VIA Rail Canada

# First Quarter Report 2022

# Management Discussion and Analysis

# 1. Introduction

Management's discussion and analysis report outlines the financial results of VIA Rail Canada Inc. (The Corporation) for the quarter ended March 31, 2022, compared with the quarter ended March 31, 2021. This document should be read in conjunction with the interim condensed financial statements and notes.

### Materiality

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

### Forward-Looking Statement Disclosure

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

# 2. Corporate Overview

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

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

# 3. COVID-19 Pandemic

The Corporation, as well as all other passenger transportation providers, remains significantly affected by the COVID-19 pandemic. Although the Corporation increased its levels of operations since the beginning of the pandemic, they still remain below pre-pandemic levels. When compared to the corresponding quarter of 2021, capacity has increased by more than 61 per cent in terms of train-miles, and by 133 per cent in terms of seat-miles.

Safety of passengers and employees remains the Corporation's key priority as services resume and new health and safety measures were implemented to address health & safety requirements. These measures include physical distancing in stations, health screening procedures and as of October 2021, validation of proof of vaccination 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 centres and offices. The Corporation continues to monitor federal safety requirements as well as those in all provinces in which trains operate to ensure they are all respected.

## 4. Highlights of Financial Results and Major Key Operating Statistics of the Quarter

| *(in millions of Canadian dollars)* | Quarters ended March 31 **2022** | **2021** | **Var $** | **Var %** |
|---|---|---|---|---|
| **Financial Performance** | | | | |
| Passenger revenues *(section 5.2)* | **31.5** | 8.8 | 22.7 | 258.0% |
| Other revenues | **3.1** | 3.7 | (0.6) | (16.2%) |
| Total revenues | **34.6** | 12.5 | 22.1 | 176.8% |
| Operating expenses *(section 5.3)* | **167.9** | 133.6 | 34.3 | 25.7% |
| Operating loss before funding from the Government of Canada and income taxes *(section 5.1)* | **(133.3)** | (121.1) | (12.2) | (10.1%) |
| Net income (loss) for the period | **23.5** | (2.2) | 25.7 | 1,168.2% |
| Remeasurements of defined benefit components of the pension plans and post-employment benefit plans (net of tax) | **(125.1)** | 210.8 | (335.9) | (159.3%) |
| Comprehensive (loss) income for the period | **(101.6)** | 208.6 | (310.2) | (148.7%) |
| **Financial Position and Cash Flows** | | | | |
| Total assets *(section 5.4)* | **2,093.2** | 2,177.5 | (84.3) | (3.9%) |
| Total liabilities and deferred capital funding *(section 5.4)* | **2,040.8** | 2,023.5 | 17.3 | 0.9% |
| Cash *(section 5.5)* | **25.6** | 8.7 | 16.9 | 194.3% |
| Net cash generated by operating activities *(section 5.5)* | **18.3** | 23.8 | (5.5) | (23.1%) |
| Net cash generated by (used in) provided by investing activities *(section 5.5)* | **4.2** | (26.6) | 30.8 | 115.8% |
| Net cash (used in) financing activities *(section 5.5)* | **(1.3)** | (0.7) | (0.6) | (85.7%) |
| **Government Funding** | | | | |
| Operating *(section 6)* | **120.3** | 96.2 | 24.1 | 25.1% |
| Capital *(section 6)* | **54.8** | 46.9 | 7.9 | 16.8% |
| **Total Government funding** | **175.1** | **143.1** | **32.0** | **22.4%** |
| **Key Operating Statistics** | | | | |
| Train-miles operated *(in thousands)* | **985** | 612 | 373 | 60.9% |
| Seat-miles *(in millions)* | **179** | 77 | 102 | 132.5% |
| Passenger-miles *(in millions)* | **91** | 27 | 64 | 237.0% |
| Passengers *(in thousands)* | **423.5** | 127.1 | 296.4 | 233.2% |
| Average passenger load factor *(%)* | **51** | 35 | 16 | 45.7% |
| RASM (revenue per available seat-mile) *(in cents) – Note 1* | **19.21** | 15.97 | 3.24 | 20.3% |
| CASM (cost per available seat-mile) *(in cents) – Note 1* | **86.58** | 140.91 | (54.33) | (38.6%) |
| Cost recovery ratio *(%) – Note 1* | **22.2** | 11.3 | 10.9 | 96.5% |
| Operating deficit per passenger-mile *(in cents) – Note 1* | **132.2** | 356.3 | (224.1) | (62.9%) |
| On-time performance *(%)* | **72** | 87 | (15) | (17.2%) |

*(Amounts in bracket represent decreases)*

*Note 1: based on funded results*

## Financial Highlights – First Quarter

- The Corporation total revenues increased by 176.8 per cent mainly due to the increased ridership reflecting the increased service levels compared to those of the first quarter of 2021.
- Operating expenses increased by 25.7 per cent primarily due to the higher costs directly associated to the additional frequencies operated compared to the corresponding quarter of 2021.
- The operating loss increased by 10.1 per cent due to the higher level of operating expenses partly offset by higher revenues.
- Operating funding increased by 25.1 per cent, reflecting the higher amounts required for funded activities.
- The Corporation generated a comprehensive loss of $101.6 million compared to an income of $208.6 million in 2021. The variation is due to the remeasurements of defined benefit component of the pension plans and post-employment benefit plans and a lower return on plan assets.

Most of the operating statistics were positively impacted during the quarter by the events described. The on-time performance has deteriorated as a result of higher operating levels which generated more congestion on the host rail networks.

# 5. Analysis of Financial Results

## 5.1 Comparison of IFRS and Funded Operating Results

| | Quarters ended March 31 | | | |
|---|---|---|---|---|
| *(in millions of Canadian dollars)* | **2022** | **2021** | **Var $** | **Var %** |
| **Operating loss on a funded basis** | **(120.3)** | **(96.2)** | **(24.1)** | **(25.1%)** |
| NON-FUNDED ADJUSTMENT TO REVENUES | | | | |
| Adjustment for VIA Préférence points and other | **0.3** | 0.2 | 0.1 | 50.0% |
| NON-FUNDED ADJUSTMENTS TO EXPENSES | | | | |
| Pension and other employee future benefits | **0.7** | (3.0) | 3.7 | 123.3% |
| Depreciation of property, plant and equipment, amortization of intangible assets, depreciation of right-of-use assets and loss on disposal | **(25.6)** | (23.9) | (1.7) | (7.1%) |
| Other provisions for non-cash items | **11.6** | 1.8 | 9.8 | 544.4% |
| Total non-funded adjustments to expenses | **(13.3)** | (25.1) | 11.8 | 47.0% |
| **Total items not requiring funds from operations** | **(13.0)** | **(24.9)** | **11.9** | **47.8%** |
| **Operating loss under IFRS** | **(133.3)** | **(121.1)** | **(12.2)** | **(10.1%)** |
| Operating funding from the Government of Canada | **120.3** | 96.2 | 24.1 | 25.1% |
| Amortization of deferred capital funding | **24.2** | 22.8 | 1.4 | 6.1% |
| **Net income (loss) before income taxes** | **11.2** | **(2.1)** | **13.3** | **633.3%** |
| Income tax (recovery) expense | **(12.3)** | 0.1 | (12.4) | (12,400.0%) |
| **Net income (loss) under IFRS for the period** | **23.5** | **(2.2)** | **25.7** | **1,168.2%** |
| Remeasurements of defined benefit component of the pension plans and post-employment benefit plans | **(135.4)** | 210.8 | (346.2) | (164.2%) |
| Income tax recovery | **10.3** | – | 10.3 | n/a |
| **Comprehensive (loss) income for the period** | **(101.6)** | **208.6** | **(310.2)** | **(148.7%)** |

*(Amounts in bracket represent decreases)*

### Net income (loss) under IFRS for the quarter:

**Net income of $23.5 million this quarter, compared to a net loss of $2.2 million last year, representing an improvement of $25.7 million mainly due to:**

- Higher Government funding recognized during the quarter of $24.1 million.
- Higher amortization of deferred capital funding ($1.4 million).
- Income tax reduction ($12.4 million), due to income tax revenue generated this year compared to an expense recorded in 2021.
- Higher operating loss ($12.2 million), attributable to higher operating expenses of $34.3 million partly offset by higher revenues of $22.1 million.

**Comprehensive loss of $ 101.6 million in the first quarter of 2022:**

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.

The remeasurement of the defined benefit component of the pension plans and post-employment benefit plans of ($125.1) million in the first quarter of 2022 is due to an actuarial gain of $106.8 million on the defined benefit obligation arising from a 100 basis point increase in the discount rate since December 31, 2021, and to a remeasurement loss of $246.1 million resulting from lower actual rate of return on plan assets. The remeasurement also includes an actuarial gain of $3.9 million due to the increase in discount rate used to determine the post-employment benefit obligation. The remeasurement is partly offset by a deferred income tax recovery of $10.3 million due to a decrease of the employee benefit assets.

**Comprehensive income of $208.6 million in the first quarter of 2021:**

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.

The remeasurement of the defined benefit component of the pension plans and post-employment benefit plans of $210.8 million in the first quarter of 2021 is due to an actuarial gain of $292.3 million on the defined benefit obligation arising from an 80 basis point increase in the discount rate since December 31, 2020, and to a remeasurement loss of $84.6 million resulting from lower actual rate of return on plan assets. The remeasurement also includes an actuarial gain of $3.1 million due to the increase in discount rate used to determine the post-employment benefit obligation.

## 5.2 Revenues

| (in millions of Canadian dollars) | Quarters ended March 31<br>2022 | 2021 | Var $ | Var % |
|---|---|---|---|---|
| Passenger revenues | | | | |
| Corridor East | **24.5** | 6.3 | 18.2 | 288.9% |
| Southwestern Ontario (SWO) | **4.5** | 1.3 | 3.2 | 246.2% |
| **Québec City – Windsor corridor** | **29.0** | **7.6** | **21.4** | **281.6%** |
| *Ocean* | **0.8** | – | 0.8 | n/a |
| *Canadian* | **1.3** | 0.2 | 1.1 | 550.0% |
| Regional services | **0.3** | 0.1 | 0.2 | 200.0% |
| **Non-corridor** | **2.4** | **0.3** | **2.1** | **700.0%** |
| Other | **0.1** | 0.9 | (0.8) | (88.9%) |
| **Total passenger revenues under IFRS** | **31.5** | **8.8** | **22.7** | **258.0%** |
| Other revenues | **3.1** | 3.7 | (0.6) | (16.2%) |
| **Total revenues under IFRS** | **34.6** | **12.5** | **22.1** | **176.8%** |
| Adjustment for VIA Préférence points (non-funded) and other | **(0.3)** | (0.2) | (0.1) | (50.0%) |
| **TOTAL FUNDED REVENUES** | **34.3** | **12.3** | **22.0** | **178.9%** |

*(Amounts in bracket represent decreases)*

| **Passengers**<br>(in thousands) | Quarters ended March 31<br>2022 | 2021 | Var # | Var % |
|---|---|---|---|---|
| Passengers | | | | |
| Corridor East | **320.3** | 90.5 | 229.8 | 253.9% |
| Southwestern Ontario (SWO) | **89.8** | 31.7 | 58.1 | 183.3% |
| **Québec City – Windsor corridor** | **410.1** | **122.2** | **287.9** | **235.6%** |
| *Ocean* | **5.6** | – | 5.6 | n/a |
| *Canadian* | **2.9** | 1.3 | 1.6 | 123.1% |
| Regional services | **4.9** | 3.6 | 1.3 | 36.1% |
| **Non-corridor** | **13.4** | **4.9** | **8.5** | **173.5%** |
| **TOTAL PASSENGERS** | **423.5** | **127.1** | **296.4** | **233.2%** |

*(Amounts in bracket represent decreases)*

## Passenger revenues

Passenger revenues have increased by $22.7 million (258.0 per cent) during the quarter. The increase is mainly attributable to the adjustments made to service levels for most train services driven by the significant increase in demand.

## Québec City – Windsor corridor

Revenues have increased by $21.4 million (281.6 per cent) during the quarter, due to higher passenger levels (235.6 per cent) and by higher average revenues (13.7 per cent).

Capacity (in terms of seat-miles offered) was increased by 130.5 per cent compared to the corresponding quarter last year.

### *Ocean*

Revenues for the quarter have increased by $0.8 million and result from the resumption of service in August 2021 (the service did not operate during the first quarter of 2021).

### *Canadian*

Revenues have increased by $1.1 million (550.0 per cent), with higher ridership (123.1 per cent) and higher average revenues (143.8 per cent). Capacity in terms of seat-miles increased by 89 per cent and is explained by the fact that this quarter, the service operated at one weekly round trip between Toronto and Vancouver, whereas last year, the service only operated between Winnipeg and Vancouver.

## Regional services

Revenues have increased by $0.2 million (200.0 per cent) during the quarter.

Ridership increased by 36.1 per cent, while average revenues have increased by 50.5 per cent.

While service levels remained the same compared to the first quarter of 2021, capacity in terms of seat-miles increased by 45 per cent results from the additional cars added on the Winnipeg-Churchill trains.

## Other revenues

Other revenues for the quarter have decreased by $0.6 million (16.2 per cent). This decrease is mainly attributable to lower third-party revenues.

## 5.3 Operating Expenses

| | Quarters ended March 31 | | | |
|---|---|---|---|---|
| *(in millions of Canadian dollars)* | **2022** | **2021** | **Var $** | **Var %** |
| Compensation and employee benefits | **71.8** | 63.7 | 8.1 | 12.7% |
| Train operations and fuel | **30.3** | 16.6 | 13.7 | 82.5% |
| Stations and property | **10.6** | 10.7 | (0.1) | (0.9%) |
| Marketing and sales | **3.5** | 1.7 | 1.8 | 105.9% |
| Maintenance material | **8.8** | 5.8 | 3.0 | 51.7% |
| Professional services | **3.5** | 1.6 | 1.9 | 118.8% |
| Telecommunications | **7.6** | 5.5 | 2.1 | 38.2% |
| Depreciation and amortization | **25.6** | 23.6 | 2.0 | 8.5% |
| Loss on disposal of property, plant and equipment and intangible assets | **–** | 0.4 | (0.4) | (100.0%) |
| Unrealized net gain on derivative financial instruments | **(3.3)** | (3.4) | 0.1 | 2.9% |
| Other | **9.5** | 7.4 | 2.1 | 28.4% |
| **Total operating expenses under IFRS** | **167.9** | **133.6** | **34.3** | **25.7%** |
| Non-funded adjustments *(section 5.1)* | **(13.3)** | (25.1) | 11.8 | 47.0% |
| **Total funded expenses** | **154.6** | **108.5** | **46.1** | **42.5%** |

*(Amounts in bracket represent decreases)*
*(Explanations are provided for expenses for which quarterly variances are of $3 million or more, or 10 per cent or more)*

The Corporation, in its objective to reduce costs and minimize the impact of the pandemic on its revenues and deficit, has implemented various cost saving measures including:

- The reduction of some of its operating expenses in proportion to the level of operations,
- Employee layoffs,
- Reduction of administrative costs and the postponement of non-essential initiatives.

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

Total operating expenses increased by $34.3 million (25.7 per cent) for the quarter. The primary variances are:

### Compensation and employee benefits

The expenses increased by $8.1 million (12.7 per cent) during the quarter. The increase for the quarter is attributable to the impact of one additional pay period in 2022, to higher staffing costs associated to the additional frequencies operated compared to the corresponding quarter in 2021 and to the impact of annual salary increases.

### Train operations and fuel

The expenses increased by $13.7 million (82.5 per cent) during the quarter. The increase results mainly from the growth in level of operations during the quarter of 2022 compared to last year as a result of the additional frequencies operated in 2022 as well as from contractual cost increases and higher market fuel prices.

### Marketing and sales

The expenses increased by $1.8 million (105.9 per cent) during the quarter. The increase is mainly attributable to advertising campaigns launched to inform passengers of the reintroduction of frequencies in the Corridor.

### Maintenance material

The expenses increased by $3.0 million (51.7 per cent) for the quarter. The increase during the quarter is mainly due to the costs associated with the additional frequencies operated during the quarter.

### Professional services

The expenses increased by $1.9 million (118.8 per cent) during the quarter. The increase is due in part to costs associated with Cloud projects, as well as to costs incurred for ongoing negotiations for access to third-party infrastructure and labor agreements.

### Telecommunications

The expenses increased by $2.1 million (38.2 per cent) during the quarter. The increase results from support and license costs associated with newly implemented systems.

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

The expenses decreased by $0.4 million, as less assets were disposed of during the quarter.

### Unrealized net gain on derivative financial instruments

Net gain of $3.3 million for the quarter and of $3.4 million for 2021. Net gain for the quarter 2022 reflects the fact that market fuel prices are higher than contract prices.

## 5.4 Financial Position

| *(in millions of Canadian dollars)* | March 31, 2022 | December 31, 2021 | Var $ | Var % |
|---|---|---|---|---|
| ASSETS | | | | |
| Current assets | **138.0** | 115.0 | 23.0 | 20.0% |
| Advance on contract | **50.9** | 52.5 | (1.6) | (3.0%) |
| Property, plant and equipment | **1,312.8** | 1,285.9 | 26.9 | 2.1% |
| Right-of-use assets | **87.2** | 87.8 | (0.6) | (0.7%) |
| Intangible assets | **362.6** | 356.1 | 6.5 | 1.8% |
| Employee benefit assets | **141.7** | 280.2 | (138.5) | (49.4%) |
| **Total Assets** | **2,093.2** | **2,177.5** | **(84.3)** | **(3.9%)** |
| LIABILITIES | | | | |
| Current liabilities | **205.2** | 192.7 | 12.5 | 6.5% |
| Other payables | **23.6** | 22.2 | 1.4 | 6.3% |
| Deferred income tax | **–** | 22.6 | (22.6) | (100.0%) |
| Lease liabilities | **85.5** | 86.3 | (0.8) | (0.9%) |
| Employee benefit liabilities | **37.8** | 41.6 | (3.8) | (9.1%) |
| **Total Liabilities** | **352.1** | **365.4** | **(13.3)** | **(3.6%)** |
| Deferred capital funding | **1,688.7** | 1,658.1 | 30.6 | 1.8% |
| Share capital | **9.3** | 9.3 | – | 0.0% |
| Accumulated surplus (deficit), beginning of period | **144.7** | (168.2) | 312.9 | 186.0% |
| Net income (loss) | **23.5** | (26.3) | 49.8 | 189.4% |
| Other comprehensive (loss) income | **(125.1)** | 339.2 | (464.3) | (136.9%) |
| **Accumulated surplus, end of period** | **43.1** | **144.7** | **(101.6)** | **(70.2%)** |
| **Total Liabilities and Shareholder's equity** | **2,093.2** | **2,177.5** | **(84.3)** | **(3.9%)** |

*(Amounts in bracket represent decreases)*

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

### Assets

Total assets decreased by $84.3 million due mainly to the decrease in employee benefit assets by $138.5 million due to a lower return on assets, partly offset by the increase in discount rates and by an increase in property, plant and equipment by $26.9 million.

### Liabilities and deferred capital funding

Total liabilities decreased by $13.3 million mainly due to a decrease in deferred income tax liabilities due to a reduction of the employee benefit assets partly offset by an increase in current liabilities.

### Comprehensive (loss) income

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

## 5.5 Liquidity, Cash Flows and Capital Investments

### Liquidity and cash flows

| | Quarters ended March 31 | | | |
|---|---|---|---|---|
| *(in millions of Canadian dollars)* | **2022** | **2021** | **Var $** | **Var %** |
| **Balance, beginning of period** | **4.4** | 12.2 | (7.8) | (63.9%) |
| Net cash provided by operating activities | **18.3** | 23.8 | (5.5) | (23.1%) |
| Net cash provided by (used in) investing activities | **4.2** | (26.6) | 30.8 | 115.8% |
| Net cash (used in) financing activities | **(1.3)** | (0.7) | (0.6) | (85.7%) |
| **Balance, end of period** | **25.6** | **8.7** | **16.9** | **194.3%** |

*(Amounts in bracket represent decreases)*

### Operating activities

Net cash decreased by $5.5 million for the quarter. The decrease is mainly due to the variance in working capital items of ($15.4) million, as shown in Note 18 of the interim condensed financial statements.

### Investing activities

Net cash increased by $30.8 million for the quarter. The increase during the quarter results from the higher amount of Government funding received during the period compared to the value of investments in property, plant and equipment made during the period.

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

### Funded capital investments

Property, plant and equipment and intangible assets totaled $1,675.4 million as at March 31, 2022, which is an increase of $33.4 million compared to the balance as at December 31, 2021.

Funded capital investments of $54.8 million were made during the quarter.

| | Quarters ended March 31 | | | |
|---|---|---|---|---|
| *(in millions of Canadian dollars)* | **2022** | **2021** | **Var $** | **Var %** |
| Equipment | **10.8** | 15.1 | (4.3) | (28.5%) |
| Infrastructure | **1.2** | 2.0 | (0.8) | (40.0%) |
| Information technology | **11.9** | 6.6 | 5.3 | 80.3% |
| Stations | **2.1** | 2.7 | (0.6) | (22.2%) |
| Fleet Replacement Program | **27.1** | 18.4 | 8.7 | 47.3% |
| Other | **1.7** | 2.1 | (0.4) | (19.0%) |
| **Total** | **54.8** | **46.9** | **7.9** | **16.8%** |

*(Amounts in bracket represent decreases)*

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

## 6. Results compared to the 2021-2025 Corporate Plan [1]

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

The Corporation continues to work towards achieving the goals and strategies identified in its corporate plan. The financial results of the quarter were slightly below planned results due to impact of Omicron.

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

| **Government funding relating to operating expenses:** *(in millions of Canadian dollars)* | **March 31, 2022** | **March 31, 2021** |
|---|---|---|
| **Balance, beginning of period** | **63.3** | 47.0 |
| Received to fund operating expenses | **(126.0)** | (114.0) |
| Recognized in financial results | **120.3** | 96.2 |
| **Balance, end of period** | **57.6** | 29.2 |

| **Government funding relating to capital expenditures:** *(in millions of Canadian dollars)* | **March 31, 2022** | **March 31, 2021** |
|---|---|---|
| **Balance, beginning of period** | **(7.5)** | (36.5) |
| Received to fund the acquisition of property, plant and equipment and intangible assets (including the cost of land) | **(48.0)** | (13.0) |
| Used to fund capital expenditures | **54.8** | 46.9 |
| **Balance, end of period** | **(0.7)** | (2.6) |

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

## Parliamentary appropriations

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

| **Parliamentary appropriation for operating expenses** | **For the twelve-month period ending March 31, 2022** | **For the twelve-month period ending March 31, 2021** |
|---|---|---|
| Original parliamentary appropriation | **326.4** | 149.4 |
| Supplementary parliamentary appropriation *(Note 1)* | **97.8** | 259.9 |
| Revised annual parliamentary appropriation | **424.2** | 409.3 |
| | | |
| Appropriation recognized for the three months ended June 30 | **97.3** | 119.6 |
| Appropriation recognized for the three months ended September 30 | **89.0** | 90.9 |
| Appropriation recognized for the three months ended December 31 | **88.0** | 100.4 |
| Appropriation recognized for the three months ended March 31 | **120.3** | 96.2 |
| Total appropriation recognized for the period | **394.6** | 407.1 |
| **Appropriation requested for reminder of the year** *(Note 2)* | **29.6** | 2.2 |

Note 1: Includes $2.8 million approved after December 31, 2021, through Suppl C

Note 2: The amount of $2.2 million was approved by Transport Canada during the year 2021 and the amount of $29.6 million will be submitted for approval

| **Parliamentary appropriation for capital expenditures** | **For the twelve-month period ending March 31, 2022** | **For the twelve-month period ending March 31, 2021** |
|---|---|---|
| Original parliamentary appropriation | **443.4** | 397.6 |
| Supplementary parliamentary appropriation *(Note 1)* | **32.4** | 39.5 |
| Revised annual parliamentary appropriation | **475.8** | 437.1 |
| | | |
| Appropriation recognized for the three months ended June 30 | **48.3** | 84.8 |
| Appropriation recognized for the three months ended September 30 | **59.2** | 46.8 |
| Appropriation recognized for the three months ended December 31 | **72.1** | 65.9 |
| Appropriation recognized for the three months ended March 31 | **54.8** | 46.9 |
| Total appropriation recognized for the period | **234.4** | 244.4 |
| **Appropriation requested for reminder of the year** *(Note 2)* | **241.4** | 192.7 |

Note 1: Amount approved through Suppl C Estimates

Note 2: The amount of $192.7 million was approved by Transport Canada during the year 2021 and the amount of $241.4 million will be submitted for approval

## 7. Risk Analysis

↑ Increasing → Stable ↓ Decreasing

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

As at the quarter ended March 31, 2022, the following risk has changed since December 31, 2021.

| Nature of Risk | Trend | Current Situation |
|---|---|---|
| **Financial Sustainability** | | |
| The Corporation has limited powers as a non-agent Crown Corporation and is dependent on annual parliamentary appropriations to fund its operations, capital and pension obligations.<br>Insufficient funding by the Government of Canada constitutes a risk in the efficient delivery of the Corporation' services, as well as in the planning and execution of its medium-to-long term strategies. | ↑ | Current external factors such as high inflation and war in Ukraine have resulted in fuel price increases and negatively impacted returns on pension plan assets. Adverse capital market developments in 2022, triggered by inflationary concerns, have resulted in investment losses on pension assets, while the financial position has remained strong due to the higher rate environment. Continued deterioration in economic prospects could begin to impact the fund financial position and associated funding requirement in future years. |

## 8. Outlook

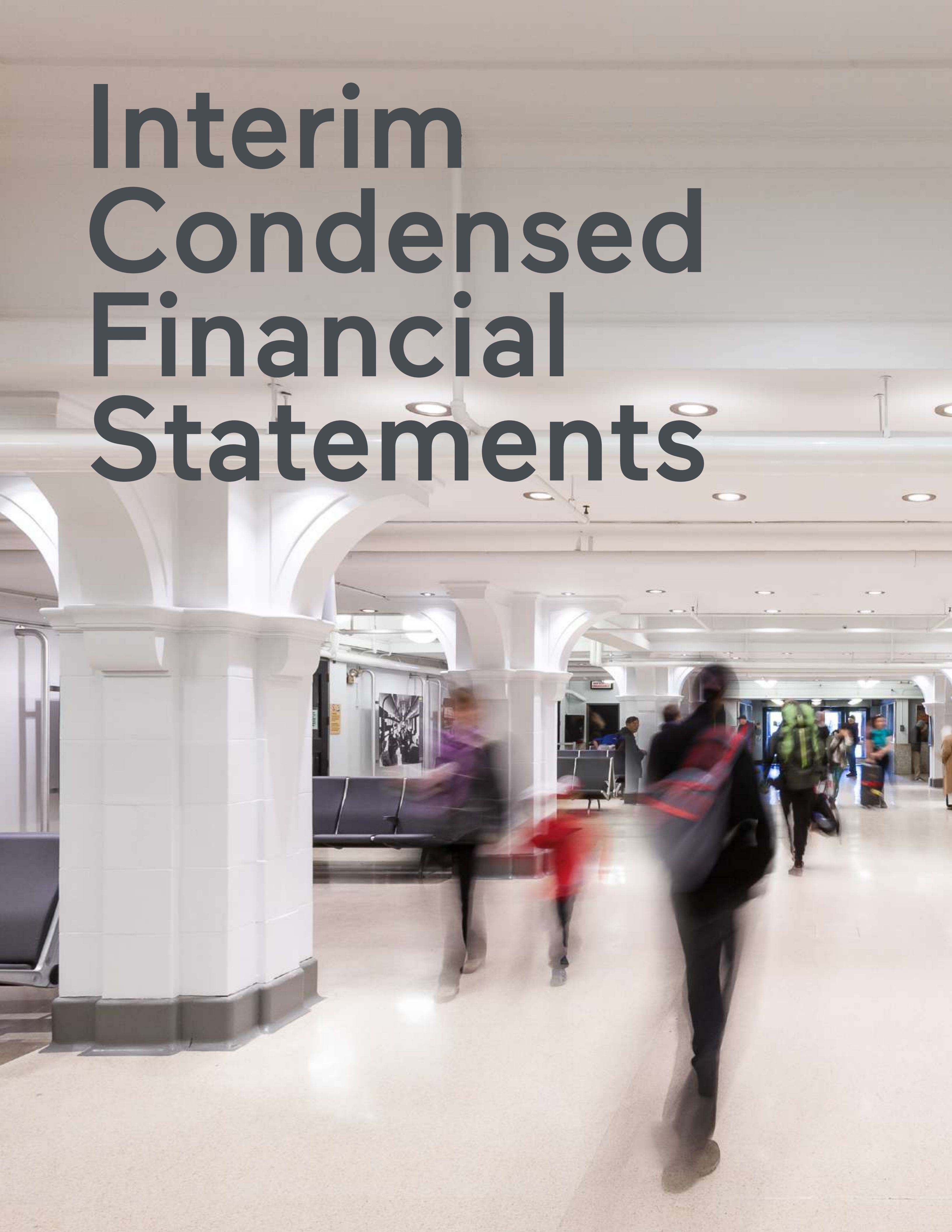
The results of the first quarter improved compared to those of the corresponding quarter of 2021, as customer demand increased, and frequencies were reintroduced. The results of this first quarter were, however, negatively impacted by the Omicron variant, which resulted in a sharp decline in demand compared to the previous quarter (last quarter of 2021) and the necessity for the Corporation to temporarily reduce frequencies to adjust to the decline in demand and minimize operating costs.

There consequently still remains uncertainty with regards to the evolution of the pandemic and the emergence of additional waves and new contagious variants of the virus. Management will therefore continue to, as it did during this quarter, to adjust service levels and frequencies in line with passenger demand so that incremental revenues are optimized, and costs associated to the increased services are limited. The reintroduction of frequencies in non-corridor services which do not all cover their costs, is planned in 2022 and will increase the Corporation's deficit and could result in a funding shortfall for the next Government fiscal year (2022-23). Management is closely monitoring the situation and is in communication with Transport Canada concerning potential additional funding requirements during this unprecedented and sustaining situation.

In the meantime, work continues on the implementation of initiatives to minimize operating costs. In parallel, the Corporation is advancing in its transformation as work progresses on its strategic projects such as the Fleet Replacement Program, Heritage Program, High Frequency Rail (HFR) and the new reservation system.

In addition to working on its transformation, and pursuant to the P.C. directive 2022-259 issued on March 24, the Corporation is working with the Government of Canada towards the creation of a wholly owned subsidiary with the mandate to develop and implement High Frequency Rail project as well as to provide all necessary support to facilitate the subsidiary's role and fulfillment of its mandate.

# Interim Condensed Financial Statements



# Management's Responsibility Statement

**Montréal, Canada**
**May 19, 2022**

## Quarter ended March 31, 2022

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

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

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

**Cynthia Garneau**
President and Chief Executive Officer

**Marie-Claude Cardin, CPA**
Chief Financial Officer

# Interim Condensed Financial Statements

## Statement of Financial Position

| *(in thousands of Canadian dollars)* | **March 31, 2022** *(unaudited)* | **December 31, 2021** *(audited)* |
|---|---|---|
| **CURRENT ASSETS** | | |
| Cash | **$ 25,635** | $ 4,400 |
| Trade and other receivables *(Note 7)* | **68,547** | 71,186 |
| Other assets | **7,581** | 4,924 |
| Derivative financial instruments *(Note 8)* | **5,508** | 2,341 |
| Materials | **28,705** | 30,191 |
| Asset Renewal Fund | **1,969** | 1,969 |
| | **137,945** | 115,011 |
| **NON-CURRENT ASSETS** | | |
| Advances on contracts | **50,907** | 52,405 |
| Property, plant and equipment *(Note 9)* | **1,312,815** | 1,285,893 |
| Right-of-use assets *(Note 12)* | **87,243** | 87,834 |
| Intangible assets *(Note 10)* | **362,648** | 356,119 |
| Employee benefit assets *(Note 15)* | **141,671** | 280,231 |
| | **1,955,284** | 2,062,482 |
| **Total Assets** | **$ 2,093,229** | $ 2,177,493 |
| **CURRENT LIABILITIES** | | |
| Trade and other payables *(Note 11)* | **$ 158,017** | $ 161,637 |
| Lease liabilities *(Note 12)* | **3,902** | 3,681 |
| Provisions *(Note 13)* | **6,466** | 5,214 |
| Derivative financial instruments *(Note 8)* | **–** | 113 |
| Deferred revenues *(Note 14)* | **36,917** | 21,999 |
| | **205,302** | 192,644 |
| **NON-CURRENT LIABILITIES** | | |
| Other payables | **23,629** | 22,206 |
| Deferred income tax *(Note 16)* | **–** | 22,580 |
| Lease liabilities *(Note 12)* | **85,486** | 86,316 |
| Employee benefit liabilities *(Note 15)* | **37,751** | 41,629 |
| | **146,866** | 172,731 |
| Deferred capital funding *(Note 17)* | **1,688,666** | 1,658,109 |
| **SHAREHOLDER'S EQUITY** | | |
| Share capital | **9,300** | 9,300 |
| Accumulated surplus | **43,095** | 144,709 |
| | **52,395** | 154,009 |
| **Total Liabilities and Shareholder's equity** | **$ 2,093,229** | $ 2,177,493 |

*Commitments (Note 20)*

*The notes are an integral part of the financial statements.*

# Interim Condensed Financial Statements

## Statement of Comprehensive Income

| | Quarters ended March 31 | |
|---|---|---|
| *(in thousands of Canadian dollars) (unaudited)* | **2022** | **2021** |
| **REVENUES** *(Note 5)* | | |
| Passenger | **$ 31,479** | $ 8,801 |
| Other | **3,112** | 3,684 |
| | **34,591** | 12,485 |
| **EXPENSES** | | |
| Compensation and employee benefits | **71,759** | 63,729 |
| Train operations and fuel | **30,339** | 16,564 |
| Stations and property | **10,561** | 10,683 |
| Marketing and sales | **3,548** | 1,657 |
| Maintenance material | **8,772** | 5,766 |
| On-train product costs | **3,895** | 2,250 |
| Operating taxes | **3,369** | 2,841 |
| Professional services | **3,480** | 1,562 |
| Telecommunications | **7,555** | 5,459 |
| Depreciation of property, plant and equipment *(Note 9)* | **19,567** | 17,584 |
| Amortization of intangible assets *(Note 10)* | **4,722** | 5,145 |
| Depreciation of right-of-use assets *(Note 12)* | **1,312** | 823 |
| Loss on disposal of property, plant and equipment *(Note 9)* | **1** | 383 |
| Loss on disposal of intangible assets *(Note 10)* | **–** | 6 |
| Unrealized net gain on derivative financial instruments | **(3,280)** | (3,394) |
| Realized (net gain) net loss on derivative financial instruments | **(1,793)** | 124 |
| Interest expense on lease liabilities | **500** | 224 |
| Other | **3,600** | 2,242 |
| | **167,907** | 133,648 |
| **OPERATING LOSS BEFORE FUNDING FROM THE GOVERNMENT OF CANADA AND INCOME TAXES** | **(133,316)** | (121,163) |
| Operating funding from the Government of Canada *(Note 6)* | **120,307** | 96,240 |
| Amortization of deferred capital funding *(Note 17)* | **24,194** | 22,819 |
| Net income (loss) before income taxes | **11,185** | (2,104) |
| Income tax (recovery) expense | **(12,312)** | 76 |
| **NET INCOME (LOSS) FOR THE PERIOD** | **23,497** | (2,180) |
| Other comprehensive (loss) income | | |
| Amounts not to be reclassified subsequently to net income: Remeasurements of the defined benefit component of the pension plans and post-employment benefit plans *(Note 15)* | **(135,379)** | 210,797 |
| Income tax recovery | **10,268** | – |
| | **(125,111)** | 210,797 |
| **COMPREHENSIVE (LOSS) INCOME FOR THE PERIOD** | **$ (101,614)** | $ 208,617 |

*The notes are an integral part of the financial statements.*

# Interim Condensed Financial Statements

## Statement of Changes in Shareholder's Equity

| | Quarters ended March 31 | |
|---|---|---|
| *(in thousands of Canadian dollars) (unaudited)* | **2022** | **2021** |
| SHARE CAPITAL | **$ 9,300** | $ 9,300 |
| **Accumulated surplus (deficit)** | | |
| **Balance, beginning of period** | **144,709** | (168,188) |
| Net income (loss) for the period | **23,497** | (2,180) |
| Other comprehensive (loss) income for the period | **(125,111)** | 210,797 |
| **Balance, end of period** | **43,095** | 40,429 |
| **Total Shareholder's equity** | **$ 52,395** | $ 49,729 |

*The notes are an integral part of the financial statements.*

# Interim Condensed Financial Statements

## Statement of Cash Flows

| *(in thousands of Canadian dollars) (unaudited)* | Quarters ended March 31 **2022** | 2021 |
|---|---|---|
| OPERATING ACTIVITIES | | |
| Net income (loss) for the period | **$ 23,497** | $ (2,180) |
| Adjustments to determine net cash (used in) provided by operating activities: | | |
| Depreciation of property, plant and equipment *(Note 9)* | **19,567** | 17,584 |
| Amortization of intangible assets *(Note 10)* | **4,722** | 5,145 |
| Depreciation of right-of-use assets *(Note 12)* | **1,312** | 823 |
| Loss on disposal of property, plant and equipment *(Note 9)* | **1** | 383 |
| Loss on disposal of intangible assets *(Note 10)* | **–** | 6 |
| Unpaid employee benefits liabilities | **–** | 17 |
| Other payables variations | **33** | – |
| Advances on contracts variations | **(102)** | – |
| Amortization of deferred capital funding *(Note 17)* | **(24,194)** | (22,819) |
| Deferred income tax | **(12,312)** | – |
| Interest income | **(78)** | (62) |
| Interest paid | **(500)** | (224) |
| Unrealized net gain on derivative financial instruments | **(3,280)** | (3,394) |
| Post-employment and other employee benefit expenses *(Note 15)* | **5,953** | 8,488 |
| Employer post-employment and other employee benefit contributions *(Note 15)* | **(6,650)** | (5,467) |
| Interest expense on lease liabilities | **500** | 224 |
| Net change in working capital items *(Note 18)* | **9,887** | 25,284 |
| **Net cash provided by operating activities** | **18,356** | 23,808 |
| INVESTING ACTIVITIES | | |
| Government funding received related to acquisition of property, plant and equipment and intangible assets *(Notes 7, 17 and 18)* | **48,000** | 13,000 |
| Acquisition of property, plant and equipment and intangible assets *(Notes 9, 10, 11 and 18)* | **(43,869)** | (39,724) |
| Interest received | **78** | 62 |
| **Net cash provided by (used in) investing activities** | **4,209** | (26,662) |
| FINANCING ACTIVITIES | | |
| Payment of the lease liabilities | **(1,330)** | (691) |
| **Net cash (used in) financing activities** | **(1,330)** | (691) |
| CASH | | |
| Increase (decrease) during the period | **21,235** | (3,545) |
| Balance, beginning of period | **4,400** | 12,213 |
| **Balance, end of period** | **$ 25,635** | $ 8,668 |
| REPRESENTED BY: | | |
| Cash | **25,635** | 8,668 |
| | **$ 25,635** | $ 8,668 |

*The notes are an integral part of the financial statements.*

# Notes to the Interim Condensed Financial Statements

## Quarter ended March 31

### 1. Authority, Objectives and General Information

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

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

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

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

a) procure the incorporation under the *Canada Business Corporations Act* of a wholly-owned subsidiary, yet to be named, the mandate of which is to develop and implement the High Frequency Rail project, including the design, construction, financing, operation and maintenance of passenger rail services in Ontario and Quebec through one or more agreements with the private sector, in cooperation with the Minister of Transport;

b) provide all necessary support, expertise, and co-operation to the subsidiary to facilitate the subsidiary's role and fulfillment of its mandate; and

c) provide all necessary support, expertise, and co-operation to the Minister of Transport to facilitate the Minister's role in the development and implementation of the High Frequency Rail project.

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

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

These financial statements were approved and authorized for issue by the Board of Directors on May 19, 2022.

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

The Corporation, in its objective to reduce costs and minimize the impact of the pandemic on its deficit, has implemented various cost saving measures including:

- The reduction of some operating expenses in proportion to the level of operations,
- Employee layoffs,
- Reduction of administrative costs and the postponement of nonessential initiatives.

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

## 2. Basis of Preparation

### a) Statement of compliance

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

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

These interim condensed financial statements have not been audited and should be read in conjunction with the annual financial statements for the year ended December 31, 2021, which have been prepared in accordance with the IFRS.

### b) Functional and presentation currency

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

## 3. Summary of Significant Accounting Policies

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

## 4. Key Sources of Estimation Uncertainty and Critical Judgments

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

Assumptions and estimates are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

They are reviewed on an ongoing basis. Changes to accounting estimates are recognized in the period in which the estimate is revised and in any future period affected. However, uncertainties relating to assumptions, estimates and judgments could result in outcomes that would require a material adjustment to the carrying amount of the asset or liability affected in future years. Key sources of estimation uncertainty and critical judgments are disclosed in Note 5 of the Corporation's annual financial statements for the year ended December 31, 2021.

## 5. Revenues

The following table disaggregates the revenue by major sources:

| *(in millions of Canadian dollars)* | Quarters ended March 31<br>**2022** | <br>**2021** |
|---|---|---|
| **REVENUES** | | |
| Transportation and accommodation | **30.6** | 8.5 |
| On-train food and beverages | **0.8** | 0.2 |
| Other revenues *(Note 1)* | **0.1** | 0.1 |
| **Revenues from passengers** | **31.5** | 8.8 |
| Investment income | **0.1** | 0.1 |
| Third party servicing | **1.4** | 1.6 |
| Rental income and other | **1.6** | 2.0 |
| **Revenues from other sources** | **3.1** | 3.7 |
| **Total revenues** | **34.6** | 12.5 |

Note 1: includes sales commissions and baggage revenues.

## 6. Reconciliation of Operating Loss to Government Funding

The Corporation receives its funding from the Government of Canada based primarily on cash flow requirements. Items recognized in the Statement of Comprehensive Income in the 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)* | **2022** | **2021** |
| Operating loss before funding from the Government of Canada and income taxes | **133.3** | 121.2 |
| Items requiring operating funds: | | |
| Income tax expense | **–** | 0.1 |
| Items (not requiring) not providing operating funds: | | |
| Depreciation of property, plant and equipment | **(19.6)** | (17.6) |
| Amortization of intangible assets | **(4.7)** | (5.1) |
| Depreciation of right-of-use assets | **(1.3)** | (0.8) |
| Loss on disposal of property, plant and equipment | **–** | (0.4) |
| Post-employment and other employee benefit contributions in excess of expenses | **0.7** | (3.0) |
| Unrealized net gain on derivative financial instruments | **3.3** | 3.4 |
| Non-cash transactions relating to lease liabilities | **1.8** | 0.9 |
| Interest expense on lease liabilities | **(0.5)** | (0.2) |
| Adjustment for accrued compensation | **7.1** | (2.2) |
| Adjustment for VIA Préférence loyalty program | **0.1** | – |
| Other | **0.1** | (0.1) |
| **Operating funding from the Government of Canada** | **120.3** | 96.2 |

## 7. Trade and Other Receivables

The trade and other receivables balance include the following:

| *(in millions of Canadian dollars)* | **March 31, 2022** | **December 31, 2021** |
|---|---|---|
| Trade | **1.7** | 2.8 |
| Other receivables | **6.0** | 5.3 |
| Loss allowance | **(0.3)** | (0.5) |
| **Trade and other receivables classified at Amortized cost** | **7.4** | 7.6 |
| Amount receivable from the Government of Canada – Operating funding | **57.6** | 63.3 |
| Amount payable to the Government of Canada – Capital funding *(Note 17)* | **(0.7)** | (7.4) |
| Total receivable from the Government of Canada | **56.9** | 55.9 |
| Sales taxes | **4.2** | 7.7 |
| **Total trade and other receivables** | **68.5** | 71.2 |

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

The net book value of the past due receivables of the Corporation is $0.4 million (December 31, 2021: $0.9 million) at the closing date. The maturity of these receivables is detailed in the following table:

| *(in millions of Canadian dollars)* | **March 31, 2022** | **December 31, 2021** |
|---|---|---|
| Not impaired and past due by: | | |
| 0 to 30 days | **0.3** | 0.4 |
| 31 to 60 days | **0.1** | 0.4 |
| 61 to 90 days | **–** | 0.1 |
| Over 90 days | **–** | – |
| **Total** | **0.4** | 0.9 |

The Corporation has recognized in the current period an amount of $0.1 million of impairment loss arising from contracts with customers and other receivables, which is presented in the line “Other” in the Statement of Comprehensive Income (March 31, 2021: $0.3 million).

## 8. Derivative Financial Instruments

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

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

| | March 31, 2022 | | December 31, 2021 | |
|---|---|---|---|---|
| **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** | **3,948** | **5.5** | 4,032 | 2.3 |
| **Liabilities** | **–** | **–** | 1,008 | 0.1 |

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

## 9. Property, Plant and Equipment

| *(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** | **Projects in progress** | **Total** |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Cost:** | | | | | | | | | | | |
| January 1, 2022 | 17.6 | 938.3 | 177.9 | 192.6 | 323.2 | 98.6 | 38.4 | 40.5 | 10.1 | 441.8 | 2,279.0 |
| Additions | – | – | – | – | – | – | – | – | – | 46.5 | 46.5 |
| Disposals | – | (3.6) | – | (0.2) | – | – | – | – | – | – | (3.8) |
| Transfers | – | 7.0 | 0.1 | 0.4 | – | – | – | (0.1) | – | (7.4) | – |
| **Total cost** | 17.6 | 941.7 | 178.0 | 192.8 | 323.2 | 98.6 | 38.4 | 40.4 | 10.1 | 480.9 | 2,321.7 |
| **Accumulated depreciation and impairment:** | | | | | | | | | | | |
| January 1, 2022 | – | 585.8 | 108.3 | 66.5 | 122.9 | 58.5 | 22.2 | 24.4 | 4.5 | – | 993.1 |
| Additions | – | 10.9 | 0.8 | 2.1 | 2.5 | 1.0 | 0.6 | 1.5 | 0.2 | – | 19.6 |
| Disposals | – | (3.5) | – | (0.1) | (0.2) | – | – | – | – | – | (3.8) |
| **Total accumulated depreciation and impairment** | – | 593.2 | 109.1 | 68.5 | 125.2 | 59.5 | 22.8 | 25.9 | 4.7 | – | 1,008.9 |
| **Total carrying amount** | **17.6** | **348.5** | **68.9** | **124.3** | **198.0** | **39.1** | **15.6** | **14.5** | **5.4** | **480.9** | **1,312.8** |

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 | Projects in progress | Total |
|---|---|---|---|---|---|---|
| **Cost:** | | | | | | |
| January 1, 2022 | 113.6 | 7.8 | 438.3 | 4.5 | 52.9 | 617.1 |
| Additions | – | – | – | – | 11.2 | 11.2 |
| **Total cost** | 113.6 | 7.8 | 438.3 | 4.5 | 64.1 | 628.3 |
| **Accumulated amortization and impairment:** | | | | | | |
| January 1, 2022 | 102.3 | 7.8 | 147.8 | 3.1 | – | 261.0 |
| Additions | 1.8 | – | 2.8 | 0.1 | – | 4.7 |
| **Total accumulated amortization and impairment** | 104.1 | 7.8 | 150.6 | 3.2 | – | 265.7 |
| **Total carrying amount** | **9.5** | **–** | **287.7** | **1.3** | **64.1** | **362.6** |

## 11. Trade and Other Payables

The trade and other payables balance includes the following:

| (in millions of Canadian dollars) | March 31, 2022 | December 31, 2021 |
|---|---|---|
| Wages payable and accrued | **39.4** | 44.1 |
| Accounts payable and accruals – Trade | **42.9** | 53.6 |
| Accounts payable and accruals – Capital assets | **64.9** | 54.0 |
| **Trade and other payables classified at Amortized cost** | **147.2** | 151.7 |
| Capital tax and other taxes payable | **7.5** | 7.1 |
| Deductions at sources | **3.3** | 2.8 |
| **Total trade and other payables** | **158.0** | 161.6 |

## 12. Leases

### The Corporation as a lessee:

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

| *(in millions of Canadian dollars)* | Land | Office spaces | Stations and facilities | Information-technology equipment | Total |
|---|---|---|---|---|---|
| **Cost**: | | | | | |
| January 1, 2022 | 0.5 | 14.3 | 80.4 | 0.8 | 96.0 |
| Additions | – | – | – | 0.7 | 0.7 |
| **Total cost** | 0.5 | 14.3 | 80.4 | 1.5 | 96.7 |
| **Accumulated depreciation:** | | | | | |
| January 1, 2022 | 0.1 | 4.9 | 2.7 | 0.5 | 8.2 |
| Additions | – | 0.6 | 0.4 | 0.3 | 1.3 |
| **Total accumulated depreciation** | 0.1 | 5.5 | 3.1 | 0.8 | 9.5 |
| **Net carrying amount** | **0.4** | **8.8** | **77.3** | **0.7** | **87.2** |

### Amount recognized in the Statement of Comprehensive Income:

| **Quarters ended March 31** *(in millions of Canadian dollars)* | **2022** | **2021** |
|---|---|---|
| Expense relating to short-term leases | **–** | 0.4 |

Total cash outflow is $1.8 million (March 31, 2021: $1.3 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 follows:

| *(in millions of Canadian dollars)* | **March 31, 2022** | **December 31, 2021** |
|---|---|---|
| **Balance, beginning of period** | **90.0** | 35.1 |
| Additions | **0.7** | 57.5 |
| Accretion of interest | **0.5** | 0.9 |
| Payments | **(1.8)** | (3.5) |
| **Balance, end of period** | **89.4** | 90.0 |
| Current | **3.9** | 3.7 |
| Non-current | **85.5** | 86.3 |
| **Total lease liabilities** | **89.4** | 90.0 |

## 13. Provisions

The provisions balance includes the following:

| *(in millions of Canadian dollars)* | **January 1, 2022** | **Additional provisions recognized** | **Provisions utilized** | **March 31, 2022** |
|---|---|---|---|---|
| Environmental costs | 0.3 | 0.4 | – | **0.7** |
| Litigation and equipment repairs *(Note 1)* | 4.9 | 1.3 | (0.4) | **5.8** |
| **Total provisions** | 5.2 | 1.7 | (0.4) | **6.5** |

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)* | **March 31, 2022** | **December 31, 2021** |
|---|---|---|
| Advance ticket sales | **21.8** | 6.4 |
| VIA Préférence loyalty program | **11.1** | 11.2 |
| Non-monetary transactions | **1.4** | 1.5 |
| Gift cards | **1.7** | 1.7 |
| Other | **0.9** | 1.2 |
| **Total deferred revenues** | **36.9** | 22.0 |

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

## 15. Employee Benefit Assets and Liabilities

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

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

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

| | **March 31, 2022** | **December 31, 2021** |
|---|---|---|
| ASSUMPTIONS — DISCOUNT RATES | | |
| **Assumptions for the calculation of the obligation** | | |
| Defined benefit component of the pension plans | **4.00%** | 3.00% |
| Post-employment benefit plans | **4.00%** | 3.00% |
| Long-term employee benefit plans | **2.80%** | 2.80% |
| **Assumptions for the calculation of the costs** | | |
| Defined benefit component of the pension plans | **3.00%** | 2.50% |
| Post-employment benefit plans | **3.00%** | 2.60% |
| Long-term employee benefit plans | **2.80%** | 2.20% |

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

Based on these actuarial valuations and projections to March 31, 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)* | **March 31, 2022** | **December 31, 2021** | **March 31, 2022** | **December 31, 2021** |
| DEFINED BENEFIT OBLIGATION: | | | | |
| **Balance, beginning of period** | **2,519.8** | 2,746.4 | **26.3** | 28.1 |
| Service cost | **6.2** | 34.3 | **0.1** | 0.4 |
| Past service cost | **–** | 0.1 | **–** | – |
| Interest expense | **25.2** | 67.3 | **0.2** | 0.7 |
| Employee contributions | **2.8** | 11.0 | **–** | – |
| Benefits paid | **(34.0)** | (145.1) | **(0.2)** | (0.9) |
| Effect of change in financial assumptions | **(106.8)** | (180.3) | **(3.9)** | (1.9) |
| Effect of experience adjustments | **–** | (13.9) | **–** | (0.1) |
| **Balance, end of period** | **2,413.2** | 2,519.8 | **22.5** | 26.3 |
| FAIR VALUE OF PLAN ASSETS: | | | | |
| **Balance, beginning of period** | **2,800.0** | 2,696.6 | **–** | – |
| Interest income | **27.9** | 66.3 | **–** | – |
| Return on plan assets (excluding interest income) | **(246.1)** | 153.2 | **–** | – |
| Employer contributions | **5.5** | 20.0 | **0.2** | 0.9 |
| Employee contributions | **2.8** | 11.0 | **–** | – |
| Benefits paid | **(34.0)** | (145.1) | **(0.2)** | (0.9) |
| Administration expenses | **(1.2)** | (2.0) | **–** | – |
| **Balance, end of period** | **2,554.9** | 2,800.0 | **–** | – |
| **Net defined benefit (asset) liability** | **(141.7)** | (280.2) | **22.5** | 26.3 |

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

### b) Long-term employee benefit plans

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, 2022** | **December 31, 2021** |
|---|---|---|
| LONG-TERM EMPLOYEE BENEFIT OBLIGATION: | | |
| **Balance, beginning of period** | **15.1** | 17.6 |
| Service cost | **0.9** | 3.5 |
| Interest expense | **0.1** | 0.4 |
| Benefits paid | **(1.0)** | (4.2) |
| Effect of change in financial assumptions | **–** | (0.9) |
| Effect of experience adjustments | **–** | (1.3) |
| **Balance, end of period** | **15.1** | 15.1 |
| FAIR VALUE OF PLAN ASSETS: | | |
| **Balance, beginning of period** | **–** | – |
| Employer contributions | **1.0** | 4.2 |
| Benefits paid | **(1.0)** | (4.2) |
| **Balance, end of period** | **–** | – |
| **Net long-term employee benefit liability** | **15.1** | 15.1 |

### c) 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, 2022** | **December 31, 2021** |
|---|---|---|
| **Assets:** | | |
| Defined benefit component of the pension plans | **141.7** | 280.2 |
| **Liabilities:** | | |
| Post-employment benefit plans | **22.5** | 26.3 |
| Long-term employee benefit plans | **15.1** | 15.1 |
| Other long-term employee benefits | **0.2** | 0.2 |
| **Total employee benefit liabilities** | **37.8** | 41.6 |

#### Total amounts recognized in the Statement of Comprehensive Income:

| | Quarters ended March 31 | |
|---|---|---|
| *(in millions of Canadian dollars)* | **2022** | **2021** |
| **Operating expenses:** | | |
| Defined benefit component of the pension plans | **4.7** | 7.2 |
| Post-employment benefit plans | **0.3** | 0.3 |
| Long-term employee benefit plans | **1.0** | 0.9 |
| **Total** | **6.0** | 8.4 |

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)* | **2022** | **2021** |
| **Other comprehensive (loss) income:** | | |
| Defined benefit component of the pension plans | **(139.3)** | 207.7 |
| Post-employment benefit plans | **3.9** | 3.1 |
| **Total** | **(135.4)** | 210.8 |

## 16. Income Taxes

### The income tax expense consists of the following:

| *(in millions of Canadian dollars)* | Quarters ended March 31<br>**2022** | <br>**2021** |
|---|---|---|
| Current | **–** | 0.1 |
| Deferred | **(12.3)** | – |
| **Income tax expense** | **(12.3)** | 0.1 |

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

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

| **Deferred income tax balances March 31, 2022**<br>*(in millions of Canadian dollars)* | **Opening Balance** | **Recognized in net income** | **Recognized in OCI** | **Closing Balance** |
|---|---|---|---|---|
| **Deferred income tax assets (liabilities):** | | | | |
| Unrealized gain on derivative financial instruments | (0.6) | (0.7) | – | **(1.3)** |
| Right-of-use assets | (21.6) | 0.2 | – | **(21.4)** |
| Employee benefit assets | (69.0) | 23.8 | 10.3 | **(34.9)** |
| **Total deferred income tax liabilities** | (91.2) | 23.3 | 10.3 | **(57.6)** |
| | | | | |
| Property, plant and equipment | 20.8 | 0.4 | – | **21.2** |
| Provisions | 1.7 | 0.1 | – | **1.8** |
| Lease liabilities | 22.2 | (0.2) | – | **22.0** |
| Employee benefit liability | 10.2 | (1.0) | – | **9.2** |
| Losses carry-forward | 13.7 | (10.3) | – | **3.4** |
| **Total deferred income tax assets** | 68.6 | (11.0) | – | **57.6** |
| **Deferred income tax liabilities** | **(22.6)** | **12.3** | **10.3** | **–** |

## 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, 2022** | **December 31, 2021** |
|---|---|---|
| **Balance, beginning of period** | **1,658.1** | 1,538.7 |
| Government funding for property, plant and equipment and intangible assets (including the cost of land) | **54.8** | 226.4 |
| Amortization of deferred capital funding | **(24.2)** | (107.0) |
| **Balance, end of period** | **1,688.7** | 1,658.1 |

## 18. Supplemental Cash Flows Information

### Net change in working capital items:

| | Quarters ended March 31 | |
|---|---|---|
| *(in millions of Canadian dollars)* | **2022** | **2021** |
| Trade and other receivables | **9.4** | 23.8 |
| Other assets | **(2.7)** | (0.4) |
| Materials | **1.5** | (0.2) |
| Trade and other payables | **(14.5)** | (1.8) |
| Provisions | **1.3** | 3.2 |
| Deferred revenues | **14.9** | 0.7 |
| **Total** | **9.9** | 25.3 |

The change in trade and other receivables excludes an amount of ($6.8) million (March 31, 2021: ($33.9) 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 $10.9 million (March 31, 2021: $7.1 million) in relation to the acquisition of property, plant and equipment and intangible assets, as this amount relates to investing activities.

## 18. Supplemental Cash Flows Information (cont’d)

### Investing activities supplemental information:

| | Quarters ended March 31 | |
|---|---|---|
| *(in millions of Canadian dollars)* | **2022** | **2021** |
| Acquisition of property, plant and equipment and intangible assets | **(57.7)** | (49.0) |
| Additions to property, plant and equipment and intangible assets not affecting cash as they were previously cashed out through the advances on contracts | **1.6** | 1.2 |
| Change in accounts payable and accruals – Capital assets | **10.9** | 7.1 |
| Change in other payables | **1.3** | 1.0 |
| **Total cash out for acquisition of property, plant and equipment and intangible assets** | **(43.9)** | (39.7) |
| Government funding invoiced for property, plant and equipment and intangible assets | **54.8** | 46.9 |
| Change in amount payable to the Government of Canada – Capital funding | **(6.8)** | (33.9) |
| **Total Government funding received for property, plant and equipment and intangible assets** | **48.0** | 13.0 |

## 19. Financial Risks

The Corporation financial instruments are exposed to the same as disclosed in its annual financial statements for the year ended December 31, 2021.

## 20. Commitments

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

| | March 31, 2022 | | | | December 31, 2021 |
|---|---|---|---|---|---|
| *(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 | **146.8** | 5.8 | 15.7 | 125.3 | 148.8 |
| Technical services | **356.0** | 3.0 | 61.8 | 291.2 | 356.0 |
| Usage of tracks | **41.5** | 1.4 | 5.6 | 34.5 | 41.8 |
| **Total** | **544.3** | 10.2 | 83.1 | 451.0 | 546.6 |
| **COMMITMENTS RELATING TO MAJOR CAPITAL INVESTMENTS:** | | | | | |
| Rolling stock | **675.8** | 268.2 | 407.6 | – | 700.6 |
| Maintenance buildings | **1.5** | 1.5 | – | – | 1.8 |
| Stations and facilities | **1.5** | 1.5 | – | – | 2.0 |
| Owned infrastructures | **1.2** | 1.2 | – | – | 1.2 |
| Software | **–** | – | – | – | 1.7 |
| Computer hardware | **0.8** | 0.8 | – | – | 1.2 |
| **Total** | **680.8** | 273.2 | 407.6 | – | 708.5 |
| **Total commitments** | **1,225.1** | 283.4 | 490.7 | 451.0 | 1,255.1 |

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

**b)** The Corporation has provided letters of credit from a financial institution totalling approximately $26.5 million (December 31, 2021: $24.6 million) to various provincial government workers' compensation boards as security for future payment streams.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