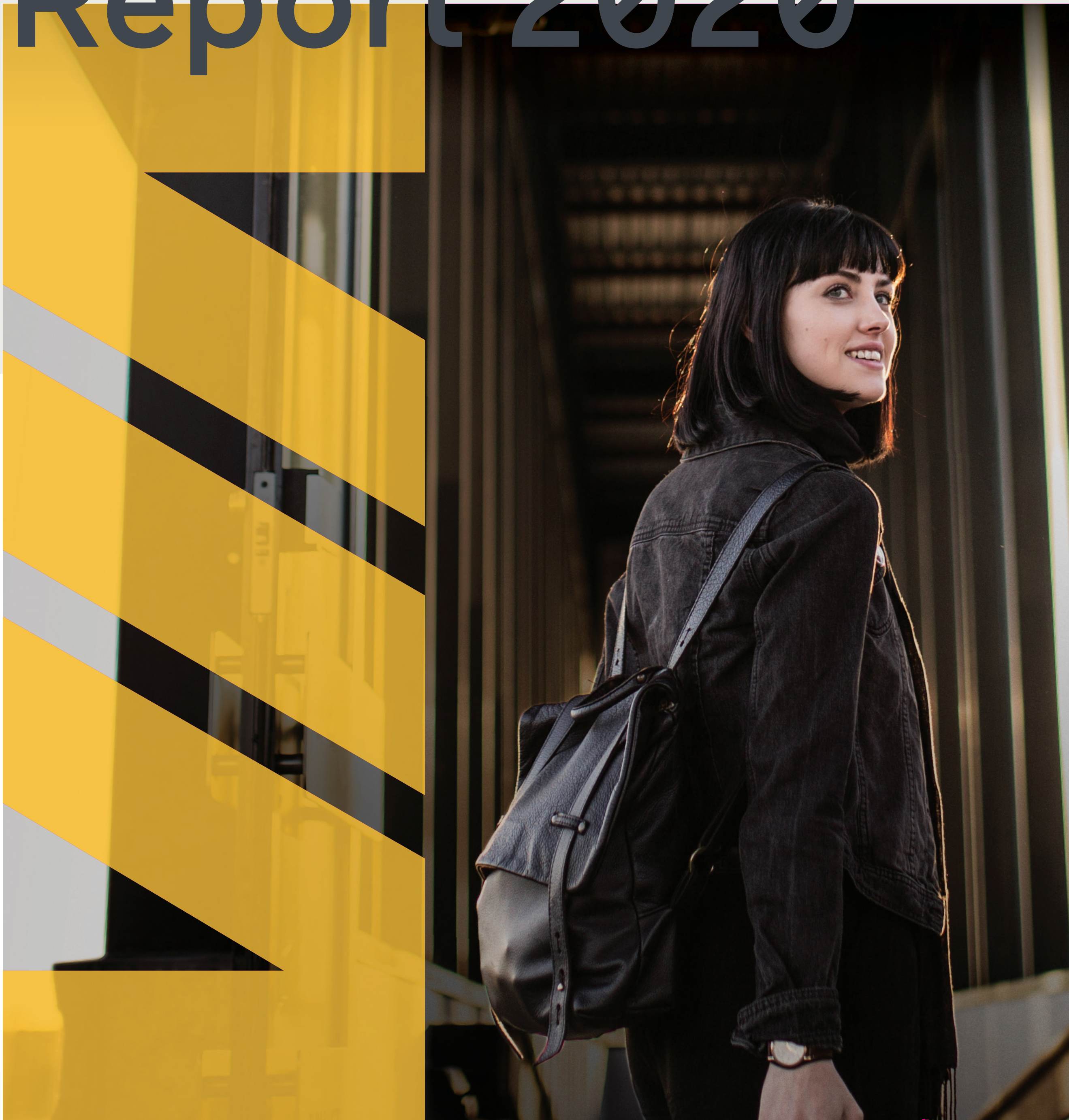
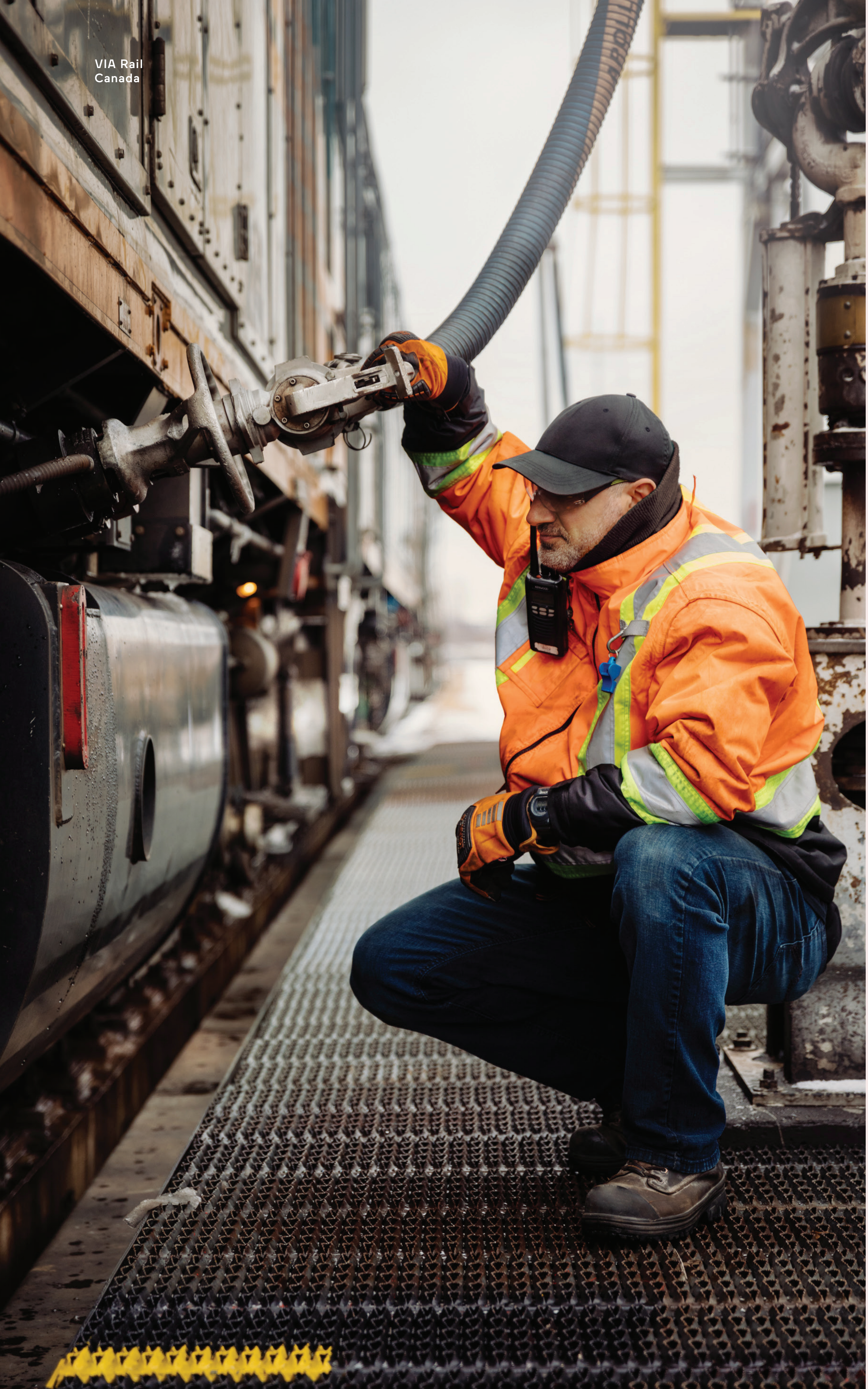
# First Quarter Report 2020



VIA Rail Canada



# Management's Discussion and Analysis

## 1. Introduction

Management's discussion and analysis report outlines the financial results of VIA Rail for the quarter ended March 31, 2020 compared with the quarter ended March 31, 2019. This document should be read in conjunction with the interim condensed financial statements and notes.

### Materiality

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

### Forward looking statement disclosure

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

## 2. Corporate overview

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

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

# 3. Highlights of Financial Results and Major Key

| | Quarters ended March 31 | | | |
|---|---|---|---|---|
| (in millions of Canadian dollars) | **2020** | **2019** | **Var $** | **Var %** |
| **Financial Performance** | | | | |
| Passenger revenues *(section 4.2)* | **46.1** | 79.7 | (33.6) | (42.2%) |
| Other revenues | **4.9** | 5.6 | (0.7) | (12.5%) |
| Total revenues | **51.0** | 85.3 | (34.3) | (40.2%) |
| Operating expenses *(section 4.3)* | **202.7** | 194.8 | 7.9 | 4.1% |
| Operating loss before funding from the Government of Canada and income taxes *(section 4.1)* | **(151.7)** | (109.5) | (42.2) | (38.5%) |
| Operating funding from the Government of Canada *(section 4.1)* | **104.8** | 84.2 | 20.6 | 24.5% |
| Amortization of deferred capital funding | **23.4** | 25.9 | (2.5) | (9.7%) |
| Income tax expense | **0.1** | 0.1 | - | 0.0% |
| Net (loss) income for the period | **(23.6)** | 0.5 | (24.1) | (4,820.0%) |
| Remeasurements of defined benefit components of the pension plans and post-employment benefit plans | **77.1** | (38.3) | 115.4 | 301.3% |
| Comprehensive income (loss) for the period | **53.5** | (37.8) | 91.3 | 241.5% |
| **Financial Position and Cash Flows** | | | | |
| Total assets *(section 4.4)* | **1,655.6** | 1,597.9 | 57.7 | 3.6% |
| Total liabilities and deferred capital funding *(section 4.4)* | **1,739.0** | 1,734.8 | 4.2 | 0.2% |
| Cash *(section 4.5)* | **9.2** | 25.8 | (16.6) | (64.3%) |
| Net cash (used in) operating activities *(section 4.5)* | **-** | (16.1) | 16.1 | 100.0% |
| Net cash provided by investing activities *(section 4.5)* | **6.5** | 27.8 | (21.3) | (76.6%) |
| Net cash (used in) financing activities *(section 4.5)* | **(0.7)** | (0.7) | - | 0.0% |
| Capital funding *(section 4.5)* | **55.5** | 118.2 | (62.7) | (53.0%) |
| **Key Operating Statistics** | | | | |
| Train-miles operated *(in thousands)* | **1,145** | 1,688 | (543) | (32.2%) |
| Seat-miles *(in millions)* | **267** | 421 | (154) | (36.6%) |
| Passengers-miles *(in millions)* | **125** | 224 | (99) | (44.2%) |
| Passengers *(in thousands)* | **643** | 1,145 | (502) | (43.8%) |
| Average passenger load factor *(%)* | **47** | 53 | (6) | (11.3%) |
| RASM *(revenue per available seat-mile) (in cents) – Note 1* | **19.11** | 20.35 | (1.24) | (6.1%) |
| CASM *(cost per available seat-mile) (in cents) – Note 1* | **58.20** | 39.73 | 18.47 | 46.5% |
| Cost recovery ratio *(%) – Note 1* | **32.8** | 51.2 | (18.4) | (35.9%) |
| Operating deficit per passenger-mile *(in cents)* | **83.8** | 37.6 | 46.2 | 122.9% |
| On-time Performance *(%)* | **76** | 60 | 16 | 26.7% |

*(Amounts in bracket represent decreases)*

*Note 1: based on funded results*

## Financial highlights

### First quarter

- Total revenues decreased by 40.2 per cent mainly due to the interruption of services caused by the February 2020 blockades and the decreased ridership and subsequent service adjustments caused by the impacts of COVID-19.
- Operating expenses increased by 4.1 per cent primarily due to the unrealized net loss on derivative financial instruments, partly offset by lower costs for train operations and fuel, reflecting the decrease in capacity deployed during the quarter.
- The operating loss increased by 38.5 per cent due to the combination of lower revenues and higher operating expenses.
- Operating funding increased by 24.5 per cent, reflecting the higher amounts required for funded activities.
- VIA Rail generated a comprehensive income of $53.5 million compared to a loss of $37.8 million in 2019. The variation is due to the remeasurements of defined benefit component of the pension plans and post-employment benefit plans.

All key operating statistics were negatively impacted by the events described impacting revenue in first quarter, except for OTP which improved due to the reduction in freight traffic on the host rail network.

# 4. Analysis of Financial Results
## 4.1 Comparison of IFRS and Funded Operating Results

| | Quarters ended March 31 | | | |
|---|---|---|---|---|
| (in millions of Canadian dollars) | **2020** | **2019** | **Var $** | **Var %** |
| **Operating loss on a funded basis** | **(104.8)** | **(84.2)** | **(20.6)** | **(24.5%)** |
| NON-FUNDED ADJUSTMENT TO REVENUES | | | | |
| Adjustment for VIA Préférence points and other | **(0.1)** | (0.4) | 0.3 | 75.0% |
| NON-FUNDED ADJUSTMENTS TO EXPENSES | | | | |
| Pension and other employee future benefits | **(6.1)** | (1.4) | (4.7) | (335.7%) |
| Depreciation of property, plant and equipment, depreciation of right-of-use assets, amortization of intangible assets and loss on disposal | **(24.4)** | (26.4) | 2.0 | 7.6% |
| Other provisions for non-cash items | **(16.3)** | 2.9 | (19.2) | (662.1%) |
| Total non-funded adjustments to expenses | **(46.8)** | (24.9) | (21.9) | (88.0%) |
| **Total items not requiring funds from operations** | **(46.9)** | **(25.3)** | **(21.6)** | **(85.4%)** |
| **Operating loss under IFRS** | **(151.7)** | **(109.5)** | **(42.2)** | **(38.5%)** |
| Operating funding from the Government of Canada | **104.8** | 84.2 | 20.6 | 24.5% |
| Amortization of deferred capital funding | **23.4** | 25.9 | (2.5) | (9.7%) |
| **Net (loss) income before income taxes** | **(23.5)** | **0.6** | **(24.1)** | **(4,016.7%)** |
| Income tax expense | **0.1** | 0.1 | - | 0.0% |
| **Net (loss) income under IFRS for the period** | **(23.6)** | **0.5** | **(24.1)** | **(4,820.0%)** |
| Remeasurements of the defined benefit component of the pension plans and post-employment benefit plans | **77.1** | (38.3) | 115.4 | 301.3% |
| **Comprehensive income (loss) for the period** | **53.5** | **(37.8)** | **91.3** | **241.5%** |

*(Amounts in bracket represent decreases)*

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

**Net loss of $23.6 million this quarter, compared to a net income of $0.5 million last year, representing a deterioration of $24.1 million mainly due to:**

- Higher operating loss ($42.2 million), attributable to the combination of lower revenues of $34.3 million and higher expenses of $7.9 million;
- Partly offset by higher government funding received during the quarter (increase of $20.6 million);
- Lower amortization of deferred capital funding ($2.5 million).

**Comprehensive income of $53.5 million in the first quarter of 2020:**

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 $77.1 million in the first quarter of 2020 is due to an actuarial gain of $223.2 million on the defined benefit obligation arising from a 70 basis point increase in the discount rate since December 31, 2019 and to a remeasurement loss of $148.9 million resulting from lower actual rate of return on plan assets. The remeasurement also includes an actuarial gain of $2.8 million due to the increase in discount rate used to determine the post-employment benefit obligation.

**Comprehensive loss of $37.8 million in the first quarter of 2019:**

The remeasurement of the defined benefit component of the pension plans of ($38.3) million for the first quarter of 2019 was due to the decrease of the discount rate used to determine the defined benefit obligation (3.30 per cent as at March 31, 2019 compared to 3.90 per cent as at December 31, 2018) which resulted in an actuarial loss of $174.9 million, partly offset by a higher return on plan assets of $136.6 million generated during the quarter.

## 4.2 Revenues

| (in millions of Canadian dollars) | Quarters ended March 31 2020 | 2019 | Var $ | Var % |
|---|---|---|---|---|
| Passenger revenues | | | | |
| Corridor East | **30.9** | 57.5 | (26.6) | (46.3%) |
| Southwestern Ontario (SWO) | **8.2** | 12.6 | (4.4) | (34.9%) |
| **Québec City – Windsor corridor** | **39.1** | **70.1** | **(31.0)** | **(44.2%)** |
| *Ocean* | **1.1** | 1.6 | (0.5) | (31.3%) |
| *Canadian* | **3.1** | 5.4 | (2.3) | (42.6%) |
| Regional services | **0.4** | 0.5 | (0.1) | (20.0%) |
| **Non corridor** | **4.6** | **7.5** | **(2.9)** | **(38.7%)** |
| Other | **2.4** | 2.1 | 0.3 | 14.3% |
| **Total passenger revenues under IFRS** | **46.1** | **79.7** | **(33.6)** | **(42.2%)** |
| Other revenues | **4.9** | 5.6 | (0.7) | (12.5%) |
| **Total revenues under IFRS** | **51.0** | **85.3** | **(34.3)** | **(40.2%)** |
| Adjustment for VIA Préférence points (non-funded) and other | **0.1** | 0.4 | (0.3) | (75.0%) |
| **TOTAL FUNDED REVENUES** | **51.1** | **85.7** | **(34.6)** | **(40.4%)** |

*(Amounts in bracket represent decreases)*

### Passengers

| (in thousands) | Quarters ended March 31 2020 | 2019 | Var # | Var % |
|---|---|---|---|---|
| Passengers | | | | |
| Corridor East | **446.5** | 827.9 | (381.4) | (46.1%) |
| Southwestern Ontario (SWO) | **175.4** | 282.4 | (107.0) | (37.9%) |
| **Québec City – Windsor corridor** | **621.9** | **1,110.3** | **(488.4)** | **(44.0%)** |
| *Ocean* | **8.2** | 14.1 | (5.9) | (41.8%) |
| *Canadian* | **5.7** | 10.4 | (4.7) | (45.2%) |
| Regional services | **6.7** | 10.3 | (3.6) | (35.0%) |
| **Non corridor** | **20.6** | **34.8** | **(14.2)** | **(40.8%)** |
| **TOTAL PASSENGERS** | **642.5** | **1,145.1** | **(502.6)** | **(43.9%)** |

*(Amounts in bracket represent decreases)*

### Passenger revenues

Passenger revenues have decreased by $33.6 million (42.2 per cent) during the quarter. The decrease is mainly attributable to the events that occurred in February and March 2020.

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

On March 11, 2020, the World Health Organization characterized the outbreak of a strain of the novel coronavirus ("COVID-19") as a pandemic which has resulted in a series of public health and emergency measures that have been put in place to combat the spread of the virus. On March 12, 2020, in response to the COVID-19 outbreak, VIA Rail enforced special health and safety measures for its passengers and employees, and subsequently reduced service levels for most major train services.

## Québec City – Windsor Corridor

### Corridor East

Revenues for the quarter are $26.6 million (46.3 per cent) lower than last year. The decrease stems from lower ridership (46.1 per cent), combined with lower average revenues (0.4 per cent).

### Southwestern Ontario

Revenues have decreased by $4.4 million (34.9 per cent) during the quarter, due to lower passenger levels (37.9 per cent), partly offset by improved average revenues (4.8 per cent).

Revenues and ridership for the quarter were directly impacted by the February blockades and the COVID-19 pandemic.

Corridor service was partially shut down on February 6, as a result of the blockades, then completely shut down on February 14. Operations partially resumed on February 20 and fully resumed on March 7. On March 17, as a result of the COVID-19 pandemic, service was reduced to 50 per cent, with further reductions on March 23 (operations reduced to 33 per cent), and further reduced to 18 per cent on March 31.

## 4.2 Revenues (cont'd)

### *Ocean*

Revenues for the quarter have decreased by $0.5 million. Ridership decreased by 41.8 per cent but the impact of this decrease was partly offset by improved average revenues (18.2 per cent).

These results were also directly impacted by the February blockades and the COVID-19 pandemic.

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

### *Canadian*

Revenues on the *Canadian* have decreased by $2.3 million (42.6 per cent), due to the decrease in ridership (45.2 per cent), partly offset by higher average revenues (4.7 per cent).

These results were also directly impacted by the February blockades and the COVID-19 pandemic.

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

### Regional services

Revenues on Regional services have slightly decreased by $0.1 million (20.0 per cent) during the quarter.

Ridership has decreased by 35.0 per cent, while average revenues have improved by 23.0 per cent.

These results were also impacted by the February blockades and the COVID-19 pandemic as some services have been reduced or cancelled.

The Jasper to Prince-Rupert service was cancelled on February 14 due to the blockades and has not resumed since.

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

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

## 4.3 Operating Expenses

| | Quarters ended March 31 | | | |
|---|---|---|---|---|
| (in millions of Canadian dollars) | **2020** | **2019** | **Var $** | **Var %** |
| Compensation and employee benefits | **84.2** | 81.8 | 2.4 | 2.9% |
| Train operations and fuel | **27.7** | 38.0 | (10.3) | (27.1%) |
| Stations and property | **11.7** | 11.9 | (0.2) | (1.7%) |
| Marketing and sales | **7.9** | 9.0 | (1.1) | (12.2%) |
| Maintenance material | **10.2** | 9.4 | 0.8 | 8.5% |
| Professional services | **2.9** | 5.2 | (2.3) | (44.2%) |
| Telecommunications | **5.9** | 5.3 | 0.6 | 11.3% |
| Depreciation and amortization | **24.4** | 26.1 | (1.7) | (6.5%) |
| Loss on disposal of property, plant and equipment and intangible assets | **-** | 0.3 | (0.3) | (100.0%) |
| Unrealized net loss (net gain) on derivative financial instruments | **13.6** | (5.7) | 19.3 | 338.6% |
| Other | **14.2** | 13.5 | 0.7 | 5.2% |
| **Total operating expenses under IFRS** | **202.7** | **194.8** | **7.9** | **4.1%** |
| Non-funded adjustments *(section 4.1)* | **(46.8)** | (24.9) | (21.9) | (88.0%) |
| **Total funded expenses** | **155.9** | **169.9** | **(14.0)** | **(8.2%)** |

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

## 4.3 Operating Expenses (cont'd)

Total operating expenses increased by $7.9 million (4.1 per cent) for the quarter. The primary variances are:

### Train operations and fuel:

The expenses decreased by $10.3 million (27.1 per cent) during the quarter. The decrease results mainly from the reduced level of operations during the months of February and March 2020.

### Marketing and sales

The expenses decreased by $1.1 million (12.2 per cent) during the quarter. The decrease is due in most part to lower credit card commissions as less sales were generated given the reduced levels of frequencies.

### Professional services

The expenses decreased by $2.3 million (44.2 per cent) during the quarter. This decrease is attributable to the fact that because of the COVID-19 pandemic, various initiatives requiring consulting services have been postponed or cancelled.

### Telecommunications

The expenses increased by $0.6 million (11.3 per cent) during the quarter stemming from costs associated to the Corporation's helpdesk and IT support (were classified as professional services in 2019), additional support/license costs of newly implemented systems and additional hardware purchased for employees working at home as a result of the COVID-19 pandemic.

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

The expenses decreased by $0.3 million (100.0 per cent), due to the fact that less assets were disposed of during the quarter.

### Unrealized net loss (net gain) on derivative financial instruments

Net loss of $13.6 million for the quarter compared to net gain of $5.7 million. Net loss for the quarter 2020 reflects the fact that market fuel prices are lower than contract prices. Last year, gains were generated for the quarter, as the market fuel prices were higher than the contract prices.

## 4.4 Financial Position

| (in millions of Canadian dollars) | March 31, 2020 | December 31, 2019 | Var $ | Var % |
|---|---|---|---|---|
| ASSETS | | | | |
| Current assets | **113.6** | 128.4 | (14.8) | (11.5%) |
| Advance on contract | **64.2** | 63.6 | 0.6 | 0.9% |
| Property, plant and equipment | **1,058.1** | 1,023.2 | 34.9 | 3.4% |
| Right-of-use assets | **31.4** | 32.3 | (0.9) | (2.8%) |
| Intangible assets | **343.2** | 345.2 | (2.0) | (0.6%) |
| Other | **0.8** | 0.8 | - | 0.0% |
| Employee benefit assets | **44.3** | 4.4 | 39.9 | 906.8% |
| **Total assets** | **1,655.6** | **1,597.9** | **57.7** | **3.6%** |
| LIABILITIES | | | | |
| Current liabilities | **211.6** | 209.2 | 2.4 | 1.1% |
| Other payables | **11.0** | 9.4 | 1.6 | 17.0% |
| Lease liabilities | **29.6** | 30.3 | (0.7) | (2.3%) |
| Employee benefit liabilities | **47.7** | 78.9 | (31.2) | (39.5%) |
| **Total liabilities** | **299.9** | **327.8** | **(27.9)** | **(8.5%)** |
| **Deferred capital funding** | **1,439.1** | **1,407.0** | **32.1** | **2.3%** |
| Share capital | **9.3** | 9.3 | - | 0.0% |
| Accumulated deficit, beginning of period | **(146.2)** | (94.9) | (51.3) | (54.1%) |
| Net loss | **(23.6)** | (10.9) | (12.7) | (116.5%) |
| Other comprehensive income (loss) | **77.1** | (40.4) | 117.5 | 290.8% |
| **Accumulated deficit, end of period** | **(92.7)** | **(146.2)** | **53.5** | **36.6%** |
| **Total liabilities and shareholder's deficit** | **1,655.6** | **1,597.9** | **57.7** | **3.6%** |

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

### Assets

Total assets increased by $57.7 million mainly due to the increase in employee benefit assets by $39.9 million due to the increase in discount rates, as well as to the increase in property, plant and equipment by $34.9 million.

### Liabilities and deferred capital funding

Total liabilities decreased by $27.9 million mainly due to a decrease in employee benefit liabilities by $31.2 million because of the increase in discount rates and deferred capital funding increased by $32.1 million due to addition of property, plant and equipment.

### Other comprehensive income (loss)

Other comprehensive income increased due to the increase in discount rates affecting employee benefit assets and 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) | **2020** | **2019** | **Var $** | **Var %** |
| **Balance, beginning of period** | **3.4** | 14.8 | (11.4) | (77.0%) |
| Net cash (used in) provided by operating activities | **-** | (16.1) | 16.1 | 100.0% |
| Net cash provided by investing activities | **6.5** | 27.8 | (21.3) | (76.6%) |
| Net cash (used in) financing activities | **(0.7)** | (0.7) | - | n/a |
| **Balance, end of period** | **9.2** | **25.8** | **(16.6)** | **(64.3%)** |

*(Amounts in bracket represent decreases)*

### Operating activities

Net cash increased by $16.1 million (100.0 per cent) for the quarter. The increase is mainly due to the variance in working capital items of $15.5 million, as shown in Note 17 of the interim condensed financial statements.

### Investing activities

Net cash decreased by $21.3 million for the quarter. The decrease during the quarter results from the lower amount of government funding received during the period compared to previous year as well as higher investments in property, plant and equipment, partly offset by lower payment of an advance on contract.

### Financing activities

Net cash remained stable for the quarter.

### Funded capital investments

Property, plant and equipment and intangible assets totaled $1,401.3 million as at March 31, 2020, which is an increase of $32.9 million compared to the balance as at December 31, 2019.

Funded capital investments of $55.5 million were made during the quarter. They exclude an amount of $1.6 million which will be invoiced to the Government of Canada in the coming years (refer to note 17 of the interim condensed financial statements). Total investments for the year include an amount of $2.5 million relating to an advance on contract which was invoiced during the period and will be transferred to property, plant and equipment in future years.

| | Quarters ended March 31 | | | |
|---|---|---|---|---|
| (in millions of Canadian dollars) | **2020** | **2019** | **Var $** | **Var %** |
| Equipment | **8.4** | 12.3 | (3.9) | (31.7%) |
| Infrastructure | **3.5** | 2.2 | 1.3 | 59.1% |
| Information technology | **3.3** | 4.1 | (0.8) | (19.5%) |
| Stations | **4.3** | 2.1 | 2.2 | 104.8% |
| Fleet Replacement Program | **31.5** | – | 31.5 | n/a |
| Other | **2.0** | 3.5 | (1.5) | (42.9%) |
| **Capital investments** | **53.0** | **24.2** | **28.8** | **119.0%** |
| Advance on contract – Fleet Replacement Program | **2.5** | 94.0 | (91.5) | (97.3%) |
| **Total** | **55.5** | **118.2** | **(62.7)** | **(53.0%)** |

*(Amounts in bracket represent decreases)*

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

## 5. Results compared to the 2019-2023 corporate plan [1]

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

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

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

## 6. Risk analysis

This section highlights VIA Rail's key risks which may have potential impact on the Corporation's financial results, and provides information on risks for which the trend or status has changed compared to the status as at December 31, 2019.

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

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

| Nature of Risk | Trend | Current Situation |
|---|---|---|
| **Government and Strategy** | | |
| VIA Rail has limited powers as a non-agent Crown Corporation and is dependent on annual government budgetary allocations to fund its operations, capital and pension obligations.<br><br>Insufficient funding constitutes a risk in the efficient delivery of its services, as well as in the planning and execution of its medium-to-long term strategies. | ↑ | VIA Rail's funding envelope expired as at March 31, 2020 and the new funding envelope has not yet been confirmed by the Government.<br><br>In addition, the February blockades and the COVID-19 pandemic have significantly impacted VIA Rail's financial results, and if the situation sustains, even with the confirmation of a new funding envelope, funding levels will not be sufficient to offset the potential operating deficit. Significant additional funding will be required. |

↑ Increasing → Stable ↓ Decreasing

# 6. Risk analysis (cont'd)

| Nature of risk | Trend | Current Situation |
|---|---|---|
| **Revenue generation** | | |
| Failure to meet the Corporation's revenue plan can cause the funding to be insufficient and lead to cost/ service reductions.<br>Current revenue challenges include:<br>○ Deterioration of on-time performance<br>○ Infrastructure access challenges (freight congestion, speed issues, blockades)<br>○ Reduced capacity due to aging fleet<br>○ Competition<br>○ Deteriorating economic environment (recession or other decisions to limit travel). | ↑ | VIA Rail's service levels have been dramatically reduced as a result of the COVID-19 pandemic with its impact on travel and social distancing requirements. VIA Rail's current service levels represent approximately 18 per cent of normal levels, and with very low ridership, revenues are significantly lower than normal. Should the situation sustain in the future months, the revenue plan will not be achieved, and even with cost containment measures additional funding will be required to compensate for lost revenues. |
| **Costs influenced by external factors** | | |
| Elements exist outside of the Corporation's control such as harsh weather and financial and commodity market conditions that can have an adverse impact on costs such as fuel, equipment maintenance and pension costs. Failure to meet the budgeted costs can cause funding to be insufficient and lead to service reductions. | ↑ | As a result of the COVID-19 pandemic, capital market developments year to date have negatively impacted the financial position of defined benefit pension plans, which absent changes in pension funding regulation, is likely to result in an increase in pension costs in future years, subject to future market developments. |

↑ Increasing → Stable ↓ Decreasing

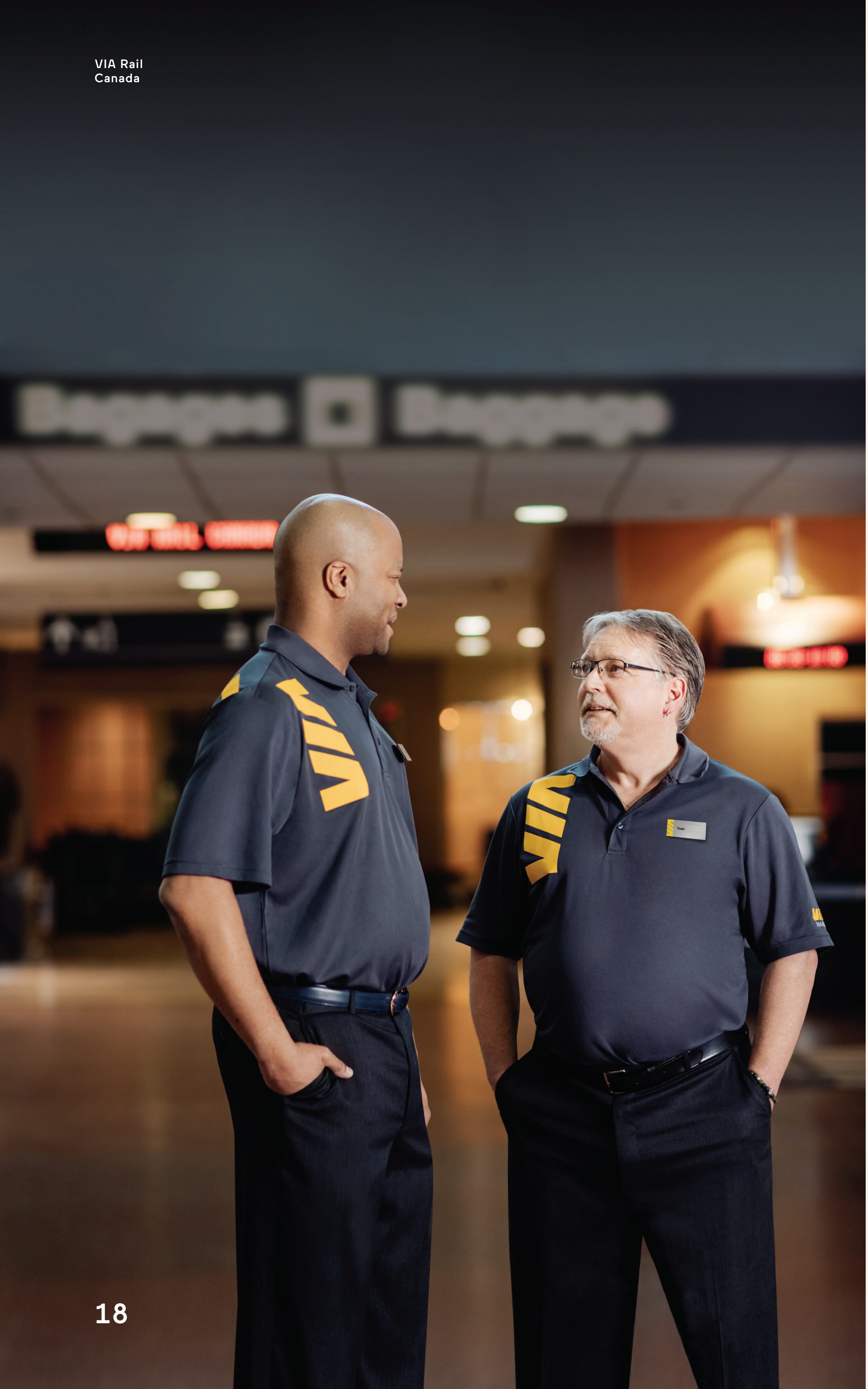
## 7. Outlook

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

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

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

In the meantime, management continues its focus on minimizing operating costs while pursuing the strategic projects such as the Fleet Replacement Program, Heritage Program and the new reservation system. With regards to funding requirements, management is in close contact with the Government of Canada to assess the situation and identify additional funding options during this unprecedented situation.


Baggages
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# Interim Condensed Financial Statements

## Management's Responsibility Statement

### Quarter ended March 31, 2020

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

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

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

**Cynthia Garneau**
President and Chief Executive Officer

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

**Montréal, Canada**
**May 26, 2020**

# Interim Condensed Financial Statements

## Statement of Financial Position

| (in thousands of Canadian dollars) | **March 31, 2020** (unaudited) | **December 31, 2019** (audited) |
|---|---|---|
| **CURRENT ASSETS** | | |
| Cash | **$ 9,232** | $ 3,355 |
| Trade and other receivables *(Note 7)* | **64,710** | 87,808 |
| Other assets | **7,562** | 5,193 |
| Derivative financial instruments *(Note 8)* | **-** | 834 |
| Materials | **30,934** | 30,082 |
| Asset Renewal Fund | **1,096** | 1,096 |
| | **113,534** | 128,368 |
| **NON-CURRENT ASSETS** | | |
| Advance on contract | **64,234** | 63,582 |
| Property, plant and equipment *(Note 9)* | **1,058,097** | 1,023,194 |
| Right-of-use assets *(Note 12)* | **31,408** | 32,291 |
| Intangible assets *(Note 10)* | **343,160** | 345,152 |
| Asset Renewal Fund | **873** | 873 |
| Employee benefit assets *(Note 15)* | **44,294** | 4,435 |
| | **1,542,066** | 1,469,527 |
| **Total Assets** | **$ 1,655,600** | $ 1,597,895 |
| **CURRENT LIABILITIES** | | |
| Trade and other payables *(Note 11)* | **$ 155,439** | $ 158,593 |
| Lease liabilities *(Note 12)* | **2,789** | 2,771 |
| Provisions *(Note 13)* | **8,182** | 8,399 |
| Derivative financial instruments *(Note 8)* | **14,279** | 1,546 |
| Deferred revenues *(Note 14)* | **30,927** | 37,928 |
| | **211,616** | 209,237 |
| **NON-CURRENT LIABILITIES** | | |
| Other payables | **10,996** | 9,404 |
| Lease liabilities *(Note 12)* | **29,609** | 30,300 |
| Employee benefit liabilities *(Note 15)* | **47,748** | 78,878 |
| | **88,353** | 118,582 |
| **Deferred capital funding** *(Note 16)* | **1,439,120** | 1,407,023 |
| **SHAREHOLDER'S DEFICIENCY** | | |
| Share capital | **9,300** | 9,300 |
| Accumulated deficit | **(92,789)** | (146,247) |
| | **(83,489)** | (136,947) |
| **Total Liabilities and Shareholder's deficiency** | **$ 1,655,600** | $ 1,597,895 |

*Commitments (Note 19)*

*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) | | **2020** | | **2019** |
|---|---|---|---|---|
| **REVENUES** *(Note 5)* | | | | |
| Passenger | **$** | **46,100** | $ | 79,681 |
| Other | | **4,867** | | 5,608 |
| | | **50,967** | | 85,289 |
| **EXPENSES** | | | | |
| Compensation and employee benefits | | **84,227** | | 81,819 |
| Train operations and fuel | | **27,660** | | 37,969 |
| Stations and property | | **11,732** | | 11,893 |
| Marketing and sales | | **7,925** | | 8,996 |
| Maintenance material | | **10,217** | | 9,433 |
| On-train product costs | | **5,482** | | 5,592 |
| Operating taxes | | **2,881** | | 3,150 |
| Professional services | | **2,904** | | 5,180 |
| Telecommunications | | **5,941** | | 5,264 |
| Depreciation of property, plant and equipment *(Note 9)* | | **17,767** | | 18,868 |
| Depreciation of right-of-use assets *(Note 12)* | | **883** | | 817 |
| Amortization of intangible assets *(Note 10)* | | **5,718** | | 6,432 |
| (Gain) loss on disposal of property, plant and equipment *(Note 9)* | | **(2)** | | 279 |
| (Gain) on disposal of intangible assets *(Note 10)* | | **(2)** | | - |
| Unrealized net loss (net gain) on derivative financial instruments | | **13,567** | | (5,747) |
| Realized net loss (net gain) on derivative financial instruments | | **1,621** | | (173) |
| Interest expense on lease liabilities | | **244** | | 186 |
| Other | | **3,921** | | 4,821 |
| | | **202,686** | | 194,779 |
| **OPERATING LOSS BEFORE FUNDING FROM THE GOVERNMENT OF CANADA AND INCOME TAXES** | | **(151,719)** | | (109,490) |
| Operating funding from the Government of Canada *(Note 6)* | | **104,833** | | 84,173 |
| Amortization of deferred capital funding *(Note 16)* | | **23,355** | | 25,882 |
| Net (loss) income before income taxes | | **(23,531)** | | 565 |
| Income tax expense | | **76** | | 67 |
| **NET (LOSS) INCOME FOR THE PERIOD** | | **(23,607)** | | 498 |
| Other comprehensive income (loss) | | | | |
| Amounts not to be reclassified subsequently to net income (net of tax): Remeasurements of the defined benefit component of the pension plans and post-employment benefit plans *(Note 15)* | | **77,065** | | (38,324) |
| | | **77,065** | | (38,324) |
| **COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD** | **$** | **53,458** | $ | (37,826) |

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

# Interim Condensed Financial Statements

## Statement of Changes in Shareholder's Deficiency

| **Quarters ended March 31** (in thousands of Canadian dollars) (unaudited) | **2020** | 2019 |
|---|---|---|
| SHARE CAPITAL | **$ 9,300** | $ 9,300 |
| **Accumulated deficit** | | |
| **Balance, beginning of period** | **(146,247)** | (94,900) |
| Net (loss) income for the period | **(23,607)** | 498 |
| Other comprehensive income (loss) for the period | **77,065** | (38,324) |
| **Balance, end of period** | **(92,789)** | (132,726) |
| **Total Shareholder's deficiency** | **$ (83,489)** | $ (123,426) |

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

# Interim Condensed Financial Statements

## Statement of Cash Flows

| **Quarters ended March 31** (in thousands of Canadian dollars) (unaudited) | | **2020** | | **2019** |
|---|---|---|---|---|
| OPERATING ACTIVITIES | | | | |
| Net (loss) income for the period | **$** | **(23,607)** | $ | 498 |
| Adjustments to determine net cash (used in) provided by operating activities: | | | | |
| Depreciation of property, plant and equipment *(Note 9)* | | **17,767** | | 18,868 |
| Depreciation of right-of-use assets *(Note 12)* | | **883** | | 817 |
| Amortization of intangible assets *(Note 10)* | | **5,718** | | 6,432 |
| (Gain) loss on disposal of property, plant and equipment *(Note 9)* | | **(2)** | | 279 |
| (Gain) on disposal of intangible assets *(Note 10)* | | **(2)** | | - |
| Amortization of deferred capital funding *(Note 16)* | | **(23,355)** | | (25,882) |
| Interest income | | **(172)** | | (302) |
| Interest paid | | **(244)** | | (186) |
| Unrealized net loss (net gain) on derivative financial instruments | | **13,567** | | (5,747) |
| Post-employment and other employee benefit expenses *(Note 15)* | | **11,912** | | 9,569 |
| Employer post-employment and other employee benefit contributions *(Note 15)* | | **(5,836)** | | (8,189) |
| Interest expense on lease liabilities | | **244** | | 186 |
| Net change in working capital items *(Note 17)* | | **3,141** | | (12,428) |
| **Net cash provided by (used in) operating activities** | | **14** | | (16,085) |
| INVESTING ACTIVITIES | | | | |
| Government funding received related to acquisition of property, plant and equipment and intangible assets (*Notes 7, 16 and 17)* | | **58,518** | | 45,301 |
| Government funding received related to an advance on contract *(Note 16)* | | **2,482** | | 93,999 |
| Cash drawdown from the Asset Renewal Fund | | **-** | | 2,000 |
| Acquisition of property, plant and equipment and intangible assets *(Notes 9, 10, 11 and 17)* | | **(54,636)** | | (39,373) |
| Payment of an advance on contract | | **-** | | (74,399) |
| Interest received | | **172** | | 302 |
| Proceeds from the disposal of property, plant and equipment and intangible assets | | **-** | | 1 |
| **Net cash provided by investing activities** | | **6,536** | | 27,831 |
| FINANCING ACTIVITIES | | | | |
| Payment of the lease liabilities | | **(673)** | | (687) |
| **Net cash (used in) financing activities** | | **(673)** | | (687) |
| CASH | | | | |
| Increase during the period | | **5,877** | | 11,059 |
| Balance, beginning of period | | **3,355** | | 14,823 |
| **Balance, end of period** | **$** | **9,232** | $ | 25,882 |
| REPRESENTED BY: | | | | |
| Cash | **$** | **9,232** | $ | 25,882 |
| | **$** | **9,232** | $ | 25,882 |

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

# Notes to the Interim Condensed Financial Statements

### Quarter ended March 31

## 1. Authority and Objectives

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

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

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

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

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

These financial statements were approved and authorized for issue by the Board of Directors on May 26, 2020.

## 2. Basis of Preparation

### a) Statement of compliance

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

These unaudited interim condensed financial statements have been prepared in accordance with IAS 34 – *Interim Financial Reporting*. The interim condensed financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2019, which have been prepared in accordance with the IFRS.

### b) Functional and presentation currency

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

## 3. Summary of Significant Accounting Policies

The significant accounting policies applied 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, 2019.

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

In the application of the Corporation's accounting policies, management is required to make certain 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 5 of the Corporation's annual financial statements for the year ended December 31, 2019.

## 5. Revenues

The following table disaggregates the revenue by major sources:

| **Quarters ended March 31** (in millions of Canadian dollars) | **2020** | **2019** |
|---|---|---|
| REVENUES | | |
| Transportation and accommodation | **44.8** | 77.2 |
| On-train food and beverages and other | **1.3** | 2.5 |
| **Revenues from passengers** | **46.1** | 79.7 |
| Investment income | **0.2** | 0.3 |
| Third-party servicing | **1.9** | 2.1 |
| Rental income and other *(Note 12)* | **2.8** | 3.2 |
| **Revenues from other sources** | **4.9** | 5.6 |
| **Total revenues** | **51.0** | 85.3 |

## 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) | **2020** | **2019** |
|---|---|---|
| Operating loss before funding from the Government of Canada and income taxes | **151.7** | 109.5 |
| Items requiring operating funds: | | |
| Income tax expense | **0.1** | 0.1 |
| Items (not requiring) not providing operating funds: | | |
| Depreciation of property, plant and equipment | **(17.8)** | (18.9) |
| Depreciation of right-of-use assets | **(0.9)** | (0.8) |
| Amortization of intangible assets | **(5.7)** | (6.4) |
| Loss on disposal of property, plant and equipment | **-** | (0.3) |
| Post-employment and other employee benefits contributions in excess of expenses | **(6.1)** | (1.4) |
| Unrealized (net loss) net gain on derivative financial instruments | **(13.6)** | 5.7 |
| Non-cash transactions relating to lease liabilities | **0.9** | 0.9 |
| Interest expense on lease liabilities | **(0.2)** | (0.2) |
| Adjustment for accrued compensation | **(3.6)** | (3.6) |
| Adjustment for VIA Préférence | **(0.3)** | (0.1) |
| Other | **0.3** | (0.3) |
| **Operating funding from the Government of Canada** | **104.8** | 84.2 |

## 7. Trade and Other Receivables

The trade and other receivables balance includes the following:

| (in millions of Canadian dollars) | March 31, 2020 | December 31, 2019 |
|---|---|---|
| Trade | 3.6 | 3.5 |
| Other receivables | 3.5 | 4.3 |
| Loss allowance | (0.5) | (0.2) |
| **Trade and other receivables classified at Amortized cost** | 6.6 | 7.6 |
| Amount receivable from the Government of Canada – Operating funding | 8.9 | 36.1 |
| Amount receivable from the Government of Canada – Capital funding *(Note 17)* | 37.4 | 43.0 |
| Sales taxes | 11.8 | 1.1 |
| **Total trade and other receivables** | 64.7 | 87.8 |

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

The net book value of the past due receivables of the Corporation is $1.8 million (December 31, 2019: $1.5 million) at the closing date. The maturity of these receivables is detailed in the following table:

| (in millions of Canadian dollars) | March 31, 2020 | December 31, 2019 |
|---|---|---|
| Not impaired and past due by: | | |
| 0 to 30 days | 0.7 | 1.1 |
| 31 to 60 days | 0.8 | 0.3 |
| 61 to 90 days | 0.2 | - |
| Over 90 days | 0.1 | 0.1 |
| **Total** | 1.8 | 1.5 |

The Corporation has recognized in the current period an amount of $0.4 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, 2019: $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. 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 values of the derivative financial instruments are as follows:

| | March 31, 2020 | | December 31, 2019 | |
|---|---|---|---|---|
| **Commodity swaps** | **Notional quantity** (000's of U.S. gallons) | **Fair value CAD** (millions) | **Notional quantity** (000's of U.S. gallons) | **Fair value CAD** (millions) |
| **Total assets** | - | - | 10,584 | 0.8 |
| **Total liabilities** | **15,666** | **14.3** | 7,560 | 1.5 |

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

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

## 9. Property, Plant and Equipment

| (in millions of Canadian dollars) | Land | Rolling stock | Maintenance buildings | Stations and facilities *(Note 1)* | Owned infrastructures | Leasehold improvements | Machinery and equipment | Computer hardware | Other property, plant and equipment | Projects in progress | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Cost:** | | | | | | | | | | | |
| January 1, 2020 | 17.0 | 958.1 | 173.2 | 165.0 | 307.2 | 95.8 | 33.9 | 48.5 | 9.3 | 178.6 | 1,986.6 |
| Additions | - | - | - | - | - | - | - | - | - | 52.7 | 52.7 |
| Disposals | - | - | (0.1) | - | - | - | - | - | - | - | (0.1) |
| Transfers | - | - | 0.3 | 0.2 | 0.2 | - | - | 0.1 | - | (0.8) | - |
| **Total cost** | 17.0 | 958.1 | 173.4 | 165.2 | 307.4 | 95.8 | 33.9 | 48.6 | 9.3 | 230.5 | 2,039.2 |
| **Accumulated depreciation and impairment:** | | | | | | | | | | | |
| January 1, 2020 | - | 586.1 | 108.9 | 54.4 | 105.4 | 53.1 | 19.6 | 32.4 | 3.5 | - | 963.4 |
| Additions | - | 10.0 | 0.6 | 1.7 | 2.4 | 0.9 | 0.5 | 1.5 | 0.2 | - | 17.8 |
| Disposals | - | - | (0.1) | - | - | - | - | - | - | - | (0.1) |
| **Total accumulated depreciation and impairment** | - | 596.1 | 109.4 | 56.1 | 107.8 | 54.0 | 20.1 | 33.9 | 3.7 | - | 981.1 |
| **Total carrying amount** | **17.0** | **362.0** | **64.0** | **109.1** | **199.6** | **41.8** | **13.8** | **14.7** | **5.6** | **230.5** | **1,058.1** |

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

## 10. Intangible Assets

| (in millions of Canadian dollars) | External software | In-house developed software | Right of access to rail infrastructure | Other intangible assets | Projects in progress | Total |
|---|---|---|---|---|---|---|
| **Cost:** | | | | | | |
| January 1, 2020 | 109.5 | 7.8 | 438.2 | 5.4 | 6.8 | 567.7 |
| Additions | - | - | - | - | 3.7 | 3.7 |
| Disposals | - | - | - | - | - | - |
| Transfers | 0.1 | - | - | - | (0.1) | - |
| **Total cost** | 109.6 | 7.8 | 438.2 | 5.4 | 10.4 | 571.4 |
| **Accumulated amortization and impairment:** | | | | | | |
| January 1, 2020 | 87.1 | 7.8 | 124.6 | 3.0 | - | 222.5 |
| Additions | 2.6 | - | 3.0 | 0.1 | - | 5.7 |
| Disposals | - | - | - | - | - | - |
| **Total accumulated amortization and impairment** | 89.7 | 7.8 | 127.6 | 3.1 | - | 228.2 |
| **Total carrying amount** | **19.9** | **-** | **310.6** | **2.3** | **10.4** | **343.2** |

## 11. Trade and Other Payables

The trade and other payables balance includes the following:

| (in millions of Canadian dollars) | March 31, 2020 | December 31, 2019 |
|---|---|---|
| Wages payable and accrued | **50.8** | 46.5 |
| Accounts payable and accruals – Trade | **32.9** | 38.9 |
| Accounts payable and accruals – Capital assets | **64.1** | 63.3 |
| **Trade and other payables classified at Amortized cost** | **147.8** | 148.7 |
| Capital tax, income tax and other taxes payable | **7.4** | 6.9 |
| Deductions at sources | **0.2** | 3.0 |
| **Total trade and other payables** | **155.4** | 158.6 |

## 12. Leases

### The Corporation as a lessee:

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

| (in millions of Canadian dollars) | Land | Office spaces | Stations and facilities | Information technology equipment | Total |
|---|---|---|---|---|---|
| **Cost:** | | | | | |
| January 1, 2020 | 0.5 | 10.0 | 23.4 | 1.7 | 35.6 |
| **Total cost** | 0.5 | 10.0 | 23.4 | 1.7 | 35.6 |
| **Accumulated depreciation:** | | | | | |
| January 1, 2020 | - | 1.7 | 1.1 | 0.5 | 3.3 |
| Additions | - | 0.5 | 0.3 | 0.1 | 0.9 |
| **Total accumulated depreciation** | - | 2.2 | 1.4 | 0.6 | 4.2 |
| **Net carrying amount** | **0.5** | **7.8** | **22.0** | **1.1** | **31.4** |

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

| **Quarters ended March 31** (in millions of Canadian dollars) | **2020** | **2019** |
|---|---|---|
| Expense relating to short-term leases | **1.5** | 0.4 |
| Expense relating to low-value assets | **-** | - |

Total cash outflow is $2.4 million (March 31, 2019: $1.1 million).

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

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

| (in millions of Canadian dollars) | **March 31, 2020** | **December 31, 2019** |
|---|---|---|
| Balance, beginning of period | **33.1** | 35.0 |
| Additions | **-** | 0.6 |
| Accretion of interest | **0.2** | 1.0 |
| Payments | **(0.9)** | (3.5) |
| **Balance, end of period** | **32.4** | 33.1 |
| Current | **2.8** | 2.8 |
| Non-current | **29.6** | 30.3 |
| **Total lease liabilities** | **32.4** | 33.1 |

## 13. Provisions

The provisions balance includes the following:

| (in millions of Canadian dollars) | January 1, 2020 | Additional provisions recognized | Provisions utilized | Unused amounts reversed | March 31, 2020 |
|---|---|---|---|---|---|
| Environmental costs | 0.6 | - | - | - | **0.6** |
| Litigation and equipment repairs *(Note 1)* | 7.8 | 0.9 | (0.6) | (0.5) | **7.6** |
| **Total provisions** | 8.4 | 0.9 | (0.6) | (0.5) | **8.2** |

**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, 2020 | December 31, 2019 |
|---|---|---|
| Advance ticket sales | **14.5** | 21.4 |
| VIA Préférence | **11.5** | 11.2 |
| Non-monetary transactions | **1.5** | 1.5 |
| Gift cards | **1.7** | 1.8 |
| Other | **1.7** | 2.0 |
| **Total deferred revenues** | **30.9** | 37.9 |

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

There were no other significant changes in the contract liability balances during the reporting period.

## 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.

### Pension plans

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

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

### Employees entitled to a defined benefit pension

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

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

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

### Employees entitled to a hybrid pension plan

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

**i) Defined benefit component**

Pension benefits under the reduced formula are based on years of 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.

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

**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.

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

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

### Employees entitled to a defined contributions pension

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

The retirement income is based on the accumulation of funds in the individual's 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, 2019, except for the discount rate used to determine the defined benefit obligation that has increased to 3.80 per cent (December 31, 2019: 3.10 per cent) and the discount rate used to determine the defined benefit cost that has decreased to 3.10 per cent (December 31, 2019: 3.90 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, 2019, except for the discount rate used to determine the defined benefit obligation that has increased to 3.80 per cent (December 31, 2019: 3.10 per cent) and the discount rate used to determine the defined benefit cost that has decreased to 3.10 per cent (December 31, 2019: 4.00 per cent).

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, 2020** | **December 31, 2019** | **March 31, 2020** | **December 31, 2019** |
| DEFINED BENEFIT OBLIGATION: | | | | |
| **Balance, beginning of period** | **2,535.3** | 2,284.0 | **26.1** | 22.1 |
| Service cost | **9.0** | 27.8 | **0.1** | 0.3 |
| Past service cost | **-** | - | **-** | 0.2 |
| Interest expense | **24.0** | 88.0 | **0.2** | 0.9 |
| Employee contributions | **3.3** | 14.1 | **-** | - |
| Benefits paid | **(35.7)** | (135.1) | **(0.2)** | (0.7) |
| Effect of change in demographic assumptions | **-** | (1.2) | **-** | - |
| Effect of change in financial assumptions | **(223.2)** | 257.7 | **(2.8)** | 3.2 |
| Effect of experience adjustments | **-** | - | **-** | 0.1 |
| **Balance, end of period** | **2,312.7** | 2,535.3 | **23.4** | 26.1 |
| FAIR VALUE OF PLAN ASSETS: | | | | |
| **Balance, beginning of period** | **2,506.4** | 2,301.4 | **-** | - |
| Interest income | **23.7** | 87.8 | **-** | - |
| Return on plan assets (excluding interest income) | **(148.9)** | 219.3 | **-** | - |
| Employer contributions | **4.6** | 21.1 | **0.2** | 0.7 |
| Employee contributions | **3.3** | 14.1 | **-** | - |
| Benefits paid | **(35.7)** | (135.1) | **(0.2)** | (0.7) |
| Administration expenses | **(1.2)** | (2.2) | **-** | - |
| **Balance, end of period** | **2,352.2** | 2,506.4 | **-** | - |
| **Net defined benefit (asset) liability** | **(39.5)** | 28.9 | **23.4** | 26.1 |

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

## 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, 2019 except for the discount rate used to determine the benefit cost that has decreased to 2.90 per cent (December 31, 2019: 3.60 per cent). The discount rate used to determine the long-term employee benefit obligation remains unchanged.

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, 2020 | December 31, 2019 |
|---|---|---|
| LONG-TERM EMPLOYEE BENEFIT OBLIGATION: | | |
| **Balance, beginning of period** | **19.2** | 17.3 |
| Service cost | **1.0** | 3.5 |
| Interest expense | **0.1** | 0.6 |
| Benefits paid | **(1.0)** | (5.4) |
| Effect of change in demographic assumptions | **-** | 0.8 |
| Effect of change in financial assumptions | **-** | (2.2) |
| Effect of experience adjustments | **-** | 4.6 |
| **Balance, end of period** | **19.3** | 19.2 |
| FAIR VALUE OF PLAN ASSETS: | | |
| **Balance, beginning of period** | **-** | - |
| Employer contributions | **1.0** | 5.4 |
| Benefits paid | **(1.0)** | (5.4) |
| **Balance, end of period** | **-** | - |
| **Net long-term employee benefit liability** | **19.3** | 19.2 |

### 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, 2020** | **December 31, 2019** |
|---|---|---|
| OTHER LONG-TERM EMPLOYEE BENEFIT OBLIGATION: | | |
| **Balance, beginning of period** | **0.3** | 0.4 |
| Service cost | **-** | 0.3 |
| Benefits paid | **-** | (0.4) |
| **Balance, end of period** | **0.3** | 0.3 |
| FAIR VALUE OF PLAN ASSETS: | | |
| **Balance, beginning of period** | **-** | - |
| Employer contributions | **-** | 0.4 |
| Benefits paid | **-** | (0.4) |
| **Balance, end of period** | **-** | - |
| **Net other long-term employee benefit liability** | **0.3** | 0.3 |

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

### 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, 2020 | December 31, 2019 |
|---|---|---|
| **Assets:** | | |
| Defined benefit component of the pension plans | **44.3** | 4.4 |
| **Liabilities:** | | |
| Defined benefit component of the pension plans | **4.8** | 33.3 |
| Post-employment benefit plans | **23.4** | 26.1 |
| Long-term employee benefit plans | **19.3** | 19.2 |
| Other long-term employee benefits | **0.3** | 0.3 |
| **Total employee benefit liabilities** | **47.8** | 78.9 |

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

| **Quarters ended March 31** (in millions of Canadian dollars) | 2020 | 2019 |
|---|---|---|
| **Operating expenses:** | | |
| Defined benefit component of the pension plans | **10.5** | 8.1 |
| Post-employment benefit plans | **0.3** | 0.3 |
| Long-term employee benefit plans | **1.1** | 1.1 |
| Other long-term employee benefits | **-** | 0.1 |
| **Total** | **11.9** | 9.6 |

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) | 2020 | 2019 |
|---|---|---|
| **Other comprehensive income (loss):** | | |
| Defined benefit component of the pension plans | **74.3** | (38.3) |
| Post-employment benefit plans | **2.8** | - |
| **Total** | **77.1** | (38.3) |

## 16. Deferred Capital Funding

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

| (in millions of Canadian dollars) | March 31, 2020 | December 31, 2019 |
|---|---|---|
| **Balance, beginning of period** | **1,407.0** | 1,257.0 |
| Government funding for property, plant and equipment and intangible assets (including the cost of land) | **52.9** | 204.1 |
| Government funding for an advance on contract | **2.5** | 63.6 |
| **Total Government funding for property, plant and equipment, intangible assets and advance on contract** | **55.4** | 267.7 |
| Amortization of deferred capital funding | **(23.3)** | (117.7) |
| **Balance, end of period** | **1,439.1** | 1,407.0 |

## 17. Supplemental Cash Flows Information

### Net change in working capital items:

| **Quarters ended March 31** (in millions of Canadian dollars) | 2020 | 2019 |
|---|---|---|
| Trade and other receivables | **17.6** | (20.3) |
| Other assets | **(2.4)** | (0.8) |
| Materials | **(0.9)** | (0.8) |
| Trade and other payables | **(4.0)** | (1.0) |
| Provisions | **(0.2)** | 0.7 |
| Deferred revenues | **(7.0)** | 9.8 |
| **Total** | **3.1** | (12.4) |

The change in trade and other receivables excludes an amount of ($5.6) million (March 31, 2019: ($21.1) 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 ($1.7) million (March 31, 2019: ($15.2) million) in relation to the acquisition of property, plant and equipment and intangible assets, as this amount relates to investing activities. As at March 31, 2020, the change in trade and other payables also excludes an amount of 2.5 million in relation with an advance on contract, as this amount is relating to investing activities (March 31, 2019: ($54.8) million).

## 17. Supplemental Cash Flows Information (cont'd)

### Investing activities supplemental information:

| **Quarters ended March 31** (in millions of Canadian dollars) | **2020** | **2019** |
|---|---|---|
| Acquisition of property, plant and equipment and intangible assets | **(56.4)** | (24.2) |
| **Total acquisition of property, plant and equipment, intangible assets** | **(56.4)** | (24.2) |
| Advance on contract transferred in work in progress | **1.9** | – |
| Change in accounts payable and accruals – Capital assets | **(1.7)** | (15.2) |
| Change in other payables | **1.6** | – |
| **Total cash out for acquisition of property, plant and equipment and intangible assets** | **(54.6)** | (39.4) |
| | | |
| Government funding invoiced for property, plant and equipment and intangible assets | **52.9** | 24.2 |
| Change in amount receivable from the Government of Canada – Capital funding | **5.6** | 21.1 |
| **Total Government funding received for property, plant and equipment and intangible assets** | **58.5** | 45.3 |

## 18. Financial Risks

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

## 19. Commitments

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

| | March 31, 2020 | | | | December 31, 2019 |
|---|---|---|---|---|---|
| (in millions of Canadian dollars) | Total commitments | Less than 1 year | From 1 to 5 years | More than 5 years | Total commitments |
| **COMMITMENTS RELATING TO OPERATIONS:** | | | | | |
| Non-cancellable leases: Lessee | **12.5** | 2.7 | 7.9 | 1.9 | 13.1 |
| Technical service | **356.1** | - | 20.9 | 335.2 | 356.1 |
| **Total** | **368.6** | 2.7 | 28.8 | 337.1 | 369.2 |
| **COMMITMENTS RELATING TO MAJOR CAPITAL INVESTMENTS:** | | | | | |
| Rolling stock | **894.2** | 144.1 | 750.1 | - | 935.2 |
| Maintenance buildings | **-** | - | - | - | 0.2 |
| Stations and facilities | **2.8** | 2.8 | - | - | 4.7 |
| Owned infrastructures | **4.7** | 4.7 | - | - | 6.3 |
| Software | **5.1** | 5.1 | - | - | 5.1 |
| Computer hardware | **3.0** | 1.3 | 1.7 | - | 3.1 |
| **Total** | **909.8** | 158.0 | 751.8 | - | 954.6 |
| **Total commitments** | **1,278.4** | 160.7 | 780.6 | 337.1 | 1,323.8 |

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

**b)** The Corporation has provided letters of credit from a financial institution totaling approximately $24.2 million (December 31, 2019: $24.2 million) to various provincial government workers' compensation boards as security for future payment streams.

## 20. Events After the Reporting Period

### Global Coronavirus Pandemic

#### Suspension of operations after the quarter:

On May 6, 2020, in light of the continued expansion of travel limitations as well as the widening of physical distancing and isolation measures, and due to infrastructure issues, the Corporation extended the suspension of the operations of the *Canadian* (service between Toronto and Vancouver) until November 2020. The Prince Rupert – Prince George-Jasper service was suspended until June 12, 2020, due to continued infrastructure issues.

On May 6, 2020, in light of the evolving situation with regards to COVID-19 and due to infrastructures issues, the Corporation extended the suspension of the *Ocean* (Montréal-Halifax) until November 2020.

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

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

Since passenger revenues are decreasing and refunds for advance ticket sales made before March 31, 2020 are increasing, the Corporation is receiving less cash from its operations and is strongly relying on the government funding. Consistent with the decline in revenues, during April 2020, the Corporation has reduced train services to minimize costs and has also reduced the hours of some furloughed employees until further notice. These employees will continue to be provided with health benefits and will continue to accumulate pension in proportion of the hours paid.

### Decline in fair value of employee benefit assets:

Since December 31, 2019, the outbreak of COVID-19 and related global responses have caused material disruptions to businesses around the world, leading to an economic slowdown. Global equity markets have experienced significant volatility and weakness. Although as at March 31, 2020, the employee benefit assets have increased compared to December 31, 2019 due to the increase in discount rates, the fair value of the investments has decreased. Should capital markets fail to recover to some extent later in the year and discount rates decrease, employee benefit liabilities for 2020 and subsequent years would increase as well as pension cost for future years.

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

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