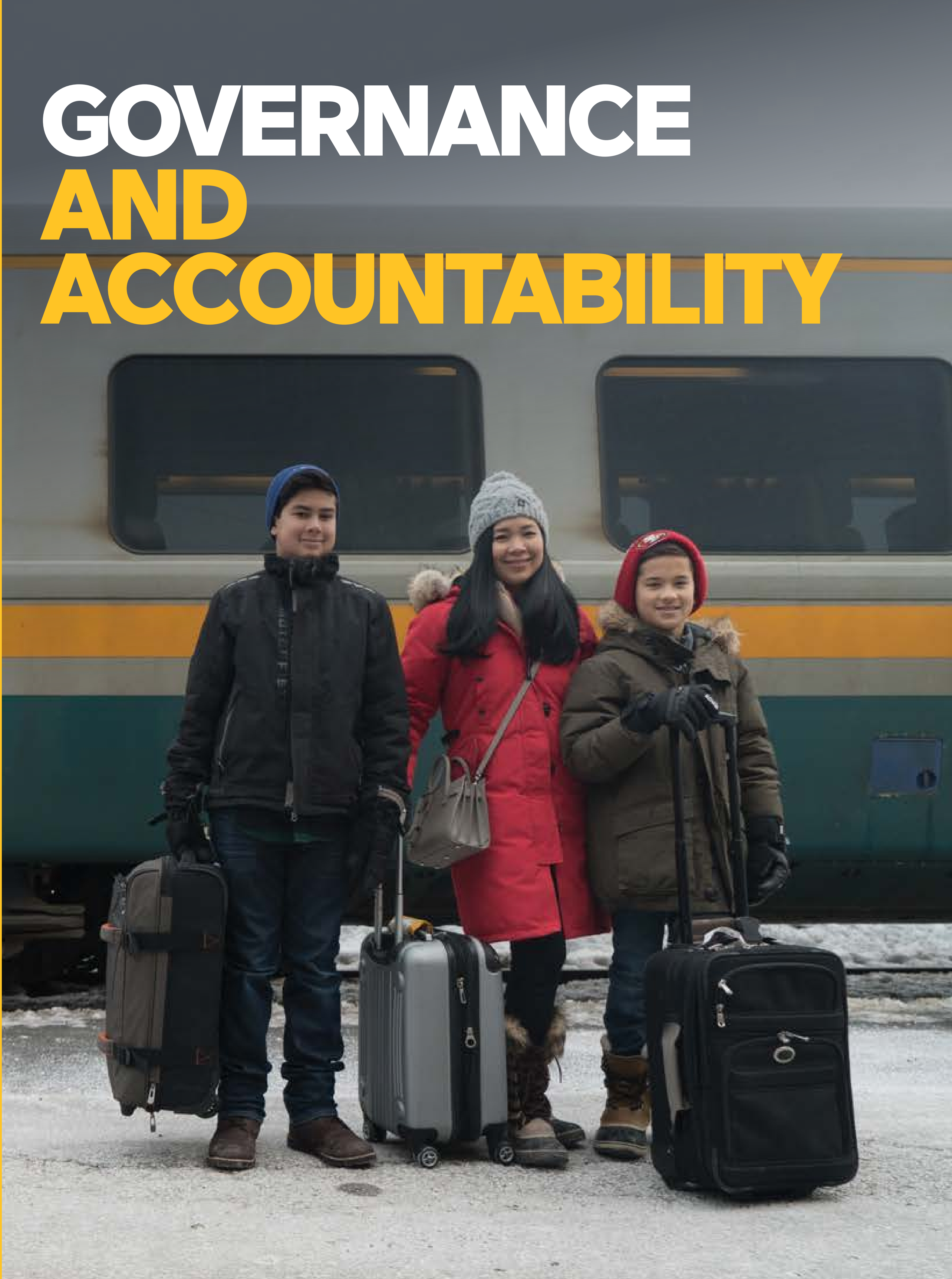
VIA Rail uses the following performance indicators as an integral part of its LEAN Management process. For detailed information on financial and operating performance during the quarter, consult the Management Discussion and Analysis section.

KEY PERFORMANCE INDICATORS		Quarters ended March 31		
INDICATOR	**UNIT**	**2018**	**2017**	**Vs 2017**
CAPACITY DEPLOYED (IN MILLIONS) Number of available seat-miles (ASM)	ASM	394	378	4.3%
TOTAL REVENUES / ASM (RASM) Total revenues divided by total ASM	cents	20.07	18.77	
TOTAL COSTS (1) / ASM (CASM) Total operating expenses divided by total ASM	cents	39.73	37.81	
RASM / CASM Revenues per available seat-mile divided by the costs per available seat-mile	%	50.5%	49.6%	
ON-TIME PERFORMANCE On-Time Performance of all VIA Rail trains	%	73%	77%	
ON-TIME PERFORMANCE - VIA RAIL INFRASTRUCTURE On-Time performance of all VIA Rail trains on VIA Rail owned infrastructure	%	95%	94%	
TRAIN INCIDENTS Includes mainline derailments, cardinal rule violations, critical speed violations, or critical rule violations which result in injury to passengers and/or employees, or damage to the rolling stock or infrastructure for a value of $25,000 or more	#	3	2	
EMPLOYEE ATTENDANCE (EXCLUDING LTD) Total hours worked per month divided by the total possible work hours per month	%	94%	94%	

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

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

GOVERNANCE AND ACCOUNTABILITY



THE BOARD OF DIRECTORS

As of March 31, 2018, the Board of Directors consists of the Chairperson of the Board of Directors, the President and Chief Executive Officer and 10 directors appointed by the Government of Canada. Of the 11 directors (not including the CEO of VIA Rail), six are women and five are men. The Board is responsible for overseeing the strategic direction and management of the Corporation, and reports on VIA Rail's operations to Parliament through the Honourable Marc Garneau, Minister of Transport.

The Board of Directors has entrusted to the Special Committee on New Fleet Procurement the role of overseeing the procurement process for the Corporation's proposed major program to renew its fleet of trainsets in the Québec City – Windsor corridor which was approved as part of the 2018 federal budget. The role of the Committee will be to receive frequent and direct reporting from management in order to facilitate a greater review of the activities of this major project by the Board of Directors.

Throughout the first quarter of 2018, four Board meetings were held. As well, the five different Board committees met a total of eight times. The attendance rate at the meetings held during the first quarter was 95 per cent. Cumulative fees paid to Board members during this period totaled $47,747.

ACCESS TO INFORMATION AND PRIVACY

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

PROMOTING OUR OFFICIAL LANGUAGES

VIA Rail complies with the *Official Languages Act* and is proud to offer services in both English and French. While nearly 1.1 million passengers travelled on our trains over the first quarter, no complaints were made in regards to our serving Canadians in the language of their choice. This reflects VIA Rail's commitment to providing a bilingual service across the country, in our stations, on board our trains and in our call centres. Over the quarter, VIA Rail promoted Canada's official languages by partnering with the Canadian Foundation for Cross-Cultural Dialogue during the 20th edition of *Rendez-vous de la Francophonie 2018*.

TRAVEL, HOSPITALITY AND CONFERENCE EXPENSES

THE FOLLOWING TRAVEL, HOSPITALITY AND CONFERENCE EXPENSES WERE SUBMITTED DURING THE FIRST QUARTER OF 2018	
Françoise Bertrand Chairperson of the Board of Directors	$1,023
Yves Desjardins-Siciliano President and CEO	$15,994
Executive management committee members (9 members)	$40,284
Board of Directors (10 members)	$11,545
Total VIA Rail (including above expenses)	**$275,408**

MANAGEMENT DISCUSSION AND ANALYSIS

1. INTRODUCTION

Management discussion and analysis report outlines the financial results of VIA Rail for the quarter ended March 31, 2018 compared with the quarter ended March 31, 2017. This document should be read in conjunction with the interim condensed financial statements and notes.

MATERIALITY

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

2. CORPORATE OVERVIEW

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

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

3. HIGHLIGHTS OF FINANCIAL RESULTS AND MAJOR KEY OPERATING STATISTICS OF THE QUARTER

	Quarters ended March 31			
(IN MILLIONS OF CANADIAN DOLLARS)	**2018**	2017	Var $	Var %
FINANCIAL PERFORMANCE				
Passenger revenues (SECTION 4.2)	**73.5**	65.3	8.2	12.6%
Other revenues	**5.6**	5.2	0.4	7.7%
Total revenues	**79.1**	70.5	8.6	12.2%
Operating expenses (SECTION 4.3)	**187.7**	173.5	14.2	8.2%
Operating loss before funding from the Government of Canada and income taxes (SECTION 4.1)	**(108.6)**	(103.0)	(5.6)	(5.4%)
Operating funding from the Government of Canada (SECTION 4.1)	**82.2**	75.9	6.3	8.3%
Amortization of deferred capital funding	**24.9**	23.0	1.9	8.3%
Net loss for the period	**(1.5)**	(4.2)	2.7	64.3%
Remeasurements of defined benefit components of the pension plans	**26.8**	(16.6)	43.4	261.4%
Comprehensive income (loss) for the period	**25.3**	(20.8)	46.1	221.6%
FINANCIAL POSITION AND CASH FLOWS				
Total assets (SECTION 4.4)	**1,348.5**	1,356.7	(8.2)	(0.6%)
Total liabilities (SECTION 4.4)	**1,436.7**	1,513.5	(76.8)	(5.1%)
Cash (SECTION 4.5)	**10.0**	12.2	(2.2)	(18.0%)
Net cash provided by operating activities (SECTION 4.5)	**4.0**	4.7	(0.7)	(14.9%)
Net cash (used in) provided by investing activities (SECTION 4.5)	**2.8**	(3.4)	6.2	182.4%
Capital funding (SECTION 4.5)	**18.3**	20.8	(2.5)	(12.0%)
KEY OPERATING STATISTICS				
Train-miles operated (IN THOUSANDS)	**1,654**	1,627	27	1.7%
Seat-miles (IN MILLIONS)	**394**	378	16	4.2%
Passengers-miles (IN MILLIONS)	**211**	191	20	10.5%
Average passenger load factor (%)	**54**	51	3	5.9%
Operating deficit per passenger-mile (IN CENTS)	**39.0**	39.7	(0.7)	(1.8%)

FINANCIAL HIGHLIGHTS

- VIA Rail recorded a 12,6 per cent increase in revenues.
- Operating expenses increased by 8,2 per cent.
- The operating loss increased by 5,4 per cent.
- Operating funding increased by 8,3 per cent.
- VIA Rail generated a comprehensive income of $25.3M compared to a loss of $20.7M in 2017. The variation is due to the remeasurements of defined benefit components of the pension plans.

4. ANALYSIS OF FINANCIAL RESULTS

4.1 COMPARISON OF IFRS AND FUNDED OPERATING RESULTS

	Quarters ended March 31			
(IN MILLIONS OF CANADIAN DOLLARS)	2018	2017	Var $	Var %
Operating loss on a funded basis	**(82.2)**	**(75.9)**	**(6.3)**	**(8.3%)**
NON-FUNDED ADJUSTMENT TO REVENUES				
Adjustment for VIA Préférence points	**0.0**	(0.5)	0.5	100.0%
NON-FUNDED ADJUSTMENTS TO EXPENSES				
Pension and other employee future benefits	**0.4**	0.3	0.1	33.3%
Depreciation and loss on disposal of property, plant, equipment and intangible assets	**(25.2)**	(23.4)	(1.8)	(7.7%)
Other provisions for non-cash items	**(1.6)**	(3.5)	1.9	54.3%
Total non-funded adjustments to expenses	**(26.4)**	(26.6)	0.2	0.8%
Total items (not generating) not requiring funds from operations	**(26.4)**	**(27.1)**	**0.7**	**2.6%**
Operating loss under IFRS	**(108.6)**	**(103.0)**	**(5.6)**	**(5.4%)**
Operating funding from the Government of Canada	**82.2**	75.9	6.3	8.3%
Amortization of deferred capital funding	**24.9**	23.0	1.9	8.3%
Net loss before income tax	**(1.5)**	**(4.1)**	**2.6**	**63.4%**
Income taxes	**0.0**	(0.1)	0.1	100.0%
Net loss under IFRS for the period	**(1.5)**	**(4.2)**	**2.7**	**64.3%**
Remeasurements of defined benefit component of the pension plans	**26.8**	(16.6)	43.4	261.4%
Comprehensive income (loss) for the period	**25.3**	**(20.8)**	**46.1**	**221.6%**

Net results under IFRS:

A loss of $1.5M this quarter, compared to a loss of $4.2M last year, for an improvement of $2.7M mainly due to:

- higher operating loss ($5.6M) explained by higher revenues of $8.1M and higher expenses of $14.2M ;
- higher government funding received during the quarter (increase of $6.3M) ;
- higher amortization of deferred capital funding ($1.9M).

Remeasurements of defined benefit component of the pension plans

COMPREHENSIVE INCOME OF $26.8M IN Q1 2018:

As at March 31, 2018, the discount rate used to determine the defined benefit obligation was 3.50 per cent, compared to 3.40 per cent as at December 31, 2017, which represents $27.3M increase in comprehensive income. The return on plan assets generated in Q1 2018 was $-0.5M (return on plan assets lower than expectations).

COMPREHENSIVE INCOME (LOSS) OF ($16.6M) IN Q1 2017:

As at March 31, 2017, the discount rate used to determine the defined benefit obligation was 3.60 per cent compared to 3.80 per cent as at December 31, 2016, which represents a $59.2M expenses in Q1 2017. The return on plan assets generated in Q1 2017 was $42.6M$.

4.2 REVENUES

	Quarters ended March 31			
(IN MILLIONS OF CANADIAN DOLLARS)	2018	2017	Var $	Var %
Passenger revenues				
Corridor East	**52.8**	46.9	5.9	12.6 %
Southwestern Ontario (SWO)	**12.2**	10.5	1.7	16.2 %
Quebec-City Windsor corridor	**65.0**	**57.4**	**7.6**	**13.2 %**
Ocean	**1.5**	1.5	0.0	0.0 %
Canadian	**4.8**	4.5	0.3	6.7 %
Regional services	**0.3**	0.7	(0.4)	(57.1 %)
Non corridor	**6.6**	**6.7**	**(0.1)**	**(1.5 %)**
Other	**1.9**	1.2	0.7	58.3 %
Total passenger revenues under IFRS	**73.5**	**65.3**	**8.2**	**12.6 %**
Other revenues	**5.6**	5.2	0.4	7.7 %
Total revenues under IFRS	**79.1**	**70.5**	**8.6**	**12.2 %**
Adjustment for VIA Préférence points (non-funded)	**0.0**	0.5	(0.5)	(100.0 %)
TOTAL FUNDED REVENUES	**79.1**	**71.0**	**8.1**	**11.4 %**

PASSENGERS

	Quarters ended March 31			
(IN THOUSANDS)	2018	2017	Var $	Var %
Passengers				
Corridor East	**787.9**	696.9	91.0	13.1 %
Southwestern Ontario (SWO)	**269.4**	235.9	33.5	14.2 %
Québec-City Windsor corridor	**1,057.3**	**932.8**	**124.5**	**13.3 %**
Ocean	**14.3**	14.4	(0.1)	(0.7 %)
Canadian	**8.9**	10.2	(1.3)	(12.7 %)
Regional services	**9.0**	11.8	(2.8)	(23.7 %)
Non corridor	**32.2**	**36.4**	**(4.2)**	**(11.5 %)**
TOTAL PASSENGERS	**1,089.5**	**969.2**	**120.3**	**12.4 %**

PASSENGER REVENUES:

Passenger revenues have increased by $8.2M (12.6 per cent), the increase is mainly attributable to higher passenger volumes (12.4 per cent).

CORRIDOR EAST:

Revenues are $5.9M (12.6 per cent) higher than last year. The increase stems from higher ridership (13.1 per cent) resulting in part from the increased capacity deployed. This increase was partly offset by slightly lower average revenues (-0.4 per cent).

SOUTHWESTERN ONTARIO:

Revenues have grown by $1.7M (16.2 per cent) due to both higher passenger levels (14.2 per cent), combined with improved average revenues (1.8 per cent).

OCEAN:

Revenues generated on the *Ocean* have remained stable, the slight decrease in ridership (-0.7 per cent) was offset by higher average revenues.

CANADIAN:

Revenues on the *Canadian* have increased by $0.3M (6.7 per cent), and the increase is due to improved average revenues (22 per cent), mostly in sleeper and Prestige classes. This increase is partly offset by lower passenger volumes in Economy class, resulting from the poor on-time performance which significantly impact Economy passengers who only travel on specific segments of the journey.

REGIONAL SERVICES:

Revenues on Regional services are $0.4M (57.1 per cent) lower than last year. This decrease is due to the continued interruption of service on the Gillam-Churchill segment of the Winnipeg-Churchill train. The service was interrupted in May 2017 following severe flooding which damaged the infrastructure, and the date at which the service will resume has not been determined.

ADJUSTMENT FOR VIA PRÉFÉRENCE POINTS:

The adjustment of 2017 results from a change in estimation relative to the probabilities of awarded points being converted into tickets. The impact of this change in estimate was the recognition of $0.5M of revenues.

OTHER REVENUES:

Other revenues have increased by $0.4M (7.7 per cent). This increase is attributable to higher station revenues including lease and parking revenues.

4.3 OPERATING EXPENSES

	Quarters ended March 31			
(IN MILLIONS OF CANADIAN DOLLARS)	2018	2017	Var $	Var %
Compensation and employee benefits	**78.0**	67.5	10.5	15.6%
Train operations and fuel	**36.8**	31.4	5.4	17.2%
Stations and property	**12.0**	11.6	0.4	3.4%
Marketing and sales	**7.4**	8.3	(0.9)	(10.8%)
Maintenance material	**9.9**	9.2	0.7	7.6%
Professional services	**5.1**	4.1	1.0	24.4%
Telecommunications	**4.6**	4.5	0.1	2.2%
Depreciation and amortization	**23.8**	22.9	0.9	3.9%
Loss on disposal of property, plant and equipment and intangible assets	**1.4**	0.5	0.9	180.0%
Unrealized net loss (net gain) on derivative financial instruments	**(2.0)**	2.7	(4.7)	(174.1%)
Other	**10.7**	10.8	(0.1)	(0.9%)
Total operating expenses under IFRS	**187.7**	**173.5**	**14.2**	**8.2%**
Non-funded adjustments (section 4.1)	**(26.4)**	(26.6)	0.2	(0.8%)
Total funded expenses	**161.3**	**146.9**	**14.4**	**9.8%**

Total operating expenses increased by $14.2M (8.2 per cent) and primary variances are:

COMPENSATION AND EMPLOYEE BENEFITS:

Increase of $10.5M (15.6 per cent) due to higher staffing levels (in part due to the additional capacity deployed), annual salary increases, and higher costs (overtime and additional staffing) resulting from the poor on-time performance of the *Canadian*.

TRAIN OPERATIONS AND FUEL:

Increase of $5.4M (17.2 per cent) attributable to higher infrastructure usage fees and fuel resulting from the additional capacity deployed (new frequencies introduced in the fall of 2017), as well as to the annual contractual cost increases (7 per cent) for infrastructure usage fees paid to infrastructure owners.

4.4 FINANCIAL POSITION

(IN MILLIONS OF CANADIAN DOLLARS)	March 31, 2018	Dec. 31, 2017	Var $	Var %
ASSETS				
Current assets	**92.5**	92.5	0.0	0.0%
Property, plant and equipment	**881.1**	883.8	(2.7)	(0.3%)
Intangible assets	**365.2**	369.5	(4.3)	(1.2%)
Other	**9.7**	5.4	4.3	79.6%
Total assets	**1,348.5**	**1,351.2**	**(2.7)**	**(0.2%)**
LIABILITIES				
Current liabilities	**161.2**	159.6	1.6	1.0%
Post-employment and other employee benefits	**42.6**	65.6	(23.0)	(35.1%)
Total liabilities	**203.8**	**225.2**	**(21.4)**	**(9.5%)**
Deferred capital funding	**1,232.9**	1,239.5	(6.6)	(0.5%)
Share capital	**9.3**	9.3	0.0	0.0%
Accumulated deficit beginning of period	**(122.8)**	(145.3)	22.5	15.5%
Net income (loss)	**(1.5)**	12.9	(14.4)	(111.6%)
Other comprehensive income	**26.8**	9.6	17.2	179.2%
Accumulated deficit, end of period	**(97.5)**	**(122.8)**	**25.3**	**(20.6%)**
Total liabilities and shareholder's deficit	**1,348.5**	**1,351.2**	**(2.7)**	**(0.2%)**

The main changes in the financial position is attributable to the following major elements:

ASSETS

Total assets decreased by $2.7M due mainly to the decrease in the value of property, plant and equipment and intangible assets, explained by depreciation, amortization and loss on disposal (total of $25.2M), which were partly offset by capital expenditures of $18.3M.

LIABILITIES

Post-employment and other employee benefits decreased as a result of the increase in discount rates, as explained in section 4.1 of this document.

Deferred capital funding decreased due to amortization of capital funding of $24.9M and capital funding of $18.3M.

OTHER COMPREHENSIVE INCOME

Other comprehensive income has increased due to the increase in discount rates affecting pension plan liabilities, as explained in section 4.1 of this document.

4.5 LIQUIDITY, CASH FLOWS AND CAPITAL INVESTMENTS

LIQUIDITY AND CASH FLOWS

	Quarters ended March 31			
(IN MILLIONS OF CANADIAN DOLLARS)	2018	2017	Var $	Var %
Balance, beginning of period	**3.2**	10.9	(7.7)	(70.6%)
Net cash provided by operating activities	**4.0**	4.7	(0.7)	(14.9%)
Net cash (used in) provided by investing activities	**2.8**	(3.4)	6.2	182.4%
Balance, end of period	**10.0**	**12.2**	**(2.2)**	**(18.0%)**

OPERATING ACTIVITIES:

Net cash provided by operating activities decreased by $0.7M (14.9 per cent). This decrease is mainly due to higher employer post-employment and other benefit contributions ($1.2M) partly offset by the variance in the non-cash working capital items.

INVESTING ACTIVITIES:

The variation in net cash provided by investing activities is due in most part to a $4.7M drawdown from cash in the Asset Renewal Fund.

CAPITAL INVESTMENTS

Property, plant and equipment and intangible assets amounted to $1,246.4M as at March 31, 2018, which is a decrease of $6.9M compared to the balance as at December 31, 2017.

During the quarter, capital investment of $18.3M were made in the following projects:

	Quarters ended March 31			
(IN MILLIONS OF CANADIAN DOLLARS)	2018	2017	Var $	Var %
Equipment	**5.7**	5.0	0.7	14.0%
Infrastructure	**3.2**	9.1	(5.9)	(64.8%)
Information technology	**4.5**	2.6	1.9	73.1%
Stations	**3.3**	1.8	1.5	83.3%
Other	**1.6**	2.3	(0.7)	(30.4%)
Total	**18.3**	**20.8**	**(2.5)**	**(12.0%)**

The most significant investments made during the quarter were for the mid-life overhaul of locomotives, the elevated platform, main concourse roof and electrical room in Ottawa station, and work on various bridges on the infrastructure owned by VIA Rail.

5. RISK

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, 2017.

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

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

INFRASTRUCTURE AVAILABILITY, RELIABILITY AND QUALITY

NATURE OR RISK:

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

CHANGE SINCE DECEMBER 2017:

On-time performance has further deteriorated on the *Canadian*, plummeting to 3 per cent during the first quarter with delays growing in length.

These delays have resulted in additional costs and have negatively impacted ridership in Economy class.

The negative impacts of sustaining delays during the peak summer season could be much more significant in terms of additional costs and potential lost revenues as the weekly frequencies will increase from 2 to 3 per week and more passengers will be travelling on the trains.

Furthermore, the contracts with major host railways which allow VIA Rail access to their infrastructure will expire at the end of 2018 and could be renewed at terms and conditions which are not known at this time.

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

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

6. OUTLOOK

The results of the first quarter of 2018 are positive in terms of revenues and ridership, especially on the Corridor. The poor on-time performance of the *Canadian*, is however a problem, and if it sustains during the peak summer months, could result in significant additional costs and revenue losses.

Management has put in place a mitigation plan to minimize the impact of such delays on passengers, and continues to work with host railways to find ways to minimize delays.

With regards to the financial results for the year, operating expenses will be higher compared to last year. This increase is caused by several factors including additional capacity, additional costs associated with poor on-time performance, and various initiatives by Management to achieve VIA Rail's transformation and prepare for the future.

These were planned initiatives, therefore the Corporation still expects to meet its authorized funding levels for the year.

INTERIM CONDENSED FINANCIAL STATEMENTS

MANAGEMENT'S RESPONSIBILITY STATEMENT

QUARTER ENDED MARCH 31, 2018

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

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

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

Yves Desjardins-Siciliano
President and Chief Executive Officer

Patricia Jasmin, CPA, CA
Chief Financial Officer

Montréal, Canada
May 29, 2018

INTERIM CONDENSED FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION

(IN THOUSANDS OF CANADIAN DOLLARS)	March 31, 2018	December 31, 2017
CURRENT ASSETS	*(unaudited)*	*(audited)*
Cash	**$ 9,968**	$ 3,195
Trade and other receivables	**12,616**	11,264
Receivable from the Government of Canada	**31,186**	37,215
Other current assets	**4,247**	4,059
Derivative financial instruments (NOTE 9)	**4,721**	3,476
Materials	**26,632**	25,465
Asset Renewal Fund (NOTE 10)	**3,096**	7,780
	92,466	92,454
NON-CURRENT ASSETS		
Property, plant and equipment (NOTE 11)	**881,157**	883,847
Intangible assets (NOTE 12)	**365,197**	369,477
Asset Renewal Fund (NOTE 10)	**873**	873
Post-employment and other employee benefits (NOTE 16)	**8,804**	4,566
	1,256,031	1,258,763
Total Assets	**$ 1,348,497**	$ 1,351,217
CURRENT LIABILITIES		
Trade and other payables (NOTE 13)	**$ 104,382**	$ 113,791
Provisions (NOTE 14)	**8,543**	8,872
Derivative financial instruments (NOTE 9)	**1,515**	2,292
Deferred revenues (NOTE 15)	**46,799**	34,613
	161,239	159,568
NON-CURRENT LIABILITIES		
Post-employment and other employee benefits (NOTE 16)	**42,629**	65,620
	42,629	65,620
Deferred capital funding (NOTE 17)	**1,232,867**	1,239,544
SHAREHOLDER'S DEFICIENCY		
Share capital	**9,300**	9,300
Accumulated deficit	**(97,538)**	(122,815)
	(88,238)	(113,515)
Total Liabilities and Shareholder's deficiency	**$ 1,348,497**	$ 1,351,217

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 March 31 (IN THOUSANDS OF CANADIAN DOLLARS) (UNAUDITED)	2018	2017
REVENUES		
Passenger (NOTE 7)	$ 73,503	$ 65,267
Other (NOTE 7)	5,582	5,219
	79,085	70,486
EXPENSES		
Compensation and employee benefits	77,974	67,465
Train operations and fuel	36,772	31,431
Stations and property	11,971	11,604
Marketing and sales	7,444	8,311
Maintenance material	9,882	9,228
On-train product costs	4,722	4,109
Operating taxes	2,987	2,469
Professional services	5,055	4,058
Telecommunications	4,647	4,525
Depreciation and amortization (NOTES 11 & 12)	23,822	22,922
Loss on disposal of property, plant and equipment and intangible assets (NOTES 11 & 12)	1,384	451
Unrealized net loss (net gain) on derivative financial instruments	(2,022)	2,746
Realized net loss (net gain) on derivative financial instruments	(153)	1,145
Other	3,206	3,049
	187,691	173,513
OPERATING LOSS BEFORE FUNDING FROM THE GOVERNMENT OF CANADA AND INCOME TAXES	108,606	103,027
Operating funding from the Government of Canada (NOTE 8)	82,235	75,850
Amortization of deferred capital funding (NOTE 17)	24,913	23,079
Net loss before income taxes	(1,458)	(4,098)
Income tax expense	77	68
NET LOSS FOR THE PERIOD	(1,535)	(4,166)
Other comprehensive income (loss)		
Amounts not to be reclassified subsequently to net income (net of tax):		
Remeasurements of defined benefit component of the pension plans (NOTE 16)	26,812	(16,624)
	26,812	(16,624)
COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	$ 25,277	$ (20,790)

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 March 31 (IN THOUSANDS OF CANADIAN DOLLARS) (UNAUDITED)	**2018**	2017
SHARE CAPITAL	**$ 9,300**	$ 9,300
Accumulated deficit		
Balance, beginning of period	**(122,815)**	(145,334)
Net loss for the period	**(1,535)**	(4,166)
Other comprehensive income (loss) for the period	**26,812**	(16,624)
Balance, end of period	**(97,538)**	(166,124)
Total Shareholder's deficiency	**$ (88,238)**	$ (156,824)

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

INTERIM CONDENSED FINANCIAL STATEMENTS

STATEMENT OF CASH FLOWS

Quarters ended March 31 (IN THOUSANDS OF CANADIAN DOLLARS) (UNAUDITED)	**2018**	2017
OPERATING ACTIVITIES		
Net loss for the period	**$ (1,535)**	$ (4,166)
Adjustments to determine net cash (used in) provided by operating activities:		
Depreciation and amortization (NOTES 11 & 12)	**23,822**	22,922
Loss on disposal of property, plant and equipment and intangible assets (NOTES 11 & 12)	**1,384**	451
Amortization of deferred capital funding (NOTE 17)	**(24,913)**	(23,079)
Interest income	**(102)**	(85)
Unrealized net loss (net gain) on derivative financial instruments	**(2,022)**	2,746
Post-employment and other employee benefit expenses (NOTE 16)	**10,043**	8,996
Employer post-employment and other employee benefit contributions (NOTE 16)	**(10,460)**	(9,271)
Net change in non-cash working capital items (NOTE 18)	**7,727**	6,194
Net cash provided by operating activities	**3,944**	4,708
INVESTING ACTIVITIES		
Capital funding (NOTE 17)	**18,236**	20,844
Change in capital funding receivable from the Government of Canada	**8,764**	656
Drawdown from cash in the Asset Renewal Fund	**4,684**	-
Change in capital accounts payable and accrued liabilities	**(10,721)**	(4,114)
Acquisition of property, plant and equipment and intangible assets (NOTES 11, 12 & 13)	**(18,236)**	(20,844)
Interest received	**102**	85
Net cash (used in) provided by investing activities	**2,829**	(3,373)
CASH		
Increase during the period	**6,773**	1,335
Balance, beginning of period	**3,195**	10,861
Balance, end of period	**$ 9,968**	$ 12,196
REPRESENTED BY:		
Cash	**$ 9,968**	$ 12,196
	$ 9,968	$ 12,196

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

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

FOR THE PERIOD ENDED MARCH 31, 2018 (UNAUDITED)

1. AUTHORITY AND OBJECTIVES

VIA Rail Canada Inc. is a Crown corporation named in Part I of Schedule III to the *Financial Administration Act*. The Corporation was incorporated in 1977 in Canada, under the *Canada Business Corporations Act*. The corporate headquarters is located at 3 Place Ville-Marie, Montréal (Québec). The Corporation's vision is to be a smarter way to move people with a mission to place passengers at the core of everything we do and strives 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 financial statements were approved and authorized for issue by the Board of Directors on May 29, 2018.

2. BASIS OF PREPARATION

a) Statement of compliance

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

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

b) Functional and presentation currency

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

3. CHANGES IN ACCOUNTING POLICIES ADOPTED IN THE PERIOD

IFRS 9 - *Financial instruments*

In the current period ending March 31, 2018, the Corporation has applied IFRS 9 - *Financial Instruments* (as revised in July 2014). IFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and liabilities, 2) impairment for financial assets and 3) hedge accounting. Details of these new requirements as well as their impact on the Corporation's financial statements are described below.

a) Financial assets – Classification and measurement

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

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

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

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

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

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

b) Financial liabilities - Classification and measurement

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

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

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

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

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

c) Derivative financial instruments

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

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

These derivatives financial instruments are not designated as hedging instruments.

IFRS 15 – *Revenue from Contracts with Customers*

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

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

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

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

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

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

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

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

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

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

4. NEW AND REVISED IFRS ISSUED BUT NOT YET EFFECTIVE

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

This standard is effective for periods beginning on or after January 1, 2019, with early application permitted for corporations that also apply IFRS 15 – *Revenue from Contracts with Customers*. The Corporation does not intend to early apply IFRS 16. The Corporation is currently assessing the impact of applying this standard on its financial statements. An initial scoping of its agreement has identified approximately 50 agreements that will need to be analyzed. The Corporation has also begun the analysis of these leases and will continue this process during the year 2018.

IFRIC 23 – *Uncertainty over Income Tax Treatment* – In June 2017 the IASB issued IFRIC 23 - *Uncertainty over Income Tax Treatments*. This IFRIC Interpretation aims to reduce diversity in how Corporations recognize and measure a tax liability or tax asset when there is uncertainty over income tax treatments. This standard is effective for periods beginning on or after January 1, 2019, with early application permitted. A full retrospective application is permitted if a corporation can do so without using hindsight. The Corporation has not yet determined the impact of IFRIC 23 and does not intend to early apply IFRIC 23.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Revenue recognition

i) Passenger revenues

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

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

ii) Other revenues

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

6. KEY SOURCES OF ESTIMATION UNCERTAINTY AND CRITICAL JUDGMENTS

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

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

7. REVENUES

The following table disaggregates the revenue by major sources:

	Quarters ended March 31	
(in millions of Canadian dollars)	**2018**	2017
REVENUES		
Transportation and accommodation	**71.2**	63.3
On-train food and beverages and off-train revenue / other	**2.3**	2.0
Revenue from passengers	**73.5**	65.3
Investment income	**0.1**	0.1
Third-party servicing	**2.1**	2.0
Rental and sub-lease rental income	**3.4**	3.1
Revenue from other sources	**5.6**	5.2
Total	**79.1**	70.5

8. RECONCILIATION OF OPERATING LOSS TO GOVERNMENT FUNDING

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

	Quarters ended March 31	
(IN MILLIONS OF CANADIAN DOLLARS)	**2018**	2017
Operating loss before funding from the Government of Canada and income taxes	**108.6**	103.0
Items requiring operating funds:		
Income tax expense	**0.1**	0.1
Items (not requiring) not providing operating funds:		
Depreciation and amortization	**(23.8)**	(22.9)
Loss on disposal of property, plant and equipment and intangible assets	**(1.4)**	(0.5)
Post-employment and other employee benefits contributions in excess of expenses	**0.4**	0.3
Unrealized net gain (net loss) on derivative financial instruments	**2.0**	(2.7)
Adjustment for accrued compensation	**(3.7)**	(0.9)
Adjustment for VIA Préférence	**-**	(0.5)
Operating funding from the Government of Canada	**82.2**	75.9

9. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

	March 31, 2018		December 31, 2017	
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)
Assets	**14,994**	**4.5**	14,112	3.3
Liabilities	**2,352**	**0.9**	4,032	1.3

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

	March 31, 2018		December 31, 2017	
FORWARD FOREIGN EXCHANGE CONTRACTS	**Notional Amount (USD) (millions)**	**Fair Value CAD (millions)**	Notional Amount (USD) (millions)	Fair Value CAD (millions)
Assets	**1.8**	**0.2**	1.8	0.2
Liabilities	**6.6**	**0.6**	8.2	1.0

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

Amounts recognized in the statement of financial position:

	March 31, 2018	December 31, 2017
	Fair Value CAD (millions)	Fair Value CAD (millions)
Total assets	**4.7**	3.5
Total liabilities	**1.5**	2.3

10. ASSET RENEWAL FUND

a) Asset Renewal Fund

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

The Treasury Board of Canada Secretariat has authorized the Corporation to use up to $3.1 million (December 31, 2017: $7.8 million) of the Asset Renewal Fund. This amount is presented in the current portion of the Asset Renewal Fund. The remaining balance of $0.9 million (December 31, 2017: $0.9 million) is presented in the non-current portion of the Asset Renewal Fund.

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

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

b) Changes in the Asset Renewal Fund

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

(IN MILLIONS OF CANADIAN DOLLARS)	March 31, 2018	December 31, 2017
Balance, beginning of period	**8.7**	8.7
Less: Cash drawdown during the period (NOTE 1)	**(4.7)**	-
Balance, end of period	**4.0**	8.7

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

11. PROPERTY, PLANT AND EQUIPMENT

(IN MILLIONS OF CANADIAN DOLLARS)	January 1, 2018	Additions	Disposals	Transfers	March 31, 2018
Cost:					
Land	17.0	-	-	-	**17.0**
Rolling stock	942.4	-	(2.8)	3.4	**943.0**
Maintenance buildings	167.8	-	-	0.1	**167.9**
Stations and facilities	133.8	-	(0.4)	-	**133.4**
Owned infrastructures	269.5	-	(0.7)	0.5	**269.3**
Leasehold improvements	90.6	-	(0.3)	0.2	**90.5**
Machinery and equipment	26.0	-	-	-	**26.0**
Computer hardware	38.0	-	-	0.9	**38.9**
Other property, plant and equipment	7.2	-	-	-	**7.2**
Projects in progress	32.3	15.7	-	(5.1)	**42.9**
Total cost	1,724.6	15.7	(4.2)	-	**1,736.1**
Accumulated depreciation and impairment:					
Rolling stock	497.7	10.5	(1.5)	-	**506.7**
Maintenance buildings	112.8	0.5	-	-	**113.3**
Stations and facilities	46.0	1.2	(0.3)	-	**46.9**
Owned infrastructures	89.7	2.1	(0.7)	-	**91.1**
Leasehold improvements	47.7	0.9	(0.3)	-	**48.3**
Machinery and equipment	17.9	0.3	-	-	**18.2**
Computer hardware	26.4	1.3	-	-	**27.7**
Other property, plant and equipment	2.6	0.1	-	-	**2.7**
Total accumulated depreciation and impairment	840.8	16.9	(2.8)	-	**854.9**
Total carrying amount	883.8	(1.2)	(1.4)	-	**881.2**

12. INTANGIBLE ASSETS

(IN MILLIONS OF CANADIAN DOLLARS)	January 1, 2018	Additions	Disposals	Transfers	March 31, 2018
Cost:					
Software (NOTE 1)	114.0	-	-	0.5	**114.5**
Right of access to rail infrastructure	430.4	-	-	-	**430.4**
Other intangible assets	4.4	-	-	-	**4.4**
Projects in progress	3.5	2.5	-	(0.5)	**5.5**
Total cost	552.3	2.5	-	-	**554.8**
Accumulated amortization and impairment:					
Software	78.5	3.9	-	-	**82.4**
Right of access to rail infrastructure	102.3	2.8	-	-	**105.1**
Other intangible assets	2.0	0.1	-	-	**2.1**
Total accumulated amortization and impairment	182.8	6.8	-	-	**189.6**
Net carrying amount	369.5	(4.3)	-	-	**365.2**

Note 1: Includes mostly software developed in-house.

13. TRADE AND OTHER PAYABLES

The trade and other payables balance includes the following:

(IN MILLIONS OF CANADIAN DOLLARS)	March 31, 2018	December 31, 2017
Wages payable and accrued	**46.6**	40.7
Accounts payable and accruals - Capital assets	**12.3**	23.1
Accounts payable and accruals - Trade	**35.8**	40.5
Trade and other payables classified at Amortised cost	**94.7**	104.3
Capital tax, income tax and other taxes payable	**6.2**	5.8
Deductions at sources	**3.5**	3.7
Total trade and other payables	**104.4**	113.8

14. PROVISIONS

The provision balance includes the following:

(IN MILLIONS OF CANADIAN DOLLARS)	January 1, 2018	Charge (used)	Reversal (used)	March 31, 2018
Environmental costs (NOTE A)	0.3	-	(0.1)	**0.2**
Litigation and equipment repairs (NOTE B)	8.6	0.9	(1.2)	**8.3**
Total provisions	8.9	0.9	(1.3)	**8.5**

a) Environmental costs

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

b) Litigation and equipment repairs

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

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

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

15. DEFERRED REVENUES

Deferred revenues are comprised of the following:

(IN MILLIONS OF CANADIAN DOLLARS)	March 31, 2018	December 31, 2017
Advance ticket sales	**32.1**	19.6
Gift cards	**1.4**	1.5
Non-monetary transactions	**2.0**	2.2
VIA Préférence (NOTE 1)	**10.8**	10.8
Other	**0.5**	0.5
Total deferred revenues	**46.8**	34.6

16. POST-EMPLOYMENT AND OTHER EMPLOYEE BENEFITS

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

Pension plans

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

All participants to the pension plans are entitled to defined benefits pensions. Pension dispositions vary for a group of unionized employees hired on or after January 1, 2014.

Employees, other than certain unionized employees hired on or after January 1, 2014

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

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

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

16. POST-EMPLOYMENT AND OTHER EMPLOYEE BENEFITS (CONT'D)

Certain unionized employees hired on or after January 1, 2014

i) Defined benefit component

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

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

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

ii) Defined contribution component

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

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

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

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

The financial and demographic assumptions used to determine the actuarial valuations of the pension plans were the same assumptions as disclosed in the Corporation's annual financial statements for the year ended December 31, 2017, except for the discount rate used to determine the defined benefit obligation that was increased to 3.50 per cent (December 31, 2017: 3.40 per cent) and the discount rate used to determine the defined benefit cost that was decreased to 3.40 per cent (December 31, 2017: 3.80 per cent).

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

Based on these actuarial valuations and projections to March 31, the summary of the principal valuation results, in aggregate, is as follows:

(IN MILLIONS OF CANADIAN DOLLARS)	Defined benefit component of the pension plans		Post-employment benefit plans	
	March 31, 2018	December 31, 2017	**March 31, 2018**	December 31, 2017
DEFINED BENEFIT OBLIGATION:				
Balance, beginning of period	**2,409.0**	2,298.1	**23.8**	21.7
Service cost	**8.0**	27.9	**0.1**	0.3
Past service cost	**-**	(0.1)	**-**	-
Interest expense	**21.0**	86.3	**0.2**	0.8
Employee contributions	**3.5**	14.3	**-**	-
Benefits paid	**(34.7)**	(135.0)	**(0.2)**	(0.8)
Effect of change in demographic assumptions	**-**	(0.1)	**-**	-
Effect of change in financial assumptions	**(27.3)**	118.4	**-**	1.8
Effect of experience adjustments	**-**	(0.8)	**-**	-
Balance, end of period	**2,379.5**	2,409.0	**23.9**	23.8
FAIR VALUE OF PLAN ASSETS:				
Balance, beginning of period	**2,390.5**	2,267.2	**-**	-
Interest income	**20.8**	84.4	**-**	-
Return on plan assets (excluding interest income)	**(0.5)**	128.9	**-**	-
Employer contributions	**9.1**	33.4	**0.2**	0.8
Employee contributions	**3.5**	14.3	**-**	-
Benefits paid	**(34.7)**	(135.0)	**(0.2)**	(0.8)
Administration expenses	**(0.4)**	(2.7)	**-**	-
Balance, end of period	**2,388.3**	2,390.5	**-**	-
Net defined benefit liability (asset)	**(8.8)**	18.5	**23.9**	23.8

b) Long-term employee benefit plans

The financial and demographic assumptions used to determine the actuarial valuations of the long-term employee benefit plans were the same assumptions as disclosed in the Corporation's annual financial statements for the year ended December 31, 2017 except for the discount rate used to determine the benefit cost that was increased to 3.40 per cent (December 31, 2017: 3.30 per cent). The discount rate used to determine the long-term employee benefit obligation remains unchanged.

16. POST-EMPLOYMENT AND OTHER EMPLOYEE BENEFITS (CONT'D)

Based on these actuarial valuations and projections to March 31, 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)	March 31, 2018	December 31, 2017
LONG-TERM EMPLOYEE BENEFIT OBLIGATION:		
Balance, beginning of period	**18.2**	18.5
Service cost	**0.8**	3.1
Interest expense	**0.2**	0.6
Benefits paid	**(1.0)**	(3.8)
Effect of change in demographic assumptions	**-**	(0.2)
Balance, end of period	**18.2**	18.2
FAIR VALUE OF PLAN ASSETS:		
Balance, beginning of period	**-**	-
Employer contributions	**1.0**	3.8
Benefits paid	**(1.0)**	(3.8)
Balance, end of period	**-**	-
Net long-term employee benefit liability	**18.2**	18.2

c) Other long-term employee benefits

Other long-term employee benefits include work security benefits administered by various union agreements. These benefits are calculated on an event driven basis and represent management's best estimates of the present value of all future projected payments to unionized employees. The change in the other long-term employee benefit obligation is explained as follows:

(IN MILLIONS OF CANADIAN DOLLARS)	March 31, 2018	December 31, 2017
OTHER LONG-TERM EMPLOYEE BENEFIT OBLIGATION:		
Balance, beginning of period	**0.5**	0.6
Service cost	**0.2**	0.4
Benefits paid	**(0.2)**	(0.5)
Balance, end of period	**0.5**	0.5
FAIR VALUE OF PLAN ASSETS:		
Balance, beginning of period	**-**	-
Employer contributions	**0.2**	0.5
Benefits paid	**(0.2)**	(0.5)
Balance, end of period	**-**	-
Net other long-term employee benefit liability	**0.5**	0.5

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

Total amounts recognized in the statement of financial position:

(IN MILLIONS OF CANADIAN DOLLARS)	March 31, 2018	December 31, 2017
Assets:		
Defined benefit component of the pension plans	**8.8**	4.6
Liabilities:		
Defined benefit component of the pension plans	**-**	23.1
Post-employment benefit plans	**23.9**	23.8
Long-term employee benefit plans	**18.2**	18.2
Other long-term employee benefits	**0.5**	0.5
Total liabilities	**42.6**	65.6

Total amounts recognized in the statement of comprehensive income:

	Quarters ended March 31	
(IN MILLIONS OF CANADIAN DOLLARS)	2018	2017
Operating expense:		
Defined benefit component of the pension plans	**8.6**	7.6
Post-employment benefit plans	**0.3**	0.3
Long-term employee benefit plans	**1.0**	0.9
Other long-term employee benefits	**0.2**	0.2
Total	**10.1**	9.0

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

	Quarters ended March 31	
(IN MILLIONS OF CANADIAN DOLLARS)	2018	2017
Other comprehensive income (loss):		
Defined benefit component of the pension plans	**26.8**	(16.6)
Total	**26.8**	(16.6)

17. DEFERRED CAPITAL FUNDING

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

(IN MILLIONS OF CANADIAN DOLLARS)	March 31, 2018	December 31, 2017
Balance, beginning of period	**1,239.5**	1,247.2
Government funding for property, plant and equipment and intangible assets (including the cost of land)	**18.3**	88.4
Amortization of deferred capital funding	**(24.9)**	(96.1)
Balance, end of period	**1,232.9**	1,239.5

18. NET CHANGE IN NON-CASH WORKING CAPITAL ITEMS

	Quarters ended March 31	
(IN MILLIONS OF CANADIAN DOLLARS)	2018	2017
Trade and other receivables	**(1.4)**	(2.5)
Operating funding receivable from the Government of Canada	**(2.7)**	(7.1)
Other current assets	**(0.2)**	(1.1)
Materials	**(1.2)**	0.5
Trade and other payables	**1.3**	(1.2)
Provisions	**(0.3)**	(0.2)
Deferred revenues	**12.2**	17.8
Total	**7.7**	6.2

19. FINANCIAL RISKS

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

20. COMMITMENTS

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

(IN MILLIONS OF CANADIAN DOLLARS)	March 31, 2018				December 31, 2017
	Total commitments	**Less than one year**	**From one to five years**	**More than five years**	Total commitments
COMMITMENTS RELATING TO OPERATIONS:					
Non-cancellable operating leases (NOTE A):					
Lessee	**23.1**	3.6	15.2	4.3	24.0
Total	**23.1**	3.6	15.2	4.3	24.0
COMMITMENTS RELATING TO MAJOR CAPITAL INVESTMENTS:					
Rolling stock	**1.3**	1.3	-	-	5.2
Maintenance buildings	**0.7**	0.7	-	-	0.7
Stations and facilities	**2.4**	2.4	-	-	2.4
Owned infrastructures	**6.6**	3.8	2.3	0.5	4.5
Computer hardware	**0.5**	0.5	-	-	0.7
Total	**11.5**	8.7	2.3	0.5	13.5
Total commitments	**34.6**	12.3	17.5	4.8	37.5

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

In 2018, an amount of $4.2 million (March 31, 2017: $4.1 million) was recognized as an expense related to facilities operating leases.

b) As mentioned in Note 1, the Corporation has entered into train service agreements for the use of tracks and the control of train operations that expire on December 31, 2018. No amounts are included in the table above regarding those contracts since the amount of the commitments is dependent on the annual usage of the tracks.

c) The Corporation has provided letters of credit from a banking institution totalling approximately $22.1 million (December 31, 2017: $22.8 million) to various provincial government workers' compensation boards as security for future payment streams.

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