VIA Rail Canada

Third Quarter Report 2021

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 and the nine-month period ended September 30, 2021 compared with the quarter and the nine-month period ended September 30, 2020. This document should be read in conjunction with the interim condensed financial statements and notes.

Materiality

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

Forward-Looking Statement Disclosure

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

2. Corporate Overview

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

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

3. COVID-19 Pandemic

The Corporation, as well as all other passenger transportation providers, remains significantly affected by the COVID-19 pandemic. The Corporation's levels of operations are still below pre-pandemic levels but are higher as compared to those of the corresponding quarter in 2020. Capacity has increased by more than 80 per cent in terms of train-miles, and by 128 per cent in terms of seat-miles.

On a cumulative basis, capacity has increased by 12.5 per cent in terms of train-miles but have decreased by 43.3 per cent in terms of seat-miles.

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

4. Highlights of Financial Results and Major Key Operating Statistics

	Quarters ended September 30				Nine-month periods ended September 30			
(in millions of Canadian dollars)	**2021**	**2020**	**Var $**	**Var %**	**2021**	**2020**	**Var $**	**Var %**
Financial Performance								
Passenger revenues *(section 5.2)*	**44.0**	15.5	28.5	183.9%	**64.7**	63.9	0.8	1.3%
Other revenues	**3.4**	3.7	(0.3)	(8.1%)	**11.0**	12.0	(1.0)	(8.3%)
Total revenues	**47.4**	19.2	28.2	146.9%	**75.7**	75.9	(0.2)	(0.3%)
Operating expenses *(section 5.3)*	**164.0**	148.9	15.1	10.1%	**434.2**	496.4	(62.2)	(12.5%)
Operating loss before funding from the Government of Canada and income taxes *(section 5.1)*	**(116.6)**	(129.7)	13.1	10.1%	**(358.5)**	(420.5)	62.0	14.7%
Net income (loss) for the period	**0.2**	(8.9)	9.1	102.2%	**2.6**	(28.0)	30.6	109.3%
Remeasurements of defined benefit components of the pension plans and post-employment benefit plans	**30.0**	16.2	13.8	85.2%	**284.9**	(40.3)	325.2	806.9%
Comprehensive income (loss) for the period	**30.2**	7.3	22.9	313.7%	**287.5**	(68.3)	355.8	520.9%
Financial Position and Cash Flows								
Total assets *(section 5.4)*	**1,989.6**	1,685.7	303.9	18.0%	**1,989.6**	1,685.7	303.9	18.0%
Total liabilities and deferred capital funding *(section 5.4)*	**1,861.0**	1,844.5	16.5	0.9%	**1,861.0**	1,844.5	16.5	0.9%
Cash *(section 5.5)*	**27.7**	15.7	12.0	76.4%	**27.7**	15.7	12.0	76.4%
Net cash (used in) provided by operating activities *(section 5.5)*	**-**	(35.4)	35.4	100.0%	**46.8**	(40.1)	86.9	216.7%
Net cash (used in) provided by investing activities *(section 5.5)*	**(2.2)**	15.9	(18.1)	(113.8%)	**(29.3)**	54.5	(83.8)	(153.8%)
Net cash (used in) financing activities *(section 5.5)*	**(0.6)**	(0.7)	0.1	14.3%	**(2.0)**	(2.1)	0.1	4.8%
Government Funding								
Operating funding *(section 5.1)*	**89.0**	91.0	(2.0)	(2.2%)	**282.5**	315.4	(32.9)	(10.4%)
Capital funding *(section 5.5)*	**59.2**	46.8	12.4	26.5%	**154.3**	187.0	(32.7)	(17.5%)
Total Government Funding	**148.2**	**137.8**	**10.4**	**7.5%**	**436.8**	**502.4**	**(65.6)**	**(13.1%)**
Key Operating Statistics								
Train-miles operated *(in thousands)*	**1,059**	588	471	80.1%	**2,366**	2,104	262	12.5%
Seat-miles *(in millions)*	**223**	98	125	127.6%	**380**	397	(17)	(4.3%)
Passengers-miles *(in millions)*	**119**	50	69	138.0%	**183**	187	(4)	(2.1%)
Passengers *(in thousands)*	**535**	246	289	117.5%	**835**	949	(114)	(12.0%)
Average passenger load factor *(%)*	**54**	51	3	5.9%	**48**	47	1	2.1%
RASM *(revenue per available seat-mile) (in cents) – Note 1*	**21.21**	19.18	2.03	10.6%	**19.84**	18.94	0.90	4.8%
CASM *(cost per available seat-mile) (in cents) – Note 1*	**61.12**	112.04	(50.9)	(45.4%)	**94.18**	98.39	(4.2)	(4.3%)
Cost recovery ratio *(%) – Note 1*	**34.7**	17.1	17.6	102.9%	**21.1**	19.3	1.8	9.3%
Operating deficit per passenger-mile *(in cents) – Note 1*	**74.8**	182.0	(107.2)	(58.9%)	**154.4**	168.7	(14.3)	(8.5%)
On-time performance *(%)*	**65**	51	14	27.5%	**75**	67	8	11.9%

(Amounts in bracket represent decreases)

Note 1: based on funded results

Financial Highlights – Third Quarter

- Total revenues increased by 146.9 per cent resulting from an increase in frequencies led by higher demand.
- Operating expenses increased by 10.1 per cent primarily due to the increase in frequencies.
- The operating loss decreased by 10.1 per cent due to an increase in revenues partly offset by an increase in operating expenses.
- Operating funding decreased by 2.2 per cent, reflecting the lower amounts required for funded activities.
- The Corporation generated a comprehensive income of $30.2 million compared to a comprehensive income of $7.3 million in 2020. The variation is due to the remeasurements of the defined benefit components of the pension plans and post-employment benefit plans.

Nine-Month Period

- Total revenues decreased by 0.3 per cent. Although passenger revenues have slightly increased reflecting the fact that frequencies have increased steadily since the beginning of 2021 whereas in 2020 service levels decreased sharply in March due to the impact of COVID-19, other revenues have decreased.
- Operating expenses decreased by 12.5 per cent, reflecting the impact of cost containment measures implemented in 2020 such as the lay-off of employees and postponement of nonessential initiatives.
- The operating loss decreased by 14.7 per cent as the decrease in operating expenses was greater than the decrease in revenues.
- Operating funding decreased by 10.4 per cent, reflecting the lower amounts required for funded activities.
- The Corporation generated a comprehensive income of $287.5 million compared to a comprehensive loss of ($68.3) million in 2020. The variation is due to the remeasurements of the defined benefit components of the pension plans and post-employment benefit plans.

Most of the key operating statistics were positively impacted during the third quarter due to the increase in frequencies. On a cumulative basis, most of the key operating statistics remain negatively impacted by the pandemic. On-time performance increased during the quarter and on a cumulative basis as a result of the Corporation's reduced operating levels which generated less congestion on the host rail network.

5. Analysis of Financial Results
5.1 Comparison of IFRS and Funded Operating Results

	Quarters ended September 30				Nine-month periods ended September 30			
(in millions of Canadian dollars)	**2021**	**2020**	**Var $**	**Var %**	**2021**	**2020**	**Var $**	**Var %**
Operating loss on a funded basis	**(89.0)**	**(91.0)**	**2.0**	**2.2%**	**(282.5)**	**(315.4)**	**32.9**	**10.4%**
NON-FUNDED ADJUSTMENT TO REVENUES								
Adjustment for VIA Préférence points and other	**0.1**	0.4	(0.3)	(75.0%)	**0.3**	0.7	(0.4)	(57.1%)
NON-FUNDED ADJUSTMENTS TO EXPENSES								
Pension and other employee future benefits	**(3.0)**	(6.5)	3.5	53.8%	**(8.1)**	(19.1)	11.0	57.6%
Depreciation of property, plant and equipment, amortization of intangible assets, depreciation of right-of-use assets and loss on disposal	**(28.9)**	(30.9)	2.0	6.5%	**(81.8)**	(80.4)	(1.4)	(1.7%)
Other provisions for non-cash items	**4.2**	(1.7)	5.9	347.1%	**13.6**	(6.3)	19.9	315.9%
Total non-funded adjustments to expenses	**(27.7)**	(39.1)	11.4	29.2%	**(76.3)**	(105.8)	29.5	27.9%
Total items not requiring funds from operations	**(27.6)**	**(38.7)**	**11.1**	**28.7%**	**(76.0)**	**(105.1)**	**29.1**	**27.7%**
Operating loss under IFRS	**(116.6)**	**(129.7)**	**13.1**	**10.1%**	**(358.5)**	**(420.5)**	**62.0**	**14.7%**
Operating funding from the Government of Canada	**89.0**	91.0	(2.0)	(2.2%)	**282.5**	315.4	(32.9)	(10.4%)
Amortization of deferred capital funding	**27.8**	29.8	(2.0)	(6.7%)	**78.8**	77.3	1.5	1.9%
Net income (loss) before income tax	**0.2**	**(8.9)**	**9.1**	**102.2%**	**2.8**	**(27.8)**	**30.6**	**110.1%**
Income tax expense	**-**	-	-	n/a	**0.2**	0.2	-	0.0%
Net income (loss) under IFRS for the period	**0.2**	**(8.9)**	**9.1**	**102.2%**	**2.6**	**(28.0)**	**30.6**	**109.3%**
Remeasurements of the defined benefit component of the pension plans and post-employment benefit plans	**30.0**	16.2	13.8	85.2%	**284.9**	(40.3)	325.2	806.9%
Comprehensive income (loss) for the period	**30.2**	**7.3**	**22.9**	**313.7%**	**287.5**	**(68.3)**	**355.8**	**520.9%**

(Amounts in bracket represent decreases)

Net income (loss) under IFRS for the quarter:

Net income of $0.2 million this quarter, compared to a net loss of $8.9 million last year, representing an improvement of $9.1 million mainly due to:

- Lower operating loss ($13.1 million), attributable to higher revenues of $28.2 million partly offset by higher operating expenses of $15.1 million.
- Lower amortization of deferred capital funding ($2.0 million).
- Lower government funding recognized during the quarter ($2.0 million).

Net income (loss) under IFRS for the nine-month period:

Net income of $2.6 million for the nine-month period, compared to a net loss of $28.0 million last year, representing an improvement of $30.6 million mainly due to:

- Lower operating loss ($62.0 million), attributable to lower expenses of $62.2 million partly offset by lower revenues of $0.2 million.
- Higher amortization of deferred capital funding ($1.5 million).
- Partly offset by lower government funding recognized during the nine-month period ($32.9 million).

Comprehensive income (loss)

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

Comprehensive income of $30.2 million in the third quarter of 2021 and comprehensive income of $287.5 million for the nine-month period ended September 30, 2021, include the following:

Remeasurement of the defined benefit component of the pension plans and post-employment benefit plans of $30.0 million in the third quarter of 2021 is due to an actuarial gain of $37.8 million on the defined benefit obligation arising from a 10 basis point increase in the discount rate since June 30, 2021, partly offset by a remeasurement loss of $8.1 million resulting from a lower actual rate of return on plan assets. The remeasurement also includes an actuarial gain of $0.3 million due to the increase in the discount rate used to determine the post-employment benefit obligation.

The remeasurement of the defined benefit component of the pension plans and post-employment benefit plans of ($284.9) million for the nine-month period is due to the increase in the discount rate used to determine the defined benefit obligation (3.20 per cent as at September 30, 2021, compared to 2.50 per cent as at December 31, 2020), which resulted in an actuarial gain of $261.4 million, combined with a return on plan assets of $20.6 million during the period. The remeasurement also includes an actuarial gain of $2.9 million due to the increase in the discount rate used to determine the post-employment benefit obligation (3.30 per cent as at September 30, 2021, compared to 2.60 per cent as at December 31, 2020).

Comprehensive income of $7.3 million in the third quarter of 2020 and comprehensive loss of $68.3 million for the nine-month period ended September 30, 2020, include the following:

Remeasurement of the defined benefit component of the pension plans and post-employment benefit plans of $16.2 million in the third quarter of 2020 is due to an actuarial loss of $36.7 million on the defined benefit obligation arising from a 10 basis point decrease in the discount rate since June 30, 2020, and to a remeasurement gain of $52.9 million resulting from higher actual rate of return on plan assets.

The remeasurement of the defined benefit component of the pension plans and post-employment benefit plans of ($40.3) million for the nine-month period is due to the decrease in the discount rate used to determine the defined benefit obligation (2.70 per cent as at September 30, 2020, compared to 3.10 per cent as at December 31, 2019), which resulted in an actuarial loss of $143.8 million, partly offset by a return on plan assets of $104.9 million during the period. The remeasurement also includes an actuarial loss of $1.4 million due to the decrease in the discount rate used to determine the post-employment benefit obligation (2.80 per cent as at September 30, 2020, compared to 3.10 per cent as at December 31, 2019).

5.2 Revenues

(in millions of Canadian dollars)	Quarters ended September 30 2021	2020	Var $	Var %	Nine-month periods ended September 30 2021	2020	Var $	Var %
Passenger revenues								
Corridor East	**34.3**	12.3	22.0	178.9%	**49.7**	44.1	5.6	12.7%
Southwestern Ontario (SWO)	**5.5**	2.3	3.2	139.1%	**8.7**	10.5	(1.8)	(17.1%)
Québec City – Windsor Corridor	**39.8**	**14.6**	**25.2**	**172.6%**	**58.4**	**54.6**	**3.8**	**7.0%**
Ocean	**0.7**	-	0.7	n/a	**0.7**	1.1	(0.4)	(36.4%)
Canadian	**2.5**	-	2.5	n/a	**3.1**	3.1	-	0.0%
Regional services	**0.5**	0.4	0.1	25.0%	**0.9**	1.0	(0.1)	(10.0%)
Non-Corridor	**3.7**	**0.4**	**3.3**	**825.0%**	**4.7**	**5.2**	**(0.5)**	**(9.6%)**
Other	**0.5**	0.5	-	0.0%	**1.6**	4.1	(2.5)	(61.0%)
Total passenger revenues under IFRS	**44.0**	**15.5**	**28.5**	**183.9%**	**64.7**	**63.9**	**0.8**	**1.3%**
Other revenues	**3.4**	3.7	(0.3)	(8.1%)	**11.0**	12.0	(1.0)	(8.3%)
Total revenues under IFRS	**47.4**	**19.2**	**28.2**	**146.9%**	**75.7**	**75.9**	**(0.2)**	**(0.3%)**
Adjustment for VIA Préférence points (non-funded) and other	**(0.1)**	(0.4)	0.3	75.0%	**(0.3)**	(0.7)	0.4	57.1%
TOTAL FUNDED REVENUES	**47.3**	**18.8**	**28.5**	**151.6%**	**75.4**	**75.2**	**0.2**	**0.3%**

(Amounts in bracket represent decreases)

Passengers

(in thousands)	Quarters ended September 30 2021	2020	Var #	Var %	Nine-month periods ended September 30 2021	2020	Var #	Var %
Passengers								
Corridor East	**410.9**	185.6	225.3	121.4%	**625.6**	673.6	(48.0)	(7.1%)
Southwestern Ontario (SWO)	**103.1**	50.4	52.7	104.6%	**174.5**	240.1	(65.6)	(27.3%)
Québec City – Windsor Corridor	**514.0**	**236.0**	**278.0**	**117.8%**	**800.1**	**913.7**	**(113.6)**	**(12.4%)**
Ocean	**3.8**	-	3.8	n/a	**3.8**	8.2	(4.4)	(53.7%)
Canadian	**6.9**	-	6.9	n/a	**10.2**	5.7	4.5	78.9%
Regional services	**10.6**	10.0	0.6	6.0%	**20.9**	21.6	(0.7)	(3.2%)
Non-Corridor	**21.3**	**10.0**	**11.3**	**113.0%**	**34.9**	**35.5**	**(0.6)**	**(1.7%)**
TOTAL PASSENGERS	**535.3**	**246.0**	**289.3**	**117.6%**	**835.0**	**949.2**	**(114.2)**	**(12.0%)**

(Amounts in bracket represent decreases)

Passenger revenues

Passenger revenues have increased by $28.5 million (183.9 per cent) during the quarter and by $0.8 million (1.3 per cent) for the nine-month period. The increase during the quarter is associated to the additional capacity as compared to last year.

The COVID-19 outbreak was declared a pandemic on March 11, 2020, by the World Health Organization and has ever since significantly impacted the Corporation's operations which have been reduced. As a result, frequencies in 2020 were cancelled in most major train services and fully interrupted on others such as the *Ocean* and the *Canadian*. In 2021, frequencies in the Corridor have progressively increased but are still below pre-COVID levels. As for non-Corridor frequencies, some have been reintroduced.

Québec City – Windsor Corridor

Revenues have increased by $25.2 million (172.6 per cent) during the quarter as a result of increased frequencies which drew higher passenger levels (117.8 per cent), as well as improved average revenues (25.5 per cent). For the nine-month period, they have increased by $3.8 million (7.0 per cent) due to improved average revenues (22.1 per cent), partly offset by lower ridership (12.4 per cent).

Capacity (in terms of seat-miles offered) increased by 123.1 per cent compared to the corresponding quarter last year. On a cumulative basis, it decreased by 4.6 per cent.

Ocean

This service ceased operating in March 2020 and resumed on August 11, 2021. Revenues have consequently increased by $0.7 million for the quarter and have decreased by $0.4 million (36.4 per cent) for the nine-month period.

Canadian

The service was shut down in March 2020 because of the COVID-19 pandemic and did not operate during the quarter last year. The Winnipeg-Vancouver portion of the service was reintroduced in December 2020, operating at one weekly round-trip. The Toronto-Winnipeg segment was reintroduced on May 17, 2021.

Revenues for the quarter are therefore $2.5 million higher than last year.

On a cumulative basis, they have remained stable at $3.1 million.

Regional services

Revenues have increased by $0.1 million (25.0 per cent) for the quarter. Capacity in terms of seat-miles was increased by 24.2 per cent, ridership increased by 6.0 per cent and average revenues grew by 17.9 per cent.

For the nine-month period, they have decreased by $0.1 million (10.0 per cent), mainly because of the reduced frequencies and capacity (12.5 per cent fewer seat-miles).

Other revenues

Other revenues have decreased by $0.3 million (8.1 per cent) for the quarter and by $1.0 million (8.3 per cent) for the nine-month period. The decrease for the quarter is due to lower station lease revenues. The decrease for the nine-month period is also attributable to lower lease revenues as well as to lower parking revenues reflecting the decrease in ridership in the Corridor.

5.3 Operating Expenses

	Quarters ended September 30				Nine-month periods ended September 30			
(in millions of Canadian dollars)	**2021**	**2020**	**Var $**	**Var %**	**2021**	**2020**	**Var $**	**Var %**
Compensation and employee benefits	**70.9**	69.6	1.3	1.9%	**193.3**	228.1	(34.8)	(15.3%)
Train operations and fuel	**24.5**	13.9	10.6	76.3%	**58.2**	52.5	5.7	10.9%
Stations and property	**9.3**	8.3	1.0	12.0%	**30.4**	28.7	1.7	5.9%
Marketing and sales	**5.3**	3.3	2.0	60.6%	**10.0**	13.1	(3.1)	(23.7%)
Maintenance material	**7.5**	6.8	0.7	10.3%	**19.4**	24.0	(4.6)	(19.2%)
Professional services	**4.6**	1.3	3.3	253.8%	**9.5**	7.0	2.5	35.7%
Telecommunications	**5.2**	4.6	0.6	13.0%	**16.2**	16.3	(0.1)	(0.6%)
Depreciation and amortization	**26.1**	24.5	1.6	6.5%	**75.9**	73.6	2.3	3.1%
Loss on disposal of property, plant and equipment and intangible assets	**2.8**	6.4	(3.6)	(56.3%)	**5.9**	6.8	(0.9)	(13.2%)
Unrealized (net gain) net loss on derivative financial instruments	**(0.8)**	(1.2)	0.4	33.3%	**(6.9)**	8.7	(15.6)	(179.3%)
Other	**8.6**	11.4	(2.8)	(24.6%)	**22.3**	37.6	(15.3)	(40.7%)
Total operating expenses under IFRS	**164.0**	**148.9**	**15.1**	**10.1%**	**434.2**	**496.4**	**(62.2)**	**(12.5%)**
Non-funded adjustments *(section 5.1)*	**(27.7)**	(39.1)	11.4	29.2%	**(76.3)**	(105.8)	29.5	27.9%
Total funded expenses	**136.3**	**109.8**	**26.5**	**24.1%**	**357.9**	**390.6**	**(32.7)**	**(8.4%)**

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

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

- The reduction of its operating expenses in proportion to the level of operations,
- Employee layoffs,
- Reduction of services in stations, as well as
- Reduction of administrative costs and the postponement of nonessential 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 $15.1 million (10.1 per cent) for the quarter and decreased by $62.2 million (12.5 per cent) for the nine-month period. The primary variances are:

Compensation and employee benefits

The expenses increased by $1.3 million (1.9 per cent) during the quarter and decreased by $34.8 million (15.3 per cent) for the nine-month period. The increase during the quarter stems mainly from staffing costs associated to the increase in frequencies, partly offset by the impact of the employee layoffs made in August 2020.

The decrease for the nine-month period is mainly attributable to the impact of the employee layoffs made in August 2020.

Train operations and fuel

The expenses increased by $10.6 million (76.3 per cent) during the quarter and by $5.7 million (10.9 per cent) for the nine-month period. These increases are directly attributable to the increase in frequencies as train operations and fuel costs are closely correlated to service levels.

Marketing and sales

The expenses increased by $2.0 million (60.6 per cent) during the quarter and decreased by $3.1 million (23.7 per cent) for the nine-month period.

The increase for the quarter is due to the advertising campaigns launched to inform passengers of the reintroduction of frequencies in the Corridor. On a cumulative basis, however, advertising costs remain below those of 2020 when normal advertising campaigns were made during the first quarter prior to the pandemic.

Maintenance material

The expenses have increased by $0.7 million (10.3 per cent) for the quarter and have decreased by $4.6 million (19.2 per cent) for the nine-month period. Both the quarter increase and year to date decrease reflect the variation in service levels compared to last year as maintenance material costs are also somewhat correlated to service levels and number of cars in service.

Professional services

The expenses increased by $3.3 million (253.8 per cent) during the quarter and by $2.5 million (35.7 per cent) for the nine-month period. The increases for both the quarter and year to date expenses are related to the preparation of an asset registry report as part of our asset management program, higher consulting fees for the HFR project and higher costs for change management activities associated to capital projects.

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

The expenses decreased by $3.6 million (56.3 per cent) during the quarter and by $0.9 million (13.2 per cent) for the nine-month period.

The decreases are mostly due to the fact that assets replaced as part of capital projects have lower remaining book value therefore the amounts written off are lower compared to those of assets replaced last year.

Unrealized (net gain) net loss on derivative financial instruments

Net gain of $0.8 million for the quarter and net gain of $6.9 million for the nine-month period compared to a net gain of $1.2 million for the quarter ended September 30, 2020, and a net loss of $8.7 million for the nine-month period. Net gains for third quarter and the cumulative period ending September 30, 2021, reflects the fact that market fuel prices are higher than contract prices.

Last year, a gain was realized during the third quarter as market fuel prices were higher than contract prices, and losses were generated on a cumulative basis, as the market prices were lower than the contract prices.

5.4 Financial Position

(in millions of Canadian dollars)	September 30, 2021	December 31, 2020	Var $	Var %
ASSETS				
Current assets	**84.6**	79.0	5.6	7.1%
Advance on contract	**54.2**	57.5	(3.3)	(5.7%)
Property, plant and equipment	**1,248.6**	1,176.9	71.7	6.1%
Right-of-use assets	**31.0**	33.4	(2.4)	(7.2%)
Intangible assets	**345.3**	336.0	9.3	2.8%
Other	**1.4**	0.9	0.5	55.6%
Employee benefit assets	**224.5**	2.0	222.5	11,125.0%
Total assets	**1,989.6**	**1,685.7**	**303.9**	**18.0%**
LIABILITIES				
Current liabilities	**153.3**	159.0	(5.7)	(3.6%)
Other payables	**19.7**	16.8	2.9	17.3%
Lease liabilities	**30.4**	32.1	(1.7)	(5.3%)
Employee benefit liabilities	**43.5**	97.8	(54.3)	(55.5%)
Total liabilities	**246.9**	**305.7**	**(58.8)**	**(19.2%)**
Deferred capital funding	**1,614.1**	**1,538.8**	**75.3**	**4.9%**
Share capital	**9.3**	9.3	-	0.0%
Accumulated deficit, beginning of period	**(168.2)**	(146.2)	(22.0)	(15.0%)
Net income (loss)	**2.6**	(16.0)	18.6	116.3%
Other comprehensive income (loss)	**284.9**	(5.9)	290.8	4,928.8%
Accumulated surplus (deficit), end of period	**119.3**	**(168.1)**	**287.4**	**171.0%**
Total liabilities and shareholder's equity (deficiency)	**1,989.6**	**1,685.7**	**303.9**	**18.0%**

(Amounts in bracket represent decreases)

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

Assets

Total assets have increased by $303.9 million due mainly to an increase in employee benefit assets by $222.5 million because of the increase in the discount rate as well as an increase of $71.7 million resulting from acquisitions of property, plant and equipment.

Liabilities and deferred capital funding

Total liabilities have decreased by $58.8 million mainly due to a decrease in employee benefit liabilities by $54.3 million attributable to the increase in discount rates. Deferred capital funding has increased by $75.3 million due to capital investments.

Comprehensive income (loss)

Other comprehensive income increased due to the 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 September 30				Nine-month periods ended September 30			
(in millions of Canadian dollars)	**2021**	**2020**	**Var $**	**Var %**	**2021**	**2020**	**Var $**	**Var %**
Balance, beginning of period	**30.5**	35.9	(5.4)	(15.0%)	**12.2**	3.4	8.8	258.8%
Net cash (used in) provided by operating activities	**-**	(35.4)	35.4	100.0%	**46.8**	(40.1)	86.9	216.7%
Net cash (used in) provided by investing activities	**(2.2)**	15.9	(18.1)	(113.8%)	**(29.3)**	54.5	(83.8)	(153.8%)
Net cash (used in) financing activities	**(0.6)**	(0.7)	0.1	14.3%	**(2.0)**	(2.1)	0.1	4.8%
Balance, end of period	**27.7**	**15.7**	**12.0**	**76.4%**	**27.7**	**15.7**	**12.0**	**76.4%**

(Amounts in bracket represent decreases)

Operating activities

Net cash increased by $35.4 million (100.0 per cent) for the quarter and by $86.9 million (216.7 per cent) for the nine-month period. The increases are mainly due to the variance in working capital items ($29.5 million for the quarter and $82.9 million for the nine-month period), as shown in Note 18 of the interim condensed financial statements.

Investing activities

Net cash decreased by $18.1 million for the quarter and by $83.8 million for the nine-month period. These decreases are mainly due to the amount of government funding received during the quarter and the nine-month period which was lower than the amount of acquisition of property, plant and equipment and intangible assets.

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

Funded capital investments

Property, plant and equipment and intangible assets totalled to $1,593.9 million as at September 30, 2021, which is an increase of $81.0 million compared to the balance as at December 31, 2020.

Funded capital investments of $154.3 million were invested during the nine-month period.

	Quarters ended September 30				Nine-month periods ended September 30			
(in millions of Canadian dollars)	**2021**	**2020**	**Var $**	**Var %**	**2021**	**2020**	**Var $**	**Var %**
Equipment	**14.9**	6.0	8.9	148.3%	**44.5**	21.9	22.6	103.2%
Infrastructure	**1.7**	2.2	(0.5)	(22.7%)	**4.4**	6.2	(1.8)	(29.0%)
Information technology	**8.9**	3.3	5.6	169.7%	**23.7**	11.4	12.3	107.9%
Stations	**5.4**	4.7	0.7	14.9%	**11.3**	13.8	(2.5)	(18.1%)
Fleet Replacement Program	**25.7**	29.5	(3.8)	(12.9%)	**62.6**	127.4	(64.8)	(50.9%)
Other	**2.6**	1.1	1.5	136.4%	**7.8**	3.8	4.0	105.3%
Capital investments	**59.2**	**46.8**	**12.4**	**26.5%**	**154.3**	**184.5**	**(30.2)**	**(16.4%)**
Advance on contract – Fleet Replacement Program	**-**	-	-	n/a	**-**	2.5	(2.5)	(100.0%)
Total	**59.2**	**46.8**	**12.4**	**26.5%**	**154.3**	**187.0**	**(32.7)**	**(17.5%)**

(Amounts in bracket represent decreases)

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

6. Results compared to the 2020–2024 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, however, differ from the planned results because of the impacts of the COVID-19 pandemic, which include a sharp decrease in travel demand and the associated reduction 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 modernization, station upgrades and new reservation system.

7. Risk Analysis

This section highlights the Corporation's key risks which may have potential impact on the Corporation's financial results and provides information on risks for which the trend or status has changed compared to the status as at December 31, 2020.

As of September 30, 2021, there are no risks for which the trend or status has changed since December 31, 2020.

8. Outlook

The results of the third quarter have improved compared to the corresponding quarter last year as the impacts of the COVID-19 pandemic are less significant. Passenger demand is increasing, and frequencies are progressively being reintroduced.

There still remains uncertainty with regard to the end of the pandemic and the impact on passenger demand, management has therefore initiated and will continue to execute a demand-driven return to service plan which ensures that the reintroduction of frequencies is in line with passenger demand so that incremental costs associated to the increased services are limited. The reintroduction of frequencies in non-Corridor services which do not all cover their costs will, however, increase the Corporation's deficit. Management is continuing to closely monitor the situation and is in communication with Transport Canada concerning potential additional future funding requirements during this unprecedented and sustaining situation.

In the meantime, work continues on the implementation of initiatives to minimize operating costs such as the temporarily lay-offs of a portion of its workforce and the cancelling/delay of nonessential operational initiatives. Progress also continues on the Corporation's major transformation projects such as the Fleet Replacement Program, Heritage Program, High Frequency Rail (HFR) and the new reservation system.

Interim Condensed Financial Statements

Management's Responsibility Statement

Montréal, Canada
November 19, 2021

Quarter ended September 30, 2021

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 Corporation 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, CA
Chief Financial Officer

Interim Condensed Financial Statements

Statement of Financial Position

(in thousands of Canadian dollars)	**September 30, 2021** *(unaudited)*	**December 31, 2020** *(audited)*
CURRENT ASSETS		
Cash	$ 27,656	$ 12,213
Trade and other receivables *(Notes 7 and 8)*	17,181	29,088
Other assets	6,260	6,696
Derivative financial instruments *(Note 9)*	3,661	230
Materials	28,780	29,703
Asset Renewal Fund	1,096	1,096
	84,634	79,026
NON-CURRENT ASSETS		
Advance on contract	54,235	57,538
Other assets	419	-
Property, plant and equipment *(Note 10)*	1,248,584	1,176,894
Right-of-use assets *(Note 13)*	31,039	33,392
Intangible assets *(Note 11)*	345,302	335,952
Asset Renewal Fund	873	873
Employee benefit assets *(Note 16)*	224,484	2,024
	1,904,936	1,606,673
Total Assets	$ 1,989,570	$ 1,685,699
CURRENT LIABILITIES		
Trade and other payables *(Note 12)*	$ 114,615	$ 122,594
Lease liabilities *(Note 13)*	2,624	2,984
Provisions *(Note 14)*	8,155	10,437
Derivative financial instruments *(Note 9)*	-	3,489
Deferred revenues *(Note 15)*	27,815	19,634
	153,209	159,138
NON-CURRENT LIABILITIES		
Other payables	19,686	16,814
Lease liabilities *(Note 13)*	30,447	32,079
Employee benefit liabilities *(Note 16)*	43,473	97,804
	93,606	146,697
Deferred capital funding *(Note 17)*	1,614,138	1,538,752
SHAREHOLDER'S EQUITY (DEFICIENCY)		
Share capital	9,300	9,300
Accumulated surplus (deficit)	119,317	(168,188)
	128,617	(158,888)
Total Liabilities and Shareholder's equity (deficiency)	$ 1,989,570	$ 1,685,699

Commitments (Note 20)

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

Interim Condensed Financial Statements

Statement of Comprehensive Income

	Quarters ended September 30		Nine-month periods ended September 30	
(in thousands of Canadian dollars) (unaudited)	**2021**	**2020**	**2021**	**2020**
REVENUES *(Note 5)*				
Passenger	**$ 43,956**	$ 15,539	**$ 64,688**	$ 63,946
Other	**3,423**	3,622	**11,040**	11,964
	47,379	19,161	**75,728**	75,910
EXPENSES				
Compensation and employee benefits	**70,858**	69,547	**193,268**	228,068
Train operations and fuel	**24,450**	13,942	**58,180**	52,504
Stations and property	**9,295**	8,320	**30,371**	28,674
Marketing and sales	**5,257**	3,318	**9,953**	13,126
Maintenance material	**7,491**	6,755	**19,434**	23,994
On-train product costs	**4,741**	2,094	**9,490**	11,354
Operating taxes	**2,972**	2,716	**8,558**	8,188
Professional services	**4,618**	1,320	**9,495**	7,012
Telecommunications	**5,235**	4,613	**16,240**	16,349
Depreciation of property, plant and equipment *(Note 10)*	**20,220**	17,912	**57,649**	53,855
Amortization of intangible assets *(Note 11)*	**5,036**	5,661	**15,867**	17,067
Depreciation of right-of-use assets *(Note 13)*	**745**	879	**2,353**	2,643
Loss on disposal of property, plant and equipment *(Note 10)*	**2,784**	6,368	**5,852**	6,774
(Gain) loss on disposal of intangible assets *(Note 11)*	**-**	(2)	**6**	-
Unrealized (net gain) net loss on derivative financial instruments	**(857)**	(1,256)	**(6,920)**	8,680
Realized (net gain) net loss on derivative financial instruments	**(795)**	3,046	**(1,026)**	8,478
Interest expense on lease liabilities	**224**	241	**672**	725
Other	**1,657**	3,283	**4,755**	8,848
	163,931	148,757	**434,197**	496,339
OPERATING LOSS BEFORE FUNDING FROM THE GOVERNMENT OF CANADA AND INCOME TAXES	**(116,552)**	(129,596)	**(358,469)**	(420,429)
Operating funding from the Government of Canada *(Note 6)*	**88,940**	90,913	**282,474**	315,362
Amortization of deferred capital funding *(Note 17)*	**27,837**	29,808	**78,854**	77,316
Net income (loss) before income taxes	**225**	(8,875)	**2,859**	(27,751)
Income tax expense	**85**	76	**237**	228
NET INCOME (LOSS) FOR THE PERIOD	**140**	(8,951)	**2,622**	(27,979)
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 16)*	**29,998**	16,228	**284,883**	(40,318)
COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	**$ 30,138**	$ 7,277	**287,505**	(68,297)

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

Interim Condensed Financial Statements

Statement of Changes in Shareholder's Equity (Deficiency)

	Quarters ended September 30		Nine-month periods ended September 30	
(in thousands of Canadian dollars) (unaudited)	**2021**	**2020**	**2021**	**2020**
SHARE CAPITAL	**$ 9,300**	$ 9,300	**$ 9,300**	$ 9,300
Accumulated surplus (deficit)				
Balance, beginning of period	**89,179**	(221,821)	**(168,188)**	(146,247)
Net income (loss) for the period	**140**	(8,951)	**2,622**	(27,979)
Other comprehensive income (loss) for the period	**29,998**	16,228	**284,883**	(40,318)
Balance, end of period	**119,317**	(214,544)	**119,317**	(214,544)
Total Shareholder's surplus (deficiency)	**$ 128,617**	$ (205,244)	**$ 128,617**	$ (205,244)

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

Interim Condensed Financial Statements

Statement of Cash Flows

(in thousands of Canadian dollars) (unaudited)	Quarters ended September 30 2021	Quarters ended September 30 2020	Nine-month periods ended September 30 2021	Nine-month periods ended September 30 2020
OPERATING ACTIVITIES				
Net income (loss) for the period	**$ 140**	$ (8,951)	**$ 2,622**	$ (27,979)
Adjustments to determine net cash (used in) provided by operating activities:				
Depreciation of property, plant and equipment *(Note 10)*	**20,220**	17,912	**57,649**	53,855
Amortization of intangible assets *(Note 11)*	**5,036**	5,661	**15,867**	17,067
Depreciation of right-of-use assets *(Note 13)*	**745**	879	**2,353**	2,643
Loss on disposal of property, plant and equipment *(Note 10)*	**2,784**	6,368	**5,852**	6,774
(Gain) loss on disposal of intangible assets *(Note 11)*	**-**	(2)	**6**	-
Amortization of deferred capital funding *(Note 17)*	**(27,837)**	(29,808)	**(78,854)**	(77,316)
Interest income	**(114)**	(77)	**(263)**	(352)
Interest paid	**(224)**	(241)	**(672)**	(725)
Unrealized (net gain) net loss on derivative financial instruments	**(857)**	(1,256)	**(6,920)**	8,680
Post-employment and other employee benefit expenses *(Note 16)*	**9,647**	11,966	**26,869**	36,735
Employer post-employment and other employee benefit contributions *(Note 16)*	**(6,640)**	(5,486)	**(18,777)**	(17,662)
Interest expense on lease liabilities	**224**	241	**672**	725
Net change in working capital items *(Note 18)*	**(3,132)**	(32,631)	**40,397**	(42,548)
Net cash (used in) provided by operating activities	**(8)**	(35,425)	**46,801**	(40,103)
INVESTING ACTIVITIES				
Government funding received related to acquisition of property, plant and equipment and intangible assets *(Notes 7, 17 and 18)*	**92,001**	124,000	**140,320**	269,962
Government funding received related to an advance on contract *(Note 17)*	**-**	-	**-**	2,482
Acquisition of property, plant and equipment and intangible assets *(Notes 10, 11, 12 and 18)*	**(94,267)**	(108,126)	**(169,531)**	(215,801)
Payment of an advance on contract	**-**	-	**-**	(2,482)
Interest received	**114**	77	**263**	352
Acquisition of other non-current assets	**(52)**	-	**(419)**	-
Proceeds from the disposal of property, plant and equipment	**-**	-	**1**	-
Net cash (used in) provided by investing activities	**(2,204)**	15,951	**(29,366)**	54,513
FINANCING ACTIVITIES				
Payment of the lease liabilities	**(604)**	(725)	**(1,992)**	(2,086)
Net cash (used in) financing activities	**(604)**	(725)	**(1,992)**	(2,086)
CASH				
(Decrease) increase during the period	**(2,816)**	(20,199)	**15,443**	12,324
Balance, beginning of period	**30,472**	35,878	**12,213**	3,355
Balance, end of period	**$ 27,656**	$ 15,679	**$ 27,656**	$ 15,679
REPRESENTED BY:				
Cash	**27,656**	15,679	**27,656**	15,679
	$ 27,656	$ 15,679	**$ 27,656**	$ 15,679

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

Notes to the Interim Condensed Financial Statements

For the period ended September 30, 2021 (unaudited)

1. Authority, Objectives and General Information

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

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

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

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

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

These interim condensed financial statements were approved and authorized for issue by the Board of Directors on November 19, 2021.

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, the Corporation enforced special health and safety measures for its passengers and employees, and subsequently reduced service levels for most major train services. During the year 2020, the Corporation faced a severe and abrupt drop in services and a corresponding decline in revenue as a result of the COVID-19 pandemic. The impact of the COVID-19 pandemic began to be felt at the end of the first quarter. These impacts include drastic increase in operating loss and substantial decline in cash from operations, increasing the necessity to obtain funding from the Government of Canada. With a limited visibility on travel demand, the Corporation cannot predict the full impact of the pandemic and is actively monitoring 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 a portion of its operating expenses in proportion to the level of operations,
- Employee layoffs,
- Reduction of services in stations, as well as
- Reduction of administrative costs and the postponement of nonessential initiatives.

The Corporation will receive the additional funding from the Government of Canada and has adequate resources to continue in operational existence for the foreseeable future. Thus, the directors continue 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, 2020, which have been prepared in accordance with the IFRS.

b) Functional and presentation currency

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

3. Summary of Significant Accounting Policies

The significant accounting policies applied for these condensed interim financial statements are presented in Note 4 of the Corporation's annual financial statements for the year ended December 31, 2020.

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, 2020.

5. Revenues

The following table disaggregates the revenue by major sources:

(in millions of Canadian dollars)	Quarters ended September 30 2021	Quarters ended September 30 2020	Nine-month periods ended September 30 2021	Nine-month periods ended September 30 2020
REVENUES				
Transportation and accommodation	**42.6**	15.3	**62.6**	62.4
On-train food and beverages	**1.3**	0.2	**1.8**	1.3
Other revenues *(Note 1)*	**0.1**	-	**0.3**	0.2
Revenues from passengers	**44.0**	15.5	**64.7**	63.9
Investment income	**0.2**	0.1	**0.3**	0.4
Third-party servicing	**1.4**	1.5	**4.9**	4.8
Rental income and other *(Note 13)*	**1.8**	2.1	**5.8**	6.8
Revenues from other sources	**3.4**	3.7	**11.0**	12.0
Total revenues	**47.4**	19.2	**75.7**	75.9

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 September 30		Nine-month periods ended September 30	
(in millions of Canadian dollars)	**2021**	**2020**	**2021**	**2020**
Operating loss before funding from the Government of Canada and income taxes	**116.6**	129.6	**358.5**	420.4
Items requiring operating funds:				
Income tax expense	**-**	-	**0.2**	0.2
Items (not requiring) not providing operating funds:				
Depreciation of property, plant and equipment	**(20.2)**	(18.0)	**(57.6)**	(53.9)
Amortization of intangible assets	**(5.1)**	(5.7)	**(15.9)**	(17.1)
Depreciation of right-of-use assets	**(0.8)**	(0.8)	**(2.4)**	(2.6)
Loss on disposal of property, plant and equipment	**(2.8)**	(6.4)	**(5.9)**	(6.8)
Post-employment and other employee benefit contributions in excess of expenses	**(3.0)**	(6.5)	**(8.1)**	(19.1)
Unrealized net gain (net loss) on derivative financial instruments	**0.8**	1.2	**6.9**	(8.7)
Non-cash transactions relating to lease liabilities	**0.9**	1.0	**2.7**	2.8
Interest expense on lease liabilities	**(0.3)**	(0.2)	**(0.7)**	(0.7)
Adjustment for accrued compensation	**2.3**	(3.5)	**4.0**	0.2
Adjustment for VIA Préférence loyalty program	**0.3**	0.1	**0.3**	(0.3)
Other	**0.3**	0.2	**0.5**	1.0
Operating funding from the Government of Canada	**89.0**	91.0	**282.5**	315.4

7. Trade and Other Receivables

The trade and other receivables balance includes the following:

(in millions of Canadian dollars)	**September 30, 2021**	**December 31, 2020**
Trade	**2.1**	1.8
Other receivables	**4.8**	9.5
Loss allowance	**(0.4)**	(0.3)
Trade and other receivables classified at Amortized cost	**6.5**	11.0
Amount receivable from the Government of Canada – Operating funding *(Note 8)*	**23.2**	47.0
Amount (payable to) the Government of Canada – Capital funding *(Notes 8 and 18)*	**(22.5)**	(36.5)
Total receivable from the Government of Canada	**0.7**	10.5
Sales taxes	**10.0**	7.6
Total trade and other receivables	**17.2**	29.1

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 $0.7 million (December 31, 2020: $1.1 million) at the closing date. The maturity of these receivables is detailed in the following table:

(in millions of Canadian dollars)	**September 30, 2021**	**December 31, 2020**
Not impaired and past due by:		
0 to 30 days	**0.5**	0.9
31 to 60 days	**0.2**	0.2
61 to 90 days	**-**	-
Over 90 days	**-**	-
Total	**0.7**	1.1

The Corporation has recognized in the current period an amount of $0.2 million of impairment losses arising from contracts with customers and other receivables, which is presented in the line “Other” in the Statement of Comprehensive Income (September 30, 2020: $0.8 million).

8. Government Funding Receivable from (Payable to) the Government of Canada

Government funding relating to operating expenses:

(in millions of Canadian dollars)	September 30, 2021	December 31, 2020
Balance, beginning of period	**47.0**	36.1
Government funding received to fund operating expenses	**(306.3)**	(404.9)
Government funding recognized in financial results	**282.5**	415.8
Balance, end of period	**23.2**	47.0

Government funding relating to capital expenditures:

(in millions of Canadian dollars)	September 30, 2021	December 31, 2020
Balance, beginning of period	**(36.5)**	43.0
Government funding received to fund the acquisition of property, plant and equipment and intangible assets (including the cost of land)	**(140.3)**	(332.4)
Government funding used to fund capital expenditures	**154.3**	252.9
Balance, end of period	**(22.5)**	(36.5)

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	
(in millions of Canadian dollars)	March 31, 2022	March 31, 2021
Original parliamentary appropriation	**326.4**	149.4
Supplementary parliamentary appropriation	**95.0**	259.9
Revised annual parliamentary appropriation	**421.4**	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
Total appropriation recognized for the period	**186.3**	210.5
Appropriation available for reminder of the year	**235.1**	198.8

Parliamentary appropriation for capital expenditures:

	For the twelve-month period ending	
(in millions of Canadian dollars)	March 31, 2022	March 31, 2021
Original parliamentary appropriation	**443.4**	397.6
Supplementary parliamentary appropriation	**-**	39.5
Revised annual parliamentary appropriation	**443.4**	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
Total appropriation recognized for the period	**107.5**	131.6
Appropriation available for reminder of the year	**335.9**	305.5

9. Derivative Financial Instruments

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

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

	September 30, 2021		December 31, 2020	
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	**6,258**	**3.7**	3,528	0.2
Liabilities	**-**	**-**	7,056	3.5

As at September 30, 2021, the commodity swaps in CAD have a fixed price per U.S. gallon between 1.730 and 2.700 CAD (December 31, 2020: between 1.735 and 2.651 CAD). The maturity dates range between 2021 and 2022 (December 31, 2020: 2021 and 2022). These financial instruments have a monthly settlement schedule.

10. 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, 2021	17.0	976.3	174.7	186.2	319.0	97.3	37.8	52.3	9.8	334.4	2,204.8
Additions	-	-	-	-	-	-	-	-	-	135.3	135.3
Disposals	-	(41.1)	(2.5)	(0.6)	(1.3)	-	(0.1)	(0.1)	(0.1)	-	(45.8)
Transfers	-	38.6	5.3	(0.2)	3.8	3.2	1.1	0.2	0.3	(52.3)	-
Total cost	17.0	973.8	177.5	185.4	321.5	100.5	38.8	52.4	10.0	417.4	2,294.3
Accumulated depreciation and impairment:											
January 1, 2021	-	626.4	109.8	61.0	113.6	57.0	21.5	34.7	3.9	-	1,027.9
Additions	-	32.0	2.1	5.9	7.7	3.0	1.8	4.6	0.6	-	57.7
Disposals	-	(36.1)	(2.3)	(0.4)	(0.9)	-	(0.1)	(0.1)	-	-	(39.9)
Total accumulated depreciation and impairment	-	622.3	109.6	66.5	120.4	60.0	23.2	39.2	4.5	-	1,045.7
Total carrying amount	**17.0**	**351.5**	**67.9**	**118.9**	**201.1**	**40.5**	**15.6**	**13.2**	**5.5**	**417.4**	**1,248.6**

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.

11. 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, 2021	114.0	7.8	438.3	5.4	15.7	581.2
Additions	-	-	-	-	25.1	25.1
Disposals	(0.6)	-	-	-	-	(0.6)
Transfers	0.5	-	0.1	-	(0.6)	-
Total cost	113.9	7.8	438.4	5.4	40.2	605.7
Accumulated amortization and impairment:						
January 1, 2021	97.6	7.8	136.2	3.6	-	245.2
Additions	6.7	-	8.8	0.3	-	15.8
Disposals	(0.6)	-	-	-	-	(0.6)
Total accumulated amortization and impairment	103.7	7.8	145.0	3.9	-	260.4
Total carrying amount	**10.2**	**-**	**293.4**	**1.5**	**40.2**	**345.3**

12. Trade and Other Payables

The trade and other payables balance includes the following:

(in millions of Canadian dollars)	September 30, 2021	December 31, 2020
Wages payable and accrued	**35.3**	40.6
Accounts payable and accruals – Trade	**37.7**	26.4
Accounts payable and accruals – Capital assets	**30.5**	45.8
Trade and other payables classified at Amortized cost	**103.5**	112.8
Capital tax, income tax and other taxes payable	**7.9**	7.6
Deductions at sources	**3.2**	2.2
Total trade and other payables	**114.6**	122.6

13. 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, 2021	0.5	14.7	23.5	1.7	40.4
Disposal	-	-	-	(0.9)	(0.9)
Total cost	0.5	14.7	23.5	0.8	39.5
Accumulated depreciation:					
January 1, 2021	0.1	3.5	2.2	1.2	7.0
Additions	-	1.4	0.9	0.1	2.4
Disposal	-	-	-	(0.9)	(0.9)
Total accumulated depreciation	0.1	4.9	3.1	0.4	8.5
Net carrying amount	**0.4**	**9.8**	**20.4**	**0.4**	**31.0**

Amount recognized in the Statement of Comprehensive Income:

	Quarters ended September 30		Nine-month periods ended September 30	
(in millions of Canadian dollars)	**2021**	**2020**	**2021**	**2020**
Short-term leases	**0.4**	1.8	**1.0**	3.1
Low-value assets	**-**	-	**0.1**	0.1

Total cash outflow is $1.2 million for the quarter and $3.7 million for the nine-month period (September 30, 2020: $2.7 million for the quarter and $6.0 million for the nine-month period).

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

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

(in millions of Canadian dollars)	**September 30, 2021**	**December 31, 2020**
Balance, beginning of period	**35.1**	33.1
Additions	**-**	4.8
Accretion of interest	**0.7**	0.9
Payments	**(2.7)**	(3.7)
Balance, end of period	**33.1**	35.1
Current	**2.6**	3.0
Non-current	**30.5**	32.1
Total lease liabilities	**33.1**	35.1

14. Provisions

The provisions balance includes the following:

(in millions of Canadian dollars)	January 1, 2021	Additional provisions recognized	Provisions utilized	Unused amounts reversed	September 30, 2021
Environmental costs	1.4	0.9	(2.0)	-	**0.3**
Litigation and equipment repairs *(Note 1)*	9.0	3.3	(0.8)	(3.6)	**7.9**
Total provisions	10.4	4.2	(2.8)	(3.6)	**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 the settlement of these claims depends to a large extent on the pace of negotiation with the various counterparts 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.

15. Deferred Revenues

Deferred revenues are comprised of the following:

(in millions of Canadian dollars)	September 30, 2021	December 31, 2020
Advance ticket sales	**12.4**	3.9
VIA Préférence loyalty program	**11.2**	11.5
Non-monetary transactions	**1.6**	1.6
Gift cards	**1.7**	1.7
Other	**0.9**	0.9
Total deferred revenues	**27.8**	19.6

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.

16. Employee Benefit Assets and Liabilities

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

As disclosed in Note 22 Employee benefit assets and liabilities of the Corporation's 2020 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:

	September 30, 2021	December 31, 2020
ASSUMPTIONS — DISCOUNT RATES		
Assumptions for the calculation of the obligation		
Defined benefit component of the pension plans	**3.20%**	2.50%
Post-employment benefit plans	**3.30%**	2.60%
Long-term employee benefit plans	**2.20%**	2.20%
Assumptions for the calculation of the costs		
Defined benefit component of the pension plans	**2.50%**	3.10%
Post-employment benefit plans	**2.60%**	3.10%
Long-term employee benefit plans	**2.20%**	2.90%

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

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

	Defined benefit component of the pension plans		Post-employment benefit plans	
(in millions of Canadian dollars)	**September 30, 2021**	**December 31, 2020**	**September 30, 2021**	**December 31, 2020**
DEFINED BENEFIT OBLIGATION:				
Balance, beginning of period	**2,746.4**	2,535.3	**28.1**	26.1
Service cost	**18.9**	30.0	**0.3**	0.3
Interest expense	**65.2**	77.8	**0.7**	0.8
Employee contributions	**8.6**	12.2	**-**	-
Benefits paid	**(109.2)**	(138.1)	**(0.7)**	(0.8)
Effect of change in demographic assumptions	**-**	-	**-**	(0.5)
Effect of change in financial assumptions	**(261.4)**	227.1	**(2.9)**	2.4
Effect of employee transfers	**-**	1.4	**-**	-
Effect of experience adjustments	**-**	0.7	**-**	(0.2)
Balance, end of period	**2,468.5**	2,746.4	**25.5**	28.1
FAIR VALUE OF PLAN ASSETS:				
Balance, beginning of period	**2,696.6**	2,506.4	**-**	-
Interest income	**63.6**	76.3	**-**	-
Return on plan assets (excluding interest income)	**20.6**	223.5	**-**	-
Employer contributions	**15.1**	17.7	**0.7**	0.8
Employee contributions	**8.6**	12.2	**-**	-
Benefits paid	**(109.2)**	(138.1)	**(0.7)**	(0.8)
Effect of employee transfers	**-**	1.4	**-**	-
Administration expenses	**(2.3)**	(2.8)	**-**	-
Balance, end of period	**2,693.0**	2,696.6	**-**	-
Net defined benefit (asset) liability	**(224.5)**	49.8	**25.5**	28.1

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

b) Long-term employee benefit plans

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

(in millions of Canadian dollars)	**September 30, 2021**	**December 31, 2020**
LONG-TERM EMPLOYEE BENEFIT OBLIGATION:		
Balance, beginning of period	**17.6**	19.2
Service cost	**2.6**	3.8
Interest expense	**0.4**	0.6
Benefits paid	**(2.9)**	(4.2)
Effect of change in financial assumptions	**-**	1.1
Effect of experience adjustments	**-**	(2.9)
Balance, end of period	**17.7**	17.6
FAIR VALUE OF PLAN ASSETS:		
Balance, beginning of period	**-**	-
Employer contributions	**2.9**	4.2
Benefits paid	**(2.9)**	(4.2)
Balance, end of period	**-**	-
Net long-term employee benefit liability	**17.7**	17.6

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

Total amounts recognized in the Statement of Financial Position:

(in millions of Canadian dollars)	**September 30, 2021**	**December 31, 2020**
Assets:		
Defined benefit component of the pension plans	**224.5**	2.0
Liabilities:		
Defined benefit component of the pension plans	**-**	51.8
Post-employment benefit plans	**25.5**	28.1
Long-term employee benefit plans	**17.7**	17.6
Other long-term employee benefits	**0.3**	0.3
Total liabilities	**43.5**	97.8

Total amounts recognized in the Statement of Comprehensive Income:

	Quarters ended September 30		Nine-month periods ended September 30	
(in millions of Canadian dollars)	**2021**	**2020**	**2021**	**2020**
Operating expenses:				
Defined benefit component of the pension plans	**8.3**	9.9	**22.8**	31.8
Post-employment benefit plans	**0.3**	0.3	**1.0**	0.8
Long-term employee benefit plans	**1.0**	1.1	**3.0**	3.3
Other long-term employee benefits	**0.1**	0.6	**0.1**	0.8
Total	**9.7**	11.9	**26.9**	36.7

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

	Quarters ended September 30		Nine-month periods ended September 30	
(in millions of Canadian dollars)	**2021**	**2020**	**2021**	**2020**
Other comprehensive income (loss):				
Defined benefit component of the pension plans	**29.7**	16.2	**282.0**	(38.9)
Post-employment benefit plans	**0.3**	-	**2.9**	(1.4)
Total	**30.0**	16.2	**284.9**	(40.3)

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)	**September 30, 2021**	**December 31, 2020**
Balance, beginning of period	**1,538.7**	1,407.0
Government funding for property, plant and equipment and intangible assets (including the cost of land)	**154.3**	250.4
Government funding for an advance on contract	**-**	2.5
Total Government funding for property, plant and equipment, intangible assets and advance on contract	**154.3**	252.9
Amortization of deferred capital funding	**(78.9)**	(121.2)
Balance, end of period	**1,614.1**	1,538.7

18. Supplemental Cash Flows Information

Net change in working capital items:

	Quarters ended September 30		Nine-month periods ended September 30	
(in millions of Canadian dollars)	**2021**	**2020**	**2021**	**2020**
Trade and other receivables	**(10.8)**	(32.0)	**25.8**	(2.9)
Other assets	**0.7**	1.8	**0.4**	(2.6)
Materials	**2.3**	0.6	**0.9**	(0.2)
Trade and other payables	**2.0**	0.1	**7.4**	(20.9)
Deferred operating funding from the Government of Canada	**-**	(6.4)	**-**	-
Provisions	**(2.4)**	1.6	**(2.3)**	1.7
Deferred revenues	**5.1**	1.7	**8.2**	(17.6)
Total	**(3.1)**	(32.6)	**40.4**	(42.5)

The change in trade and other receivables excludes an amount of ($14.0) million (September 30, 2020: $43.0 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 ($15.3) million (September 30, 2020: ($31.0) million) in relation to the acquisition of property, plant and equipment and intangible assets, as this amount relates to investing activities. As at September 30, 2021, there is no advance on contract payable in relation to investing activities (September 30, 2020: nil).

18. Supplemental Cash Flows Information (cont'd)

Investing activities supplemental information:

(in millions of Canadian dollars)	Quarters ended September 30		Nine-month periods ended September 30	
	2021	**2020**	**2021**	**2020**
Government funding invoiced for property, plant and equipment and intangible assets	**59.2**	46.8	**154.3**	184.5
Change in amount receivable from the Government of Canada – Capital funding	**32.8**	77.3	**(14.0)**	85.5
Total Government funding received related to acquisition of property, plant and equipment and intangible assets	**92.0**	124.1	**140.3**	270.0

Acquisition of property, plant and equipment and intangible assets	**(61.1)**	(51.0)	**(160.4)**	(199.4)
Additions to property, plant and equipment and intangible assets not affecting cash as they were previously cashed out through an advance on contract	**1.1**	2.3	**3.3**	7.8
Change in accounts payable and accruals – Capital assets	**(35.2)**	(61.4)	**(15.3)**	(31.0)
Change in other payables	**1.0**	2.0	**2.9**	6.8
Total cash out for acquisition of property, plant and equipment and intangible assets	**(94.2)**	(108.1)	**(169.5)**	(215.8)

19. Financial Risks

The Corporation's financial instruments are exposed to the same risks, as disclosed in its annual financial statements for the year ended December 31, 2020.

20. Commitments

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

	September 30, 2021				December 31, 2020
(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	**8.9**	2.4	4.7	1.8	10.6
Technical services	**356.1**	2.0	56.9	297.2	356.1
Total	**365.0**	4.4	61.6	299.0	366.7
COMMITMENTS RELATING TO MAJOR CAPITAL INVESTMENTS:					
Rolling stock	**754.6**	296.3	458.3	-	763.9
Maintenance buildings	**1.9**	1.9	-	-	1.0
Stations and facilities	**4.3**	4.3	-	-	7.2
Owned infrastructures	**5.5**	5.5	-	-	7.3
Software	**8.6**	3.2	5.4	-	19.2
Computer hardware	**2.6**	2.6	-	-	2.7
Total	**777.5**	313.8	463.7	-	801.3
Total commitments	**1,142.5**	318.2	525.3	299.0	1,168.0

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 $24.6 million (December 31, 2020: $23.4 million) to various provincial government workers' compensation boards as security for future payment streams.

viarail.ca