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# 2009 ANNUAL REPORT

A more human way to travel

A  
GREEN  
CHOICE 

  
VIA Rail Canada

# THE YEAR AT A GLANCE

The following key financial indicators and operating statistics summarize the performance of the Corporation for the year 2009, with comparative data for the years 2005 to 2008. They exclude the financial results of the variable interest entity and all non-funded items.

## KEY FINANCIAL INDICATORS (IN MILLIONS OF CANADIAN DOLLARS)

	2009	2008	2007	2006	2005
Total passenger revenue	<b>250.3</b>	282.9	268.8	266.6	255.6
Total revenue	<b>264.9</b>	299.2	285.6	297.1	289.8
Cash operating expenses (1)	<b>526.1</b>	513.4	486.2	475.5	465.7
Cash operating deficit	<b>261.2</b>	214.2	200.6	178.4	175.9
Capital expenditures	<b>116.8</b>	42.1	12.4	14.5	21.2
Government funding:					
Operating	<b>226.3</b>	214.2	200.6	169.0	169.0
Capital	<b>116.8</b>	42.1	12.4	0.0	0.7
Total government funding (2)	<b>343.1</b>	256.3	213.0	169.0	169.7

## KEY OPERATING STATISTICS <sup>(3)</sup>

	2009	2008	2007	2006	2005
Revenue/cash operating expenses ratio	<b>50.7</b>	58.4	58.9	62.8	62.4
Total passengers carried (IN THOUSANDS)	<b>4,229</b>	4,605	4,181	4,091	4,097
Total passenger-miles (IN MILLIONS)	<b>857</b>	951	874	874	888
Government operating funding per passenger-mile (IN CENTS)	<b>26.4</b>	22.5	23.0	19.3	19.0
Yield (CENTS PER PASSENGER-MILE)	<b>29.0</b>	29.6	30.5	30.3	28.6
Train-miles operated (IN THOUSANDS)	<b>6,660</b>	6,746	6,658	6,665	6,740
Car-miles operated (IN THOUSANDS)	<b>44,525</b>	46,961	46,362	47,625	48,614
Total seat-miles operated (IN MILLIONS)	<b>1,501</b>	1,618	1,579	1,603	1,616
Average passenger load factor (%)	<b>57</b>	59	55	55	55
Average number of passenger-miles per train-mile	<b>129</b>	141	131	131	132
On-time performance (%)	<b>83</b>	75	77	84	81
Number of employees at year-end	<b>3,053</b>	3,109	3,017	3,003	3,059

(1) Cash operating expenses exclude amortization of property, plant and equipment, reorganization charges, accounting accrual for compensation, unrealized gains on financial instruments, pension and employee future benefits.

(2) Excludes internal funding from the Asset Renewal Fund of \$35 million in 2009, \$23.9 million in 2006 and \$27.4 million in 2005.

(3) Key operating statistics are unaudited.



# CORPORATE OVERVIEW

VIA Rail operates Canada's national passenger rail service on behalf of the Government of Canada. An independent Crown corporation established in 1977, we provide a safe, efficient and environmentally responsible service in both official languages from coast to coast. We operate up to 500 trains weekly on 12,500 kilometres of track, connecting over 450 Canadian communities. With approximately 3,100 employees, VIA carried 4.2 million passengers in 2009.

## OUR VISION

We will offer the best travel experience in Canada.

## OUR MISSION

We work together to exceed customer expectations every time.

## OUR GUIDING PRINCIPLES

The principles that guide the actions of all VIA employees are:

- I focus on the customer.
- I take action and am accountable.
- I am flexible and contribute to change.
- I make the difference.

## OUR SERVICES

**In Western Canada**, we provide year-round, all-weather transportation, including service to remote communities. The legendary western transcontinental train, the *Canadian*<sup>®</sup>, provides service thrice weekly between Toronto and Vancouver.

**In the Quebec City - Windsor corridor**, our trains provide intercity passengers with fast, convenient, comfortable and affordable service, downtown-to-downtown, between Canada's largest business centres.

**In Eastern Canada**, the *Ocean*<sup>™</sup> provides intercity service six times a week between Montreal and Halifax, offering its friendly Sleeper Touring class service during the summer peak season. The Montreal-Gaspé train makes three trips each week from Montreal through the Gaspé Peninsula.

**In rural and remote areas**, we operate services designated by the government to meet regional transportation needs, and to provide essential services in some areas of the country.

# MESSAGE FROM THE CHAIRMAN



After several years of consistent growth, including a record year in 2008, passenger rail experienced the impact of the economic recession in 2009.

Like all passenger carriers, VIA faced a drop in demand for services, especially in the tourism and business travel markets, leading to falling ridership, lower revenues, and intense competition for customers throughout the industry.

VIA acted quickly to retain loyal customers, to attract new customers to passenger rail, and to reduce operating costs wherever possible. While ridership and revenues fell well below 2008's record breaking levels, VIA managed to maintain its share of the market among public

passenger modes in the all-important Quebec City - Windsor corridor. And it eliminated almost \$29.5 million from planned operating expenses for the year.

VIA's performance was remarkable considering its limited ability to adjust service in response to market fluctuations and its high fixed operating costs compared to those of other carriers.

Early in 2009, the Government of Canada reconfirmed its confidence in VIA, adding \$407 million in Economic Action Plan funding to VIA's existing Capital Investment Program. With government investment now totalling \$923 million over the 2007-2011 period, major projects are on track to provide a higher level and quality of service to Canadians across the country.

The Board looks forward to the results of a study on high-speed rail by the Ontario, Quebec and Canadian governments. VIA's success in building the market for passenger rail paves the way for the development of a high-speed rail service, should such a service be pursued in the future.

Everyone at VIA extends heartfelt appreciation to Paul Côté, who retired at the end of 2009 after five years as President and CEO. Mr. Côté's leadership during these critical years, his vision of a customer-focused Corporation, and his ability to engage the entire organization in that vision, have shaped the success of passenger rail for many years to come.

The Board welcomes Marc Laliberté as VIA's new President and CEO in 2010. We are confident that he brings to the position experience and leadership that will build on the success of VIA in the challenging years ahead.

A handwritten signature in black ink that reads "DA Wright". The signature is written in a cursive, slightly stylized font.

**Donald A. Wright**  
Chairman of the Board

# MESSAGE FROM THE PRESIDENT



While 2009 was a difficult year for VIA Rail from a financial viewpoint, there are many reasons for confidence in the future. The Corporation has a solid track record—not only surviving tough times in the past, but always looking forward, building the foundations for a stronger, more efficient national passenger rail service in the future.

As I assume my responsibilities as President and CEO, I am encouraged by the real progress VIA achieved over the past year.

In 2009, VIA negotiated groundbreaking agreements with the freight railways, giving passenger trains better access to the national rail infrastructure—access that is vital for growth in the future. These agreements, combined with

schedule adjustments to reflect current operating realities, helped VIA significantly enhance on-time performance. On-time performance is critical for success in passenger rail, and now we have the opportunity to push performance higher in 2010.

VIA also achieved real progress in implementing the largest Capital Investment Program in the Corporation's history. With station construction and renewal projects across the country, major infrastructure upgrades throughout the Corridor, equipment overhauls and Information Technology projects, the Corporation's Capital Investment Program is on track to deliver significant improvements in service to Canadians by 2012.

The government's decision to invest in passenger rail reflects on the importance of rail in Canada's future.

To meet this expectation we have to stay focused on results. We need to secure our position in the marketplace by increasing ridership and revenues. And we need to deliver a more efficient, cost-effective, national passenger service that requires the least amount of government funding possible.

We will rise to the challenge. Since coming to VIA in early 2010, I have been continually impressed by the quality and ability of the people here, and the incredible VIA spirit. We have an organization and a team that is clearly focused on the customer. This is a reflection of the inspiration and leadership provided by Paul Côté over the past five years as President and CEO and throughout his 38-year railway career.

With a clear vision for the future of passenger rail, I am confident that we can build on that foundation in 2010 and beyond.

A handwritten signature in black ink, which appears to read "Marc Laliberté". The signature is fluid and cursive, written over a light blue background.

**Marc Laliberté**  
President and Chief Executive Officer



# THE YEAR IN REVIEW

## PROTECTING OUR MARKETS, BUILDING FOR THE FUTURE

VIA Rail entered 2009 facing two key challenges: protecting passenger rail's share of the public transportation market, while continuing to build the foundations for long-term stability and growth.

Even though we had achieved outstanding growth in ridership and revenues in 2008, there were clear warning signs of a severe, global economic downturn that would last throughout 2009. For passenger rail, and for the transportation industry as a whole, this meant a sharp drop in demand for services, especially in key tourism and business travel markets. Passenger carriers found themselves with excess capacity—more seats to sell than there were customers to fill them—and the competition for business between carriers was intense throughout the year.



For each mode, the challenge of maintaining its share of a shrinking market was critical, and VIA was well positioned to meet this challenge. Delivering a competitive, attractive service, VIA continued to build on the strengths of passenger rail as the most dependable, all-weather mode of transportation, offering stress-free service with a high level of comfort, and a valuable alternative to those concerned about the environmental impact of their transportation choices. Marketing and promotion strategies underlined VIA's excellent customer service, along with pricing strategies to reward and retain existing customers, and attract new ones. We improved the on-time performance of our trains in most parts of the country. Product enhancements helped attract new interest in train travel. VIA's continued focus on improving service delivery and the customer experience strengthened its brand as "*A more human way to travel*".

And we raised customer satisfaction to the highest levels achieved in the last four years.

As a result, VIA's place in the travel market remained strong throughout 2009. As expected, overall ridership and revenues declined for all passenger carriers, including VIA. Despite fierce competition, by providing excellent services at competitive prices, VIA was able to protect its market share among public modes in the Quebec City - Windsor corridor, which represents approximately 80 per cent of its business.

At the same time, VIA continued to position passenger rail for long-term, sustainable growth. VIA's Capital Investment Program hit full stride in 2009, ensuring that the critical components of a renewed infrastructure will be in place as the economy and travel markets recover.

And VIA continued to refine both its fundamental business strategy, and the management tools to implement that strategy. A new management plan, *Make the difference*, clarifies VIA's strategic focus on customer service, identifies key priorities for improving passenger rail over the coming years, and provides clear guiding principles to engage employees in achieving those priorities.



**CLAUDETTE PERRIN**  
Assistance Service Coordinator  
Winnipeg

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## VIA'S TRACK RECORD

While 2009 proved a difficult year in terms of ridership and revenues, VIA's long-term performance record remains strong. Since 1990, VIA has:

- Reduced reliance on government operating funding by 44%
  - Increased revenues by 85.5%
  - Increased passenger miles by 11.7%
  - Increased cost recovery by 75.4%
-



# CAPITAL INVESTMENT PROGRAM

As part of the Economic Action Plan launched in 2009, the Government of Canada announced \$407 million in new funding for VIA's Capital Investment Program. This funding is in addition to the five-year, \$516 million capital funding announced by the government in 2007, bringing total investment in the passenger rail network to \$923 million. With a primary focus on renewing equipment and infrastructure, VIA's Capital Investment Program progressed well in 2009.

## **MORE EFFICIENT, RELIABLE LOCOMOTIVES**

The first of 53 rebuilt F-40 locomotives was completed in April 2009. The 20-year-old F-40s, used in all parts of Canada, are being stripped down to their shells and rebuilt from the ground up, incorporating the latest locomotive technologies.

Rebuilding will extend the life of these locomotives by 15-20 years, at less than half the cost of buying new locomotives. At the same time, VIA will ensure that the locomotives meet current environmental and safety standards—reducing their greenhouse gas emissions by up to 12 per cent, and reducing annual maintenance costs by 15 per cent. The project will be completed by 2012.

With the additional Economic Action Plan funding, VIA has started overhauling its P-42 locomotives, including implementing an automatic engine stop/start system, designed to minimize engine idling and resulting in fuel savings. The project is scheduled to be completed in 2011.

## **MORE ATTRACTIVE, COMFORTABLE PASSENGER CARS**

All of VIA's passenger cars are being improved through the investment plan and the Corporation will begin to introduce the overhauled cars in 2010.

In May 2009, VIA awarded a contract for the complete overhaul of 98 LRC ("light, rapid, comfortable") passenger cars, which will extend their life by up to 20 years. The cars are used for both Business class and Economy class service in the Quebec City - Windsor corridor. New electrical and mechanical systems will be installed, and the lighting, heating and air conditioning systems will be improved to reduce energy consumption and costs. VIA will also renovate the interiors of the cars, and ensure that the equipment meets current standards of passenger safety and comfort.

With the additional Economic Action Plan funding announced in 2009, VIA began work to enhance its Renaissance cars, used in the Quebec City - Windsor corridor and Eastern Canada, in order to improve accessibility for travellers with special needs. VIA also began major improvements to the classic stainless steel cars used for the Western transcontinental service. The improved transcontinental fleet will play a key role in revitalizing passenger rail service in Western Canada in the years ahead.

## **INCREASING CAPACITY FOR FASTER, MORE FREQUENT SERVICE**

The largest part of the Capital Investment Program focuses on infrastructure in the Quebec City - Windsor corridor, where both freight and passenger rail traffic is most highly concentrated. Developed on VIA's own infrastructure or in partnership with the freight railways, which own most of the infrastructure, the investment is upgrading tracks and signalling to increase capacity, and allow passenger trains to operate safely at higher speeds and with less delays. Projects launched in 2009, or prepared for launch in the near future, include:

- An investment of over \$300 million, in partnership with CN, to upgrade infrastructure between Montreal and Toronto, eliminating bottlenecks and reducing schedule conflicts between freight and passenger trains.
- New rail sidings and advanced traffic control systems between Smiths Falls and Brockville, in partnership with Canadian Pacific.
- Infrastructure improvements on VIA-owned track between Montreal, Ottawa and Smiths Falls, and between London and Windsor.

## **MODERN, ATTRACTIVE PASSENGER STATIONS**

Projects involving over 40 passenger stations at key locations across the country were launched—and some of them completed—in 2009. These projects include building new stations as well as improving existing stations to enhance platforms, signage, interiors, and various other elements to address operational, functional and health and safety needs.

## **INVESTING FOR EFFICIENCY**

VIA is also investing in information technology to support more efficient business operations, and better service to the customer. Major information technology projects completed or underway in 2009 include a complete redesign of VIA's consumer web site, the launch of a corporate intranet linking employees and critical information services throughout the organization, and a new electronic time-card system for maintenance employees, which will allow the Corporation to save costs, increase efficiency and eliminate paper.



# BUSINESS STRATEGY: MAKE THE DIFFERENCE

In 2009, VIA launched a new management plan called *Make the difference*. The plan articulates VIA's business priorities and provides the framework for managing VIA's people and resources. While all six priorities are important, the plan reinforces customer focus as the core of VIA's business strategy. And it provides clear guiding principles that help all employees understand how their own actions can help VIA achieve its goals.

## **CORPORATE PRIORITIES**

### **CUSTOMER PROMISE**

Continuously improve our customers' travel experience

### **GROWTH**

Grow our business faster than the market

### **EFFICIENCY**

Seize opportunities to efficiently improve the bottom line

### **SAFETY AND SECURITY**

Ensure the safety and security of our customers, ourselves, and the general public

### **PEOPLE**

Create a work environment that fosters engagement in the success of our business

### **ENVIRONMENT**

Manage our operations in an environmentally sustainable manner



## CUSTOMER PROMISE

### GOAL: CONTINUOUSLY IMPROVE OUR CUSTOMERS' TRAVEL EXPERIENCE

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Travellers have many options to choose from when deciding how to get from point A to point B. VIA's single most important competitive advantage—the reason why travellers choose passenger rail—lies in the kind of experience that VIA provides, and how that is different from other modes. That experience lies at the heart of VIA's promise to customers.

In 2009, VIA continued to define that promise more clearly, and to develop new tools, guidelines and behavioural standards to fully engage employees in creating positive, memorable travel experiences for customers.

### VIA'S BRAND: A MORE HUMAN WAY TO TRAVEL

In recent years, VIA's brand as *A more human way to travel* has continued to evolve, building on the unique strengths of passenger rail to deliver a more comfortable, relaxing travel experience than other modes. In 2009, this evolution continued and VIA examined its service more closely from the customers' point of view so it could better meet their expectations.

To do this, VIA representatives accompanied passengers from the beginning to the end of their travel—from the time they purchased their ticket to the time they left the station, including their time on board—to determine VIA's strengths, as well as the areas where there was room for improvement. Customers confirmed that the brand *A more human way to travel* accurately reflects their expectations and they defined in more concrete terms how the rail experience is created, and how it can be improved.

### FOCUS ON "TOUCH POINTS"

In 2009, VIA established eleven key customer touch points at which it can offer the best travel experience and continue to distinguish itself as *A more human way to travel*. These touch points include each point of contact between VIA and the customer, from the customers' pre-trip planning activities, reservations, service at VIA stations and on board the train, through to contact with customers after completing a trip.

As a result, VIA began developing clear standards for service delivery at each touch point, along with training and review programs to ensure that all employees involved understand how they respond to customer expectations. VIA's Customer Advocacy Teams identified and helped develop standards in two priority areas—cleanliness on board trains, and communicating on-time performance information.

## VIARAIL.CA

VIA's web site was redesigned in 2009, providing customers with better access to information about train services, schedules, and online reservation options. The new web site is simpler and easier to use, incorporating the most current site navigation standards, as well as being compliant with the W3C (World Wide Web Consortium) guidelines, which establish standards for web site creation such as web accessibility for disabled users, among others. It is an increasingly important point of contact for both customers and travel agents, accounting for almost 50% of total sales in 2009.

For the first time, VIA is also making real-time arrival and departure information available on the site for all Quebec City - Windsor corridor trains. In addition to continual updates on arrival time for a train's final destination, the site provides scheduled and estimated departure/arrival times for each station stop en route, so that customers can follow the status of any Corridor train from its departure through to its final destination.

VIA plans to offer this same service for its trains in Atlantic and Western Canada in the future, as well as a mobile version accessible by web-enabled phones and other handheld devices.

With the launch of the new web site, VIA also simplified the terminology used to describe different classes of services and service options, which some customers found confusing. The new terms convey the nature of the service provided. For example, "VIA1" service has been renamed "Business" class service, and all services providing sleeping accommodation have been consolidated as "Sleeper" class service or "Sleeper Touring" class if meals are included.

## NEW TICKETING OPTIONS

VIA improved its telephone reservation service by giving customers the option of making a reservation and paying for their tickets by phone in a single step. Now customers save time when they arrive at the station, and the system improves the accuracy of VIA's seat inventory information.

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## EXCELLENT SERVICE WINS AWARDS

In 2009, the Society of International Railway Travelers named the *Canadian* one of "The World's Top 25 Trains." Excellent service, the efficiency and courtesy of its staff, and an unforgettable cross-country experience were among the factors that earned the *Canadian* a place on the prestigious list.

And for the third year in a row, VIA won first place for passenger rail services in the annual Agents' Choice Awards—once again coming out ahead of operators such as Rocky Mountaineer, Orient Express, Amtrak, Japan Rail, and the Trans-Siberian Railway. Travel agents cited VIA's knowledgeable staff and good service in awarding the distinction to VIA.

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# GROWTH

## GOAL: GROW OUR BUSINESS FASTER THAN THE MARKET

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With the market shrinking in an uncertain economy, growth in VIA's ridership and revenues was not a realistic goal in 2009. VIA's primary objective was to prevent its share of key markets from shrinking, while ensuring that the right tools and resources were in place to seize opportunities for growth when the economy begins to recover.

VIA was successful on both counts. Continued focus on meeting customer expectations, along with carefully targeted fare discounts, improved service offerings, and marketing initiatives held passenger rail's overall share of key public transportation markets at the same level as that of 2008. The Capital Investment Program is building a solid platform for future service improvements and market growth. The *Make the difference* management plan is refining VIA's organizational focus to respond quickly to increased demand as markets improve.

### ALIGNING FARES TO THE MARKET

Competition based on price remained a critical factor in all markets, as all passenger carriers struggled to fill seats from a declining pool of potential customers. To protect its share of the overall market, VIA adjusted its fare plan. Special fares were extended throughout the Corridor for end-to-end travel, and new discounts were made available for senior travellers aged sixty years or more. In addition, VIA made discounted fares available for all passengers in Sleeper classes year-round, and introduced discounts for National Defence employees.

### REWARDING LOYAL CUSTOMERS

In July, a two-day strike by locomotive engineers that halted all train services was resolved, when the Teamsters Canada Rail Conference and VIA agreed to binding arbitration. To reward loyal customers who were inconvenienced by the disruption of services—and to attract new customers to passenger rail—VIA offered a limited-time 60% discount on rail travel across the country.

The response to the six-day promotion was dramatic, with online reservations alone reaching 26,000 in one day, compared to a normal level of 3,000 per day. Sales during the six days generated more than \$14 million in revenues. And those sales included many customers who would not normally have tried passenger rail. Of the 369,000 people who purchased at least one ticket, 37% said they rarely or never travelled with VIA, and 19% said they chose VIA after originally planning to travel by other modes.

## RAISING VIA'S PROFILE IN THE MARKETPLACE

VIA continued to strengthen its presence and visibility in the marketplace through new industry partnerships, as well as highly publicized special train services and sponsorships.

VIA expanded its partnership with Expedia, one of the world's largest online travel portals. VIA has featured Expedia as the exclusive provider of hotels, car rentals and other services directly on VIA's site for several years. Now Expedia's site features VIA's services, with VIA being the only passenger railway service to enjoy this exposure. This partnership—the first of its kind for both VIA and Expedia—is expected to boost VIA's sales by encouraging site visitors from all around the world to book rail trips when planning their vacation.

VIA also offered high profile special-event trains in partnership with organizers of festivals and events. Special-event trains bring VIA into contact with new potential customers.

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## NEW PARTNERS AND PRAISE FOR VIA PRÉFÉRENCE

VIA's customer loyalty program, VIA Préférence, received two awards from the Relationship Marketing Association of Quebec for the second year in a row, in the Customer Relationship Management and Relational Promotion categories.

In March of 2009, VIA Préférence entered into an agreement with the SNCF, the French railway, which allowed VIA Préférence members to redeem their points for reward trips on the entire SNCF network. The agreement also allowed members of SNCF's loyalty program to redeem their points for reward travel with VIA across the entire network.

VIA Préférence further enhanced the program in 2009 through several partnerships while the VIA Préférence eBoutique launched a promotion featuring a coalition of more than 100 partners, including SonyStyle.ca and Chapters.Indigo.ca.

Participation in VIA Préférence was opened to VIA employees in late 2009, allowing them to collect points on their purchases at the VIA Préférence eBoutique.

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# EFFICIENCY

## GOAL: SEIZE OPPORTUNITIES TO EFFICIENTLY IMPROVE THE BOTTOM LINE

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Faced with a significant decline in revenues, reducing costs was a priority for VIA in 2009. At the same time, VIA continued to take advantage of opportunities to generate new revenues through partnerships in niche markets. And with an eye on the future, VIA launched a comprehensive review of its information technology resources, ensuring that all technology projects supported the Corporation's business goals, and investing in major technology projects to improve operational efficiency.

### REDUCING COSTS

Efforts to control costs at all levels of the organization produced significant savings, with total operating costs for the year almost \$29.5 million lower than budget.

Substantial savings were achieved through the careful management of staffing levels at stations and on trains, which were continually adjusted to reflect expected passenger levels. Similarly, effective fleet management ensured that train consists were reduced in size wherever possible, in line with ridership, which helped to lower fuel and other operating costs. In addition, many vacant staff positions were left unfilled to achieve savings in compensation.

### EXPLORING NEW BUSINESS OPPORTUNITIES

VIA continued to explore new business opportunities developed in partnership with local and regional tourism organizations and other service providers. For example, VIA's seasonal bike train between Toronto and Niagara Falls, which has won widespread media attention, allows customers to take their bicycles with them on the train. Developed in partnership with the Niagara-on-the-Lake Chamber of Commerce, the City of Toronto, and the Ontario government, the service encourages cyclists to bring their bicycles when visiting the region. The service completed its third successful year, and in 2009 VIA introduced a similar concept on select Montreal-Toronto trains during the summer months. Many communities served by VIA have expressed interest in developing similar services geared to regional needs.

VIA also continued to develop cost-effective partnerships with other partners in the tourism industry, including partnerships between VIA, as a Crown corporation, and private companies. For example, a new service was offered in partnership with Croisières AML and Fairmont Hotels and Resorts.

### INFORMATION TECHNOLOGIES

VIA's use of online ticketing and reservation systems has proven the value of technology—both as an efficient tool to improve access for customers and travel agents, and as a way to reduce costs. In recent years, VIA has expanded the use of online services for individuals and organizations, including the use of “virtual credit cards” to facilitate settlement with overseas agents and tour operators. With web-based sales now approaching half of VIA's total passenger revenues, these technologies have generated operating savings of approximately \$1.6 million per year.

In 2009, VIA completed a comprehensive review of its information technology needs, and identified the technology resources that are most critical to support the Corporation's strategic goals. A new Information Technology strategy defines specific goals for expanding and upgrading information systems throughout the organization. A newly appointed Chief Information Officer, reporting directly to the President and CEO, is responsible for ensuring that VIA's investment in technology meets current and future needs in the most efficient way possible.

Many key investments in Information Technology projects were launched or completed in 2009, including the redesign of VIA's web site, the creation of VIA's first corporate intranet, the modernization of VIA's reservation systems, and automation for managing on-train processes such as ticket sales and product inventories.



**AARON BRANSTON**  
Senior Manager  
Infrastructure Program  
Montreal

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## **iVIA—CONNECTING PEOPLE AND INFORMATION**

In 2009 VIA launched iVIA, the Corporation's first intranet. A major step forward in communicating critical information to employees, iVIA provides access to the tools they need on the job—including online learning and training modules, corporate policies and procedures, status updates on corporate projects and performance data.

The intranet provides an efficient platform for improved teamwork and coordination throughout the Corporation, as well as the opportunities to continually refine and improve the way traditional paperwork is handled, such as the processing of forms and personnel information. The capabilities of the new system, as well as the range of information available, will continue to evolve to support increased operational efficiencies in the years ahead.

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# SAFETY AND SECURITY

## GOAL: ENSURE THE SAFETY AND SECURITY OF OUR CUSTOMERS, OURSELVES, AND THE GENERAL PUBLIC

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VIA Rail developed one of the rail industry's first integrated safety management systems in 2001, and is widely recognized as a leader in the safe and secure management of its operations. The system—which integrates the rules, procedures and responsibilities for safe rail operations—is audited annually by Transport Canada, and is continually reviewed by the Corporation. Safety issues are also monitored by Health and Safety committees at all major VIA locations across Canada. These committees review annual safety reports and ongoing performance data to establish specific objectives for improving workplace safety, and to identify issues that require the attention of senior management.

Security issues have also become top-of-mind for employees. VIA works with regulators and industry partners to enhance its security standards, and to implement the best possible facility and operations security procedures. VIA's Safety, Security and Risk Management team, reporting directly to the President and CEO, consolidates all safety, security, environment and non-financial risk management activities under a senior director, thus ensuring better coordination among these functions.

### EMERGENCY PREPAREDNESS

VIA's Train Emergency Response Plan details emergency procedures to be followed in response to events such as a train derailment, a security incident, or a potential health scare. It includes a clear outline of the responsibilities of all employees, the chain of command in place, and the steps necessary to ensure good communication and coordination of emergency measures.

In addition, all employees receive emergency preparedness training relative to the area in which they work. For those who work on board the train, their training ranges from extinguishing an on-board fire, to dealing with a bomb threat and evacuation. Training for employees in maintenance facilities also includes procedures for dealing with hazardous materials.

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### PANDEMIC PREPAREDNESS PLAN

In response to World Health Organization alerts concerning the H1N1 virus in 2009, VIA organized a cross-functional working group to implement its Pandemic Preparedness Plan. The Plan ensures that health risks are closely monitored with both Health Canada and VIA's health service provider, Medysis, and that measures are in place to respond in the event of a pandemic.

The working group coordinated proactive communications throughout the organization to ensure that all employees were alert to any symptoms of the H1N1 infection in people at VIA facilities and on board trains, and procedures for responding to any potential outbreaks of the disease.

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Because VIA's Pacific Station in Vancouver is close to the Olympics site, VIA tightened security measures to prepare for the 2010 Olympic Games, and introduced new measures as required by the Government of Canada. The measures, which include emergency response procedures and employee awareness training, and partnerships with law enforcement agencies, cover all types of emergencies and natural disasters. Site and perimeter security has been enhanced by installing detection and monitoring systems, implementing improved access controls, and adding physical security presence at VIA's Pacific Station and operations areas.

## **BUSINESS CONTINUITY**

Business continuity planning at VIA enables the organization to continue its operations in the event of incidents or situations that may impact people, facilities or equipment. By clearly identifying the critical services necessary for delivery of passenger train service and defining the time by which these services must be re-established, VIA is able to recover and resume regular operations in an organized and efficient manner. Risk analysis drives the development of continuity procedures while various exercises including communication tests and desktop simulations are used to improve employee familiarity and proficiency with the procedures.

## **INFORMATION TECHNOLOGY AND SECURITY**

The 2008 Special Examination Report, issued by the Office of the Auditor General in 2009, recommended that VIA assess the risks and threats to its Information Technology systems, and the measures needed to mitigate these risks.

VIA agreed, and launched an IT Security Program to identify and prioritize required initiatives to reduce security risks that could affect the confidentiality and integrity of VIA systems. Key security projects, including a review of IT Security Policies, and the implementation of a system intrusion detection system, are underway and will be completed in 2010.

In addition, a new e-Learning module on information technology was launched for all VIA employees. The course outlines each employee's role and the responsibilities that come with using information technology, with information on recognizing security risks and reporting suspicious activity.

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## **SAVING LIVES**

All on-train employees receive first-aid training, and on-board service managers are also trained to administer cardiopulmonary resuscitation (CPR). Now, service managers and designated employees in stations, maintenance centres, etc. are also trained to use Automated External Defibrillators, which had been installed in 2008 on all passenger trains as well as in selected passenger stations and work locations.

Since they were deployed, defibrillators have been used three times, two of which resulted in two lives saved. For example, in August 2009, an alert, trained employee saved a life by using the defibrillator at the Toronto Maintenance Centre, after a colleague collapsed during a training class.

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# PEOPLE

## GOAL: CREATE A WORK ENVIRONMENT THAT FOSTERS ENGAGEMENT IN THE SUCCESS OF OUR BUSINESS

No organization can truly excel unless the people in it are committed to the work they do, find that work rewarding, and are proud to be part of the organization's success. This is especially true for VIA Rail, where success depends on the quality of the experience employees create for its customers.

In view of this, VIA has been transforming its human resources function over the last several years to make it more strategic and better defined, a fact acknowledged by the Auditor General in her last Special Examination Report.

VIA's new management plan, *Make the difference*, brings a clear focus to the role of each employee, and the impact of each employee's actions on the success of passenger rail—summed up in the key guiding principle, “*I make the difference*”. Major initiatives in 2009 helped provide VIA's people with the resources and support to make that difference on the job.

### A NEW NETWORKED ENVIRONMENT

VIA's new intranet, iVIA, gives all employees easy access to information on corporate goals and performance, news bulletins, procedures and policies, as well as e-Learning courses, the new welcome aboard program, and access to an online “Learning and Development Campus” with training and career development tools for all employees.

VIA is also exploring ways to extend the information network through devices other than desktop computers. For example, digital screens are being tested in strategic work locations to continuously broadcast corporate information, as well as information specific to the work location, such as recent policy announcements. In addition, work is being done to introduce mobile devices for front-line employees to receive and transmit accurate information on safety, food and beverages, tickets and passenger profiles.

### TRAINING AND CAREER DEVELOPMENT

VIA continued to develop new training initiatives, especially e-Learning resources and modules, which help employees align personal development efforts with career opportunities, and with the strategic goals of the Corporation. A new “Career Ladder” system helps management employees understand their options for pursuing career paths within the Corporation, as well as the skills they need to pursue those options.

A new training program (Creating Stellar Customer Relations) was developed in 2008 and launched in 2009 to provide Customer Experience employees with a better understanding of customer needs and expectations, tools and techniques to meet those expectations, and practical help in applying those techniques in real-life situations. This is the first time a training program combines classroom learning with e-Learning at VIA.

In 2009, VIA also launched a new leadership training program (Senior Leadership Essentials) to support managers in the development of their management competencies and coaching skills. This program is in response to the 2008 employee engagement survey, through which employees said they wanted to see improvements in the areas of managing performance and recognition.

## COLLECTIVE AGREEMENTS

Bargaining for renewal of collective agreements between VIA and the Teamsters Canada Rail Conference, representing locomotive engineers, reached an impasse in 2009. Following a two-day strike, outstanding issues were submitted to binding interest arbitration, and a Memorandum of Agreement arising from the award of the arbitrator between VIA and the union was signed in December.

Bargaining for renewal of new collective agreements with the Canadian Auto Workers, which represent on-train, station and maintenance staff started in 2009. Bargaining of outstanding issues will continue in 2010.

## COMMUNITY INVOLVEMENT

VIA supports and encourages employee participation in community events and activities that reflect values that are important to them.

- 2009 marked the 20th anniversary of the Kids Help Phone charitable organization, which provides phone and online counselling and referral services for young people. VIA has partnered with Kids Help Phone for several years, and employees participate in fundraising activities such as the “Walk for Kids Help Phone” event in May.
- In the fall of 2009, VIA and its employees participated in the National Charitable Campaign, raising funds for United Way Canada and HealthPartners. VIA’s slogan for the campaign, which raised \$241,000, was “Take action that will make the difference”.
- Team VIA Rail raised \$63,000 for the Multiple Sclerosis Society of Canada as part of the RONA MS Bike Tour in August. The team of 62 VIA employees and their friends and families was the largest team participating, and raised the largest amount of money.
- VIA operated eight “Santa Trains,” providing special holiday excursions for children in the communities of Jasper, Prince George and Prince Rupert. With all the work being carried out by VIA volunteers, 100% of the proceeds went towards local charities and the Kids With Cancer Society.
- In Halifax, VIA hosted “All Aboard for Safety,” an open house event to help children learn about general safety issues, and safety around trains and rail lines. Presentations and activities involved representatives from local police, community groups, and national organizations.

## ENVIRONMENT

### GOAL: MANAGE OUR OPERATIONS IN AN ENVIRONMENTALLY SUSTAINABLE MANNER

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Passenger rail is widely recognized as one of the most environmentally sustainable modes of transportation—“*A Green Choice*” when it comes to travel. VIA works every day to continuously improve rail as an option for those concerned about the environmental impacts of transportation.

VIA’s Environmental Policy and objectives set clear guidelines for activities throughout the Corporation, focusing on compliance with environmental regulations, cutting fuel consumption, and reducing the environmental footprint of all VIA business operations.

### INVESTING IN GREEN TECHNOLOGIES

Capital investment in rebuilt locomotives and passenger cars will ensure that VIA’s equipment meets or exceeds current environmental standards, reducing both fuel consumption and emissions generated by passenger rail.

VIA has already achieved significant reductions, cutting fuel consumption by over 25 per cent per passenger-kilometre, and greenhouse gas (GHG) emissions by almost 19 per cent since 1990. Rebuilt equipment will incorporate more efficient heating, cooling, ventilation, lighting and lay-over systems. These modifications will result in additional reductions in fuel consumption and GHG emissions.

### GREEN TEAMS

VIA’s Green Teams—composed of volunteer employees at locations throughout VIA’s network—promote sound environmental practices across the country and encourage all employees to identify ways to improve VIA’s environmental performance. The Teams have helped to develop and launch valuable initiatives such as waste reduction programs in VIA offices and facilities, and a metal recycling program whose proceeds were donated to a local school. They also coordinate VIA’s participation in events that raise public awareness of environmental issues, such as the 2009 Earth Day, Car Free Day, and Waste Reduction Week. In 2009, the Teams began issuing the *Green Bulletin*, which provides information and updates on environmental projects, issues and events to all employees.

## MANAGING ENVIRONMENTAL RISKS

VIA developed an Environmental Management System (EMS) in 2004, providing a corporate-wide framework for tracking, evaluating and communicating environmental performance. As part of its Special Examination of VIA in 2008, the Office of the Auditor General reviewed VIA's EMS and concluded that the environmental management system and practices enabled VIA to manage its key environmental risks. The Special Examination Report, submitted in 2009, recommended a number of ways VIA could improve the implementation of the EMS, particularly with regard to identifying, monitoring and managing environmental risks.

VIA agreed with the recommendations, and began implementing improvements in 2009, with action on all recommendations to be completed in 2010. A methodology for evaluating risks is being developed and integrated within the EMS, along with updates to the EMS and corporate risk registries. In addition to existing internal audit procedures for maintenance facilities, a new environmental audit plan for non-maintenance facilities will be implemented, including procedures for reporting audit results to VIA management. A site contamination management program will be developed for sites that deal with potential environmental contaminants.

VIA is also developing a new system for identifying and documenting environmental objectives, targets and initiatives.

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## ENVIROEXPO

EnviroExpo is a program that was set up two years ago by VIA, in partnership with Youth Science Canada, a non-profit organization that has been organizing science fairs at the local, regional and national levels for almost 50 years. The purpose of EnviroExpo is to challenge young people to find unique solutions to environmental problems that we are facing, while adding an artistic flair to their project presentation. This program is aimed at all Canadian students attending secondary schools or CEGEPs.

Youth can participate in EnviroExpo at the regional or national level. At the national level, the top three participants receive a \$10,000-scholarship each, offered by VIA.

VIA employees from coast to coast are proud to be involved as volunteers in the science fairs. VIA's EnviroExpo initiative earned recognition from the Railway Association of Canada's Safety and Environment Awards Program in 2009.

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# GOVERNANCE AND ACCOUNTABILITY

## THE BOARD OF DIRECTORS

The Board of Directors consists of the Chairman, the President and Chief Executive Officer and 14 other directors, all appointed by the Government of Canada. The Board is responsible for overseeing the strategic direction and management of the Corporation, and reports on VIA's operations to Parliament.

The Corporation and its Board of Directors are committed to implementing principles and best practices of good governance. All members of the Board sign a code of ethics reflecting the spirit and intent of the Accountability Act, which sets out standards of transparency and accountability for the officers and directors of Crown corporations.

In 2009, the Government of Canada appointed Mr. Donald A. Wright for a second term as Chairman of the Board. It also appointed Mr. Marc Laliberté as President and Chief Executive Officer, effective January 4, 2010.

## THE AUDITOR GENERAL'S SPECIAL EXAMINATION

The Office of the Auditor General (OAG) carries out a special examination of Crown corporations every five years. The OAG submitted a report in 2009 on the special examination of VIA completed in 2008. The report identified one significant deficiency in the area of strategic planning and noted continued improvements in VIA's governance practices, concluding that the management of the Corporation's financial, human and material resources is economic and efficient, and that VIA's activities are carried out effectively.

The report also made a number of recommendations for improvement. VIA accepted both the conclusions of the report and the recommendations, all of which have been implemented or are in the process of being implemented.

## ACCESS TO INFORMATION

VIA believes that openness and transparency are the starting point in building a trusted relationship with customers, and with the public in general. VIA receives and responds promptly to information requests under the Access to Information Act and the Privacy Act, and has been given top marks for transparency among federal agencies.

In 2009, VIA received 26 requests under the Access to Information Act. Due to legislative deadlines, three requests were carried over into 2010.

## OFFICIAL LANGUAGES

VIA is committed to the principles of the Official Languages Act and provides service to customers in the language of their choice. On every VIA train, and in stations and Telephone Sales Offices, there are employees who are qualified to provide service to customers in both official languages.

As well, employees who work in regions that are designated bilingual for language of work purposes have the choice to work in their preferred official language. VIA also takes every opportunity, within its mandate, to actively contribute to the promotion of Canada's linguistic duality.

The Commissioner of Official Languages released its 2008-2009 report card of federal institutions in June 2009, and VIA received a B (Good) rating. The Commissioner noted significant improvements in the Service to the Public category over 2008.

When VIA appeared before the House of Commons' Committee on Official Languages, in the fall of 2009, it received congratulations from the members in recognition for its performance in implementing official languages within the organization.

# MANAGEMENT DISCUSSION AND ANALYSIS

This discussion and analysis presents data and comments on the Corporation's financial position and results for the year 2009, excluding the financial results of VIA's variable interest entity (included in the Consolidated Financial Statements) and all non-funded items. It should be read in conjunction with the Consolidated Financial Statements that follow, and the Year at a Glance on page 1.

OVERVIEW OF FINANCIAL RESULTS					
( ) = UNFAVOURABLE	2009	VS BUDGET		VS 2008	
(IN MILLIONS OF CANADIAN DOLLARS)	\$	\$	%	\$	%
<b>PASSENGER REVENUE</b>	<b>250.3</b>	(49.1)	(16.4)	(32.6)	(11.5)
<b>TOTAL REVENUE</b>	<b>264.9</b>	(50.5)	(16.0)	(34.3)	(11.5)
<b>CASH OPERATING EXPENSES</b>	<b>526.1</b>	29.5	5.3	(12.8)	(2.5)
<b>CASH OPERATING DEFICIT</b>	<b>261.2</b>	(21.0)	(8.7)	(47.1)	(22.0)
<b>TOTAL PASSENGERS CARRIED</b> (IN THOUSANDS)	<b>4,229</b>	(444)	(9.5)	(375)	(8.2)

A severe, global economic recession depressed travel and tourism markets throughout 2009, with all passenger carriers suffering losses in both ridership and revenues. Excess seat capacity led to intense competition between carriers. In contrast to 2008, when VIA achieved record breaking growth, VIA's challenge in 2009 was to maintain its market position, and protect its markets in the face of deep fare discounts from competitors. The Corporation was successful in maintaining passenger rail's share of the public transportation market in the Quebec City-Windsor corridor, which represents approximately 80 per cent of its business.

VIA experienced drops in total ridership and revenues in line with the passenger transportation industry as a whole. Passenger revenues for the year were down \$32.6 million or 11.5 per cent compared to 2008, while ridership dropped 8.2 per cent to 4.2 million passengers. VIA reduced expenses, eliminating some 5.3 per cent or \$29.5 million from the budget for the year. However, with high base operating costs and little flexibility to adjust services, cost savings were not enough to offset lower revenues. As a result, there was a significant gap between VIA's operating deficit and its operating funding. VIA will draw on its internal Asset Renewal Fund to meet the 2009 funding shortfall.

VIA continues to remain confident in the longer-term future of passenger rail, and the Government of Canada reinforced this confidence with the addition in January of \$407 million for capital investment through the federal Economic Action Plan, bringing the total funds for VIA's Capital Investment Program now underway to \$923 million. Investment projects to renew VIA's equipment and the rail infrastructure proceeded throughout 2009, progressively achieving substantial improvements in rail service across the country and scheduled to reach full benefits by 2012.



## PASSENGER REVENUE AND RIDERSHIP

Overall, total revenues decreased \$34.3 million compared to 2008, an 11.5 per cent decrease and 16 per cent below the annual budget for 2009. Ridership suffered a decline, with total passenger count dropping 8.2 per cent compared to 2008, and 9.5 per cent below budget.

Revenues were affected both by declining demand for passenger services, and by a very competitive pricing environment. Carriers discounted fares throughout the year. U.S. and overseas travel to Canada continued to decline, along with both consumer and business domestic travel, leading to excess seat capacity in the industry as a whole.

The decline in ridership affected all VIA services. In Western Canada, the *Canadian* depends on tourism from the U.S. and overseas to maintain revenues, which dropped significantly, and VIA's aging equipment for the service is becoming uncompetitive in this market. Service in Eastern Canada experienced a similar downturn, with Sleeper Touring class revenues dropping significantly for the year.

While the Quebec City - Windsor corridor markets performed better than the transcontinental trains, the economic downturn reduced higher-yield business class travel, which affected VIA's total revenues. The Corridor also experienced the most intense price-based competition from other carriers who faced similar ridership declines.

In order to protect market share, VIA introduced a more attractive and flexible fare discount program, along with targeted promotions and service enhancements. For example, following a disruption in service due to strike action by locomotive engineers, VIA offered a 60 per cent discount sale on Business class in the Corridor and Economy class across Canada—as a means to retain loyal customers, and attract new customers to train travel. The six-day sale generated \$14 million in revenue, and attracted 369,000 customers—37 per cent of which said they had rarely or never travelled with VIA before.

Service enhancements generated new interest in the high-end business travel market. Maintaining and renewing interest in train travel helped VIA to retain market share against market acquisition attempts from other public modes.

## OPERATING COSTS

Throughout 2009, VIA exercised rigorous cost containment to respond to the worsening travel market and to mitigate the effects of the revenue shortfalls. Cost savings brought total operating expenses for the year to \$526.1 million, 5.3 per cent below the budget set for 2009. Significant savings were achieved by managing staffing levels and compensation, and fuel costs were lower than budget due to reduced consumption and dropping prices. On-board product costs were also lower, primarily due to reduced ridership.

Expenses did however increase \$12.8 million (2.5 per cent) compared to the previous year. The main increase stems from contributions to the unionized pension plan (\$10.1 million). Following the deterioration of the plan's solvency situation in the first part of 2008, the Corporation, which had previously benefited from a contribution holiday, proactively resumed current service costs contributions in the last quarter of 2008. These contributions continued for all of 2009. Fuel expenses also rose by \$6.5 million, and maintenance material costs increased by \$1.3 million. Reorganization expenses also grew by \$1.8 million as a result of the voluntary early retirement program offered to specific management employees.

Effective cost control generated savings which partly offset these increases, including \$2 million from on-train product costs and \$1.4 million in sales and marketing expenses. The yearly salary increase announced in 2009 was absorbed by a gain in productivity.

VIA was, however, unable to reduce costs further largely because of high fixed operating costs. VIA is committed to providing train service to all Canadians, and it has little flexibility when adjusting train services and frequencies to meet demand. This means, for example, that VIA cannot reduce the frequency of a service to reduce costs—unlike airlines, which have more flexibility in cancelling specific flights.

Investment revenue has also been affected by the recession, which will lead to an increase in VIA's contributions to its pension fund in the coming years.

Aging equipment and inflationary pressures continue to have an impact on operating costs. These pressures affect all aspects of VIA operations, including equipment repairs, routine maintenance and compensation. While VIA's operating funding has decreased by 44 per cent since 1990, inflation over this same period was approximately 50 per cent.

## CAPITAL EXPENDITURES

The Government of Canada announced in January an additional \$407 million investment in passenger rail through the 2009 Economic Action Plan, bringing the total for VIA's Capital Investment Program to \$923 million.

In 2009, capital spending totalled \$116.8 million (as compared to \$54.5 million for the previous two years). The Corporation proceeded rebuilding and renewing its locomotives and passenger cars, and started major infrastructure projects throughout the Quebec City - Windsor corridor, as well as station improvements in all parts of its network.

### CAPITAL EXPENDITURES 2007-2009

<b>EQUIPMENT RENEWAL</b>	\$45.7 million
<b>INFRASTRUCTURE IMPROVEMENTS</b>	\$80.4 million
<b>STATIONS, INFORMATION TECHNOLOGIES, AND OTHER PROJECTS</b>	\$45.2 million
<b>TOTAL</b>	\$171.3 million

Capital spending will accelerate over the next two years, with over \$300 million per year in capital spending planned for 2010 and 2011. The results, in terms of a better level and quality of passenger rail service across Canada, and increased capacity for passenger rail service in the Corridor, will be gradually realized over the coming years.

## ON-TIME PERFORMANCE

On-time performance, which has been a major challenge for passenger rail in recent years, improved significantly in 2009, up 8 percentage points to 83 per cent—the largest year-over-year improvement achieved in recent years.

To improve on-time performance, VIA added time to most of its schedules. Developed in negotiations with the freight railways, the new schedules provide more realistic arrival and departure times, so that customers can depend on a more reliable service. In the Quebec City - Windsor corridor, on-time performance reached 84 per cent, a 13 per cent improvement over 2008.

In Western Canada, schedules were completely redesigned to improve the quality of the services offered to our customers, while providing better connecting services, delivering more attractive options to tour operators, and aligning with freight train flows. As a result, on-time performance increased significantly from 23 per cent to 84 per cent, with an equally significant improvement in customer satisfaction.

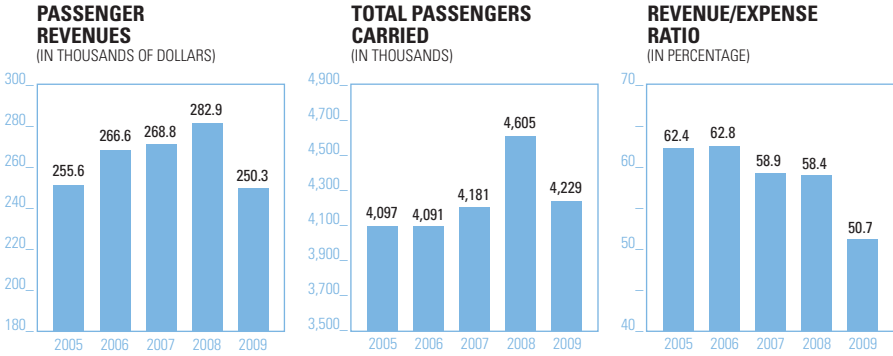
Performance for the Eastern transcontinental deteriorated slightly, due to temporary speed restrictions on the short line infrastructure that CN has acquired, and continuing congestion on CN infrastructure.

## INTERNATIONAL FINANCIAL REPORTING STANDARDS

In February 2008, the Canadian Accounting Standards Board confirmed January 1, 2011 as the changeover date for Canadian publicly accountable enterprises to start using International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board. IFRS uses a conceptual framework similar to Canadian Generally Accepted Accounting Principles (GAAP), but there are significant differences in recognition, measurement and disclosures.

In its 2010 fiscal year, the fiscal year immediately prior to the one in which it commences reporting under IFRS, the Corporation will, effectively, have to maintain two parallel books of account: one set of books of account will be prepared using the current version of Canadian GAAP and would be used for current reporting; another set of books of account will be prepared using the current version of IFRS and would be used for reporting of comparative amounts during the Corporation's 2011 fiscal year.

The identification, evaluation and selection of the accounting policies necessary for the Corporation to changeover to IFRS is currently underway. Consideration of impacts on operational elements such as Information Technology and internal control over financial reporting are integral to this process, as well as the preparation of draft financial statements and related note disclosure. The Treasury Board of Canada Secretariat has confirmed that the use of IFRS is an acceptable set of accounting standards for the Corporation.



## OUTLOOK FOR 2010

Recovery in travel and tourism markets will depend on recovery in the economy as a whole. While there were signs of improvement in the Canadian, U.S. and world economies by the end of 2009, full recovery will likely be slow and uneven throughout 2010. VIA does not expect to see a return to significant growth in passenger rail before 2011.

VIA's challenge in 2010 will continue to be retaining existing customers in a highly competitive market, while taking advantage of opportunities to expand its customer base wherever possible. Passenger rail remains well positioned to deliver a competitive, attractive service to Canadians—a dependable, all-weather mode of transportation, offering stress-free service with a high level of comfort. In 2010, the environment will continue to be a corporate priority for the Corporation, in an effort to manage its operations in an environmentally sustainable manner. And as usual, VIA will carry on focusing on customers, striving to exceed their expectations every time.

Improved on-time performance, along with incremental enhancements in products and services, will continue to attract new interest in passenger rail. In Western Canada especially, major tour operators have already expressed renewed interest in VIA's service, encouraged by the enhanced schedule introduced in 2009, and announced improvements to equipment which will bring on-board accommodations in line with international standards.

In the longer term, VIA's capital investment in equipment and infrastructure will provide the platform for significant improvements, and the tools necessary to capture opportunities for growth as the economy recovers. With modern equipment and the capacity to offer faster, more frequent service, VIA expects to return Canadian passenger rail to the growth enjoyed over the past two decades, with a service that is reliable, efficient, and financially sustainable for the future.

**CONSOLIDATED  
FINANCIAL  
STATEMENTS**

# MANAGEMENT'S RESPONSIBILITY STATEMENT

## Year ended December 31, 2009

Management of the Corporation is responsible for the preparation and integrity of the consolidated financial statements contained in the Annual Report. These consolidated statements have been prepared in accordance with Canadian generally accepted accounting principles and necessarily include certain amounts that are based on management's best estimates and judgement. Financial information contained throughout the Annual Report is consistent with that in the consolidated financial statements. Management considers that the consolidated statements present fairly the financial position of the Corporation, the results of its operations and its cash flows.

To fulfill its responsibility, the Corporation maintains systems of internal controls, policies and procedures to ensure the reliability of financial information and the safeguarding of assets. The internal control systems are subject to periodic reviews by Samson Bélair/Deloitte & Touche, LLP, as internal auditors. The external auditor, the Auditor General of Canada, has audited the Corporation's consolidated financial statements for the year ended December 31, 2009, and her report indicates the scope of her audit and her opinion on the consolidated financial statements.

The Audit and Risk Committee of the Board of Directors, consisting primarily of independent Directors, meets periodically with the internal and external auditors and with management, to review the scope of their audits and to assess reports on audit work performed. The consolidated financial statements have been reviewed and approved by the Board of Directors on the recommendation of the Audit and Risk Committee.



**Marc Laliberté**  
President and Chief Executive Officer



**Robert St-Jean, CA**  
Chief Financial and Administration Officer



Auditor General of Canada  
Vérificatrice générale du Canada

## AUDITOR'S REPORT

To the Minister of Transport, Infrastructure and Communities

I have audited the consolidated balance sheet of Via Rail Canada Inc. as at December 31, 2009 and the consolidated statements of operations, comprehensive income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my audit of the consolidated financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canada Business Corporations Act*, and the articles and by-laws of the Corporation.

A handwritten signature in cursive script that reads 'Sheila Fraser'.

Sheila Fraser, FCA auditor  
Auditor General of Canada

Montréal, Canada  
February 12, 2010

**CONSOLIDATED BALANCE SHEET**

<b>AS AT DECEMBER 31 (IN THOUSANDS)</b>	<b>2009</b>	<b>2008</b>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 4,775	\$ 9,205
Accounts receivable, trade	7,725	6,701
Prepays and other receivables	10,632	2,899
Receivable from the Government of Canada	6,833	–
Derivative financial instruments (NOTE 18)	1,497	5,067
Materials (NOTE 6)	24,592	22,548
Asset Renewal Fund (NOTE 9)	25,295	17,900
Future corporate tax assets (NOTE 12)	2,802	6,187
	<b>84,151</b>	<b>70,507</b>
<b>NON-CURRENT ASSETS</b>		
Property, plant and equipment (NOTE 7)	523,920	469,131
Intangible assets (NOTE 8)	9,464	6,349
Asset Renewal Fund (NOTE 9)	23,120	56,734
Accrued benefit asset (NOTE 11)	354,758	332,514
Derivative financial instruments (NOTE 18)	1,578	4,973
	<b>912,840</b>	<b>869,701</b>
	<b>\$ 996,991</b>	<b>\$ 940,208</b>
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities (NOTE 10)	\$ 132,339	\$ 108,166
Derivative financial instruments (NOTE 18)	6,699	20,664
Deferred revenues	11,998	11,639
	<b>151,036</b>	<b>140,469</b>
<b>NON-CURRENT LIABILITIES</b>		
Accrued benefit liability (NOTE 11)	27,136	26,164
Future corporate tax liabilities (NOTE 12)	40,511	47,229
Derivative financial instruments (NOTE 18)	354	11,431
Deferred investment tax credits	1,302	1,602
Other non-current liabilities	1,500	2,492
	<b>70,803</b>	<b>88,918</b>
<b>DEFERRED CAPITAL FUNDING</b> (NOTE 13)	<b>541,145</b>	<b>480,384</b>
<b>SHAREHOLDER'S EQUITY</b> (NOTE 14)		
Share capital	9,300	9,300
Contributed surplus	5,985	4,963
Retained earnings	218,722	216,174
	<b>234,007</b>	<b>230,437</b>
	<b>\$ 996,991</b>	<b>\$ 940,208</b>

Commitments and Contingencies (Notes 15 and 21, respectively)

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

Approved on behalf of the Board,



**Eric L. Stefanson, FCA**  
Director and Chairman of the Audit  
and Risk Committee



**Donald A. Wright**  
Director and Chairman of the Board



## CONSOLIDATED STATEMENT OF OPERATIONS, COMPREHENSIVE INCOME AND RETAINED EARNINGS

YEAR ENDED DECEMBER 31 (IN THOUSANDS)	2009	2008
<b>REVENUES</b>		
Passenger	\$ 250,478	\$ 283,062
Investment income	862	578
Other	16,438	15,599
	<b>267,778</b>	<b>299,239</b>
<b>EXPENSES</b>		
Compensation and benefits	224,902	230,373
Train operations and fuel	118,714	141,319
Stations and property	33,819	32,524
Marketing and sales	28,797	30,171
Maintenance material	37,076	33,585
On-train product costs	16,233	18,036
Operating taxes	9,735	7,546
Employee future benefits (NOTE 11)	(1,065)	(35,045)
Amortization and losses on write-down and disposal of property, plant and equipment and intangible assets (NOTES 7 AND 8)	60,203	54,466
Unrealized (gain) loss on derivative financial instruments	(18,077)	27,023
Realized loss (gain) on derivative financial instruments	15,677	(10,566)
Other	25,967	26,639
	<b>551,981</b>	<b>556,071</b>
<b>OPERATING LOSS BEFORE FUNDING FROM THE GOVERNMENT OF CANADA AND CORPORATE TAXES</b>	<b>284,203</b>	<b>256,832</b>
Operating funding from the Government of Canada	226,280	214,223
Amortization of deferred capital funding (NOTE 13)	56,453	50,857
(Loss) income before corporate taxes	(1,470)	8,248
Corporate tax (recovery) expense (NOTE 12)	(4,018)	1,910
<b>NET INCOME AND COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>2,548</b>	<b>6,338</b>
Retained earnings, beginning of year	216,174	209,836
<b>RETAINED EARNINGS, END OF YEAR</b>	<b>\$ 218,722</b>	<b>\$ 216,174</b>

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

## CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31 (IN THOUSANDS)	2009	2008
<b>OPERATING ACTIVITIES</b>		
Net income and comprehensive income for the year	\$ 2,548	\$ 6,338
Adjustments to determine net cash from (used in) operating activities:		
Amortization of property, plant and equipment and intangible assets	52,733	53,846
Losses on write-down and disposal of property, plant and equipment and intangible assets	7,770	968
Amortization of investment tax credits	(300)	(348)
Amortization of deferred capital funding	(56,453)	(50,857)
Future corporate taxes	(3,333)	–
Change in fair value of financial instruments	(238)	2,610
Unrealized (gain) loss on derivative financial instruments	(18,077)	27,023
Net change in non-cash working capital items	(7,733)	2,161
Increase in accrued benefit asset	(22,244)	(45,893)
Increase in accrued benefit liability	972	948
(Decrease in) increase in other non-current liabilities	(992)	1,840
Net cash used in operating activities	(45,347)	(1,364)
<b>FINANCING ACTIVITIES</b>		
Capital funding received	111,775	42,995
Net cash provided by financing activities	111,775	42,995
<b>INVESTING ACTIVITIES</b>		
Acquisition of investments in the Asset Renewal Fund	(359,704)	(415,817)
Proceeds from sale and maturity of investments in the Asset Renewal Fund	386,161	413,099
Disbursements for property, plant and equipment and intangible assets	(97,336)	(34,944)
Proceeds from disposal of property, plant and equipment and intangible assets	21	89
Net cash used in investing activities	(70,858)	(37,573)
<b>CASH AND CASH EQUIVALENTS</b>		
(Decrease) increase during the year	(4,430)	4,058
Balance, beginning of year	9,205	5,147
<b>BALANCE, END OF YEAR</b>	<b>\$ 4,775</b>	<b>\$ 9,205</b>
<b>REPRESENTED BY:</b>		
Cash	\$ (135)	\$ 28
Short-term investments, 0.26%, maturing in January 2010 (2008: 1.50%)	4,910	9,177
	<b>\$ 4,775</b>	<b>\$ 9,205</b>

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009

## 1. AUTHORITY AND OBJECTIVES

VIA Rail Canada Inc. is a Crown corporation named in Part I of Schedule III to the *Financial Administration Act*. It was incorporated in 1977, under the *Canada Business Corporations Act*. The Corporation's vision is to offer the best travel experience in Canada with a mission to work together to exceed customer expectations every time. The Corporation uses the roadway infrastructure of other railway companies and relies on them to control train operations.

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

The Corporation has one operating segment, passenger transportation and related services.

## 2. ADOPTION OF NEW ACCOUNTING STANDARDS

### A) FINANCIAL INSTRUMENTS – DISCLOSURES, SECTION 3862

In June 2009, the Canadian Institute of Chartered Accountants (CICA) amended Handbook section 3862, *Financial Instruments – Disclosures*. The purpose of the amendments is to improve disclosures on fair value measurements and liquidity risk related to financial instruments.

All financial instruments measured at fair value must be classified in fair value hierarchy levels, which are as follows:

- Level 1 – Financial instruments are considered Level 1 when valuation can be based on quoted prices in active markets for identical assets or liabilities.
- Level 2 – Level 2 financial instruments are valued using quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or models using inputs that are observable.
- Level 3 – Financial instruments are considered Level 3 when their values are determined using pricing models, discounted cash flow methodologies or similar techniques and at least one significant model assumption or input is unobservable.

Liquidity risk disclosure was also enhanced with the inclusion of a maturity analysis for derivative and non-derivative financial liabilities.

The amendments are effective for annual financial statements for fiscal years ending after September 30, 2009, with early adoption permitted. To provide relief for financial statement preparers, the CICA decided that comparative information for the new disclosures was not required in the first year of application.

As the amendments only concern disclosure requirements, they do not have an impact on the results or financial position of the Corporation. The required disclosures are included in Note 17.

**B) CREDIT RISK AND THE FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES, EIC-173**

On January 20, 2009, the Emerging Issues Committee of the CICA issued Abstract EIC-173, *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities*. The Abstract confirms that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. This Abstract does not have a significant effect on the Consolidated Financial Statements of the Corporation.

**C) GOODWILL AND INTANGIBLE ASSETS, SECTION 3064**

Effective January 1, 2009 the Corporation adopted the new CICA Handbook section 3064, *Goodwill and Intangible Assets*, which provides guidance on the recognition, measurement, presentation and disclosure for goodwill and intangible assets, other than the initial recognition of goodwill or intangible assets acquired in a business combination. This new accounting standard reinforces the approach under which assets are recorded only if they satisfy the definition of an asset and meet the recognition criteria for an asset. It also clarifies the application of the concept of matching costs with revenues, so as to eliminate the practice of recognizing as assets items that do not meet the definition of an asset or satisfy the recognition criteria for an asset. As a result of adopting retrospectively Section 3064, the Corporation reclassified \$9.5 million (2008: \$6.4 million) of software and licenses from Property, plant and equipment to Intangible assets on the Consolidated Balance Sheet.

**3. SIGNIFICANT ACCOUNTING POLICIES**

These Consolidated Financial Statements have been prepared by management in accordance with Canadian generally accepted accounting principles. The significant accounting policies followed by the Corporation are summarized as follows:

**A) VARIABLE INTEREST ENTITIES**

As required by Accounting Guideline AcG-15, *Consolidation of Variable Interest Entities* (AcG-15), the assets, liabilities and results of activities of the Keewatin Railway Company (KRC), a variable interest entity (VIE), have been included in these Consolidated Financial Statements. AcG-15 requires the consolidation of VIEs if a party with an ownership, contractual or other financial interest in the VIE (a variable interest holder) is exposed to a majority of the risk of loss from the VIE's activities, is entitled to receive a majority of the VIE's residual returns (if no party is exposed to a majority of the VIE's losses), or both (the primary beneficiary). Upon consolidation, the primary beneficiary must initially record all of the VIE's assets, liabilities and non-controlling interests at fair value at the date the enterprise became the primary beneficiary (see Note 16). The Corporation revises its initial determination of the accounting for VIEs when certain events occur, such as changes in governing documents or contractual arrangements.

**B) FUNDING FROM THE GOVERNMENT OF CANADA**

Operating funding, which pertains to services, activities and other undertakings of the Corporation for the management and operation of railway passenger services in Canada, is recorded as a reduction of the operating loss (see Note 5 for reconciliation). The amounts are determined on the basis of operating expenses less commercial revenues excluding unrealized gains and losses on financial instruments, realized gains and losses on financial

instruments following a modification in the terms of the original instruments, employee future benefits and non-cash transactions relating to property, plant and equipment, intangible assets and future corporate taxes, and are based on the operating budget approved by the Government of Canada for each year.

Funding for depreciable property, plant and equipment and intangible assets is recorded as deferred capital funding on the Consolidated Balance Sheet and is amortized from the acquisition date on the same basis and over the same periods as the related property, plant and equipment and intangible assets. Upon disposal or write-off of the funded depreciable property, plant and equipment and intangible assets, the Corporation recognizes into income all remaining deferred capital funding related to the relevant assets. Funding for the acquisition of land is recorded as contributed surplus.

### **C) CASH EQUIVALENTS**

Cash equivalents investments include bankers' discount notes and bankers' acceptances which may be liquidated promptly and have original maturities of three months or less.

### **D) ASSET RENEWAL FUND**

Asset Renewal Fund investments include Federal and Provincial treasury bills and bankers' acceptances which may be liquidated promptly and have original maturities of three months or less. It also includes Master Asset Vehicle (MAV) notes which may not be liquidated in the near future and have legal maturities from 2013 to 2056. Changes in fair value are recorded in investment income.

### **E) REVENUE RECOGNITION**

Revenues earned from passenger transportation are recorded as services are rendered. Amounts received for train travel not yet rendered are included in current liabilities as deferred revenues. Investment income and other revenues that include third-party revenues are recognized as they are earned. The changes in fair value of the financial instruments held for trading other than derivative financial instruments are recorded in investment income.

### **F) FOREIGN CURRENCY TRANSLATION**

Accounts in foreign currencies are translated using the temporal method. Under this method, monetary Consolidated Balance Sheet items are translated at the exchange rates in effect at year-end. Gains and losses resulting from the changes in exchange rates are reflected in the Consolidated Statement of Operations, Comprehensive Income and Retained Earnings.

Non-monetary Consolidated Balance Sheet items as well as foreign currency revenues and expenses are translated at the exchange rate in effect on the dates of the related transactions.

### **G) MATERIALS**

Materials, consisting primarily of items used for the maintenance of rolling stock, are valued at the lower of weighted average cost and net realizable value.

### **H) PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment acquired from Canadian National Railway and Canadian Pacific Limited at the start of operations in 1978 were recorded at their net transfer values while subsequent acquisitions are recorded at cost.

The costs of refurbishing and rebuilding rolling stock and costs associated with upgrading of other property, plant and equipment are capitalized if they are incurred to improve the service value or extend the useful lives of the property, plant and equipment concerned; otherwise, such costs are expensed as incurred.

Retired property, plant and equipment are written down to their net realizable value.

Amortization of property, plant and equipment is calculated on a straight-line basis at rates sufficient to amortize the cost of property, plant and equipment, less their residual value, over their estimated useful lives, as follows:

Rolling stock	<b>12 to 30 years</b>
Maintenance buildings	<b>25 years</b>
Stations and facilities	<b>20 years</b>
Owned Infrastructure	<b>5 to 40 years</b>
Infrastructure improvements	<b>5 to 40 years</b>
Leasehold improvements	<b>2 to 20 years</b>
Machinery and equipment	<b>4 to 15 years</b>
Computer hardware	<b>3 to 7 years</b>
Other property, plant and equipment	<b>3 to 10 years</b>

No amortization expense is recorded for projects in progress or for retired property, plant and equipment.

## I) INTANGIBLE ASSETS

Intangible assets are recorded at cost. This cost includes expenses directly associated with activities to develop or obtain computer software for internal use.

The Corporation's intangible assets have a finite useful life and are amortized over their useful life according to the straight-line method over the following periods:

Software and licences	<b>3 to 7 years</b>
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## J) IMPAIRMENT OF LONG-LIVED ASSETS

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment is assessed by comparing the carrying amount of an asset with its expected future net undiscounted cash flows from its use and eventual disposal. If such assets are considered impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds their fair value, determined on a discounted expected cash flow basis. The impairment will result in a write down of the related assets and the corresponding expense will be recorded under amortization and losses on write-down and disposal of property plant and equipment and intangible assets.

## K) CORPORATE TAXES

The Corporation utilizes the asset and liability method of accounting for corporate taxes under which future corporate tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amount and the tax basis of assets and liabilities. Future corporate tax assets and liabilities are measured using substantively enacted rates that are expected to apply for the year in which

those temporary differences are expected to be recovered or settled. The effect on future corporate tax assets and liabilities of a change in tax rates is recognized in earnings in the period that includes the enactment date. Future corporate tax assets are recognized to the extent that realization is considered more likely than not.

#### **L) INVESTMENT TAX CREDITS**

Investment tax credits are recognized when qualifying expenditures have been made, provided there is reasonable assurance that the credits will be realized. They are amortized over the estimated useful lives of the related property, plant and equipment. The amortization of deferred investment tax credits is recorded as a reduction of the amortization of property, plant and equipment.

#### **M) EMPLOYEE FUTURE BENEFITS**

The Corporation accrues obligations under its employee future benefit plans.

The cost of pension and other employee future benefits earned by employees is actuarially determined using the projected benefit method prorated on services and management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected health care costs.

For the purpose of calculating the expected return on plan assets, those assets are valued at fair value.

On January 1, 2000, the Corporation adopted the new accounting standard on employee future benefits using the prospective application method. The Corporation is amortizing the transitional asset on a straight-line basis over 13 to 14 years, which was the average remaining service lives of the active employee groups at the time.

Past service costs are amortized on a straight-line basis over the expected average remaining service lives of the active employee groups at the date of the amendment.

For the pension plans, the excess of the accumulated net actuarial gain or loss over 10 per cent of the greater of the accumulated benefit obligation and the fair value of plan assets is amortized on a straight-line basis over the average remaining service lives of the active employee groups which is, in most cases, estimated to be 12 years.

The Corporation's obligations for worker's compensation benefits are based on known awarded disability and survivor pensions and other potential future awards with respect to accidents that occurred up to the fiscal year-end. The Corporation is self-insured. The actuarial determination of these accrued benefit obligations uses the projected benefit method. This method incorporates management's best estimate of cost escalation as well as demographic and other financial assumptions. Management's best estimate also takes into account the experience and assumptions of provincial workers' compensation boards. The actuarial gains or losses are amortized over a seven-year period, the average duration of these obligations.

#### **N) ENVIRONMENTAL COSTS**

The Corporation provides for estimated costs to meet Government standards and regulations when such costs can be reasonably estimated. Estimates of the anticipated future costs for remediation work are based on the Corporation's prior experience. Provisions for environmental remediation costs are recorded in "Other non-current liabilities," except for the current portion, which is recorded in "Accounts payable and accrued liabilities".

**O) ASSET RETIREMENT OBLIGATIONS**

Liabilities are recognized for statutory, contractual or legal obligations, when incurred, associated with the retirement of property, plant and equipment when those obligations result from the acquisition, construction, development and/or normal operation of the assets. The obligations are measured initially at fair value, determined using present value methodology, and the resulting costs are capitalized into the carrying amount of the related asset. In subsequent periods, the liability is adjusted for the unwinding of the discount caused by the passage of time and any changes in the amount or timing of the estimated underlying future cash flows. The capitalized asset retirement cost is depreciated on the same basis as the related asset and the unwinding of the discount is included in determining the results of operations.

**P) FINANCIAL INSTRUMENTS****(I) Financial assets and liabilities held for trading (HFT)**

Financial instruments are classified as HFT when they are principally acquired or incurred for the purpose of selling and repurchasing in the short-term, part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking, or derivatives not designated for hedge accounting. Other financial instruments may be designated as held for trading upon initial recognition.

The Corporation has classified its cash and cash equivalents as held for trading.

Financial assets and financial liabilities classified as HFT except for derivative financial instruments (see Note 3 q)) are measured at fair value with changes in those fair values recognized in investment income. Transaction costs are expensed as incurred. Regular-way purchases or sales of financial assets are accounted for at settlement date.

**(II) Loans and receivables (L&R)**

The L&R classification includes trade receivables, loans, and other receivables that have fixed or determinable payments and are not quoted in an active market. Assets are measured initially at fair value and then at amortized cost, using the effective interest rate method, less any impairment. The fair values of loans and receivables are estimated on the basis of the present value of the expected cash flows. Where the time value of money is not material due to their short-term nature, accounts receivable are carried at the original invoice amount less any allowance for doubtful receivables.

**(III) Other financial liabilities**

Other financial liabilities represent liabilities that are not classified as HFT. They are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis. Where the time value of money is not material due to their short-term nature, accounts payable are carried at the original invoice amount.

**Q) DERIVATIVE FINANCIAL INSTRUMENTS**

Derivative financial instruments such as swaps and certain forward foreign exchange contracts are utilized by the Corporation in the management of its exposure to changes in fuel prices and the value of the U.S. dollar, covering at least 50 per cent and up to 80 per cent of its consumption of fuel. The Corporation does not enter into derivative financial instruments for trading or speculative purposes. The Corporation does not currently apply hedge accounting on these derivative financial instruments.



Forward foreign exchange contracts are also utilized by the Corporation in the management of its exposure to the changes in value of the U.S dollar related to the purchase of materials from the U.S. as part of a major capital project to refurbish some of its locomotive fleet.

The Corporation's derivative financial instruments are classified as HFT. Changes in the fair value of derivative financial instruments are recorded in unrealized loss (gain) on derivative financial instruments. Derivative financial instruments with a positive fair value are presented as assets and derivative financial instruments with a negative fair value are presented as liabilities.

## **R) MEASUREMENT UNCERTAINTY**

The preparation of consolidated financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as well as revenues and expenses and the disclosure of contingent assets and liabilities. The most significant estimates involve the recognition of liabilities and other claims against the Corporation, the fair value of financial instruments, employee future benefits, future corporate taxes as well as the useful lives of property, plant and equipment and intangible assets. Actual results could differ from these estimates and such differences could be material.

## **S) VIA PRÉFÉRENCE PROGRAM**

The incremental costs of providing travel awards under the Corporation's *VIA Préférence* frequent traveler reward program are accrued as the entitlements to such awards are earned, and are recorded in accounts payable and accrued liabilities.

## **T) NON-MONETARY TRANSACTIONS**

Non-monetary transactions are recorded at the estimated fair value of the goods or services received or the estimated fair value of the services given, whichever is more reliably determinable. Revenues from non-monetary transactions are recognized when the related services are rendered. Expenses resulting from non-monetary transactions are recognized during the period when the related goods or services are provided by third parties.

# **4. FUTURE ACCOUNTING CHANGES**

## **A) BUSINESS COMBINATIONS, CONSOLIDATED FINANCIAL STATEMENTS AND NON-CONTROLLING INTERESTS**

The CICA issued three new accounting standards in January 2009: section 1582, *Business Combinations*, section 1601, *Consolidated Financial Statements*, and section 1602, *Non-controlling Interests*.

Section 1582 replaces section 1581, *Business Combinations*, and establishes standards for the accounting for a business combination and for the related disclosure requirements. The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Earlier adoption is permitted.

Sections 1601 and 1602 together replace section 1600, *Consolidated Financial Statements*. Section 1601 establishes standards for the preparation and presentation of consolidated financial statements. Section 1601 applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year.

Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year.

The Corporation is in the process of evaluating the requirements of each of these new standards.

## B) INTERNATIONAL FINANCIAL REPORTING STANDARDS

In February 2008, the Canadian Accounting Standards Board confirmed January 1, 2011 as the changeover date for Canadian publicly accountable enterprises to start using International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board. IFRS uses a conceptual framework similar to Canadian GAAP, but there are some significant differences in recognition, measurement and disclosure requirements.

The identification, evaluation and selection of the accounting policies necessary for the Corporation to transition to IFRS are currently underway. Consideration of impacts on operational elements such as information technology and internal control over financial reporting are integral to this process as well as to the preparation of draft financial statements and related note disclosure.

## 5. RECONCILIATION OF NET RESULTS OF OPERATIONS TO GOVERNMENT FUNDING BASIS

The Corporation receives its funding from the Government of Canada based primarily on cash flow requirements. Items recognized in the Consolidated Statement of Operations, Comprehensive Income and Retained Earnings in one year may be funded by the Government of Canada in different years. Accordingly, the Corporation has different net results of operations for the year on a government funding basis than on a generally accepted accounting principles basis. These differences are outlined below:

(IN MILLIONS OF DOLLARS)	2009	2008
Net income and comprehensive income for the year	2.5	6.3
Items not requiring (not providing) operating funds:		
Amortization and losses on write-down and disposal of property, plant and equipment and intangible assets	60.5	54.8
Amortization of deferred capital funding	(56.5)	(50.9)
Employee future benefits to be funded in the current period	(21.2)	(44.8)
Unrealized (gain) loss on derivative financial instruments	(18.1)	27.0
Deferred corporate tax (recovery) expense	(3.3)	2.1
Adjustment for accrued compensation	0.8	2.0
(Increase) decrease in investment fair value	(0.2)	3.9
Other	0.5	(0.4)
Operating funding (deficit) surplus for the year	(35.0)	-

The operating deficit was funded by the Asset Renewal Fund.

## 6. MATERIALS

The materials expensed during the year amounted to \$30.4 million (2008: \$29.8 million). The Corporation had no significant write-down of its materials in 2009 or 2008.

## 7. PROPERTY, PLANT AND EQUIPMENT

(IN MILLIONS OF DOLLARS)	2009			2008		
	COST	ACCUMULATED AMORTIZATION	NET	COST	ACCUMULATED AMORTIZATION	NET
Land	6.6	–	6.6	5.7	–	5.7
Rolling stock	781.0	537.9	243.1	775.3	517.7	257.6
Maintenance buildings	169.3	144.5	24.8	182.3	149.9	32.4
Stations and facilities	52.3	36.0	16.3	45.7	32.3	13.4
Owned infrastructures	135.2	56.8	78.4	125.6	53.5	72.1
Infrastructure improvements	28.7	8.9	19.8	27.8	8.2	19.6
Leasehold improvements	66.4	48.2	18.2	116.3	95.4	20.9
Machinery and equipment	36.0	26.8	9.2	37.9	31.3	6.6
Computer hardware	8.7	7.4	1.3	9.3	8.1	1.2
Other property, plant and equipment	14.4	13.4	1.0	20.5	19.8	0.7
	<b>1,298.6</b>	<b>879.9</b>	<b>418.7</b>	1,346.4	916.2	430.2
Projects in progress			104.9			38.6
Retired property, plant and equipment (at net realizable value)			0.3			0.3
			<b>523.9</b>			469.1

Projects in progress as at December 31, 2009 primarily consist of rolling stock and improvements to infrastructure and stations.

The amortization expense of property, plant and equipment was \$50.3 million in 2009 (2008: \$51.9 million).

In 2009, the Corporation wrote off \$75.3 million of property, plant and equipment that were disposed of or replaced and that were fully amortized.

In 2009, the Corporation wrote down an asset for an amount of \$5.2 million. Also, assets with a net book value of \$2.6 million were disposed of during the year.

## 8. INTANGIBLE ASSETS

(IN MILLIONS OF DOLLARS)	2009			2008		
	COST	ACCUMULATED AMORTIZATION	NET	COST	ACCUMULATED AMORTIZATION	NET
Software and licences	44.5	39.7	4.8	44.1	40.8	3.3
Projects in progress			4.7			3.0
			<b>9.5</b>			6.3

The amortization expense of intangible assets in 2009 was \$2.4 million (2008: \$1.9 million).

In 2009, the Corporation wrote off \$3.5 million of intangible assets that were disposed of or replaced and that were fully amortized.

## 9. ASSET RENEWAL FUND

### A) ASSET RENEWAL FUND

The Corporation has been authorized by the Treasury Board of Canada Secretariat to segregate proceeds from the sale or lease of surplus assets in a manner which ensures that these funds are retained for future capital projects. However, the Treasury Board of Canada Secretariat could approve the use of the Asset Renewal Fund to finance operating deficits.

The investments in the Asset Renewal Fund include the following:

(IN MILLIONS OF DOLLARS)	2009	2008
	CARRYING VALUE AND FAIR VALUE	CARRYING VALUE AND FAIR VALUE
Federal and Provincial Treasury bills	23.6	26.6
Bankers' acceptances	20.3	39.4
Master Asset Vehicle (MAV) notes	4.5	–
Commercial papers	–	8.6
<b>Balance at end of year</b>	<b>48.4</b>	74.6
Less: Current portion	25.3	17.9
Non-current portion	23.1	56.7

During the year ended December 31, 2009, the Treasury Board of Canada Secretariat approved the use of the Asset Renewal Fund to fund a maximum of \$42.5 million of the 2009 operating expenditures (2008: Nil) and \$2.4 million of the 2009 capital expenditures (2008: \$0.2 million).

The Treasury Board of Canada Secretariat has authorized the Corporation to use up to \$25.3 million (2008: \$17.9 million) of the Asset Renewal Fund to meet future working capital requirements. This amount is presented in the current portion of the Asset Renewal Fund.

The weighted average effective rate of return on short-term investments as at December 31, 2009 was 0.24 per cent (2008: 1.55 per cent) excluding MAV notes. The weighted average term to maturity as at December 31, 2009 is two months (2008: two months) excluding MAV notes.

The fair value of short-term investments is based on the current bid price at the Consolidated Balance Sheet date, except for the MAV notes as described in Note 9 c).

The Asset Renewal Fund is invested in 19 short-term instruments (2008: 19) that have a rating of "R-1 low" or higher. Diversification in the short-term instruments is achieved by limiting to 10 per cent or less the percentage of the market value of the Asset Renewal Fund assets invested in instruments of a single issuer.

The Corporation is subject to credit risk from its holdings in the Asset Renewal Fund. The Corporation minimizes its credit risk by adhering to the *Minister of Finance of Canada Financial Risk Management Guidelines for Crown Corporations* and to the Corporation's Asset Renewal Fund Investment Policy, which requires that funds be invested in high quality financial instruments.

**B) CHANGES IN THE ASSET RENEWAL FUND**

The changes in the closing balance of the Asset Renewal Fund resulted from the following movements during the year:

(IN MILLIONS OF DOLLARS)	2009	2008
<b>Balance at beginning of year</b>	<b>74.6</b>	74.5
Proceeds from sale or lease of surplus assets	0.1	0.2
Investment Income	0.9	2.5
Change in fair value	0.2	(2.6)
Less: Cash drawdown during the year	(27.4)	–
<b>Balance at end of year</b>	<b>48.4</b>	74.6

**C) NON-BANK-SPONSORED ASSET-BACKED COMMERCIAL PAPERS (ABCP)**

On March 17, 2008, the Pan-Canadian Investors Committee (the “Committee”) for ABCP filed proceedings for a plan of compromise and arrangement (the “Plan”) under the *Companies’ Creditors Arrangement Act* (Canada) (“CCAA”) with the Ontario Superior Court. At the meeting of ABCP note holders on April 25, 2008, note holders approved the Plan by the required majorities. On June 5, 2008, the Court issued a sanction order and reasons for the decision approving the Plan as amended. On August 18, 2008, that decision was upheld by the Ontario Court of Appeal and, on September 19, 2008, the Supreme Court of Canada denied leave to the appeal. On December 24, 2008, the Committee announced that an agreement had been reached with all key stakeholders, including the governments of Canada, Quebec, Ontario and Alberta to provide additional margin facilities to support the Plan and finalized certain enhancements to the Plan.

On January 12, 2009, the Ontario Superior Court issued the final implementation order in the ABCP restructuring process. The restructuring closed on January 21, 2009. On this date, the Corporation received \$8.6 million in face value of restructured long-term amortizing floating rate notes in exchange for \$8.7 million face value of original ABCP held previously that had been illiquid since the market disruptions of August 2007.

The new notes, now referred to as Master Asset Vehicle (MAV) notes, have legal maturities ranging from 2013 to 2056 and have remained illiquid since issued. In the absence of a functioning secondary market, management has developed a discounted cash flow valuation model to estimate the fair value of the MAV notes received. The valuation model incorporates assumptions for interest rate, required market yield and effective maturity, some of which are derived from observable market indicators. In 2009, \$0.4 million of capital was received, leaving an outstanding face value as at December 31, 2009 of \$8.2 million. The estimated fair value of the outstanding notes is \$4.5 million as at December 31, 2009 representing 55% of their face value.

The Corporation’s estimated fair value for its MAV notes is subject to significant risks and uncertainties, including the timing and amount of future cash flows, the potential for deterioration in the credit quality of the underlying assets and financial instruments as well as changes in interest rates and credit spreads. Accordingly, the Corporation’s assessment of the fair value of its MAV notes holdings could change materially in the future.

## 10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The Accounts payable and accrued liabilities balance includes the following:

(IN MILLIONS OF DOLLARS)	2009	2008
Accrued liabilities	42.5	26.9
Wages payable and accrued	38.4	38.9
Trade payables	37.2	28.4
Capital tax, income tax and other taxes payable	10.8	9.8
Payable to the Government of Canada	–	3.8
Current portion of network restructuring and reorganization accrual	0.4	0.4
Other	3.0	–
	<b>132.3</b>	108.2

## 11. EMPLOYEE FUTURE BENEFITS

The Corporation provides a number of funded defined benefit pension plans as well as unfunded post retirement and post-employment benefits that include life insurance, health coverage and self-insured workers' compensation benefits, to all its permanent employees. The actuarial valuations for employee future benefits are carried out by external actuaries who are members of the Canadian Institute of Actuaries.

The defined benefit pension plans are based on years of service and final average salary of the employee's best five consecutive calendar years up to retirement.

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

The latest actuarial valuation for the post-retirement unfunded plan was carried out as at July 31, 2007. The next actuarial valuation will be carried out subsequent to year-end with a measurement date as at January 1, 2010.

The latest actuarial valuation for the post-employment unfunded plan was carried out as at December 31, 2009.

The latest actuarial valuation for the self-insured workers' compensation was carried out as at December 31, 2006. The next actuarial valuation will be carried out subsequent to year-end with a measurement date as at December 31, 2009.

The latest actuarial valuations of the pension plans were carried out as at December 31, 2006. The next actuarial valuation will be carried out subsequent to year-end with a measurement date as at December 31, 2009.

The actuarial valuation of the Supplemental Executive Retirement Plan is carried out annually. The latest actuarial valuation was carried out as at December 31, 2009.

The actuarial valuation of the Supplemental Retirement Plan for management employees (SRP), with respect to retired members, is carried out annually. The latest actuarial valuation was carried out as at December 31, 2009. The latest actuarial valuation for active members of the SRP was carried out as at December 31, 2006, and the next actuarial valuation will be carried out subsequent to year-end with a measurement date as at December 31, 2009.

Based on these actuarial valuations and projections to December 31, the summary of the principal valuation results, in aggregate, is as follows:

(IN MILLIONS OF DOLLARS)	PENSION PLANS		OTHER BENEFIT PLANS	
	2009	2008	2009	2008
<b>ACCRUED BENEFIT OBLIGATION:</b>				
<b>Balance at beginning of year</b>	<b>1,165.9</b>	1,479.3	<b>27.8</b>	31.8
Current service cost	<b>13.0</b>	23.3	<b>4.6</b>	4.6
Employee contributions	<b>10.1</b>	10.1	–	–
Interest cost	<b>85.0</b>	80.1	<b>2.1</b>	1.8
Benefits paid	<b>(102.8)</b>	(101.4)	<b>(6.2)</b>	(6.1)
Net transfer in	<b>7.5</b>	–	–	–
Actuarial losses (gains)	<b>149.6</b>	(325.5)	<b>2.9</b>	(4.3)
<b>Balance at end of year</b>	<b>1,328.3</b>	1,165.9	<b>31.2</b>	27.8
<b>FAIR VALUE OF PLAN ASSETS:</b>				
<b>Balance at beginning of year</b>	<b>1,354.3</b>	1,762.0	–	–
Actual gains (losses) from return on plan assets	<b>198.1</b>	(320.0)	–	–
Employer contributions	<b>13.8</b>	3.6	<b>6.2</b>	6.1
Employee contributions	<b>10.1</b>	10.1	–	–
Net transfer in	<b>7.5</b>	–	–	–
Benefits paid	<b>(102.8)</b>	(101.4)	<b>(6.2)</b>	(6.1)
<b>Balance at end of year</b>	<b>1,481.0</b>	1,354.3	–	–

The percentage of the fair value of the total pension plan assets by major category as at December 31 was as follows:

<b>ASSET CATEGORIES:</b>	<b>2009</b>	<b>2008</b>
Equity securities (public market)	<b>50.7%</b>	44.3%
Fixed income securities (public market)	<b>43.3%</b>	44.0%
Private equity, hedge funds and other	<b>6.0%</b>	11.7%
	<b>100.0%</b>	100.0%

(IN MILLIONS OF DOLLARS)	PENSION PLANS		OTHER BENEFIT PLANS	
	2009	2008	2009	2008
<b>RECONCILIATION OF THE FUNDED STATUS:</b>				
Fair value of plan assets	<b>1,481.0</b>	1,354.3	–	–
Accrued benefit obligation	<b>1,328.3</b>	1,165.9	<b>31.2</b>	27.8
<b>Funded status of plans - surplus (deficit)</b>	<b>152.7</b>	188.4	<b>(31.2)</b>	(27.8)
Unamortized net actuarial losses (gains)	<b>321.5</b>	295.4	<b>1.5</b>	(1.4)
Unamortized past service costs	<b>1.5</b>	1.9	<b>0.3</b>	0.3
Unamortized transitional (asset) obligation	<b>(120.9)</b>	(153.2)	<b>2.7</b>	3.2
	<b>354.8</b>	332.5	<b>(26.7)</b>	(25.7)
Network restructuring long-term liability	–	–	<b>(0.4)</b>	(0.4)
<b>Accrued benefit asset (liability)</b>	<b>354.8</b>	332.5	<b>(27.1)</b>	(26.1)

(IN MILLIONS OF DOLLARS)	PENSION PLANS		OTHER BENEFIT PLANS	
	2009	2008	2009	2008
<b>ELEMENTS OF DEFINED BENEFIT COSTS RECOGNIZED IN THE YEAR:</b>				
Current service cost	13.0	23.3	4.6	4.6
Interest cost	85.0	80.1	2.1	1.8
Actual (gains) losses from return on plan assets	(198.1)	320.0	–	–
Actuarial losses (gains)	149.6	(325.5)	2.9	(4.3)
<b>Elements of employee future benefits costs before adjustment to recognize the long-term nature of these costs</b>	<b>49.5</b>	<b>97.9</b>	<b>9.6</b>	<b>2.1</b>
<b>ADJUSTMENTS TO RECOGNIZE THE LONG-TERM NATURE OF EMPLOYEE FUTURE BENEFITS COSTS:</b>				
Differences between:				
■ Expected return and actual return on plan assets for the year	109.9	(435.2)	–	–
■ Actuarial (gain) loss recognized for the year and the actual actuarial loss on accrued benefit obligation for the year	(135.8)	327.0	(3.0)	4.5
■ Amortization of past service costs for the year and the actual plan amendments for the year	0.4	0.4	0.1	0.1
Amortization of transitional (asset) obligation	(32.3)	(32.3)	0.5	0.5
<b>Defined benefit (income) costs recognized</b>	<b>(8.3)</b>	<b>(42.2)</b>	<b>7.2</b>	<b>7.2</b>

The credit balance for employee future benefits in the Consolidated Statement of Operations, Comprehensive Income and Retained Earnings includes the pension plans' net income and the other benefit plans' net costs.

	PENSION PLANS		OTHER BENEFIT PLANS	
	2009	2008	2009	2008
<b>WEIGHTED-AVERAGE OF SIGNIFICANT ASSUMPTIONS:</b>				
<b>Accrued benefit obligation as at December 31:</b>				
Discount rate	6.50%	7.50%	5.25%	7.50%
Rate of compensation increase	3.00%	3.00%	3.00%	3.00%
<b>Benefit costs for the year ended December 31:</b>				
Discount rate	7.50%	5.50%	7.50%	5.50%
Expected long-term rate of return on plan assets	6.75%	6.75%	–	–
Rate of compensation increase	3.00%	3.00%	3.00%	3.00%
<b>Assumed health care cost trend rates as at December 31:</b>				
Initial health care cost trend rate	–	–	7.39%	7.78%
Cost trend rate declines to	–	–	4.03%	3.66%
Year ultimate rate is reached	–	–	2014	2014



### Sensitivity analysis

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one percentage-point change in assumed health care cost trend rates would have the following effects for 2009:

(IN THOUSANDS OF DOLLARS)	INCREASE	DECREASE
Total service and interest cost for the current year	34	(30)
Accrued benefit obligation as at the end of the year	165	(147)

## 12. CORPORATE TAXES

The corporate tax (recovery) expense of the Corporation consists of the following:

(IN MILLIONS OF DOLLARS)	2009	2008
Current corporate tax (recovery) expense	(0.7)	1.9
Future corporate tax (recovery) expense	(3.3)	–
<b>Corporate tax (recovery) expense</b>	<b>(4.0)</b>	1.9

The Corporation recorded a current corporate tax recovery of \$0.7 million resulting from the Federal and Ontario harmonization of corporate taxes. The Corporation has a cash tax payable of \$1.1 million that is payable over a five year period beginning in 2010. This amount is included in Other non-current liabilities on the Consolidated Balance Sheet.

The overall corporate tax recovery for the year differs from the amount that would be computed by applying the combined Federal and provincial statutory income tax rates of 29.84 per cent (2008: 30.2 per cent) to income before corporate taxes. The reasons for the differences are as follows:

(IN MILLIONS OF DOLLARS)	2009	2008
Computed corporate tax (recovery) expense - statutory rates	(0.5)	2.4
Permanent differences:		
Large corporate tax recovery	(0.3)	(0.3)
Non-taxable portion of capital and accounting (gains) losses and others	(0.3)	0.4
Change in valuation allowance	(0.3)	(1.0)
Effect of statutory tax rate substantively enacted during the year	(3.4)	(1.3)
Effect of tax rate changes on future corporate taxes	0.4	–
Future corporate tax expense relating to changes in temporary differences	0.4	1.7
	<b>(4.0)</b>	1.9

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

Significant components of the future corporate tax (assets) and liabilities of the Corporation are as follows:

(IN MILLIONS OF DOLLARS)	2009	2008
<b>Future corporate tax assets:</b>		
Property, plant and equipment	(24.5)	(25.1)
Contingencies, other liabilities and net amounts	(4.3)	(4.5)
Accrued benefit liability	(6.3)	(6.6)
Unrealized loss on derivative financial instruments	(2.0)	(9.4)
Loss carry-forward	(18.0)	(10.8)
	<b>(55.1)</b>	(56.4)
Less: valuation allowance	8.4	8.7
	<b>(46.7)</b>	(47.7)
<b>Future corporate tax liabilities:</b>		
Accrued benefit asset	83.6	85.9
Unrealized gain on derivative financial instruments	0.8	2.9
	<b>84.4</b>	88.8
<b>Net future corporate tax liabilities</b>	<b>37.7</b>	41.1
<b>Presented in the Consolidated Balance Sheet as:</b>		
Future corporate tax assets – current	(2.8)	(6.2)
Future corporate tax liabilities – non-current	40.5	47.3
<b>Net future corporate tax liabilities</b>	<b>37.7</b>	41.1

The Corporation has \$76.1 million of unused federal non-capital tax losses carried forward and their related year of expiry are as follows:

(IN MILLIONS OF DOLLARS)	
2010	0.7
2014	3.3
2015	12.0
2026	18.8
2028	4.8
2029	36.5
	<b>76.1</b>

### 13. DEFERRED CAPITAL FUNDING

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

(IN MILLIONS OF DOLLARS)	2009	2008
<b>Balance, beginning of year</b>	<b>480.4</b>	488.7
Government funding for property, plant and equipment and intangible assets (excluding the cost of land)	117.2	42.5
Amortization of deferred capital funding	(56.5)	(50.8)
<b>Balance, end of year</b>	<b>541.1</b>	480.4

### 14. CAPITAL

The authorized share capital of the Corporation is comprised of an unlimited number of common shares with no par value. As at December 31, 2009 and 2008, 93,000 shares at \$100 per share are issued and fully paid.

The Corporation defines its capital as share capital, contributed surplus and retained earnings and is regulated by the *Financial Administration Act*. The Corporation is not allowed to modify its capital structure without Government approval. The Corporation must obtain Government approval to issue debt instruments. Accordingly, the Corporation does not have access to external financing and does not have a flexible capital structure.

The Corporation manages its equity by prudently managing revenues, expenses, assets, liabilities, investments and general financial dealings to ensure that the Corporation effectively achieves its objectives and purpose while remaining a going concern. The Corporation did not change the way it manages its equity compared to last year.

The increase in the Contributed surplus of \$1.0 million during the year is due to the purchase of land.

### 15. COMMITMENTS

**A)** The Corporation has operating leases in place mainly for facilities, maintenance of way and computer equipment. The future minimum payments relating to these operating leases are as follows:

(IN MILLIONS OF DOLLARS)	
2010	<b>24.2</b>
2011	<b>21.7</b>
2012	<b>21.1</b>
2013	<b>19.4</b>
2014	<b>14.9</b>
Subsequent years proportionately to 2049	<b>179.0</b>
	<b>280.3</b>

**B)** As at December 31, 2009, the Corporation has outstanding major contract commitments amounting to \$498.8 million (2008: \$109.8 million) consisting mainly of advertising and maintenance and completion of rolling stock projects. In 2009, the corporation initiated important investments related to the Federal Government's economic stimulus package and reliability program. The Corporation expects to make payments under these commitments over the next 5 years.

**C)** The Corporation has entered into train service agreements for the use of tracks and the control of train operations that expire on December 31, 2018.

**D)** The Corporation has issued letters of credit totalling approximately \$25.5 million (2008: \$22.0 million) to various provincial government workers' compensation boards as security for future payment streams.

## 16. VARIABLE INTEREST ENTITIES

In April 2006, as part of its mandate to provide passenger rail service in Canada, the Corporation entered into an operating agreement with the Keewatin Railway Company ("KRC") to provide a financial contribution to KRC for the purposes of operating passenger rail services and essential freight to the communities in Northern Manitoba served by KRC. The Corporation agreed to contribute an annual amount to KRC to fund a significant portion of its operating expenditures. KRC is a Variable Interest Entity (VIE) to the Corporation given that the Corporation is the primary beneficiary exposed to a majority of the risk of loss from KRC's activities.

In 2009, the financial contribution provided by the Corporation to KRC amounted to \$2.4 million (2008: \$2.5 million).

KRC received \$1.5 million for the maintenance of their infrastructure from the Government of Canada in 2009 (2008: \$1.9 million).

The liabilities recognized as a result of consolidating KRC do not represent additional claims on the Corporation's assets; rather, they represent claims against the specific assets of KRC. Conversely, assets having a value of \$10.8 million (2008: \$7.4 million) recognized as a result of consolidating KRC do not represent additional assets that could be used to satisfy claims against the Corporation's assets. Additionally, the consolidation of the KRC VIE did not result in any change in the underlying tax, legal or credit exposure of the Corporation.

## 17. FINANCIAL INSTRUMENTS

### A) CLASSIFICATION OF FINANCIAL INSTRUMENTS

The financial instruments held by the Corporation are classified as follows:

(IN MILLIONS OF DOLLARS)	DECEMBER 31, 2009		DECEMBER 31, 2008	
	CARRYING VALUE		CARRYING VALUE	
	HFT	L&R	HFT	L&R
<b>FINANCIAL ASSETS:</b>				
Cash and cash equivalents	4.8	–	9.2	–
Accounts receivables	–	7.3 <sup>(1)</sup>	–	6.2 <sup>(1)</sup>
Derivative financial instruments	3.1 <sup>(2)</sup>	–	10.0 <sup>(2)</sup>	–
Asset Renewal Fund – MAV notes	4.5	–	–	–
Asset Renewal Fund – Commercial papers	–	–	8.6	–
Asset Renewal Fund – Other investments	43.9 <sup>(3)</sup>	–	66.0 <sup>(3)</sup>	–
	HFT	OTHER LIABILITY	HFT	OTHER LIABILITY
<b>FINANCIAL LIABILITIES:</b>				
Accounts payable and accrued liabilities	–	105.5 <sup>(4)</sup>	–	79.0 <sup>(4)</sup>
Derivative financial instruments	7.1 <sup>(2)</sup>	–	32.1 <sup>(2)</sup>	–

HFT – Held for trading

L&R – Loans and receivables

(1) Comprised of trade receivables.

(2) Comprised of derivative financial instruments not designated in a hedge relationship.

(3) Comprised of short-term investments.

(4) Comprised of trade accounts payable, accrued liabilities and accrued wages.

### B) FAIR VALUE

The estimated fair value of the recognized financial instruments other than financial instruments HFT and derivative financial instruments approximates their carrying value due to their current nature. HFT financial instruments and derivatives are carried at fair value.

The Corporation estimates the fair value of its MAV notes by discounting expected future cash flows. The valuation model incorporates assumptions for interest rate, required market yield and effective maturity, some of which are derived from observable market indicators. There is a significant amount of uncertainty in estimating the amount and timing of cash flows associated with the MAV notes.

The assumptions used in the valuation model at December 31, 2009 include:

CRITERIA	ASSUMPTIONS
Expected term to maturity	6.3 years
Discount Rates	9.8% to 33%
Coupon rates	CDOR swap - 50bps to CDOR swap + 30bps

If these assumptions were to change, the fair value of the MAV notes could change significantly. A 1.0 per cent increase (decrease) in the discount rate would decrease (increase) the fair value of the MAV notes by approximately \$0.2 million (\$0.2 million).

The following table summarizes the fair value hierarchy applicable during 2009 to the fair value measurement of financial assets and financial liabilities held by the Corporation<sup>(1)</sup>:

(IN MILLIONS OF DOLLARS)	DECEMBER 31, 2009	LEVEL 1	LEVEL 2	LEVEL 3
<b>Assets:</b>				
Asset Renewal Fund – MAV notes	4.5	–	–	4.5
Asset Renewal Fund – Other investments	43.9	43.9	–	–
Derivative financial instruments	3.1	–	3.1	–
<b>Liabilities:</b>				
Derivative financial instruments	7.1	–	7.1	–

(1) There have been no significant transfers between Level 1 and Level 2 during the year.

The table below presents a reconciliation of all financial assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

(IN MILLIONS OF DOLLARS)	2009
<b>Asset Renewal Fund – MAV notes:</b>	
Opening balance	4.7
Total gains in net income <sup>(1)</sup>	0.2
Sales	(0.4)
Closing balance	4.5

(1) A gain of \$ 0.1 million is included in this amount and attributable to assets still held at year-end.

### C) RISK MANAGEMENT

As part of its operations, the Corporation enters into transactions with financial risks exposure such as credit, liquidity and market risks. Exposure to such risks is significantly reduced through close monitoring and strategies that include the use of derivative financial instruments.

### D) FOREIGN EXCHANGE RISK

The Corporation is exposed to foreign exchange risks on the following balances that are denominated in U.S. dollars (USD):

(IN MILLIONS OF DOLLARS)	2009	2008
<b>Assets:</b>		
Derivative financial instruments	3.1	10.0
<b>Liabilities:</b>		
Accounts payables and accrued liabilities	1.6	1.0
Derivative financial instruments	7.1	32.1

The Corporation's risk management objective is to reduce cash flow risk related to foreign denominated cash flows. To help manage this risk, the Corporation has entered into foreign exchange forward contracts related to fuel swaps and the purchase of materials from the U.S. to refurbish some of its locomotives fleet.

A variance of 5 per cent in the exchange rate of USD would not have a significant impact on the Corporation's net income.

### **E) CREDIT RISK**

Credit risk is the risk that one party to a financial instrument might not meet its obligations under the terms and conditions of the agreement. The carrying amount of financial assets is \$63.6 million (2008: \$100.0 million) and represents the Corporation's maximum exposure to credit risk. The Corporation does not use credit derivatives or similar instruments to mitigate this risk and, as such, the maximum exposure is the full carrying value or face value of its financial assets. The Corporation minimizes credit risk on cash and cash equivalents, investments, Asset Renewal Fund and derivative financial instruments by dealing only with reputable and high quality financial institutions. The Corporation's exposure to credit risks on trade accounts receivable is reduced by applying a credit policy that establishes limits on the concentration of risk, requires assessing and monitoring of counterparty credit risk and sets credit limits. Only Canadian Government departments and agencies, Crown corporations issuing government travel warrants and travel agents who are members of the International Air Transport Association (Billing and Settlement Plan /Airline Reporting Corporation) are exempt from the Corporation's credit approval process.

As at December 31, 2009, approximately 17.8 per cent (2008: 10.5 per cent) of trade accounts receivable were over 90 days past due, while approximately 70.8 per cent (2008: 77.4 per cent) of trade accounts receivable were current (under 30 days).

As at December 31, 2009, the allowance for bad debt was \$0.5 million (2008: \$0.4 million). The allowance for bad debt is based on an account by account analysis that considers the ageing of the account and the current credit-worthiness of the customer.

### **F) FUEL PRICE RISK**

In order to manage its exposure to changes in fuel and heating oil prices and minimize volatility in operating cash flows, the Corporation enters into derivative contracts with financial intermediaries. A fluctuation of 10 per cent in the USD price of heating oil or fuel would not have a significant impact on the consolidated financial statements.

### **G) LIQUIDITY RISK**

The Corporation manages its liquidity risk by preparing and monitoring detailed forecasts of cash flows from operations and anticipated investing and funding activities. The liquidity risk is low since the Corporation does not have debt instruments to service and receives regular funding from the Government of Canada.

The reported financial liabilities in item a) above totaling \$112.6 million (2008: \$111.1 million) represent the maximum liquidity risk exposure for the Corporation.

The following table summarizes the contractual maturities for the derivative and non-derivative financial liabilities as at December 31, 2009:

(IN MILLIONS OF DOLLARS)	LESS THAN 3 MONTHS	3 TO 6 MONTHS	6 MONTHS TO 1 YEAR	1 TO 2 YEARS	OVER 2 YEARS	TOTAL
Accounts payable and accrued liabilities	102.5	–	–	1.5	1.5	105.5
Derivative financial liabilities	1.7	1.7	3.2	0.5	–	7.1

## H) INTEREST RATE RISK

Interest rate risk is defined as the Corporation's exposure to a loss of earnings or a loss in the value of its financial instruments as a result of fluctuations in interest rates. The Corporation is exposed to interest rate risk associated with cash equivalents and the Asset Renewal Fund for a total of \$53.2 million (2008: \$83.8 million). A variation of 100bps in the interest rates would affect the investment income but would not have a significant impact on the Consolidated Financial Statements.

## 18. DERIVATIVE FINANCIAL INSTRUMENTS

The Corporation uses commodity or price swaps where it exchanges cash payments based on changes in the price of a commodity (i.e. heating oil) or a market index. The Corporation also enters into foreign exchange forward contracts to either buy or sell USD at a specified price and date in the future. These contracts are related to fuel swaps and a future capital project.

At year-end, the Corporation had the following derivative financial instruments with positive fair values:

DESCRIPTION	PERIOD	FIXED PRICE PER U.S. GALLON (USD)	NOTIONAL QUANTITY (000'S OF U.S. GALLONS)	FAIR VALUE CAD (000'S)	
				2009	2008
	(1)				
Crude swap	2010	1.500 to 2.050	3,528	<b>1,497</b>	–
Crude swap	2011	1.670 to 1.868	2,016	<b>1,178</b>	91
Crude swap	2012	1.957	1,008	<b>139</b>	–
				<b>2,814</b>	91

(1) These financial instruments have a monthly settlement schedule.

DESCRIPTION	PERIOD	FORWARD RATE CAD / USD	NOTIONAL AMOUNT (USD) (000'S)	FAIR VALUE CAD (000'S)	
				2009	2008
	(1)				
Foreign Exchange Forward	2009	0.994 to 1.061	26,071	–	5,067
Foreign Exchange Forward	2010	0.996 to 1.050	16,006	–	2,809
Foreign Exchange Forward	2011	1.037	7,752	<b>136</b>	1,210
Foreign Exchange Forward	2012	1.036	5,811	<b>125</b>	863
				<b>261</b>	9,949
				<b>3,075</b>	10,040

(1) These financial instruments have a monthly settlement schedule.



At year-end, the Corporation had the following derivative financial instruments with negative fair values:

DESCRIPTION	PERIOD (1)	FIXED PRICE PER U.S. GALLON (USD)	NOTIONAL QUANTITY (000'S OF U.S. GALLONS)	FAIR VALUE CAD (000'S)	
				2009	2008
Crude swap	2009	2.092 to 3.991	12,096	–	(20,664)
Crude swap	2010	2.220 to 3.639	8,568	(5,990)	(10,341)
Crude swap	2011	2.409	2,016	(159)	(1,090)
				<b>(6,149)</b>	<b>(32,095)</b>

(1) These financial instruments have a monthly settlement schedule.

DESCRIPTION	PERIOD (1)	FORWARD RATE CAD / USD	NOTIONAL AMOUNT (USD )(000'S)	FAIR VALUE CAD (000'S)	
				2009	2008
Foreign Exchange Forward	2010	0.996 to 1.252	30,513	(709)	–
Foreign Exchange Forward	2011	1.039 to 1.150	4,856	(195)	–
				<b>(904)</b>	<b>–</b>
				<b>(7,053)</b>	<b>(32,095)</b>

(1) These financial instruments have a monthly settlement schedule.

The fair values of the derivative financial instruments are estimated as the discounted unrealized gain or loss calculated based on the market price at December 31, 2009, which generally reflects the estimated amount that the Corporation would receive or pay to terminate the contracts at the Consolidated Balance Sheet date. The fair values of the derivative financial instruments are provided to the Corporation by the chartered banks that are the counterparties to the transactions.

The fair values are determined using well-established proprietary valuation models, such as the modified Black-Scholes model, and incorporate prevailing market rates and prices on the underlying instruments. The Corporation has performed additional review procedures on the fair value amounts to satisfy itself that they are reasonable.

The discounting of the fair value of transactions is based on the bootstrapping method incorporating a set of bond yields over the term of the instruments in order to provide appropriate discount factors.

## 19. RELATED PARTY TRANSACTIONS

The Corporation is related in terms of common ownership to all Government of Canada created departments, agencies and Crown corporations. The Corporation enters into transactions with these entities in the normal course of business on trade terms similar to those applied to other individuals and enterprises and these transactions are recorded at the exchange value. Other than disclosed elsewhere in these Consolidated Financial Statements, related party transactions are not significant.

## 20. NON-MONETARY TRANSACTIONS

The Corporation recorded revenue from non-monetary transactions of approximately \$1.3 million for the year ended December 31, 2009 (2008: \$1.0 million) under "Passenger revenue" in the Consolidated Statement of Operations, Comprehensive Income and

Retained Earnings. The Corporation also recorded expenses from non-monetary transactions of approximately \$1.6 million (2008: \$1.2 million) mainly under "Marketing and sales" and "Other expenses" in the Consolidated Statement of Operations, Comprehensive Income and Retained Earnings. The nature of non-monetary transactions is mainly related to advertising activities.

## 21. CONTINGENCIES

**A)** The Corporation began a restructuring of its labour force in 1997 which resulted in the elimination of a number of positions. The changes became subject to various Canadian Industrial Relations Board (CIRB) decisions, mediations and arbitrations.

In May 2003, the CIRB rendered a decision directing the Corporation to pay back wages under certain circumstances to former conductors. The Supreme Court of Canada decided not to grant the Corporation leave to appeal a Federal Court of Appeal ruling supporting the decision of the CIRB.

The Corporation is waiting for the final ruling from the arbitrator.

The Corporation has made a provision in its Consolidated Financial Statements.

**B)** The Corporation's operations are subject to numerous federal, provincial, and municipal environmental laws and regulations concerning among other things, the management of air emissions, wastewater, hazardous materials, wastes and soil contamination as well as the management and decommissioning of underground and aboveground storage tanks. A risk of environmental liability is inherent in railroad and related transportation operations, real estate ownership and other activities of the Corporation with respect to both current and past operations.

The Corporation has performed a review of all of its operations and of all of its sites and facilities at risk in order to determine the potential environmental risks. The sites and the facilities for which environmental risks were identified were or will be the subject of thorough studies and corrective actions were or will be taken if necessary in order to eliminate or to mitigate these risks. The continuous risk management process that is in place allows the Corporation to monitor its activities and properties under normal operating conditions as well as monitor accidents that occur. The properties likely to be contaminated or the activities or property, plant and equipment likely to cause a contamination are addressed, at the moment of their observation, by the development of an action plan according to the nature and the importance of the impact and the applicable requirements.

When remediation costs can be reasonably estimated, an accrual is recorded based on the anticipated future costs (see Note 22).

However, the Corporation's ongoing efforts to identify potential environmental concerns that may be associated with its properties may lead to future environmental investigations, which may result in the identification of additional environmental costs and liabilities. The magnitude of such additional liabilities and the costs of complying with environmental laws and containing or remediating contamination cannot be reasonably estimated due to:

- (I) the lack of specific technical information available with respect to many sites;
- (II) the absence of any third-party claims with respect to particular sites;
- (III) the uncertainty regarding the ability to recover costs from any third parties with respect to particular sites;
- (IV) the fact that the environmental responsibility has not been clearly attributed.

There can thus be no assurance that material liabilities or costs related to environmental matters will not be incurred in the future, or will not have a material adverse effect on the Corporation's financial position.

**C)** The Corporation is subject to claims and legal proceedings brought against it in the normal course of business. Such matters are subject to many uncertainties. Management believes that adequate provisions have been made in the accounts where required and the ultimate resolution of such contingencies is not expected to have a material adverse effect on the financial position of the Corporation.

## 22. ENVIRONMENTAL COSTS

A new environmental law came into force in June 2008 for Petroleum Storage Equipment that requires registration of existing and new tank systems. The Corporation has assessed the impact and a preliminary action plan has been prepared to ensure compliance with the law by 2012. The Corporation has made a provision of \$0.8 million for environmental costs, which is recorded in accounts payable and accrued liabilities.

A provision has also been recorded for an environmental liability of \$0.9 million (2008: \$1.5 million) in accounts payable and accrued liabilities that has been established by Keewatin Railway Company for environmental clean-up and decontamination of certain areas of their rail infrastructure. An amount of \$0.6 million (2008: nil) was expensed during the year to complete part of the environmental remediation plan.

## 23. ASSET RETIREMENT OBLIGATION

The Corporation has entered into certain operating leases where the lessor has the option of requesting that the land/structures or the other assets be returned in the same condition as they were originally leased, or of retaking control of these assets without any compensation to the Corporation for any additions or modifications made to the initial assets. Given the nature of the assets under contract and the options available to the lessor, the fair value of the asset retirement obligation cannot be reasonably estimated. No liability has been recognized in the Consolidated Financial Statements.

## 24. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the 2009 presentation.

# CORPORATE DIRECTORY

AS AT DECEMBER 31, 2009

## BOARD OF DIRECTORS

**D. Hayward Aiton**

Saint John, New Brunswick

**Thom A. Bennett**

Nepean, Ontario

**France Bilodeau**

Quebec City, Quebec

**Jeffrey R. Clarke**

Ottawa, Ontario

**Paul Côté**

President and Chief Executive Officer  
Montreal, Quebec

**Denis Durand**

Montreal, Quebec

**Angela Ferrante**

Toronto, Ontario

**David Hoff**

Vancouver, British Columbia

**Wendy A. King**

Vancouver, British Columbia

**Jean-Martin Masse**

Saint-Lazare, Quebec

**Donald Mutch**

Toronto, Ontario

**Anthony Perl**

Vancouver, British Columbia

**Paul G. Smith**

Toronto, Ontario

**Eric L. Stefanson**

Winnipeg, Manitoba

**William M. Wheatley**

Regina, Saskatchewan

**Donald A. Wright**

Chairman of the Board  
Toronto, Ontario

## OFFICERS

**Yves Bourbonnais**

Chief Information Officer

**Paul Côté**

President and Chief Executive Officer

**Steve Del Bosco**

Chief Customer Officer

**Christena Keon Sirsly**

Chief Strategy Officer

**Carole Mackaay**

General Counsel and Secretary

**John Marginson**

Chief Operating Officer

**Denis Pinsonneault**

Chief People Officer

**Robert St-Jean**

Chief Financial and Administration Officer

**Donald A. Wright, Chairman of the Board,** *is an ex officio member of each Committee of the Board.*

**Paul Côté, President and Chief Executive Officer,** *is an ex officio member of each Committee of the Board except for the Audit and Risk Committee.*

The Board wishes to thank the following outgoing members for their important contribution:  
Jean-Louis Hamel and Margaret L. MacInnis.

## COMMITTEES OF THE BOARD

### Audit and Risk Committee

#### **Eric L. Stefanson, Chairman**

Denis Durand  
Wendy A. King  
Paul G. Smith

### Human Resources Committee

#### **Angela Ferrante, Chairman**

France Bilodeau  
David Hoff  
Wendy A. King  
Jean-Martin Masse  
Anthony Perl

### Investment Committee

#### **Donald Mutch, Chairman**

D. Hayward Aiton  
France Bilodeau  
Denis Durand  
William M. Wheatley

### Corporate Governance Committee

#### **Vacant, Chairman**

D. Hayward Aiton  
Angela Ferrante  
William M. Wheatley

### Planning and Finance Committee

#### **Paul G. Smith, Chairman**

Jeffrey R. Clarke  
David Hoff  
Anthony Perl  
Eric L. Stefanson

### Real Estate and Environment Committee

#### **Jeffrey R. Clarke, Chairman**

D. Hayward Aiton  
France Bilodeau  
William M. Wheatley

Photos: Caroline Bergeron

Cover photo: Galiane Yergeau,  
Senior Service Attendant, Montréal

Special thanks to all the VIA employees who agreed to  
appear in this Annual Report.

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### West

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