VIA Rail Canada

SUMMARY OF THE 2016 – 2020 CORPORATE PLAN

AND 2016 OPERATING AND CAPITAL BUDGETS

VIA Rail Canada

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EXECUTIVE SUMMARY

VIA Rail is at a critical decision point. The current operating environment whereby it operates outdated passenger trains on freight railway infrastructure can only lead to greater operating deficits and greater capital requirements. There are no tactical or strategic improvements that can overcome the inherent negative dynamic of limited frequencies, poor reliability and on-time performance (OTP), longer trip times and outdated equipment.

Paradoxically, VIA Rail faces increasing operating losses and the need for substantial capital requirements (failing which, service reductions will result), in an environment where intercity passenger rail should be experiencing significant growth. Continued economic growth, increased road and air congestion, increased environmental awareness, higher (long-term) energy prices, an aging population together with a train oriented younger generation; these are the conditions where passenger rail is the ideal solution. Across Canada, transit and commuter passenger rail is growing quickly. Failing the implementation of a new passenger rail operating paradigm, Canada will continue to lag behind other countries in implementing a modern intercity passenger railway system and will forgo its inherent socio-economic benefits.

VIA Rail is currently facing three critical issues:

1. **Government Funding**

VIA Rail only has sufficient government operating, pension and capital funding through fiscal year 2016-17 (until March 31, 2017). As described in the corporate plan text and tables, VIA Rail will require an additional infusion of government funds of about a third of a billion dollars each year starting in FY 2017-18 just to keep the status quo network operating while operations and service continue to deteriorate despite the Corporation's best efforts.

This funding shortfall does not include the very significant estimated costs of complying to the new grade crossing regulations on both host railway infrastructure as well as on VIA Rail's own infrastructure, nor does it include funding to improve security.

Funding for Corridor fleet replacement and improved track access is also not included in these additional funding requirements, but they would significantly reduce the additional government funding requirements described above.

2. **Aging Fleet**

The state of the rolling stock (equipment) is a major factor in ridership due to its impact on the quality of experience for the passenger as well as reliability and OTP due to equipment failures.

The average age of VIA Rail's fleet is over 40 years (23 years for locomotives and 43 years for cars), while the average life expectancy for passenger rolling stock is generally 25 to 30 years.

In the first quarter of 2015, VIA Rail retained the services of an independent international rolling stock consultancy firm to assist in assessing the condition and requirements of its Quebec – Windsor Corridor fleet, representing 200 of 495 total pieces of equipment. The study determined that there is an immediate and urgent need to replace the Corridor fleet because continuing to operate with the existing fleet presents a high operational risk to VIA Rail. The preferred manner to replace the Corridor fleet would be in the form of a single, efficient, production run to benefit from economies of scale versus smaller piecemeal acquisitions. Replacing the Corridor fleet with new and homogeneous state-of-the-art equipment would increase ridership and revenues, decrease operating expenses related to the

maintenance and repair of obsolete equipment, and would ultimately reduce reliance on federal funding requirements.

3. Issues Arising from Operating on Freight Rail Lines

VIA Rail operates primarily on CN freight rail infrastructure. In fact, VIA Rail only owns 3% of the tracks over which it operates. In general, the service provided to VIA Rail by the host railways has been deteriorating and represents a large current burden and risk to VIA Rail's survival. Host railways, local commuter train operators and VIA Rail often have conflicting peak hour demand for track access and compromises must be made. Passenger trains in Canada do not enjoy the operational priority given by law in almost all other countries, including the United States. It should be noted that Amtrak not only enjoys legal operational priority, but also pays substantially less for track access than does VIA Rail.

CN's Carloads per Route Mile (CPRM) has grown at an overall rate of 4.3% per year over the last twenty years, and has now reached a rate of 10.6% in 2014. This growth in CPRM coupled with the use of longer, heavier and slower CN freight trains had a disastrous effect on VIA Rail's reliability, OTP and trip times. A secondary effect has been the accelerated deterioration of tracks leading to ever increasing slow orders (speed reductions) for track repairs. In addition, the recent government directive to reduce the speed of the increasing number of trains carrying crude oil will have the effect of further slowing and reducing traffic flow on rail lines.

VIA Rail has essentially little or no control over the key asset required to operate efficiently in a commercial manner. It cannot readily add frequencies (and in many cases not at all), and cannot control departure, arrival, and trip times, or halt and reverse deteriorating OTP, the key measures required to attract and retain ridership.

Ever lengthening trip times and poor reliability and OTP create an undesirable and less saleable product resulting in stagnant and declining ridership and revenue, while simultaneously increasing operating costs and the need for government funding.

Over the next five years revenues will continue to deteriorate while VIA Rail's ability to provide service will become problematic as equipment must be retired and with that, services reduced.

Conclusion

VIA Rail can no longer function within its existing framework. The current relationship with freight rail operators no longer works as VIA Rail cannot control the fundamentals required to operate efficiently in a commercial manner in a competitive environment. No intercity passenger rail carrier among the G7 countries (and almost none in the G20), is burdened with the constraints and barriers faced by VIA Rail and as such, VIA Rail cannot thrive and bring the socio-economic benefits associated with passenger rail travel gained elsewhere in the world to Canada and to Canadians.

Left unchanged, VIA Rail will become more costly and less relevant to Canadians. Ultimately, it will be unable to fulfil its mandate.

1 MANDATE

VIA Rail operates the national passenger rail service on behalf of the Government of Canada, providing intercity service and regional and essential remote rail transportation.

2 CORPORATE MISSION, OBJECTIVES AND PROFILE

2.1 Corporate Objectives and Profile

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

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

2.2 Governance and Accountability

The Board of Directors reports to the Minister of Transport and consists of the Chair, the President and Chief Executive Officer and eleven other Directors, who are appointed by the Governor in Council on the recommendation of the Minister of Transport. There are currently three vacancies. The Board is responsible for overseeing the strategic direction and management of the Corporation and approves all strategies, initiatives, investments, budgets, corporate plans, and high-value 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.

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 Travel Policy Guidelines

VIA Rail reviewed its current policies in consideration of the July 16, 2015 directive for Crown corporations to review and align their guidelines and practices on travel, hospitality, conference and event expenditures with Treasury Board policies. VIA Rail reported to its Board of Directors that its policies for travel, hospitality, conference and event expenditures for Directors and the CEO are aligned to the Treasury Board Secretariat and the directive issued by the Treasury Board.

The Treasury Board policy instruments and their respective guidance considerations are:

- *Directive of Travel, Hospitality, Conference and Event Expenditure* and related guidelines;

- *Special Travel Authorities*; and
- *Treasury Board rules on proactive disclosure of expenditures.*

The guideline and rules indicate that on a quarterly basis government organizations should proactively disclose certain information on travel and hospitality expenses. Crown corporation policies should therefore consider disclosure of travel and hospitality expenses of the Executive and members of the Board of Directors.

Meals, Hotels and Air Travel.

In essence VIA Rail's policies are more stringent than Treasury Board Secretariat Guidelines as they require employees to use train travel to the extent possible. Other modes of transportation are to be utilized only when time or distance constraints make train travel impractical. As well, employees must follow the Corporate Hotel Guide and Travel Guide reservation procedures and stay at specific hotels for which VIA Rail has negotiated volume discounts for on-train crew layovers.

VIA Rail's policies are aligned with Treasury Board Guidelines. VIA Rail Management will continue its review of the guidance provided and will contact other Crown corporations with a commercial mandate to assess their approach to alignment of the directive.

2.4 Audit Regime

VIA Rail is subject to three types of audits: internal audits, external annual financial audits and periodic special examinations. An independent firm performs internal audits on an on-going basis and provides findings and recommendations to the Audit and Finance Committee of VIA Rail's Board of Directors and to the Office of the Auditor General of Canada. The Office of the Auditor General of Canada is responsible for performing the annual external financial audits and the special examinations every few years. The last special examination was completed in 2008; another one started at the end of 2013 and is projected to be completed in 2015.

As per *Financial Administration Act* requirements, these audits ensure that VIA Rail's:

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

The 2008 Special Examination Report noted a significant deficiency in that the Auditor General of Canada could not obtain a reasonable assurance that VIA Rail would be able to meet the strategic challenges that it was then facing as:

- VIA Rail does not own most of the rails that it uses on a daily basis. Any extra usage of these must be negotiated with the owners of the rail networks. VIA Rail's growth was predicated upon successful completion of negotiations with the principal provider of access to the railway track network, within VIA Rail's prescribed envelope of funding.

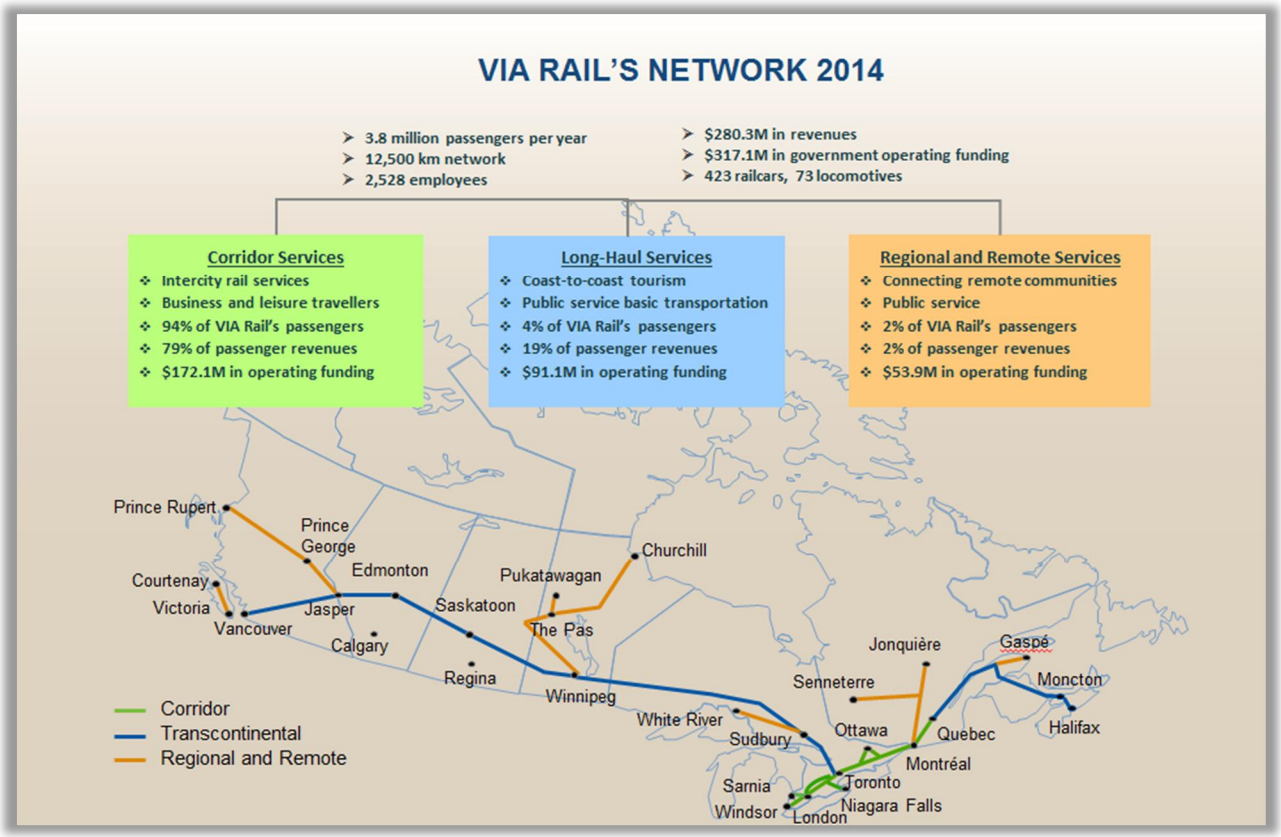
- The Corporation's management exerted considerable effort to increase train frequency and train-on-time performance, but without achieving the expected results.

- The rail network is becoming increasingly congested and there is a risk that the situation may become acrimonious due to current economic and environmental pressures.

The constraints noted by Office of the Auditor General of Canada remain essentially unchanged today and continue to remain outside of VIA Rail's control. These constraints are elaborated upon in detail within this Corporate Plan. The 2008 Special Examination Report is available at http://www.viarail.ca/en/about-via-rail/our-company/auditor-general-reports.

2.5 Overview of VIA Rail's Business

VIA Rail operates 470 trains per week in all regions of Canada over approximately 12,500 kilometres of rail infrastructure. In 2014, VIA Rail, carried 3.8 million passengers yielding 808 million passenger-miles and 6.2 million total train-miles ran (indicated in miles due to industry standards). Historically, the Corporation has divided its business into three distinct types of services: Corridor, Long-Haul, and Regional and Remote.



VIA Rail Services

In 2015, in order to better meet regional needs, VIA Rail reorganized its businesses along four regional segments: Central Canada (the Quebec – Windsor Corridor), Eastern Canada, Western Canada and Regional and Remote Services.

2.5.1.1 Central Canada: Corridor Services

In the Quebec City-Windsor Corridor, VIA Rail provides intercity service between Canada's largest business and residential communities. This market consists of both business and leisure travel. For operational and marketing reasons, VIA Rail divides the Corridor into Corridor East that reaches between Toronto and Quebec City and Southwestern Ontario (SWO), which serves Toronto, Sarnia, London, Kitchener and Windsor.

The Corridor is a year-round market. Reliability, on-time performance (OTP), number and choice of departures (frequencies), trip times and connectivity to other modes of transportation are the critical factors that determine success in this type of high-density market.

This segment of VIA Rail's network is the most commercially viable and has the greatest potential for growth. With its different levels of fares ranging from the lower end "*Escape*" fare to the highest "*Business*" fare, VIA Rail provides excellent opportunities to travel at prices that match the needs of every market segment.

VIA Rail operates four types of rail cars in the Corridor: the LRC (Light, Rapid, Comfortable), the stainless steel HEP 1 and HEP 2, and the Renaissance.

2.5.1.2 Long-Haul Services

The *Canadian*

The *Canadian* operates between Toronto and Vancouver, with three trips in each direction per week during the peak summer period from May to October, and two trips in each direction per week during the off-peak period.

The *Canadian*'s sleeper class offers meals service, sleeping accommodations, a dome car for sightseeing, and transportation services to intercity travelers along the route, including some remote communities. VIA Rail operates this service with stainless-steel HEP cars built in the 1950's. The interiors of some of the cars are being refinished to provide a refreshed and more updated look. VIA Rail has also introduced twelve rebuilt cars, with eight sleepers and four dome cars with accessible sleeping accommodations. These cars have been named *Prestige Class*. The reconfiguration of these cars was funded by Canada's Economic Action Plan. As a result, VIA Rail is now 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*. The *Prestige Class* sleepers are now deployed and can provide travel accommodations for up to 24 passengers per train.

The *Ocean*

The *Ocean* operates between Montreal and Halifax three times a week year-round. The service is used by a combination of end-to-end users and intermediate point travellers, particularly between Miramichi, Campbellton, Moncton and Halifax. VIA Rail offers overnight service with Renaissance cars including sleeping accommodations, dining facilities and a dome car for sightseeing. During the holiday season, VIA Rail added six extra departures.

2.5.1.3 Regional 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) - managed by the Keewatin Railway Corporation;
- Sudbury – White River (ON) - will be operated by the Southern Railway;
- Montreal – Senneterre / Jonquière (QC); and
- Matapédia – Gaspé (QC)

Regional and Remote services are heavily subsidized with an average subsidy in 2014 of $418 per passenger carried. 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 used and offer some seasonal peak volume, whether during cottage season in Quebec and Northern Ontario, or tourists (Canadian and international) in Northern British Columbia and Northern Manitoba (for example, polar bear season in the Hudson Bay area in October).

All active services currently offer three round trips per week with the exception of Northern Manitoba, between Churchill and The Pas, where only two round trips are available.

Assets Used to Support the Services

- **Rail infrastructure**

VIA Rail has commercial agreements with the host railways (CN, CP and other railways that own the majority of the track on which VIA Rail operates) for accessing their tracks.

These are one-sided agreements providing for access to tracks under various terms and conditions that are highly unfavorable to VIA Rail, including on crucial issues such as time slots and train frequencies. Infrastructure owners are mostly operators themselves (primarily freight carriers) that conduct their own business on the same track.

VIA Rail has little leverage to negotiate the infrastructure access required for reliable, frequent and on-time operations, which hinders its cost recovery, profitability and relevancy to travellers. Passenger trains in Canada do not have priority as in almost all other countries, including the United States, where Amtrak enjoys operational priority, while also paying approximately half for track access

Deteriorating OTP and restricted frequencies have negatively affected VIA Rail's ridership. In addition to negatively affecting ridership and revenue, the deterioration of OTP has a direct correlation to VIA Rail's operating costs.

Conversely, increases in frequency clearly have a positive effect on both ridership and revenue. Annex 3 contains examples of both VIA Rail and Amtrak that well illustrate the ridership-frequency and revenue-frequency relationships. The following table outlines the route-miles (the standard distance measure used by North American railways) over which VIA Rail operates by type of service and by infrastructure owner:

Service	CN	HBR	CP(1)	VIA Rail (6)	Metrolinx (5)	GEXR (2)	SCFG (3)	SRVI (4)	Total
Corridor	758		1	186	98	55			1,099
Long-Haul	3,600				14				3,614
Regional & Remote	1,833	570	301				0	0	2,704
Total	**6,191**	**570**	**302**	**186**	**112**	**55**	**0**	**0**	**7,417**
% of Total	**83%**	**8%**	**4%**	**3%**	**2%**	**1%**	**0%**	**0%**	

Note: Total may not add up to 100% due to rounding.
(1) & (6) CP – Brockville sub change of property (purchased by VIA Rail), continued use of CP Smith Falls = rounded value of 1; (2) & (5) GEXR – 33 Miles purchased by Metrolinx from CN, but operated by GEXR; (3) SCFG – Société du Chemin de Fer de la Gaspésie – 202 actual, current value of 0 due to no current operation and no indication as to when operations will continue; (4) SRVI – Southern Railway of Vancouver Island - 139 actual, but shows 0 due to no current operations.

The rail infrastructure is single track except for portions in the Corridor. CN owns the majority of the rail infrastructure (83%), while other freight and commuter railways own the rest (15%).

Although VIA Rail owns only 3% of the infrastructure since 2012, it operates 10% of its train-miles on the portion it owns in the Corridor where several round trips per day occur. VIA Rail's infrastructure is comprised of segments between Chatham and Windsor in Ontario, and between Coteau, Ottawa and Brockville around Ottawa. In 2015, VIA Rail purchased the Brockville Subdivision from CP. VIA Rail had invested over $70 million into this subdivision since the mid-eighties and, at the time of purchase, represented 90% of traffic. This will prove to be a sound decision for VIA Rail.

Infrastructure owners/leasees in Corridor Montreal - Windsor

The following table provides the distribution of train-miles by train service and infrastructure owner.

Service	CN	VIA Rail	Metrolinx	CP	HBR	GEXR	SCFG	SVI	Total
Corridor	3,469	623	379	140	-	81	-	-	4,691
Long-Haul	968	-	3	-	-	-	-	-	971
Regional & Remote	523	-	-	94	178	-	-	-	795
Total	**4,959**	**623**	**382**	**234**	**178**	**81**	**-**	**-**	**6,457**
% of Total	**77%**	**10%**	**6%**	**4%**	**3%**	**1%**	**-**	**-**	

In addition, longer travel times on host railways had an impact on VIA Rail's ability to offer an attractive travel option while also substantially increasing labour and fuel costs. VIA Rail had to acquire track that

was necessary to sustain operations and faces the possibility that further acquisitions may be necessary, otherwise, scheduled travel times will deteriorate further increasing VIA Rail's deficit.

For the most part, short line railways[1] own the infrastructure purchased from CN and CP when they divested track. The short line railways generally do not have the financial capacity to invest in infrastructure in order to maintain higher than freight train speeds. This limits the speed at which passenger trains can travel and leads to rail infrastructure deterioration. Further signs of the deterioration trend emerged as operational issues were faced in 2014 in Northern Manitoba (Hudson Bay Railway owned infrastructure) and even in South West Ontario (GEXR operated infrastructure), leading to service cancellations and suspensions or slow orders.

- **Stations**

VIA Rail has an extensive network of stations. While it owns many stations, some are leased, including the key busy hubs of Toronto Union Station and Montreal Central Station, both of which share space with local commuter train services.

In the Corridor, VIA Rail owns Ottawa, Kingston, London and Windsor stations, along with suburban stations in major cities in the Corridor, including Ste.-Foy, Dorval, Fallowfield, and Oshawa jointly with Metrolinx (GO Transit).

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

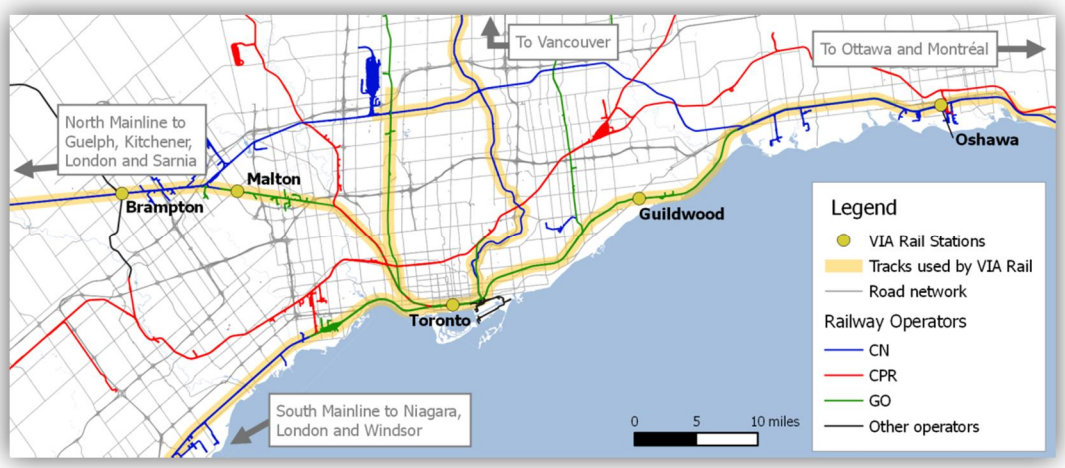
Service	Stations	Shelters	Sign-posts/Platforms	Total
Corridor	41	5	2	48
Long-Haul	28	4	75	107
Regional & Remote	26	7	241	274
Total	**95**	**16**	**318**	**429**

VIA Rail tries to maximize the 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 Rail.

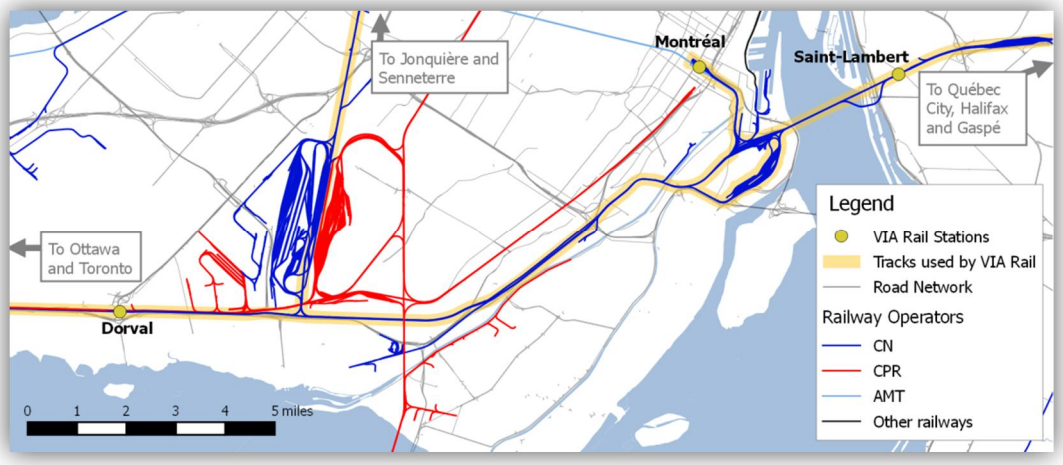
The fact that VIA Rail does not control its access to Union or Central stations is a major business risk. Downtown to downtown service is key to intercity passenger rail success. With the explosive growth in commuter rail ridership and services, VIA Rail's access to these main stations is threatened.

[1] Former branch lines of larger railroads or abandoned portions of main lines that serve a small number of towns and industries or haul cars for larger railroads

Toronto Union Station access routes



Montreal Central Station access routes



- **Property Divesture**

VIA Rail considers opportunities to divest of properties should that prove to be a better economic choice. These are low passenger volume stations, which VIA Rail categorizes as Tier 3 and 4. Typically train travellers only require the use of these stations twice a day or less.

VIA Rail is in the process of transferring ownership of some stations to municipalities, with VIA Rail leasing space within the stations. Communities will benefit from a station that can be used in a manner that better serves their needs.

VIA Rail will also continue the development of underutilized parcels of land at key stations (Halifax, Ottawa, Winnipeg and London) through partnerships or joint ventures providing additional services and amenities to customers with limited financial risk as VIA Rail's contribution would be limited to the conveying or leasing the land.

- **Maintenance Centres**

VIA Rail operates maintenance centres located in Vancouver, Winnipeg, Toronto, and Montreal where it performs servicing, cleaning, scheduled inspections and other repairs; major maintenance and other projects are also performed in Montreal. In addition, lighter maintenance activities, including servicing and cleaning, are performed at various points, such as Halifax, Quebec City, Ottawa, Windsor, and Jasper. Where possible, VIA Rail 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) are examples, but many ad-hoc projects and smaller contracts, such as with private tourism rail operators, Agence Métropolitaine de Transport (AMT), or CAD Railways have been performed as well.

- **Equipment**

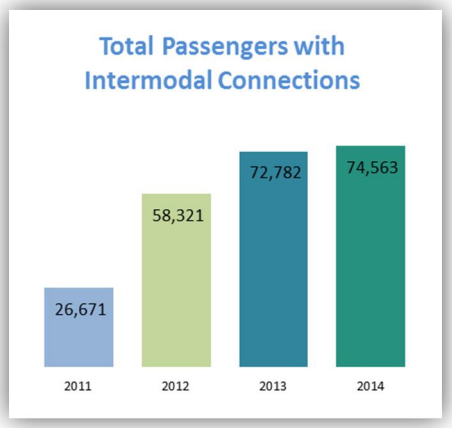
VIA Rail's fleet of active equipment comprises 73 locomotives and 422 cars (see Annex 5). Although a sizeable portion of its fleet has been refurbished since 2008, and will continue to be for the next two years, these activities have only extended the useful life of the equipment by ten or fifteen years.

An independent fleet study indicates that there is an immediate and urgent need to replace the Corridor fleet and that maintaining the status quos with the existing equipment presents a high operational risk. Therefore, VIA Rail is preparing for the next phase, which includes the replacement of its aging fleet. As outlined in detail further within this Corporate Plan, VIA Rail must start the process of fleet renewal soon if it were to fulfill its mandate. Fleet replacement will require a clear identification of needs and funding sources due to lengthy lead times in equipment procurement.

- **Intermodal Partnerships**

Intermodal connectivity and seamless connections are key success factors for passenger rail.

VIA Rail strives to provide a seamless end-to-end travel service. Operating from *coast to coast to coast*, VIA Rail has many intermodal partnerships across the country. In fact, VIA Rail was awarded the Global AirRail Award in 2013 for its worldwide leadership in connecting network partners. With these partnerships, travelers can easily book all modes through code share agreements, using VIA Rail's reservation system. New partnership agreements with bus companies, commuter lines, airlines, and car sharing/leasing companies are continuously being formed, including the new UP Express (Union Station – Pearson Airport) rail link in June 2015.



While the Corridor, with its more numerous connection possibilities, is an important focal point for intermodal partnerships, they are not limited to one region.

Also, VIA Rail has a relationship with Amtrak dating back to VIA Rail's beginning, with a reciprocal agreement whereby each company sells tickets on the other's behalf. In addition, VIA Rail and Amtrak jointly operate the train between Toronto and New York City, through Niagara Falls.

VIA Rail is currently studying options to improve its service to Trudeau Airport in Montreal. This would offer intermodal opportunities for passengers from Ottawa, Eastern Ontario, and Quebec City. With additional frequencies and improved reliability, VIA Rail could become a true feeder partner to the Canadian airline industry thus reducing pressure on Canadian airports.

3 THE BUSINESS ENVIRONMENT

3.1 Current Situation

Markets and Competition

The major determinants of travel demand growth are gross domestic product (GDP) and population growth. Between 2010 and 2014, Canada's real GDP grew 2.6% per year for a total growth of 13.8%. Over the same period, Canada's population grew by 1.1% per year for a total growth of 5.7%.

Another determinant of travel demand of foreign visitors is Canada's attractiveness and affordability as a destination. The recent depreciation of the Canadian dollar has made Canada a more desirable destination. This, coupled with fears of terrorism abroad is making Canada a prime destination for American tourists in particular.

From 2010 to 2014, the economic recovery translated into 12.9% rate of growth of Canadian tourism GDP and a 7.8% increase in foreign tourism. At the same time, the airline industry saw a growth of 24.2% in ridership.

Despite these facts, during this same period, VIA Rail saw its:

- Annual ridership decline by 8.5%, dropping from 4.2 million to 3.8 million;
- Revenues increase by 0.5%, with consecutive 3% year over year (YoY) decreases in 2012 and 2013; and
- Operating deficit before pensions grew to $235.6 million in 2014, after having been as low as $208.9 million in 2012, representing an increase of 12.8%.

While some of the downward revenue pressure is attributable to airline and bus competition, management believes most of the Corporation's eroding position is due to its inability to deliver reliable, frequent and competitive travel times within the hybrid freight-passenger environment in which it operates.

Corridor

The Corridor market consists of mostly Canadian residents travelling between Quebec City, Montreal, Ottawa, Kingston, Toronto, London, Kitchener, Sarnia and Windsor for a host of reasons (business, school, family matters or simply visiting).

The primary determinants of passenger rail demand are convenience (frequencies), reliability (OTP), efficiency (trip time), connectivity (ability to make seamless connections) and price. These determinants (apart from price) are a function of the infrastructure environment in which the Corporation operates coupled with the reliability of the equipment used. The industrial plant (infrastructure and equipment) is the essential determinant of capability, capacity and resilience. VIA Rail does not own or control 97% of the infrastructure it uses and its rolling stock is old and increasingly less reliable and more costly to maintain.

VIA Rail's lack of competitiveness is caused by its very low frequencies, ever increasing trip times and deteriorating OTP. Ongoing surveys of current VIA Rail passengers indicate that they only make one third

of their trips by passenger rails. Forty percent of these same passengers indicate that this low number, despite their preference for rail, is due to inadequate frequencies and scheduling.

In Ontario and Quebec, where VIA Rail operates the Quebec-Windsor Corridor business, real GDP has grown 2.0% per year for a total growth of 10.4% from 2010-2014. The population also grew by 1.0% per year for a total growth of 5.1% within the same period. Between 2010 and 2014, the average price of gasoline increased significantly. Congestion in the large city centers combined with a higher cost per trip should logically make the automobile a less attractive option.

This positive environment should have contributed to substantial growth in VIA Rail's ridership and revenues in the Corridor. Instead, between 2010 and 2014 in the Corridor, VIA Rail's:

- Ridership decreased from 3.8 million to 3.6 million total passengers;
- Revenues increased 4.2% thanks to a broad based fare adjustments and better capacity management in the second half of 2014, while revenue increased 5.2% over 2013;
- Operating ratio (revenues vs operating expenses) has declined from 107% to 104%.

One of the most common misconceptions is that VIA Rail's main competitor is the airplane. However, due to the distances between the three large city pairs within the corridor (Toronto, Ottawa, Montreal), VIA Rail's main competitor is in fact the car. Within the Corridor, if the total Car and Train trip time market is isolated, VIA Rail currently only captures 5%, which compares unfavorably to two other popular international corridors shown below:

Characteristics of popular international corridors

	Rail Share	Frequency	Avg. Speed	Equipment	Total Pop.	Distance	Infrastructure
Toronto-Ottawa-Montreal	5%	11 / day	98 km/h	Conventional	11 M	573 km	Shared
New York City - Washington DC	14% (in 2003)	40 / day	127 km/h	Conventional	29 M	361 km	Mostly Dedicated
Rome - Milan	69%	40 / day	200 km/h	High Speed	9 M	574 km	Dedicated

Long-Haul

VIA Rail's Long-Haul trains provide a hybrid product aimed at servicing the tourist sleeper market, which is akin to the Cruise ship tourism segment, as well as the intercity service aimed at connecting communities along the routes. VIA Rail operates two Long-Haul trains, the *Canadian* between Toronto and Vancouver and the *Ocean* between Montreal and Halifax.

The sleeper tourist class targets travelers who wish to discover Canada's scenery at a leisurely pace. Global conditions and the declining Canadian dollar currently provide favorable conditions for these services.

The *Canadian*

Unfortunately, VIA Rail also faces internal issues that make its unique offer unattractive. An aging fleet (despite 12 rebuilt cars), deteriorating track conditions and track access problems due to higher freight traffic have all led to deteriorating OTP and deteriorating trip times.

Punctuality is key for tourists, and VIA Rail's inability to meet its schedules is highly detrimental to Canada's brand abroad as well as to VIA Rail's costs and bottom line.

The following table outlines the on-time performance of the *Canadian* over the last several years:

Year	2009	2010	2011	2012	2013	2014	2015 Q2 YTD
OTP	84%	84%	74%	70%	60%	33%	24%

From 2010 to 2014, the *Canadian*'s OTP has deteriorated drastically with some delays being as long as 24 hours. This ultimately leads to substantial problems for tourists on tight schedules that often use the *Canadian* to connect with a cruise ship or to another leg of their vacation; unreliability is one of the major sources of negative comments on travel social media.

This is not the first time poor OTP has troubled the *Canadian*. In 2009, VIA Rail needed to add one additional night to the total journey, thus allowing more schedule "float" to ensure that connections were met.

Today, despite having lengthened the schedule by one additional night, OTP continues to deteriorate and has dropped to only 24%.

Despite a highly positive international tourist environment, the *Canadian* has seen its ridership decrease by 11.5%. However, with the addition of value added products, revenues increased by 3.5% and the operating ratio has improved from 71% to 76%.

With three frequencies per week during the peak season and two during the off-season, the *Canadian* does not provide adequate frequencies to deliver a viable travel alternative in the intercity and regional markets between and around Winnipeg, Saskatoon, Edmonton, Jasper and Vancouver. Nor does it serve Regina and Calgary.

The *Ocean*

Over the past decade, the rail infrastructure has degraded to the point where the service was threatened. In 2014, a 44-mile section of CN track on which the *Ocean* operates through New Brunswick (the Newcastle Subdivision) was in jeopardy of service discontinuance (due to CN deciding to abandon the track), which would have resulted in either re-routing or in cancellation of the service. This abandonment of track between Bathurst and Miramichi would have truncated the route of the *Ocean.* After a review and evaluation of alternatives, it was decided that VIA Rail would 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.

Thanks to this investment, the *Ocean* has maintained a respectable OTP. Frequencies however have been reduced from six one-way departures per week to three one-way departures. With this reduction of frequencies, the Ocean does not have sufficient frequencies to deliver an adequate travel alternative in the intercity and regional markets serving between Quebec City and among Rivière-du-Loup, Campbellton, Moncton and Halifax. Additional frequencies, in response to consumer demand, were added during the Holiday season.

Regional and Remote services

While not intended to be commercially viable, these train services operate in hard-to-reach areas where travel options are limited. As such, the potential markets and competitive landscape are restricted. In some areas, roads were built providing access (permanent or seasonal) by car or truck and passenger

trains became a complementary but essential service for a customer segment without car access or other means to transport 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.

VIA Rail has suspended the Victoria-Courtenay (since 2011) and Matapédia-Gaspé (since 2013) services for safety reasons due to the poor condition of the rail infrastructure. Reinstatement of service will take place only once the infrastructure work is completed and VIA Rail is satisfied that it is safe to operate on the rail infrastructure. Although communities that have experienced the loss of train service have not been as negatively impacted as they would have been in the past, access to those communities, particularly during the winter period, has diminished.

VIA Rail intends to support the communities it serves by maintaining access, whether for tourists or travellers bound for cottage country. These tourist markets represent small niches but unique offers in the range of available destinations (polar bear and beluga whale seasons in Northern Manitoba or summer in the Gaspé peninsula for example).

3.2 Future Trends: Threats and Opportunities

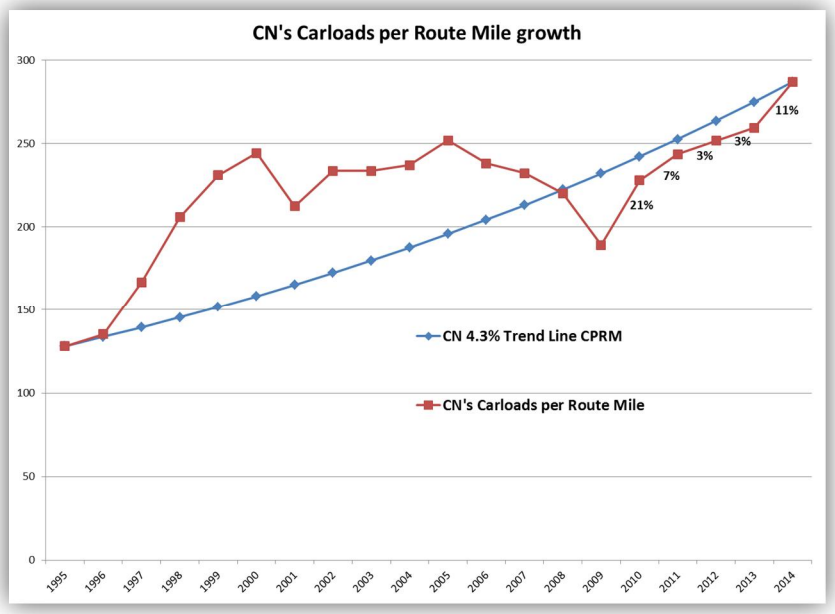
VIA Rail continues to face intense challenges in all of its key markets. VIA Rail believes that, if its operating environment was to continue to deteriorate, the Corporation would no longer be capable of offering the high value product that is appreciated by Canadians. Expected growth in Canada's cities, and ensuing increased congestion, should improve passenger rail's competiveness/attractiveness to the car. Furthermore, airport congestion – particularly at Pearson airport – should make passenger rail an essential part of Canada's mobility mix. It is VIA Rail's firm belief that passenger rail, as demonstrated in many developed nations, fills an important role in alleviating congestion.

In the first and second quarters of 2015, Canada's economy contracted due to reduced demand for commodities by domestic and foreign manufactures, which brought slight freight congestion relief. This should lead to a temporary respite in VIA Rail's deteriorating reliability performance. However, the experience of the last four years shows that Canada's rail infrastructure is reaching well beyond the upper limit of its capability and capacity, which will ultimately lead to continued declining VIA Rail OTP, ridership and financial performance.

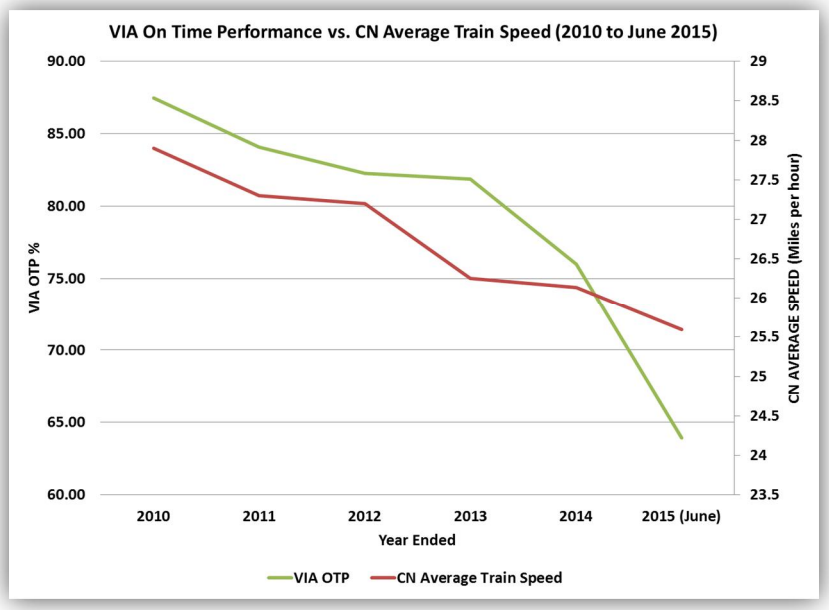
Rail infrastructure access

VIA Rail operates primarily on CN infrastructure. In fact, VIA Rail only owns 3% of the tracks on which it operates. As is the case with roads, increased traffic on rail infrastructure leads to congestion, which causes increased trip times, unreliable performance and poor OTP. In fact, OTP on segments owned by VIA Rail is much higher than on average (see Annex 4). It also perpetuates the lack of availability of passenger rail frequencies to meet market demand due to competing freight demand.

A traditional North American measure of track utilization is Carloads per Route Mile (CPRM). CN's CPRM has grown at an overall average annual rate of 4.3% over the last twenty years. In 2014, the CPRM growth rate reached 10.6%.



This growth in CPRM coupled with longer, heavier and slower CN trains has had a disastrous effect on VIA Rail's OTP and trip times. A secondary effect has been the accelerated deterioration of tracks leading to ever increasing slow orders for track repairs. In addition, the recent government directive to slow the speed of oil trains will further restrict rail traffic flow.



Station access

In addition to the above noted infrastructure congestion, VIA Rail also struggles with increasing congestion at Canada's two major train stations: Toronto Union Station and Montreal Central Station. VIA

Rail competes with commuter railways 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 Rail to arrive and depart. The availability of these departure / arrival slots is a limiting factor. Metrolinx (GO Transit) controls an increasing portion of rail infrastructure surrounding Toronto Union Station, which provides GO Transit an advantage when dispatching the trains. A similar problem does not affect other key stations that VIA Rail owns such as Ottawa or Quebec. Furthermore, the ongoing renovations in and around Union Station will continue to disturb the customers using the hub for the next few years.

The Corporation has undertaken to present Union Station's owners with new operating plans based on the use of push-pull trains and outside stations (endpoint terminals) in order to reduce dwell time at Union Station and maintain VIA Rail's access.

Montreal's Central Station has not reached the level of congestion of Union Station. However, given announced West Island and South Shore services, it is foreseeable that congestion will become an issue there as well. VIA Rail proposes to take action to secure its access to the station.

Fleet renewal

VIA Rail's entire fleet is old and in need of repair and replacement. The average age of the equipment in VIA Rail'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.

The state of the equipment is a major factor in declining ridership due to its effect on the quality of experience for the passenger as well as on OTP due to equipment failure. Operating costs are also affected by the state of the fleet because of increased maintenance costs as the equipment ages.

Detailed information in regards to VIA's Fleet Renewal strategy can be found within Section 12 of this Corporate Plan.

3.3 Passenger Rail examples and the Canadian context

In the late 19th and early 20th centuries, rail carried an overwhelming share of intercity passenger travel around the world. 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 market share of rail dropped precipitously after World War II.

In 1964, the Japanese started the renaissance of intercity passenger rail with the first high speed trains, the *Shinkansen* (literally "new main line"), and it was accelerated by the French *Train à Grande Vitesse* (TGV), that went into service in 1981. All G7 countries, except for Canada, have dedicated passenger rail lines. Currently just over half of the G20 countries have, or have under construction, dedicated passenger rail lines. Within the next ten years, almost all G20 and several other countries will benefit from dedicated passenger rail infrastructure. The key attributes for successful passenger rail is reliability, high frequency and competitive trip times.

These passenger lines are mostly High Speed Rail (HSR), and represent over 29,000 km of track. They currently operate about 1.6 billion passenger trips per year. HSR is found in most Western European countries, the United States and several Asian countries. China has now taken the lead in the

development of HSR and is being joined by many developing countries. HSR line is successful when it evolves from existing conventional passenger rail.

Passenger rail provides the ability to move very large amounts of people from city center to city center very safely (e.g., not a single fatality in Japan and France since their introduction over 50 and 33 years ago, respectively), in an environmentally sustainable manner, efficiently and productively. Passenger rail is competitive with other modes for distances of 160 up to 500 km, where there is sufficient density of population, but it has shown itself to be successful even in relatively low-density countries such as Sweden.

The main economic benefit is the relief of congestion, such as road traffic, but other socio-economic benefits include economic efficiency and growth, as passenger rail does for the movement of people and services what free trade does for goods, including reducing time wasted waiting in traffic and airport line-ups. These benefits are substantial and offer tangible results such as more economic efficiency and growth and permanent jobs (beyond the construction phase), increases in land values and development, leading to more taxes paid to governments.

Passenger rail is most successful when integrated into an already existing transportation system, such as commuter trains, buses, subways, and airports and airlines. The integration could be both technological and physical, such as seamless reservations and ticketing, and include convenient physical transfers and connections. Passenger rail has proven to be an essential part of a mobility strategy in most countries today. Canada needs a modern, efficient mobility strategy in order to support economic prosperity and growth.

Many passenger rail projects are being developed and built in partnership with the private sector, as public–private partnerships (PPPs). There is great demand for long-term investments in all kinds of infrastructure by pension and sovereign wealth funds from around the world. The private sector could be brought in as investors, contractors, and / or operators, to bring the discipline of the private sector and financial markets to these projects. With the proper structure and incentives, the private sector could be persuaded to share some of the financing burden and risks associated with the manufacture, building and / or maintenance of rolling stock, track and station infrastructure. There is also the possibility of sharing the financing, operational and / or revenue risk with the public sector.

Recent Developments

United Kingdom

The newly re-elected Government in the U.K. is committed to the new High Speed Two line (HS2) from London to Birmingham, Manchester and Leeds, which will start construction in the next two years. Some of the arguments in favour of the new line include the need for more capacity to alleviate congestion in the existing mixed-use track (used by intercity, commuter and freight), the high cost and limited benefits of investing in the current line, and the intermodal benefits. An excellent example of intermodality, HS2 will connect to not only Heathrow Airport, but also to Manchester Airport (the largest outside of the London region), and will also connect to the HS1 line and through the Chunnel to Paris, Brussels, and every other major city in Western Europe.

The UK government believes the rail is an economic development tool, worth spending over £80 billion ($160 billion). It has tabled a bill in Parliament to go forward with the first phase of HS2 (London-Birmingham-Manchester-Leeds) at a cost of £43 billion for 335 miles. The UK Government has also promised to build HS3, a £7 billion east-west link in the center of the country (the trans-Pennine rail link),

to decentralize activities away from London. The U.K. Government is also currently building the new Greater London west-east 73 mile Crossrail 1 at a cost of £16billion, with £42 billion in economic benefits forecast, and is now promising the south-north London Crossrail 2 (£25 billion).

Texas

A group of Texas business executives, with help from Central Japan Railway Company (JR Central), have been developing a plan to open a privately run, Dallas-to-Houston passenger rail service in just six years. If Texas Central Railway (TCR) succeeds, the 200-plus-mph train will transport passengers on the 240-mile trip between the two cities in 90 minutes and will cost about $10 billion. This project would be a private venture. TCR signed a memorandum of understanding with the Federal Railroad Administration (FRA) and the Texas Department of Transportation (TxDOT) to being an environmental impact analysis for a potential high-speed line link between Dallas and Fort Worth that could complement TCR's Dallas-to-Houston's service.

California

The California High-Speed Rail Authority (CHSRA) is responsible for planning, designing, building and operating the first high-speed rail system in the U.S. By 2029, the system will run from San Francisco to the Los Angeles basin in under three hours at speeds capable of exceeding 200 miles per hour. The system will eventually extend to Sacramento and San Diego, totaling 800 miles with up to 24 stations. Total estimated capital costs are $55 billion in 2013 dollars and the project is to be completed in two phases, with phase 1 completed by 2028. In addition, the CHSRA is working with regional partners to implement a statewide rail modernization plan that will invest billions of dollars in local and regional rail lines to meet the state's 21st century transportation needs. The CHSRA and its contractor have already begun construction on the high-speed line.

- **The Canadian Context: Dedicated High Frequency Passenger Rail**

Most successful passenger rail systems around the world invest in modest, incremental improvements to the existing rail network. Eventually, some make major investments in new rail technology, but the essential success factor is dedicated passenger tracks.

In Canada's case, improving the current network by investing in Dedicated High Frequency Passenger Rail could bring about most of the benefits at a much lower capital cost than high-speed rail, with less risk and in a shorter period.

The key would be to secure and invest in dedicated track for passenger rail in high-density corridors such as Toronto-Ottawa-Montreal. In doing so, passenger rail can become much more reliable and better meet market demands with many more frequencies when passengers want them, while freeing up rail capacity for freight and commuter operators. By achieving speeds up to 100mph (161 km/h), trip times would be significantly improved. It would also relieve congestion on the rest of the rail infrastructure so that freight and commuters can continue to grow and thus provide the maximum economic benefits to the Canadian economy and Canadians.

Generally accepted passenger rail speed definitions,

- conventional rail speed, maximum speed of up to 100 mph (161 km/h);
- higher-speed (medium-speed) rail, from 100 mph (161 km/h) to 149 mph (240 km/h); and
- high-speed rail 125 mph (200 km/h) or greater; generally 185 to 220 mph (300 to 350 km/h).

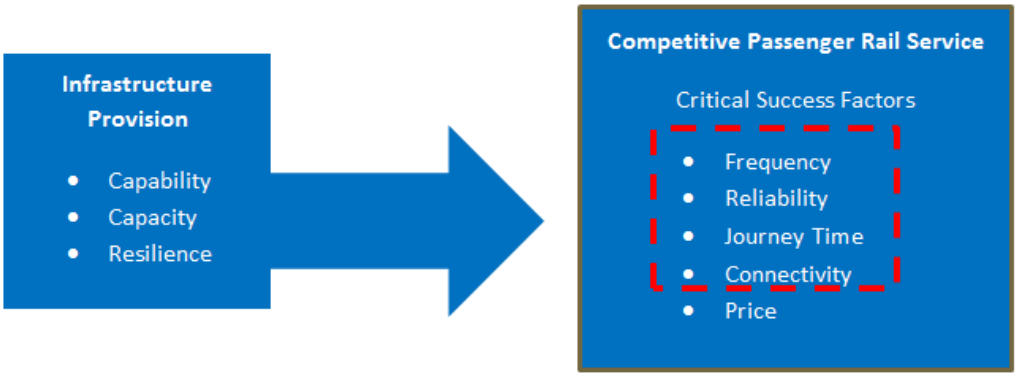
4 STRATEGIC DIRECTION

VIA Rail finds itself at a crossroads of important strategic decisions. It will not be capable of fulfilling its mandate efficiently if it does not take corrective actions.

This section is divided into multiple parts – both by service and by level of importance – to provide the reader with an accurate portrayal of the current status and the future of passenger rail in Canada.

4.1 Corridor Strategy

Because VIA Rail operates within a capacity limited freight environment it is incapable of offering an attractive alternative to automobile travel. A competitive passenger rail service is dependent on the provision of high quality infrastructure that drives four of the five critical success factors when it comes to competitive passenger rail services.



A passenger rail service that cannot rely on its infrastructure finds itself in a position where it cannot provide a valuable alternative to other modes of transportation.

Besides its dysfunctional infrastructure environment, VIA Rail suffers from two major strategic weaknesses:

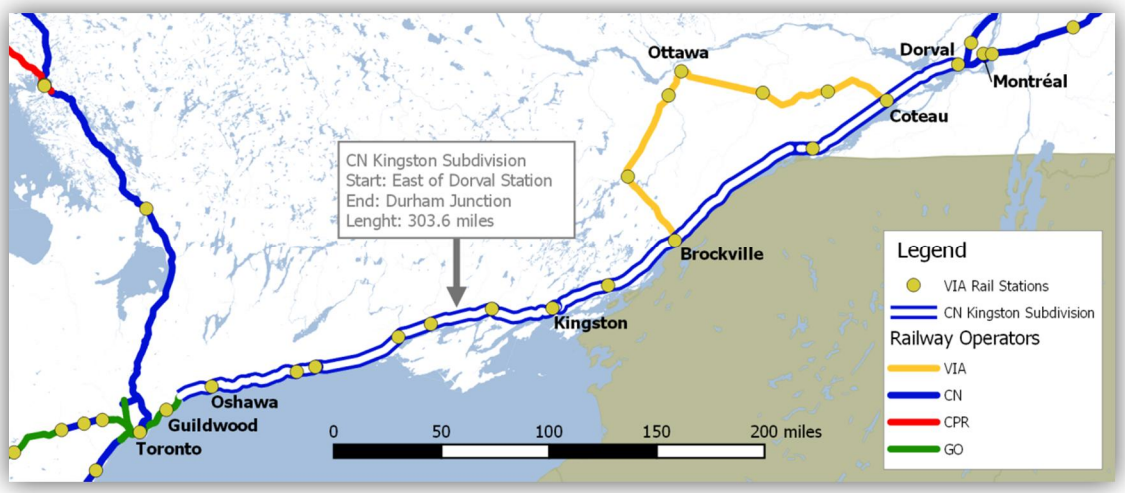
1. **A strong substitute product: The car**

Critical Success Factor	Car	VIA Rail Current
Convenience	Always available for departure	Very limited frequencies
Reliability	Subject to road congestion	Subject to freight congestion
Journey Time	Increasing	Increasing
Connectivity	Maximum	Limited by suboptimal timetable and reliability
Price	Full cost of ownership not considered in incremental trip decision	Challenge to increase prices while providing deteriorating value

2. **A key supplier with overwhelming negotiating power:**

Essentially, CN is in a monopoly position when it comes to supplying VIA Rail in the Toronto-Ottawa-Montreal Corridor: The Kingston Subdivision, the shortest most direct route (which runs along the lakeside) between Montreal Central Station and Toronto Union Station is largely owned by CN.

Kingston Subdivision



VIA Rail competes for capacity with its suppliers on all its services: the largest user of capacity on the Kingston Subdivision is CN. Therefore, as owners of the track, CN has high incentive to favour its trains in regards to total capacity allocation. It is for this same reason that CN charges exorbitant fees to replace capacity ceded to another carrier.

Consequently, because of their negotiating power, the host railways are able to:

1. Charge a premium for additional frequencies by requiring capital expenditures for enhancing their infrastructure;
2. Deny liability for performance;
3. Limit frequencies;
4. Dictate schedules; and
5. Control travel times.

As result of the host railways' bargaining position, passenger rail's competitiveness with the car has decreased and has added significant operating costs and capital requirements. These have resulted in an increasing VIA Rail deficit and further cost to the Government of Canada.

- **<u>Current Strategic Situation: (TOM) Toronto-Ottawa-Montreal</u>**

In the TOM Corridor, the current market size for the car+rail market is split between the major market city pairs. Of these three city pairs, the Montreal-Ottawa and Toronto-Ottawa segments represent 75% of the trip market or more precisely, 8.95 million car and rail trips per year. Passenger rail, as a whole, holds 4.7% of the car+rail market share in the entire corridor (including intermediate towns).

- As the distance between city pairs diminishes, the rail segment of the market become less attractive in comparison to the car;
- The car and the train have comparable in-vehicle (less wasted) times; and
- Within city pairs, as train frequency increases, rail market share also increases.

Operating in the same environment, (i.e. existing host railway arrangements and current equipment); trip times and OTP will continue to deteriorate due to increased freight traffic and failing equipment.

VIA Rail forecasts that this will lead to a $58 million increase in total annual government funding required before pension costs between 2016 and 2020. Revenues will deteriorate over the next ten years, as OTP and trip times are expected to deteriorate, particularly in the first five years. Thereafter, forced service reductions will occur as equipment begins to fail. Furthermore, fleet maintenance costs will increase both from an operating and a capital cost point of view.

Total Government Funding Required (Annex 1 for further details)

	2016	2017	2018	2019	2020
Government Operating Funding Required	237.9	254.5	274.4	290.3	316.6
Government Capital Funding Required	149.4	123.3	148.4	151.7	128.5
Total Government Funding Before Pension Costs	387.3	377.8	422.8	442.0	445.1
Government Pension Funding Required	32.0	37.0	37.0	37.0	37.0
Total Government Funding Required	**419.3**	**414.8**	**459.8**	**479.0**	**482.1**

VIA Rail is evaluating various strategies to reduce the rate of increase of required government funding including:

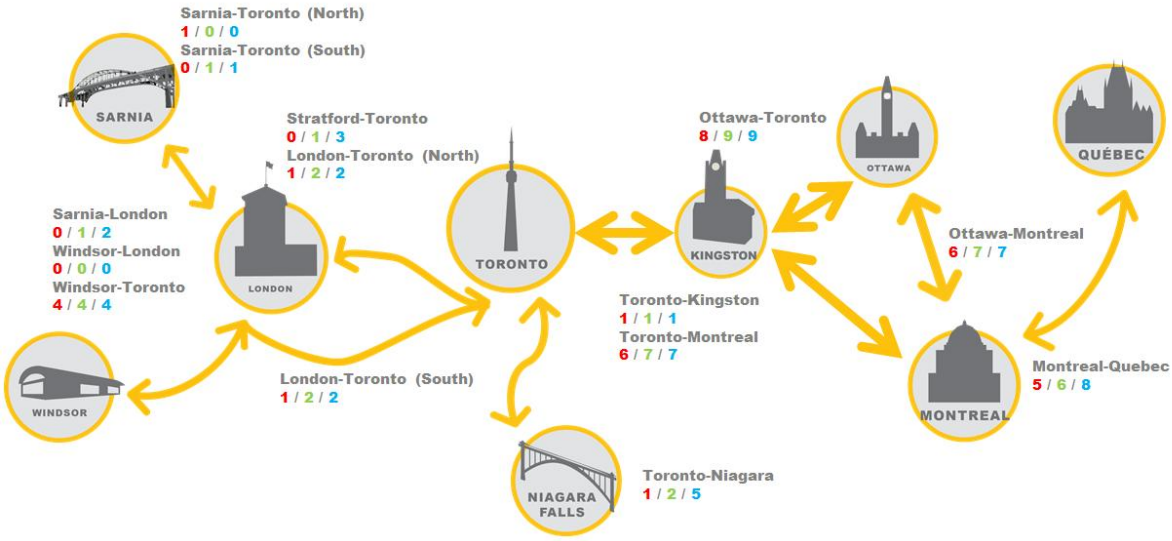
1. Acquiring a new fleet (no effect until 2021 due to acquisition lead time);
2. Increasing frequencies in the Quebec-Windsor Corridor;
3. Acquisition of the CN north mainline between Kitchener and London (for improved track access, control, trip times, reliability and OTP);
4. Adopting a push-pull strategy (mode of operation allowing the trains to be driven from either end, reducing operating costs and station turn-around times and improving equipment utilization); and
5. Improving train cycling (optimizing the use of personnel and the fleet to better match supply to demand).

All of the above will require substantial investment and will only lead to a slowing of the increased requirement for government funding. The status quo would continue to operate as such:

Primary Market	Toronto-Montreal
Secondary Markets	Toronto-Ottawa Ottawa-Montreal

The proposed changes to train cycling and frequencies to the Southwestern Ontario services are aimed at increasing ridership and revenue while optimizing operating cost structures and improving the bottom line by giving the market what it needs. This is done by optimizing schedules, train cycling, plus travel and connecting opportunities to improve service to passengers and communities. The key concept is to better deploy the existing trains, crews, assets and operating costs, and by adding some additional trains, to increase revenues more than the increase in operating costs.

CORRIDOR NETWORK: 2015 TO YEAR 5



Peak Daily Return Trips	2015	Year 1	Year 5	Change Total
Total Corridor East	26	30	32	+6
Total Southwest Ontario	8	13	19	+11
Total Corridor	34	43	51	+17

The Dedicated Tracks Strategy would give VIA Rail full control of its infrastructure in the Corridor, therefore controlling its frequencies, trip times and would take full responsibility of its OTP. Furthermore, this strategy would open the door to better connectivity with Canadian airports, commuter transit and other modes of transportation. OTP (controlled by VIA Rail) and Trip times (due to improved average speeds) would greatly improve.

4.2 Long-Haul Strategies

The *Ocean* and the *Canadian* do not represent a large proportion of VIA Rail's frequencies, but they account for very significant portions of VIA Rail's operating costs, fleet, staffing, and deficit.

To reduce costs, VIA Rail is examining the feasibility of revamping the long-haul tourism product offered by the *Canadian* and the *Ocean* by introducing a world class, once or twice per week, transcontinental "*Canadian 150*" cruise train starting in 2017 to celebrate Canada's 150th-anniversary. It will operate as a land cruise with stops in major centers allowing for visits of federal museums and landmarks. The introduction of such service may require the design and implementation of regional services in both the Maritimes (within New Brunswick) and the Prairies (between Alberta, Saskatchewan, and possibly Manitoba).

This would result in a more efficient separation of intercity from tourism travel that cannot be accommodated by the current hybrid trains (intercity and tourist). In doing so, VIA Rail believes it could

better serve the regional communities while also bolstering its strong tourism industry presence to Canadians and international markets.

- **The *Ocean***

In 2012, the *Ocean*'s frequencies were cut from six to three, which deteriorated the financial performance of this service. The *Ocean* does not adequately serve local communities and VIA Rail is looking at options to introduce additional local, intercity service, while potentially cutting back on under-utilized long-haul trains in the off-peak.

Eastern Intercity

Management of VIA Rail's Eastern Region is currently investigating the possibility of initiating an eastern intercity corridor service within New Brunswick, which could coincide with a possible reduction of the *Ocean* to two frequencies a week during off-peak periods.

- **The *Canadian***

Current in-house strategies being evaluated include:

- A change to the route between Toronto and Winnipeg;
- Methods to improve OTP; and
- Other initiatives to improve customer satisfaction and tourism potential.

4.3 Regional and Remote Strategies

VIA Rail, as part of its mandate, provides service to regions not easily accessible by other modes of transportation. As such, the potential markets and competitive landscape are restricted and only account for 2% of VIA Rail's revenues. Historically, these services have not undergone much change other than when faced with track abandonments. However, in the latter half of 2014, VIA Rail made efforts to meet with key community representatives to understand the needs of the current and potential users relying on these services. In doing so, VIA Rail was able to accommodate the specific needs of these different routes, which resulted in a net overall increase in revenue. VIA Rail remains committed to providing accommodating, safe and efficient travel for the communities affected by these services well into the future.

4.4 Other Strategies

Corridor trains are being modified to operate in a bi-directional mode, meaning that equipment will be configured to travel in both directions, eliminating the need to wye the train (the process of reversing the direction of a train by performing the railway equivalent of a three-point turn), which is a time consuming and expensive manoeuvre. This will mean progressively changing the interior configuration of LRC cars to a 50/50 seating plan (50% of the seats facing one end of the car, the other 50% facing the opposite end).

The major advantage of bi-directional mode is a quicker turnaround, allowing VIA Rail to:

- Operate more flexibly (notably in terms of scheduling);
- React more efficiently to last-minute changes or tight scheduling;
- Optimize fleet usage, i.e. increase frequency and capacity without adding equipment; and,
- Alleviate station congestion issues.

50/50 seating is the standard in the passenger rail industry worldwide. SNCF, Eurostar, SLA, Amtrak and Virgin, among others, have adopted it.

The first LRC Business class car with the 50/50 seating plan has already been placed into service, together with a newly refurbished LRC Economy class car with 50/50 seating. The full LRC fleet refurbishment will be completed by December 2016.

4.5 Vision 2020

The updates to the Vision 2020 plan initiated in 2014 are found within Annex 2.

5 RESULTS OVERVIEW: 2010 TO 2014

5.1 Corridor

Corridor Revenues

In 2014, 3.6 million passengers travelled in the Corridor, representing 94% of VIA Rail's traffic generating 79% of VIA Rail's total passenger revenue.

Between 2010 and 2013, VIA Rail adopted a strategy of reducing shorter services and focusing on long-distance intercity. This, coupled with a price reduction strategy to increase volumes, resulted in a drop in revenue and total of passengers during that period. In the second half of 2014, the Corporation revised its pricing strategy to better reflect the value offered. As a result, while revenue had been decreasing between 2011 and 2013, revenues increased 5.2% between 2013 and 2014. This new strategy, supported by efficient seat inventory management, together with other initiatives such as enhanced on-board services, new menus, new student pass product, etc., resulted in a substantial improvement of the Corporation's relative performance on all matrices. In particular, the Corporation saw a 13.4% improvement in Revenue per Available Seat Mile (RASM).

Ridership has declined proportionally with the continued OTP and trip time deterioration. Notwithstanding considerable improvements brought about by tactical moves, continued deterioration of ridership, trip time and reliability will continue to put downward pressure on the Corporation's revenue unless strategic action is taken. Although it will continue to identify value added segments where services can be provided at better prices, VIA Rail believes it is reaching the limits of its broad price increase strategy and therefore will see a renewal of revenue stagnation.

Corridor Operating Expenses

Between 2010 and 2014, expenses increased $12.4 million (6.7%), $5.9 million of which occurred in 2014.

Compensation increased by $4.1 million in 2014; $3.1 million of this increase is attributed to the additional pay period and the remainder was due to contractual salary increases and overtime, mainly caused by deteriorating OTP. Infrastructure costs have increased 17.6% primarily due to increased track owned by VIA Rail and upgrade programs on said track.

Finally, expenses per train mile increased due to reduced total train miles and overall Cost per Available Seat Mile (CASM) deteriorated by 16.1% over the period.

Corridor Contribution and Efficiency

Between 2010 and 2013, the Corridor's contribution to VIA Rail's expenses had reduced by 67% from $12.5 million to $4.1 million, due to reductions in services, price reductions, and losses of economies of scale. This number has since recovered to $8.3 million.

The Corridor's operating ratio deteriorated from 107% to a low of 102% in 2013. Thanks to measures introduced in the second half of 2014, this ratio has somewhat recovered to 104% in 2014. A ratio over 100% means that the Corridor's operating revenues cover its operating costs. However, on a system wide basis, VIA Rail's overhead costs (some of which are not necessarily associated with the Corridor) make the Corridor unprofitable.

5.2 The *Ocean*

Ocean Revenues

In 2012, VIA Rail reduced the *Ocean*'s frequency from six return trains a week to three. This resulted in a 33.5% reduction in revenue for the service between 2010 and 2014. Ridership reduced 41.3% over the period and was offset by a 13.2% increase in Revenue per Passenger. Average miles per passengers also increased 8.3% from 476 miles to 515 reflecting less usage for local intercity travel. Thanks to increased prices, this service's RASM improved 9.0%. In 2014, the *Ocean* generated $8.7 million in revenue and carried about 74,000 passengers, of which about 20,000 were in Sleeper class and 54,000 were in Economy class.

Ocean Operating Expenses

The 2012 cut in frequency resulted in a disproportionate reduction in expenses when comparing 2010 to 2014. The combination of an additional pay period in 2014, the rising price of fuel as well as the pre-agreed salary minimums guaranteed to certain VIA Rail employees all lead to less-than expected reductions in the *Ocean's* operating expenses. Nonetheless, expenses per train mile were reduced by exactly half, while CASM increased by 26.9% to $0.37.

Ocean Contribution and Efficiency

Notwithstanding service cuts, the Ocean's negative contribution has remained fundamentally unchanged over the period.

5.3 The *Canadian*

Canadian Revenues

From 2010 to 2014, the *Canadian's* revenues increased 3.5% primarily due to increased fares in 2013 and 2014. From a high of 112,000 passengers in 2012, ridership has steadily declined to the current level of 94,000. This reflects a cut in frequencies and a substantial deterioration in OTP from 84% in 2010 to a current 24%. Notwithstanding, thanks to the introduction of higher value products in 2014, RASM has improved 15.2% over the period. In 2014, the *Canadian* generated $41.1 million in passenger revenue and carried close to 94,000 passengers.

Canadian Operating Expenses

Between 2010 and 2014, the *Canadian's* expenses decreased by 3.3%, despite a 3.4% increase in 2014. This increase was primarily the result of the extra pay period that accounted for $1.3 million of the $2.5 million compensation increase. The remainder is primarily due to overtime associated with deteriorating OTP (24%). Cost increases were greatly offset by fuel savings brought about by price declines. Of course, these values are expected to fluctuate going forward.

Canadian Contribution and Efficiency

Between 2010 and 2014, the *Canadian*'s negative contribution was reduced by $3.2 million. Furthermore, RASM/CASM improved by 7%. VIA Rail believes, however, that with the deteriorating OTP affecting costs and revenues negatively this number may increase.

5.4 Capital Expenditures

Capital expenditures decreased during the period as the remaining investments of the Government of Canada approved capital funding envelope of $516 million and the 2009 Economic Stimulus envelope of $407M for equipment and infrastructure projects are completed

6 RESULTS OVERVIEW: 2015 Outlook

Six months into 2015 (June), due to more efficient capacity handling and price laddering (the price positioning of a product "good, better, best", where customers are targeted with choices where value added attributes increase as the price increases), System Passenger Revenue improved YoY by $4.6 million, or an increase of 4%.

6.1 Corridor

In comparison to the first six months of 2014, revenues for the Corridor have jumped 3.5% from $94.8 million to $98.2 million. The continued competitive price increases as well as better strategic capacity management act as key drivers behind VIA Rail's passenger revenue growth for 2015 YTD.

- Eastern Corridor: Passenger Revenue increased 3.9% ($75.7 to $78.6 million)
- Southwest Ontario: Passenger Revenue increased 1.9% ($19.2M to $19.5 million)

For the 2015 year as a whole, VIA Rail expects total corridor passenger revenue growth of 4.2%, or $8.7 million ($205.7 million vs. $214.5 million).

Operating expenses for the Corridor full-year 2015 are forecast at $202.5 million, representing a 2.6% increase over 2014. This is mainly due to additional maintenance costs.

Although VIA Rail's Corridor expenses are forecast to grow YoY (2014-2015), the extra costs are offset by the impressive revenue growth. Therefore, VIA Rail expects to increase the Corridor contribution by $3.6 million (+ 43.5%) in 2015.

6.2 The *Ocean*

Approximately 76,000 passengers are expected to travel on the *Ocean* in 2015, in all classes and all segments combined, a slight 2.1% increase YoY. These numbers compare unfavourably to the average of 137,000 in prior years, before the readjustment in services.

The *Ocean*'s revenues continued their modest growth with an increase of $0.3 million YoY as of June 2015, representing an approximate 7.6% increase ($3.3 to $3.6 million). In regards to 2015 as a whole, VIA Rail forecasts a small increase of 4.0%, or $0.4 million in passenger revenue ($8.7 to $9.1 million)

Expenses are expected to rise modestly from $20.7 to $21.9 million, representing a 5.8% increase. This is due to increased capacity and increases in track access costs.

Therefore the deficit is forecast to increase by $0.9 million, which accounts for an approximate increase of 7.5%

6.3 The *Canadian*

Approximately 96,000 passengers are expected to travel on the *Canadian* in 2015, in all classes and all segments combined, with about 47,500 traveling in the existing sleeping cars supported by the peak summer season. About 15,000 passengers will travel between Jasper and Vancouver.

The recently added *Prestige* sleeper class onboard the *Canadian* proved to be extremely popular in the first six months of 2015. Total passenger revenues increased by 5.3% or for a total of $0.7 million ($14.7 to $15.4 million). This new offering is not only self-sufficient and profitable, it also helps subsidize other VIA Rail services.

For the entirety of 2015, with the addition of the *Prestige Class* service as well as a new hybrid peak/off-season schedule, VIA Rail expects YoY revenue increases of $2.05 million, representing a 5.0% increase over 2014.

Due to cost resulting from deteriorating OTP and contractual cost increases for compensation and TSA, forecast expenses for 2015 are approximately $57.2 million that accounts for a 5.8% increase in comparison to 2014 ($3.1 million).

Since expenses are anticipated to increase at a slightly higher rate than revenues, the *Canadian's* deficit is budgeted to grow 8.4% for a total of $14.1 million (2014: $13.0 million).

6.4 Regional and Remote services

After listening to community feedback late in 2014 and early 2015, VIA Rail tailored the Regional and Remote service to better match its customers' needs. As a result, passenger revenues increased for the first time in five years. The increase of $0.1 million represents a 7.1% growth in revenues ending in June 2015. An estimated 68,700 passengers will be carried in 2015 for the combined services, compared to 66,000 passengers in 2014.

The Corporation expects this trend to continue into the second half of 2015, with projected total revenues of $4.2 million, versus $4.0 million (+4.3%) the prior year, for total expenses of $30.0 million versus $31.7 million (-5.7%) and a reduction of the deficit from $27.7 to $25.8 million (-6.9%).

6.5 Unallocated Expenses Net of Other Revenues

Unallocated expenses are expected to increase by $1.9 million notwithstanding a $1 million increase in other revenue. The increases in costs are primarily due to increases in overhead and corporate expenses.

6.6 Capital Expenditures

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

Equipment

With the completion of the HEP1 modernization program, the remaining major equipment projects are the LRC Car Fleet Rebuild project at VIA Rail's Montreal Maintenance Centre and the accompanying rebuild project at an external contractor, which includes the LRC car structural repairs. Other equipment projects include Renaissance *Ocean* Fleet Upgrades, Renaissance State of Good Repair, and HEP2 State of Good Repairs.

Infrastructure

Infrastructure projects include the Goderich–Exeter Railway (GEXR) Guelph Subdivision Infrastructure Improvement, infrastructure repairs on the Newcastle Subdivision between Bathurst and Miramichi, New Brunswick (required for continuance of service), Ottawa Terminals - Centralised Traffic Control (CTC) replacement as well as ongoing track work programs, bridge repairs, and signaling repairs on VIA Rail's infrastructure.

Maintenance Infrastructure

The major maintenance projects comprise mostly of upgrades to the maintenance infrastructure and consist of parking and access road upgrades, emergency generators, rolling stock damper and spring testing infrastructure and roof replacement, amongst many others.

Station Upgrades

Station projects include the addition of a new primary electrical supply for the Ottawa Station, Cobourg station renovations, Vancouver station upgrades and Brockville station upgrades; together with various building, mechanical, electrical and architectural upgrade, signage painting and other repairs and upgrades.

Union Station

The entire planned $2.7 million allocated capital for Union Station will be used for revitalization efforts in 2015.

IT Projects

The major projects in Information Technology are: Network Planning Solutions, Workforce Management software, Integrated Financial and Forecast Reporting software, Windows 7 Migration, iVIA upgrades, ReserVIA (reservation system modernization), new mobile application, Evergreening and hardware updates, as well as Stations Screen Expansions.

Administration

Includes required improvements in the Vancouver, Ottawa and Toronto administrative offices.

(Millions of Dollars)	Actual 2014	Forecast 2015
Equipment Projects	34.8	37.1
Infrastructure Projects	22.0	23.1
Maintenance Projects	0.3	2.4
Station Upgrading Projects	6.8	6.1
Union Station	0.3	2.7
Information Technology Projects	15.6	20.4
Administration Projects	2.0	2.0
Total Capital Expenditures	**81.8**	**93.8**

7 OVERVIEW OF THE 2016-2020 OPERATING PLAN

A key element of Vision 2020 is refocusing the organization into segmented market-based business units accountable for their respective "Profit and Loss", with the added responsibility of making revenue and expense based decisions within their defined markets. This Corporate Plan will provide revenue and expense information in the same manner.

7.1 Revenues

Total system passenger revenues is forecast to decline by 7.8%, from $270.9 million in 2015 to $249.8 million in 2020.

Corridor
The bulk of the decline is due to the forecast revenue decline of 11.6% in the Corridor, with annual revenues declining from $214.5 million in 2015 to $189.5 million in 2020. This revenue decline is a result of the previously discussed combination of limited frequencies, increasing trip times and deteriorating OTP, paired with the added reality of an aging fleet. This decline is a conservative forecast that includes the Corporation's best mitigation efforts, which include the additions of new frequencies in 2015 and 2016.

The *Ocean*
Passenger revenues for the *Ocean* are forecast to grow by 19.3%, from $9.1 million in 2015 to $10.8 million in 2020, mainly due to GDP growth and inflation as well as certain on board service enhancements, which will allow for price increases.

The *Canadian*
The *Canadian* is forecast to have modest revenue growth of 4.1% (from $43.1 to $44.9 million) over the plan period. Deteriorating OTP and long trip time delays, and consequently uncertain arrival times, will result in declining passenger volumes. VIA Rail is currently studying the possibility of changing the *Canadian* service (reduced frequencies or other means) to mitigate the impact of deteriorated OTP on the Corporation's passengers.

Regional and Remote
Regional and Remote services are forecast to have revenue growth of 10.4% (from $4.2 to $4.6 million) over the plan period, chiefly due to GDP growth and inflation. As well, service delivery is being adjusted to better match its customers' needs, also potentially stimulating passenger growth.

Other Revenues
Other Revenues are categorized as revenues not incurred from direct passenger revenues. They can be categorized as revenues from Station activity, Marketing and Sales activity, Maintenance operations or Corporate activities.

7.2 Operating Expenses

VIA Rail will continue to have difficulties offsetting compensation increases and inflation within the Plan period, even though the Corporation continues to strive to implement productivity and cost-containment measures. Certain expenses are tied to agreements that include provisions for price escalation based on inflation indices.

As a result, service expenses are expected to increase from $311.7 million in 2015 to $346.2 million in 2020, or 11.1% over that period.

Corridor
Expenses are forecast to grow from $202.5 million in 2015 to $225.7 million in 2020, or 11.5% over the period, due mainly to increasing maintenance costs brought on by aging equipment, deteriorating trip times and OTP, and inflation.

The *Ocean*
While expenses decreased by 23% on account of frequency reductions, expenses are forecast to grow from $21.9 million in 2015 to $24.3 million in 2020, or 10.6% over the period, due mainly to increasing maintenance costs and inflation.

The *Canadian*
Expenses for the *Canadian* are forecast to increase from $57.2 million in 2015 to $62.9 million in 2020, or 9.9% over the period, due mainly to increasing maintenance costs, deteriorating trip times and OTP, and inflation.

Regional and Remote
Expenses for Regional and Remote services forecast to increase from $30.0 million in 2015 to $33.4 million in 2020, or 11% over the period, due mainly to increasing maintenance costs and inflation.

7.3 Capital Expenditures

The shareholder approved $60 million annually to be used for ongoing capital requirements for FY 2014-2015, FY 2015-2016 and FY 2016-2017. This funding is being invested towards the upkeep of VIA Rail's asset base and to maintain a state of good repair. This funding is not intended, nor is it sufficient, for any major replacement or acquisition program, whether of equipment or infrastructure, or for any significant trip-time or train frequency improvements, or for any transformative change.

The three-year funding allowed VIA Rail to effectively plan its capital spending during that period. In the past, with one-year funding approval, VIA Rail could not commit to multi-year agreements, which severely hindered planning and deployment and led to missing seasonal work windows, effectively delaying work.

On-going capital requirements identified in the last four years of this Corporate Plan remain unfunded.

7.4 New Federal Government Infrastructure Investments

On November 24, 2014, the Prime Minister announced that the Federal Government would be investing $5.8 billion to build and renew infrastructure across the country. A total of $102 million in capital funding has been earmarked for VIA Rail: $18.6 million for FY 2015-2016 and $83.4 million for FY 2017-2018. This funding targets infrastructure, safety and trip time improvements in the Ottawa-Montreal rail corridor.

7.5 Additional Requirements for 2016 to 2020

VIA Rail is at a decision point as it faces increasing pressure in its operating environment. In its relationship with the host railways, VIA Rail has essentially little or no control over the key basics required

to operate in an efficient businesslike manner. The Corporation cannot readily add frequencies, control trip times, or reverse deteriorating OTP, which together compose the key measures required to attract and retain ridership.

Lengthening trip times and poor OTP create a less desirable and thereby a less saleable product, while simultaneously increasing operating costs. This, in turn, will necessitate greater government operating funding support or service reductions, layoffs, or a combination thereof.

Paradoxically, these increasing operating losses and possible service reductions will occur in an environment where intercity passenger rail should be experiencing steady growth. Continued economic growth, increased road congestion, increased air congestion, increased environmental awareness, increasing energy prices, and an ageing population, together with a train-oriented younger generation (as shown by student segment ticket growth) create an environment where passenger rail should thrive. Failing the implementation of a new passenger rail operating paradigm, Canada will continue to lag behind other countries in implementing a modern passenger railway system and will forego its inherent socio-economic benefits, such as of improved employment mobility and improved business connectivity.

VIA Rail is at the limit of its current operating environment, and eventually any tactical or strategic improvement sought by management will prove to be ineffective within this situation.

Ongoing Capital

These funds are required as VIA Rail must adhere to health, safety, security and regulatory requirements that result in continuous modifications and improvements to the rolling stock, infrastructures, systems, stations, facilities and its information technology software and hardware.

Ongoing 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 Rail will not be capable of maintaining a state of good repair, and not be in a position to deliver its mandate.

Fleet Renewal

VIA Rail's fleet, despite numerous improvements that were provided in last year's thorough refurbishments, is coming to the end of its commercial life. Given the lengthy process of acquiring new equipment, VIA Rail will develop a proposed plan to support the renewal of its rolling stock fleet. Detailed information in regards to VIA Rail's Fleet Renewal strategy can be found within Section 12 of this Corporate Plan.

Infrastructure Investments

Investment in VIA Rail's infrastructure has demonstrated significantly better returns for VIA Rail, the shareholder and the travelling public, than investments in host railway infrastructure. VIA Rail will invest primarily in its own track for additional frequencies or reliability, and will identify and pursue strategic infrastructure acquisitions in the Corridor. Third-party infrastructure investments will be considered only when necessary and when there is a contractual guarantee of clear, tangible and substantial benefits.

VIA Rail is also considering the purchase of the Montreal Central Station rail corridor from CN. With this purchase, VIA Rail would gain operational dispatch control, improving OTP. VIA Rail is also considering the purchase of a section of the Guelph Subdivision between Kitchener and London. This purchase would be of strategic value as VIA Rail represents the majority of rail traffic on this segment. In addition, it would

secure continued track access to London, allow for future growth, permit the addition of new frequencies and improve trip times.

VIA Rail will also complete a detailed feasibility study and business case to enable a high-frequency Corridor service over exclusive passenger tracks to be acquired.

Lastly, VIA Rail will consider investing in AMT and Metrolinx infrastructure proportionate to usage, which should provide similar guaranteed benefits.

8 HUMAN RESOURCES

8.1 Workforce

VIA Rail had 2,528 active employees at the end of 2014. Of these, a total of 2,076 employees were under collective agreements and non-unionized staff made up the remaining 452 employees. The latter includes a wide range of positions, such as front line, middle and senior managers, professionals, administrative support and technical specialists, as well as the eight executive positions.

8.2 Labour relations and collective agreements

VIA Rail deals with two unions, Unifor and the Teamsters Canada Rail Conference (TCRC), covering several collective agreements.

Negotiations are upcoming for the Unifor three-year collective agreement covering the period 2016-2018.

The other major labour agreement at VIA Rail 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.

8.3 Compensation

VIA Rail's total compensation strategy aims at attracting and engaging talented employees who will contribute to the Corporation's success. It fosters a culture of pay for performance as a key compensation strategy.

VIA Rail must balance cost containment efforts with reasonable and competitive compensation in order to attract and retain employees, particularly skilled employees whose jobs are identical or very similar to others within the railway industry, such as locomotive engineers at CN and CP.

8.4 Alignment with Government of Canada Pension Plans

VIA Rail 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. To start with, VIA Rail's pension plan is significantly less generous than the Federal Public Service pension plan.

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 Service and must be purchased by retirees.

VIA Rail has two defined benefit plans: one for its unionized employees, and the other for its non-unionized staff. On a solvency basis, liabilities are calculated by discounting using long term Government bond yields. The all-time record low long-term interest rates we are experiencing have negatively affected most Canadian defined benefit pension plans.

To contain pension costs and to align with governmental cost reduction initiatives, VIA Rail has implemented a number of initiatives over the last several years:

- VIA Rail's returns on assets over the past 20 years have been significantly above the median Canadian pension plan returns, despite a decision almost a decade ago to adopt a more

conservative (lower risk / lower return) asset mix to better match assets to liabilities in a mature and relatively large pension plan such as VIA Rail's;

- Changing the administration of the automatic consent to withdraw the full pension value for those leaving VIA Rail before age 55.
- Streamlining pension plan administration costs;
- Gradually increasing employee/employer contributions to the government's 50/50 target by 2017, in line with the Budget 2012 and Budget 2013 objectives; and
- Implementing the portfolio replication methodology for the solvency valuation in its December 2013 valuation reducing the solvency.

8.5 Employee Engagement

Engaged employees are essential for VIA Rail to reach its business goals, to maintain excellent customer service and ultimately to improve employee retention and generate a positive impact on financial performance. The last employee Engagement Survey was conducted in 2011, and as a direct result, some corporate priorities were clearly defined. One of the key drivers of engagement is the quality of leadership and the ability for a manager to coach and develop his own team.

In order to help employees progress, VIA Rail has introduced new capabilities to the talent management system: career planning, succession planning and talent review. These new capabilities, together with the new two rating axis (potential and performance), will enable VIA Rail to get a clearer picture of the available internal talent, and to determine what specific training programs could help VIA Rail employees develop and progress within the Corporation.

Open employee communication is also a key element to engage employees. One such example is the town-hall meeting that VIA Rail's President and CEO holds periodically with employees across the country. In addition, improving the visibility of the senior management team and recognizing the work and dedication of employees are some of the keys to having a committed workforce.

VIA Rail conducted a new employee Engagement Survey in May 2015 and the results were announced in September. The participation rate reached a record high of 63% (vs. 54% in 2011) and results were positive in general: overall increase of engagement score of 5% since 2011 (51% vs. 46%), more employees are actively engaged (17% vs. 15% in 2011), and the number of employees who are very disengaged is decreasing (28% vs. 33% in 2011).

8.6 Succession planning

With 50% of its workforce being 50 years and older, VIA Rail puts a great emphasis on managing succession which is overseen throughout all levels of management, to ensure that VIA Rail has the right talent at the right time and to guarantee business continuity.

In order to minimize gaps in the pipeline for key senior management positions, VIA Rail provides opportunities for top talent to develop skills necessary for future roles. The goal is to merge talented employees' capabilities and career aspirations with VIA Rail's business strategy and talent needs. In addition, the Corporation's career site was updated to be better aligned with its new branding and employee value proposition, as well as to promote ethics, diversity and inclusion. VIA Rail continues to improve its selection processes to ensure that it identifies the best candidates to fill positions.

9 FUNDING OVER THE 2016-2020 PLAN PERIOD

The total government funding available to VIA Rail for the five years of this Plan is $1,017.6 million. This amount is based on the annual reference level of $146.8 million, the additional funds identified in Budget 2014 for the three-year period starting FY 2014-2015, and approval of the 2014-2018 Corporate Plan with respect to capital reprofiling and the recently announced $102 million of additional capital funding for Ottawa - Montreal passenger rail infrastructure improvements.

This recently announced funding will be used toward improving the existing VIA Rail Ottawa-Montreal rail corridor to increase reliability, safety and speed of VIA Rail's service.

VIA Rail's total requirements for the five years are $2,260.9 million, provided that VIA Rail operates on a status quo basis, a shortfall of $1,243.3 million, owing to the fact that for the next four fiscal years the requirements for operating, capital and pension expenditures, beyond the $146.8 million, are still unfunded.

In the first Year of the Plan, VIA Rail's total operating funding required of $239.6 million matches the funding available. However, due to revised forecasts for anticipated revenues and operating expenses, the funding requirements will generate operating deficits for each of the following four fiscal years: $114.0 million in FY 2017-2018, $131.5 million in FY 2018-2019, $149.8 million in FY 2019-2020 and $176.7 million in FY 2020-2021.

Capital remains unfunded for the last four years of the plan, resulting in a $537.4 million deficit.

The latest forecast for minimum pension funding requirements over the Plan period is lower than the funding available, representing a difference of $13.3 million in FY 2015-2016 and $14.3 million in the FY 2016-2017. The requirements for the last four years of this Plan remain unfunded, meaning a deficit of $37.0 million per year.

As was indicated within the 2015-2019 Corporate Plan, actual pension funding requirements for future years are highly dependent upon prevailing market conditions and pension discount rates. This remains as a valid caveat. In the event that interest rates or general capital market conditions prove unfavourable, funding requirements may be revised and could exceed the figures presented in the financial tables.

The increase in estimated pension funding requirements of $12.3 million from the 2015-2019 Corporate Plan to $33.3 million within this Plan with respect to FY 2016-2017 is due predominately that the values within the 2015-2019 Corporate Plan values are based upon a small forecast interest rate decrease for 2015 contained within the Federal Budget, while the actual current rates have decreased by 0.5% at the time of determining those estimates.

10 SAFETY AND SECURITY

10.1 Safety Overview

In the past two years, rail accidents such as Lac Mégantic, or an OC Transpo bus hitting a VIA Rail train after going through a gate, and several other incidents across Canada and the U.S., have highlighted the need for safe and even safer practices in the railway industry. Transport Canada has responded by rolling out a series of new rail safety regulations (Grade Crossings Regulations)

All railroads must operate within safety parameters that support safe operations and protect their employees and the communities through which they travel, but passenger rail safety standards are also designed to ensure the safety of the rail travelling public.

VIA Rail's Safety Management System (SMS) processes and procedures are submitted annually to Transport Canada and include the definition of roles and responsibilities in the safety area and their integration into day-to-day activities. It ensures that VIA Rail 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.

In 2015, VIA Rail upgraded its SMS practices and processes, and will implement ongoing workshops to ensure employees are up to speed on such processes. In addition, the governance and audit structure is being improved to ensure that VIA Rail can document the implementation and effectiveness of the SMS.

Safety processes are audited internally and externally to ensure adherence to the highest standard of safety. VIA Rail's safety practices were evaluated by the auditors and were found to be appropriate. In 2012, external auditors determined that VIA Rail had a safety culture well embedded throughout the organization.

For example, VIA Rail's equipment and infrastructure safety practices include:

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

VIA Rail continuously improves its train operation processes and practices through initiatives such as:

- Introducing new technology, including fail-safe train controls, to reduce the potential for human error in locomotive operations;
- Installing safety devices on locomotives (e.g. forward-facing cameras and voice recorders), and biometric secure starting mechanisms (digital fingerprints); and
- 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 small fraction of the cost. This system, for which VIA Rail is applying for a patent 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 Rail has maintained an excellent safety record since its beginning and, over the years, safety has become a basic element of its culture.

Barrhaven Area Crossings

Following a number of fail-safe activations at railway crossings in Barrhaven, near Ottawa, VIA Rail initiated a comprehensive review, which resulted with the implementation of 132 corrective actions or improvements to correct false signal activations and reduce the disruption to the community should they re-occur. VIA Rail continues to be proactive and maintains open channels of communication with the City of Ottawa and OC Transpo to resolve any issues or incidents involving the six grade crossings in the Barrhaven area.

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 of accidents at grade crossings. One of the key elements of the new regulations is that road authorities, private entities and railway companies will be required to maintain sightlines at grade crossings. A period of seven years is allowed for the 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 them, including the control of tree and brush growth. Sightline modifications may also be required on vehicle roadways. Due to their higher speeds, passenger trains generally require longer sightlines, therefore, the implementation costs will proportionately have a greater impact on VIA Rail than other railways.

The new regulations allow increased train speeds over which trains can operate without the need to eliminate road crossings at grade, that is, without having to build over or under passes. The increase in speed is from 100 mph (161 km/h) to 110 mph (177 km/h) and could be beneficial to VIA Rail.

10.2 Corporate Security Overview

Recent terrorist events have focused renewed attention on the vulnerability of Canada's critical infrastructure. On October 17, 2014, Canada raised its domestic terrorism threat level to medium indicating that an individual or group has the intent and capability to commit an act of terrorism in Canada and that it could occur. The October 20, 2014 Saint-Jean-sur-Richelieu attack on Canadian soldiers and the October 22, 2014 Parliament Hill shootings in Ottawa have created a heightened threat environment. In parallel, police have arrested and the courts have found guilty individuals involved in a terrorist plot against VIA Rail trains in Ontario.

Since September 11, 2001, elaborate protection measures have been put in place focusing on aviation security. Aviation deaths have steadily declined in the last three decades, whereas deaths on rail systems have increased.

The threat that an untoward event might occur can never be totally eliminated. However, the adoption of best practices will significantly reduce the likelihood that an event will happen.

Early in 2015, VIA Rail hired an ex-chief of Intelligence of the Montreal Police Service (SPVM) to head up its Security Department and to develop a Corporate Security Strategy. The corporation also hired an ex-Commissioner of the RCMP to help put together the strategy.

Security management interconnects with other management functions. As the culture of safety is entrenched with all VIA Rail personnel, security awareness should similarly be inculcated for employees at all levels.

VIA Rail's corporate strategy will align with its enterprise risk management outlining risk treatments and indicators.

Security Committee

The Corporate Security Strategy describes the need for the implementation of a security committee with representatives of various departments to identify and resolve potential security risks including the review of facility designs, proposed implementation of new technology, policy formulation, training programs and security breaches.

Vigilance, Awareness, Inspections and Training

A vital threat reduction measure is the vigilance carried on by VIA Rail's staff, thus it is imperative for VIA Rail to continuously promote awareness and familiarity with today's range of threats. Staff must be trained to cope with the difficult circumstances in which they are likely to find themselves and to be proactive when dealing with problematic passengers and offenders. In addition, the effectiveness of all security policies are enhanced if passenger support is sought and passengers play an active role in ensuring security by remaining vigilant, reporting unusual situations and unattended objects.

Intelligence, Information Sharing and Partnerships

Enhanced Information Sharing is integral to national security efforts. Close collaboration between VIA Rail and intelligence services is crucial in today's threat environment. The need for a more robust partnership with the intelligence community is required by the VIA Rail Police Service to exchange operational, tactical and strategic criminal intelligence and information on threats and risks, so as to protect VIA Rail from current and, or emerging criminal trends.

Law Enforcement and Security Forces

Most large commuter, and long distance rail transportation systems have their own dedicated security force which may be a proprietary private or contracted security force, proprietary dedicated police service and, or contracted local police service. In the United States, there is a strong rail police presence with over 20 police departments dedicated to railroad policing. In Canada, the two major freight railway systems have their own police service.

Law enforcement presence is essential for reassuring the public and for providing deterrence. Several opportunities have been assessed to enhance police visibility such as training with local police, signing letters of agreement, encouraging satellite offices and most critical, creating a proprietary police service model with the preferred option of expanding the VIA Rail Police Service.

11 ENTERPRISE RISK MANAGEMENT

11.1 Overview

Prior to 2015, there was no dedicated Enterprise Risk Management (ERM) function, as each group performed their respective 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.

With the appointment of a Director of Risk Management, a new ERM framework (including a policy, process, risk appetite framework and annual ERM calendar) was developed and put into effect. Key risk appetites and tolerances were established; risk treatments were documented, validated and adapted as needed. In addition, mechanisms were implemented to monitor emerging risks and best practices while reacting to global industry situations. This resulted in a process that provides an improved and integrated risk management framework aligned with VIA Rail's strategic objectives. These processes are part of the ongoing efforts to continuously enhance safety, improve the preparedness and efficiency of the Corporation's operations, as well as ensure business continuity in the event of a business disruption.

In doing so, VIA Rail now 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 Rail would also like to acknowledge that it has already received recognition for its new comprehensive ERM approach. The Institute of Risk Management (IRM) in London, England nominated VIA Rail's Director of Risk Management for the Risk Management Newcomer of the Year Award. He is the only nominee from North America on the shortlist of ERM specialists from around the world.

The following sections detail VIA Rail's key risks that could potentially affect its strategic objectives:

Safety of Passengers, Employees and the Public

The safety and security of passengers, employees and the public constitute VIA Rail's primary concern. A collision, derailment, or crossing/pedestrian accident would have tremendous human impact. Similarly, contaminated food items or beverages could also pose a safety concern to 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 Rail train are a reminder of the importance of remaining vigilant at all times.

<u>Risk treatments:</u>

- 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 Rail's equipment and infrastructure;
- Recruiting experienced intelligence personnel to head VIA Rail Security Department; Transforming the role of Director of Security into a VIA Rail-dedicated police inspector, who is a reinforced coordination point of contact between VIA Rail, law enforcement and intelligence services; and
- Performing a gap analysis and potential implementation of recommendations against terrorist threats.

Employee Contribution

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

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

Risk components included are:

- Skills gap for strategic goals achievement;
- Locomotive engineer staffing and experience;
- Resiliency of critical operational positions; and
- Relationship with employees and engagement.
- 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);
- Developing a training program for locomotive engineers currently trained to CN specifications and maintaining a sufficient spare board list pool of qualified employees, supported by tools such as a training simulator used to train for locomotive engineers.

Government and Strategy

VIA Rail's limited powers under its current Crown corporation status and insufficient annual funding by the Government constitute a risk in the efficient delivery of its services, and in the planning and execution of any medium-to-long-term strategy.

Operating Funding

Without sufficient timely funding, VIA Rail would be obliged to make drastic cuts, which is a significant business and reputational risk, exacerbated by layoffs (detrimental to employee contribution and loss of critical competencies), significant restructuring costs, including employment security and severance payments and start-up costs when the service resumes.

While funding issues over and above reference levels stem from revenue and expense imbalances, the most volatile elements come from the revenues and from certain cost items, such as the price of fuel on the operational side. Some mitigation strategies are deployed to compensate for these volatile elements.

Risk Treatments

- Managing revenues to obtain the right balance of yield per passenger and the number of passengers;
- Developing and deploying commercial strategies to increase ridership, grow revenues and augment the relevance of VIA Rail and its services;
- Continuing cost management;
- Obtaining approval of sufficient operating funding to secure the operations over the planning period;

- Working with Transport Canada on a long-term solution to identify and revise an appropriate level of base funding; and
- Managing fuel cost fluctuations through consumption analysis and initiatives to reduce fuel consumption, and deploying a hedging strategy to manage the price risk component.

Funding of Pension Plan Liabilities

The long period of low interest rates used to discount pension liabilities continues to put pressure on the pension plans, which forces continued employer contributions and consistently threatens plan sustainability. The level of reserves needed in the plan to meet the projected payouts is determined through audits conducted by the Office of the Superintendent of Financial Institutions and by federal legislation, namely the Pension Benefits Standards Act. VIA Rail is legally required to comply with the results of the audit. As interest rates rise, mandatory three-year smoothing will slow the improvement in the solvency deficit. The current situation still poses a risk, which VIA Rail is mitigating through a series of measures.

Capital Funding

Budget 2014 approved $60 million in capital funding for Fiscal Years 2014–2015, 2015-2016 and 2016-2017. On November 24, 2014, the Federal Government has announced an additional $102 million of capital funding that will be invested in the amounts of $18.6 million and $83.4 million for FY 2015-2016 and FY 2016-2017 respectively. This additional funding will be used to increase reliability, safety and speed of VIA Rail's service in the Ottawa-Montreal rail corridor.

Revenue Generation

Revenue generation represents a major risk that directly impacts the previous risk of funding sufficiency.

Risk Treatments

- Forecasting growth in outlooks 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 Rail's Toronto–Vancouver services;
- 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.

Risk components include:

- Passenger tickets revenues;
- On-board revenues; and
- Other revenues.

Infrastructure Availability, Reliability and Quality

The availability, reliability and quality of the rail infrastructure used by VIA Rail may have a positive or negative impact on OTP, trip time and the ability to add frequencies to effectively meet market demand,

influencing passenger satisfaction, their propensity to take the train and, eventually, the number of VIA Rail passengers served and revenues earned.

The services provided by host railways, such as CN and CP, have been deteriorating and represent a risk. Host railways and VIA Rail often have conflicting peak demands and we must reach compromises for adequate track access. Passenger trains in Canada do not enjoy the operational priority as in virtually all other countries, including the United States.

The growing segmentation of rail ownership also increases the complexity of access (e.g. Metrolinx acquisitions around Union Station in Toronto) leading us to believe that dedicated track access is a better longer-term solution.

Furthermore, the Canada Transportation Act provides a mechanism for the discontinuance of service on sections of track that the infrastructure owner considers no longer economically viable. Before a federally regulated railway corporation can abandon a section of track, it must list the line on its three-year network plan for at least one year. The line can then be listed for sale, lease or transfer—first to private interests and then to each level of government. The process to find a buyer can take up to six months or longer. If no interested buyer can be found, the railway corporation has the right to discontinue service on the line and abandon it.

Risk Treatments

- 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;
- Using legal leverages (CTA) to protect investments by obtaining expected benefits;
- Investing primarily in VIA Rail-owned infrastructure, or where there are solid guarantees on the benefits;
- Continuing to pursue 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;
- Negotiating partnerships with host railways or operators to share the risk on such lines;
- Cancelling the service to ensure the safety of passengers and the public; and
- Implementing alternate transportation.

Equipment Quality, Availability and Reliability

The quality, availability and reliability of VIA Rail'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 Rail passengers served and revenues earned.

An independent report by the engineering firm Interfleet notes that a high probability of an enforced retirement of the LRC cars due to structural (corrosion) issues not only exists, but would greatly jeopardize VIA Rail's ability to provide services and fulfill its mandate. Furthermore, an older fleet generally means increased requirements and growing costs for maintenance. Therefore, VIA Rail needs to plan its operations in the short, medium and long term accordingly, primarily for the key LRC fleet used in the Corridor, for which only 10 years of service have been added through the latest investment program.

Risk Treatments

- Funding a program for three years (equipment maintenance);

- Investing in the existing fleet through ongoing capital injections to maintain it in a state of good repair;
- Planning for fleet replacement, with due consideration that an accelerated procurement plan will take a minimum of four years;
- Systematic inspections of LRC cars including disassembly for internal examination;
- Developing a LRC refurbishment program;
- Ensuring project management of LRC refurbishment by VIA Rail's MMC and CADRI (supplier);
- Focusing on high-failure components and systems (weekly Top 5 reviews);
- Conducting reliability-centered maintenance focusing on critical systems;
- Ensuring technical experts are available 24 hours a day to assist locomotive engineers en route;
- Developing options beyond the current three-year funding program; and
- Planning for project management office and staffing in preparation for eventual major equipment projects.

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 its strategic objectives and management of other key risks. VIA Rail has no appetite for a decrease in the availability, reliability, responsiveness and optimization of its IT platforms. VIA Rail has a risk appetite for the development of new cost-effective, integrated, engaging or revenue-generating IT strategies that support 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. No corporation can afford to neglect IT security risk and VIA Rail intends to continue managing that risk and improving its risk treatments.

Risk components included are:

- Security;
- Consultants;
- Underinvestment in IT (equipment, support personnel, supplier management); and
- Reliability and resiliency.

<u>Risk Treatments</u>

- Ongoing security framework elaboration and implementation;
- IT security processes, directives and standards;
- 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;
- VIA Railnet 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.

12 FLEET RENEWAL STRATEGY

VIA Rail has not acquired any new equipment since December 2001 and the entire fleet is generally quite old and in need of repair (see Annex 5). An independent study of VIA Rail's fleet carried out in 2015 states that there is an immediate and urgent need to replace the Corridor fleet.

The average age of the equipment in VIA Rail's fleet is 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 kilometres per unit. The condition of the fleet, and the need for renewal, follow.

12.1 Asset condition:

- Aging asset condition causes higher operating costs and reduced revenue;
- The average age of the equipment in VIA Rail's fleet is over 40 years old. Normal life expectancy of passenger rolling stock is 30 years; and
- Both LRC (aluminium body-shell) and Renaissance (poor winter capabilities) coaches have structural related life expectancy issues.

Cars:

LRC

- VIA Rail has 97 LRC cars, which represent 61% of the Corridor fleet;
- The fleet has already gone through two major overhaul programs for corrosion repair and renewal of vehicle interiors as well as its mechanical and electrical systems all for the purpose of extending the LRC's life, but further refurbishment is not an option;

HEPII

- 33 HEP II cars are currently in service, representing 21% of the Corridor fleet;
- They are over 60 years old and they have greatly exceeded their useful service life;
- They were acquired used from various sources during the 1980's and they are not a standardized fleet which compromises VIA Rail's efficiency;
- 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; and
- A program to replace the bogies (part of the undercarriage) and provide new interiors would still yield an-outdated car type with limited market appeal.

Renaissance – Corridor portion

- There are 30 Renaissance Cars assigned to the Corridor, representing the remaining 19% of the Corridor fleet;
- They were originally manufactured in the UK in 1995-96, with final assembly of a portion of the fleet performed in Canada between 2001 and 2003;
- They have the lowest reliability of the Corridor fleet;
- Their mild steel car bodies are corroding at the roof, side sills and posts. The full extent of the corrosion is unknown without a major overhaul (i.e. "opening" vehicle);
- A major investment to the Corridor Renaissance fleet would be needed to improve their reliability and reduce their burdensome maintenance costs and to extend their useful life and marketability;

- A minimum overhaul/repair is needed to resolve HVAC problems, interior/exterior roof leaks, corrosion, door/step operation, public address systems and interior conditions;
- Due to their European design, sourcing of spare parts is an issue; and
- Remaining service life of these train sets without major investment is less than 10 years.

Note: Total of Corridor fleet may not add up to 100% due to rounding.

Locomotives:

F40 Locomotives

- There are 52 F40 locomotives, of which 19 are assigned to the Corridor. This represents 48% of the Corridor locomotive fleet;
- The age of the fleet is close to 30 years;
- Their reliability improved following a major overhaul/rebuild performed between 2009-2012, however reliability and availability are declining with age;
- The condition and structural integrity of the bogies and locomotive frames are in decline due to high mileage, rough service conditions and issues with corrosion;
- They require overhaul redesign to integrate crashworthiness standards for fuel tanks; and
- They comply with Canada's minimum environmental regulatory requirements (Tier 0), however they do not meet industry Best Practice exhaust emission standards (Tier 4) which will be a mandatory requirement for the next major overhaul/ rebuild.

P42 Locomotives

- All 21 P42s are assigned in the Corridor and represent the remaining 52% of the Corridor locomotive fleet;
- They are 15 years old;
- The condition and structural integrity of the bogies and locomotive frames are in decline due to high mileage, rough service conditions and issues with corrosion;
- The monocoque design of the P42 cannot be overhauled to integrate the newly proposed crashworthiness safety standards for cab design and fuel tanks;
- They are due for a half-life overhaul to address mechanical and electrical reliability issues, car body corrosion at the fuel tank level, bogie ride stability, and air dryer issues; and
- They comply with Canada's minimum environmental regulatory requirements (Tier 0),but do not meet industry Best Practice exhaust emission Standards (Tier 4) which will be a mandatory requirement for the next major overhaul/ rebuild.

12.2 Fleet Renewal

Corridor

In the first quarter of 2015, VIA Rail retained the services of an independent rolling stock consultancy firm to complete an analysis of its fleet requirements. The goal of the study was to analyze VIA Rail's capacity to execute its responsibilities within the scope of continuing to fulfill its mandate. A high-level fleet assessment was developed followed by an evaluation of this assessment against reasonable options, which the Corporation could implement to achieve the plan's goal.

The fleet assessment concludes that:

- There is an immediate and urgent need to replace the Corridor fleet;
- Maintaining the status quo with the existing fleet presents a high operational risk to VIA Rail.

- An accelerated investment and complete replacement of the corridor fleet of locomotives and coaches, with either “like for like” rolling stock or Diesel Multiple Units (DMUs), makes strategic and economic sense;
- A homogeneous fleet across all Corridor services will permit technical, operational, maintainability and financial optimization; and
- Improved reliability, quality and functionality of new rolling stock will improve customer experience, potentially resulting in passenger growth.

Long Haul and Regional and Remote Services Fleets

VIA Rail will be undertaking a similar review for the balance of its fleet over the coming year with the objective of identifying the medium and long term strategies for the rolling stock used in its Long Haul and Regional and Remote services.

VIA Rail however does provide in this corporate plan the necessary capital funding required to maintain the fleet in a state of good repair.

12.3 Conclusion

Considerable capital and operating investment will be required for the existing fleet in order to maintain a safe and reliable condition and sustain current levels of passenger service.

- Due to age and condition of the existing fleet, with no capital investments VIA Rail will not be in a position to offer the current passenger service levels by 2020;
- Existing locomotives do not meet the new crashworthiness and emission standards;
- The majority of the current Corridor cars do not benefit from the latest industry approaches for crash safety, and most do not fully meet the current accessibility standards and trends;
- VIA Rail must increase revenue, reduce operating expenses and reduce reliance on federal funding;
- Aging equipment worsens customer experience and VIA Rail’s market share will decline; and
- Aging condition of existing rolling stock assets means:
    - Increased maintenance and other operating expenses;
    - Difficulties in complying with evolving and more stringent safety regulations and standards;
    - A very difficult challenge to enhance customer service and VIA Rail’s product offer; and
    - Non-compliance with current accessibility policies in transportation.

Given the above facts, VIA Rail has identified the need to replace its Corridor fleet (especially the LRC cars) as an urgent endeavour. Such an activity should start now given that even with an aggressive procurement cycle, it will take a minimum of four to five years to replace and renew the LRC fleet. VIA Rail believes that having a single fleet type operating in the Corridor would yield clear advantages: consistent product and service delivery, operational flexibility, efficiencies and maintenances practices/costs.

ANNEX 1 – KEY FINANCIAL TABLES

As described in the Corporate Plan text and illustrated within Table 1 of the annexed Key Financial Tables VIA Rail only has sufficient government operating, pension and capital funding until March 31, 2017 (end of fiscal year 2016-17).

VIA Rail will require an additional infusion of government funds of about a third of a billion dollars each year starting in 2017-18 just to keep the status quo network operating while operations and service continue to deteriorate despite the corporation's best efforts. This does not include any costs for compliance with the new grade crossing regulations either on VIA Rail's own infrastructure or that of other host railways, nor does it include funding to improve security.

Funding for Corridor fleet replacement and improved Track Access, as described below, is also not included in these additional funding requirements, but they would significantly reduce the additional government funding requirements described above.

ANNEX 2 – PLANNED INITIATIVES IN VISION 2020

In 2014, VIA Rail introduced a new organizational structure to serve the Canadian population in a more efficient manner. This new vision for VIA Rail is a market-based organization where the actions by the people of VIA Rail will address the mobility needs of the people of Canada.

The vision realigns VIA Rail's activities to improve customer service, financial efficiency and operational excellence. In this market-based structure, each business line will become its own "Profit and Loss" (P&L) centre. These business lines are responsible for the operations, capital investment and financial performance of their respective passenger rail services, on a train-by-train basis.

In addition, a Capital Asset Management organization supplies VIA Rail's infrastructure, rolling stock and station assets. The Capital Asset Management organization is also responsible for the possible commercialization to third parties of any asset not required/used for VIA Rail operations.

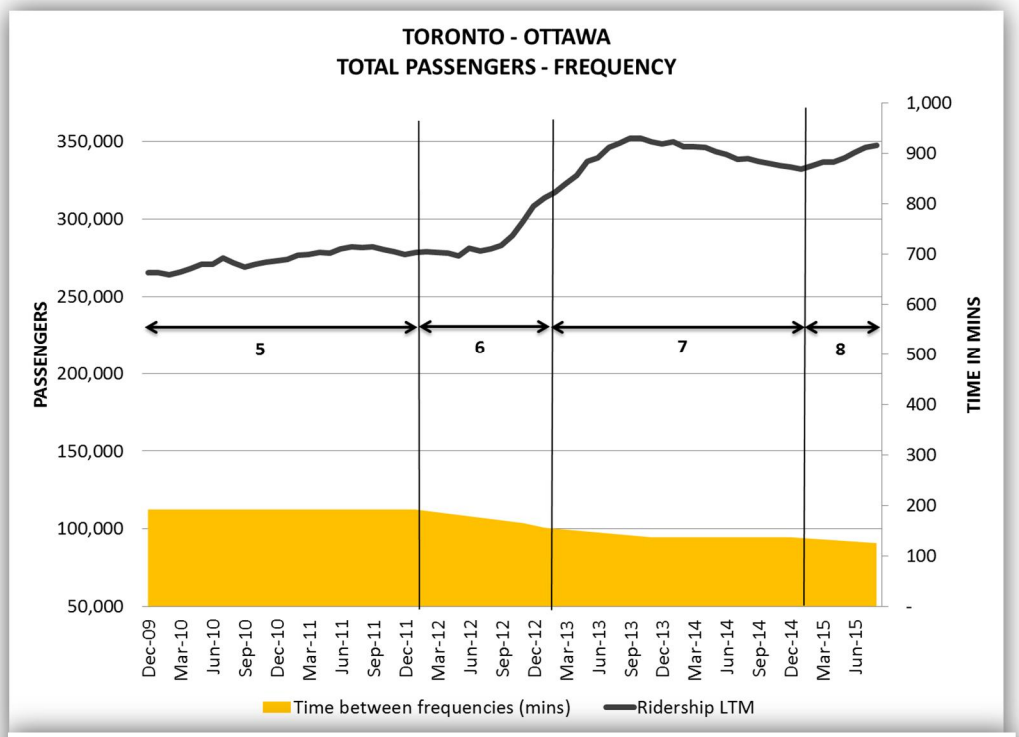
The implementation of this vision was based on a number of guiding principles including:

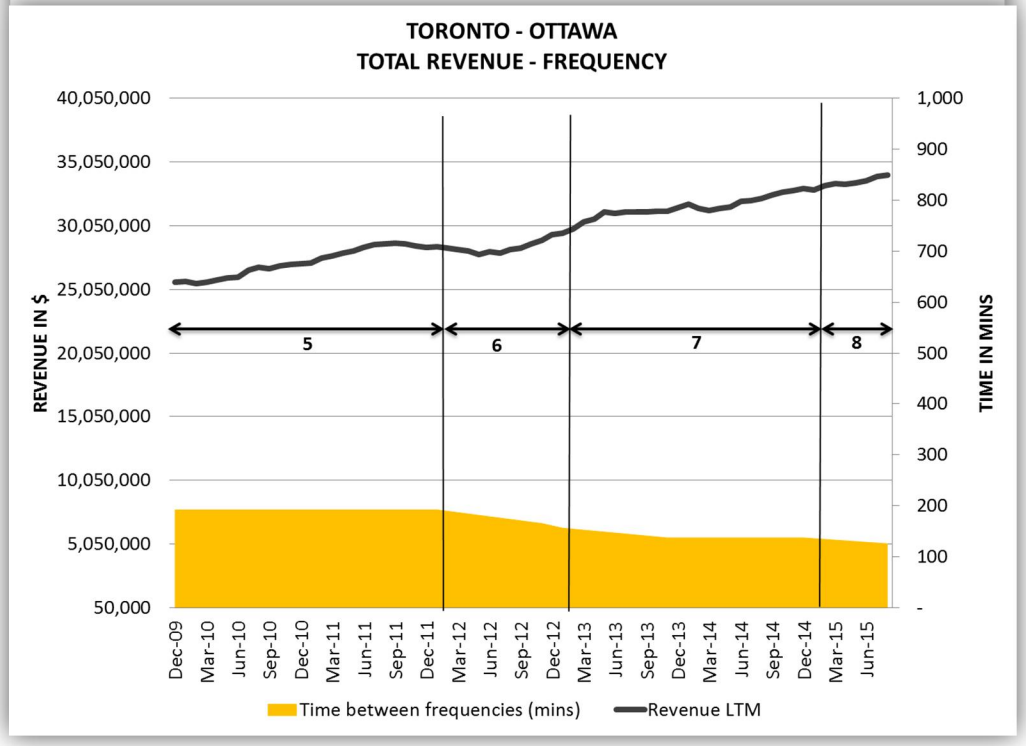
- Continuing to invest, when funding is available, primarily in VIA Rail's own infrastructure in order to:
    - enhance the safety and security of operations;
    - improve train reliability and on-time performance; and
    - introduce more train frequencies and significantly improve reliability and increase trip times to grow revenue, thereby reducing dependence on the Government of Canada;
- More infrastructure owned by VIA Rail 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 possible; e. g. Churchill, Vancouver Island;
- Continuing 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;
- Employee and community engagement.

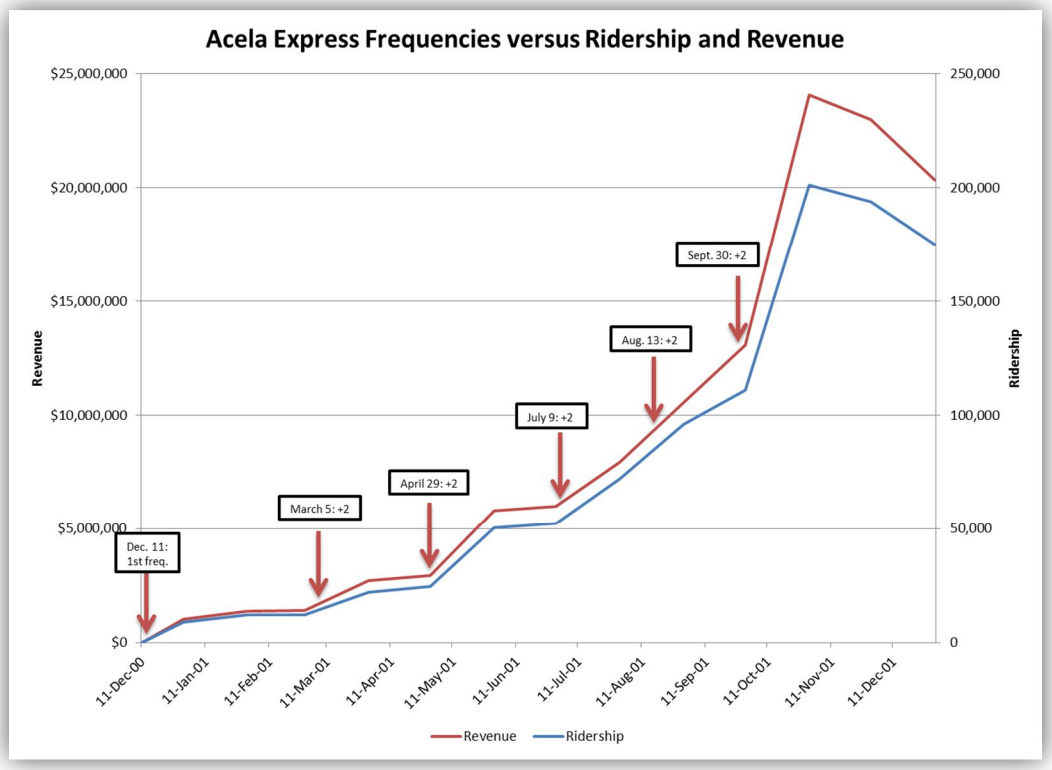
List of initiatives being investigated as part of VISION 2020:

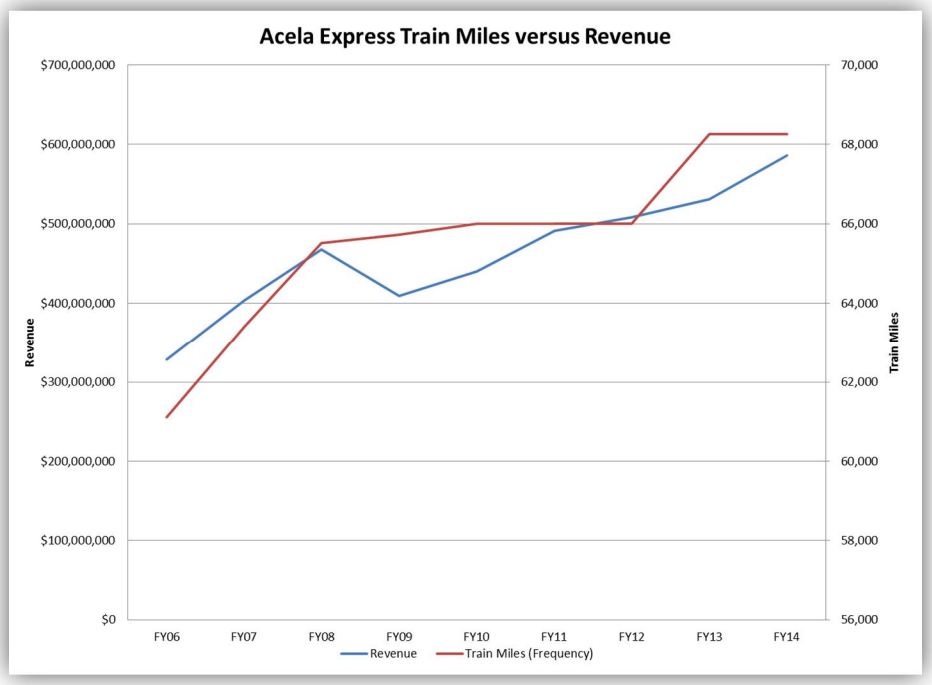
	Strategy/Initiative	Description
Customer Engagement	Door-to-door fulfillment	Implementation of a seamless door-to-door travel experience, including trip planning, booking, and payment.
	Cycling optimization	Generation of more available seat capacity and allocation within the Corridor by finding more 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.
	Reduction of congestion into and out of major urban centres of Toronto, Ottawa and Montreal. More reliable, safer and more frequent passenger rail service	Increase the mileage of VIA Rail-owned and operated rail infrastructure by acquiring existing tracks or by acquiring railway rights-of-way or land on which to build 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-Montreal corridor.
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 Rail.
	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 Rail 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.
	Pay-for-performance	Development of an incentive program for unionized employees, and improvement of the rewards system for top performers.
	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 centres 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 in the design, development and funding of train services.
	Central Station track infrastructure ownership and control	Pursue ownership, jointly with Agence Métropolitaine de Transport (AMT), or solely, of the operating infrastructure and track in and around Central Station.
	Enabling legislation and partial Agent status	Pursue a legislative framework and partial Agent status that provides powers and authorities to facilitate private sector partnerships and financing strategies.

ANNEX 3 – FREQUENCY VERSUS RIDERSHIP AND REVENUE






Acela Express Frequencies versus Ridership and Revenue
$25,000,000
$20,000,000
$15,000,000
$10,000,000
$5,000,000
$0
Revenue
250,000
200,000
150,000
100,000
50,000
0
Ridership
Dec. 11: 1st freq.
March 5: +2
April 29: +2
July 9: +2
Aug. 13: +2
Sept. 30: +2
11-Dec-00
11-Jan-01
11-Feb-01
11-Mar-01
11-Apr-01
11-May-01
11-Jun-01
11-Jul-01
11-Aug-01
11-Sep-01
11-Oct-01
11-Nov-01
11-Dec-01
Revenue
Ridership


Acela Express Train Miles versus Revenue
$700,000,000
$600,000,000
$500,000,000
$400,000,000
$300,000,000
$200,000,000
$100,000,000
$0
Revenue
70,000
68,000
66,000
64,000
62,000
60,000
58,000
56,000
Train Miles
FY06
FY07
FY08
FY09
FY10
FY11
FY12
FY13
FY14
Revenue
Train Miles (Frequency)

ANNEX 4 – OTP ON VIA RAIL SEGMENTS

Q2 YTD 2015		
***OTP* on segments owned by VIA** (10 min tolerance)		***OTP* of Overall Trip** (15 min tolerance)
Coteau – Ottawa	90%	74.4%
Smiths Falls – Ottawa	90%	56.2%
Bloomfield – Windsor	97%	72.7%

ANNEX 5 – VIA RAIL'S FLEET PROFILE

Equipment Type and Description	Quantity	Year Built	Latest Rebuild	No. of major Rebuilds	Age by 2020 (years)	Deployment
Locomotives:						
General Motors F-40	52	1986	2009	1	34	All services
General Electric P-42	21	2001			19	Corridor
Total Locomotives	**73**					
Cars:						
Light, rapid, comfortable (LRC)	97	1981	2011	1	39	Corridor
Head-End Power (HEP 1&2- stainless steel heritage)	205	1947	1995	1	73	Corridor, Canadian & Regional
Renaissance (from U.K.)*	106	1995	2001		25	Corridor and Ocean
Other	14	1954-2000	1994-2012		20-66	Regional
Total Cars	**422**					
TOTAL FLEET	495					
Total Corridor Fleet	**200 (40 Locos & 160 cars)**					

VIA RAIL CANADA INC.
2016 - 2020 CORPORATE PLAN
OPERATING FUNDING STATEMENT

VIA FISCAL YEAR ENDING DECEMBER 31									
(MILLIONS OF DOLLARS)	ACTUAL	FORECAST	PLAN					TOTAL	% Change
	2014*	2015	2016	2017	2018	2019	2020	2016-2020	2020 vs 2015
REVENUES									
Total Operating Revenues	**280.3**	**292.6**	**298.5**	**293.3**	**290.4**	**287.2**	**273.9**	**1,443.2**	**-6.4%**
EXPENSES									
Total Operating Expenses	**516.0**	**526.6**	**536.4**	**547.7**	**564.8**	**577.4**	**590.5**	**2,816.8**	**12.1%**
Operating Deficit Before Government Subsidy and Pension Costs	**235.6**	**234.0**	**237.9**	**254.5**	**274.4**	**290.3**	**316.6**	**1,373.6**	**35.3%**
less: transfer of capital funding to operating funding	20.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Government Subsidy	221.7	234.0	237.9	152.3	146.8	146.8	146.8	830.6	
Operating Funding Surplus / (Deficit) before Pension Costs	**6.7**	**0.0**	**0.0**	**(102.2)**	**(127.6)**	**(143.5)**	**(169.8)**	**(543.1)**	
PENSION COSTS									
Total Pension Costs	**81.4**	**52.0**	**32.0**	**37.0**	**37.0**	**37.0**	**37.0**	**180.0**	**-28.8%**
less: Supplementary Government Pension Funding	100.0	59.0	54.0	0.0	0.0	0.0	0.0	54.0	
Pension Costs Funding Surplus / (Deficit)	**18.6**	**7.0**	**22.0**	**(37.0)**	**(37.0)**	**(37.0)**	**(37.0)**	**(126.0)**	
Operating Surplus / (Deficit) after Government Funding	**25.3**	**7.0**	**22.0**	**(139.2)**	**(164.6)**	**(180.5)**	**(206.8)**	**(669.1)**	

***Including an additional pay period**

NOTE: May not add due to rounding

VIA RAIL CANADA INC.
2016 - 2020 CORPORATE PLAN
SUMMARY - TOTAL CAPITAL EXPENDITURES

VIA FISCAL YEAR ENDING DECEMBER 31								
(MILLIONS OF DOLLARS)	ACTUAL	FORECAST	PLAN					TOTAL
	2014	2015	2016	2017	2018	2019	2020	2016-2020
MAJOR CAPITAL PROGRAMS								
Equipment Projects	34.8	37.1	28.2	61.7	94.4	110.1	94.5	388.9
Infrastructure Projects	22.0	23.1	75.4	28.4	24.1	15.3	10.3	153.4
Sub-Total Major Programs	**56.7**	**60.2**	**103.6**	**90.1**	**118.5**	**125.3**	**104.8**	**542.3**
Other Capital Programs	**25.0**	**33.6**	**48.6**	**35.6**	**29.9**	**26.4**	**23.7**	**164.1**
Total Capital Expenditures	**81.8**	**93.8**	**152.1**	**125.7**	**148.4**	**151.7**	**128.5**	**706.4**
less: use of Asset Renewal Fund (ARF)	(0.9)	(2.7)	(2.7)	(2.4)	0.0	0.0	0.0	(5.1)
Transfer of capital funding to operating funding	20.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gov't Capital Funding Required	**101.5**	**91.1**	**149.4**	**123.3**	**148.4**	**151.7**	**128.5**	**701.3**
Funding - $903M	56.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Montreal - Ottawa (November 2014 Program)	0.0	11.6	74.3	16.1	0.0	0.0	0.0	90.4
Additional Funding Approved	44.9	79.5	75.1	18.3	0.0	0.0	0.0	93.4
Total Gov't Capital Funding	**101.5**	**91.1**	**149.4**	**34.4**	**0.0**	**0.0**	**0.0**	**183.9**
Funding Shortfall / (Surplus)	**0.0**	**0.0**	**0.0**	**88.9**	**148.4**	**151.7**	**128.5**	**517.5**

NOTE: May not add due to rounding

VIA RAIL CANADA INC.

2016 - 2020 CORPORATE PLAN

FUNDING REQUIREMENTS AND SOURCES

VIA FISCAL YEAR ENDING DECEMBER 31									
		ACTUAL	FORECAST	PLAN					TOTAL
	(MILLIONS OF DOLLARS)	2014	2015	2016	2017	2018	2019	2020	2016-2020
APROVED FUNDING	**Operating Funding Reference Level**	**147.9**	**146.8**	**146.8**	**146.8**	**146.8**	**146.8**	**146.8**	**733.9**
	Additional Operating Funding Approved	73.8	87.2	91.1	5.5	0.0	0.0	0.0	96.6
	Total Operating Funding - Approved	**221.7**	**234.0**	**237.9**	**152.3**	**146.8**	**146.8**	**146.8**	**830.6**
	Pension Funding Approved	82.7	43.0	19.0	0.0	0.0	0.0	0.0	19.0
	Additional Pension Funding	17.3	16.0	35.0	0.0	0.0	0.0	0.0	35.0
	Total Pension Funding - Approved	**100.0**	**59.0**	**54.0**	**0.0**	**0.0**	**0.0**	**0.0**	**54.0**
	Capital Funding Approved	105.3	75.7	75.1	18.3	0.0	0.0	0.0	93.5
	Montreal - Ottawa (November 2014 Program)	0.0	11.6	74.3	16.1	0.0	0.0	0.0	90.4
	Total Capital Funding - Approved	**105.3**	**87.3**	**149.4**	**34.4**	**0.0**	**0.0**	**0.0**	183.9
	Total Gov't Funding Approved	**426.9**	**380.3**	**441.3**	**186.7**	**146.8**	**146.8**	**146.8**	**1,068.4**
FUNDING REQUIREMENTS	**Operating Funding required**	**215.0**	**234.0**	**237.9**	**254.5**	**274.4**	**290.3**	**316.6**	**1,373.6**
	Pensions Costs Funding required	**81.4**	**52.0**	**32.0**	**37.0**	**37.0**	**37.0**	**37.0**	**180.0**
	Capital Funding Required	101.5	79.5	75.1	18.3	0.0	0.0	0.0	93.4
	Montreal - Ottawa (November 2014 Program)	0.0	11.6	74.3	16.1	0.0	0.0	0.0	90.4
	Sustainable Capital for future years	0.0	0.0	0.0	88.9	148.4	151.7	128.5	517.5
	Total Capital Funding required	**101.5**	**91.1**	**149.4**	**123.3**	**148.4**	**151.7**	**128.5**	**701.3**
	Total Via Gov't Funding Required	**397.9**	**377.1**	**419.3**	**414.8**	**459.8**	**479.0**	**482.1**	**2,255.0**
FUNDING DEFICIT	Operating Funding Surplus / (Deficit)	6.7	0.0	0.0	(102.2)	(127.6)	(143.5)	(169.8)	(543.1)
	Pension Costs Funding Surplus / (Deficit)	18.6	7.0	22.0	(37.0)	(37.0)	(37.0)	(37.0)	(126.0)
	Capital Funding Surplus / (Deficit)	3.7	(3.7)	0.0	(88.9)	(148.4)	(151.7)	(128.5)	(517.4)
	Total Funding Surplus/(deficit)	**29.0**	**3.3**	**22.0**	**(228.1)**	**(313.0)**	**(332.2)**	**(335.3)**	**(1,186.5)**
ADDITIONAL FUNDING REQUIRED (1)	Additional Operating Funding - Operating Deficit Before Pension	0.0	0.0	0.0	102.2	127.6	143.5	169.8	543.1
	Additional Operating Funding - Pension Plans	0.0	0.0	0.0	37.0	37.0	37.0	37.0	148.0
	Additional Capital Funding	0.0	0.0	0.0	88.9	148.4	151.7	128.5	517.4
	Total Additional Funding Requested	**0.0**	**0.0**	**0.0**	**228.1**	**313.0**	**332.2**	**335.3**	**1,208.5**
CAPITAL FUNDING REPROFILING	Proposed Reprofiling of Capital Funding (2)	(3.7)	3.7	0.0	0.0	0.0	0.0	0.0	0.0
	Total Capital Funding Reprofilling Requested	**(3.7)**	**3.7**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

(1) No funds has yet been identified and VIA is requesting this additionnal funding

(2) Subject to the approval by the Department of Finance through the ARLU process. In the absence of the approval of this requested reprofiling , VIA will have to cancel current capital projects

VIA RAIL CANADA INC.
2016 - 2020 CORPORATE PLAN
STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME

VIA FISCAL YEAR ENDING DECEMBER 31							
(MILLIONS OF DOLLARS)	ACTUAL	FORECAST	PLAN				
	2014	2015	2016	2017	2018	2019	2020
Operating Deficit Before Government Subsidy	**(317.1)**	**(286.0)**	**(269.9)**	**(291.5)**	**(311.4)**	**(327.3)**	**(353.6)**
Non Funded Items:							
Depreciation, amortization, impairment and losses on disposal of property, plant and equipment and intangible assets	(72.0)	(75.0)	(83.7)	(88.5)	(92.6)	(97.7)	(97.2)
Post-employment and other employee benefits contributions in excess of expenses and remeasurements of defined benefit plans	(49.4)	33.6	13.2	17.8	17.4	17.0	16.6
Adjustment for accrued compensation	6.9	(0.6)	(0.6)	(0.6)	(0.6)	(0.6)	(0.6)
Other	(15.3)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)
Operating loss before funding from the Government of Canada	**(446.9)**	**(328.4)**	**(341.4)**	**(363.2)**	**(387.6)**	**(409.0)**	**(435.2)**
Operating funding from the Government of Canada	317.1	286.0	269.9	152.3	146.8	146.8	146.8
Amortization of deferred capital funding	70.4	73.1	82.2	86.4	90.4	95.5	95.0
Net income (loss) for the year	**(59.4)**	**30.7**	**10.7**	**(124.5)**	**(150.4)**	**(166.7)**	**(193.4)**

VIA RAIL CANADA INC.
2016 - 2020 CORPORATE PLAN
STATEMENT OF FINANCIAL POSITION

VIA FISCAL YEAR ENDING DECEMBER 31							
(MILLIONS OF DOLLARS)	ACTUAL	FORECAST	PLAN				
	2014	2015	2016	2017	2018	2019	2020
Current assets	72.9	75.0	79.7	48.4	49.4	50.4	51.1
Long-term assets	1,263.7	1,280.2	1,348.6	1,402.5	1,476.5	1,548.3	1,597.0
TOTAL ASSETS	**1,336.6**	**1,355.2**	**1,428.3**	**1,450.9**	**1,525.9**	**1,598.7**	**1,648.1**
Current liabilities	152.2	158.0	166.4	276.8	443.4	625.9	834.4
Long-term liabilities	95.4	59.5	46.3	46.1	46.9	47.7	48.5
Deferred capital funding	1,247.8	1,265.8	1,333.0	1,369.9	1,427.9	1,484.1	1,517.6
TOTAL LIABILITIES	**1,495.4**	**1,483.3**	**1,545.7**	**1,692.8**	**1,918.2**	**2,157.7**	**2,400.5**
Share capital	**9.3**	**9.3**	**9.3**	**9.3**	**9.3**	**9.3**	**9.3**
Balance, beginning of year	(108.7)	(168.1)	(137.4)	(126.7)	(251.2)	(401.6)	(568.3)
Net income (loss) for the year	(59.4)	30.7	10.7	(124.5)	(150.4)	(166.7)	(193.4)
Balance, ending of year	**(168.1)**	**(137.4)**	**(126.7)**	**(251.2)**	**(401.6)**	**(568.3)**	**(761.7)**
SHAREHOLDER'S EQUITY (DEFICIENCY)	**(158.8)**	**(128.1)**	**(117.4)**	**(241.9)**	**(392.3)**	**(559.0)**	**(752.4)**
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	**1,336.6**	**1,355.2**	**1,428.3**	**1,450.9**	**1,525.9**	**1,598.7**	**1,648.1**

Pro-forma Financial Statements prepared in accordance with International Financial Reporting Standards

VIA RAIL CANADA INC.
2016 - 2020 CORPORATE PLAN
STATEMENT OF CASH FLOWS

VIA FISCAL YEAR ENDING DECEMBER 31							
(MILLIONS OF DOLLARS)	ACTUAL	FORECAST	PLAN				
	2014	2015	2016	2017	2018	2019	2020
Operating activities							
Net income (loss) for the year	(59.4)	30.7	10.7	(124.5)	(150.4)	(166.7)	(193.4)
Adjustments to determine net cash from (used in) operating activities:							
Amortization of property, plant and equipment and intangible assets	72.0	75.0	83.7	88.5	92.6	97.7	97.2
Amortization of deferred capital funding	(70.4)	(73.1)	(82.2)	(86.4)	(90.4)	(95.5)	(95.0)
Post-employment and other employee benefits contributions in excess of expenses and remeasurements of defined benefit plans	49.4	(33.6)	(13.2)	(17.8)	(17.4)	(17.0)	(16.6)
Net change in non-cash working capital items and other minor items (operating and investment activities)	0.8	(3.4)	1.0	139.4	165.6	181.5	207.8
Net cash (used in) provided by operating activities	**(7.6)**	**(4.4)**	**0.0**	**(0.8)**	**0.0**	**0.0**	**0.0**
Investment activities							
Capital funding from the Government of Canada	80.9	91.1	149.4	123.3	148.4	151.7	128.5
Change in asset renewal fund	3.7	3.2	2.7	3.2	0.0	0.0	0.0
Acquisition of property, plant and equipment and intangilble assets	(84.8)	(93.8)	(152.1)	(125.7)	(148.4)	(151.7)	(128.5)
Net cash (used in) provided by investing activities	**(0.2)**	**0.4**	**0.0**	**0.8**	**(0.0)**	**0.0**	**0.0**
Cash and cash equivalents							
Increase (decrease) during the year	(7.8)	(4.0)	0.0	0.0	(0.0)	0.0	0.0
Balance, beginning of year	21.8	14.0	10.0	10.0	10.0	10.0	10.0
Balance, end of year	**14.0**	**10.0**	**10.0**	**10.0**	**9.9**	**10.0**	**10.0**

Pro-forma Financial Statements prepared in accordance with International Financial Reporting Standards

VIA RAIL CANADA INC.

2016 - 2020 CORPORATE PLAN

FUNDING REQUIREMENTS AND SOURCES

GOVERNMENT FISCAL YEAR ENDING MARCH 31									
		ACTUAL	FORECAST	PLAN					TOTAL
	(MILLIONS OF DOLLARS)	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	2016-2020
APPROVED FUNDING	**Operating Funding Reference Level**	**146.8**	**146.8**	**146.8**	**146.8**	**146.8**	**146.8**	**146.8**	**733.9**
	Additional Operating Funding Approved	97.6	89.6	92.8	0.0	0.0	0.0	0.0	92.8
	Total Operating Funding - Approved	**244.4**	**236.4**	**239.6**	**146.8**	**146.8**	**146.8**	**146.8**	**826.7**
	Pension Funding Approved	78.7	29.4	0.0	0.0	0.0	0.0	0.0	0.0
	Additional Pension Funding	22.9	26.2	47.5	0.0	0.0	0.0	0.0	47.5
	Total Pension Funding - Approved	**101.6**	**55.6**	**47.5**	**0.0**	**0.0**	**0.0**	**0.0**	**47.5**
	Capital Funding Approved	110.3	64.3	60.0	0.0	0.0	0.0	0.0	60.0
	Montreal - Ottawa (November 2014 Program)	0.0	18.6	83.4	0.0	0.0	0.0	0.0	83.4
	Total Capital Funding - Approved	**110.3**	**83.0**	**143.4**	**0.0**	**0.0**	**0.0**	**0.0**	143.4
	Total Gov't Funding Approved	**456.3**	**375.0**	**430.5**	**146.8**	**146.8**	**146.8**	**146.8**	**1,017.6**
FUNDING REQUIREMENTS	**Operating Funding required**	239.5	236.4	239.6	260.8	278.3	296.6	323.5	**1,398.9**
	Pensions Costs Funding required	**76.7**	**42.3**	**33.3**	**37.0**	**37.0**	**37.0**	**37.0**	**181.3**
	Capital Funding Required	90.0	84.6	60.0	0.0	0.0	0.0	0.0	60.0
	Montreal - Ottawa (November 2014 Program)	0.0	18.6	83.4	0.0	0.0	0.0	0.0	83.4
	Sustainable Capital for future years	0.0	0.0	0.0	118.5	150.6	147.6	120.7	537.4
	Total Capital Funding required	**90.0**	**103.2**	**143.4**	**118.5**	**150.6**	**147.6**	**120.7**	**680.8**
	Total Via Gov't Funding Required	**406.2**	**381.9**	**416.2**	**416.3**	**465.9**	**481.2**	**481.3**	**2,260.9**
FUNDING DEFICIT	Operating Funding Surplus / (Deficit)	4.9	0.0	(0.0)	(114.0)	(131.5)	(149.8)	(176.7)	(572.2)
	Pension Costs Funding Surplus / (Deficit)	24.9	13.3	14.3	(37.0)	(37.0)	(37.0)	(37.0)	(133.8)
	Capital Funding Surplus / (Deficit)	20.3	(20.3)	0.0	(118.5)	(150.6)	(147.6)	(120.7)	(537.4)
	Total Funding Surplus/(deficit)	**50.1**	**(7.0)**	**14.2**	**(269.5)**	**(319.2)**	**(334.4)**	**(334.5)**	**(1,243.3)**
ADDITIONAL FUNDING REQUIRED (1)	Additional Operating Funding - Operating Deficit Before Pension	0.0	0.0	0.0	114.0	131.5	149.8	176.7	572.1
	Additional Operating Funding - Pension Plans	0.0	0.0	0.0	37.0	37.0	37.0	37.0	148.0
	Additional Capital Funding	0.0	0.0	0.0	118.5	150.6	147.6	120.7	537.4
	Total Additional Funding Requested	**0.0**	**0.0**	**0.0**	**269.5**	**319.2**	**334.4**	**334.5**	**1,257.5**
CAPITAL FUNDING REPROFILING	Proposed Reprofiling of Capital Funding (2)	(20.3)	20.3	0.0	0.0	0.0	0.0	0.0	0.0
	Total Capital Funding Reprofilling Requested	**(20.3)**	**20.3**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

(1) No funds has yet been identified and VIA is requesting this additionnal funding

(2) Subject to the approval by the Department of Finance through the ARLU process. In the absence of the approval of this requested reprofiling, VIA will have to cancel current capital projects.