VIA Rail Canada

ANNUAL REPORT 2016

CONTENTS


R2

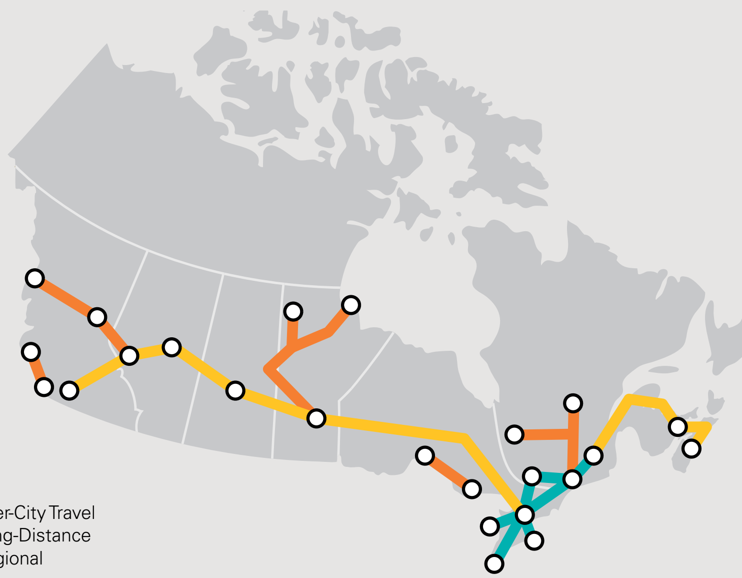
OUR BUSINESS

VIA RAIL AT-A-GLANCE

WHO WE ARE

VIA Rail operates Canada's national passenger rail service on behalf of the Government of Canada. An independent Crown corporation established in 1977, VIA Rail provides a safe, cost-effective and environmentally responsible service from coast to coast in both official languages. The corporation operates close to 494 train departures weekly on a 12,500 km network, connecting over 400 Canadian communities. With approximately 2,700 active employees, VIA Rail carried 3.97 million passengers in 2016.

WHERE WE OPERATE



- Inter-City Travel
- Long-Distance
- Regional

INTER-CITY TRAVEL (THE CORRIDOR)

In the densely populated corridor between Québec City, QC and Windsor, ON, VIA Rail trains provide downtown-to-downtown travel between major urban centres, suburban centres and communities.

LONG-DISTANCE TRAVEL AND TOURISM

In Western and Eastern Canada, VIA Rail's trains attract travellers from around the world and support Canada's tourism industry. The *Canadian*, VIA Rail's Western transcontinental train, provides service between Vancouver and Toronto. In Eastern Canada, the *Ocean* runs between Montréal and Halifax.

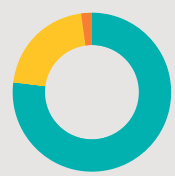
REGIONAL SERVICES

VIA Rail provides passenger service in several rural and remote regions of Canada. Mandated by the Government of Canada to meet essential transportation needs, these trains serve many communities where alternative, year-round transportation is limited or unavailable.

* Services on Vancouver Island and Gaspé are suspended due to infrastructure availability.

PASSENGER REVENUES PER TRAIN ROUTE

- 77 % Inter-City Travel
- 21 % Long-Distance
- 2 % Regional

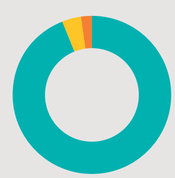


77%

of passenger revenues are from inter-city travel (in the Corridor)

PASSENGER TRIPS PER TRAIN ROUTE

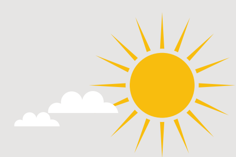
- 94 % Inter-City Travel
- 4 % Long-Distance
- 2 % Regional



94%

of passenger trips consist of inter-city travel (in the Corridor)

COMMUNITIES SERVED



400+

served across Canada

Our key assets reflect the breadth of our business, from our stations and maintenance centers to the fleet of locomotives and train cars we operate, the passengers we serve, the buildings we occupy and the employees who work for us.

FREQUENCY

TRAIN DEPARTURES

494 per week

of which 92 % of our trains depart on time

PASSENGERS

PASSENGER TRIPS

3.97 million

covering 1.37 billion kilometres across Canada of which: 94 % is inter-city travel, 4 % is long-distance and 2 % is regional.

EMPLOYEES

ACTIVE EMPLOYEES AS OF THE END OF THE CALENDAR YEAR

2,731

EMPLOYEE DIVERSITY

32 %

of our employees are women, 10 % are visible minorities, 2 % are people with disabilities and 2 % are Aboriginal People

FLEET

TRAIN CARS (IN AND OUT OF SERVICE)

426

LOCOMOTIVES

73

of which 71 % have been rebuilt for improved operational and environmental efficiency, to run a safe and fluid service

BUILDINGS

TRAIN STATIONS

121

of which 54 are heritage stations

OFFICES

7

1 head office, 6 regional

MAINTENANCE CENTRES

4

state-of-the-art facilities

MESSAGE FROM THE LEAD DIRECTOR OF THE BOARD

It is with pride that I write this message on behalf of the Board of Directors of VIA Rail, a company that, by focusing on the needs of its customers, has now positioned itself as a key player in the Canadian transportation system. In 2016, continuing on the progress we made over the past two years, revenue and ridership numbers grew even more and several important milestones were achieved along the way.

The year started off well with the 2016 federal budget providing VIA Rail with $34 million for improvements to its stations and maintenance centers. This appropriation will cover projects at several stations along the Québec City–Windsor corridor, as well as at our two maintenance centers in Montréal and Toronto. The budget also provided support for two major strategic projects. First, VIA Rail was allocated $7.7 million to support technical studies and other pre-procurement activities related to the renewal of its Québec City – Windsor corridor fleet, along with safety upgrades at grade crossings, and investments in improved security. As well, Budget 2016 provided Transport Canada with $3.3 million to support an in-depth assessment of our High Frequency Rail (dedicated tracks) proposal. Following this recognition, VIA Rail redoubled its efforts and submitted business cases to Transport Canada in December for both the renewal of the fleet, and High Frequency Rail.

The Corridor fleet renewal and dedicated tracks projects are essential parts of the two-pronged viability strategy we laid out in 2014. The initial focus was on growing revenues and increasing ridership to show that Canadians value passenger rail service. This has been our priority for the past two years and VIA Rail has been incredibly successful. Since 2014, ridership and revenues have grown by 4.6 % and 15.6 % respectively.

VIA Rail's long term strategy to build and operate tracks dedicated to passenger service was acknowledged by both the *Canadian Transportation Act Review Report*, also known as the Emerson Report, which was published in 2016, and the 2016 federal budget. The Emerson Report was very favourable to VIA Rail and showed a keen understanding of VIA Rail's operating context by calling for a separation of passenger and freight rail to help modernize the Corporation. The federal budget provided financial support for an in-depth assessment of our proposal. Throughout the year we continued to build our relationship with Transport Canada and welcomed visits from Transport Minister Marc Garneau to VIA Rail's headquarters and Montréal Maintenance Centre.

VIA Rail was also recognized with a number of awards in 2016, which are further detailed in this report. I'd like to highlight two of them — both won by our President and CEO — which focus on issues important to all of us at VIA Rail. Mr. Desjardins-Siciliano received the Women and Boards Award for his work to advance the role of women in corporate governance within our company. VIA Rail has positioned itself as a Canadian leader in diversity in governance and its Board of Directors achieved gender parity in 2014. Three of our eight executives are women, and 30 % of our senior managers are women. Our President also received the "Business Achievement Award" from the *Prix des Conseillers Juridiques du Québec* for both his customer-centric commercial strategy and his innovative High Frequency Rail proposal. Creative thinking across all levels of the company has been a key contributor to the company's success, and will help guide its future.

Internally, Eric Stefanson, Interim Chairman of the Board, announced his resignation in March to pursue other projects in his home province of Manitoba. VIA Rail was fortunate to have him for the past nine years and we all benefited from his extensive expertise. On behalf of the Board members and all VIA Rail employees I'd like to thank Mr. Stefanson for his dedicated service. Under his leadership, the Board supported and gave direction to VIA Rail's endeavours, which helped lay the foundation for its continued success. Following Mr. Stefanson's departure, I was selected by my fellow directors to be the Lead Director of the Board until the nomination of a new Chairperson by the Government of Canada. It has been my honour to take on this role.

In closing, I wish to thank everyone who contributed to our success in 2016, from our almost 4 million passengers to our employees who always go the extra mile. I would also like to thank my colleagues on the Board of Directors for their continued commitment and dedication to VIA Rail.

JANE MOWAT
Lead Director of the Board, Chairperson of the Audit and Finance Committee

MESSAGE FROM THE PRESIDENT

What a year it's been! If there were any doubts about passenger rail's relevance in Canada, our results this year have settled them. I'm proud to say that for the third year in a row VIA Rail is celebrating success and growth. The progress that began in 2014 created a strong foundation that we have continued to improve upon, and are still reaping the rewards of in 2016. Our total ridership increased by 4.1 % and our revenues increased 8.9 % compared to last year. While these numbers are impressive on their own, taken in context they are even more remarkable. The end of 2016 marked our 11th straight quarter of revenue growth, and fourth consecutive quarter of increasing ridership. Even more Canadians made the smart choice this year to take the train. Meanwhile, internally, we increased our employee engagement score by six percent compared to last year's survey, which had already shown a 5 % growth compared to the previous survey. Targeted action plans and engagement initiatives explain this phenomenal increase in employee engagement.

In 2016, we had the pleasure of celebrating major anniversaries for two of our heritage stations. Ottawa Station celebrated its 50th anniversary in September, and in August, Gare du Palais, our heritage station in Québec City celebrated its centennial. These celebrations were good practice for 2017 which will be a big year for our country — and VIA Rail! We'll be celebrating Canada's sesquicentennial and Montreal's 375th anniversary. 150 years ago the completion of national railway played a major role in bringing the country together in to confederation. Today, the train still unites our country from coast to coast, but at VIA Rail we envision an even more connected Canada.

In 2017, we will also be launching the celebrations of VIA Rail's 40th anniversary. The company was created by the transfer of CN's passenger business in 1977, followed by the transfer of CP's passenger services in 1978.

VIA Rail's outstanding results and growth over the past three years have given us the confidence to think about how we want to position ourselves over the long term. We must continue to transform our company if we want to remain an integral part of the ever-changing transportation landscape. In 2016, we began working together to start developing a strategy that will see us through until 2025. This strategy, "Destination 2025" (more on page 13), will focus on personalization, connectivity, collaboration, and sustainability to create a forward-thinking, high-performing, and innovative VIA Rail.

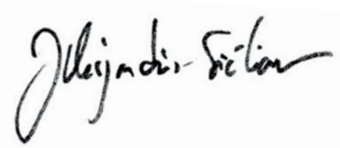
Since his appointment in May 2014, our President had been travelling the country engaging Canadians in conversation about the future of passenger rail. This year he had 33 speaking engagements including stops at universities, chambers of commerce, boards of trade, and international conferences.

Fostering a culture of innovation will be essential to reaching Destination 2025. Innovative thinking, exemplified by recent projects like the Leadership School, the in-house-designed GPS Train Safety System, and the "Why Don't You Take the Train?" marketing campaign (all outlined in this report), has been instrumental to our success over the last three years. As we move forward, our goal is to continue to encourage this type of creative thinking, especially when it comes to the priorities established through Destination 2025.

We have already identified and started working towards solutions for VIA Rail's two fundamental challenges: the ability to provide fast, frequent, and on-time services, and our aging train fleet. The High Frequency Rail project, which proposes to separate freight trains from passenger trains to allow for more frequencies, faster speeds, and improved on-time performance, was developed by looking at what could be accomplished environmentally and financially if the constraints of our current operating system were lifted. Dedicated passenger tracks would make train travel faster, safer, more frequent, more sustainable, more accessible and more reliable for more Canadians. Meanwhile, replacing our fleet with modern equipment would significantly reduce our greenhouse gas emissions, leading to a healthier and safer environment for all. We are working on transforming the travel experience for Canadians. Destination 2025 supports our preparation for this exciting future.

Our successes are always a testament to both the hard work of our employees and to all the people who choose to take the train. We thank you all and look forward, with optimism, to our many celebrations this coming year.

Thank you for being on board!



YVES DESJARDINS-SICILIANO
President and Chief Executive Officer

YEAR AT A GLANCE

Financial Results are produced according to International Financial Reporting Standards.
Financial statement results by line have been reclassified to reflect the internal presentation.

	2016	2015	2014	2013	2012
KEY FINANCIAL INDICATORS (IN MILLIONS OF DOLLARS)					
Total passenger revenues [1]	**301.1**	275.0	259.6	249.6	257.4
Total revenues [1]	**324.3**	**297.8**	**280.3**	**270.4**	**276.9**
Operating expenses [1]	**(554.4)**	(520.0)	(509.0)	(482.4)	(478.2)
Contributions for employee benefits [1]	**(37.4)**	(57.8)	(88.4)	(95.6)	(77.8)
Total Operating expenses [1]	**(591.8)**	**(577.8)**	**(597.4)**	**(578.0)**	**(556.0)**
Operating Income (Deficit)	**(267.5)**	**(280.0)**	**(317.1)**	**(307.6)**	**(279.1)**
Capital expenditures	**(91.0)**	(97.9)	(81.8)	(96.2)	(170.3)
Total Funding Required	**(358.5)**	**(377.9)**	**(398.9)**	**(403.8)**	**(449.4)**
Government Operating Funding	**267.5**	280.0	317.1	307.6	279.1
Government Capital Funding	**86.3**	97.9	80.9	90.8	167.2
Total Government Funding	**353.8**	**377.9**	**398.0**	**398.4**	**446.3**
Asset Renewal Fund	**4.7**	**0.0**	**0.9**	**5.4**	**3.1**
KEY OPERATING STATISTICS [2]					
Total passenger-miles (IN MILLIONS)	**858**	822	808	832	834
Total seat-miles (IN MILLIONS)	**1,578**	1,457	1,349	1,482	1,541
Operating deficit per passenger-mile (IN CENTS)	**31.2**	34.1	39.2	37.0	33.5
Yield (CENTS PER PASSENGER-MILE)	**34.3**	32.5	31.2	29.4	30.3
Train-miles operated (IN THOUSANDS)	**6,547**	6,347	6,160	6,244	6,441
Car-miles operated (IN THOUSANDS)	**42,637**	40,120	36,958	39,699	44,379
Average passenger load factor (%)	**54**	56	60	56	54
Average number of passenger-miles per train mile	**131**	130	131	133	129
On-time performance (%)	**73**	71	76	82	83
Number of full time equivalent employees during the year	**2,787**	2,694	2,608	2,662	2,800

(1) Financial statement amounts were adjusted to reflect funded activities
(2) Key operating statistics are unaudited

KEY OPERATING STATISTICS BY SERVICE GROUP

Train Service Summary – For the year 2016
(Revenues and costs by train service are unaudited)

Train Services	Revenues (IN THOUSANDS)	Costs (IN THOUSANDS)	Shortfall (IN THOUSANDS)	Subsidy per passenger	Subsidy per passenger-mile	Passengers per week	Passengers per year
Montréal-Ottawa-Toronto	$157,417	$249,176	$91,759	$41.68	$0.19	42,336	2,201,470
Québec-Montréal-Ottawa	$37,964	$60,587	$22,623	$39.19	$0.26	11,102	577,306
Corr East	**$195,381**	**$309,763**	**$114,382**	**$41.16**	**$0.20**	**53,438**	**2,778,776**
Toronto-London-Sarnia-Windsor	$44,910	$71,213	$26,303	$28.49	$0.24	17,753	923,127
Toronto-Niagara	$996	$5,958	$4,962	$164.43	$2.09	580	30,177
SWO	**$45,906**	**$77,171**	**$31,265**	**$32.80**	**$0.28**	**18,333**	**953,304**
Corridor	**$241,287**	**$386,934**	**$145,647**	**$39.03**	**$0.21**	**71,771**	**3,732,080**
Montréal-Halifax	$10,593	$49,523	$38,930	$501.59	$0.97	1,493	77,613
Toronto-Vancouver	$66,240	$106,659	$40,419	$433.71	$0.37	1,792	93,193
Longhauls	**$76,833**	**$156,182**	**$79,349**	**$464.56**	**$0.53**	**3,285**	**170,806**
Montréal-Gaspé	$0	$0	$0	n/a	n/a	0	0
Montréal-Jonquière	$386	$6,152	$5,766	$601.56	$3.55	184	9,585
Montréal-Senneterre	$415	$5,487	$5,072	$512.22	$2.64	191	9,902
Sudbury-White River	$197	$3,638	$3,441	$618.77	$4.41	107	5,561
Winnipeg-Churchill	$3,730	$21,295	$17,565	$599.77	$2.02	563	29,286
Jasper-Prince Rupert	$1,491	$9,256	$7,765	$462.64	$1.35	323	16,784
Regional services	**$6,219**	**$45,828**	**$39,609**	**$556.95**	**$2.11**	**1,368**	**71,118**
The Pas and Pukatawagan(1)	n/a	$2,907	$2,907	n/a	n/a	n/a	n/a
System	**$324,339**	**$591,851**	**$267,512**	**$67.32**	**$0.31**	**76,423**	**3,974,004**

(1) Service operated by Keewatin Railway Company between The Pas and Pukatawagan

2016 MILESTONES

JANUARY

- "Outsmart Winter" marketing campaign
- New mission and vision statement announced
- Creation of the Chief, Mechanical and Maintenance Officer position and appointment of Carl Desrosiers

FEBRUARY

- First Leadership School session

MARCH

- Appointment of Linda Bergeron as Chief, Human Resources
- Federal Budget 2016 announcement: funding for High Frequency Rail studies and new Corridor fleet pre-procurement activities

JULY

- New collective agreement with UNIFOR
- Minister Garneau announces details of the $34 million infrastructure investment in VIA Rail from Budget 2016

AUGUST

- Celebration of the 100th anniversary of Gare du Palais (Québec City)
- Tablets distributed to all Locomotive Engineers

SEPTEMBER

- "Why Don't You Take the Train?" marketing campaign
- Celebration of the 50th anniversary of Ottawa Station

APRIL

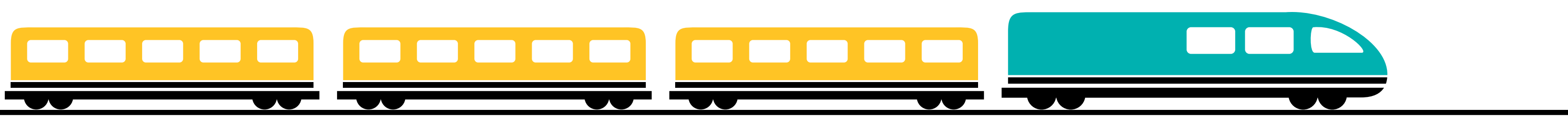
- Publication of VIA Rail's first Sustainable Mobility Report

MAY

- 2016 Annual Public Meeting webcast
- Minister Garneau visits VIA Rail's headquarters

JUNE

- New summer schedule including additional station stops and increased service between Ottawa and Québec City
- Launch of VIA: The Blog



OCTOBER

- The *Canadian* featured on the Discovery Channel's "Mighty Trains"

NOVEMBER

- Two new frequencies added between Toronto and Ottawa
- Launch of new Customer Relationship Management tool

DECEMBER

- 50/50 layout renovation of all LRC Business class cars completed
- Fleet Renewal business case and High Frequency Rail business case submitted to Transport Canada
- Six more *Ocean* departures added for the holidays

VIA RAIL LOOKS TO THE FUTURE

VIA Rail's outstanding results and growth over the past two years have allowed us to begin thinking about how we want to position ourselves over the long term. In order to lay the groundwork for future successes, we are in the process of developing a "Destination 2025" strategy.

In May 2016, the Transformation team, in collaboration with other areas of the company, started working to develop VIA Rail's strategic direction for 2020-2025. The exercise was continued with VIA Rail's executives, directors, and managers at a Lead Communicators' meeting in July 2016. Through a series of workshops, the Lead Communicators identified four strategic orientations that will guide our company in the coming years and help us fulfil our vision "to be a smarter way to move people" and our "passengers first" mission:

- **Personalized** – we will provide our customers, employees, and communities with an authentic and personalized experience
- **Connected** – we will create innovative solutions and ideas to connect our passengers, employees, and assets
- **Collaborative** – we will foster collaborative relationships that drive synergistic results
- **Sustainable** – we will be a sustainable organization by capitalizing on advanced and modular technologies

Many of these orientations are already a part of our current projects and day to day activities. The four strategic orientations reflect our longer-term aspiration to be a forward-thinking, high-performance, and innovative organization. Destination 2025 is the roadmap to securing VIA Rail's future and positioning ourselves as leaders in the transportation industry.

TO LEARN MORE ABOUT THE PROCESS BEHIND DESTINATION 2025

WATCH THE "DESTINATION 2025" VIDEO ON VIA RAIL'S YOUTUBE CHANNEL.

TWO INNOVATIVE PROJECTS ARE AN ESSENTIAL PART OF OUR PROGRESS TOWARDS DESTINATION 2025:

QUÉBEC CITY – WINDSOR CORRIDOR FLEET RENEWAL

VIA Rail's Québec City – Windsor corridor fleet is approaching the end of its useful life and needs to be replaced with newer, greener cars and locomotives. Renewing the fleet would significantly improve the customer experience, and experts predict that new equipment could increase our ridership by 3.9 %. A new fleet would also support an expected ridership growth of 13.6-17 % over 10 years. Helping more people make the smart move to taking the train will reduce greenhouse gas emissions and highway congestion, contributing to Canada's economic and environmental well-being.

The Government of Canada has acknowledged our need for a new fleet, and Budget 2016 provided VIA Rail with $7.7 million to support technical studies and other pre-procurement activities related to the fleet renewal (along with safety upgrades at grade crossings and investments in improved security).

This new equipment would have a significant impact on VIA Rail's customers, especially those with accessibility needs, not to mention almost all of our employees, so their input is imperative to the decision-making process. This year we consulted with over 200 employees through an in-depth fleet renewal survey, and in the summer we held focus groups in key cities across the Corridor to gather our customers' opinions. In December, we submitted a detailed business case for the fleet renewal to Transport Canada.

HIGH FREQUENCY RAIL

Our revenues and ridership are rising, showing that the train continues to be a relevant form of transportation in the Québec City – Windsor corridor. However, we have reached a plateau within the constraints of our current operating environment. VIA Rail only owns 3 % of the infrastructure on which it operates; the remaining 97 % is controlled by freight operators, requiring us to share the infrastructure with, and yield to, freight trains. While the increasing freight traffic is good for the Canadian economy, it makes it more difficult for us to improve our on-time performance or add more departures. Without the reliability of on-time trains, Canadians will continue to choose their cars for shorter trips within the Corridor.

VIA Rail has spent the last three years developing a project that proposes to separate passenger rail from freight by building a dedicated passenger track in the Québec City – Windsor corridor. Operating on our own dedicated passenger tracks would allow us to provide faster, safer, more frequent, more accessible, and more reliable service to Canadians. Our analysis indicates that the number of daily departures would increase and could be scheduled according to passenger needs, trip times would be significantly reduced and VIA Rail's operating subsidy from the government could potentially, after some time, be eliminated in the Corridor.

Budget 2016 provided Transport Canada with $ 3.3 million over three years to support an in-depth assessment of our High Frequency Rail proposal, and in December we submitted our High Frequency Rail business case to Transport Canada.

REVIEW OF OPERATIONS

PUTTING PASSENGERS FIRST

MORE TRAIN OPTIONS

In 2016, in order to better serve our passengers, we concentrated our efforts on providing more travel options and optimizing our schedules. By the end of the year we had increased capacity by 8.3 % compared to 2015. Several strategies were used to achieve this, including adding more trains to existing routes and adding more stops between destinations. Schedule improvements made in 2016 include:

- Direct service between Québec City and Ottawa to offer more flexibility and faster trip times to passengers travelling between the two capitals.
- Two new afternoon Toronto – Ottawa departures, which were added in November
- Added capacity throughout the year over busy long weekends including Canada Day, Thanksgiving, and Victoria Day
- Added six *Ocean* departures between Montréal and Halifax over the holiday period
- Added another stop at Casselman station in the morning to help more passengers reach Ottawa by 8 a.m.
- Strategically added capacity on trains throughout the network
- Added two new daily stops in Oshawa, at the start of June

In order to offer a more flexible schedule while working within our infrastructure constraints, we optimized our cycling by introducing Push-Pull consists using our new 50/50 cars. These consists, used primarily on the Toronto – Ottawa cycle, allow us to reallocate our fleet to offer more frequencies without needing additional equipment. Together, the new car configurations and schedule also give VIA Rail more flexibility for future scheduling improvements.

CRM: CHANGING THE WAY WE INTERACT WITH OUR CUSTOMERS

In November, we completed the implementation of a comprehensive Customer Relationship Management (CRM) program that is aligned with and will support our customer objectives. The CRM program helps us better understand our customers' behaviours and preferences, allowing us to better meet their needs through personalized service. The CRM platform is being used by the VIA Customer Centres, the Customer Relations team, and the Customer Relationship Management & Loyalty group. By sharing a 360° view of our customers between these departments, we are able to offer better service, develop stronger, lasting relationships, and encourage our customers to get on board more often.

The VIA Customer Centres and Customer Relations team can now access consolidated customer information in a single location, providing agents with a complete view, which will increase the efficiency and effectiveness of their interactions. Through the CRM program, our Customer Management & Loyalty group now conceives and implements customized, direct communications internally using industry-leading multi-channel marketing automation tools. By taking this in-house approach, our customer communications are more efficiently developed and more effective.

ENHANCING THE ONBOARD EXPERIENCE

We are always making improvements to our onboard service offering in order to enhance the passenger experience.

In Business class this year we introduced a meal table tray extension in response to customer feedback. The extension increases the work surface of the table, and reduces the gap between the table and the chair. As we aim to offer Canadian products on board, we added Première Moisson breads, Montréal bagels, and a Canadian-made scone to the Business class menu. We also revamped the alcohol selection by changing the porto and rum offered, and kicking off a quarterly rotation of local craft beers that started with Montréal-based Glutenberg beers. Meanwhile, in Economy class, we conducted passenger and employee surveys to evaluate the onboard food and beverage options and WiFi services. Based on the feedback, we created a new Economy class menu that will be launched in the first quarter of 2017.

On our *Canadian* longhaul train, we introduced a new music selection for common spaces and conducted warm food trials planned for deployment in the first quarter of 2017. To augment our warm food options on the *Ocean* and Senneterre and Jonquière routes, a choice of pizza was added to the menu in October 2016. We also launched a Nespresso Coffee machine pilot project in one Prestige Park car (on the *Canadian*) and in the Glen Fraser lounge car (chartered for special events).

A BETTER CLASS OF PRESTIGE

To ensure the continued success of the Prestige class moving into its second year on the *Canadian*, several enhancements to the departure experience and onboard service were implemented in May, based on feedback from customers and employees. On board, we improved our service offering and enhanced the dining experience. Changes include the introduction of an exclusive pre-dining appetizer service, as well as reserved seating in the Park and Panorama cars. A reserved departure section for Prestige passengers was added in the Toronto Business Lounge, along with a light reception service before boarding. Improvements were made to the check-in, boarding, and baggage registration processes in all major stations. We created a priority Prestige telephone number and email address at the VIA Customer Centres for post-booking support, and Prestige passengers now receive a detailed pre-departure email with all pertinent information to ensure a seamless travel experience.

BECOMING MORE INTER-MODAL

VIA Rail's seamless mobility strategy to foster inter-modal partnerships puts us at the centre of an integrated network of passenger carriers and has improved the mobility of Canadians. We continued to enhance our inter-modal partnerships this year to seamlessly integrate the train with other modes of transportation. Thanks to VIA Rail's enhanced partnership with Maritime Bus, planning travel to Charlottetown, PEI or Saint John, NB is now easier than ever. Since July 14, passengers have been able to book their Maritime Bus tickets directly from VIA Rail's website. In 2016, 95,092 passengers made inter-modal connections (a 23 % increase compared to 2015), and more than 50,000 passengers purchased tickets for stand-alone trips with our inter-modal partners on viarail.ca.

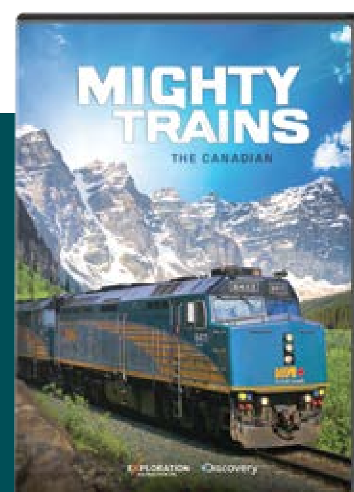
We added Discount Car Rental kiosks to more stations this year for travellers who need a car at their destination. This year six kiosks were installed and nine total are now in operation at Belleville, Cobourg, Moncton, Windsor, Ottawa, Fallowfield, Kingston, Sainte-Foy, and London stations.

In November, VIA Rail and Robert Q Airbus harmonized their schedules to improve their service offerings in Southwestern Ontario. Travellers between Sarnia, London and Toronto now benefit from enhanced bus and train schedules with five trips (two eastbound and three westbound) that have connection times of under an hour.

Since more and more travellers are turning to multi-modal journey planning search engines to book their travel, VIA Rail became available through Wanderu, Rome2rio, and Combitrip this year.

The *Canadian* is One of Discovery Channel's Mighty Trains

VIA Rail was thrilled to be part of Discovery Chanel's newest documentary series "Mighty Trains", and we hosted their crew on our iconic *Canadian* train to support the filming of the one-hour documentary. VIA Rail's *Canadian* was the only North American train featured in this documentary, which was broadcasted worldwide. The program portrayed everything about the journey, including a vignette about VIA Rail's biggest fan, the mechanics of the actual train, and time-lapse footage of the *Canadian*'s journey through the beautiful Canadian landscape. You can watch Mighty Trains on our On-Train Entertainment System or on Discovery.ca.



GROWING OUR COMMUNITY

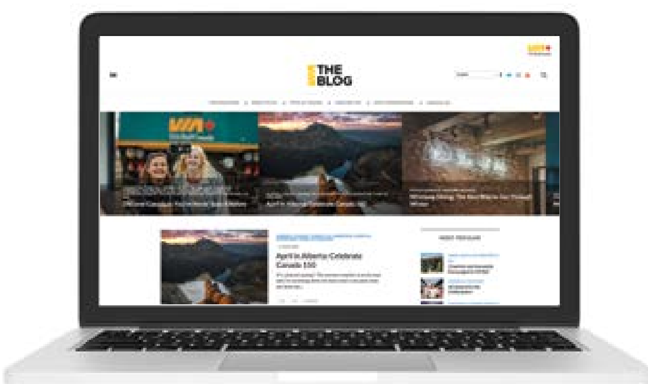
TWO NEW INNOVATIVE MARKETING CAMPAIGNS

VIA Rail started the year helping our passengers "outsmart winter" by encouraging them to leave their cars at home and take the train during periods of unpredictable weather. This successful campaign, which promoted the train as the "winter way to travel", ran throughout the cold weather months and included dynamic advertising and social media posts directly linked to local weather conditions. To generate word of mouth, we also assigned special greeting duties to employees in Toronto, Montréal, and Ottawa stations on storm days congratulating our customers on outsmarting winter. These efforts were well received on social media and contributed to positive trends in revenues and ridership in the Québec City – Windsor corridor.

In September, VIA Rail launched a new marketing campaign with the goal of persuading people to change their travel habits by asking them this simple question: "Why don't you take the train?" The campaign used a touch of humour to encourage Canadians residing in the Québec City – Windsor corridor to pause and re-evaluate their habits, and the accompanying website dispelled some common myths about train travel. This campaign included online videos, roadside advertising, indoor advertising in highway rest areas, service stations, and restaurants, as well as web banners and social media posts. The "Why Don't You Take the Train?" campaign was very successful in drawing new customers to VIA Rail and will be continuing in 2017.

EXPLORE CANADA WITH VIA: THE BLOG

VIA Rail was created nearly 40 years ago to connect the smaller cities and towns that aren't served by many other modes of transport. Over the years we've learned a thing or two about these small towns. They are vibrant with culture, arts, sports, and tons of surprising things to do. Our new and improved blog, launched in June, was designed to explore these smaller cities and towns as well as the "hidden gems" in larger urban areas. Readers can sort entries based on where they want to travel, who they're travelling with, and what kind of activities they're interested in. They can also read content from guest contributors and our President himself. Forget what the regular tourism sites say, and learn what the locals are doing through VIA: The Blog.



FACEBOOK
LIKES
162,074

TWITTER
FOLLOWERS
41,300

INSTAGRAM
FOLLOWERS
8,176

PERFORMANCE

A RECORD-BREAKING YEAR

VIA Rail smashed performance records this year, contributing to our unprecedented results. In 2016 we outperformed our 2015 results over all long weekends including Easter, Victoria Day, Civic Holiday weekend, and Labour Day. We hit record highs for ridership this summer when we welcomed more than 926,000 passengers on board our trains, an increase of 4.8 per cent compared to last summer. The 2016 holiday season was also the busiest in several years and we posted a 20 % increase in revenues and 10 % increase in ridership compared to 2015. Outside of the Corridor, the Winnipeg – Churchill route saw its highest ridership since 2007 during the polar bear season (October – November).

OUTSTANDING PERFORMANCE ON REGIONAL SERVICES

The customer-centric changes we have made to our Regional Services over the past few years continue to pay off as revenues grew once again in 2016. Our Regional Services cover four main routes: Montréal – Senneterre and Jonquière, Sudbury – White River, Jasper – Prince Rupert, and Winnipeg – Churchill. Compared to 2015, revenues for Regional Services increased 10.1 % in 2016. The Winnipeg – Churchill route has become the star performer with revenue growth exceeding 20 % for the second year in a row. The service enhancements made last year (including the addition of the dining car and the Park car during peak season) are attracting more tour operators, and new partnerships with Travel Manitoba and other tour operators have helped promote Churchill as a destination for beluga whale and polar bear watching.

IMPROVED ON-TIME PERFORMANCE

VIA Rail's On-Time Performance (OTP) improved, reaching 73 % in 2016 compared to 71 % 2015. This can largely be attributed to less freight traffic and milder temperatures in the first two quarters of 2016. Major work programs on the Kingston and Alexandria subdivision impacted OTP in the second half of the year, and performance in Southwestern Ontario towards London and Sarnia remained poor due to infrastructure issues on the Guelph subdivision. Despite these constraints, OTP on segments owned by VIA Rail and not shared with freight trains remained very strong at 96 %.

STRENGTHENING OUR ASSETS

$34 MILLION INVESTMENT IN VIA RAIL'S INFRASTRUCTURE

In March 2016, the Government of Canada announced a significant investment to improve VIA Rail's Québec City – Windsor corridor stations and maintenance centres. Budget 2016 allocated $34 million to VIA Rail for repairs and upgrades to mechanical and electrical systems, washrooms, heating and air conditioning, water treatment systems, roofing, and other building systems. The Honourable Marc Garneau, Minister of Transport, was on site for the funding announcement at our Montréal Maintenance Centre, and local Members of Parliament were present for funding announcements at the Toronto Maintenance Centre, Ottawa Station, London Station, Kingston Station, and Sarnia Station.

This funding will cover projects at several stations in VIA Rail's Québec City – Windsor corridor, as well as at VIA Rail's two main maintenance centers in Montréal and Toronto. As an example, $2.55 million will go towards improving the pedestrian tunnel and signage, washroom facilities, heating system, and tower cladding at London station, while improvements to Sarnia station include roof repairs, upgraded washrooms, repairs to masonry and doors, and relocating wayside power panels. By the end of 2016, more than 60 % of the projects were either underway or completed, and all projects will be completed by the end of 2017.

RIMOUSKI AND STE-ANNE-DE-LA-POCATIÈRE RE-OPEN THEIR DOORS

As part of a program to revitalize underused train stations, VIA Rail made two of its Québec heritage stations in Rimouski and Ste-Anne-De-La-Pocatière, available to their respective municipalities for community use. VIA Rail customers continue to use the waiting rooms at these stations operated by the municipalities. A timed door system opens the doors an hour before the train arrives, allowing passengers to wait for their train in peace, and closes them an hour after departure. VIA Rail hopes that this collaboration will serve as a model and inspiration for other Canadian communities with underused stations.

NEW STATION PARKING PARTNER

VIA Rail awarded a national parking management contract for the management of all 14 of its existing paid parking locations (with the exception of Vancouver Station) to Indigo Parking. The new agreement will improve paid parking services for our customers by allowing them to pay at high tech kiosks with new trend pay modes including mobile apps and debit/credit Near Field Communication (i.e. "tap"). The kiosks also have a button to connect customers to a live, bilingual customer service agent should they require assistance.

Members of VIA Rail's Management Committee and Board of Directors flank Minister Garneau (centre) and Angelo Iacono (right of centre), Member of Parliament for Alfred-Pellan at the Montréal Maintenance Centre.

MAJOR RENOVATIONS ANNOUNCED FOR OTTAWA STATION

On September 29, VIA Rail announced a $20 million renovation project for Ottawa Station. The renovation will bring the station's facilities in line with international accessibility standards and will support the company's commitment to sustainable mobility. The renovations will include the construction of an elevated and heated passenger platform, installation of elevators to improve access to the tunnel and boarding platforms, a new electrical room, energy efficient lighting upgrades, and green roofs. The work is scheduled to run from September 2016 to the fall of 2017.

Artist's renderings of the elevator and elevated platforms (above) that will make Ottawa station more accessible.

INFRASTRUCTURE UPGRADES

Throughout the year, several work programs were carried out on VIA Rail owned infrastructure to maintain safety and improve passenger comfort, some of which were part of the 2014 infrastructure program where the Corporation received $102 million of capital funding. 40,000 ties (about 6% of all ties) were changed, 11 bridges projects were completed to maintain a state of good repair, and 12 crossings and 6 turnouts were rehabilitated. Bolted Rail was replaced by Continuous Welded Rail on the Beachburg subdivision, which reduces noise and creates a smoother ride, and the incandescent bulbs in all control signals were replaced with safer and more reliable LED bulbs.

Infrastructure improvement projects are necessary for the proper maintenance, accessibility and safety of our rail infrastructure and stations. We are dedicated to limiting, as much as possible, the inconvenience posed by necessary maintenance projects occurring along the railway. VIA Rail's community relations team maintain an ongoing dialogue with nearby residents and work with colleagues across the organization to resolve any issues raised by members of the community with local elected representatives.

Anniversaries for Two Heritage Stations

This year two of VIA Rail's heritage designated stations celebrated landmark anniversaries. At the end of September, Ottawa station turned 50. As part of the celebrations, VIA Rail announced a major renovation project to improve accessibility and the customer experience at the station, as well as two new departures between Toronto and Ottawa.

On August 24, Gare du Palais, VIA Rail's heritage designated station in Québec City, celebrated the 100th anniversary of its inauguration. Historical tours of the station were provided by station employees, and the day was celebrated with the unveiling of a commemorative plaque.

VIA Rail's President cuts the cake at the Ottawa Station celebrations.

Gare du Palais was decorated to celebrate the station's centennial.

SAFETY

Safety is VIA Rail's number one priority. We work hard to ensure that our passengers arrive safely at their destinations, that our employees work in a safe environment, and that the public is informed about safety around railways. Ongoing improvements to our risk management practices, and more specifically to our Safety Management System, are reflections of the importance we place on safety.

Operational safety information for the year is addressed below. Additional information about how VIA Rail promoted safety around railroads this year is included in our 2016 Sustainable Mobility Report, which can be found in the "About VIA Rail" section of our website under "Governance and Reports".

GPS TRAIN SAFETY SYSTEM

The Corporation has made upgrades to its GPS Safety system, a project designed to alert Locomotive Engineers to critical information including signals, speed restrictions, or important milestones through notifications. In the first quarter of 2016, the braking curve model, a key safety feature which determines safe breaking distances and speeds, was incorporated into the system. This in-house project is the first of its kind in Canada and is a great asset to VIA Rail's safety system.

FIRST INTERNAL AUDIT OF THE SAFETY MANAGEMENT SYSTEM

VIA Rail's Safety Management System (SMS) provides the framework to implement our Safety Policy and to comply with the *Railway Safety Act* and other related regulations. It is also a reference for setting goals, planning and measuring performance in matters of rail safety.

In July, we completed the first internal audit of our new Safety Management System under the new Railway Safety Management System Regulations. Building this new SMS was a major endeavour for the past two years and it was implemented in October 2015, as per Transport Canada's required timeline. Although our SMS had only been in place for less than a year, the audit showed that it was already effective in supporting the policies and objectives of VIA Rail, and that it met the requirements of the Railway Safety Management System Regulations. Though our system audit was successful, there is always room for improvement. VIA Rail continues to challenge and upgrade its practices to be even safer.

LOCOMOTIVE ENGINEERS GET CONNECTED

In July, VIA Rail launched an important project to improve the work environment and engagement of our Locomotive Engineers (LEs), who operate the trains. We deployed tablets to LEs to provide them with an improved communications and document management tool. LEs no longer need to carry paper copies of the necessary operating and regulatory documents; they can access the electronic versions on their iPads. The tablets also facilitate corporate and internal communications by providing easy access to the corporate intranet and email. Paper documents are slowly being phased out, which will reduce waste.

AWARDS

VIA RAIL RECOGNIZED AS ONE OF CANADA'S BEST EMPLOYERS

At the start of the year Forbes Magazine unveiled its first list of Canada's 250 Best Employers and VIA Rail ranked #47. We are pleased to be acknowledged as one of Canada's best employers, especially given today's competitive employee-retention practices. This recognition is a strong reflection of the importance we place on our employees' well-being and the pride that VIA Rail employees share in their organization.

HONOURED BY THE QUÉBEC BUSINESS COMMUNITY

In May, VIA Rail won its first Mercuriade, a prestigious Québec business award given out by the *Fédération des chambres de commerce du Québec*. The *Prix Accroissement de la productivité, Grande entreprise* recognizes an innovative strategy that increases a company's productivity by improving organizational efficiency. VIA Rail won for its successful fuel-saving project based on optimized train handling methods. This initiative, made possible by the installation of the telemetry system Wi-Tronix on board our locomotives, has allowed us to reduce our fuel usage by more than 3 % since 2012.

Left to right: Yves Dufort, Denis Vallières, Marie-Pier Therrien, Frédéric Paiement, and Philippe Garside at the Mercuriade Nominee event.

INNOVATION AND EXCELLENCE AWARD FOR RISK MANAGEMENT

VIA Rail received the "Innovation and Excellence: Delivering Value through Risk Management" award at the Global Risk Awards ceremony in London organized by the Institute of Risk Management. This award recognizes the value that VIA Rail's Enterprise Risk Management system has added to our activities and operations. This is the fourth award VIA Rail has received for its Enterprise Risk Management system.

Jean-François Legault, Chief Legal & Risk Officer and Corporate Secretary, with Denis Lavoie, Director, Enterprise Risk at the Global Risk Awards.

GLOBAL AIRRAIL ALLIANCE PERSONALITY OF THE YEAR

Mohamed Bhanji, Special Advisor to the Chief Commercial Officer received the "AirRail Personality of the Year" award. This award recognises the achievements of an individual who has contributed greatly to global air-rail integration. Mohamed was recognized as "a truly visionary innovator and a driving force behind the initiatives to build an interconnected transportation network" by the Global AirRail Alliance. VIA Rail's "Who's On Board?" marketing campaign was also nominated for a GARA award for "Marketing Campaign of the Year."

DISTINCTION AWARDS

At the end of 2015, VIA Rail introduced the Distinction Awards, a new employee recognition program with a regional and national component. The regional Distinction Awards are awarded to peer-nominated employees who excel in the fields of customer service, maintenance, innovation, and team building. In addition to recognizing employees who have gone above and beyond, these awards also inspire others to follow their example.

The national portion of the Distinction awards, the Client Innovation Challenge, invited all VIA Rail employees to submit their ideas to further improve our customer experience. Many of our employees are customer-facing, and therefore have an insider's perspective on how to best meet their needs. The Client Innovation Challenge was a concrete way to recognize the value of their ideas and experiences.

At our employee recognition events in January 2016, we handed out Distinction Awards to 14 outstanding employees in the categories of Five-Star Service, Maintenance Excellence, Success Story, and Team Spirit. We also celebrated the three winning teams of the Client Innovation Challenge. All three projects were evaluated and went into development in 2016.

AWARD-WINNING MARKETING CAMPAIGN

The "Winter Way to Travel" campaign, launched at the start of 2016, stood out in a field of more than 350 Canadian campaigns at the Media Innovation Awards in November and took home two awards. This campaign, developed in partnership with Touché! agency, encouraged drivers to leave their cars behind and take the train during winter storms. VIA Rail won gold in the "Best in Data-Driven/Programmatic Marketing" and "Best in Travel, Entertainment and Leisure" categories.

Two Awards for VIA Rail's President

WOMEN AND BOARDS AWARD

VIA Rail's President Yves Desjardins-Siciliano received an award in September from Women and Boards, a not-for-profit organization that supports women in their leadership development, career enhancement, and access to Board seats. He was honoured during the Women and Boards recognition gala in the CEO category for his outstanding contributions to advancing the role of women in corporate governance at VIA Rail. VIA Rail has positioned itself as a Canadian leader in diversity in governance and its Board of Directors achieved gender parity in 2014. Three of its eight executives are women, and 30 % of senior managers within the company are women.

PRIX DES CONSEILLERS JURIDIQUES DU QUÉBEC

In November, Yves Desjardins-Siciliano received the "Business Achievement Award" at the *Prix des Conseillers Juridiques du Québec* presented by ZSA Legal Recruitment. This award recognizes an executive who has successfully transitioned from a legal career to a corporate executive environment. Our President was celebrated for developing and implementing the customer-focused business strategy that led to VIA Rail's recent success. VIA Rail was well-represented at the awards as Denis Lavoie, Director, Enterprise Risk, Claims and Insurance, was also nominated in the Litigation and Risk Management category.

Left to right: Caroline Codsi, Founding President of Women and Boards with honourees Yves Desjardins-Siciliano, Robert Tessier, Chairman of the Board of the *Caisse de dépôt et placement du Québec*, and François J. Coutu, President and CEO of Jean Coutu.

VIA Rail's President receives the "Business Achievement Award" from Mylany David, Lawyer, Partner at Langlois Lawyers LLP.

SUSTAINABLE MOBILITY

Sustainable mobility is an integral part of who we are and how we have always conducted our business. In the year since we issued our first Sustainable Mobility Report detailing our activities for 2015, we have continued our journey to innovate and transform our business for future growth. For us, sustainable mobility is about contributing to a greener transportation system for Canada, in a way that enables economic prosperity, improves quality of life and provides more environmentally responsible mobility options. The following is a brief overview of our sustainability pillars. For more information, the full 2016 Sustainable Mobility Report can be found in the "About VIA Rail" section of our website under "Governance and Reports".

OUR SUSTAINABILITY PILLARS

There are six pillars that underline what sustainable mobility means at VIA Rail. These pillars guide our vision to be a smarter way to move people – ensuring we manage operations efficiently, effectively and economically, while providing a safe, secure, reliable and environmentally sustainable rail passenger service.

1

Provide the Best Customer Experience:
by ensuring a reliable, affordable and accessible service for our customers that enables them to experience Canada in a unique way

2

Promote Socio-economic Development:
by using public funds efficiently and effectively, while contributing to Canada's economy by providing access and connectivity to a sustainable transportation system

3

Operate Safely and Efficiently:
by embedding a culture where safety is everyone's first and foremost concern

4

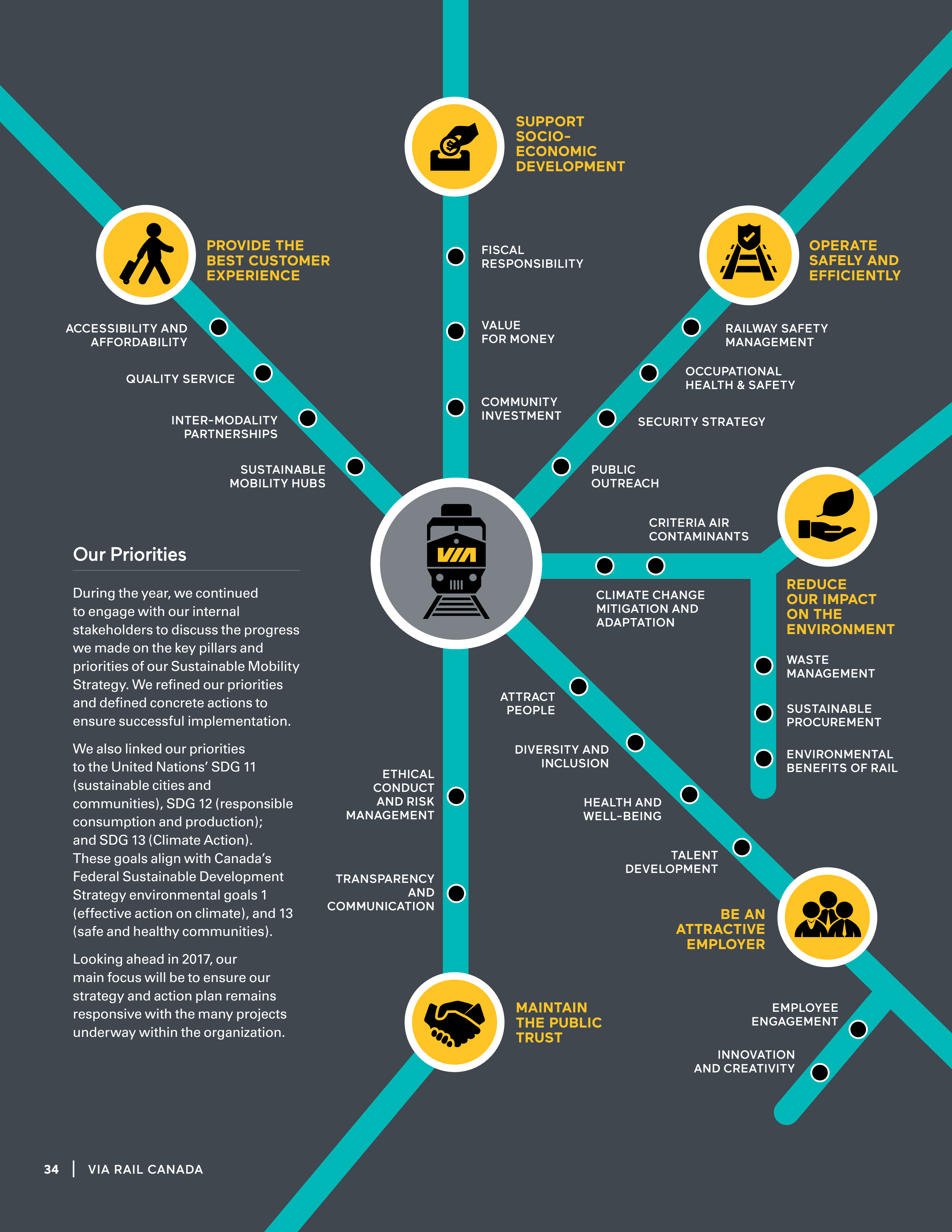
Reduce our Impact on the Environment:
by being the preferred greener travel choice for Canadians, while reducing our emissions per passenger-kilometer and increasing our resource efficiency

5

Be an Attractive Employer:
by supporting a workplace where each employee feels recognized and rewarded for being of service to passengers, to each other, and to the communities VIA Rail serves

6

Maintain the Public Trust:
by ensuring transparency, accountability and integrity in everything we do, while engaging and consulting stakeholders on their viewpoints



Our Priorities

During the year, we continued to engage with our internal stakeholders to discuss the progress we made on the key pillars and priorities of our Sustainable Mobility Strategy. We refined our priorities and defined concrete actions to ensure successful implementation.

We also linked our priorities to the United Nations' SDG 11 (sustainable cities and communities), SDG 12 (responsible consumption and production); and SDG 13 (Climate Action). These goals align with Canada's Federal Sustainable Development Strategy environmental goals 1 (effective action on climate), and 13 (safe and healthy communities).

Looking ahead in 2017, our main focus will be to ensure our strategy and action plan remains responsive with the many projects underway within the organization.

ENVIRONMENT

VIA Rail has defined processes within its Environmental Management System to evaluate the environmental impact of its projects and activities, if any, and to determine if the environmental impacts are likely to cause significant adverse environmental effects.

In 2016, all new projects, new initiatives and activities were assessed using VIA Rail's Hazard Assessment and Risk Control Strategies (HARCS) process. This process is implemented by the project manager at the planning phase to identify and assess environmental risks and to identify appropriate controls to mitigate the risks, as required. In addition to the HARCS process, VIA Rail's Risk Assessment Process was used for projects and initiatives larger in scope. As a second step, an evaluation of the environmental impacts of projects is performed, when required, to identify the environmental impact, determine if any had significant effects on the environment and to implement appropriate mitigation measures.

In 2016, VIA Rail did not conduct any project or activity that generated significant adverse environmental effects. Major projects for 2016 include renovation and construction at Ottawa Station. In all cases, VIA Rail's processes were followed, environmental evaluations were completed, identification and implementation of appropriate mitigation measures were performed as per project plan and assessment report, and appropriate permits received.

For more on environmental initiatives, please refer to our 2016 Sustainable Mobility Report

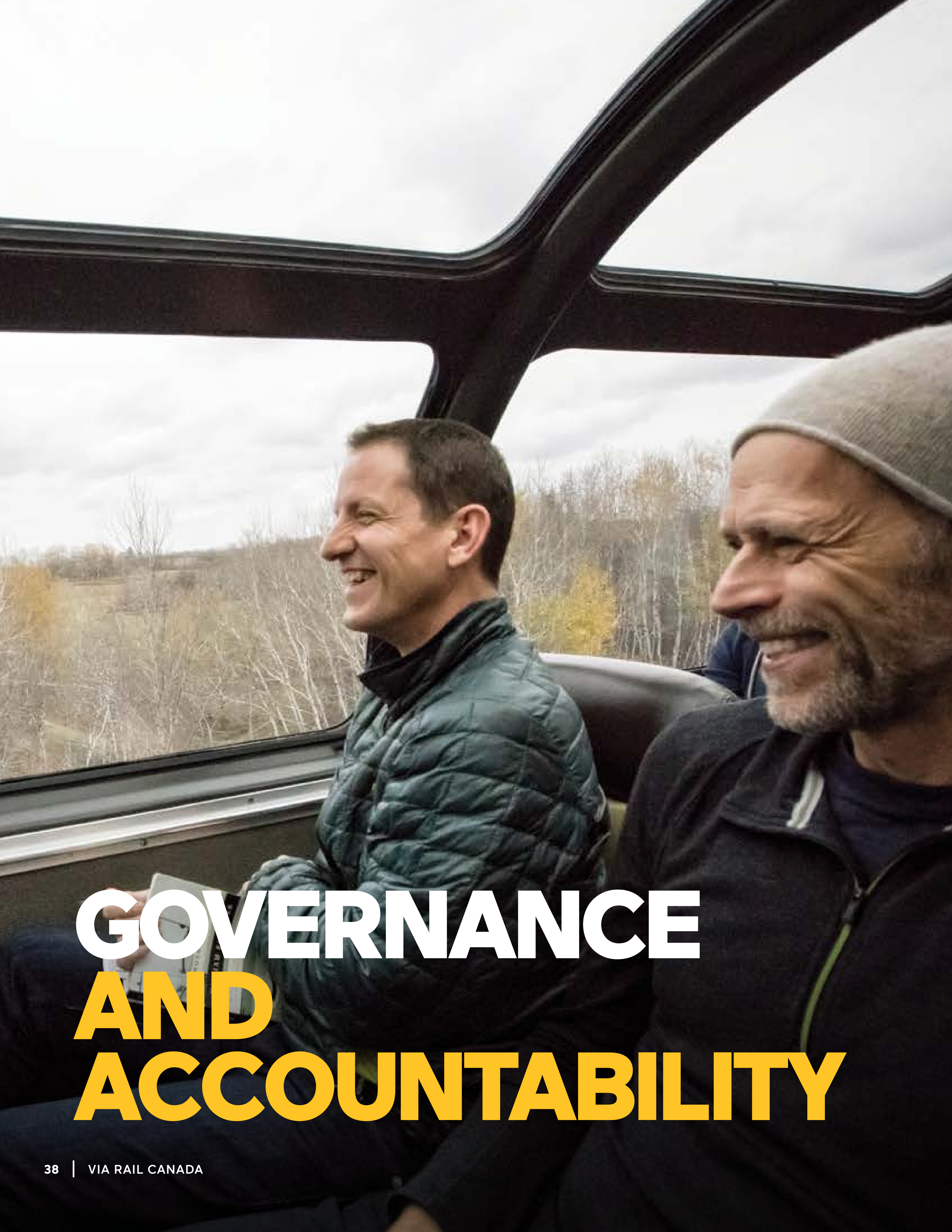
KEY PERFORMANCE INDICATORS

VIA Rail uses the following performance indicators as an integral part of its LEAN Management process. For detailed information on financial and operating performance during the quarter, consult the Management Discussion and Analysis.

KEY PERFORMANCE INDICATORS		**4th Quarter**			**Total year**		
INDICATOR	**UNIT**	**Q4 2016**	**Q4 2015**	**Vs 2015**	**YTD 2016**	**YTD 2015**	**Vs 2015**
CAPACITY DEPLOYED (IN MILLIONS) Number of available seat-miles (ASM) [1]	ASM	389	369	5.5 %	1,578	1,457	8.3 %
TOTAL REVENUES / ASM (RASM) Total revenues divided by total ASM	cents	20.97	20.40	■	20.56	20.44	■
TOTAL COSTS [2] / ASM (CASM) Total operating expenses divided by total ASM	cents	39.69	37.25	■	36.66	37.26	■
RASM / CASM Revenues per available seat-mile divided by the costs per available seat-mile	%	52.8	54.8	■	56.1	54.8	■
ON-TIME PERFORMANCE On-Time Performance of all VIA Rail trains	%	72	77	■	73	71	■
ON-TIME PERFORMANCE - VIA RAIL INFRASTRUCTURE [3] On-Time performance of all VIA Rail trains on VIA Rail owned infrastructure	%	96	93	■	96	93	■
TRAIN INCIDENTS Includes mainline derailments, cardinal rule violations, critical speed violations, or critical rule violations which result in injury to passengers and/or employees, or damage to the rolling stock or infrastructure for a value of $25,000 or more	#	1	5	■	9	15	■
EMPLOYEE ATTENDANCE Total hours of absences per month divided by the total possible work hours per month	%	94.5	94.6	■	95.0	94.7	■

(1) Seat-miles are the number of seats available for sale, multiplied by the number of miles travelled
(2) Total costs include pension costs for current services but exclude past service pension costs
(3) This indicator has been tracked since May 2015

■ Performance on or above previous year
■ Performance slightly below last year (less than 10 %)
■ Performance below last year (10 % or more)



GOVERNANCE AND ACCOUNTABILITY

THE BOARD OF DIRECTORS

As of December 31, 2016, the Board of Directors consists of the Lead Director*, the President and Chief Executive Officer and eight other directors appointed by the Government of Canada. Of the nine directors (not including the CEO of VIA Rail), five are women and four are men. The Board is responsible for overseeing the strategic direction and management of the Corporation, and reports on VIA Rail's operations to parliament through the Honourable Marc Garneau, Minister of Transport.

Thirteen (13) Board meetings were held and Committees met a total of twenty-two (22) times over the course of 2016. The overall average attendance rate of Board members at these meetings was 89 %. Cumulative fees paid to Board members during this time period totalled $ 177,194.

COMMITTEES OF THE BOARD

AUDIT & FINANCE

Mowat, Jane (Chairperson)
Durand, Denis
Materi, Ramona
Sonberg, Melissa

HUMAN RESOURCES

Sonberg, Melissa (Chairperson)
Hoff, David
Materi, Ramona
Robinson, Deborah
Sergieh, Hind †

GOVERNANCE, RISK & STRATEGY

Mallory, Stephen (Chairperson)
Hoff, David
Robinson, Deborah
Sergieh, Hind †
Wheatley, William

PENSION INVESTMENT

Durand, Denis (Chairperson)
Mallory, Stephen
Mowat, Jane
Wheatley, William

---

* Eric Stefanson held the position of Interim Chairman of the Board until March, 2016
† Until January 30, 2017

ACCESS TO INFORMATION AND PRIVACY

VIA Rail believes that openness and transparency are the starting points in building a relationship of trust with its customers, partners and the public in general. VIA Rail has continuously improved its practices related to access to information as provided in the *Access to Information Act* and *the Privacy Act*, to which VIA Rail became subject in 2007.

In the spring of 2016, VIA Rail submitted its 2015-2016 annual reports on access to information and privacy, respectively, to the Access to Information Commissioner and the Privacy Commissioner, as well as to the Minister of Transport.

VIA Rail has been committed to responding to information requests from the public, the media and all those interested in our operations in a timely manner. From April 1, 2015, to March 31, 2016, VIA Rail received 55 new requests under the *Access to Information Act* and the *Privacy Act*. This compared to a total of 64 requests received during the corresponding period from April 2014 to March 2015.

VIA Rail in Your Community

VIA Rail is committed to working with local communities to better understand the needs of travellers and to develop plans that promote better service and modern inter-city rail. We are also interested in receiving ongoing feedback from our neighbours and working collaboratively to ensure positive and productive community relations.

In 2016, VIA Rail met with over 176 communities and community leaders to discuss our train service, local interests, and future plans. Beyond formal meetings, VIA Rail interacted with communities through partnerships and events including annual onboard commuter events, targeted focus groups, partnerships promoting inter-modality, station anniversary celebrations, and engagement through townhalls.

For more information about VIA Rail's community involvement and how we promote socio-economic development, please see our Sustainable Mobility Report on our website in the "About VIA Rail" section under "Governance and Reports".

TRAVEL, HOSPITALITY AND CONFERENCE EXPENSES

THE FOLLOWING TRAVEL, HOSPITALITY AND CONFERENCE EXPENSES WERE SUBMITTED DURING 2016	
Jane Mowat Lead Director of the Board	$2,700
Yves Desjardins-Siciliano President and CEO	$94,000
Executive management committee members (8 members)	$190,400
Board of Directors (9 members)	$20,700
Total VIA Rail (including above expenses)	**$1,170,000**

EXECUTIVE COMPENSATION

2016 EXECUTIVE COMPENSATION RANGE DISCLOSURE[1]		
Cash Compensation[2]	**President and CEO**	**Officers**
Base Salary Range	$257,900 - $303,400	$187,000 - $300,000
Incentive Program Range	13 % - 26 %	35 % - 50 %
Total Compensation Range per Calendar Year	$291,427 - $382,284	$252,450 - $450,000

PERQUISITES PROGRAM		
Car Allowance	$45,000	$24,000
Social, Sport Club Memberships		
Health Care Spending Account		
Comprehensive Medical Exams		
Financial Planning Services		

1 On December 31st, 2016, Executives were: President and Chief Executive Officer, Chief Commercial Officer, Chief Transportation and Security Officer, Chief Asset Management Officer, Chief Financial Officer, Chief Mechanical and Maintenance Officer, Chief Business Transformation Officer, Chief Human Resources, and Chief Legal & Risk Officer and Corporate Secretary.

2 The Cash Compensation does not report the actual salary and incentives paid to Executives but merely the range for their respective positions.

DIRECTORS' BIOGRAPHIES

JANE MOWAT

TORONTO, ONTARIO

Lead Director of the Board, VIA Rail Canada
Chairperson - Audit & Finance Committee
Member - Pension Investment Committee

Board member since September 2013

Ms. Mowat is a Corporate Director and a former information technology executive who, since 2003, has worked as an independent consultant, advising clients on acquisitions in the software industry, as well as providing advice on corporate finance, borrowings and business valuations. She previously served as Chief Financial Officer of Centrinity, a TSX-listed software company, from 2001 to 2003, General Manager of IBM's financing business in Canada and the United States, from 1996 to 2000, and as Chief Financial Officer of ISM Information System Management Corporation from 1990 to 1995. Ms. Mowat has considerable governance experience, having served on the boards of both private and public companies, including Allstream, Coventree Inc. and Centrinity. She holds a Bachelor of Commerce degree from the University of Toronto and earned her Chartered Accountant designation while employed with Price Waterhouse.

DENIS DURAND

MONTRÉAL, QUÉBEC

Chairman - Pension Investment Committee
Member - Audit & Finance Committee

Board member since June 2008

Mr. Durand is a partner at Jarislowsky Fraser Ltd., a leading Montréal-based investment counselling firm that manages pension and endowment funds as well as corporate and private portfolios for clients in North America and overseas. He began his career with the Government of Québec, first as an economist and then as a financial analyst, before joining Jarislowsky Fraser as a manager and associate, a position he held from 1981 to 1988. After five years as President and Investment Director at Gentrust Investment Counsellors, where he launched an international fund and a pioneering stock-savings plan fund, Mr. Durand returned to Jarislowsky Fraser in 1993 as a partner. A former Vice-Chair and member of the board of CARE Canada, he served as President of the *Association des économistes Québécois* from May 2014 to May 2016. He also served as an Honorary Lieutenant-colonel for the Regiment de Maisonneuve from 2008 to 2011. Mr. Durand holds a Bachelor's degree from Université Laval and has completed scholarship studies for a Master's degree in Economics.

DAVID HOFF

VANCOUVER, BRITISH COLUMBIA

Member - Governance, Risk & Strategy Committee
Human Resources Committee

Board member since January 2007

Mr. Hoff is Senior Vice-President, Corporate and Marketing Communications and Public Affairs, for Ledcor, an employee-owned construction, resource and transportation conglomerate with corporate offices in Vancouver and San Diego, CA and operations across North America. He previously served as Senior Director, Provincial Government Relations, Western Canada, for Bell Canada and Bell Mobility, and as CIBC's Regional Director, Corporate Communications and Public Affairs for Western Canada. Earlier in his career, Mr. Hoff held the posts of Executive Assistant to the President of the Treasury Board, and Policy Advisor, Asia, Africa and Development to the Minister of Foreign Affairs, and also worked as a consultant. Active in community circles, he currently serves on the boards of two non-profit organizations, the Vancouver Board of Trade and the Jack Webster Foundation, and is a former member of the boards of the University of Calgary, KCTS – PBS TV (Canada), Save the Children Canada, and the Vancouver Economic Development Commission. He holds a Bachelor of Science degree from the University of Calgary.

STEPHEN MALLORY

TORONTO, ONTARIO

Chairman - Governance, Risk & Strategy Committee
Member - Pension Investment Committee

Board member since December 2012

Mr. Mallory is President and CEO of Directors Global Insurance Brokers Ltd., a Toronto based firm which provides commercial insurance brokerage and enterprise-risk-management services for organizations located across Canada and internationally. He previously held senior leadership positions within two of Canada's largest insurance brokerages, including as CEO. Prior to serving on the board of VIA Rail, he served as a director with the Standards Council of Canada, also a Federal Crown Corporation. He completed the Directors Education Programs at Rotman Business School / University of Toronto (ICD.D) and at the Canadian Government School of Public Service, and he holds a Bachelor of Arts degree from the University of Western Ontario, as well as the CRM (Canadian Risk Management) and FCIP (Fellow, Chartered Insurance Professional) designations. Mr. Mallory has been member of the CSA Canadian Risk Management Mirror Committee TC 262 since 2011, and is an Instructor at universities across Canada for the Institute of Corporate Directors, DEP / ICD.D program.

RAMONA MATERI

VANCOUVER, BRITISH COLUMBIA

Member - Audit and Finance Committee
Human Resources Committee

Board member since October 2012

Ms. Materi is the Principal of Ingenia Consulting, which undertakes labour market research to help communities and natural resources firms plan for and address their workforce needs. Under her leadership, Ingenia has completed assignments across Canada and in the United States and Vietnam. Ms. Materi serves on the SME Advisory Board to the Minister of International Trade, as well as Connecting Environmental Professionals Vancouver. She is a member of the Institute of Corporate Directors, and and has served on the boards of numerous non-profits and business associations. Ms. Materi is the author of two books, one on business in Northern British Columbia and a second on sustainable businesses in Canada. Ms. Materi holds a Master of Public Affairs from the University of Texas at Austin, a Master of Education from Athabasca University and a Post-Baccalaureate Diploma in Environmental Science from Capilano University. She completed graduate studies in economics at *the Institut de Hautes Études Internationales et du Développement* in Geneva.

DEBORAH ROBINSON

TORONTO, ONTARIO

Member - Governance, Risk & Strategy Committee
Human Resources Committee

Board member since June 2014

Ms. Robinson is the founder and President of Bay Street HR, a human-resources outsourcing service provider to small and mid-sized financial and professional firms. She previously was Executive Director at CIBC World Markets, where she oversaw human resources for global Investment Banking, Merchant Banking and Loan Products. She also held senior HR positions at Fidelity Investments and American Express in the United States. Ms. Robinson is a former member of the Board of Directors and Chair of the Human Resources Committee of Frontline Technologies Inc., a TSX-listed company. She currently serves as a member of the Board and Chair of the Human Resources and Governance Committee of Best Buddies Canada, a non-profit charitable organization. A graduate of the Directors Education Program at the Institute of Corporate Directors, Ms. Robinson holds the ICD.D designation.

HIND SERGIEH *

MONTRÉAL, QUÉBEC

Member - Governance, Risk & Strategy Committee
Human Resources Committee

Board member since December 2012

Ms. Sergieh is the founder and President of the Sergieh Group, a Montréal-based consultancy that provides strategic marketing advice and business development plans to Canadian companies interested in expanding to overseas markets, particularly the Gulf region. Prior to founding the Sergieh Group in 2006, she held a number of leadership positions in international firms, with responsibilities ranging from recruitment to project management and business strategies. Ms. Sergieh is a member of the Board of Directors of Québec's Office de la Protection du Consommateur, an organization that informs, educates and investigates complaints from consumers, and has contributed to the development of the Association of Québec Women in Finance. She holds a Bachelor's degree in Administration, specializing in finance, as well as a certificate in marketing from McGill University.

* Ms. Sergieh held the position until January 30, 2017

MELISSA SONBERG

MONTRÉAL, QUÉBEC

Chairperson - Human Resources Committee
Member - Audit and Finance Committee

Board member since June 2014

Ms. Sonberg was a founding executive of Aeroplan, now known as AIMIA, a global leader in customer loyalty management, where she subsequently served as Senior Vice-President, Human Resources and Corporate Affairs, and Senior Vice-President, Global Brand, Communications and External Affairs. She previously held a number of senior positions at Air Canada, which included representing the Canadian carrier at Star Alliance, and she led the organizational redesign following the merger of Air Canada and Canadian Airlines. Ms. Sonberg began her career in human resources at the Royal Victoria and Montréal Neurological Hospitals. She currently is an Adjunct Professor, Desautels Faculty of Management at McGill University and Chairperson of Equitas – International Centre for Human Rights Education, and serves on the Boards and Committees of the McGill University Health Centre and Research Institute (MUHC), Rideau Recognition Inc. and Groupe Touchette Inc. Ms. Sonberg holds a BSc degree from McGill as well as a Master's degree from the University of Ottawa. She is a Certified Corporate Director (ICD.D), and in 2011 was awarded the Canadian Human Resources Executive (CHRE) designation.

WILLIAM M. WHEATLEY

REGINA, SASKATCHEWAN

Member - Governance, Risk & Strategy Committee
Pension Investment Committee

Board member since December 2007

Mr. Wheatley, now retired, most recently was Secretary, General Counsel and Managing Director of Greystone Capital Management Inc. He previously served as Senior Vice-President of Real Estate, Senior Vice-President of Administration and Chief Compliance Officer at Greystone. Earlier in his career, Mr. Wheatley was Chairperson of the Saskatchewan Securities Commission. He also served as Chief of Staff to the Minister of Justice and to the Minister of Finance for the province of Saskatchewan, and was President of Drope and Associates Realty. Mr. Wheatley has formerly held office as Vice-Chairperson of the Board of Directors of Saskatchewan Power Corporation. He holds two degrees from the University of Saskatchewan: a Bachelor of Law and a Bachelor of Commerce.

MANAGEMENT DISCUSSION AND ANALYSIS

This is a review of VIA Rail Canada's (VIA Rail) operations, performance and financial position for the quarter and year ended December 31, 2016, compared with the quarter and year ended December 31, 2015. It should be read in conjunction with the audited financial statements and notes.

1. FINANCIAL HIGHLIGHTS

The following table shows the financial results of the Corporation, illustrating the activities which were funded during the quarter and year, and then showing the other non-funded elements and accounting adjustments required under the International Financial Reporting Standards (IFRS).

The Corporation received Operating funding from the Government of Canada to compensate its funded activities. Funded activities are the revenues and expenses which generate or require cash flow (they exclude other accounting entries which are required under the IFRS but which do not result in cash flow transactions).

	Quarters ended December 31				Years ended December 31			
IN MILLIONS OF CANADIAN DOLLARS	2016	2015	Var $	Var %	2016	2015	Var $	Var %
Passenger Revenues *	**75.2**	68.5	6.7	9.8 %	**301.1**	275.0	26.1	9.5 %
Total Revenues *	**81.6**	75.3	6.3	8.4 %	**324.3**	297.8	26.5	8.9 %
Operating expenses *	**148.4**	132.2	16.2	12.3 %	**554.4**	520.0	34.4	6.6 %
Employer contributions for employee benefits *	**6.1**	12.9	(6.8)	(52.7 %)	**37.4**	57.8	(20.4)	(35.3 %)
Total Operating expenses *	**154.5**	145.1	9.4	6.5 %	**591.8**	577.8	14.0	2.4 %
Operating Loss	**(72.9)**	**(69.8)**	**3.1**	**4.4 %**	**(267.5)**	**(280.0)**	**(12.5)**	**(4.5 %)**
Operating funding from Government of Canada	**72.9**	69.8	3.1	4.4 %	**267.5**	280.0	(12.5)	(4.5 %)
Non funded elements and other accounting adjustments								
Employee Benefits to be funded in subsequent periods	**5.5**	(10.8)	16.3	150.9 %	**1.2**	14.8	(13.6)	(91.9 %)
Depreciation and amortization / Impairment and loss (gain) on disposal of property, plant and equipment and intangible assets	**(37.6)**	(25.2)	(12.4)	(49.2 %)	**(103.5)**	(83.8)	(19.7)	(23.5 %)
Amortization of deferred capital funding	**37.3**	25.1	12.2	48.6 %	**102.3**	82.6	19.7	23.8 %
Other	**7.3**	(0.9)	8.2	911.1 %	**8.3**	(4.5)	12.8	284.4 %
Net income (loss)	**12.5**	**(11.8)**	**24.3**	**(205.9 %)**	**8.3**	**9.1**	**(0.8)**	**(8.8 %)**
Actuarial gain (loss) on defined benefit plans	**91.1**	6.0	85.1	1418.3 %	**(30.5)**	35.8	(66.3)	(185.2 %)
Total comprehensive income (Loss)	**103.6**	**(5.8)**	**109.4**	**(1886.2 %)**	**(22.2)**	**44.9**	**(67.1)**	**(149.4 %)**

* Financial statements amounts adjusted to reflect funded activities

Comments on the funded annual financial highlights

VIA posted performance records throughout 2016, increased its capacity and generated unprecedented revenues, through growth in ridership and improved average revenues.

Operating expenses increased compared to the previous year, part of the increase stemming from the additional capacity, but also as a result of the investments made in the two major initiatives of 2016, the high frequency rail study, and the fleet renewal project for which the Corporation received additional funding. These two initiatives, upon completion, could generate significant benefits.

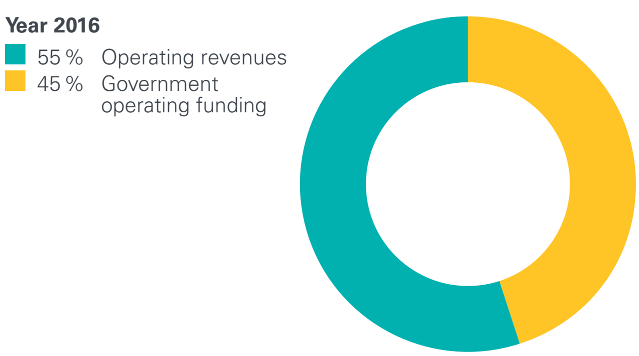
The operating loss funded by the Government totaled $267.5 million for the year, a decrease of 12.5 million, which represents an improvement of 4.5 percent compared to the previous year.

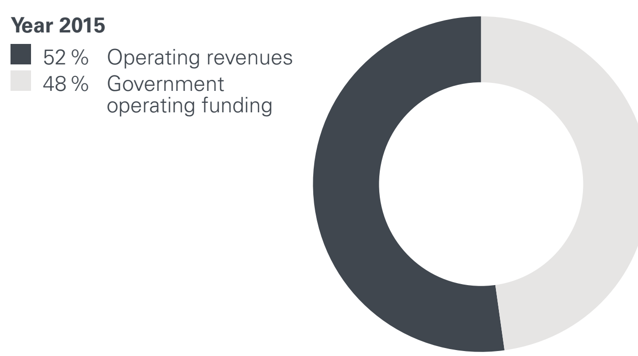
Reconciliation of net results under IFRS to the government funding

VIA Rail Canada Inc. defines results on a funded basis as Net Results under IFRS, less the adjustments for non-cash expenses that will not require operating funds and non-cash revenues that will not generate cash inflows. This measure is used by management to help monitor performance and balance the Corporation's budget consistent with government funding methodology. We believe this measure provides useful complementary information to readers, while recognizing that it does not have a standard meaning under IFRS and will not likely be comparable to measures presented by other companies.

Adjustments include the elimination of non-cash pension and other employee future benefit costs, which represent the excess of the IFRS expense over the actual cash contribution for the period. Adjustments are also made for the depreciation and amortization of capital assets and the amortization of deferred capital funding because these are non-cash items. Other less significant items not funded or generating funds in the current period, primarily employee benefit-related, are adjusted for in the reconciliation of the funded Operating Basis. Further explanations of these items are provided in the sections 2 and 3.

Revenues and sources of funding for the year:

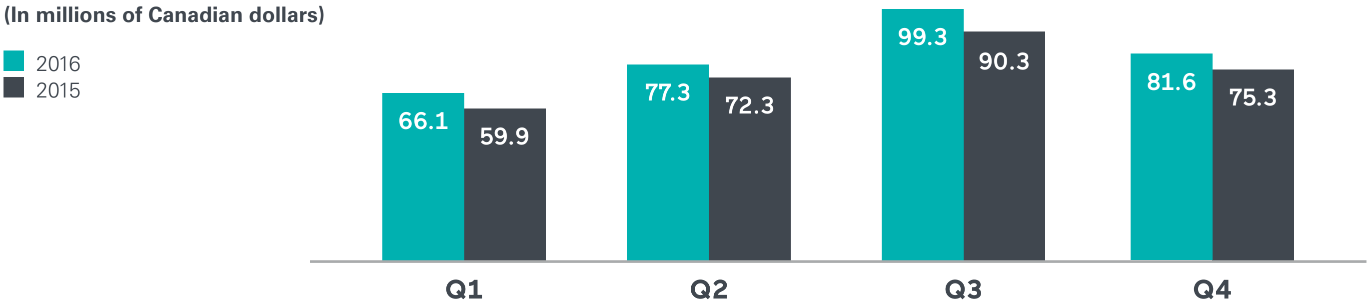




The following table shows financial data for the eight most recent quarters. This quarterly information is based on funded activities. Revenues vary throughout the year, reflecting the seasonality of activities, with the highest demand for services occurring during summer in the third quarter.

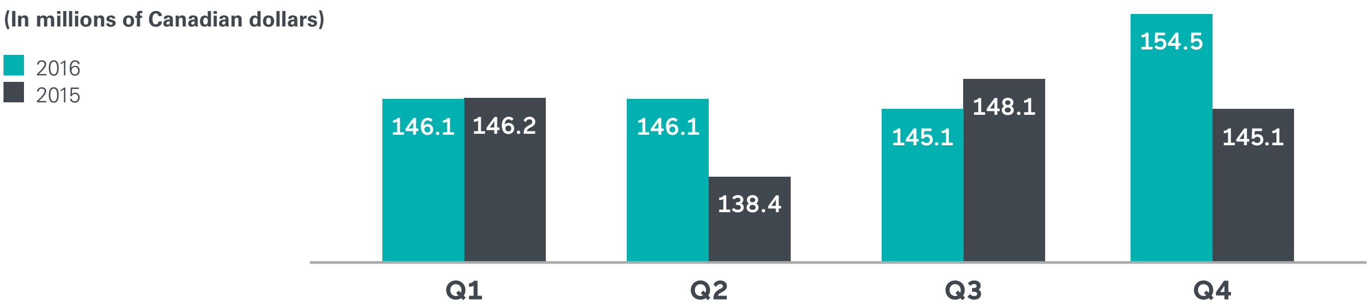
Quarterly revenues

(In millions of Canadian dollars)



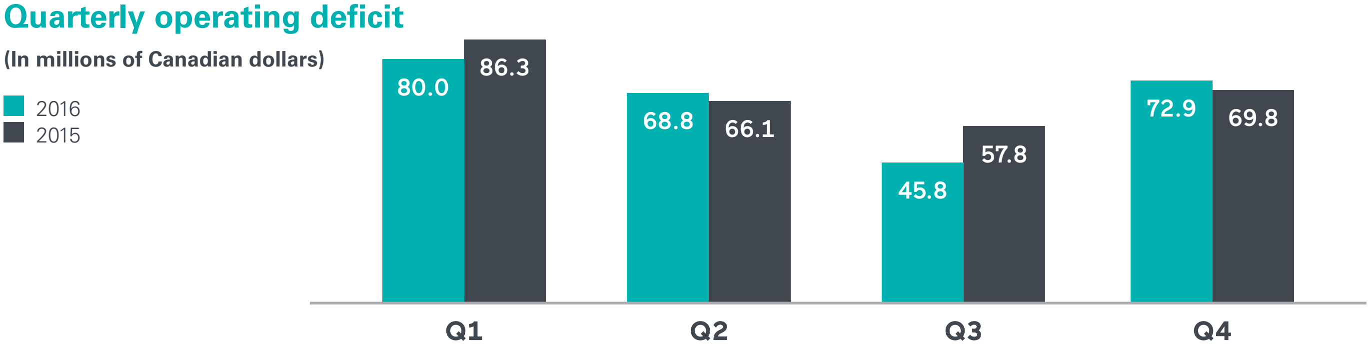
Quarterly operating expenses

(In millions of Canadian dollars)



Quarterly operating deficit

(In millions of Canadian dollars)



The following sections of the document provide comments on the funded activities of the quarter and year ended December 31, 2016 (before non-funded elements and other accounting adjustments), compared to the quarter and year ended December 31, 2015.

2. REVENUES

Operating revenues:

	Quarters ended December 31				Years ended December 31			
IN MILLIONS OF CANADIAN DOLLARS	**2016**	2015	Var $	Var %	**2016**	2015	Var $	Var %
Passenger Revenues	**75.2**	68.5	6.7	9.8%	**301.1**	275.0	26.1	9.5%
Other Revenues	**6.4**	6.8	(0.4)	(5.9%)	**23.2**	22.8	0.4	1.8%
Total Revenues	**81.6**	**75.3**	**6.3**	**8.4%**	**324.3**	**297.8**	**26.5**	**8.9%**

* Financial statements amounts adjusted to reflect funded activities.

For the quarter:

Passenger revenues totaled $75.2 million, an increase of 9.8 percent compared to the corresponding quarter last year. The increase is explained by the additional revenues generated in Corridor East resulting mainly from increased ridership associated in part to the additional frequencies introduced during the quarter, as well as by the revenues of the *Canadian* and associated to the Prestige class.

Other revenues totaled $6.4 million for the quarter, a decrease of 5.9 percent compared to the corresponding quarter last year. This decrease for the quarter is attributable in most part to lower station revenues.

For the year:

Passenger revenues totaled $301.1 million, an increase of 9.5 percent compared to last year. The increase stems from the impact of the additional frequencies introduced in Corridor East during the second half of 2015 and the fourth quarter 2016, the additional revenues generated on the Prestige Class of the *Canadian*, as well as from improved average fares in all major train services.

Other revenues totaled $23.2 million for the year, and are 1.8 percent higher compared to the corresponding last year. The increase is mainly attributable to third party revenues.

Passenger Revenues

	REVENUES*							
	Quarters ended December 31				Years ended December 31			
IN MILLIONS OF CANADIAN DOLLARS	2016	2015	Var $	Var %	2016	2015	Var $	Var %
Corridor East	**49.9**	44.8	5.1	11.4 %	**183.9**	168.2	15.7	9.3 %
Southwestern Ontario (SWO)	**11.5**	10.9	0.6	5.5 %	**42.3**	40.7	1.6	3.9 %
Quebec-City Windsor Corridor	**61.4**	**55.7**	**5.7**	**10.2 %**	**226.2**	**208.9**	**17.3**	**8.3 %**
Ocean	**2.0**	1.9	0.1	5.3 %	**9.6**	9.2	0.4	4.3 %
Canadian	**8.2**	6.6	1.6	24.2 %	**53.0**	44.0	9.0	20.5 %
Regional Services	**1.4**	1.2	0.2	16.7 %	**5.2**	4.7	0.5	10.6 %
Non Corridor	**11.6**	**9.7**	**1.9**	**19.6 %**	**67.8**	**57.9**	**9.9**	**17.1 %**
Other	**2.2**	3.1	(0.9)	(29.0 %)	**7.1**	8.2	(1.1)	(13.4 %)
TOTAL	**75.2**	**68.5**	**6.7**	**9.8 %**	**301.1**	**275.0**	**26.1**	**9.5 %**

* Revenue amounts were adjusted to reflect funded activities.

	PASSENGERS (IN THOUSANDS)							
	Quarters ended December 31				Years ended December 31			
	2016	2015	Var #	Var %	2016	2015	Var #	Var %
Corridor East	**739.2**	675.4	63.8	9.4 %	**2,778.8**	2,626.5	152.3	5.8 %
Southwestern Ontario (SWO)	**256.2**	248.9	7.3	2.9 %	**953.3**	951.8	1.5	0.2 %
Quebec-City Windsor Corridor	**995.4**	**924.3**	**71.1**	**7.7 %**	**3,732.1**	**3,578.3**	**153.8**	**4.3 %**
Ocean	**16.8**	17.7	(0.9)	(5.1 %)	**77.6**	79.8	(2.2)	(2.8 %)
Canadian	**15.7**	14.9	0.8	5.4 %	**93.2**	89.7	3.5	3.9 %
Regional Services	**16.3**	16.4	(0.1)	(0.6 %)	**71.1**	70.1	1.0	1.4 %
Non Corridor	**48.8**	**49.0**	**(0.2)**	**(0.4 %)**	**241.9**	**239.6**	**2.3**	**1.0 %**
TOTAL	**1,044.2**	973.3	70.9	7.3 %	**3,974.0**	3,817.9	156.1	4.1 %

For the quarter:

- Corridor East revenues are 11.4 percent above last year, mostly due to higher ridership (9.4 percent), combined with improved average revenues (1.8 percent);
- Revenues in SWO increased by 5.5 percent, the increase attributable to higher average revenues which increased by 2.5 percent and higher ridership (2.9 percent);
- Revenues on the *Ocean* increased by 5.3 percent as a result of higher average revenues (10.9 percent), partly offset by a decline in ridership (5.1 percent);
- Revenues on the *Canadian* are 24.2 percent higher than those of the corresponding quarter last year. The performance is attributable to higher average revenues (17.9 percent) associated with the Prestige class, as more capacity was offered for sale this year. Ridership also increased by 5.4 percent;
- Revenues on Regional services have increased by 16.7 percent, due in most part to higher average revenues achieved on the Winnipeg-Churchill service.

For the year ended December 31:

- Corridor East revenues are 9.3 percent above last year, and the increase stems from both higher ridership (increase of 5.8 percent) associated with the additional capacity introduced during the second half of 2015 and the fourth quarter of 2016, and improved average revenues (3.3 percent);
- Revenues in SWO increased by 3.9 percent, the increase attributable to higher average revenues which increased by 3.8 percent;
- Revenues on the *Ocean* have grown by 4.3 percent, average revenues have increased by 7.3 percent, partly offset by lower ridership (2.8 percent below last year);
- Revenues on the *Canadian* are 20.5 percent higher than those of last year. The performance is attributable to higher average revenue (15.9 percent) associated with the Prestige class which was only introduced in May 2015, combined with increased ridership (3.9 percent);
- Revenues on Regional services have increased by 10.6 percent, as a result of improved average revenues (9.1 percent) combined with higher ridership (1.4 percent).

3. FUNDED OPERATING EXPENSES

	Quarters ended December 31				Years ended December 31			
IN MILLIONS OF CANADIAN DOLLARS	**2016**	2015	Var $	Var %	**2016**	2015	Var $	Var %
Compensation & Benefits*	**65.3**	60.4	4.9	8.1 %	**240.4**	228.9	11.5	5.0 %
Train Operations & Fuel	**30.6**	29.6	1.0	3.4 %	**120.5**	123.3	(2.8)	(2.3 %)
Realized loss (gain) on derivative financial instruments	**0.7**	2.9	(2.2)	(75.9 %)	**6.4**	8.5	(2.1)	(24.7 %)
Corporate Tax expense (recovery)	**(0.3)**	(0.5)	0.2	(40.0 %)	**0.1**	0.2	(0.1)	(50.0 %)
Other operating expenses*	**52.1**	39.8	12.3	30.9 %	**187.0**	159.1	27.9	17.5 %
Total Operating expenses (before employer contributions for employee benefits)	**148.4**	**132.2**	**16.2**	**12.3 %**	**554.4**	**520.0**	**34.4**	**6.6 %**
Employer Contributions for employee benefits*	**6.1**	12.9	(6.8)	(52.7 %)	**37.4**	57.8	(20.4)	(35.3 %)
TOTAL FUNDED OPERATING EXPENSES	**154.5**	**145.1**	**9.4**	**6.5 %**	**591.8**	**577.8**	**14.0**	**2.4 %**

* Financial statement amounts were adjusted to reflect funded activities.

Year 2016

- **41 %** Compensation and employee benefits ($240.4M)
- **6 %** Employer contribution for employee benefits ($37.4M)
- **20 %** Train operations and fuel ($120.5M)
- **7 %** Stations and property ($39.6M)
- **5 %** Marketing and sales ($31.2M)
- **6 %** Maintenance material ($33.2M)
- **3 %** On-train product costs ($18.3M)
- **4 %** Professional services ($23.8M)
- **8 %** Other ($47.4M)

Year 2015

- **40 %** Compensation and employee benefits ($228.9M)
- **10 %** Employer contribution for employee benefits ($57.8M)
- **21 %** Train operations and fuel ($123.3M)
- **6 %** Stations and property ($36.8M)
- **5 %** Marketing and sales ($30.7M)
- **6 %** Maintenance material ($31.7M)
- **3 %** On-train product costs ($17.2M)
- **9 %** Other ($51.4M)

For the quarter:

- Funded operating expenses before employer contributions for employee benefits increased by $16.2 million (12.3 percent) and totaled $148.4 million for the quarter, the variance stemming from the following major elements:
  - Higher costs for professional services ($6.0 million), including
    - $3.0 million invested in the two major initiatives of 2016, which are the high frequency rail study, and fleet renewal project for which VIA received some additional funding. These projects, if completed, could provide substantial benefits in future years;
    - $1.9 million invested in cloud projects;

    (professional services are included in "other expenses" category);
  - Higher compensation costs ($4.9 million) which are mostly due to the impact of the annual salary increases as well as from the additional costs associated with new additional frequencies introduced in 2016;
  - Lower realized loss on derivative financial instruments, which decreased by $2.2 million as a result of the impact of the hedging contracts for fuel (losses are due to the fact that market fuel costs were lower than the contract prices);
  - Higher maintenance material expenses, due in part to the fact that the 2015 costs included an adjustment to capitalize work which had been recorded as expenses in the previous quarter. Maintenance material expenses are included in "other expenses" category;
- Employer contributions for employee benefits decreased by 52.7 percent, mostly due to lower pension contributions for past services, resulting from an improving solvency funding status which serves as basis for determination of the Corporation's pension plans for funding requirement in 2016.

For the year ended December 31:

- Funded operating expenses before employer contributions for employee benefits increased by $34.4 million (6.6 percent) and totaled $554.4 million for the year, the variance attributable to the following major elements:
  - Increase of $12.4 million for professional services, including
    - $7.4 million invested in the two major 2016 initiatives which are the high frequency rail study, and the fleet renewal project for which the Corporation received some additional funding. These initiatives, upon completion, could provide substantial benefits to the Corporation;
    - $4.2 million invested in cloud projects;

    (professional services are included in the "other expenses" category);
  - Higher compensation and benefits with an increase of $11.5 million, mainly associated to the additional capacity deployed through additional frequencies and extra cars on existing trains, and the annual salary increases;
  - Lower train Operations and fuel of $2.8 million, mostly due to lower fuel prices;
  - Lower realized loss on derivative financial instruments, which decreased by $2.1 million as a result of the impact of the hedging contracts for fuel (losses are due to the fact that market fuel costs were lower than the contract prices);
  - Increase of $2.8 million for station and property costs due to contractual cost increases, and the fact that the 2015 expenses were impacted by a favorably impacted by a non-recurring adjustment (station & property costs are include in "other expenses" category);
  - Increase of $2.5 million for equipment repairs due to train incidents;
- Employer contributions for employee benefits decreased by 35.3 percent, mostly due to lower pension contributions, based on the most recent actuarial reports.

4. GOVERNMENT FUNDING

	Quarters ended December 31				Years ended December 31			
IN MILLIONS OF CANADIAN DOLLARS	**2016**	2015	Var $	Var %	**2016**	2015	Var $	Var %
Operating funding from the Government of Canada	**72.9**	69.8	3.1	4.4 %	**267.5**	280.0	(12.5)	(4.5 %)
Capital funding	**32.6**	29.3	3.3	11.3 %	**86.3**	97.9	(11.6)	(11.8 %)
Total	**105.5**	99.1	6.4	6.5 %	**353.8**	377.9	(24.1)	(6.4 %)
Detailed funding from government								
Total funded revenues (section 2)	**81.6**	75.3	6.3	8.4 %	**324.3**	297.8	26.5	8.9 %
Total funded operating expenses (section 3)	**154.5**	145.1	9.4	6.5 %	**591.8**	577.8	14.0	2.4 %
Total funded operating loss	**72.9**	**69.8**	**3.1**	**4.4 %**	**267.5**	**280.0**	**(12.5)**	**(4.5 %)**

For the quarter:

Operating funding increased by $3.1 million (4.4 percent) compared to the corresponding quarter last year and is attributable to the higher operating loss. The increase in the operating loss results from higher operating costs which include amounts invested in the two major 2016 initiatives (high frequency rail study and fleet renewal project) as explained in sections 2 and 3 of this document.

Capital funding increased by $3.3 million (11.3 percent) and reflects the fact that higher capital investments were made than during the corresponding quarter last year.

For the year:

Operating funding decreased by 4.5 percent and reflects the decrease in operating loss for the period. This decrease is the result of higher revenues, partly offset by higher funded operating expenses, which include the amounts invested in the two major 2016 initiatives (high frequency rail study and fleet renewal project), as shown in sections 2 and 3 of this document.

Capital funding decreased by 11.8 percent and also reflects the fact fewer investments were made compared to last year and a portion of capital investments were funded by the asset renewal fund.

Operating government funding is recognized in the income statement and is based on the shortfall of revenues as compared to expenses.

Capital funding is recorded as deferred capital funding in the statement of financial position. It is amortized and recognized as revenue over the same periods as the related property and equipment, and intangible assets are used in VIA Rail's operations.

5. TOTAL COMPREHENSIVE INCOME (LOSS)

	Quarters ended December 31				Years ended December 31			
IN MILLIONS OF CANADIAN DOLLARS	**2016**	2015	Var $	Var %	**2016**	2015	Var $	Var %
Net income (loss)	**12.5**	(11.8)	24.3	(205.9 %)	**8.3**	9.1	(0.8)	(8.8 %)
Other comprehensive income (loss)								
Remeasurements of defined benefit plans	**91.1**	6.0	85.1	1418.3 %	**(30.5)**	35.8	(66.3)	(185.2 %)
Total comprehensive income (loss)	**103.6**	**(5.8)**	**109.4**	**(1886.2%)**	**(22.2)**	**44.9**	**(67.1)**	**(149.4 %)**

In addition to net results of the quarter, the Corporation recorded a credit of $91.1 million associated with the re measurements of the pension and employee benefit plans. This income resulted from a higher discount rate on the pension obligation compared to last quarter, offset by a lower return on plan assets.

On a total year basis, the Corporation incurred a total comprehensive loss of $22.2 million. This loss was due to the re measurement of defined benefit plans expense of $30.5 million, which was driven by the impact of a lower discount rate in 2016, as well as lower return on plan assets compared to 2015.

Further information on pensions plan is provided in Note 18 of our financial statements.

6. CAPITAL INVESTMENTS

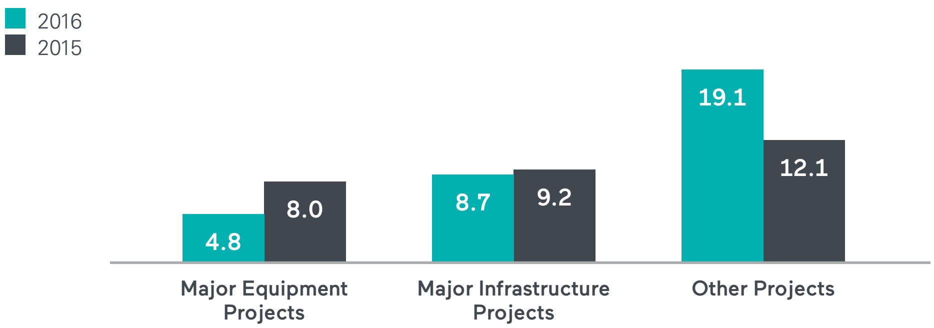
Breakdown of VIA Rail's $1.3 billion of Assets (NBV)

- **37 %** Rolling stock ($465.6M)
- **4 %** Maintenance buildings ($46.8M)
- **7 %** Stations and facilities ($84.3M)
- **14 %** Owned infrastructures ($173.8M)
- **26 %** Right of access ($335.6M)
- **12 %** Others ($156.1M)

Via Rail's uses assets which cost $2,230.2 million. The total carrying amount of the fixed assets (cost less accumulated depreciation) amounted to $1,262.2 million as at December 31 2016, a $12.4 million decrease compared to the balance as at December 31, 2015. The decrease in value results from the fact that the value of depreciation, impairment and disposal of existing assets exceeded the amounts invested in new assets.

Capital investments for the Quarter

(In millions of Canadian dollars)

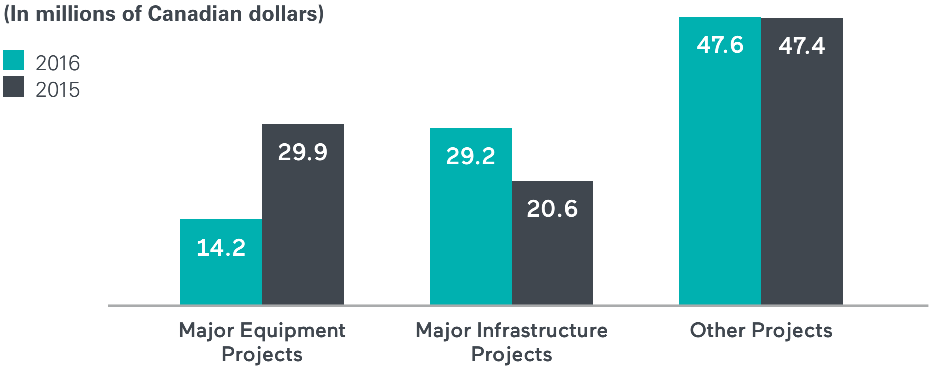


Capital investments totaled $32.6 million for the quarter, composed mainly of:

- Investments of $8.5 million made in projects for infrastructure between Montreal and Ottawa, including upgrade of tracks and bridges, refurbishment of cars, and improved accessibility to stations;
- Investments of $8.3 million made in station projects, mostly at Union station;
- An amount of $4.8 million invested in Major Equipment Projects for the LRC rebuild program;
- Investments of $4.4 million made at Montreal and Toronto maintenance centers;
- An amount of $4.3 million invested in Information Technology for projects such as the reservation system modernization and the workforce management system.

Capital investments for the year ended December 31

(In millions of Canadian dollars)



Capital investments totaled $91.0 million for the year, composed mainly of:

- Investments of $27.2 million made in projects for infrastructure between Montreal and Ottawa, including upgrade of tracks and bridges, refurbishment of cars, and improved accessibility to stations;
- Investments of $14.2 million in Major Equipment projects for the LRC rebuild program;
- Investments of $18.2 million in Information Technology for projects such as the customer relationship management system, PCI compliance, automation of on train services system, and reservation system enhancements;
- Investments of $9.4 million made in other equipment projects.

7. CASH FLOW AND FINANCIAL POSITION

	Quarters ended December 31				Years ended December 31			
IN MILLIONS OF CANADIAN DOLLARS	**2016**	2015	Var $	Var %	**2016**	2015	Var $	Var %
Balance, beginning of the period	**34.5**	13.4	21.1	157.5 %	**9.3**	13.9	(4.6)	(33.1 %)
Net cash (used in) provided by operating activities	**(19.9)**	3.1	(23.0)	n/a	**(8.8)**	10.1	(18.9)	n/a
Net cash (used in) provided by investing activities	**(3.7)**	(7.2)	3.5	n/a	**10.4**	(14.7)	25.1	n/a
BALANCE, END OF THE PERIOD	**10.9**	**9.3**	**1.6**	**17.2 %**	**10.9**	**9.3**	**1.6**	**17.2 %**

The Corporation's cash balance is $10.9 million as at December 31, 2016, which is $1.6 million higher than the balance as at December 31, 2015 and down $23.6 million compared to the balance as at September 2016.

The decrease in cash for the quarter is mostly due to operating activities. The increase for the year is due in part to change in capital funding receivable from government of Canada partly offset by cash used in operating activities.

8. RISK ANALYSIS (COMPARED TO DECEMBER 31, 2015)

This section highlights VIA Rail's key risks which may have potential impact on the Company's financial results, and provides information on risks and shows the current trend in comparison to the status as at December 31, 2015.

RISK	TREND	CURRENT SITUATION
SAFETY OF PASSENGERS, EMPLOYEES AND THE PUBLIC		
Events such as collisions, derailments and pedestrian accidents may negatively impact revenues. Such events and new regulations on grade crossings may also result in significant non-budgeted costs for the Corporation.	Stable	The Corporation has adopted operational procedures and controls which adhere to government regulations and also aim to go beyond compliance in terms of railway safety. In 2015, VIA implemented its enhanced Safety Management System (SMS) which is aligned with Federal Regulations and leading industry standards. This system provides the processes to systematically embed safety in our day to day operations. VIA also completes regular inspections of its equipment and infrastructure. These activities are carried on to manage and mitigate the safety risks of our railway operations, as well as the potential significant unexpected costs which may result from these events. Transport Canada issued a new regulatory agenda concerning the safety of grade crossings which will require that upgrades be made to certain infrastructure no later than November 27, 2021. The upgrades have not been fully quantified or funded. VIA Rail received, in the March 2016 federal budget, funds to upgrade some of the crossings on the infrastructure it owns. However as VIA operates on infrastructure which belongs to other carriers, it will have to rely on these other carriers for the execution of the work on their infrastructure. The Corporation has requested, in its 2017-2021 Corporate Plan, additional capital funding which will be used in part for the payment of these upgrades.

INCREASING STABLE DECREASING

RISK	TREND	CURRENT SITUATION
GOVERNMENT AND STRATEGY		
VIA Rail has limited powers as a non-agent Crown Corporation and is dependent on annual Government budgetary allocations to fund its operations, capital and pension obligations. Insufficient funding constitutes a risk in the efficient delivery of its services, as well as in the planning and execution of its medium-to-long-term strategies.		VIA Rail has not yet received confirmed capital, operating and pension funding envelopes for years beyond the 2016-2017 government fiscal year. The current confirmed funding envelopes for capital, operating and pension funding expire in March 2017, however it is anticipated that funding will be received in the upcoming Budget for 2017 and subsequent years. Insufficient funding levels would impact efficient operations and the continuity of projects.
EMPLOYEE CONTRIBUTION		
Low contribution and engagement of employees could lead to high employee turnover. VIA Rail's workforce is mature and many employees could retire in the next few years, including some with specific technical skills. Without proper succession planning, key knowledge and competencies could be lost. The situations could result in loss of productivity and increased costs.		Following the engagement survey completed in 2015, VIA Rail management implemented action plans to address the elements for which engagement was the lowest. Another engagement survey was completed in 2016 and the results showed that employee engagement has increased significantly compared to the previous year. Various initiatives were put in place in 2016, including the leadership school for managers, locomotive engineer training program and succession grids, and they will be continued in 2017. In addition to those, a new apprenticeship program for maintenance employees has been started and will be rolled out during the year.

INCREASING STABLE DECREASING

RISK	TREND	CURRENT SITUATION
REVENUE GENERATION		
Failure to meet our revenue plan can cause our funding to be insufficient and lead to cost/service reductions. Current revenue challenges include: - Deterioration of on-time performance due to infrastructure issues - Reduced capacity due to aging fleet - Competition - A slow economic environment.		VIA Rail generated a very strong performance for revenues in 2016, with increased ridership and improved average revenues. While these results are very encouraging, the challenges pertaining to on time performance and limited capacity remain and could hinder the potential for additional growth in future years. This is one of the reasons why management invested amounts this year in its fleet renewal and dedicated tracks initiatives, and presented a business case to Transport Canada in December 2016. With its own infrastructure and enhanced schedules and trip times, VIA Rail would serve more Canadians, while increasing revenues and significantly improving operational performance and reducing required subsidies.
COSTS INFLUENCED BY EXTERNAL FACTORS		
Elements exist outside of the Corporation's control such as harsh weather and financial and commodity market conditions that can have an adverse impact on costs such as fuel, equipment maintenance and pension costs. Failure to meet our budgeted costs can cause funding to be insufficient and lead to service reductions.		The Corporation monitors fuel operating costs closely and used fuel hedging to minimize the potential negative impact of sharp cost increased. For equipment maintenance costs, initiatives have been implemented to optimize the equipment maintenance plan resulting in cost efficiencies. With regards to pension costs, the financial situation of the plans has deteriorated modestly, while investment returns were in line with actuarial targets, discount rates have declined over the course of 2016, causing an increase in liability valuations.

INCREASING STABLE DECREASING

RISK	TREND	CURRENT SITUATION
EQUIPMENT QUALITY, AVAILABILITY AND RELIABILITY		
VIA Rail's equipment is aging and its reliability has deteriorated in the past few years, resulting in delays and additional operating costs. Furthermore, VIA Rail's future needs and funding may be uncertain, while decisions must be made to replace the fleet, and VIA Rail may not be able to find quality cars in the short term to support growth while adding frequencies. Maintenance costs could increase significantly in the next few years until a new fleet is introduced as reliability of the aging fleet may continue to deteriorate.		VIA Rail is investing in the existing fleet through ongoing capital injections to maintain it in a state of good repair, improve reliability and minimize increased maintenance costs associated with an aging fleet. Although the situation pertaining to the current fleet has not changed, VIA Rail received, through the March 2016 Federal budget, an additional funding envelope of $3 million to complete technical analysis and pre procurement activities for the renewal of its fleet, which is the first stage towards the acquisition of a new fleet. These activities were completed in the fall of 2016, VIA presented its business case to Transport Canada in December 2016 and is awaiting from feedback and direction. In the near term, should there be a need for additional equipment, the Corporation has identified potential suppliers who could rent equipment to VIA Rail on a short-term basis.
INFRASTRUCTURE AVAILABILITY, RELIABILITY AND QUALITY		
The services provided by host railways have been deteriorating, resulting in declining on-time performance, lower customer satisfaction and passenger revenues, as well as increased operating costs. On-time performance, despite slight improvements in 2016, continues to be below historical levels.		The Corporation continues to work with the various track owners to try and resolve the issues causing train delays, and improve on-time performance.

INCREASING STABLE DECREASING

RISK	TREND	CURRENT SITUATION
INFORMATION TECHNOLOGY		
The availability, reliability and responsiveness of existing and new information technology may have a positive or negative impact on the achievement of VIA Rail's strategic objectives and management of other key risks. Underinvestments in IT technology, security threats and lack of reliability of equipment could have significant impacts on the Corporation's performance.	DECREASING	Following the completion of the information technology risk map, various actions were undertaken to minimize risks, including the implementation of ongoing security framework, and monitoring of perimeter and critical systems security, as well as the implementation of a corporate project management office which developed and documented IT process directives and standards.

INCREASING STABLE DECREASING

9. OUTLOOK

The results of 2016 were very positive, VIA generated unprecedented revenues, and grew its ridership while improving average fares. More passengers are travelling with VIA and recognize the value of the services offered by the Corporation. Although operating expenses increased compared to the previous year, a portion of that increase stems from the investments made in the two major initiatives of 2016 which are the high frequency rail study and fleet renewal project, which could, once completed, significantly improve VIA's operating results.

The strong performance of 2016 was achieved thanks to VIA's employees, who continually strive to enhance service offerings and customer service, invest in initiatives which will provide benefits in future years, while maximizing efforts to contain costs and improve efficiency in the Corporation's daily operations.

VIA management has presented both the fleet renewal and dedicated tracks business cases to its shareholder Transport Canada, and is awaiting feedback and direction for the next steps leading to their realization. These two initiatives would enable VIA Rail to provide a more reliable service for Canadians, allow more passengers to experience train travel, and potentially eliminate the need for Government financial subsidy.

In the meantime, VIA's team will pursue its commitment to enhance service offering to customers, and contain costs as much as possible to maximize its efficiency and minimize the subsidy required from the government of Canada.

FINANCIAL STATEMENTS

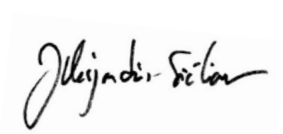
MANAGEMENT'S RESPONSIBILITY STATEMENT

YEAR ENDED DECEMBER 31, 2016

Management of the Corporation is responsible for the preparation and fair presentation of the financial statements contained in the Annual Report. These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and necessarily include certain amounts that are based on management's best estimates and judgment. Financial information contained throughout the Annual Report is consistent with that in the financial statements. Management considers that the financial statements present fairly the financial position of the Corporation and its financial performance and its cash flows.

To fulfil 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 external auditor, the Auditor General of Canada, has audited the Corporation's financial statements for the year ended December 31, 2016 and his report indicates the scope of his audit and his opinion on the financial statements.

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



Yves Desjardins-Siciliano
President and Chief Executive Officer

Patricia Jasmin, CPA, CA
Chief Financial Officer

Montréal, Canada
March 21, 2017

Office of the Auditor General of Canada
Bureau du vérificateur général du Canada

INDEPENDENT AUDITOR’S REPORT

To the Minister of Transport

Report on the Financial Statements

I have audited the accompanying financial statements of VIA Rail Canada Inc., which comprise the statement of financial position as at 31 December 2016, and the statement of comprehensive income, statement of changes in shareholder’s deficiency and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of VIA Rail Canada Inc. as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

As required by the *Financial Administration Act*, I report that, in my opinion, the accounting principles in International Financial Reporting Standards have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of VIA Rail Canada Inc. that have come to my notice during my audit of the 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 regulations, the articles and by-laws of VIA Rail Canada Inc., and the directives issued pursuant to section 89 of the *Financial Administration Act*.

Tina Swiderski, CPA auditor, CA
Principal
for the Auditor General of Canada

21 March 2017
Montréal, Canada

FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION

As at December 31 (IN THOUSANDS OF CANADIAN DOLLARS)	**2016**	2015
CURRENT ASSETS		
Cash	**$ 10,861**	$ 9,318
Trade and other receivables (NOTE 8)	**11,428**	12,891
Receivable from the Government of Canada	**22,593**	9,433
Other current assets (NOTE 9)	**2,927**	1,744
Derivative financial instruments (NOTE 10)	**2,507**	2,668
Materials (NOTE 11)	**24,112**	28,241
Asset Renewal Fund (NOTE 12)	**7,780**	7,780
	82,208	72,075
NON-CURRENT ASSETS		
Property, plant and equipment (NOTE 13)	**879,060**	884,806
Intangible assets (NOTE 14)	**383,075**	389,814
Asset Renewal Fund (NOTE 12)	**873**	873
Post-employment and other employee benefits (NOTE 18)	**4,151**	9,525
	1,267,159	1,285,018
Total Assets	**$ 1,349,367**	$ 1,357,093
CURRENT LIABILITIES		
Trade and other payables (NOTE 15)	**$ 102,409**	$ 90,727
Provisions (NOTE 16)	**13,507**	10,787
Derivative financial instruments (NOTE 10)	**6,962**	18,900
Deferred revenues (NOTE 17)	**39,483**	35,492
	162,361	155,906
NON-CURRENT LIABILITIES		
Post-employment and other employee benefits (NOTE 18)	**75,877**	51,940
	75,877	51,940
Deferred capital funding (NOTE 20)	**1,247,163**	1,263,122
SHAREHOLDER'S DEFICIENCY		
Share capital (NOTE 21)	**9,300**	9,300
Accumulated deficit	**(145,334)**	(123,175)
	(136,034)	(113,875)
Total Liabilities and Shareholder's deficiency	**$ 1,349,367**	$ 1,357,093

Commitments and Contingencies (Notes 25 and 28, respectively)

The notes are an integral part of the financial statements.

Approved on behalf of the Board,

Jane Mowat, CPA, CA
Lead Director and Chair of the Audit and Finance Committee

Yves Desjardins-Siciliano
President and Chief Executive Officer

FINANCIAL STATEMENTS

STATEMENT OF COMPREHENSIVE INCOME

Year ended December 31 (IN THOUSANDS OF CANADIAN DOLLARS)	2016	2015
REVENUES		
Passenger	$ 299,529	$ 275,166
Other	23,282	22,772
	322,811	297,938
EXPENSES		
Compensation and employee benefits	278,519	272,828
Train operations and fuel	120,492	123,314
Stations and property	39,558	36,759
Marketing and sales	31,167	30,671
Maintenance material	33,185	31,737
On-train product costs	18,329	17,161
Operating taxes	10,389	9,687
Professional services	23,791	11,448
Telecommunications	15,100	11,594
Depreciation and amortization (NOTES 13 AND 14)	87,136	79,439
Impairment and loss (gain) on disposal of property, plant and equipment and intangible assets (NOTES 13 AND 14)	16,374	4,374
Unrealized net loss (net gain) on derivative financial instruments	(11,777)	4,128
Realized net loss (net gain) on derivative financial instruments	6,358	8,476
Other	15,536	9,684
	684,157	651,300
OPERATING LOSS BEFORE FUNDING FROM THE GOVERNMENT OF CANADA AND INCOME TAXES	361,346	353,362
Operating funding from the Government of Canada (NOTE 6)	267,513	279,981
Amortization of deferred capital funding (NOTE 20)	102,307	82,613
Net income before income taxes	8,474	9,232
Income tax (expense) recovery (NOTE 19)	(139)	(152)
NET INCOME FOR THE YEAR	8,335	9,080
Other comprehensive income (loss)		
Amounts not to be reclassified subsequently to net income (net of tax):		
Remeasurements of defined benefit plans (NOTE 18)	(30,494)	35,842
	(30,494)	35,842
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR	$ (22,159)	$ 44,922

The notes are an integral part of the financial statements.

FINANCIAL STATEMENTS

STATEMENT OF CHANGES IN SHAREHOLDER'S DEFICIENCY

Year ended December 31 (IN THOUSANDS OF CANADIAN DOLLARS)	2016	2015
SHARE CAPITAL	$ 9,300	$ 9,300
Accumulated deficit		
Balance, beginning of year	(123,175)	(168,097)
Net income for the year	8,335	9,080
Other comprehensive income (loss) for the year	(30,494)	35,842
Balance, end of year	(145,334)	(123,175)
Total Shareholder's deficiency	$ (136,034)	$ (113,875)

The notes are an integral part of the financial statements.

FINANCIAL STATEMENTS

STATEMENT OF CASH FLOWS

Year ended December 31 (IN THOUSANDS OF CANADIAN DOLLARS)	2016	2015
OPERATING ACTIVITIES		
Net income for the year	**$ 8,335**	$ 9,080
Adjustments to determine net cash (used in) provided by operating activities:		
Depreciation and amortization (NOTES 13 AND 14)	**87,136**	79,439
Impairment and loss (gain) on disposal of property, plant and equipment and intangible assets (NOTES 13 AND 14)	**16,374**	4,374
Amortization of deferred capital funding (NOTE 20)	**(102,307)**	(82,613)
Interest income	**(355)**	(355)
Unrealized net loss (net gain) on derivative financial instruments	**(11,777)**	4,128
Post-employment and other employee benefit expenses (NOTE 18)	**36,331**	43,013
Employer post-employment and other employee benefit contributions (NOTE 18)	**(37,514)**	(57,841)
Net change in non-cash working capital items (NOTE 22)	**(5,122)**	10,882
Net cash (used in) provided by operating activities	**(8,899)**	10,107
INVESTING ACTIVITIES		
Capital funding (NOTE 20)	**86,348**	97,904
Change in capital funding receivable from the Government of Canada	**7,495**	(12,716)
Proceeds from sale and maturity of investments in the Asset Renewal Fund	**-**	437
Change in capital accounts payable and accrued liabilities	**7,269**	(2,751)
Acquisition of property, plant and equipment and intangible assets (NOTES 13 AND 14)	**(91,032)**	(97,891)
Interest received	**355**	355
Proceeds from disposal of property, plant and equipment and intangible assets	**7**	1
Net cash (used in) provided by investing activities	**10,442**	(14,661)
CASH		
Increase (decrease) during the year	**1,543**	(4,554)
Balance, beginning of year	**9,318**	13,872
Balance, end of year	**$ 10,861**	$ 9,318
REPRESENTED BY:		
Cash	**$ 10,861**	$ 9,318
	$ 10,861	$ 9,318

The notes are an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31

1. AUTHORITY AND OBJECTIVES

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

The Corporation is subject to a directive (P.C. 2013-1354) that was issued on December 9, 2013 pursuant to sections 89.8 and 89.9 of the *Financial Administration Act*. As per this directive the Corporation must obtain Treasury Board approval on its negotiating mandates with respect to collective agreements as well as on the terms and conditions of employment of its non-unionized employees who are not appointed by Governor in Council. On June 3, 2016 the Corporation was issued a directive (P.C. 2016-443) that repealed the requirement for the Corporation to obtain the Treasury Board's approval on its negotiating mandates for all unionized employees. The Corporation confirms that the requirements of the directive have been met in 2016.

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

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

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

These financial statements were approved and authorized for issue by the Board of Directors on March 21, 2017.

2. BASIS OF PREPARATION

a) Statement of compliance

The Corporation's financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS).

b) Basis of measurement

The financial statements have been prepared on the historical cost basis except when a specific IFRS standard required fair values measurement as explained in the accounting policies below.

c) Functional and presentation currency

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed by the Corporation are summarized as follows:

a) 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 6 for the reconciliation). The funding is determined on the basis of operating expenses less commercial revenues excluding unrealized gains and losses on financial instruments, non-cash employee benefits, non-cash transactions relating to property, plant and equipment, intangible assets and deferred taxes, and is 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 in the statement of financial position and is amortized on the same basis and over the same periods as the funded depreciable property, plant and equipment and intangible assets. Upon disposal of the funded depreciable property, plant and equipment and intangible assets, the Corporation recognizes into net income all remaining deferred capital funding related to the relevant assets.

Funding for non-depreciable property, plant and equipment is recorded as deferred capital funding in the statement of financial position and is amortized on the same basis and over the same periods as the related depreciable property, plant and equipment.

b) Revenue recognition

i) Passenger revenues

The consideration received from the sale of tickets is allocated between the loyalty program (VIA Préférence) and the passenger transportation service. The amount allocated to the loyalty program is based on the points expected rate of redemption and their fair values. The revenue is recorded as deferred revenue until the transportation has been provided or, in the case of the loyalty program, until the points are redeemed for train tickets. When points are redeemed, the revenue is determined based on the number of points that have been redeemed in exchange for train tickets. Deferred revenues related to the loyalty program are also recorded as revenues when it is no longer considered probable that the related loyalty program points will be redeemed.

ii) Other revenues

Other revenues that include revenues from third parties and investment income are recorded as they are earned. The change in fair value of the financial instruments held for trading, other than derivative financial instrument, is recorded in other revenues.

c) Materials

Materials, consisting primarily of items used for the maintenance of rolling stock, are valued at the lower of cost and net realizable value. The cost is determined using the weighted average method and net realizable value is defined as the replacement cost. Materials are presented net of the related obsolescence provision.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

d) Property, plant and equipment

Property, plant and equipment are recorded at the cost, less accumulated depreciation and any accumulated impairment losses. The cost includes all expenditures directly attributable to the acquisition of the asset. When major components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment and are depreciated over their respective useful lives. Maintenance and repair costs are recognized as follows:

i) Rolling stock:
Maintenance expenses incurred during the useful life of equipment (regular maintenance activities to maintain the asset in a good condition) are recorded as operating expenses.

The cost of periodic major overhaul programs are capitalized as a separate component and depreciated over its expected useful life.

ii) Fixed installations:
Maintenance and repair expenses (technical inspections, maintenance contracts, etc.) are recorded as operating expenses.

The costs of periodic major building repair programs are capitalized as a separate component and depreciated over its expected useful life.

Depreciation of property, plant and equipment is calculated on a straight-line basis, from the date they are available for use, at rates sufficient to depreciate the cost of property, plant and equipment, less their residual value, over their estimated useful lives except for leasehold improvements related to the lease of buildings and stations where the depreciation period is the shorter of the lease term or its estimated useful life. The estimated useful lives are as follows:

	Years
Rolling stock	**5 to 75**
Maintenance buildings	**15 to 75**
Stations and facilities	**10 to 50**
Owned infrastructure	**10 to 50**
Leasehold improvements	**10 to 40**
Machinery and equipment	**5 to 15**
Computer hardware	**3 to 7**
Other property, plant and equipment (NOTE 1)	**20**

Note 1: Other property, plant and equipment include mostly office furniture and luggage carts.

The estimated useful life, depreciation method and residual value are reviewed at the end of each annual reporting period taking into account the nature of the assets, past experience, changing technologies and expectations for the in-service period of the assets, with the effect of any changes in estimate being accounted for on a prospective basis. No depreciation is provided for projects in progress and land.

Gains and losses on disposals of property, plant and equipment are determined by comparing the proceeds with the carrying amount of the asset and are recorded under ''Impairment and loss (gain) on disposal of property, plant and equipment and intangible assets'' in the statement of comprehensive income.

e) Intangible assets

Intangible assets acquired separately are recorded at cost less accumulated amortization and accumulated impairment losses. Amortization is recorded on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each annual reporting period, taking into account the nature of the assets, past experience, changing technologies and expectations for the in-service period of the assets, with the effect of any changes in estimate being accounted for on a prospective basis. No depreciation is provided for projects in progress.

For internally-generated intangible assets, the expenditure on research activities is recognized as an expense in the year in which it is incurred and the development expense from the development phase of an internal project is recognized if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognized for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognized, development expenditure is charged to net income in the year in which it is incurred.

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 years:

	Years
Software	**3 to 5**
Rights of access to rail infrastructure	**38**
Other Intangible assets	**20 to 25**

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

f) Impairment of non-financial assets

The Corporation reviews at each statement of financial position date whether there is any indication of impairment (obsolescence, physical deterioration, significant changes in the method of utilisation, performances falling short of forecasts, decline in revenues, other external indicators) or reversal of impairment loss. Non-financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the non-financial asset, the asset's carrying amount exceeds its recoverable amount. The recoverable amount of an asset is the greater of its value in use and its fair value less costs of disposal. The value in use is determined by the estimated present value of future cash flows generated by the asset. The Corporation does not generate cash flows from the use of its assets, as its operations are funded by Government appropriations on a break-even basis. Therefore, value in use will always be zero.

The fair value is determined using the current replacement cost.

An impairment loss is recognized in net income and calculated as the difference between the carrying amount and the recoverable amount.

When there is a reversal of impairment loss, the carrying amount of the asset is increased to the lower of the recoverable amount and the carrying amount (net of depreciation or amortization) that the asset would have had if previous impairment loss had not been recognized. The reversal of impairment loss is recognized in net income.

g) Provisions and contingencies

Provisions, including provisions for legal litigations, restructuring and environmental issues, are recognized when it becomes probable that a present obligation (legal or constructive) resulting from a past event will require a settlement and when the amount can be estimated reliably.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the statement of financial position date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Contingent liabilities are not recognized in the statement of financial position. Contingent liabilities may arise from uncertainty as to the existence of a liability, or represent an existing liability in respect of which settlement is not probable or the amount cannot be reliably measured. These contingent liabilities are disclosed in Note 28.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

The provision for litigations is determined on a case by case basis by the legal service group of the Corporation. External consultants are solicited for the most significant and complex litigations.

A restructuring provision is recognized when the Corporation has developed a detailed formal plan for the restructuring and has raised a valid expectation that it will carry out the restructuring by starting to implement the plan or announcing its main features to the affected employees. The measurement of a restructuring provision includes only the direct expenditures, mainly severance costs, arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the Corporation.

The environmental provision includes 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.

h) Income taxes

The Corporation utilizes the asset and liability method of accounting for taxes under which deferred 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. Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates that are expected to apply for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in earnings in the year that includes the enactment date. Deferred tax assets are recognized to the extent that realization is considered probable.

i) Employee benefits

i) Post-employment benefits

Post-employment benefits include post-retirement medical and life insurance benefits as well as pension plans with defined benefit and defined contribution components.

Employer contributions related to the defined contribution component of the pension plan are recognized as an expense when employees render the service entitling them to the contributions.

The Corporation's obligations for the defined benefit component of the pension plans as well as for other post-employment benefits are actuarially determined using the projected unit credit method and management's best estimate. The present value of the defined benefit obligations are calculated using discount rates based on an interest rate curve that represents the yields on corporate AA bonds. The new CIA's calculation model establishes the rates for longer maturities by extrapolating the yield curve to maturity of AA-rated corporate bonds based on the observed relationship between the yields of AA-rated corporate bonds or provincial AA-rated bonds and those of Canada in the medium-term maturity range. This relationship is then transposed to the universe of provincial AA-rated bonds with longer maturities to extrapolate the bond yields of AA-rated corporate bonds.

The Corporation determines the net interest expense on the net defined benefit liability for the year by applying the discount rate used to measure the defined obligation at the beginning of the year to the net defined benefit liability.

The current service costs, the net interest cost on the net defined benefit liability, the gains and losses on curtailment or settlement and plan amendments are recognized in net income in the year they are incurred.

Remeasurements arising from defined benefit plans comprised of changes in demographic assumptions, changes in financial assumptions, experience adjustments and the return on plan assets excluding amounts included in net interest on the net defined benefit liability are recognized in other comprehensive income (loss) in the year they are incurred.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

ii) Employment benefits other than post-employment benefits
The Corporation provides employment benefits other than post-employment benefits as follows:

- Compensation and short-term employee benefits include the annual salary, performance bonuses, paid vacations not included in the annual salary, short-term sick leave, health, dental and life insurance benefits. These benefits are measured on an undiscounted basis and are expensed as the related service is provided.

- Long-term employee benefits include workers' compensation benefits as well as long-term disability benefits and continuation of benefit coverage for employees on long-term disability.

  The actuarial obligation for workers' compensation benefits is calculated on an event driven basis. The method involves dividing the obligation into two distinct components: awarded pensions and future awards. The actuarial obligation for awarded pensions is the actuarial present value of all future projected payments for the award determined as at the valuation date. The actuarial obligation for future awards is the discounted value of expected cash flow for awards yet to be made. The Corporation is self-insured for its workers' compensation benefits.

  The actuarial obligation for other long-term disability benefits and continuation of benefit coverage for employees on long-term disability is calculated on an event driven basis. This method incorporates management's best estimate of cost escalation as well as demographic and other financial assumptions.

  Actuarial gains and losses and other changes in the Corporation's obligations are recognized in net income in the year in which they arise.

- Termination benefits include benefits that are payable when an employment contract is terminated before the normal retirement date. They are recognized as a liability and expense for termination benefits at the earlier of the following dates:

  (a) when the Corporation can no longer withdraw the offer of those benefits; and

  (b) when the Corporation recognizes costs for a restructuring (provision) and involves the payment of termination benefits.

- Other long-term employee benefits include job security benefits administered by various union agreements. These benefits are calculated on an event driven basis and represents management's best estimates of the present value of all future projected payments to unionized employees.

j) Financial instruments

Financial instruments are classified by category depending on their nature and characteristics. The classification is established at the time of initial recognition, which usually corresponds to the transaction date. Financial assets and financial liabilities, including derivative financial instruments, are initially measured at fair value at the date they are originated. Subsequent to initial recognition, financial instruments are measured based on their classification: fair value through profit and loss, loans and receivables, available for sale or other financial liabilities. The Corporation derecognizes a financial instrument when the contractual rights or obligation to the cash flows from the asset or liability expires.

i) Financial instruments at fair value through profit and loss (FVTPL)

Financial instruments are classified as FVTPL 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 short-term profit taking or derivatives not designated for hedge accounting. A financial instrument is classified at FVTPL if it is held for trading or is designated as such upon initial recognition.

The asset renewal fund and the derivative financial instruments are classified as FVTPL.

Financial instruments recorded at FVTPL are initially and subsequently measured at fair value with changes in those fair values recognized in net income under "Other revenues", except for derivative financial instruments for which fair value changes are recorded under "Unrealized net loss (gain) on derivative financial instruments". 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 cash as well as trade receivables and other receivables that have fixed or determinable payments and that are not quoted in an active market. These financial instruments are presented as current assets when they are recoverable within 12 months of the end of the year, otherwise they are presented as non-current assets. Assets in this category are initially measured at fair value plus directly attributable transaction costs and subsequently measured 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 allowance for doubtful receivables.

iii) Available-for-sale (AFS)

Available-for-sale financial assets are non-derivatives financial instruments that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the statement of financial position date. AFS financial assets are initially recognized at fair value plus directly attributable transaction costs. Subsequent to initial recognition, AFS financial assets are measured at fair value with unrealized gains and losses recorded in other comprehensive income.

iv) Other financial liabilities

Other financial liabilities represent liabilities that are not classified as FVTPL. They are initially measured at fair value plus directly attributable transaction costs and 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, they are carried at the original invoice amount. These financial instruments are presented as current liabilities when they are repayable within 12 months following the end of the year, otherwise they are presented as non-current liabilities.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

v) Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the assets have been affected.

An impairment loss is recognized in net income and calculated as the difference between its carrying amount and the present value of the estimated future cash flows.

When a subsequent event such as a change in the estimates used to determine the recoverable amount, causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through net income.

However, any subsequent reversal of an impairment loss on an available-for-sale financial asset is recognized in other comprehensive income (loss).

k) Non-Monetary Transactions

Non-monetary transactions are recorded at the estimated fair value of the goods or services received. When the fair value of the goods and services received cannot be measured reliably, the transactions are recorded at the estimated fair value of the goods or services given. Revenues from non-monetary transactions are recognized when the related services are rendered. Expenses resulting from non-monetary transactions are recognized during the year when goods or services are provided by third parties.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY AND CRITICAL JUDGMENTS

In the application of the Corporation accounting policies, management is required to make certain judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date.

Estimates and assumptions are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

They are reviewed on an ongoing basis.

Changes to accounting estimates are recognized in the period in which the estimates are revised and in any future period affected. However, uncertainties relating to judgments, assumptions and estimates could result in outcomes that would require a material adjustment to the carrying amount of the asset or liability affected in future years.

a) Useful lives of depreciable assets

The key estimate used for Property, plant and equipment and intangible assets is their useful lives. When determining the expected useful lives of these assets, management takes into account the nature of the assets, past experience, changing technologies and expectations for the in-service period of the assets. Management reviews the useful lives of depreciable assets annually. As at December 31, 2016, management assessed that the useful lives represent the expected utility of the assets to the Corporation.

b) *VIA Préférence* Program

The "*Via Préférence*" program allows members to acquire "award points" as they travel on the train. These award points entitle members to free travel on our trains. In determining the fair value of the award points, the Corporation takes into consideration the probability of the awards being converted into tickets. The estimated probabilities are based on historical information on point redemption and may not reflect the actual redemption rate in the future. As such, the amount allocated between the transportation service and the award points may have been significantly different if different probability estimates had been used.

c) Post-employment and other employee benefits

Except for the defined contribution component of the pension plans, the cost of post-employment and other employee benefits and the present value of the related obligations are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates used to measure the obligations, expected future salary increases, expected retirement age, expected mortality rates, expected health care cost trends, expected inflation and expected future pension increase. When determining these assumptions, management takes into account past experience, current market conditions and rates, and the expertise of its actuaries. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. Actual results may differ from results that are estimated based on assumptions. A sensitivity analysis of key assumptions is presented in Note 18.

d) Income taxes

Management uses judgment and estimates in determining the appropriate rates and amounts in recording deferred income taxes, giving consideration to timing and probability of realization. Actual taxes could significantly vary from these estimates as a result of a variety of factors including future events, changes in income tax law or the outcome of reviews by tax authorities and related appeals. The Corporation has not recognized any deferred tax assets on its deductible temporary differences and unused tax losses as it has determined that it is not probable that taxable profit will be available against which the deductible temporary differences and unused tax losses can be utilized. The resolution of these uncertainties and the associated final taxes may result in adjustments to the Corporation's deferred and current tax assets and liabilities.

e) Impairment of non-financial assets

The Corporation uses judgment in assessing, at each reporting date, whether there is any indication that non-financial assets may have lost value requiring the completion of an impairment test. These tests are designed, in part, to determine a recoverable amount, which is the fair value, based on current replacement cost, less costs of disposal. The current replacement cost and the costs of disposal calculations are based on management's best estimates. Difference in estimates could materially affect the financial statements in determining both the impairment existence and the amount of impairment.

f) Provisions

Determining whether a liability should be recognized as a provision requires management to exercise judgment. The Corporation must determine if a present obligation arises from past events, if it is probable that the Corporation will be required to settle the obligation and if a reliable estimate can be made of the amount of the obligation. The decision is based on management's experience and judgment. If the Corporation considers that one of the three conditions is not satisfied, it must still determine if a contingent liability should be disclosed in the notes, unless the possibility of any outflow in settlements is remote.

5. FUTURE ACCOUNTING CHANGES

IFRS 9 - *Financial Instruments* - In July 2014, the IASB published the final version of IFRS 9 which replaces IAS 39 - *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

This standard is applicable retrospectively for periods beginning on or after January 1, 2018, with early application permitted. The Corporation does not intend to early apply IFRS 9. The Corporation is currently assessing the impact of applying this standard on its financial statements.

IFRS 15 - *Revenue from Contracts with Customers* - The standard specifies how and when revenue should be recognized and requires entities to provide more informative and relevant disclosures to users. The standard, which supersedes IAS 18 - *Revenue*, IAS 11 - *Construction Contracts* and a number of revenue-related interpretations applies to nearly all contracts with customers, unless the contracts are within the scope of other IFRS such as IAS 17 - *Leases*.

This standard is applicable retrospectively, either fully or based on a modified retrospective approach, for periods beginning on or after January 1, 2018 with early application permitted. The Corporation does not intend to early apply IFRS 15. The Corporation is currently assessing the impact of applying this standard on its financial statements.

IFRS 16 - *Leases* – In January 2016, the IASB published a new standard to replace the previous standard IAS 17 – *Leases*. The new standard requires leases to be reported on a lessee's balance sheet as assets and liabilities, provides more transparency and improves comparability between corporations. Lessor accounting remains similar to current practice –i.e. lessors continue to classify leases as finance and operating leases.

This standard is effective for periods beginning on or after January 1, 2019, with early application permitted for corporations that also apply IFRS 15 - *Revenue from Contracts with Customers*. The Corporation does not intend to early apply IFRS 16. The extent of the impact of application of IFRS 16 has not yet been determined.

IAS 7 - *Statement of cash flows* – In January 2016, the IASB published amendments to IAS 7, *Statement of cash flows*. The amendments are intended to clarify IAS 7 to improve information provided to users of financial statements about an entity's financing activities. The amendments are effective for annual periods beginning on or after January 1, 2017, with earlier application permitted. The Corporation does not intend to early apply these amendments and is currently assessing the impact on its financial statements.

IAS 12 - *Income taxes* – In January 2016, the IASB issued amendments to IAS 12, *Income Taxes* regarding the recognition of deferred tax assets for unrealized losses, effective for annual periods beginning on or after January 1, 2017, with earlier application permitted. The amendments clarify how to account for deferred tax assets related to debt instruments measured at fair value. The Corporation does not intend to early apply these amendments and is currently assessing the impact on its financial statements.

6. RECONCILIATION OF OPERATING LOSS TO GOVERNMENT FUNDING

The Corporation receives its funding from the Government of Canada based primarily on cash flow requirements. Items recognized in the statement of comprehensive income in 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 an IFRS basis. These differences are outlined below:

(IN MILLIONS OF CANADIAN DOLLARS)	**2016**	2015
Operating loss before funding from the Government of Canada and income taxes	**361.3**	353.4
Items requiring (providing) operating funds:		
Income tax expense (recovery)	**0.1**	0.4
Items (not requiring) not providing operating funds:		
Depreciation and amortization	**(87.1)**	(79.4)
Impairment and (loss) gain on disposal of property, plant and equipment and intangible assets	**(16.4)**	(4.4)
Post-employment and other employee benefits contributions in excess of expenses	**1.2**	14.8
Unrealized net gain (net loss) on derivative financial instruments	**11.8**	(4.1)
Adjustment for accrued compensation	**(1.9)**	(0.9)
Other	**(1.5)**	0.2
Operating funding from the Government of Canada	**267.5**	280.0

7. CLASSIFICATION OF FINANCIAL INSTRUMENTS

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

(IN MILLIONS OF CANADIAN DOLLARS)	2016		
	Carrying Value		Fair Value
	FVTPL	L&R	
Financial Assets:			
Cash	**-**	**10.9**	**10.9**
Trade and other receivables	**-**	**10.0** (1)	**10.0**
Derivative financial instruments	**2.5** (2)	**-**	**2.5**
Asset Renewal Fund	**8.7**	**-**	**8.7**
	FVTPL	Other financial liabilities	
Financial Liabilities:			
Trade and other payables	**-**	**94.5** (3)	**94.5**
Derivative financial instruments	**7.0** (2)	**-**	**7.0**

(IN MILLIONS OF CANADIAN DOLLARS)	2015		
	Carrying Value		Fair Value
	FVTPL	L&R	
Financial Assets:			
Cash	-	9.3	9.3
Trade and other receivables	-	11.2 (1)	11.2
Derivative financial instruments	2.7 (2)	-	2.7
Asset Renewal Fund	8.7	-	8.7
	FVTPL	Other financial liabilities	
Financial Liabilities:			
Trade and other payables	-	82.4 (3)	82.4
Derivative financial instruments	18.9 (2)	-	18.9

FVTPL - Fair Value through profit and loss
AFS - Available for sale
L&R - Loans and receivables
(1) See detail in Note 8
(2) Comprised of derivative financial instruments not designated in a hedging relationship
(3) See detail in Note 15

8. TRADE AND OTHER RECEIVABLES

The trade and other receivables balance includes the following:

(IN MILLIONS OF CANADIAN DOLLARS)	2016	2015
Trade	**2.7**	3.6
Allowance for doubtful accounts	**(0.6)**	(0.5)
Net	**2.1**	3.1
Other receivables	**7.9**	8.1
Trade and other receivables classified in L&R	**10.0**	11.2
Sales taxes receivable	**1.4**	1.7
Total trade and other receivables	**11.4**	12.9

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

The net book value of the past due receivables of the Corporation is $0.4 million (December 31, 2015:$1.6 million) at the closing date. The maturity of these receivables is detailed in the following table:

(IN MILLIONS OF CANADIAN DOLLARS)	2016	2015
Not impaired and past due by:		
0 to 30 days	**0.3**	0.9
31 to 60 days	**-**	0.4
61 to 90 days	**0.1**	-
Over 90 days	**-**	0.3
Total	**0.4**	1.6

9. OTHER CURRENT ASSETS

The other current assets balance includes the following:

(IN MILLIONS OF CANADIAN DOLLARS)	2016	2015
Prepaids	**2.8**	1.3
Advance on contracts	**0.1**	0.4
Total other current assets	**2.9**	1.7

10. DERIVATIVE FINANCIAL INSTRUMENTS

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

At the end of the year, the fair value of the derivative financial instruments is as follows:

COMMODITY SWAPS	2016		2015	
	Notional Quantity (000's of U.S. Gallons)	**Fair Value CAD (millions)**	Notional Quantity (000's of U.S. Gallons)	Fair Value CAD (millions)
Assets	**8,064**	**2.0**	-	-
Liabilities	**10,080**	**6.4**	21,168	18.8

As at December 31, 2016, the commodity swaps in USD have a fixed price per U.S. gallon between 1.770 and 2.705 USD and the commodity swaps in CAD have a fixed price per U.S. gallon between 1.890 and 2.283 CAD (December 31, 2015: between 1.280 and 2.745 USD). The maturity dates range respectively between 2017 to 2019 and 2017 to 2018 (December 31, 2015: 2016 to 2019, USD swaps only). These financial instruments have a monthly settlement schedule.

FORWARD FOREIGN EXCHANGE CONTRACTS	2016		2015	
	Notional Amount (USD) (millions)	**Fair Value CAD (millions)**	Notional Amount (USD) (millions)	Fair Value CAD (millions)
Assets	**7.3**	**0.5**	24.1	2.7
Liabilities	**15.0**	**0.6**	18.5	0.1

As at December 31, 2016, the forward contracts rates are between 1.156 and 1.389 in US dollars (December 31, 2015: between 1.148 and 1.389) and the maturity dates are 2017 to 2019 (December 31, 2015: 2016 to 2019). These financial instruments have a monthly settlement schedule.

Amounts recognized in the statement of financial position:

	2016	2015
	Fair Value CAD (millions)	Fair Value CAD (millions)
Total assets	**2.5**	2.7
Total liabilities	**7.0**	18.9

11. MATERIALS

The materials balance includes the following:

(IN MILLIONS OF CANADIAN DOLLARS)	2016	2015
Spare parts	**24.8**	29.6
Provision for obsolete inventory	**(3.2)**	(3.1)
Net	**21.6**	26.5
On-train products	**2.2**	1.5
Fuel	**0.3**	0.2
Total	**24.1**	28.2

The cost of materials recorded as an expense during the year amounted to \$38.0 million (December 31, 2015: \$32.2 million). The Corporation has recorded an expense of \$0.2 million related to write-down of the value of its materials for 2016 (December 31, 2015: \$0.2 million).

12. ASSET RENEWAL FUND

a) Asset Renewal Fund

The Corporation has been authorized by the Treasury Board of Canada Secretariat to set aside funds 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 Treasury Board of Canada Secretariat has authorized the Corporation to use up to \$7.8 million (December 31, 2015 : \$7.8 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 remaining balance of \$0.9 million (December 31, 2015: \$0.9 million) is presented in the non-current portion of the Asset Renewal Fund.

The Asset Renewal Fund (ARF) is invested in an interest bearing account.

Liquidities in the Asset Renewal Fund are not considered to be cash for the purpose of the statement of cash flows since they can only be used for specific purposes and cannot serve in meeting regular operating commitments.

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 CANADIAN DOLLARS)	2016	2015
Balance at beginning of the year	**8.7**	9.1
Less: Cash drawdown during the year (Note 1)	**-**	(0.4)
Balance at end of the year	**8.7**	8.7

As at December 31, 2016, there is \$4.7 million of accounts payable which will be paid from the Asset Renewal Fund account in 2017.

Note 1 - Authorized cash drawdowns were used to fund capital projects.

13. PROPERTY, PLANT AND EQUIPMENT

(IN MILLIONS OF CANADIAN DOLLARS)	January 1, 2016	Additions	Disposals	Transfers	December 31, 2016
Cost:					
Land	17.0	-	-	-	**17.0**
Rolling stock	926.9	-	(28.9)	37.2	**935.2**
Maintenance buildings	166.3	-	(1.0)	0.8	**166.1**
Stations and facilities	129.0	-	(2.7)	0.5	**126.8**
Owned infrastructures	243.0	-	(5.2)	18.0	**255.8**
Leasehold improvements	79.6	-	(1.2)	6.0	**84.4**
Machinery and equipment	25.7	-	(1.5)	0.9	**25.1**
Computer hardware	32.9	-	(1.1)	3.6	**35.4**
Other property, plant and equipment	6.8	-	(0.6)	0.4	**6.6**
Projects in progress	27.1	71.2	-	(67.4)	**30.9**
Total cost	1,654.3	71.2	(42.2)	-	**1,683.3**
Accumulated depreciation and impairment:					
Rolling stock	448.0	42.5	(20.9)	-	**469.6**
Maintenance buildings	118.7	1.7	(1.1)	-	**119.3**
Stations and facilities	40.3	4.8	(2.6)	-	**42.5**
Owned infrastructures	75.7	7.4	(1.1)	-	**82.0**
Leasehold improvements	44.5	3.2	(1.1)	-	**46.6**
Machinery and equipment	18.5	1.2	(1.7)	-	**18.0**
Computer hardware	21.2	3.6	(0.9)	-	**23.9**
Other property, plant and equipment	2.6	0.3	(0.6)	-	**2.3**
Total accumulated depreciation and impairment	769.5	64.7	(30.0)	-	**804.2**
Total net carrying amount	884.8	6.5	(12.2)	-	**879.1**

(IN MILLIONS OF CANADIAN DOLLARS)	January 1, 2015	Additions	Disposals	Transfers	December 31, 2015
Cost:					
Land	12.1	-	-	4.9	**17.0**
Rolling stock	890.5	-	(23.5)	59.9	**926.9**
Maintenance buildings	165.2	-	(0.9)	2.0	**166.3**
Stations and facilities	127.9	-	(0.7)	1.8	**129.0**
Owned infrastructures	199.5	-	(2.9)	46.4	**243.0**
Leasehold improvements	76.5	-	(0.6)	3.7	**79.6**
Machinery and equipment	25.0	-	(0.3)	1.0	**25.7**
Computer hardware	32.1	-	(1.3)	2.1	**32.9**
Other property, plant and equipment	6.8	-	(0.1)	0.1	**6.8**
Projects in progress	56.4	69.1	-	(98.4)	**27.1**
Total cost	1,592.0	69.1	(30.3)	23.5	**1,654.3**
Accumulated depreciation and impairment:					
Rolling stock	431.0	37.8	(20.8)	-	**448.0**
Maintenance buildings	118.1	1.3	(0.7)	-	**118.7**
Stations and facilities	36.0	4.8	(0.5)	-	**40.3**
Owned infrastructures	68.8	5.8	(1.9)	3.0	**75.7**
Leasehold improvements	42.1	3.0	(0.6)	-	**44.5**
Machinery and equipment	18.1	0.7	(0.3)	-	**18.5**
Computer hardware	18.2	4.3	(1.3)	-	**21.2**
Other property, plant and equipment	2.9	(0.2)	(0.1)	-	**2.6**
Total accumulated depreciation and impairment	735.2	57.5	(26.2)	3.0	**769.5**
Total net carrying amount	856.8	11.6	(4.1)	20.5	**884.8**

13. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

Projects in progress primarily consist of rolling stock, improvements to infrastructure and stations. The projects in progress amount includes $2.3 million (December 31, 2015 : $6.8 million) of materials used in the refurbishing of rail cars.

The Corporation reviewed the presentation of its Property, plant and equipment and certain balances related to "Cost" and "Accumulated depreciation and impairment" were revised in order to properly reflect in the note those assets that had been written-off. As a result the "Cost" and "Accumulated depreciation and impairment" of Property, plant and equipment as at January 1, 2015 were decreased by $27.5 million. There was no impact on the total net carrying amounts or on the Statement of financial position.

In 2015, the Corporation transferred assets for a total on $20.5 million from its intangible assets to the Property, Plant and Equipment in the statement of financial position. This transfer was performed in order to reclassify intangible assets included in the right of access to rail infrastructure related to improvements that were performed in prior years by the Corporation on the Brockville subdivision. The Corporation purchased the Brockville subdivision in 2015. This resulted in these assets no longer qualifying as intangible assets and therefore they were transferred to Property, Plant and Equipment as part of the Brockville subdivision infrastructure asset in the statement of financial position.

14. INTANGIBLE ASSETS

(IN MILLIONS OF CANADIAN DOLLARS)	January 1, 2016	Additions	Disposals	Transfers	December 31, 2016
Cost:					
Software (NOTE 1)	93.1	-	(10.4)	19.9	**102.6**
Right of access to rail infrastructure	424.9	-	(0.3)	1.9	**426.5**
Other intangible assets	4.4	-	-	-	**4.4**
Projects in progress	15.4	19.8	-	(21.8)	**13.4**
Total cost	537.8	19.8	(10.7)	-	**546.9**
Accumulated amortization and impairment:					
Software	66.4	11.1	(6.4)	-	**71.1**
Right of access to rail infrastructure	80.0	11.1	(0.2)	-	**90.9**
Other intangible assets	1.6	0.2	-	-	**1.8**
Total accumulated amortization and impairment	148.0	22.4	(6.6)	-	**163.8**
Total net carrying amount	389.8	(2.6)	(4.1)	-	**383.1**

Note 1 - Includes mostly software developed in-house.

(IN MILLIONS OF CANADIAN DOLLARS)	January 1, 2015	Additions	Disposals	Transfers	December 31, 2015
Cost:					
Software (NOTE 1)	80.6	-	(2.4)	14.9	**93.1**
Right of access to rail infrastructure	421.0	-	-	3.9	**424.9**
Other intangible assets	4.1	-	-	0.3	**4.4**
Projects in progress	29.2	28.8	-	(42.6)	**15.4**
Total cost	534.9	28.8	(2.4)	(23.5)	**537.8**
Accumulated amortization and impairment:					
Software	58.6	9.9	(2.1)	-	**66.4**
Right of access to rail infrastructure	71.2	11.8	-	(3.0)	**80.0**
Other intangible assets	1.4	0.2	-	-	**1.6**
Total accumulated amortization and impairment	131.2	21.9	(2.1)	(3.0)	**148.0**
Total net carrying amount	403.7	6.9	(0.3)	(20.5)	**389.8**

Note 1 - Includes mostly software developed in-house.

15. TRADE AND OTHER PAYABLES

The Trade and other payables balance includes the following:

(IN MILLIONS OF CANADIAN DOLLARS)	2016	2015
Wages payable and accrued	**39.4**	37.2
Accounts payable and accruals - Capital assets	**21.4**	14.1
Accounts payable and accruals - Trade	**33.7**	31.1
Trade and other payables classified as Other Financial liabilities	**94.5**	82.4
Capital tax, income tax and other taxes payable	**4.8**	5.5
Deductions at sources	**3.1**	2.8
Total trade and other payables	**102.4**	90.7

16. PROVISIONS

The provision balance includes the following:

(IN MILLIONS OF CANADIAN DOLLARS)	January 1, 2016	Charge (used)	Reversal (used)	Reversal (not used)	December 31, 2016
Environmental costs (NOTE A)	0.3	-	-	-	**0.3**
Litigation and equipment repairs (NOTE B)	10.5	5.8	(2.3)	(0.8)	**13.2**
Total provisions	10.8	5.8	(2.3)	(0.8)	**13.5**

a) Environmental costs

The Corporation has made a provision of $0.3 million for environmental costs related to fuel spills (December 31, 2015 : $0.3 million).

b) Litigation and equipment repairs

The Corporation is subject to claims and legal proceedings brought against it in the normal course of business. The timing of settlement of these claims is to a large extent dependent on the pace of negotiation with the various counterparties and legal authorities. The Corporation cannot reliably estimate the timing of settlement of these claims.

Also, the Corporation incurs equipment repair costs as a result of crossing accidents and other incidents causing damages to the rolling stock. These equipment repair claims are mostly settled between 3 and 18 months from the date of initiation, depending on the settlement procedures used.

Such matters are subject to many uncertainties. Management believes that adequate provisions for litigation and equipment repairs have been made where required. The ultimate resolution of those matters is not expected to have a significant adverse effect on the financial position of the Corporation.

17. DEFERRED REVENUES

Deferred revenues are comprised of the following:

(IN MILLIONS OF CANADIAN DOLLARS)	2016	2015
Advance ticket sales	**18.3**	15.3
Gift cards	**1.7**	2.0
Non-monetary transactions	**2.0**	2.3
VIA Préférence (NOTE 1)	**17.0**	15.6
Other	**0.5**	0.3
Total	**39.5**	35.5

Note 1: The deferred revenue related to the loyalty program points is measured at fair value on a recurring basis and is evaluated based on train ticket price (level 2 of fair value hierarchy i.e. on significant input other than quoted prices (unadjusted) included in active markets that are observable for asset or liability, either directly or indirectly).

18. POST-EMPLOYMENT AND OTHER EMPLOYEE BENEFITS

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

Pension Plans

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

All participants to the pension plans are entitled to defined benefits pensions. Pension dispositions vary for a group of unionized employees hired on or after January 1, 2014.

Employees, other than certain unionized employees hired on or after January 1, 2014

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

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

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

Certain unionized employees hired on or after January 1, 2014

A group of unionized employees hired on or after January 1, 2014 ceased accruing benefits under the current defined benefit plan as of June 18, 2015. Effective June 19, 2015, this group of unionized employees were prospectively provided pension benefits in part from a reduced formula of the defined benefit component of the pension plan, and in part from a defined contribution component.

i) Defined Benefit Component

Pension benefits under the reduced formula are based on years of service and average salary of the employee's best five consecutive calendar years up to retirement. On each April 1, following the third anniversary of the retirement date, the participant's pension benefits will be indexed by 50 per cent of the increase in the Consumer Price Index subject to a maximum increase of 3 per cent, but only if the plan is in a surplus situation.

The contributions required to fund the defined benefit component of the plan are entirely paid for by the Corporation. The Corporation's contributions vary according to the financial situation of the plan, as determined by the plan's actuary and in accordance with regulatory requirements for pension plan funding.

The investment committee of the board is responsible for the investment policy with regard to the assets of the fund.

18. POST-EMPLOYMENT AND OTHER EMPLOYEE BENEFITS (CONT'D)

ii) Defined Contribution Component

Participants' contributions to the defined contribution component are mandatory and represent 4 per cent of their salary. Optional contributions to the defined contribution component can be made by the participants to a maximum of 3 per cent of their salary. The Corporation's contribution is equal to 50 per cent of participant's optional contributions but cannot exceed the calculated maximum which is based on the sum of the participant's age and years of service.

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

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

Actuarial valuations

The actuarial valuations for these employee benefits, except for the defined contribution component of the pension plans, are carried out by external actuaries who are members of the Canadian Institute of Actuaries.

The actuarial valuations of the various employee benefit plans are as follows:

	Actuarial Valuation	
EMPLOYEE BENEFIT PLANS	Latest valuation	**Next valuation**
Pension Plans	December 31, 2015	**December 31, 2016**
Supplemental Executive Retirement Plan	December 31, 2016	**December 31, 2017**
Supplemental Retirement Plan for management employees (SRP), with respect to active members	December 31, 2015	**December 31, 2016**
Supplemental Retirement Plan for management employees (SRP), with respect to retired members	December 31, 2016	**December 31, 2017**
Post-employment unfunded plan	May 1, 2016	**May 1, 2019**
Self-insured Workers' Compensation	December 31, 2015	**December 31, 2018**
Long-term employee benefits plans, other than "Self-insured Workers' Compensation"	December 31, 2016	**December 31, 2017**

a) Defined Benefit Component of the Pension Plans and Post-employment Benefits Plans

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 CANADIAN DOLLARS)	Defined Benefit Component of the Pension Plans		Post-employment Benefit Plans	
	2016	2015	**2016**	2015
DEFINED BENEFIT OBLIGATION:				
Balance at beginning of the year	**2,223.3**	2,181.9	**19.7**	19.4
Service cost	**26.1**	27.9	**0.4**	0.5
Past service cost	**4.7**	4.0	**-**	-
Interest expense	**88.3**	87.5	**0.8**	0.6
Employee contributions	**13.4**	12.6	**-**	-
Benefits paid	**(120.5)**	(111.7)	**(0.6)**	(0.4)
Effect of change in demographic assumptions	**-**	25.0	**(0.1)**	-
Effect of change in financial assumptions	**58.6**	(32.8)	**0.7**	(0.2)
Effect of employee transfers	**-**	6.5	**-**	-
Effect of experience adjustments	**4.2**	22.4	**0.8**	(0.2)
Balance at end of the year	**2,298.1**	2,223.3	**21.7**	19.7
FAIR VALUE OF PLAN ASSETS:				
Balance at beginning of the year	**2,223.6**	2,132.5	**-**	-
Interest Income	**87.4**	84.3	**-**	-
Return on plan assets (excluding interest income)	**33.7**	50.0	**-**	-
Employer contributions	**31.9**	52.3	**0.6**	0.4
Employee contributions	**13.4**	12.6	**-**	-
Benefits paid	**(120.5)**	(111.7)	**(0.6)**	(0.4)
Effect of employee transfers	**-**	6.5	**-**	-
Administration expenses	**(2.3)**	(2.9)	**-**	-
Balance at end of the year	**2,267.2**	2,223.6	**-**	-
Net Defined benefit asset (liability)	**(30.9)**	0.3	**(21.7)**	(19.7)

18. POST-EMPLOYMENT AND OTHER EMPLOYEE BENEFITS (CONT'D)

The percentages of the fair value of the defined benefit component of the pension plan assets by major category are as follows:

ASSET CATEGORIES (IN PERCENTAGES)	2016 Quoted market price in an active market	2016 Not quoted market price in an active market	2015 Quoted market price in an active market	2015 Not quoted market price in an active market
Cash and short-term notes	**1.2 %**	**0.4 %**	1.1 %	0.1 %
Equity securities	**19.9 %**	**0.1 %**	20.9 %	-
Fixed income securities	**-**	**26.4 % ***	-	28.7 % *
Mutual fund units	**5.5 %**	**46.5 % ***	6.8 %	42.4 % *
	26.6 %	**73.4 %**	28.8 %	71.2 %

* The fair value of the majority of the above fixed income and mutual fund instruments is determined based on quoted market prices in active markets.

Expected employer contribution for the next year:

(IN MILLIONS OF CANADIAN DOLLARS)	Defined Benefit Component of the Pension Plans 2017	Post-employment Benefit Plans 2017
Expected employer contribution for the next year	**34.7**	**0.9**

The weighted average duration of the defined benefit obligation is 12.4 years (December 31, 2015: 12.9 years).

	Defined Benefit Component of the Pension Plans		Post-employment Benefit Plans	
	2016	2015	**2016**	2015
WEIGHTED-AVERAGE OF SIGNIFICANT FINANCIAL ASSUMPTIONS:				
Defined benefit obligation:				
Discount rate	**3.80 %**	4.00 %	**3.90 %**	4.10 %
Rate of salary increase	**2.75 % - 3.00 %**	2.75 % - 3.00 %	**3.00 %***	3.00 %*
Initial weighted average health care trend rate	**-**	-	**5.80 %**	5.90 %
Ultimate weighted average health care trend rate	**-**	-	**4.30 %**	4.30 %
Year ultimate rate reached	**-**	-	**2029**	2029
Rate of price inflation	**2.00 %**	2.00 %	**-**	-
Rate of pension increase	**1.00 %**	1.00 %	**-**	-
Defined benefit cost:				
Discount rate	**4.00 %**	4.00 %	**4.10 %**	4.00 %
Rate of price inflation	**2.00 %**	2.25 %	**-**	-
Rate of salary increase	**2.75 % - 3.00 %**	3.00 % - 3.25 %	**3.00 %***	3.25 %*
Rate of pension increase	**1.00 %**	1.13 %	**-**	-
Initial weighted average health care trend rate	**-**	-	**5.90 %**	6.00 %
Ultimate weighted average health care trend rate	**-**	-	**4.30 %**	4.30 %
Year ultimate rate reached	**-**	-	**2029**	2029

* Applicable to executive employees only.

18. POST-EMPLOYMENT AND OTHER EMPLOYEE BENEFITS (CONT'D)

Significant demographic assumptions — Post-retirement mortality tables:

DEFINED BENEFIT OBLIGATION:

Defined Benefit Component of the Pension plans:

2016	2015
110 % of CPM2014Priv for unionized plan and 95 % of CPM2014Priv for non-unionized plans. 100 % of CPM scale B for all plans.	110 % of CPM2014Priv for unionized plan and 95 % of CPM2014Priv for non-unionized plans. 100 % of CPM scale B for all plans.

Post-employment Benefit plans:

2016	2015
110 % of CPM2014Priv for unionized plan and 95 % of CPM2014Priv for non-unionized plans. 100 % of CPM scale B for all plans.	110 % of CPM2014Priv for unionized plan and 95 % of CPM2014Priv for non-unionized plans. 100 % of CPM scale B for all plans.

DEFINED BENEFIT COST:

Defined Benefit Component of the Pension plans:

2016	2015
110 % of CPM2014Priv for unionized plan and 95 % of CPM2014Priv for non-unionized plans. 100 % of CPM scale B for all plans.	110 % of CPM2014Priv for unionized plan and 95 % of CPM2014Priv for non-unionized plans. 100 % of CPM scale B for all plans.

Post-employment Benefit plans:

2016	2015
110 % of CPM2014Priv for unionized plan and 95 % of CPM2014Priv for non-unionized plans. 100 % of CPM scale B for all plans.	110 % of CPM2014Priv for unionized plan and 95 % of CPM2014Priv for non-unionized plans. 100 % of CPM scale B for all plans.

Risk associated with defined benefit plans

The major risk associated with the pension plans is the funding risk, which is the risk that the investment asset growth and the contributions to the pension plans will not be sufficient to cover the pension obligations, resulting in unfunded liabilities.

The funding risk is linked to the following risks: investment risk, interest rate risk, longevity risk, salary risk and inflation risk.

Investment risk: The present value of the defined benefit plan liability is calculated using a discount rate determined by reference to high quality Canadian corporate bond yields; if the return on plan asset is below this rate, it will create a plan deficit. Consequently, the Corporation has adopted a conservative investment policy which is overseen by the investment committee of the Board.

Interest rate risk: A decrease in the bond interest rate will increase the plan liability; however, due to a liability alignment investment policy, this will be partially offset by an increase in value on the plan's debt investments.

Longevity risk: The present value of the defined plan liability is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the plan's liability.

Salary risk: The present value of the defined benefit plan liability is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the plan's liability.

Inflation risk: A significant proportion of the defined benefit liability is linked to inflation. An increase in the inflation rate will increase the Corporation's liability. A portion of the plan assets are in real returns bonds which will mitigate some of the effects of inflation.

18. POST-EMPLOYMENT AND OTHER EMPLOYEE BENEFITS (CONT'D)

Sensitivity analysis

The Corporation has reviewed the assumptions used in the actuarial calculations and has identified the following assumptions as those that could result in a significant impact on the defined benefit obligation:

(IN MILLIONS OF CANADIAN DOLLARS)	Defined benefit obligation Increase / (decrease)	
	2016	2015
Defined Benefit Component of the Pension Plans:		
Inflation Rates		
Increase of 25 basis points	**39.7**	36.5
Decrease of 25 basis points	**(39.0)**	(36.1)
Discount Rates		
Increase of 25 basis points	**(69.1)**	(69.7)
Decrease of 25 basis points	**73.0**	73.2
Salary increase Rates		
Increase of 25 basis points	**5.6**	4.1
Decrease of 25 basis points	**(6.0)**	(4.7)
Mortality tables		
1 year younger	**61.1**	55.3
1 year older	**(61.8)**	(56.2)
Post-employment benefits Plans:		
Discount Rates		
Increase of 25 basis points	**(0.8)**	(0.8)
Decrease of 25 basis points	**0.9**	0.8

In the sensitivity analysis presented above, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same method as the one applied in calculating the defined benefit obligation recognized in the statement of financial position.

There was no change in the methods and assumptions used in preparing the sensitivity analysis from prior years.

Asset-liability matching strategies

The Corporation reassesses the Pension Plans investment policy and asset mix positioning annually to take into account changes in plan demographics, the investment environment, the financial circumstances of the Plans and of the sponsor as well as changes in risk tolerance. Every few years or when significant changes in circumstances warrant it, the Corporation will conduct a more complete Asset Liability modelling exercise to determine an optimal investment policy asset mix.

The most recent investment policy reviews have led to the progressive implementation of liability matching asset mix shifts that seek to increase the plans fixed income investment duration subject to implementation triggers, secondly to decrease the plans exposure to public equities via a reallocation to fixed income securities and income generating alternative investments that exhibit some degree of interest rate sensitivity akin to pension liabilities and to establish and fund overtime an interest rate hedging mandate subject to implementation trigger. The resulting benefit of these measures is expected to achieve a lower volatility of required funding while preserving ongoing funding costs at an acceptable level.

b) Defined Contribution Component of the pension plan

There was no significant expense for the defined contribution component of the pension plan for the year ended December 31, 2016. The employer contributions are not expected to be significant in 2017.

c) Long-term employee benefit plans

Based on these actuarial valuations and projections to December 31, the summary of the principal valuation results for the long-term employee benefits, including self-insured workers' compensation benefits is as follows:

(IN MILLIONS OF CANADIAN DOLLARS)	2016	2015
LONG-TERM EMPLOYEE BENEFIT OBLIGATION:		
Balance at beginning of the year	**21.9**	22.8
Service cost	**4.8**	4.8
Interest expense	**0.8**	0.7
Benefits paid	**(4.4)**	(4.5)
Effect of change in demographic assumptions	**(1.1)**	-
Effect of experience adjustments	**(3.5)**	(1.9)
Balance at end of the year	**18.5**	21.9
FAIR VALUE OF PLAN ASSETS:		
Balance at beginning of the year	**-**	-
Employer contributions	**4.4**	4.5
Benefits paid	**(4.4)**	(4.5)
Balance at end of the year	**-**	-
Net long-term employee benefit liability	**(18.5)**	(21.9)

18. POST-EMPLOYMENT AND OTHER EMPLOYEE BENEFITS (CONT'D)

Expected employer contribution for the next year:

(IN MILLIONS OF CANADIAN DOLLARS)	2017
Expected employer contribution for the next year	**4.3**

Weighted-average of significant assumptions:

	2016	2015
LONG-TERM EMPLOYEE BENEFIT OBLIGATION:		
Discount rate	**3.40 %**	3.30 %
Rate of salary increase	**2.75 % - 3.00 %**	2.75 % - 3.00 %
Initial weighted average health care trend rate	**5.10 %**	5.19 %
Ultimate weighted average health care trend rate	**3.80 %**	3.78 %
Year ultimate rate reached	**2029**	2029
Rate of price inflation	**2.00 %**	2.00 %
Mortality tables	**Ontario WSIB Workers' compensation 2006-2010 mortality table projected to 2015 for workers' compensation and 2009 CIA study for Other employment benefits**	90 % of WC 1996-2000 mortality table projected to 2010 for workers' compensation and 2009 CIA study for Other employment benefits
LONG-TERM EMPLOYEE BENEFIT COST:		
Discount rate	**3.30 %**	3.40 %
Rate of salary increase	**2.75 % - 3.00 %**	3.00 % - 3.25 %
Initial weighted average health care trend rate	**5.19 %**	5.29 %
Ultimate weighted average health care trend rate	**3.78 %**	3.78 %
Year ultimate rate reached	**2029**	2029
Rate of price inflation	**2.00 %**	2.25 %
Mortality tables	**90 % of WC 1996-2000 mortality table projected to 2010 for workers' compensation and 2009 CIA study for Other employment benefits**	90 % of WC 1996-2000 mortality table projected to 2010 for workers' compensation and 2009 CIA study for Other employment benefits

Sensitivity analysis

The Corporation has reviewed the assumptions used in the actuarial calculations and has identified the following assumption that could result in a significant impact on the long-term employee benefit obligation:

(IN MILLIONS OF CANADIAN DOLLARS)	Long-term employee benefit obligation Increase / (decrease)	
	2016	2015
Discount Rates		
Increase of 25 basis points	**(0.3)**	(0.3)
Decrease of 25 basis points	**0.3**	0.3

d) Other long-term employee benefits

Other long-term employee benefits include job security benefits administered by various union agreements. These benefits are calculated on an event driven basis and represent management's best estimates of the present value of all future projected payments to unionized employees. The change in the other long-term employee benefit obligation is explained as follows:

(IN MILLIONS OF CANADIAN DOLLARS)	**2016**	2015
OTHER LONG-TERM EMPLOYEE BENEFIT OBLIGATION:		
Balance at beginning of the year	**1.1**	1.5
Service cost	**0.1**	0.3
Benefits paid	**(0.6)**	(0.7)
Balance at end of the year	**0.6**	1.1
FAIR VALUE OF PLAN ASSETS:		
Balance at beginning of the year	**-**	-
Employer contributions	**0.6**	0.7
Benefits paid	**(0.6)**	(0.7)
Balance at end of the year	**-**	-
Net other long-term employee benefit liability	**(0.6)**	(1.1)

18. POST-EMPLOYMENT AND OTHER EMPLOYEE BENEFITS (CONT'D)

e) Summary of Pension plans, Post-employment benefit plans and Long-term employee benefit plans recognized in the financial statements

Total amounts recognized in the statement of financial position:

(IN MILLIONS OF CANADIAN DOLLARS)	2016	2015
Assets:		
Defined Benefit Component of the Pension Plans	**4.2**	9.5
Liabilities:		
Defined Benefit Component of the Pension Plans	**(35.1)**	(9.2)
Post-employment benefit plans	**(21.7)**	(19.7)
Long-term employee benefit plans	**(18.5)**	(21.9)
Other long-term employee benefits	**(0.6)**	(1.1)
Total liabilities	**(75.9)**	(51.9)

Total amounts recognized in the statement of comprehensive income:

(IN MILLIONS OF CANADIAN DOLLARS)	2016	2015
Operating expense:		
Defined Benefit Component of the Pension Plans	**34.0**	38.0
Post-employment benefit plans	**1.2**	1.1
Long-term employee benefit plans	**1.0**	3.6
Other long-term employee benefits	**0.1**	0.3
Total	**36.3**	43.0

These operating expenses are included in the Compensation and employee benefits line item of the statement of comprehensive income.

(IN MILLIONS OF CANADIAN DOLLARS)	2016	2015
Other comprehensive income (loss):		
Defined Benefit Component of the Pension Plans	**(29.1)**	35.4
Post-employment benefit plans	**(1.4)**	0.4
Total	**(30.5)**	35.8

19. INCOME TAXES

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

(IN MILLIONS OF CANADIAN DOLLARS)	2016	2015
Current income tax expense (recovery)	**0.1**	0.2
Income tax expense (recovery)	**0.1**	0.2

The overall income tax expense (recovery) for the year differs from the amount that would be computed by applying the combined Federal and provincial statutory income tax rates of 24.45 per cent (December 31, 2015: 24.43 per cent) to income before taxes. The reasons for the differences are as follows:

(IN MILLIONS OF CANADIAN DOLLARS)	2016	2015
Net Income before income taxes	**8.5**	9.2
Computed income tax expense (recovery) - statutory rates	**2.1**	2.3
Large corporation tax and corporate minimum tax	**0.1**	0.2
Non-taxable portion of capital and accounting gains and other	**0.1**	-
Effect of (decrease) increase in unrecognized tax attributes	**(2.5)**	(2.6)
Effect of tax rate changes on deferred income taxes	**0.3**	0.3
Income tax expense (recovery)	**0.1**	0.2

Deferred income 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 deferred income tax assets and (liabilities) of the Corporation are as follows:

Deferred income tax balances December 31, 2016

(IN MILLIONS OF CANADIAN DOLLARS)	Opening Balance	Recognized in net income	Closing Balance
Deferred income tax assets (liabilities):			
Unrealized gain on derivative financial instruments	(0.6)	-	**(0.6)**
Accrued benefit asset	(2.3)	1.3	**(1.0)**
Total deferred income tax liabilities	(2.9)	1.3	**(1.6)**
Losses carried forward	2.9	(1.3)	**1.6**
Deferred income tax assets (liabilities)	-	-	**-**

19. INCOME TAXES (CONT'D)

Deferred income tax balances December 31, 2015

(IN MILLIONS OF CANADIAN DOLLARS)	Opening Balance	Recognized in net income	Closing Balance
Deferred income tax assets (liabilities):			
Unrealized gain on derivative financial instruments	(0.4)	(0.2)	**(0.6)**
Accrued benefit asset	-	(2.3)	**(2.3)**
Total deferred income tax liabilities	(0.4)	(2.5)	**(2.9)**
Losses carried forward	0.4	2.5	**2.9**
Deferred income tax assets (liabilities)	-	-	**-**

The Corporation has $53.5 million (December 31, 2015 : $54.2 million) of unused Québec and $51.0 million (December 31, 2015 : $51.7 million) of unused Federal non-capital tax losses carried forward and expiring 2029 between and 2035.

The Corporation has not recognized any deferred tax assets on its deductible temporary differences and unused tax losses as it has determined that it is not probable that taxable profit will be available against which the deductible temporary differences and unused tax losses can be utilized. Unrecognized deductible temporary differences and unused tax losses for which no deferred tax assets have been recognized are attributed to the following:

(IN MILLIONS OF CANADIAN DOLLARS)	2016	2015
Federal:		
Property, plant and equipment	**83.6**	85.8
Contingencies, other liabilities and net amounts	**23.5**	32.4
Defined benefit liability	**75.2**	50.9
Losses carried forward	**44.7**	39.5
	227.0	208.6
Québec:		
Property, plant and equipment	**465.2**	467.4
Contingencies, other liabilities and net amounts	**21.9**	30.9
Defined benefit liability	**75.2**	50.9
Losses carried forward	**47.2**	42.0
	609.5	591.2

20. DEFERRED CAPITAL FUNDING

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

(IN MILLIONS OF CANADIAN DOLLARS)	2016	2015
Balance at beginning of the year	**1,263.1**	1,247.8
Government funding for property, plant and equipment and intangible assets (including the cost of land)	**86.4**	97.9
Amortization of deferred capital funding	**(102.3)**	(82.6)
Balance at end of the year	**1,247.2**	1,263.1

21. SHARE CAPITAL

The authorized share capital of the Corporation is comprised of an unlimited number of common shares with no par value. For all years presented, 93,000 shares at $100 per share are issued and fully paid.

The Corporation defines its capital as share capital and accumulated deficit 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.

22. NET CHANGE IN NON-CASH WORKING CAPITAL ITEMS

(IN MILLIONS OF CANADIAN DOLLARS)	2016	2015
Trade and other receivables	**1.5**	(4.0)
Operating funding receivable from Government of Canada	**(20.7)**	20.1
Other current assets	**(1.2)**	(0.4)
Materials	**4.1**	(6.4)
Trade and other payables	**4.5**	4.6
Provisions	**2.7**	(4.0)
Deferred revenues	**4.0**	1.0
Total	**(5.1)**	10.9

23. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value

Financial assets and financial liabilities measured at fair value in the statement of financial position are grouped into three Levels of a fair value hierarchy. The three levels are defined based on the observability of significant inputs to the measurement as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for asset or liability, either directly or indirectly.

Level 3 – Unobservable inputs for the asset or liability.

The following table summarizes the financial assets and financial liabilities held by the Corporation measured at fair value at the end of each reporting period. The table also discloses information about how the fair value of these financial assets and financial liabilities are determined and their fair value hierarchy:

Financial assets / financial liabilities	Fair value hierarchy	Valuation technique(s)	Significant unobservable inputs	Relationship unobservable inputs to fair value
Derivative financial instruments - forward foreign exchange contracts	Level 2	Discounted cash flow. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rate at the end of the reporting period) and forward contract rates, discounted at a market rate that reflects the credit risk of various counterparties.	N/A	N/A
Derivative financial instruments - commodity swaps	Level 2	Discounted cash flow. Future cash flows are estimated based on commodity swap price (from observable commodity market price at the end of the reporting period) and contract commodity swap price, discounted at a market rate that reflects the credit risk of various counterparties.	N/A	N/A

There have been no significant transfers between level 1 and level 2 during the year.

There has been no change in the valuation techniques from the prior year.

The following table summarizes the financial assets and financial liabilities held by the Corporation that are not measured at fair value on a recurring basis and their fair value hierarchy:

	2016	2015
Assets:		
Trade and other receivables	**Level 2**	Level 2
Liabilities:		
Trade and other payables	**Level 2**	Level 2

The fair values of the financial assets and financial liabilities included in the level 2 category above have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflect the credit risk counterparties. However, where the time value of money is not material due to their short-term nature, they are carried at the original invoiced amount less required adjustment.

24. FINANCIAL RISKS

a) 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.

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. Commodity swaps are used to manage its exposure to fuel prices on the entirety of its fuel consumption.

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.

b) 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 CANADIAN DOLLARS)	2016	2015
Assets:		
Derivative financial instruments	**0.5**	2.7
Liabilities:		
Trade and other payables	**1.1**	2.1
Derivative financial instruments	**7.0**	18.9

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 forward foreign exchange contracts related to commodity swaps.

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

c) 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 $32.1 million (December 31, 2015: $31.9 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, the 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, 2016, approximately 7.1 per cent (December 31, 2015 : 7.7 per cent) of trade accounts receivable were over 90 days past due, while approximately 89.7 per cent (December 31, 2015 : 78.8 per cent) of trade accounts receivable were current (under 30 days).

As at December 31, 2016, the allowance for bad debt was $0.6 million (December 31, 2015 : $0.5 million). The allowance for bad debt is based on an account by account analysis that considers the aging of the account and the current credit-worthiness of the customer.

d) Fuel price risk

In order to manage its exposure to changes in fuel prices and minimize volatility in operating cash flows, the Corporation enters into derivative contracts with financial intermediaries based on the price of a commodity (i.e. heating oil) or a market index. A fluctuation of 5 per cent in the USD price of heating oil or fuel would not have a significant impact on the financial statements.

e) 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 below totaling $101.5 million (December 31, 2015: $101.3 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, on a gross and undiscounted basis, as at December 31, 2016:

(in millions of canadian dollars)	Less than 3 months	3 to 6 months	6 months to 1 year	1 to 2 years	Over 2 years	Total
Trade and other payables	94.5	-	-	-	-	**94.5**
Derivative financial liabilities	1.1	1.1	2.1	2.6	0.1	**7.0**

The following table summarizes the contractual maturities for the derivative and non-derivative financial liabilities, on a gross and undiscounted basis, as at December 31, 2015:

(in millions of canadian dollars)	Less than 3 months	3 to 6 months	6 months to 1 year	1 to 2 years	Over 2 years	Total
Trade and other payables	82.4	-	-	-	-	**82.4**
Derivative financial liabilities	2.5	2.3	5.4	8.3	0.4	**18.9**

f) 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. As at December 31, 2016 and December 31, 2015, there was no exposure to interest rate risk as all the Corporation's liquidity were invested in cash accounts.

25. COMMITMENTS

The following table presents the contractual commitments of the Corporation that are not included in the statement of financial position:

(IN MILLIONS OF CANADIAN DOLLARS)	2016				2015
	Total commitment	**Less than one year**	**From one to five years**	**More than five years**	Total commitments
COMMITMENTS RELATING TO OPERATIONS:					
Non-cancellable operating leases (NOTE A):					
Lessee	**31.1**	3.6	14.9	12.6	34.6
Total	**31.1**	3.6	14.9	12.6	34.6
COMMITMENTS RELATING TO MAJOR CAPITAL INVESTMENTS:					
Rail infrastructure	**1.0**	1.0	-	-	5.4
Rolling stock	**1.8**	1.8	-	-	1.8
Others	**8.3**	8.3	-	-	-
Total	**11.1**	11.1	-	-	7.2
Total commitments	**42.2**	14.7	14.9	12.6	41.8

a) The Corporation has operating leases in place mainly for facilities, maintenance of way and computer equipment. The most important leases are cancellable leases for the Montreal and Toronto stations with respective terms of 10 and 49 years without renewal option as well as a non-cancellable lease for the corporate headquarters in Montreal with a terms of 10 years with a renewal option. The lease payments are increased to reflect normal inflation.

In 2016, an amount of $16.3 million (December 31, 2015: $13.6 million) was recognized as an expense related to facilities operating leases.

b) As mentioned in Note 1, 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. No amounts are included in the table above regarding those contracts since the amount of the commitments is dependent on the annual usage of the tracks.

c) The Corporation has provided letters of credit from a banking institution totalling approximately $26.5 million (December 31, 2015: $27.2 million) to various provincial government workers' compensation boards as security for future payment streams.

26. RELATED PARTY TRANSACTIONS

A) Government of Canada, its agencies and other Crown corporations

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 fair value. Other than disclosed elsewhere in these financial statements, related party transactions are not significant.

B) Key management personnel

The remuneration of key executives with the exception of the President and Chief Executive Officer, is determined by the Human Resources Committee having regard to the performance of individuals and market trends. The Human Resources Committee recommendation is then presented and approved by the Board of Directors. The remuneration of the President and Chief Executive Officer is determined by the Governor in Council.

The Corporation's key executives have been defined as the executive staff members that are members of the Corporate Management Committee.

The compensation of the key executives of the Corporation is as follows:

(IN MILLIONS OF CANADIAN DOLLARS)	**2016**	2015
Compensation and short-term employee benefits	**3.5**	3.3
Termination benefits	**-**	0.2
Post-employment benefits	**1.1**	1.2
Total	**4.6**	4.7

Other than the above compensation, there were no other related party transactions involving key management personnel and their close family members for the years ended December 31, 2016 and December 31, 2015.

C) Transactions with post-employment benefits plans

Transactions with the Corporation's post-employment benefits plans are conducted in the normal course of business. The transactions with the Corporation's post-employment benefit plans consist of contributions as determined by actuarial valuations, as disclosed in Note 18. There were no other significant transactions during the year.

27. NON-MONETARY TRANSACTIONS

The Corporation recorded revenue from non-monetary transactions of approximately $1.8 million for the year ended December 31, 2016 (December 31, 2015 : $2.1 million) under "Passenger revenues" in the statement of comprehensive income. The Corporation also recorded expenses from non-monetary transactions of approximately $1.7 million (December 31, 2015 : $1.8 million) mainly under "Marketing and sales" in the statement of comprehensive income. The nature of non-monetary transactions is mainly related to advertising activities.

28. CONTINGENCIES

a) Environment

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, a provision is recorded based on the anticipated future costs.

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.

b) Asset retirement

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 asset retirement obligation cannot be reasonably estimated. No liability has been recognized in the financial statements.

29. RECLASSIFICATION

In order to improve disclosure in the statement of financial position, the Corporation changed the wording of two of the Current assets line items and reclassified the amounts of commodity taxes receivable of $1.7 million and insurances receivable of $1.3 million from Other current assets (formerly Prepaid, advances on contracts and other receivables) to Trade and other receivables (formerly Accounts receivable, trade). A third statement of financial position to reflect the new position at the beginning of the previous period was not presented given that the total amount of reclassification is not significant.

CORPORATE DIRECTORY

BOARD OF DIRECTORS

LEAD DIRECTOR OF THE BOARD, VIA RAIL CANADA

Jane Mowat
Toronto, Ontario

BOARD MEMBERS

Denis Durand
Montréal, Québec

David Hoff
Vancouver, British Columbia

Stephen Mallory
Toronto, Ontario

Ramona Materi
Vancouver, British Columbia

Deborah Robinson
Toronto, Ontario

Hind Sergieh*
Montréal, Québec

Melissa Sonberg
Montréal, Québec

William M. Wheatley
Regina, Saskatchewan

Yves Desjardins-Siciliano
Montréal, Québec

CORPORATE SECRETARY

Jean-François Legault

SENIOR LEADERSHIP TEAM

Yves Desjardins-Siciliano
President and Chief Executive Officer

Marc Beaulieu
Chief Transportation and Safety Officer

Sonia Corriveau
Chief Business Transformation Officer

Patricia Jasmin
Chief Financial Officer

Martin R. Landry
Chief Commercial Officer

Jean-François Legault
Chief Legal & Risk Officer and Corporate Secretary

Robert St-Jean
Chief Asset Management Officer

Carl Desrosiers
Chief Mechanical and Maintenance Officer

Linda Bergeron
Chief Human Resources Officer

VIA OFFICE LOCATIONS

Headquarters and Québec
3 Place Ville Marie
Suite 500
Montréal, Quebec
H3B 2C9
514 871-6000

895 de la Gauchetiere West
Montréal, Quebec
H3B 4G1
514 989-2626

Atlantic
1161 Hollis Street
Halifax, Nova Scotia
B3H 2P6
902 494-7900

Ontario
40 Elgin, 4th floor
Ottawa, Ontario
K1P 1C7
613 907-8353

123 Front Street West
Suite 1500
Toronto, Ontario
M5J 2M3
416 956-7600

West
146-123 Main Street
Winnipeg, Manitoba
R3C 1A3
204 949-7483

1150 Station Street
Vancouver, British Columbia
V6A 4C7
604 640-3700

viarail.ca

* Ms. Sergieh held the position until January 30, 2016

SENIOR LEADERSHIP TEAM BIOGRAPHIES

YVES DESJARDINS-SICILIANO

President and Chief Executive Officer

Mr. Desjardins-Siciliano joined VIA Rail in 2010 and was appointed President and CEO in May 2014. Prior to his appointment, he was the Corporation's Chief Corporate & Legal Officer and Corporate Secretary. A seasoned executive, Mr. Desjardins-Siciliano leads with passion, respect and transparency. He is known for embracing innovation and encouraging creative ideas. A natural communicator, he is in high demand as a keynote speaker at conferences, business events and universities. He prides himself on being an accessible CEO, and values every opportunity to meet and converse with both travellers and employees.

Prior to Via Rail, Mr. Desjardins-Siciliano held several senior positions in legal, regulatory and government relations, business and corporate development, marketing communications and finance. In Montreal and Toronto, he worked for private and publicly held companies, in the information technology, telecommunications, marketing and entertainment industries. Past President of the Canadian Bar Association, Quebec Division, Mr. Desjardins-Siciliano was also Chief of Staff to the federal Minister of Labour and Minister of State for Transport.

Mr. Desjardins-Siciliano holds a law degree (LL.L.) from l'Université de Montréal and he completed Graduate Studies in Law (GSD) at McGill University. He also has a designation from the Institute of Corporate Directors (ICD.D) and is a member of the Barreau du Québec.

In 2016, Mr. Desjardins-Siciliano received the Business Achievement Award from the Quebec General Counsel Awards, presented by ZSA Legal Recruitment. He was rewarded for his achievement in developing and implementing the business strategy that has led to VIA Rail's success since his appointment as President and CEO. His customer-focused vision has persuaded more travellers to come onboard, expanding the company's client base and boosting its revenue for the first time in several years. He was also honoured by Women and Board in the CEO category for his outstanding contributions to advancing the role of women in corporate governance as the President and CEO of VIA Rail.

Mr. Desjardins-Siciliano was appointed Honorary Lieutenant-Colonel of the Régiment de Maisonneuve in November 2016.

MARC BEAULIEU

Chief Transportation and Safety Officer

Mr. Beaulieu joined VIA Rail from Canadian National in 1985. As Chief Transportation and Safety Officer, he is responsible for all network operations, transportation and operational safety, and corporate security. Mr. Beaulieu is also responsible for the Ocean, and Canadian and Remote services along with VIA Rail's Customer Centres. His mandate is to ensure the safe and efficient operation of VIA Rail's trains. To that end, his responsibilities include oversight of locomotive crews, network operations staff, and safety and security professionals.

In the course of his career with VIA Rail, Mr. Beaulieu progressed through a number of increasingly senior management positions including Director Maintenance, Regional Director, Chief Mechanical Officer, Chief Transportation and Regional General Manager.

With his extensive experience at all levels of the organization, Marc brings comprehensive knowledge, acquired expertise and a strong vision to VIA Rail.

LINDA BERGERON

Chief Human Resources Officer

Ms. Bergeron joined VIA Rail in 2016. As Chief, Human Resources Officer, she is responsible for employee relations, global compensation, consulting services and organizational development, talent acquisition, and training and development. Her mandate is to develop a human resources management strategy that facilitates and supports the realization of our business strategy and achievement of corporate objectives.

Ms. Bergeron has more than 30 years of experience in human resources, and spent several years in the transport sector as Vice President, Human Resources and Development for Nova-bus, a division of Volvo, as Senior Vice President, Strategy and Orientation for Rail Cantech, and as National Director H.R. for GE Aircraft Engines. Her career path demonstrates a strong expertise in improving organizational efficiency and talent management in national and multinational corporations, including time at the Crown corporation Hydro-Quebec. A complementary experience in general management and as a business owner underlines the importance of consistency between the strategic management of human resources and business strategy.

Ms. Bergeron has a Bachelor's degree in industrial relations from l'Université de Montréal and a specialization in Organizational Development from the National Training Laboratory.

SONIA CORRIVEAU

Chief Business Transformation Officer

Ms. Corriveau joined VIA Rail in 2014. As Chief Business Transformation Officer, she is responsible for the re-engineering of VIA Rail's business processes. She oversees the transformation and modernization of both internal and customer-facing business improvements. Her responsibilities include the Information Technology group, the Corporate Project Management Office as well as the Corporate Architecture and Innovation team. In 2016, she led the development of the High-Frequency Rail proposal that was tabled with the Corporation's shareholder in December.

Throughout her 25 year career with IBM, she successfully managed complex organizational and operational changes to support business growth. She had several executive positions leading various business units across Canada. Her experience includes all aspects of Information technology, especially in consulting services, systems integration and management services for applications and infrastructures. She has collaborated over the years with several clients in various industries and teams to develop and implement valuable solutions. Before joining VIA Rail, she held the position of Vice President, IBM Global Business Services and President of LGS Group.

Ms. Corriveau holds an MBA from l'Université du Québec à Montréal and a Bachelor's Degree in Business Computing from Université de Sherbrooke.

CARL DESROSIERS

Chief Mechanical and Maintenance Officer

Carl Desrosiers joined VIA Rail in 2016. As Chief Mechanical and Maintenance Officer, he is responsible for VIA Rail's four rolling stock maintenance centres located in Toronto, Montreal, Vancouver and Winnipeg. His mandate is to optimize the processes and work methods of the maintenance teams to ensure reliability of the rolling stock.

Prior to joining VIA Rail, Mr. Desrosiers was the Director General of the Montreal Transit Corporation (STM), which he joined in 1984. In the course of his career with the STM he progressed through numerous positions in the fields of engineering and network operations. He was notably responsible for merging bus and metro activities into one administration. As Chief Operating Officer of the bus and metro network he supervised the operations, maintenance, engineering, and security of the integrated bus and metro network. He brings his vast operational experience in the transport sector to VIA Rail.

Mr. Desrosiers received his Bachelor's Degree in mechanical engineering from the École Polytechnique de Montréal and is a member of the Order of Engineers of Quebec. He also serves on the Board of Directors of the École Polytechnique and the Association Québécoise des Transports et des Routes (ATQR).

PATRICIA JASMIN

Chief Financial Officer

Ms. Jasmin joined VIA Rail in 2007 and served as the Corporate Comptroller prior to her appointment as Chief Financial Officer. As Chief Financial Officer she is responsible for financial administration, internal and external financial reports, budgets and controls, internal and external audits, corporate purchasing, and pension investment management. Ms. Jasmin is a key contributor to the corporate planning process. Her mandate is to ensure the integrity and accuracy of our financial processes, results and reports. Ms. Jasmin closely works with the Corporation's internal and external auditors and supports the Board of Directors' Audit and Finance Committee.

Before joining the Corporation, Ms. Jasmin worked for large retail organisations such as Costco and Loblaw Companies Ltd., and in the telecommunications sector with Rogers and Téléglobe. Through her extensive experience in finance and administration, Ms. Jasmin brings a unique expertise and vision in terms of financial management, continued improvement, and governance to VIA Rail.

Ms. Jasmin has a Bachelor's Degree in Business Administration from HEC (Université de Montréal) and is a member of the Canadian Institute of Chartered Accountants holding the CPA,CA designation.

MARTIN R. LANDRY

Chief Commercial Officer

Mr. Landry joined VIA Rail in 2014. As Chief Commercial Officer, he oversees all employees and activities related to customer service in stations and on board trains in the VIA Rail Corridor (Ontario and Quebec). Mr. Landry also oversees all activities related to communications (internal and external), marketing and advertising, B2B sales, commercial planning, sponsorships, product design, brand management, new product development, loyalty programs, partnerships and business development, customer service and marketing research, as well as analytics or VIA Rail. In 2016, he led the development of the Québec City – Windsor corridor fleet renewal proposal that was tabled with the Corporation's shareholder in October.

Mr. Landry is a seasoned business executive with 35 years of experience, of which 30 were with IBM. In his 30 years with IBM, Mr. Landry led many business units in both North America and Europe. He was responsible for the implementation of IBM's services business in Eastern Canada in the early 1990s. He led the Energy and Utilities Services Sector in Canada and was responsible for the Global Strategy of this sector. As well, Mr. Landry led a global financial services team based in Paris and upon his return to North America became the Vice President responsible for IBM's Strategic Outsourcing Engagement teams in Canada.

He is a graduate of the University of Ottawa with an Honours degree in Finance.

JEAN-FRANÇOIS LEGAULT

Chief Legal & Risk Officer and Corporate Secretary

Mr. Legault joined VIA Rail in 2014. As Chief Legal & Risk Officer and Corporate Secretary, he is responsible for the Corporation's governance, secretariat, and all legal matters related to VIA Rail's operations. He also oversees the management of its rail safety compliance as well as the implementation of its enterprise risk management and insurance claims program.

Prior to joining VIA Rail, Mr. Legault practiced law for several years in Montréal and held a number of senior leadership roles in the corporate legal sphere, including serving as Vice-President, Legal Affairs at Bell Canada and Gildan Activewear, and as General Counsel and Corporate Secretary at Transat. He possesses a wide range of experience with respect to corporate legal services and management of compliance, including governance, litigation management, contracts, acquisitions and divestitures, with particular expertise in the provision of legal advice aligned to corporate strategies and objectives.

Mr. Legault obtained his law degree (LL.B) at the University of Ottawa, and is a member of the Barreau du Québec.

ROBERT ST-JEAN, CPA, CA

Chief Asset Management Officer

Mr. St-Jean joined VIA Rail in 2006 and served as the Chief Financial and Administration Officer prior to his appointment as Chief Asset Management Officer. As Chief Asset Management Officer, his mandate is to maximize return on assets, improve the customer experience, and reduce operating costs. He is responsible for the acquisition, management, development, monetization and renewal of all of VIA Rail's tangible assets, such rolling stock, track infrastructure, stations and other buildings.

Before joining the Corporation, he held the position of Senior Vice President, Finance and Control, at Loblaw Companies Ltd., spent six years as Vice President, Controller, at Provigo Inc. and close to eight years in various management positions at Club Price Canada. With his extensive experience at major retailers and distributors, Mr. St-Jean brings a unique expertise and vision in strategic and financial management to VIA Rail.

Mr. St-Jean has a Bachelor's degree in Business Administration from the Université de Sherbrooke and is a member of the Canadian Institute of Chartered Accountants and holds the CPA, CA designation.

CONTRIBUTORS TO THE 2016 ANNUAL REPORT

EDITOR IN CHIEF

Jennifer Bauer
Corporate Communications, VIA Rail

WRITING

Sarah Binns
Communications, VIA Rail

GRAPHIC DESIGN

Sextans

PROCESSED CHLORINE FREE • PROCÉDÉ SANS CHLORE

PERMANENT

BIO GAS ENERGY

Ancient Forest Friendly™

ECOLOGO
PRODUCT CERTIFIED FOR REDUCED ENVIRONMENTAL IMPACT. VIEW SPECIFIC ATTRIBUTES EVALUATED: UL.COM/EL UL 2771

FSC à ajouter par l'imprimeur