VIA Rail Canada™

SUMMARY OF THE 2015 – 2019 CORPORATE PLAN

AND

2015 OPERATING AND CAPITAL BUDGETS

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EXECUTIVE SUMMARY

VIA Mission

VIA operates Canada's national passenger rail service on behalf of the Government of Canada and was established as a non-agent, independent Crown corporation in 1977. Its mandate is to provide a safe, efficient, reliable, cost-effective and environmentally responsible service from coast to coast in both official languages that meets the needs of travelers in Canada. VIA serves over 450 Canadian communities and carried 3.9 million passengers in 2013.

VIA Services

An active partner in the communities it serves, VIA's passenger rail business is divided into markets based on geography and category of traveler, although all categories are found in every region.

Inter-city travel in the Quebec City-Windsor corridor: In the densely populated areas of Ontario and Québec, VIA trains provide fast, convenient, downtown-to-downtown travel between major urban and suburban centers and communities.

Long-distance travel and tourism across the country: In Western and Eastern Canada, VIA's trains provide transportation services and also attract travelers from around the world. The *Canadian* provides service between Vancouver and Toronto, and The *Ocean* operates between Montreal and Halifax. They also serve communities along the route year-round.

Services for regional and remote communities: While not commercially viable and as a result heavily subsidized, the Government of Canada mandates these services to meet essential transportation needs. They serve many communities where alternative, year-round transportation is limited or unavailable.

VIA is committed to keeping passenger rail as the most accessible mode of intercity transport for Canadians who are physically disabled and is also widely recognized as the green choice for travel, generally producing lower GHG emissions than other transportation modes.

Until recently, ridership and passenger revenues within the transportation sector had been decreasing significantly since the 2008 recession. VIA was affected by this market environment and has also experienced growing competition from airline and bus companies that expanded their services and offered lower prices. In addition, VIA was affected by train service reductions and poor on-time performance.

The deterioration of on-time performance is largely attributable to the growth in freight traffic on most of the rail infrastructure over which VIA operates. VIA's objectives and interests are different from those of the freight railways or even the commuter train railways, which are also expanding. As a result of sharing the same tracks, VIA's trains are increasingly being sidelined or slowed and VIA is limited in adding train frequencies and departure / arrival times to meet consumer demand.

Strategic Direction and Objectives

VIA has made significant efforts to contain its operating deficit and thus, its reliance on government funding. With a view to making the Corporation more efficient and effective with the focus on growing revenues and providing better service to Canadians, VIA's new President and Chief Executive Officer, Mr. Yves Desjardins-Siciliano, launched a strategic review called VISION 2020 which involves re-thinking all facets of VIA's business.

A key element driving Vision 2020 involves refocusing the organization on market-based business units that are accountable for their respective "Profit & Loss", which includes responsibility for making as many decisions related to revenues and expenses as possible. The new organizational structure will include

Tourist (Long-Haul), Intercity Corridor, and Regional and Remote (Mandatory) markets. These will be supported by Train Operations, Capital Asset Management business units and by some shared services.

Key strategies and initiatives have been segmented based on whether they mostly engage customers, employees or other stakeholders. VIA will also be further assessing several customer engagement initiatives that will require shareholder consideration and approval prior to implementation, such as:

- fleet renewal for equipment nearing the end of its economic or commercial life;
- operating on dedicated passenger rail tracks in the Corridor; and
- improving asset cycling to generate more seat-mile output.

The Vision 2020 review does not supersede the series of initiatives that have been implemented in recent years such as the introduction of new frequencies and the recently implemented revenue management system. Initiatives were also developed as a result of addressing customer needs and preferences, including the deployment of a refurbished LRC fleet in the Corridor and 12 refurbished Accessible cars on the *Canadian*, a revamped service design in both Business and Economy Class in the Corridor, improvement of on-board Wi-Fi capacity and the modernization of service delivery in stations.

Financial Review

Between 2009 and 2013, the negative economic situation impacted VIA's revenues and ridership. Revenues decreased while at the same time VIA implemented cost containment measures. In addition, VIA reduced some train services to better match demand and contribute to reducing its deficit.

In 2013, revenues in the Corridor were 3.1% lower than 2011, and 0.7% lower than 2012. While 2013 was a difficult year in regard to revenues, VIA did retain and attract ridership. Revenues on Long-Haul trains also decreased significantly between 2011 and 2013, mostly due to a reduction in the number of train frequencies due to better matching to market demands and significant on-time performance problems. Revenues on Regional and Remote (Mandatory) services have decreased by 28.5% since 2009.

Between 2009 and 2013, VIA managed to contain its cost increases. In 2013, operating expenses excluding pension costs were 1% higher than in 2012. In 2014, expenses increased to $516.7 million versus $490.1 million in 2013, mostly due to compensation (including an additional pay period) and increase in maintenance material costs.

For the 2015-2019 Corporate Plan, it is projected that operating expenses will increase annually by an average of about 2%, leading to a widening deficit projection as revenue growth will not offset the growth in expenses. The resulting operating deficit will increase from $242.3 million to a projected $266.8 million in 2019. For the last three years of this plan, the projected deficits remain unfunded. VIA will continue to implement productivity initiatives but additional savings will not be as easily achieved.

Ongoing capital is also required to ensure reliable, efficient and improved operations. The 2014 Federal Government Budget has consigned capital funding for the fiscal years 2014-2015 to 2016-2017. The last three years of this plan are unfunded for capital purposes.
This capital funding will allow VIA to maintain its assets in a state of good repair and to adhere to health, safety, security and regulatory requirements for equipment and rail infrastructure, perform IT system upgrades as well as station and facility improvements.

There is no funding identified for major projects such as acquiring new infrastructure, for adherence to the proposed new crossing regulations or for fleet replacement. The procurement of new rolling stock is a lengthy and complex process that requires detailed engineering and commitments and will take a considerable amount of time, in the order of 5 to 10 years.

VIA will invest primarily in its own rail infrastructure and continue to pursue strategic infrastructure acquisitions in the Corridor as part of its long-term vision. Investment in track infrastructure will support

the addition of train frequencies and reduce operational hurdles impacting trip times and on-time performance. Investments in third party infrastructure will only be made when necessary, provided there are guarantees of expected benefits. As demonstrated in the recent past, however, these guarantees will be difficult to obtain as market conditions evolve and freight traffic continues to grow. This in turn supports the notion of continuing to evaluate the relevance of operating on a dedicated passenger rail infrastructure.

VIA will also continue to invest in stations to improve the customer experience.

Safety Imperative

Safety and security are on-going top priorities. VIA continuously works to improve the safety and security of its operations and to inform the public about safety issues. In an audit performed in 2012, VIA's internal auditors, PricewaterhouseCoopers, observed that VIA had a safety culture imbedded throughout the organization.

Following several tragic events in recent years within the industry (OC Transpo, Lac Mégantic and freight train derailments), new Grade Crossing Regulations that will further enhance safety have been published in the Canada Gazette on December 17, 2014. Amongst the key elements of the new Regulations is that road authorities, private authorities and railway companies will be required to maintain sightlines at grade crossings. A period of 7 years from the effective date of the Regulations coming into force is provided to allow for required standards to be phased-in for existing grade crossings.

VIA is developing a GPS-based train control system that will provide most of the benefits of the Positive Train Control technology being considered in North America by other railroads, but at a fraction of the cost. Safety devices such as cameras and voice recorders are being installed on all VIA locomotives. VIA has also implemented corrective actions to resolve the crossing issues that have occurred in the Barrhaven area.

Risks and Other Issues

VIA performs periodic business risk and control assessments allowing for the development and implementation of risk mitigation measures. A new structure and process was elaborated in 2013 and ongoing analysis is performed to develop assessments of corporate risks identified and presented to the Board of Directors, which include:

- Safety of passengers, employees and the public;
- Employee engagement;
- Revenue generation related to passenger growth and yield maximization;
- Quality and availability of infrastructure (cost and adequacy of track access, railway track segments abandoned by owners, track quality);
- Quality and reliability of rolling stock; and
- Technology obsolescence and reliability.

1 MANDATE

VIA Rail Canada (VIA) operates a passenger rail service, providing intercity serviceregional and essential remote rail transportation.

2 CORPORATE MISSION, OBJECTIVES AND PROFILE

2.1 Corporate Objectives and Profile

VIA operates the nation's passenger rail services on behalf of the Government of Canada, as approved by the Governor in Council through the annual Corporate Plan. The Corporation's objectives are to manage and to provide a safe, efficient, reliable, and environmentally sustainable rail passenger service that meets the needs of travelers in Canada.

VIA, a Crown corporation listed in Part I of Schedule III to the *Financial Administration Act*, is appropriation dependent, is not an Agent of Her Majesty and is subject to income taxes. It was incorporated on January 12, 1977 under the *Canada Business Corporations Act* and therefore does not have its own enabling legislation.

2.2 Governance and Accountability

VIA's Board of Directors consists of the Chair, the President and Chief Executive Officer and 11 other Directors, who are appointed by the Governor in Council on the recommendation of the Minister of Transport. The Board of Directors reports to the Minister of Transport and is responsible for overseeing the strategic direction and management of the Corporation; it approves all strategies, initiatives, investments, budgets, corporate plans, and major contracts.

All members of the Board sign a code of ethics reflecting the spirit and intent of the *Federal Accountability Act*, which sets out standards of transparency and accountability for the officers and directors of Crown corporations.

In 2013, VIA's Board commissioned an evaluation of its governance's processes and performance. As a result, VIA is in the process of implementing the recommendations outlined in the assessment, some important ones listed below:

- Build a strategic plan on revenue growth and value creation, owned by the President and Chief Executive Officer; and

- Implement an enhanced Enterprise Risk Management framework, supported by the appropriate structure.

Four committees assist the Board in oversight: the Audit and Finance Committee, the Governance, Risk and Strategy Committee, the Pension Investment Committee, and the Human Resources Committee.

2.3 Audit Regime

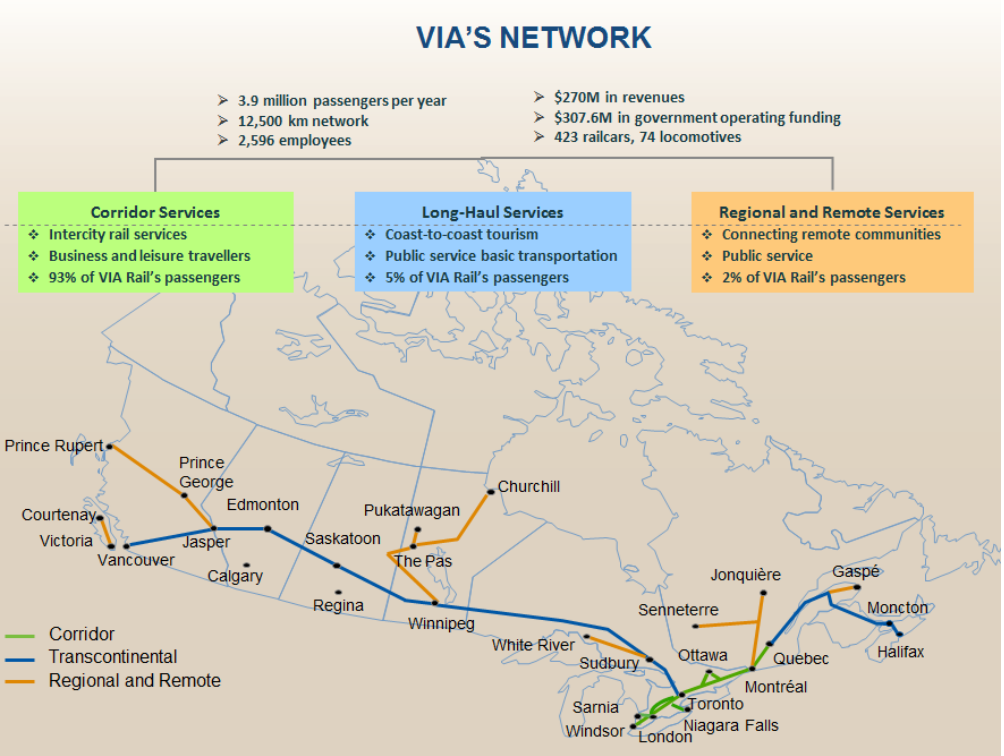
VIA is subject to three types of audits: internal audits, external audits and a special examination held every five years. Internal audits are performed annually by an independent firm, who provide findings and recommendations to the Audit Committee of VIA's Board of Directors and to the Office of the Auditor General of Canada, which is responsible for performing the annual external audits and the special examination. The last special examination was completed in 2008; another one started at the end of 2013 and is still underway.

As per *Financial Administration Act (FAA)* requirements, these audits ensure that:

- The assets of the Corporation are safeguarded and controlled;
- Financial, human and physical resources are managed economically and efficiently;
- VIA's operations are carried out effectively and;
- VIA's transactions comply with the regulations, the charter and by-laws of the Corporation and any directive given to the Corporation.

2.4 Overview of VIA's Business

VIA operates over approximately 12,500 kilometres of rail infrastructure in all regions of Canada. In 2013, VIA, with 472 trains per week, carried 3.9 million passengers, yielding 832 million passenger-miles and 6.2 million train-miles. Historically, the Corporation has divided its business into three distinct types of services: Corridor, Long-Haul, and Regional and Remote.



2.4.1 VIA Services

2.4.1.1 Corridor Services

In the Québec City-Windsor Corridor, VIA provides fast, convenient and relatively frequent service between Canada's largest business and residential communities. VIA's market consists of both business and leisure travel.

In 2013, 3.6 million passengers travelled in this busy corridor, representing 93% of VIA's traffic and generating $207 million or 77% of VIA's total passenger revenue. Operating costs associated to trains in the Corridor were $375 million, generating an operating loss of $168 million.

The market for VIA's Corridor service exists year round. Trip times and the number and choice of departures (frequencies) are the critical factors that determine success in this type of high-density market, proven to attract customers.

This segment of VIA's network is the most commercially viable and has the greatest potential for growth. With its different levels of fares ranging from the lowest possible Escape fare to the

highest Business Plus, VIA provides excellent opportunities to travel at prices that are the most convenient match to the needs of every traveler.

VIA operates with three types of equipment in the Corridor: the LRC cars, the stainless steel HEP 2 cars and Renaissance equipment.

2.4.1.2 Long-Haul Services

VIA operates two long-distance overnight services: the *Canadian*, from Toronto to Vancouver, and the *Ocean*, from Montreal to Halifax.

The *Canadian*

The *Canadian* operates between Toronto and Vancouver, makes three round trips per week during the peak summer period from May to October, and two round trips during the off-peak period. Over the past year, the *Canadian* has been struggling with poor on-time performance mainly caused by the heavy freight traffic and outdated equipment.

The *Canadian*'s Touring class offers meals service, sleeping accommodations, a dome car for sightseeing and transportation services to intercity travelers along the route, including some remote communities. This service is operated with stainless-steel HEP cars. The interiors of the cars are being refinished (72 completed cars so far) to provide a refreshed and updated look. VIA is also introducing 12 Prestige class sleepers funded by Canada's Economic Action Plan. As a result, VIA will be able to provide accessible accommodations that comply with the Canadian Transportation Agency's *Code of Practice - Passenger Rail Car Accessibility and Terms and Conditions of Carriage by Rail of Persons with Disabilities*. Full deployment of the Prestige class sleepers is expected by summer 2015.

The *Ocean*

The *Ocean* operates between Montréal and Halifax three times a week, year-round. The service is used by a combination of end-to-end users and intercity travellers, particularly those travelling between Miramichi, Campbellton, Moncton and Halifax.

VIA offers overnight service with its Renaissance cars, including sleeping accommodations and dining facilities. Trains operate with a dome car for sightseeing during the summer months. In addition to the region's declining popularity as a tourist destination, the competitive landscape evolved and has been offering different options to travellers. Over the past decade, the rail infrastructure degraded to the point where the service was threatened. In response, VIA committed to investing in infrastructure repairs on the Newcastle subdivision, which CN planned to abandon.

In January 2014, the Government of New Brunswick announced that it would invest $25 million in track infrastructure improvements on the Newcastle Subdivision to benefit freight traffic. In return, CN committed to spending a comparable amount for a 15-year period on the same portion of rail infrastructure where there are active freight rail customers. This left a remaining 44-mile section between Bathurst and Miramichi with no upgrade, which would have affected the Ocean service. After a review and evaluation of alternatives, it was decided that VIA would also invest an estimated amount of $10.2 million on infrastructure and bridge repairs for that section. Work started in 2014 and will allow a reduction in the trip time of about 30 minutes.

2.4.1.3 Regional and Remote Services

Regional and Remote services satisfy the essential transportation needs of communities where alternative and affordable transportation is limited or unavailable. The services are the following:

- Jasper – Prince-Rupert (AB, BC)
- Victoria – Courtenay (BC)
- Winnipeg – Churchill (MB through a portion of SK)
- The Pas – Pukatawagan (MB)
- Sudbury – White River (ON)
- Montréal – Senneterre / Jonquière (QC)
- Matapédia – Gaspé (QC)

Regional and Remote services are heavily subsidized. These are public services offered as part of the Government of Canada's transportation system and designed to provide transportation to all Canadians and communities, including those in remote areas. Despite a decline in ridership in the past years, these services continue to be utilized and offer some peaks of seasonal activity, whether it be for cottage season in Québec and Northern Ontario, or for tourists (Canadian and international) in Northern British Columbia and Northern Manitoba (for example, polar bear season in the Hudson Bay area in October).

The services of The Pas-Pukatawagan and of Victoria-Courtenay (once it resumes), are managed by third party operators, respectively the Keewatin Railway Company and Southern Railway for the Island Corridor Foundation.

VIA suspended the Victoria-Courtenay and Matapédia-Gaspé services for safety reasons due to the poor condition of the rail infrastructure. VIA will only reinstate them once it is satisfied that they are safe to operate. Both could be back and running in 2015 if the repair work is completed. The situation is also being closely monitored in Northern Manitoba, where VIA had to temporarily suspend its twice services in 2014.

All active services currently offer three round trips per week, with the exception of the third weekly trip in Northern Manitoba, which operates between Churchill and The Pas instead of Winnipeg.

For the most part, shortline railways own the infrastructure, which they purchased from CN and CP when they divested track (with the exception of Sudbury-White River owned by CP, and Jasper-Prince Rupert / Jonquière-Senneterre owned by CN). The shortline railways generally do not have the financial capacity to invest in infrastructure in order to maintain higher than freight train speeds, thereby limiting the speed at which VIA can travel, and prevent rail infrastructure deterioration that led to the suspension of two train services: the Victoria-Courtenay in April 2011, and the Gaspé-Matapédia in 2012 for the Chandler subdivision portion, and subsequently the remainder of the segment in 2013.

2.4.2 **Assets Used to Support the Services**

2.4.2.1 Rail infrastructure

VIA has commercial agreements with railways for accessing their tracks. Infrastructure owners are operators themselves (primarily freight carriers) that conduct their own business on the same track. VIA has little leverage to negotiate the infrastructure access required for reliable, frequent and on-time operations, which hurts its cost recovery and profitability. The following table outlines the route-miles (the standard distance measure used by North American railways) over which VIA operates by type of service and by infrastructure owner. Tracks are categorized by class designated to support maximum speeds and loads, which affect trip times. A lack of investment and maintenance leads to degradation of the track classification which then results in permanent speed reductions.

Table 2.4.1.4a – VIA Train Services Route-Miles

Service	CN	CP	GEXR (1)	HBR (2)	SCFG (3)	SRVI (4)	Metrolinx (5)	VIA	Total
Corridor	758	28	89				65	159	1,099
Long-Haul	3,600						14		3,614
Regional & Remote	1,833	301		570	98	139			2,941
Total	**6,191**	**329**	**89**	**570**	**98**	**139**	**79**	**159**	**7,654**
% of Total	82%	4%	1%	7%	1%	2%	1%	2%	

(1) GEXR – Goderich-Exeter Railway Limited; (2) HBR – Hudson Bay Railway Company; (3) SCFG – Société du Chemin de Fer de la Gaspésie
(4) SVI – Southern Railway of Vancouver Island; (5) Metrolinx – Greater Toronto Transportation Authority

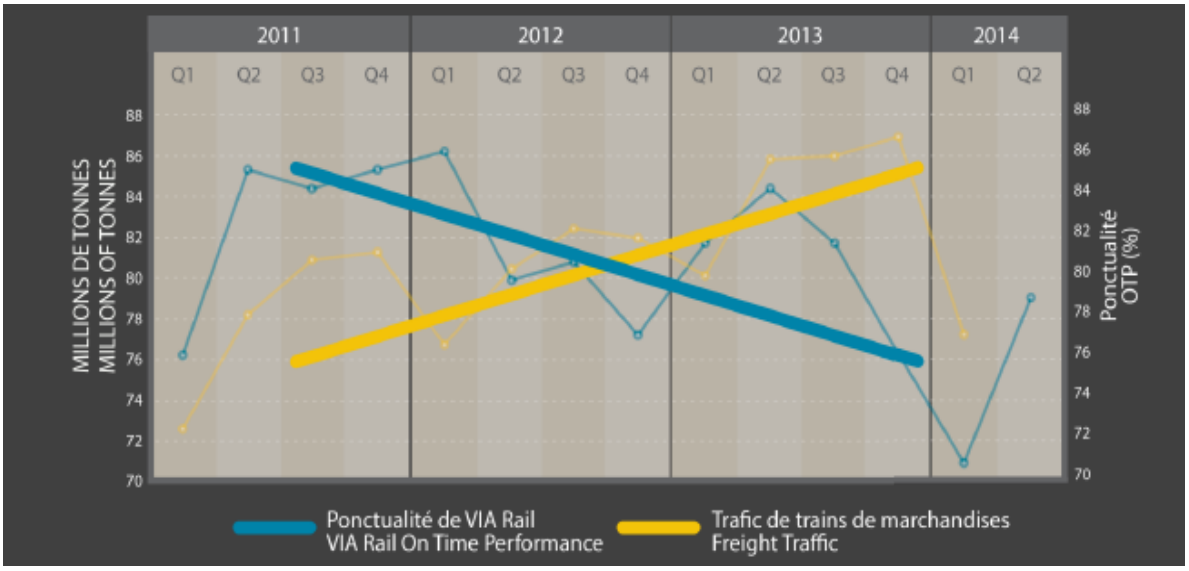
The rail infrastructure is single track except for portions in the Corridor. CN owns the majority of the rail infrastructure (82%) VIA operates on, while other freight and commuter railways own the majority of the rest (16%); VIA only owns 2%.

it is of note that VIA operates 9% of its train-miles on the portion it owns since it is located in the Corridor where several round trips per day occur. VIA's infrastructure is comprised of segments between Chatham and Windsor in Ontario, and between Coteau, Ottawa and Smith Falls in the Ottawa Triangle. The following table provides an indication of the distribution of train-miles by train service and infrastructure owner.

Table 2.4.1.4b – VIA Train Services Annual Train-Miles (000s)

Service	CN	VIA	CP	GEXR	HBR	SCFG	Metrolinx	SVI	Total
Corridor	3.223.9	565.5	125.3	127.4			303.5		4,345.6
Long-Haul	960.6						3.3		963.9
Regional & Remote	512.2		86.0		178.0	16.3			792.5
Total	**4,696.7**	**565.5**	**211.3**	**127.4**	**178.0**	**16.3**	**306.8**		**6,102.0**
% of Total	77%	9%	4%	2%	3%	-	5%		

In addition to the train dispatching, the investment and the maintenance of the rail infrastructure, the overall freight traffic growth also affects VIA's operation, as evidenced in the graph below:



2.4.2.2 Stations

VIA has an extensive network of stations; it owns many of the stations it uses and leases the rest. Leased stations include the two busiest stations, Toronto Union Station and Montréal Central Station, both of which are shared with local commuter services. VIA owns the Ottawa, Kingston, London and Windsor stations, along with suburban stations in major cities in the Corridor, including Ste-Foy, Dorval, Fallowfield, and Oshawa.

Long-Haul services also operate out of Montréal Central Station and Toronto Union Station. Major stations along the Long-Haul routes include Vancouver, Winnipeg, Moncton, and Halifax. Many stops on these lines are simply signposts and platforms. Such stops are important for the communities they serve. The following table outlines VIA's station network:

Table 2.4.1.4c – VIA Stations

Service	Stations	Shelters	Sign-posts/Platforms	Total
Corridor	42	4	2	48
Long-Haul	27	4	75	106
Regional & Remote	26	7	240	273
Total	**95**	**15**	**317**	**427**

VIA tries to maximize use of its assets by leasing out space in stations to directly enhance service to its passengers (concessions, restaurants) or by generating traffic in the buildings and their surroundings, leading to potential customers for VIA.

2.4.2.3 Maintenance Centres

VIA operates maintenance centres located in Vancouver, Winnipeg, Toronto, and Montréal where it performs servicing, scheduled inspections and other repairs. Major maintenance and other projects are also performed in Montréal. Lighter maintenance activities, including servicing and cleaning, are done at various end points, such as Halifax, Québec City, Ottawa, Windsor, Jasper and The Pas, but also at busy hubs such as Montréal Central Station and Toronto Union Station, in order to minimize movements of trains to the maintenance facilities.

Where and when applicable, VIA seeks opportunities to maximize the usage of its facilities through service contracts with third parties or space leasing. Its long standing relationship with Amtrak and West Coast Express, Vancouver's commuter train service provider, are the most obvious examples of such agreements, but many ad-hoc projects and smaller contracts, such as those involving Rocky Mountaineer Railtours, AMT or CAD Railways, can be cited as well.

VIA is recognized for its maintenance programs and processes, which support the safe operation it offers to passengers.

2.4.2.4 Equipment

VIA's fleet of active equipment comprises 74 locomotives and 423 cars. A detailed list by fleet type is included in Annex 1.

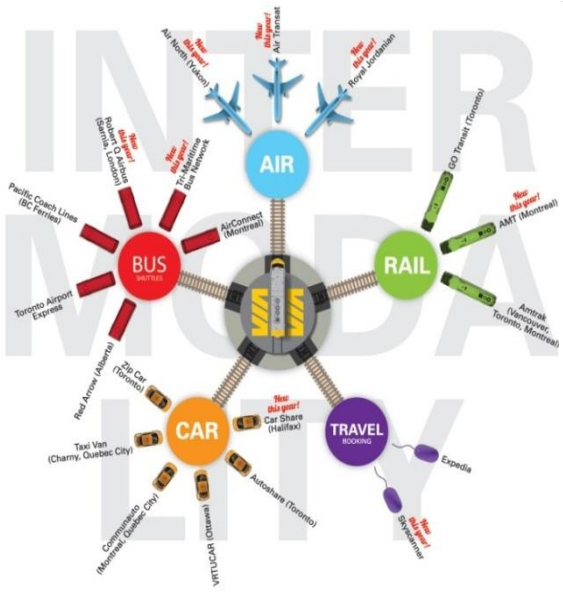
Although a sizeable portion of its fleet has been refurbished since 2008 (and will continue to be for the next three years), these activities have only extended the useful life of the equipment by a decade or two depending on the type. Therefore, VIA is preparing for the next phase, which might well include the complete replacement of its aging refurbished fleet. Fleet replacement will require planning, which will implicate a clear identification of needs and funding sources.

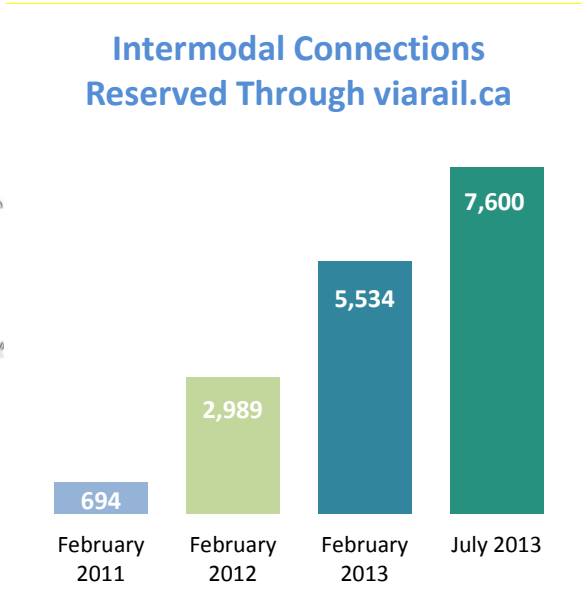
2.4.2.5 Partnerships

As a Canadian corporation operating from coast to coast to coast, VIA is involved in many collaborative partnerships.

These are formed to enhance the end-to-end service provided to customers travelling between Canadian cities. They are meant to be complementary and enhance the integration of Canada's transportation network. As such, intermodal agreements across the country with bus companies, commuter carriers, airline, and car sharing/leasing companies were sought and reached. VIA won the Global AirRail Award in 2013 for its worldwide leadership in connecting network partners.

Among the most significant agreements is a Memorandum of Agreement with UP Express regarding the upcoming Union Station – Pearson Airport rail link, expected to be in service in 2015.





The Corridor segment is an important focal point for such partnerships, but these are far from being limited to one geographic region. Rocky Mountaineer Railtours (RMR) in Western Canada for example, partners with VIA to provide a coast-to-coast travel experience, as RMR sells VIA tickets through its travel agent branch.

Also, VIA has a long-term business relationship with Amtrak dating back to VIA's inception; as an example, a reciprocal agreement is in place whereby each sells tickets on each other's behalf. In addition, VIA and Amtrak jointly operate a train between Toronto and New York City, through Niagara Falls.

3 THE BUSINESS ENVIRONMENT

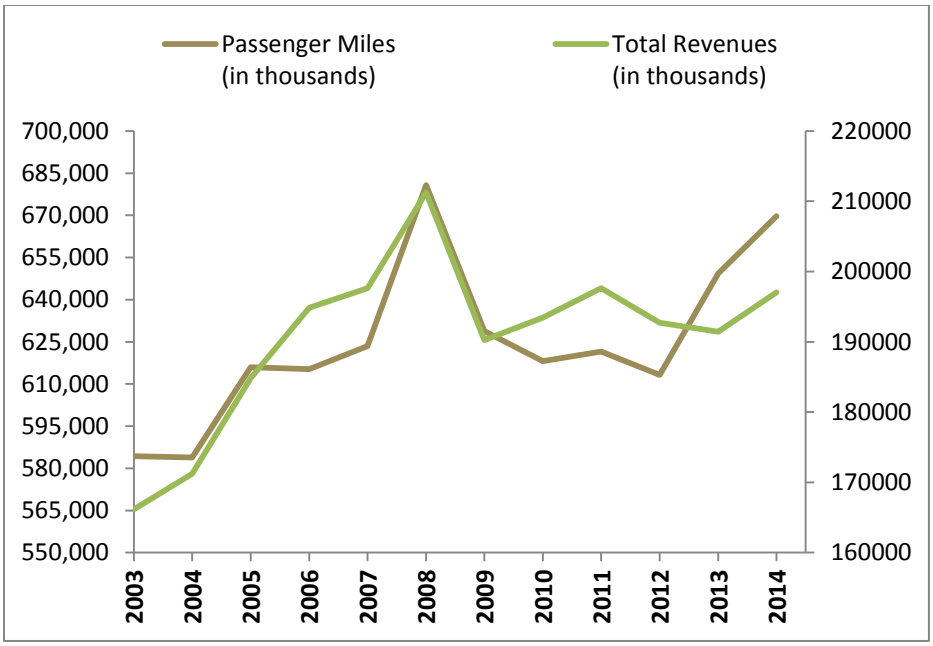
3.1 Current Situation

3.1.1 Markets and Competition

Worldwide economic, as well as growth in Central and Eastern Canada, has been slow and unsteady since the Recession of 2008-2009, and has been affected by global conditions such as a difficult recovery in the United States and uncertainty over the European economy. This has

dampened both business and personal travel, thus affecting VIA and all other transportation companies. This is particularly true in VIA's key domestic markets of Ontario, Québec, New Brunswick and Nova Scotia, and also applies to VIA's major international tourist markets such as the United States, Europe and Asia. The competitive pressure from the bus and airlines is strong. Governments and businesses have also been restricting travel, and this has affected VIA's major corporate accounts. This recession ended two decades of constant passenger revenue growth for VIA. In 2014, the situation is improving in North America, as the United States economy is showing positive signs. Since 2008, consumers have become more price sensitive and volumes dropped significantly until the recent recovery, as shown in the following graph:

Passenger Miles and Revenues for Corridor Services

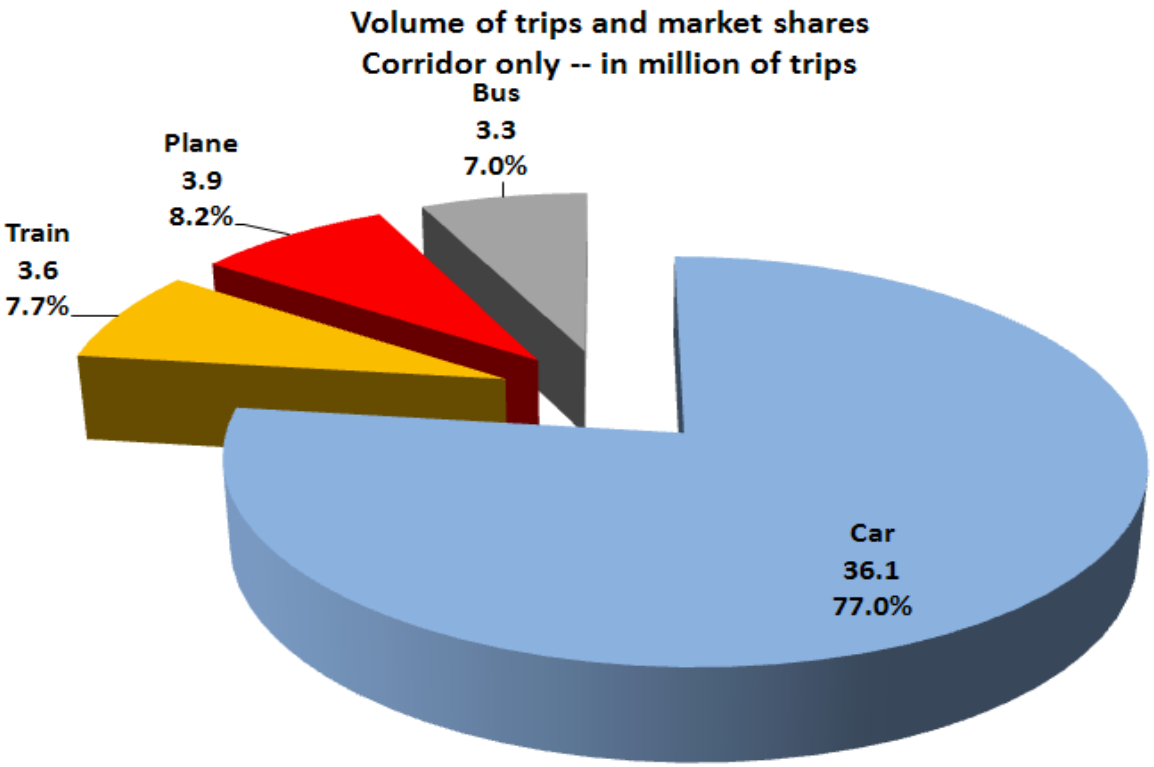


Corridor

With a strong customer base consisting of Canadian residents travelling between Québec City, Montréal, Ottawa, Kingston, Toronto, London, Kitchener, Sarnia and Windsor for business, school, family matters or simply visiting, different market segments are dependent on economic conditions and competitive alternatives when choosing to travel to another city. While economic conditions can force people to consider limiting their movements and travel plans (for businesses and all other segments), alternatives in the market can attract certain segments or entice customers to scale down their choices and consider the most economical option. As a result, VIA's Business class in particular has felt the impact of such conditions. This obviously not only affected VIA, but have also prompted the airlines and bus companies to react. Revenues were negatively impacted by fierce airline competition, more specifically by the price war involving Air Canada, Porter Airlines, and West Jet between the large city pairs amongst VIA's biggest markets, Montreal-Ottawa and Ottawa-Toronto, both from Toronto Pearson and Island Airport. The Island Airport legs are clearly targeting one key competitive advantage VIA has, namely offering a downtown connection in Toronto through Union Station.

Low cost bus service also attracts a price-sensitive market segment, and the predominant mode of travel within the Corridor is the automobile, representing more than three quarters of all trips within that market. The automobile offers the combination of flexibility and affordability, particularly when traveling with multiple passengers.

The following pie chart based on 2013 data, depicts the market shares of each mode of transportation in the Corridor market:



In summary:

- Car travel represents by far the predominant mode of transportation in the Corridor market. Car trips grab a 77% market share, while VIA captures only 7.7% of the total 46.9 million trips made in the Corridor (comparable to airlines and buses).

- Bus competition and fare price pressures have intensified in the Corridor, over the past few years, with extremely aggressive pricing and key features such as on-board Wi-Fi.

- Competitive pressure from air travel has grown increasingly in every major market, and it has been particularly fierce in the Montreal-Toronto and Ottawa-Toronto segments. Expansion and improvements of air services have also had a significant negative impact on VIA's performance.

Long-Haul Services

Long-Haul services are aimed at connecting communities along the routes and are supported by Canadians and foreign visitors who wish to discover Canada's scenery at a more leisurely pace.

Unfortunately, VIA faces internal issues that sometimes make long-haul services less attractive: an aging equipment fleet, deteriorating track conditions and track congestion problems due to higher freight traffic have all led to badly deteriorating on-time performance.

Remote and Regional Services

While not intended to be commercially viable, these services are deployed in hard-to-reach areas where travel options are limited. As such, the potential markets and competitive landscape are also

restricted. In some areas, roads were built providing access (permanent or seasonal) by car and passenger trains became a complementary but essential service for a customer segment without cars or even the means to bring supplies to their communities.

However, where roads have been built, automobile travel, given its inherent flexibility, together with shorter trip times when compared to trains operating on slow speed tracks, has in some instances become a feasible alternative. Communities that have experienced the loss of train service, such as Vancouver Island and the region between Matapédia and Gaspé, have not been as negatively impacted as they would have been in the past. Nonetheless, access to those communities, particularly during the winter period, has been diminished.

In this situation, VIA intends to support the communities it serves by maintaining access in key peak periods, whether for tourists or cottage country areas. These tourist markets represent small niches but unique offers in the range of available destinations (polar bear season in Northern Manitoba or summer in the Gaspé Peninsula, for example), all aimed at supporting the essential service provided to local communities.

3.2 **Future Trends: Threats and Opportunities**

While VIA continues to face intense competition in all of its key markets, passenger rail will continue to provide a key intercity transportation service. VIA believes it offers a vital, high value product that is appreciated by Canadians. Growth is expected in Canada's cities and with that, increased congestion. It is VIA's firm belief that passenger rail will play an important role in alleviating that congestion. VIA intends to continue to be a strong presence in the Corridor and in other areas, as market demands warrant.

Canada's economy, following slow growth earlier this year, has expanded in the second quarter of 2014, to an annualized pace of 3.1% (GDP). This growth should help all modes of transport; VIA feels that it is well positioned to maintain and increase its market share following the combination of the recent and ongoing improvements to its fleet, its systems and stations.

The lower value of the Canadian dollar will also help increase Canada's attractiveness as a tourist destination, for both domestic and foreign travelers.

VIA must however continue to invest and innovate in order to stay competitive.

It is expected that governments and businesses will continue to ration their travel spending by maximizing the use of technologies (e.g. video conferencing, electronic messaging and telecommunication, etc.) which would negatively affect VIA's major corporate accounts and business travel.

Specific to its network and situation, VIA has identified three trends that could become threats:

3.2.1 Rail infrastructure access

Passenger trains in Canada do not have operational priority over freight trains, unlike passenger trains in virtually all other countries, including the United States. With the current scheme of operation, VIA will continue to lack the leverage to negotiate ideal conditions in terms of scheduling, trip time and dispatch priority.

Growing traffic congestion on main lines and lack of investment and maintenance on the infrastructure threatens VIA's operation and on-time performance, hurting VIA's reputation and ability to compete. Between January and June 2014, on-time performance decreased to 75% for the total system, compared to 84% for the same period in 2013.

Another key constraint is VIA's inability to increase and maximize frequencies, which are currently limited to 30 daily departures between Toronto and Brockville and 18 on CP territory between Brockville and Ottawa. While the number of frequencies have increased and further increases are planned (one additional train frequency in 2014 and ywo more in 2015), this was the result of difficult negotiations and this, despite the very significant investments made by VIA on the host railways' infrastructure.

3.2.2 Station access

In addition to the above noted infrastructure congestion, VIA will also struggle with increasing congestion at Canada's two major train stations: Toronto Union Station and Montreal Central Station. VIA competes with the respective commuter authorities for slots to enter, detrain, entrain, and exit these stations. During the mornings and late afternoons, the commuter rail services are very busy, putting pressure on station space at a time when it is also advantageous for VIA to arrive and depart. The availability of these departure / arrival slots is a limiting factor; this problem does not affect other key stations that VIA owns such as Ottawa or Québec.

3.2.3 Fleet renewal

VIA has not acquired any new equipment since the beginning of last decade and the entire fleet is generally quite old.

As per the detailed fleet profile annexed to this Plan as Annex 1, the average age of the equipment in VIA's fleet is over 40 years old (over 23 years for the locomotives and over 43 years for the cars). To date, they have accumulated a total 4 billion kilometres, or about 8 million kilometers per unit.

When determining the life of railway rolling stock and the need for replacement/major revamping, two criteria are used: useful life and economic life.

The *useful life* of the rolling stock refers to the duration for which the item will be useful to VIA, and not how long the property will actually last (physical life). Many factors affect the useful life, including the frequency of use (mileage accumulated), the age when acquired (new versus old versus remanufactured), maintenance practices, and environmental conditions. The useful life does not take into account the condition of the equipment, or any revamping investments such as rebuilding, refurbishments or modernization required to extend its life or to address regulatory and customer acceptance. The useful life for similar types of rolling stock could differ from user to user depending on the above factors and on technological improvements, economic changes and changes in laws. For instance, Amtrak sets it at 30 years for locomotives and 40 years for passenger cars (source: Amtrak's Fleet Strategy, Version 3.1 March 2012). In the case of VIA and for depreciation purposes, the useful life of rolling stock is set at:

- P-42 and F-40 locomotive at 40 and 45 years respectively,
- Renaissance, LRC and HEP 1 and 2, at 25, 45 and 50 years respectively.

The above usefull life is set for equipment structure (car/locomotive body shell and undercarriages). The useful life of interiors and technical systems varies from 10 to 20 years for locomotives, and 10 to 25 years for cars in accordance with International Financial Reporting Standards (IRFS).

The *economic life* is instead a combination of several factors such as equipment condition and maintainability, availability to support demand requirements, availability of adequate technical systems addressing the service requirements, customer acceptance and capital availability to revamp or to replace. The economic life is usually shorter than the useful life. Amtrak estimates that life to be 30 years for coaches and 20 to 25 years for locomotives.

In the case of VIA, the majority of its locomotive fleet (F-40) is approaching the 30 years of age and has gone, in 2008-2012, through a rebuild program extending its useful and economic life by up to 20 years.

The average age of VIA's car fleet is over 43 years past the indicated passenger cars economic (commercial) life. In particular, the stainless steel cars used in long distance and remote trains (HEP1), some of which are 60 years old, and those used in Corridor services (HEP 2) are 60 to 67 years old. Although the stainless steel car body shells can last almost indefinitely, the rest of the components (undercarriage, interiors, systems, fixtures and fittings) cannot, and require major revamping every 30 years. Of the remaining Corridor fleet, the LRC cars are currently undergoing a revamping, which is expected to extend their life by up to 10 years; the Renaissance equipment is now 16 to 18 years old and will have achieved its economic life by the mid-2020s.

Rebuilding aging rolling stock could only be a temporary solution that does not necessarily save money in the long run. Investing in new and modern equipment is an element necessary to support the development of passenger rail and its growth.

Fleet renewal is not a simple process and it can take several years to develop performance specifications, tender the work, award the contract, testing and accepting a prototype, and commence production. Given the North American passenger rail equipment manufacturing context, production could also take several years. Hence, efforts must commence shortly to address medium to long term fleet requirements and their replacement options, and funding should be identified by the end of the Planning period.

In the Corridor, VIA operates mostly the LRC cars. These rebuilt cars will have a useful life extension of 10 years and, therefore, they will have to be replaced starting as early as 2022 with new intercity passenger cars. The replacement must also include the 33 HEP 2 cars, originally manufactured in the late 1940's/early 1950's and used in Corridor services.

For the Long-Haul Services, the Renaissance equipment (now 16 to 18 years old) used in the East is undergoing overhaul with limited impact on life extension. Some modifications are required to meet market demands. This will be partly covered by the annual capital funding.

As part of undergoing major investments, VIA is completing the reconfiguration of 12 of the 173 HEP 1 cars used in Western Long-haul services. The remainder of the HEP 1 fleet, now 60 years old, will get a refresher of its interiors, and will require towards the end of the decade, a major upgrade and modernization or a full replacement.

For the Regional and Remote Services, given that competitive environment is, in general, limited to the automobile and not other modes, investments to maintain the cosmetic attractiveness of the equipment are required to a lesser degree.

3.3 **World Developments in Passenger Rail**

In the late 19th and early 20th centuries, rail carried an overwhelming share of intercity passengers. With the advent of automobiles, buses and airplanes, and the enormous investments in road and air infrastructure by governments, especially in the developed world, the passenger market share of rail dropped precipitously after WWII. In 1964 the Japanese started the renaissance of intercity passenger service with the first high-speed trains, the Shinkansen. In Europe, the French TGV began service in 1981.

Since then, there has been an explosion of High Performance Rail and High-Speed Rail (HSR) around the world, consisting of electric powered trains travelling between 200 and 350 km/hr mostly on dedicated, fully grade (i.e., no level crossings) separated tracks. Currently, there are 20 countries with HSR operating on 18,000 km of track, carrying about 300 billion passenger/km or approximately one billion trips per year. Ten more countries are in the process of building HSR lines and 14 are in

the planning or development phase. In a decade there should be a total of over 40,000 km of HSR; enough to circle the earth. The list includes all Western European countries, the United States and most developed Asian countries. China has now taken the lead in the deployment of HSR, joined by many other developing countries.

Many HSR projects, and other such infrastructure projects, are being developed and built in partnership with the private sector as PPPs.

HSR provides an ability to move very large numbers of people from city centre to city centre very safely (e.g. not a single fatality in Japan or in France since their introduction). HSR has been proven to be very competitive for distances between 160 km to 800 km in sufficiently dense areas; however, it has also had success in relatively low-density countries such as Sweden. Other socio-economic benefits include economic efficiency and job growth (HSR does for the movement of people and services what free trade does for goods). HSR has significantly reduced time wasted waiting in traffic and airport line-ups, has caused economic and job growth beyond the construction phase, has permitted increases in land values and development and generated more taxes to governments.

Canada has been lagging other countries in implementing a modern passenger railway system to complement its intercity travel infrastructure. Over the past ten years, the total kilometers travelled by rail in Canada has decreased 12%, while they have increased 24% in the United States and 17% Western Europe.

4 STRATEGIC DIRECTION

VIA's new President and Chief Executive Officer was appointed on May 9, 2014. He immediately launched a review of VIA's strategic direction through an exercise named VISION 2020.

VISION 2020 involves re-thinking all facets of VIA's business: how, where and when VIA operates its train services; where VIA locates and maintains its rolling stock; how VIA prices and sells its services; what are the various product offerings and their value proposition to customers; how VIA communicates with employees, passengers, shareholders, stakeholders, and the general public; and how VIA determines the true cost of its services, its return on investments and use of its assets. Most importantly, VIA has to ensure that everyone, including the communities it serves, is engaged in the success of this new plan.

4.1 **Planned Initiatives in VISION 2020**

The new vision for VIA is a market-based organization where the actions by the people of VIA will address the mobility needs of the Canadian population.

The vision realigns VIA's activities to improve customer service, financial efficiency and operational excellence.

The markets will include:

- Long-Haul trains;
- Intercity services, largely in the corridor; and,
- Regional and Remote services (Mandatories).

These business lines will be responsible for the operations, capital investment and financial performance of their respective passenger rail services, train by train.

In addition, a Capital Asset Management organization will supply its asset base to the different business units on a commercial basis. The Capital Asset Management organization will also be responsible for the possible commercialization to third parties of any asset not required/used for VIA operations.

The implementation of this vision is based on a number of guiding principles including:

- Continue to invest, when funding is available, primarily in VIA's own infrastructure in order to:
    - enhance the safety and security of operations;
    - improve train reliability and on-time performance;
    - introduce more train frequencies; and
    - significantly improve trip times to grow revenue, thereby reducing dependence on the Government of Canada;
- More infrastructure owned by VIA or possibly shared with other passenger rail organizations;
- Investments in third party infrastructure only when there are no viable alternatives and benefits would be contractually guaranteed;
- Focus on enhancing value to customers and pricing as close as possible to the real inherent value of the product to maximize revenue per passenger, while continuing to serve as many communities in Canada as is viable; e. g. Churchill, Vancouver Island;
- Continue to be as efficient as possible and frugal with taxpayers dollars (financial excellence resulting in a minimum Government of Canada subsidy);
- Public service company with a commercial delivery; and
- Employee and community engagement.

4.2 **Key Strategies in VISION 2020**

Over the past five years, VIA has made significant efforts to contain the growth of its operating deficit and thus, its reliance on government funding. As the Corporation pursues commercial strategies to increase its ridership, the relevance of its services and to grow its revenues, it is imperative that these strategies not impact negatively the corporation's bottom line.

The following lists strategies/initiatives that will be implemented or investigated by VIA. These initiatives are segmented into three categories, based on whether they mostly engage customers, employees or other stakeholders. These strategies were approved by the Board of Directors in late November 2014.

	Strategy/Initiative	Description
Customer Engagement	Door-to-door fulfillment	Implementation of a seamless door-to-door travel experience, including trip planning, booking, and payment.
	Cycling optimization	Generation of more available seat capacity and allocation within the Corridor by finding more efficient ways to cycle trains, and doing this within existing travel time and frequency parameters.
	Scheduling to better meet market needs in the Corridor	Identification and elimination of gaps between current train schedules versus ideal train schedules to better meet market demand. Perform sensitivity analysis reflecting feasibility of changes and expected improvements.
Employee Engagement	Bring your own device	Facilitate collaboration and connectivity of all employees by allowing the use of their own device / smartphone to access work-related applications and to ease and simplify their work at VIA.
	Employee information network	Expansion of the use of audio/video media to better communicate with employees across the network in order to improve employee understanding, buy-in and engagement.
	Career paths and VIA management school	Design and implementation of a fast-track development program, including a review of the Educational Assistance Program, and promoting and rewarding lateral moves throughout the organization.
	Corporate project management office	Creation of a corporate Project Management Office (PMO) to increase timely and positive outcomes of projects and initiatives, both capital and operating, and encourage cross-functional collaboration.
Shareholder and Stakeholder Engagement	Implementation of a new financial model	Establishment of a direct line of sight to financial performance and accountability by establishing profit and cost centres, and integration of the train profitability model into the monthly financial reporting.
	Modify key performance indicators (KPIs)	Implementation of a balanced scorecard approach to ensure alignment between corporate, department and individual goals, using the appropriate KPIs.
	Outreach to provinces and municipalities	Implementation of regular dialogue with input of provincial and municipal authorities.

Table 4.2.2- List of initiatives being investigated as part of VISION 2020 - business case or study level only.

	Strategy/Initiative	Description
Customer Engagement	Reduction of congestion into and out of major urban centres of Toronto, Ottawa and Montreal.	Increase the mileage of VIA-owned and operated rail infrastructure by acquiring existing tracks or by acquiring railway rights-of-way or land on which to build tracks, within 250 km of major urban centers of Toronto, Ottawa and Montreal.
	More reliable, safer and more frequent passenger rail service.	Complete a detailed feasibility study and business case for the establishment of a dedicated intercity passenger rail network integrating the regional network of Toronto, Ottawa, and Montreal.
	Fleet renewal plan	Development of a fleet renewal plan for the existing network and service levels and for potentially increased service levels on dedicated passenger track in the Toronto-Ottawa-Montréal corridor.

4.3 Current Strategies

The previous section outlined future strategies. VIA however continues to implement some of the initiatives and strategies previously identified in previous Corporate Plans. They can be grouped into three major categories, as detailed below.

4.3.1 Marketing initiatives to stimulate growth and revenues

- Revenue (pricing and seat inventory) management through leveraging the implemented system, which has led to the marketing of Escape fares, targeting car users for testing the train to entice them to become regular users, and more granular pricing offer depending on train attributes.
- Consumer segmentation to generate targeted market opportunities.
- Introduction of additional train frequencies based on market opportunities in the Corridor (Ottawa-Toronto frequency in October 2014 coupled with another Ottawa-Toronto and a Montreal-Toronto frequency planned for 2015), supported by the premise that a key factor is the flexibility offered to travellers with frequent departure times.

4.3.2 Customer Experience (listening to customers' expectations)

- Deployment of a refurbished fleet (LRC, HEP fleet on Western Transcontinental), including accessible options.
- Business class service offer redesign focusing on on-board productivity, comfort attributes (reconfigured 2+1 seating in refurbished cars) and meals offered.
- Economy Class service design, for an enhanced experience through more personalized and attentive service, revised meals / snacks / refreshments offer.
- Baggage policy.
- Modernize service delivery at our stations, to provide a more user-friendly environment, with efficient, timely service, together with an increased use of electronic mobile platforms. A number of stations have also been modernized.
- Broadening the use of Wi-Fi on-board for our customers.

- Introduction of the On-Train Entertainment (OTE) system in the Corridor, a digital platform providing free access to Canadian media content such as CBC/Radio-Canada news and programs, documentaries and animations by the National Film Board of Canada and Heritage Minute vignettes by Historica Canada.
- Modernized and more user-friendly booking engine paired with e-ticketing.

4.3.3 Station developments

- Leverage real estate asset to increase ridership, enhance travel experience and improve bottom line.
- Development of underutilized parcels of land at key stations (letter of intent signed for Halifax, Ottawa, Winnipeg and London) through partnerships or joint ventures, providing additional services and amenities to customers with no financial risk to VIA, as the contribution from VIA would be limited to the conveying or leasing of the land.

5 SAFETY IMPERATIVES

5.1 Overview

In the past few years, rail incidents such as the tragic events in Lac Mégantic and the OC Transpo bus collision have heightened the public's awareness of the need for safe practices in the railway industry. This has spurred a public debate and the Minister of Transport has responded by announcing more stringent rail safety regulations.

While all railroads must operate within safety parameters that uphold the safe operations and protect the communities through which railways travel, passenger rail safety standards are also designed to ensure the safety of the travelling public at all times.

VIA's Safety Management System (SMS) processes are submitted to Transport Canada annually. The SMS has been in place since 2000, and it includes the definition of roles and responsibilities and their integration into day-to-day activities. It confirms that VIA has the processes and procedures in place to identify, mitigate and monitor risks, to report and log incidents, and monitor the implementation of corrective and preventive actions.

Safety processes are audited internally and externally to ensure adherence to the highest standard of safety. VIA's safety practices were evaluated in 2012 by its auditors, PricewaterhouseCoopers, and it was deemed that VIA had a safety culture well embedded throughout the organization.

Equipment and infrastructure safety practices include:

- Standard visual inspections and brake tests before and after trips;
- Regular full pit inspections;
- Scheduled maintenance program;
- Regular inspections of all rail infrastructure components;
- Ultrasonic testing and electronic track geometry tests;
- Yearly independent audits on the infrastructure High Risk Area program, whereby areas of high risk are identified and all repair work to be done is prioritized according to the level of urgency;
- The closure of crossings (more than 70 have been closed over the last two years).

VIA trains its workforce to the highest standards of safety, through measures such as:

- Refresher courses outlining the changes in practices, given at an appropriate frequency;
- Inserting safety-related objectives in its performance management program, including mentoring and auditing.

VIA also improves its processes and practices through initiatives such as:

- Introducing new technology, including fail-safe train controls, to reduce human errors in the locomotive cab;
- Installing safety devices on locomotives (e.g. forward-facing cameras and voice recorders), and biometric secure starting mechanisms (digital fingerprints).
- Developing a GPS train control system that will provide most of the benefits of the Positive Train Control (PTC) technology being implemented in the United States, but at a fraction of the cost. This system relies on communication to and from the locomotive cab and will ultimately reduce the risk of human error through reminder alerts about rules, speed restrictions and slow orders, including the activation of penalty braking.

VIA has maintained an excellent safety record since its inception and, over the years, safety has become a strong differentiator of VIA's culture: "*safety first and foremost*". Specific safety related elements related to crossings in the next sections.

5.2 Barrhaven Area Crossings

In 2014, a number of fail-safe activations occurred at railway crossings in Barrhaven, near Ottawa. Following a comprehensive review, 132 corrective/improvement actions have been implemented to address the following, among other things:

- Installation of a camera system;
- Installation of modems to send alerts to dispatching office;
- Increase the frequency of inspections to the signal components;
- Modification of the program to correct false activations due to train meets at Fallowfield;
- Replacement of components for preventive maintenance; and,
- Installation of filters to reduce signal disruptions from interference.

VIA's infrastructure maintenance and dispatching contractor is also keeping an additional maintainer to cover during rush hours and provide a faster response to any incidents, as needed. VIA is in constant communication with the City of Ottawa and OC Transpo to resolve the issues with the six crossings in the Barrhaven area.

5.3 New Grade Crossings Regulations

On December 17, 2014, the Government of Canada published Grade Crossings Regulations that establish new safety standards aimed at reducing the frequency and severity of accidents at grade crossings. One of the key elements of the new Regulations is that road authorities, private authorities and railway companies will be required to maintain sightlines at grade crossings. A period of 7 years from the effective date of the Regulations coming into force is provided to allow for required standards to be phased-in for existing grade crossings.
Sightlines will be preserved by prohibiting the construction or placement of structures and objects that obstruct the sightlines. Control of tree and brush growth that obstructs sightlines will be required as well. Sightline modifications may also be required or can be implemented on vehicle roadways. Passenger trains in general, due to their higher speeds, require longer sightlines. As the new Regulations can certainly impact track speeds, given higher passenger train speeds, proportionately, the implementation costs will have a greater impact on VIA.

VIA fully supports the objectives of the Grade Crossings Regulations, particularly where higher-risk crossings are concerned. It is expected that a detailed analysis will be completed in 2015 to determine the costs of these required changes; as a result, it is expected that additional funding will be required to ensure compliance.

6 RESULTS OVERVIEW: 2009 TO 2013

In 2013, revenues of $270.4 million were $6.5 million (2%) below 2012 and operating expenses of $490.1 million were $4.3 million (1%) over 2012 (excluding pension costs). As a result, the operating deficit for 2013 was $219.7 million, $10.8 million worse than 2012 (excluding pensions).

6.1 Revenues

The competition for market share has caused price wars between transportation modes in the busy Corridor markets. Consequently, passenger revenue declined by 3% in both 2012 and 2013 and is down 0.3% since 2009. While train service reductions are responsible for a portion of this decline, slow economic growth, worsening on-time performance and strong competition in VIA's two strongest markets have negatively affected revenue. In 2013, a strike was averted at the last moment but the uncertainty negatively impacted revenues during that summer.

6.1.1 Train Service Revenue Results

In 2013, revenues in the Eastern Corridor increased by $2.0 million (1%) over 2012 levels due to the introduction of new frequencies (Montréal-Québec and Toronto-Ottawa) in December 2012. While more customers came on board, yields were not as high as expected and targets were not met. Revenues in Southwestern Ontario fell by $3.3 million (8%) over the same period due to a decline in frequencies made in 2012.

In 2013, the *Ocean* generated $8.6 million of passenger revenues, $4.6 million below the previous year, due to the train frequency reductions that went from six round trips per week down to three.

The *Canadian's* revenue in 2013 was below 2012 results by $1.5 million (-3.8%). This was due to the economic downturn and to frequency reductions, and was partly offset by higher yields.

As for the Regional and Remote services, in 2013 they were below $5.7 million or 2.8% below 2012, mainly due to suspension of the Montreal to Gaspé service in September 2013.

Other revenue includes revenues from concessions, station parking, work performance for third parties such as the maintenance of Vancouver commuter trains (West Coast Express) and investment income. Revenues in 2013 were $1.3 million higher than 2012 owing to higher station revenue and revenue from third parties.

6.2 Operating Expenses

Regular operating expenses for 2013, excluding pension costs, were $4.3 million higher than 2012, for a total of $490.1 million.

VIA has gone to very great lengths to contain compensation expenses, and to align itself with compensation and pension cost initiatives outlined by the federal government.

Moreover, VIA cannot institute significant changes in the manner it operates. VIA cannot change schedules to better match supply and demand on long-haul, regional and remote services as the levels of service are prescribed by the Government of Canada. Therefore, VIA cannot simply reduce or eliminate frequencies in a manner similar to an airline cancelling a flight in order to alleviate losses.

6.3 Capital Expenditures

After nearly completing the investment program provided under the Economic Action Plan, VIA has benefited from further capital funding in 2013 and earmarked amounts for the 2014, 2015 and 2016 exercises, allowing appropriate planning for ongoing projects and additions to come.

7 RESULTS OVERVIEW: 2014 Outlook

VIA's revenue management system and strategy is showing positive results. As a result, revenues were $182.7 million and expenses $387.4 million as of August, for a deficit of $204.7 million, compared to a deficit of $213.6 million for the same period last year, representing an improvement of $8.9 million.

As a result of this recent trend, VIA anticipates meeting its revenue forecast of $274.3 million, an improvement of $3.9 million over last year. Expenses are forecast to reach $516.7 million for a forecast operating deficit still tabled at $242.3 million.

7.1 Revenues

Revenues were somewhat sluggish for the first six months of 2014, but realignment in the pricing strategy implemented in July reversed the trend. Yields have improved, bringing August year-to-date passenger revenues back on track at $164.7 million, $3.3 million better than the same period of last year. This supports the forecast of meeting the target of $274.3 million, an improvement of $3.9 million over last year.

7.2 Operating Expenses

In 2014, regular operating expenses, excluding pensions, are forecast at $516.7 million, $26.6 million higher than 2013.

Compensation will be $224 million, compared with $211.8 million in 2013, however this period includes one additional pay, which occurs approximately once a decade. Nonetheless, this result will meet expectations in terms of productivity measures

Train operations are forecast to cost $123.7 million, slightly above last year.

7.3 Capital Expenditures

Some major projects are on the verge of being completed in 2014 and a total of $85.8 million is expected to be invested. In comparison, a total of $96.2 million was invested in 2013.

The rebuild of LRC Business Class cars is progressing as is the modernization and accessibility improvements to 12 HEP1 cars.

On the infrastructure side, the main project is the Goderich-Exeter Railway (GEXR) infrastructure safety improvements.

Capital investment projects are subject to certain constraints, such as the conclusion of successful negotiations, seasonal work windows, market conditions and contractor performance. Other reasons that may impact schedule are:

- Late approvals of funding;
- short construction season;
- limited number of suppliers;
- a full RFP process; and
- market availability of key parts and components.

A good example is the industry shortage of hardwood track ties and its impact on various infrastructure projects.

As well, VIA operates in a dynamic environment were priorities change for business, competitive, safety and regulatory reasons. This is normal in this industry for all operators, freight or passenger.

The timing, overall schedule and execution of these projects, and with that the expenditure of funds, are dependent upon both VIA and third parties. These constraints are normal within any business environment. VIA cannot unilaterally impose its schedule or conditions on others parties nor should it be expected that schedules and expenditures will always precisely match with what was planned.

8 OVERVIEW OF THE 2015-2019 OPERATING PLAN

8.1 Revenues

VIA maintains a prudent approach in projecting revenue growth, forecasting an increase of about 2% per year in revenues over the period of the Plan.

8.2 Operating Expenses

VIA will continue to implement productivity and cost-containment measures. VIA's introduction of new train frequencies will have a small incremental impact on compensation and operating costs, however this increase will be more than offset by the anticipated growth in revenues that the new frequencies will add.

As a result, expenses are forecast to grow from $516.7 million in 2014 to $569.4 million in 2019, or 10.2% over the period of the Plan.

8.3 Capital Expenditures

Included within VIA's funding are amounts identified for ongoing capital requirements that will be invested towards the upkeep of VIA's asset base and maintain a state of good repair.

This funding is not intended, nor is it sufficient, for any major equipment or infrastructure replacement or acquisition program, or for any significant trip-time or train frequency improvements, or for any transformative change.

The Government's investment in VIA will achieve the following:

- Completion by 2017 of the LRC Car Fleet Rebuild project Completion by 2016 of the LRC Car Fleet Rebuild at external contractor;
- Completion of the overhaul of the HEP1 car fleet assigned to the Canadian (new interiors);
- Ongoing track work programs, bridge repairs, new sidings, signaling repairs on VIA's infrastructure;
- Required infrastructure repairs on the Newcastle Subdivision between Bathurst and Miramichi, New Brunswick;
- A variety of station requirements (e.g. platform and canopy in Vancouver; Ottawa station master plan; Brockville station renovations; parking and platform upgrades at various locations; Ste-Foy station expansion; various building, mechanical, electrical and architectural upgrades at some stations; signage; painting and other repairs and upgrades) together with station support for projects such as baggage wagons, luggage cart replacement; and
- A number of equipment projects addressing safety, regulatory, state of good repair, growth and efficiency requirements.

Many of the above projects elements are of a safety related nature and are necessary to maintain safety standards and to adherence to health, safety, security and regulatory requirements. All of VIA's projects must go through a formal approval process where the project's justification is

evaluated and documented, and where all key criteria that the project's implementation is intended to address are identified.,

All projects are likewise subject to a formal approval process that includes the Project Manager, Project Control, Sponsor Department, Implementing Department, Executive management and potentially the Board of Directors, dependent upon the authorization level required for a given specific project.

8.4 **Additional Requirements for 2015 to 2019**

The following section outlines identified needs for which no funding has been earmarked at this point but that will require specific attention during the Plan horizon.

8.4.1 Ongoing Capital

In order to keep its extensive asset base in a state of good repair, VIA believes that a minimum annual capital funding envelope is required to meet basic ongoing capital needs. These funds are required for interventions on VIA's fleet and on-board equipment, stations, maintenance plants and other facilities, machinery and tooling, and computer systems.

VIA must also adhere to health, safety, security and regulatory requirements that result in modifications to the equipment, infrastructure and systems, station and facilities improvements and maintenance of its information technology software and hardware.

On-going capital is also required to ensure reliable, efficient and economical operations in support of the various revenue optimization and productivity improvements initiatives. Failing the availability of funds, VIA will not be capable of maintaining a state of good repair and not be in a position to deliver its mandate.

8.4.2 Fleet Renewal

As stated in Annex 1, VIA's fleet is coming to the end its commercial life, despite the extensions that were provided in the last years through refurbishments. Given the lengthy process of acquiring new equipment (i.e. between five and 10 years), VIA will develop a proposed plan to support the renewal of its rolling stock fleet in the next few years.

8.4.3 Research and Development

Innovation and innovative solutions, particularly the use and application of new technologies, are crucial to address the need for improvements in safety, growth, productivity and sustainability. As such, VIA is a member of the Railway Research Advisory Board, which is an industry committee that advises Transport Canada (TC) on common industry research priorities, focusing mainly on safety research common to the Canadian industry. Despite the fact that TC research funding is very limited (the 2014 budget is $100,000), VIA would benefit from funds for initiatives such as modifications to the rolling stock to improve aerodynamics and reduce fuel consumption; engineering and testing of a modern electronic system for wheel-slide protection on the stainless steel HEP I fleet; review of the current vehicle dynamics (locomotives and cars) to improve ride quality; and testing of an anti-icing system to prevent ice build-up under rolling stock.

9 HUMAN RESOURCES

9.1 Compensation

VIA has gone to great lengths to contain compensation expenses and align itself with the Government of Canada's compensation and pension cost initiatives. Improving efficiency has become the way of doing business in all of VIA's activities and functions.

As well, VIA is aligned with the Government of Canada's efforts to shift to a balanced pension 50/50 cost share for the Federal Public Service by 2017. Moreover, VIA's pension plan is significantly less generous than the Public Service pension plan.

Also, the introduction of a hybrid defined benefit/defined contribution plan for new hires will have a considerable impact on costs and benefits in the long term. In addition, medical benefits are not part of pension benefits as is the case for the Federal Public Serviceand must be purchased by retirees.

VIA negotiated a three-year labour agreement with Unifor, which was ratified in late July 2013. The previous agreement expired December 31, 2012; the current agreement will expire on December 31, 2015.

The other major labour agreement at VIA is with the Teamsters Canada Rail Conference (TCRC) which represents VIA's locomotive engineers. The current agreement expired on December 31, 2014 and negotiations are underway.

9.2 Bill C-60

With the passage of Bill C-60, *The Economic Action Plan 2013 Act*, and pursuant to a government directive (Order in Council PC 2013-1354), VIA is now subject to Treasury Board approval of the negotiating mandate on all labour agreements before entering into collective agreements. Additionally, the Treasury Board would be entitled to have a representative monitor the negotiations. The Treasury Board would also have the right to follow a similar process for all non-unionized employees and VIA would require Treasury Board approval before it settles on the terms and conditions of employment of its non-unionized employees who are not appointed by the Governor-in-Council. VIA will work with Transport Canada and the Treasury Board Secretariat to ensure that VIA's processes include time for these reviews and potential policy decisions in the setting of negotiating timelines.

10 FUNDING OVER THE 2015-2019 PLAN PERIOD

The total government funding available to VIA for the five years of this Plan is $1,264.5 million. This amount is based on the annual reference level of $146.8 million and includes additional funds identified in Budget 2014 for the three-year period starting fiscal year 2014-2015.

VIA's total needs for the five years are $1,832.2 million, a shortfall of $567.7 million, owing to the fact that for the last three fiscal years, the requirements for operating, capital and pension expenditures, beyond the $146.8 million, are still unfunded.

11 ISSUES AND MAJOR RISKS

This section outlines the issues and risks that the Corporation identified over the planning horizon. It also describes the strategies aimed at addressing them. VIA has adopted an Enterprise Risk Management (ERM) framework and performs regular risk assessments and quarterly monitoring of key risks, which allows the Executive Committee to update risks for review with the Governance, Risk and Strategy (GRS) Committee of the Board.

VIA carries out regular self-assessments of the effectiveness of treatment measures, and supplements its conclusions with the results of internal audits and periodic external studies.

11.1 Enterprise Risk Management

In the past, there was no dedicated ERM function, as each group within VIA performed the identification, assessment and prioritization of risks without effective central coordination. Different tools, systems, methods and processes were used, depending on where the business risk resided and how it was managed. Nevertheless, external auditors and subject matter experts assessed VIA's ERM system and process and concluded they were well positioned compared with industry peers, and that VIA was positioned to evolve into industry leading practices.

Further to the appointment of a director into a reshaped and enhanced Enterprise Risk, Claims and Insurance role, a new ERM framework (including a policy, process, risk appetite framework and annual ERM calendar) has been developed in the past year. As part of the ERM framework, key risk appetites and tolerances are established and monitored quarterly; risk treatments are documented, validated and adapted if need be, and mechanisms are implemented to monitor emerging risks and best practices while reacting to global industry situations.

In addition to making structural changes to and updating the policy, VIA is enhancing its ERM processes and has adopted the international ISO 31000 Risk Management standard. This will be integrated with the existing Hazard Assessment and Risk Control System (HARCS), the Safety Management System (SMS) and VIA's new Code of Ethics.

This ERM process will provide an improved and integrated risk management framework that is aligned with VIA's strategic objectives. Risks and opportunities are evaluated in terms of probability and magnitude of impact. Once risks are given a priority, a response strategy is developed and monitored. These processes will be part of VIA's ongoing efforts to continuously enhance safety, improve the preparedness and efficiency of its operations, as well as ensure business continuity in the event of a business disruption, and will be integral to VIA's strategic planning.

The application of ERM forms part of the new CEO's objectives. This integrated process will be a focus of executive management to ensure that all employees understand and take ownership of the responsibility for managing and reporting on key risks, and for escalating issues when required.

One of the primary objectives of an integrated ERM process is the identification, prioritization and monitoring of overall risks facing the Corporation. VIA has completed a review, updating the risks identified to date, and is developing specific plans and risk treatment strategies for key strategic risks in the most current context, as described in the following section.

11.2 **VIA's Key Risks Potentially Affecting Strategic Objectives**

11.2.1 Safety of Passengers, Employees and the Public

The safety and security of our passengers, employees and the public is VIA's primary concern. A collision, derailment, crossing or pedestrian accident would have tremendous human impact. Similarly, contaminated food items or beverages could also pose a safety concern to our passengers. In addition to the human impacts, these occurrences can also pose financial, environmental and reputational impacts. Events such as the 2013 terrorist plot against a VIA train are a reminder of the importance of remaining vigilant at all times.

Risk treatments include:

- Adhering and exceeding government regulations;
- Having two locomotive engineers in the cabin for all passenger services;

- Training personnel to the highest safety standards and testing them every 90 days;
- Ensuring ongoing certification of locomotive engineers;
- Examining the medical condition of locomotive engineers regularly;
- Regularly inspecting VIA's equipment and infrastructure;
- Transforming the role of Director of Security into a VIA-dedicated police inspector, who is a reinforced coordination point of contact between VIA, law enforcement and intelligence services; and
- Performing a gap analysis and potential implementation of recommendations against terrorist threats.

11.2.2 Employee Contribution

Employee contribution is crucial to VIA's continued success in a highly competitive travel and tourism sector. Despite scoring well on customer service surveys, its criticality comes from the fact that it is deemed to be a competitive advantage VIA needs to maintain and over which it has full control.

The contribution of employees through their skills, competency, experience and engagement may have a positive or negative impact on the achievement of VIA's strategic objectives, including on providing a safe travel experience and customer service that meets the expectations of passengers. Actions include:

The Employee Contribution Risk Map was approved by the Board of Directors in November 2014. Risk components included in the map are:

- skills gap for strategic goals achievement;
- locomotive engineer staffing and experience;
- resiliency of critical operational positions; and
- relationship with employees and engagement.

Risk Treatments include:

- Developing a hiring grid to improve match on values and competencies, in particular customer service-related, at every level of the organization;
- Implementing a talent development program with temporary assignments for key individuals to expose them to different aspects of the business;
- Planning for succession, or workforce planning, to align key competencies with critical positions and strategies, supported by elements such as the employee recognition program, the development plan that targeted employees must fill out and review with managers, or specific training (locomotive engineers); and
- Developing a training program (locomotive engineers) and maintaining a sufficient spare board list pool of qualified employees, supported by tools such as a training simulator used to train locomotive engineers.

11.2.3 Funding Considerations

VIA's limited powers under its current Crown corporation status and insufficient annual funding constitute a risk in the efficient delivery of its services, and in the planning and execution of any medium-to-long-term strategy. VIA continues to move forward with respect to aligning itself with cost directives outlined by the Federal Government. VIA will continue to work with Transport Canada and Central Agencies to address its funding requirements.

11.2.4 Revenue

VIA, as part of its ongoing management process, analyses revenue performance in all sectors and updates its forecasts on an ongoing basis. As a result, VIA has implemented the following initiatives:

- Forecasting growth more prudently, in particular for future years for which risk is greater;
- Introducing additional trains in the Corridor;
- Introducing refurbished, modernized Economy Class and Business Class cars in the Corridor;
- Introducing new or refurbished modernized stations that offer improved customer amenities and service;
- Introducing refurbished sleeping cars for VIA's Toronto–Vancouver service;
- Launching a new booking engine with more features like fare shopping;
- The ongoing use of a revenue management system that offers more flexibility to better manage yield per passenger and the number of passengers to obtain optimal results; and
- Introducing e-ticketing, which provides enhanced customer service.

11.2.5 Infrastructure Availability, Reliability and Quality

The availability, reliability or quality of the rail infrastructure used by VIA may have a positive or negative impact on on-time performance (OTP), trip times and the ability to add frequencies to meet market demand. The foregoing factors all influence passenger satisfaction and their choice of whether or not to take the train and, consequently, the amount of revenues earned by VIA.

Track infrastructure availability and services provided to VIA by the host railways (e.g., CN and CP), have been deteriorating and represent a risk for VIA. Host railways and VIA often have conflicting peak demands and must reach compromises for adequate track access. It is worth restating that passenger trains in Canada do not enjoy the same priority protection as in almost all other countries, including the United States, where Amtrak pays up to 40% less for track access.

Examples of conflicting priorities include the single-track infrastructure between Toronto and Vancouver for both freight and passenger trains. As the volume of freight, such as grain or oil transported by rail increases, VIA's on-time performance is affected. Events like the grain movement in 2013-14 or severe winter conditions exacerbate the situation and significantly impact the OTP of the *Canadian*. Also included is track access in the Corridor where trip times have increased in the last decade, despite major investments, realized to debottleneck the operation and for which host railways benefit in their operation (sidings, mainline train operations harmonization and smoother operations at stations).

Risk Treatments include:

- Improving communication with host railways and performance analysis of the trains;
- Reviewing operations with host railways on a daily basis;
- Introducing additional trains in the Corridor;
- Investing primarily in VIA-owned infrastructure, or where there are solid guarantees on the benefits;
- Pursuing strategic infrastructure acquisitions in the Corridor;
- Evaluating the pertinence of supporting dedicated tracks;
- Adjusting schedules and trip times to reflect the revised speed limits;
- Investing to acquire or maintain the infrastructure; and
- Negotiating partnerships with host railways or operators to share the risk on such lines.

11.2.6 Equipment Quality, Availability and Reliability

The quality, availability and reliability of VIA's equipment may have a positive or negative impact on the satisfaction of passengers, their propensity to take the train and, eventually, on the number of VIA passengers served and revenues earned.

Following a series of investments since 2008, VIA was able to improve maintenance to a state of good repair and extend the useful life of a sizeable portion of its fleet. However, by doing so, VIA still operates with an aging fleet, which remains a risk for VIA's ability to operate in the future.

Furthermore, an older fleet generally means increased requirements for maintenance. Therefore, VIA needs to plan its operations in the short, medium and long term accordingly, especially for the key LRC fleet used in the Corridor, for which only 10 years of service have been added through the latest investment program. Annex 1 details the age of the fleet.

Risk Treatments include:

- Funding a program for three years (equipment maintenance);
- Investing in the existing fleet through ongoing capital injections to maintain in a state of good repair;
- Developing an LRC refurbishment program;
- Ensuring project management of LRC refurbishment by VIA's Montreal Maintenance Centre and CAD Railway Industries (supplier);
- Focusing on high-failure components and systems;
- Conducting reliability-centered maintenance focusing on critical systems;
- Ensuring technical experts are available 24 hours a day to assist locomotive engineers en route;
- Planning for fleet replacement in the longer term, considering the lead times (5-10 years); and
- Planning for project management office and staffing in preparation for eventual major equipment projects.

11.2.7 Information Technology

The availability, reliability and responsiveness of existing and new information technology (IT) may have a positive or negative impact on the achievement of VIA's strategic objectives and management of other key risks.
VIA has no appetite for a decrease in the availability, reliability, responsiveness and optimization of its IT platforms to support the achievement of VIA's strategic objectives. VIA has a risk appetite for the development of new cost-effective, integrated, engaging or revenue-generating IT supporting the achievement of strategic objectives.
Security risks such as hacking attempts materialize regularly around the world and affect financial institutions and large retail companies in particular. VIA intends to continue managing that risk and improving its risk treatments. VIA has identified some IT system weaknesses or vulnerabilities. These are being corrected to enhance their reliability and resiliency.

VIA will continue to assess IT risks and consider new treatments during the planning horizon. Risk components considered include:

- security;
- consultants;
- underinvestment in IT (equipment, support personnel, supplier management); and
- reliability and resiliency.

Risk Treatments include:

- Ongoing security framework elaboration and implementation;
- IT security processes, directives and standard;
- IT Security event management implementation;
- Completed perimeter and critical systems security event monitoring;
- Stronger network and host intrusion detection systems;
- Implementation of vulnerability management;
- Security vulnerability assessments performed on reservation system and critical infrastructure;
- VIAnet upgrade;
- Disaster recovery plan;
- Change management and process implementation;
- Systems monitoring (implementation in progress);
- Manual procedures;
- Program management team dedicated to projects;
- Master agreement with various firms for the supply of resources; and
- Involvement of senior management in the organizational structure of each major project.

ANNEX 1 – VIA RAIL CANADA FLEET PROFILE

VIA has not acquired new equipment since the beginning of the last decade. Although a portion of the fleet has been or is being refurbished (e.g. the F-40 locomotives completed in 2012, the LRC Corridor cars expected to be completed by 2017, and the 12 new Prestige HEP 1 cars), the refurbishment will only extend their life by a decade or two.

The profile of the existing fleet is as follows:

VIA Rail Rolling Stock Profile and Age

Equipment Type and Description	Quantity	Year Built	Latest Rebuild	Age in 2014 (years)	Deployment
Locomotives:					
General Motors F-40	53	1986-87	2007-12	27-28	All services
General Electric P-42	21	2001		13	Corridor
Total Locomotives	**74**			**23.4**	
Cars:					
Light, rapid, comfortable (LRC)	97	1980-81	2011-17	34-35	Corridor
Head-end power (HEP 2) (stainless steel heritage)	33	1947-54	1989-94	60-67	Corridor
Renaissance (from U.K.)*	106	1996-98	2001-03	16-18	Corridor and *Ocean*
Head-end power (HEP 1)** (stainless steel heritage)	173	1954	1989-94	60	*Canadian* and Remotes
Panorama dome cars	3	2000		14	*Canadian*
Blue and Yellow heritage coaches	4	1951-54		60-63	The Pas – Pukatawagan
Glen Fraser (lounge car)	1	1954		60	
Self-propelled Rail Diesel Car (RDC)	6	1957	2012	57	Sudbury – White River Victoria – Courtenay
Total Cars	**423**			**43.3**	
TOTAL FLEET	**497**			**40.3**	

* The Renaissance operates with HEP transition baggage and dome cars during the summer months on the *Ocean*
** Includes 12 rebuilt Prestige Class cars

The average piece of equipment in VIA's fleet is over 40 years old (over 23 years for the locomotives and 43 years for the cars). To date, they accumulated a total of 4 billion kilometres or about 8 million kilometres per unit.

ANNEX 2 – KEY FINANCIAL TABLES