



SUMMARY OF THE 2017 – 2021 CORPORATE PLAN AND 2017 OPERATING AND CAPITAL BUDGETS

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EXECUTIVE SUMMARY

VIA Rail's Corporate Plan 2017 – 2021 includes for information and context, two major strategies, tabled with the Government of Canada for consideration at an appropriate date, which would resolve the critical issues of:

- (1) an obsolete Quebec – Windsor Corridor fleet and;
- (2) a poor offering related to convenience (lack of frequency), lack of reliability (deteriorating on-time performance), longer trip times, and operating deficits consistently greater than the government funding reference level.

Achieving Passenger Rail's Potential

VIA Rail's services enhance mobility and accessibility for all Canadians.

The Corporation provides extensive services to Indigenous communities across Canada, many of which depend on the train as the only viable or reliable means of transportation, in many cases for both the transportation of people and goods. In fact, VIA Rail's Long-Haul and Regional/Remote trains serve 192 First Nations reserves across Canada.

Every VIA Rail train provides a high level of accessible transportation to persons with disabilities. For those aged 15 or older, one in seven Canadians (14% in 2012) suffers from a disability. That ratio increases to 43% above 75 years of age. As the Canadian population continues to grow and age rapidly, the ratio and the actual number of people with disabilities will grow dramatically. VIA Rail trains provide a more accessible service than automobiles, buses, or airplanes, and VIA Rail is committed to continuing to make improvements particularly with the renewal of the fleet and continuing upgrades to stations.

VIA Rail operates in an environment where intercity passenger rail should be expanding and experiencing significant growth. The following factors should have positively impacted Canadian passenger rail volumes:

1. Continued population and economic growth;
2. An aging population with increasing mobility challenges;
3. A pro-train greener younger generation; and
4. An influx of train-oriented immigrants.

Notwithstanding, since 2003 up to 2014, intercity passenger rail ridership in Canada declined, while the operating deficit increased.

In the past three years, through a major shift to a customer centric strategy, VIA Rail has somewhat reversed that trend. However, further improvements are limited by its operating and financing environment. Inevitably, as the economy continues its recovery from the 2008 – 2009 recession, freight congestion will resume its historic, long-term upward trend that will negate any recent improvements or initiatives to improve trip time and OTP. In failing to implement a new passenger rail operating model, Canada will continue to forfeit significant socio-economic and environmental benefits for Canadians. The necessity for governments to respond to global environmental concerns, which has catalyzed efforts in the commuter market, should now cause them to turn their attention to intercity rail.

Unless action is taken, VIA Rail will continue to face increasing operating losses and substantial capital requirements.

VIA Rail has submitted business cases to Transport Canada with respect to two strategic initiatives with the objective of substantially modernizing and enhancing the importance and availability of VIA Rail service to Canadians, while improving its financial viability. The first initiative is the renewal of the Quebec - Windsor Corridor car and locomotive fleet. The second proposes to build a dedicated

passenger rail line between Quebec, Montreal, Ottawa, and Toronto. In the context of modernization, VIA Rail also provided Transport Canada with its views with respect to its Long-Haul and Regional services. VIA Rail continues to work with Transport Canada in the analysis of these modernization strategies while emphasizing the urgency to move forward on the replacement of the Corridor fleet.

Since 2014, as described in VIA Rail's corporate plans, the corporation has been pursuing financially viable growth through its ongoing operations. VIA Rail is exploring opportunities to improve its offerings to Canadians and generate growth and financial viability through the expansion or addition of train services, including the acquisition or construction of new infrastructure. Initiatives that VIA Rail is currently analyzing and some others which have been underway for several years are part of these opportunities.

Special Examination Report and *Canada Transportation Act* Review Report

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

- VIA Rail does not own most of the rails that it uses on a daily basis. Any extra usage of these must be negotiated with the owners of the rail networks. VIA Rail's growth was predicated upon successful completion of negotiations with the principal provider of access to the railway track network, within VIA Rail's prescribed envelope of funding;
- The Corporation's management exerted considerable effort to increase train frequency and train OTP, but without achieving the expected results; and
- The rail network is becoming increasingly congested and there is a risk that the situation may become acrimonious due to current economic and environmental pressures.

The constraints noted by the Office of the Auditor General of Canada in 2008 remain essentially unchanged today and continue to remain outside of VIA Rail's control.

The 2016 Special Examination Report noted:

- That there was a significant deficiency in VIA Rail's governance, despite the good practices identified. It noted that VIA Rail had made efforts to define a long-term strategic direction. However, despite its efforts, the Corporation still had no long-term plan or direction approved by the federal government;
- For a number of years, VIA Rail has received from the government only short-term approval of its funding and five-year Corporate Plan, often late in the Corporation's fiscal year. In this context, VIA Rail could not fulfill its mandate as economically, efficiently, and effectively as desired. The significant deficiency could also compromise the Corporation's medium- and long-term viability;
- The existing rail service agreements with the main track-owning railway companies did not give VIA Rail trains the right-of-way. Because of this as well as rail network congestion, the on-time performance of VIA Rail trains worsened significantly since 2010, varying overall between 84 percent and 63 percent; and
- Despite improvements made to Kingston Subdivision rail infrastructure (tracks belonging to CN, not to VIA Rail), VIA Rail could not gain the expected additional trains and reduced travel times despite increased costs.

A table extract from the Special Examination Report can be found below:

Initial project Expected benefits set out by the Corporation in 2007	Revised project in light of Canada's 2009 Economic Action Plan	Project completed or in progress as of 31 December 2014 and results obtained
Improvements made to the Kingston Subdivision rail infrastructure (tracks belonging to freight carriers, not to VIA)		
Initial budget—\$21 million	Revised budget—\$251 million	Cost—\$318.5 million
Planned scope of work Improvements made to tracks and station infrastructure.	Revised scope of work Additional \$230 million to build 160 kilometres of triple tracks on Kingston Subdivision infrastructure, at an estimated cost of \$1.6 million per kilometre.	Work carried out 70 kilometres of triple tracks, at a cost of \$4.5 million per kilometre.
Expected benefits <ul style="list-style-type: none"> • 12 additional trains • Reduced travel time • Improved on-time performance, which stood at 82 percent • \$32 million in additional revenues • 23-percent increase in ridership 	Revised expected benefits <ul style="list-style-type: none"> • 14 additional trains • Reduced travel time • Improved on-time performance • \$32 million in additional revenues • 23-percent increase in ridership 	Actual results obtained <ul style="list-style-type: none"> • 8 additional trains • Increased travel time • Worsened on-time performance (average of about 65 percent) • Anticipated additional revenues not obtained • 17-percent decrease in ridership since 2009

Overall, the Auditor General's 2016 Special Examination Report indicates that other than the current prescribed network of train services and annual funding through the annual approval of its Corporate Plan, VIA Rail has an unclear mandate from the Government of Canada which makes it very difficult to develop and execute strategic, long-term plans.

On June 25, 2014, the Minister of Transport initiated a review of the *Canada Transportation Act* (CTA), and appointed the Honourable David Emerson as Chair to this review. The CTA is the framework legislation for all national transportation as well as the basis for the Canadian Transportation Agency's role.

The recommendations related to passenger rail are as follows:

"The Review recommends that the Government of Canada act to improve the fluidity of passenger railway services by:

- Using federal legislative powers and infrastructure funding, with the long-term objective of separating freight rail and passenger rail networks, to enable connections between and within urban and suburban areas;
- Using infrastructure financing models that integrate the principle of direct user-pay pricing for rail and road modes of personal transportation in the interest of long-term harmonization of pricing incentives;
- Collaborating now, and on a continuous basis, with provincial and municipal governments to plan for integrated commuter and other passenger rail networks and for dedicated passenger rail tracks that allow for eventual adoption of high-speed rail."

Specifically on intercity passenger rail, "The Review recommends that the Government of Canada increase the use of private sector approaches for federally-operated passenger rail services including by:

- Considering the elimination of subsidies for the Toronto – Vancouver service;

- b) Supporting the on-going feasibility of a dedicated corridor from Montréal to Toronto;
- c) Continuing the federal subsidy for the regional and remote, and the Montréal – Halifax services, in partnership with, and with contributions from, the provinces and communities concerned;

The Government of Canada as part of Budget 2016 has already acted on recommendation b).

VIA Rail's Board and Management have analyzed VIA Rail's current situation and future prospects and identified a strategic direction and major initiatives, which have been tabled with the Government for consideration at an appropriate time. These are in line with the observations of the CTA Review Report (Emerson 2016), the Office of the Auditor General's 2016 Special Examination Report, and the direction indicated by the Government of Canada's Budget 2016.

Corridor Fleet Renewal

Renewal of the fleet is overdue. VIA Rail operates a fleet whose average age is 42 years, with the Corridor fleet averaging 35 years, both are well beyond the normal retirement date for rail rolling stock. According to several detailed analyses executed by consulting firms, VIA Rail's 97 LRC cars are reaching the end of their safe and useful life. Additionally, the two remaining Renaissance train sets operating in the Corridor must be retired by 2021 due to their deteriorating state and very high rebuild costs. This would leave VIA Rail with 33 HEP II cars which would also require rebuilding and modernization as they will be 73 years old by 2020. The procurement timeline is based on the fact that the LRC cars, which represent over 60% of Corridor coaches and carry over 50% of total VIA Rail system passenger revenue, were identified as having significant structural corrosion and must be withdrawn eight years following their third major rebuild.

The Government of Canada's 2016 Budget acknowledged the need for a new fleet and provided “\$7.7 million in 2016-17 on a cash basis to VIA Rail to support technical studies and other pre-procurement activities related to the renewal of VIA Rail's fleet, for safety upgrades at grade crossings on tracks owned by VIA Rail, and for investments in improved security at VIA Rail stations.”

As the retirement of LRC cars is imminent, VIA Rail has developed a Capacity Protection Plan towards somewhat mitigating the upcoming fleet reduction. Despite all best efforts, the Capacity Protection Plan will only delay major service reductions by one year. By 2024, VIA Rail will carry three million less passengers and what remaining Corridor services will be run with HEP II cars originally built in the late 1940s and 1950s.

A renewal of the fleet would enable VIA Rail to fulfil its mandate and fully realize the following benefits:

- Improved rail safety;
- Universal accessibility;
- Reduced emissions and environmental impact;
- Revenue and passenger growth;
- Increased fleet availability;
- Increased lifecycle cost savings;
- Attraction of suppliers;
- Reduced maintenance costs; and
- Minimized interoperability and integration risk.

High Frequency Rail

VIA Rail has developed a practical and achievable strategy of High Frequency Rail (HFR) to operate between Toronto – Ottawa – Montreal – Quebec City using modern diesel or electric technology.

VIA Rail does not control adequate access to infrastructure, a key factor to passenger rail's success. The Crown corporation owns only 3% of the tracks over which it operates, the rest is mostly owned by Canadian National (CN) with the rest being owned by other freight and passenger rail companies. 83% of VIA Rail's train-miles are not run on VIA Rail owned track. Most of VIA Rail's trains compete for track capacity with CN's own lucrative freight business. Economic growth has led to network congestion that has caused service deterioration and negatively affects VIA Rail's financial performance and growth, posing a large risk to VIA Rail's viability and survival.

As was stated in the 2016 Emerson Report on the CTA Review, "Pathways: Connecting Canada's Transportation System to the World":

"While commuter rail is increasingly important at the regional level, VIA faces declining or stagnant ridership, even on the most densely populated routes, due in part to low speeds, few frequencies, and unreliability related to sharing track with freight trains. Demographic changes, highway congestion, environmental considerations, and increasing time and cost of air travel offer opportunities for growth. However, the lack of federal policy and VIA Rail's lack of freedom to operate on a more commercial basis are said to be holding it back from pursuing increased speed, reliability, and frequency of service."

Three factors – increased frequencies, improved OTP and reliability, and travel times – are critical for growing ridership, increasing revenues, and reducing or eliminating the annual government subsidy provided to VIA Rail. Managing these factors under current conditions, even with a new fleet, is impossible given the reality that the majority of Corridor track is owned by third parties with whom VIA Rail must negotiate access. With little leverage, negotiations rarely enable new train frequencies even when major investments are made as described in detail in the Office of the Auditor General's 2016 Special Examination Report.

HFR involves creating a dedicated passenger track connecting VIA Rail's largest travel markets, Toronto, Ottawa, Montreal, and Quebec City, to enable a substantial increase in frequencies, and an improvement to OTP and travel times, which have been shown to increase revenues. To add perspective, the fastest travel time from Montreal to Toronto in Canada's Sesquicentennial year will take almost one hour longer than it did in the country's Centennial year.

HFR would reduce travel times by an average of 25% between these major cities.

An efficient and reliable passenger rail alternative will also provide a more sustainable future for Canada, contribute to curbing climate change, and promote economic prosperity and socio-economic benefits while reducing the burden on the taxpayer.

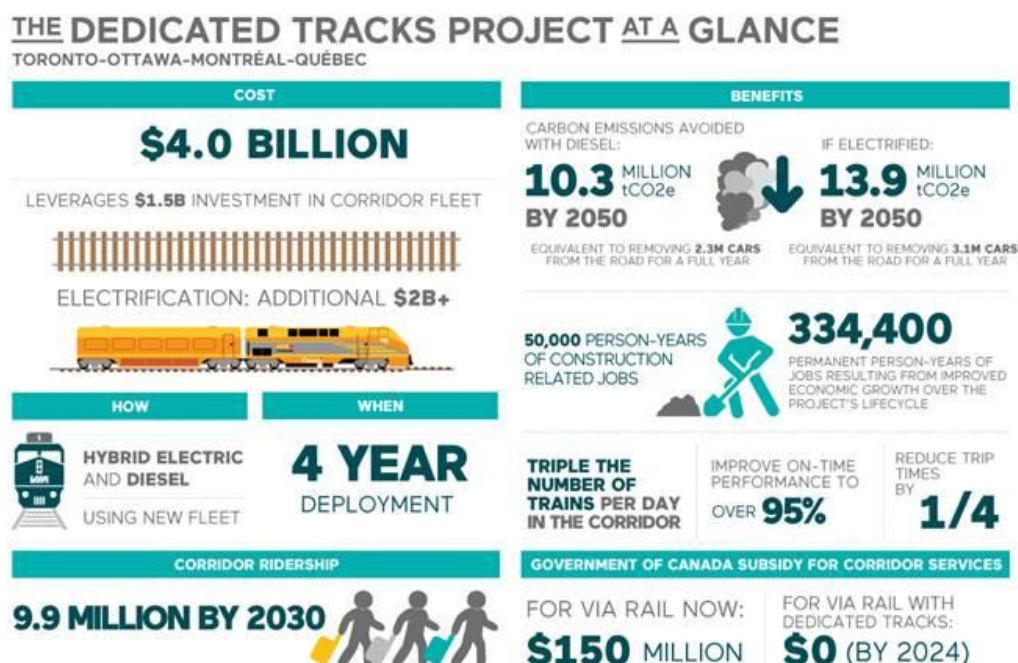
Budget 2016 proposed to provide \$3.3 million over three years to Transport Canada to support an in-depth assessment of VIA Rail's High Frequency Rail proposal.

The potential impact on VIA Rail's plans and operations by the Ontario Government's recent announcement of the possible investment in high speed rail between Toronto – Kitchener – London by 2025, and eventually London – Windsor, cannot be assessed or incorporated at this time as the details of the project are not known.

VIA Rail will engage with the Ontario Government's planners and officials at the earliest opportunity to ensure that whatever the final design of project, VIA Rail will adjust itself to offer maximum interoperability.

Notwithstanding the above, VIA Rail will continue to provide the services as required by the Government of Canada.

As mentioned, the benefits of High Frequency Rail are substantial as summarized in the following graphic:



The Imperative to Act

The alternative to VIA Rail's vision for passenger rail is the current operating environment whereby VIA Rail operates outdated passenger trains on congested freight railway infrastructure. Continuing with the status quo can only result in greater operating deficits and a gradual elimination of train services.

In its 40 year history, VIA Rail is at a critical juncture.

VIA Rail's plan to acquire new rolling stock for the Corridor will ensure the continuation and enhancement of efficient and safe rail service in this busy corridor. By using adapted designs that will make travel by passengers with disabilities safe, enjoyable, and affordable, the socio-economic benefits of this strategy will be inclusive.

The High Frequency Rail initiative will represent a large leap for passenger service in Canada and will substantially contribute to:

- Meeting Canada's environmental (GHG reduction) targets;
- Reducing road congestion; and
- Reducing the burden on the taxpayer.

VIA Rail's plan for dedicated tracks will give travellers a more convenient, efficient, and reliable alternative to the automobile, which makes up 90% of the total travel market. Further, this plan will enhance Canada's economic productivity by improving passenger mobility in the country's busiest travel corridor.

More Trains to Serve Canadians

VIA Rail's Board and Management believe that train services should be expanded where markets can financially support the operation and there is no negative impact on VIA Rail's Government funding.

A greater number of frequencies and connections are necessary for passenger rail to be commercially viable, as has been demonstrated in the U.S., U.K., Europe, and Asia. Expansion of train frequencies in the Corridor is necessary if passenger rail is to grow and reach critical mass.

Additional services are being considered between Toronto, Southwestern Ontario (Kitchener, London, Sarnia, Windsor, Niagara Falls) and Southeastern Ontario (Belleville, Kingston, Cornwall), and between Montreal and Quebec City. VIA Rail is also looking into adding weekday intercity trains in the Maritimes between Campbellton – Moncton – Halifax. The Corporation will also look to leverage its assets in the Halifax area by working with the City of Halifax to operate the proposed commuter train on behalf of the Halifax Regional Municipality, at no financial risk to VIA Rail. To determine if CN will agree to this service expansion and what these additional services will cost in terms of investments, VIA Rail is currently awaiting capacity studies being completed on a cost-shared basis with CN in the Corridor and in the Maritimes.

Major Hub Station Issues

VIA Rail's performance is also highly dependent on access to its two major hubs, Toronto Union Station and Montreal Central Station. This access is affected by commuter operators in the Toronto and Montreal regions who are expanding rapidly, acquiring their own track from freight railroads, and are in the midst of multi-billion dollar development plans.

Toronto Union Station – the station's rail infrastructure as well as the rail corridors accessing Union Station are owned by Metrolinx (GO). Metrolinx coordinates with the Province of Ontario, the federal government and VIA Rail on High Speed Rail and High Frequency Rail initiatives, the optimization of shared resources such as Union Station and rail corridors, and the integration of services for a seamless traveller experience.

- Montreal Central Station – VIA Rail is relying on limited information to determine the impact of the Caisse de Dépôt et Placement du Québec (CDPQ)'s Réseau électrique métropolitain (REM) project regarding its access to Central Station.
 - VIA Rail remains convinced that, in working with CDPQ, VIA Rail's access to Central Station within the initial launch plan of the REM project will be maintained, or at least protect a future deployment of HFR on that infrastructure. If this is not possible, the Corporation anticipates that its services will terminate, in the fullness of time, outside of downtown.

Recent Improvements and Successes

VIA Rail's vision is to be a smarter way to move people. This is achieved through our mission: "Passengers first. We continuously strive to offer them a smarter and safer travel experience across Canada." Further, VIA Rail's values are:

- Innovation – Daring to see things differently is our Modus Operandi;
- Know-how – We have a flexible way of doing things, which allows us to constantly evolve and achieve better results;
- Trust – Our progress is driven by the bond of trust we have with our employees and passengers;
- Agility – Being flexible in our Modus Operandi allows us to constantly improve the passenger experience;
- Accountability – We are the authors of our success; and
- Integrity – Fairness and honesty are deeply rooted in everything we do.

VIA Rail strives to develop and implement initiatives that enhance the Corporation's market, financial, operational, safety, and security performance, are aligned with VIA Rail's Vision, Mission, and Values, and the implementation of Vision 2020 and Destination 2025 strategic plans.

Some of the initiatives include:

- Further advancing VIA Rail's position as the most customer focused transportation company in Canada and passenger railway in the world;
- Anticipating customer needs and staying ahead of technological and behavioural trends;
- Making all interactions with customers simple, seamless, and satisfying;
- Identifying and communicating with frequent, infrequent, and new customers through the least costly and most effective channels;
- Implementing VIA Rail's Customer Relationship Management (CRM);
- Replacing the obsolete reservation system to give VIA Rail more flexibility to innovate and provide customers with a superior experience;
- Continuing to introduce industry-leading technology such as GPS Train Control, locomotive engineer tablets, and automated crew calling;
- Increasing partnerships with other carriers and related industries;
- Maintaining VIA Rail's position as one of Canada's top 100 employers;
- Hiring, training, and retaining high quality, customer-focused staff throughout the organization;
- Hiring 10% of new employees from the ranks of veterans and reservists, and 15% from minority groups;
- Promoting gender parity throughout the organization; and
- Focusing on equipment safety, reliability, availability, and efficiency through a "continuous improvement" culture in Equipment Maintenance.

In the past three years, VIA Rail has demonstrated that when Canadians are offered a quality product designed for them, they will take the train. VIA Rail has done everything in its power to focus all its resources and attention on the customer, by giving them what they want and are willing to pay for, including re-deploying train capacity to match demand and increase revenue per passenger. Further, it has sharpened and modernized its message using targeted and efficient marketing and advertising, including digital media. VIA Rail is providing value that its customers are willing to pay more for, while also retaining price conscious passengers in a targeted way.

The Corporation's shift to a customer-centric model has led to unprecedented growth. VIA Rail has, with these and other improvements, tapped into new markets and revenue veins and achieved impressive passenger revenue growth. As a result, VIA Rail's revenue grew by an average of 6.5% per year or 21% during the three year period of 2014 – 2016.

VIA Rail has also:

- Added new frequencies and new station stops;
- Introduced more Quebec City – Ottawa direct trains;
- Optimized schedules and equipment cycling;
- Improved service offerings with revamped Business Class in the Corridor, and the introduction of the highly successful *Prestige* service on the *Canadian*;
- Improved meal and on-board offerings; and
- Improved revenue management (maximization) strategies aligned to the above.

In places where VIA Rail has been able to add frequencies, such as between Toronto and Ottawa, it has experienced double digit growth in passengers and revenue.

VIA Rail is also pleased to report a strong first half in 2017, where ridership increased by 7.7% and passenger revenues increased by 12.5% over the first half of 2016.

Another contributor to recent growth has been the improvement in OTP, both in the Quebec City – Windsor Corridor and the *Canadian* between Toronto – Vancouver. This has come about partly by:

- Improved equipment maintenance practices leading to fewer equipment related delays; and
- The short-term, significant reduction of traffic on CN lines (a 10% reduction in shipments).

It is worth noting that since it was introduced, the *Canadian's* new *Prestige* service has not required a subsidy and the *Canadian* makes a positive contribution during the peak season. This new service significantly contributed to the 31.3% growth in the *Canadian's* revenues from 2012 to 2016.

Additionally, VIA Rail conducted its most recent employee Engagement Survey in September 2016 and announced the results in November: in 2016 unionized employees' engagement increased from 49% to 54% and non-unionized employees engagement increased from 57% to 64%. The engagement rate for employees within various management groups experienced a significant increase from 53% to 66%.

The overall increase of engagement since 2011 is a noteworthy 11% (46% to 57%), and the number of employees who are very disengaged decreased by 12%.

These positive trends are important to note as employee engagement is influential to the success of VIA Rail.

Government Funding

As a result of Budget 2017, VIA Rail has sufficient government operating, pension, and capital funding for status quo operations until March 31, 2020, at which point VIA Rail's base funding level reverts back to \$147 million annually. VIA Rail will require an additional infusion of government funds of an average of \$300 million annually for 2020 and 2021 just to keep a deteriorating status quo network operating, while the level of service and financial performance continues to deteriorate despite the Corporation's best efforts.

Budget 2017 also provided VIA Rail with funding towards its share of CN's and other host railroads' compliance efforts to adhere to new grade crossings regulations.

Funding for the Corridor Fleet Renewal and High Frequency Rail initiatives is not included in the additional funding requirements scenario, but they would greatly reduce the need for additional government operating funding.

VIA Rail also requires capital funding to make major investments in stations and existing infrastructure, in addition to what is needed to maintain the assets in a state of good repair. This includes capital funding for:

- Major investments in stations, including: Sainte-Foy, Montreal, Dorval, Ottawa, Kingston, London;
- New track infrastructure between Montreal and Ottawa connecting VIA Rail tracks to CP track which can be utilized to avoid CN's congested lines and the bottleneck at Coteau Junction, and between Kitchener and London, including the potential acquisition of that line from CN, and its upgrade; and
- Critical Information Technology investments.

Conclusion

VIA Rail is faced with a clear choice between three alternatives:

- Continue status quo operations with the existing Corridor fleet and face drastic reduction of service, relevance, and financial viability;

- Continue status quo operations but with a new Corridor fleet and face continued obstacle due to its constrained operating environment, leading eventually to reduced relevance and a further deterioration in financial viability; or
- Acquire a new Corridor fleet and invest in High Frequency Rail to become a strong competitor to the car and major contributor to:
 - Reducing Canada's GHGs;
 - Enhancing mobility and accessibility for all Canadians;
 - Increasing revenue and economic growth; and
 - Reducing requirements for Government of Canada funding.

1. MANDATE

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

2. CORPORATE MISSION, OBJECTIVES, PROFILE AND GOVERNANCE

2.1 Corporate Objectives and Profile

VIA Rail operates the nation's passenger rail services on behalf of the Government of Canada, as approved by the Governor in Council through the annual Corporate Plan. The Corporation's objectives are to manage and to provide a safe, efficient, reliable, and environmentally sustainable rail passenger service that meets the needs of travellers in Canada. The Government of Canada determines VIA Rail's role within the overall structure and services provided by the Federal Government, and provides appropriations to subsidize passenger rail services.

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

2.2 Governance and Accountability

2.2.1 Board of Directors

Like all Crown corporations, VIA Rail is established to allow it to operate at arm's length from its sole shareholder, the Government of Canada. As a non-Agent Crown corporation, VIA Rail's Board of Directors is responsible for overseeing the strategic direction and management of the Corporation, the analysis of business cases and service levels, the expenditure of operating and capital funds granted by the Government, the approval of all strategies, initiatives, investments, budgets, Corporate Plans, and high-value contracts and also reports on VIA Rail's operations to the Canadian federal government. In order to ensure the Board of Directors' maximum efficiency, the Board of Directors is comprised of individuals who possess a strong mix and balance of skills, knowledge and experience to support the achievement of VIA Rail's vision and strategic objectives.

Both the Chair of the Board and the President and CEO are appointed by the Governor in Council on the recommendation of the Minister of Transport and the Board of Directors is appointed by the Minister of Transport with the approval of the Governor in Council.

In April of 2017, Ms. Françoise Bertrand was appointed as Chair of the Board of Directors for a five year term. In order to oversee strategic direction and management of the Corporation, the Board of Directors meets at least once a quarter, with other meetings scheduled as needed.

Mr. Yves Desjardins-Siciliano joined VIA Rail in 2010 and was appointed President and Chief Executive Officer in May 2014 for five year term. Along with VIA Rail's Executive team, he is responsible for directing the operations of the Corporation.

The Board of Directors also initiates the succession planning for the President and CEO for renewal / replacement when required.

The Board of Directors reports to the Minister of Transport and consists of the Chair, the President and Chief Executive Officer and nine other Directors, who are appointed by the Governor in Council on the recommendation of the Minister of Transport. All members of the Board sign a code of ethics reflecting

the spirit and intent of the *Federal Accountability Act*, which sets out standards of transparency and accountability for the officers and directors of Crown corporations.

VIA Rail Canada – Board of Directors

FRANÇOISE BERTRAND – CHAIR
YVES DESJARDINS-SICILIANO – PRESIDENT AND CEO
KATHY BAIG, Laval (Quebec)
DANIEL GALLIVAN, Halifax (Nova Scotia)
JONATHAN GOLDBLOOM, Montreal (Quebec)
S. ROSS GOLDWORTHY, Calgary (Alberta)
RAMONA MATER, Vancouver (British Columbia)
JANE MOWAT, Toronto (Ontario)
GLENN RAINBIRD, Belleville (Ontario)
GAIL STEPHENS, Victoria (British Columbia)
KENNETH TAN, Richmond (British Columbia)
GENEVIÈVE TANGUAY, Montreal (Quebec)

The biographies of the Board of Directors are available at:

<http://www.viarail.ca/en/about-via-rail/governance-and-reports/board-directors>

Committees of the Board of Directors

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

The Audit & Finance Committee is responsible of overseeing and monitoring of the following:

1. The Corporation's annual operating and capital budgets;
2. The Corporation's financial information reporting, including the MD&A statements of both the Quarterly and Annual Reports;
3. The Corporation's internal control practices, including the internal audit process;
4. The Corporation's annual auditors' reports;
5. The Corporation's external audit process, including the planned scope of any special examination by the Auditor General of Canada and the findings and recommendations resulting from such examination;
6. The Corporation's real estate asset management and major capital programs.

The Governance, Risk & Strategy Committee is responsible of overseeing and monitoring of the following:

1. The Corporation's governance matters regarding: implementation of governance policies and best practices in accordance with its status as a Federal Crown Corporation, effectiveness of the Board of Directors and of Committees of the Board, succession planning process for the CEO, corporate reporting to all governmental authorities, and corporate social responsibility, including environment, safety and security matters;
2. The Corporation's risk management policies and procedures, including its Enterprise Risk Management Framework, and follow-up on implementation of such policies and procedures;
3. The Corporation's strategic planning processes and follow up on implementation of such strategies.

The Human Resources Committee is responsible of overseeing and monitoring of the following:

1. The performance evaluation and compensation of the Chief Executive Officer;
2. The performance evaluation and compensation of Executive Officers;
3. The design and implementation of employee compensation, incentives, benefits and retirement plans;
4. The effectiveness of the organizational structure;
5. The design and implementation of management's development and succession plans;
6. The management of employee and labour relations, including negotiation mandates for unionized employees;
7. The design and implementation of the human resources strategic plan to enhance the quality of the workforce.

The Pension Investment Committee is responsible of overseeing and monitoring of the following:

1. Pension Fund investment performance, policies and related matters;
2. Supplementary Executive Retirement Plan investment performance, policies and related matters.

2.2.2 Train Services Network Changes

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

Starting in 2014, and continued in 2015 and 2016, these service improvements, which have included increased frequencies (for example 28 additional Ottawa – Toronto frequencies per week), and improved service offerings have resulted with VIA Rail serving almost one hundred and seventy-five thousand additional Canadians while also resulting with a funding betterment of the Corporation's bottom line by over \$22 million over the same period. This revenue and ridership growth clearly demonstrates that Canadians value passenger rail.

2.2.3 Travel Policy Guidelines and Reporting

VIA Rail's Travel Policy is aligned with the July 16, 2015 Treasury Board directive for Crown corporations guidelines and practices on travel, hospitality, conference and event expenditures for Directors and the CEO.

2.2.4 Audit Regime

VIA Rail is subject to three types of audits: internal audits, external annual financial audits, and periodic special examinations. An independent firm, currently PricewaterhouseCoopers (PwC), performs internal audits on an on-going basis and provides findings and recommendations to the Audit and Finance Committee of VIA Rail's Board of Directors and to the Office of the Auditor General of Canada. The Office of the Auditor General of Canada is responsible for performing the annual external financial audits and the special examinations every few years. The most recent special examination was completed in 2016.

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

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

2.2.5 Office of the Auditor General: Special Examination Results

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

- VIA Rail does not own most of the rails that it uses on a daily basis. Any extra usage must be negotiated with the owners of the rail networks. VIA Rail's growth was predicated upon successful completion of negotiations with the principal provider of access to the railway track network, within VIA Rail's prescribed envelope of funding;
- The Corporation's management exerted considerable effort to increase train frequency and train on-time performance, but without achieving the expected results; and
- The rail network is becoming increasingly congested and there is a risk that the situation may become acrimonious due to current economic and environmental pressures.

The constraints noted by Office of the Auditor General of Canada in 2008 remain essentially unchanged today and continue to remain outside of VIA Rail's control.

The 2016 Special Examination Report noted:

- That there was a significant deficiency in VIA Rail's governance, despite the good practices identified;
- That VIA Rail had made efforts to define a long-term strategic direction. However, despite its efforts, the Corporation still had no long-term plan or direction approved by the federal government; and
- For a number of years, VIA Rail has received from the government only short-term approval of its funding and five-year Corporate Plan, and often late in the Corporation's fiscal year. In this

context, VIA Rail could not fulfill its mandate as economically, efficiently, and effectively as desired. The significant deficiency could also compromise the Corporation's medium- and long-term viability.

The report also notes:

- The existing rail service agreements with the main track-owning railway companies did not give VIA Rail trains the right-of-way. Because of this as well as rail network congestion, the on-time performance of VIA Rail trains worsened significantly since 2010, varying overall between 84% and 63%; and
- Following improvements made to Kingston Subdivision Rail Infrastructure (tracks belonging CN, not to VIA Rail), VIA Rail could not gain the expected additional trains and reduced travels times despite increased costs. A table extract from the Special Examination can be found in Section 3.3.3 of this Plan.

Both the 2008 Special Examination Report and the 2016 Special Examination Report are available at <http://www.viarail.ca/en/about-via-rail/governance-and-reports/corporate-information>.

These three recommendations (major deficiency, long term funding and on-time performance issue) remain to be addressed. All other recommendations have been closed.

2.2.6 *Canada Transportation Act Review*

On June 25, 2014, the Minister of Transport initiated a review of the *Canada Transportation Act*, and appointed the Honourable David Emerson as Chair to this review. The *Canada Transportation Act* is the framework legislation for all national transportation as well as the basis for the Canadian Transportation Agency's role.

Following 18 months of analysis, hearings, consultations and advice from a broad array of transportation experts, various stakeholders, and members of the public, the *Canada Transportation Act Review Report Pathways: Connecting Canada's Transportation System to the World*, was tabled in Parliament by the Honourable Marc Garneau, Minister of Transport, on February 25, 2016. The entire report may be found at: [*Pathways: Connecting Canada's Transportation System to the World*](#).

The report covers all modes of transportation, and considers the impacts of climate change, demographic shifts, urbanization, innovation, and protection from incompatible development. The report's findings, analysis and recommendations reflect and validate several aspects of VIA Rail's transformation strategy including its dedicated tracks project. It also recognizes many of the constraints imposed by the current operating environment, which greatly limit the company's ability to grow its ridership.

Its review of passenger rail is summarized as follows:

"Demographic change, urbanization, and evolving preferences among transportation choices all point to significant growth opportunities for intercity passenger rail in the densest routes. Modernizing VIA Rail is long overdue: it must be allowed to operate as a commercial entity, empowered to construct and finance a dedicated track where viable. This will support sustainable and improved services and long-term separation of freight and passenger rail traffic, improving mobility and reducing congestion around Canada's largest cities. A National Corridor Protection Program would secure existing and new corridors and rights-of-way from incompatible development to meet future supply chain needs."

The recommendations related to passenger rail are as follows:

1. "The Review recommends that the Government of Canada act to improve the fluidity of passenger railway services by:
 - a) using federal legislative powers and infrastructure funding, with the long-term objective of separating freight rail and passenger rail networks, to enable connections between and within urban and suburban areas;

- b) *using infrastructure financing models that integrate the principle of direct user-pay pricing for rail and road modes of personal transportation in the interest of long-term harmonization of pricing incentives;*
- c) *collaborating now, and on a continuous basis, with provincial and municipal governments to plan for integrated commuter and other passenger rail networks and for dedicated passenger rail tracks that allow for eventual adoption of high-speed rail."*
- 2. *"The Review recommends that the Government of Canada increase the use of private sector approaches for federally-operated passenger rail services including by:*
 - a) *considering the elimination of subsidies for the Toronto–Vancouver service;*
 - b) *supporting the on-going feasibility of a dedicated corridor from Montreal to Toronto;*
 - c) *continuing the federal subsidy for the regional and remote, and the Montréal – Halifax services, in partnership with, and with contributions from, the provinces and communities concerned;*
 - d) *developing a legislative framework that articulates government policy on passenger rail, clarifies roles and responsibilities, establishes overall funding arrangements, and sets rules for competition and cooperation with other transportation modes, such as air and bus services."*

VIA Rail notes that the recommendation regarding the Toronto-Vancouver service focuses on the financial results, not on the existence of the service itself. Furthermore, it is worth noting that since it was introduced, the *Canadian's* new *Prestige* service has not required a subsidy and the *Canadian* makes a positive contribution during the peak season. This new service significantly contributed to the 31.3% growth in the *Canadian's* revenues from 2012 to 2016.

VIA Rail is encouraged by the constructive and positive tone of the report and its keen understanding of the VIA Rail operating context. The report's prediction of significant growth opportunities for intercity passenger rail on the densest routes, through a modernized VIA Rail, aligns with our own submission and future plans regarding passenger rail services in Canada.

The report has sections specially pertaining to passenger rail as that highlight the challenges that VIA Rail faces:

Chapter 1

"VIA Rail provides transportation options in the Windsor–Quebec City corridor, from central to Western Canada, and on long-haul routes in Eastern Canada and access to some communities on Regional routes. The per-passenger subsidies range from fifty dollars on the busiest routes to more than ten times that amount on remote services. While commuter rail is increasingly important at the regional level, VIA faces declining or stagnant ridership, even on the most densely populated routes, due in part to low speeds, few frequencies, and unreliability related to sharing track with freight trains. Demographic changes, highway congestion, environmental considerations, and increasing time and cost of air travel offer opportunities for growth. However, the lack of federal policy and VIA Rail's lack of freedom to operate on a more commercial basis are said to be holding it back from pursuing increased speed, reliability, and frequency of service."

The report also includes:

Chapter 8.3

"Throughout its history, VIA Rail's fortunes have ebbed and flowed depending on the decisions of government and have, in some cases, suffered from short-term funding and policy choices."

"The recommendations on passenger rail services included in the report of the 2001 Canada Transportation Act Review generally focused on transforming VIA Rail into a more commercially oriented operation. Notwithstanding the report's recommendations, VIA Rail's governance structure has remained unchanged. Low ridership, significant subsidies, declining on-time performance, and the lack of

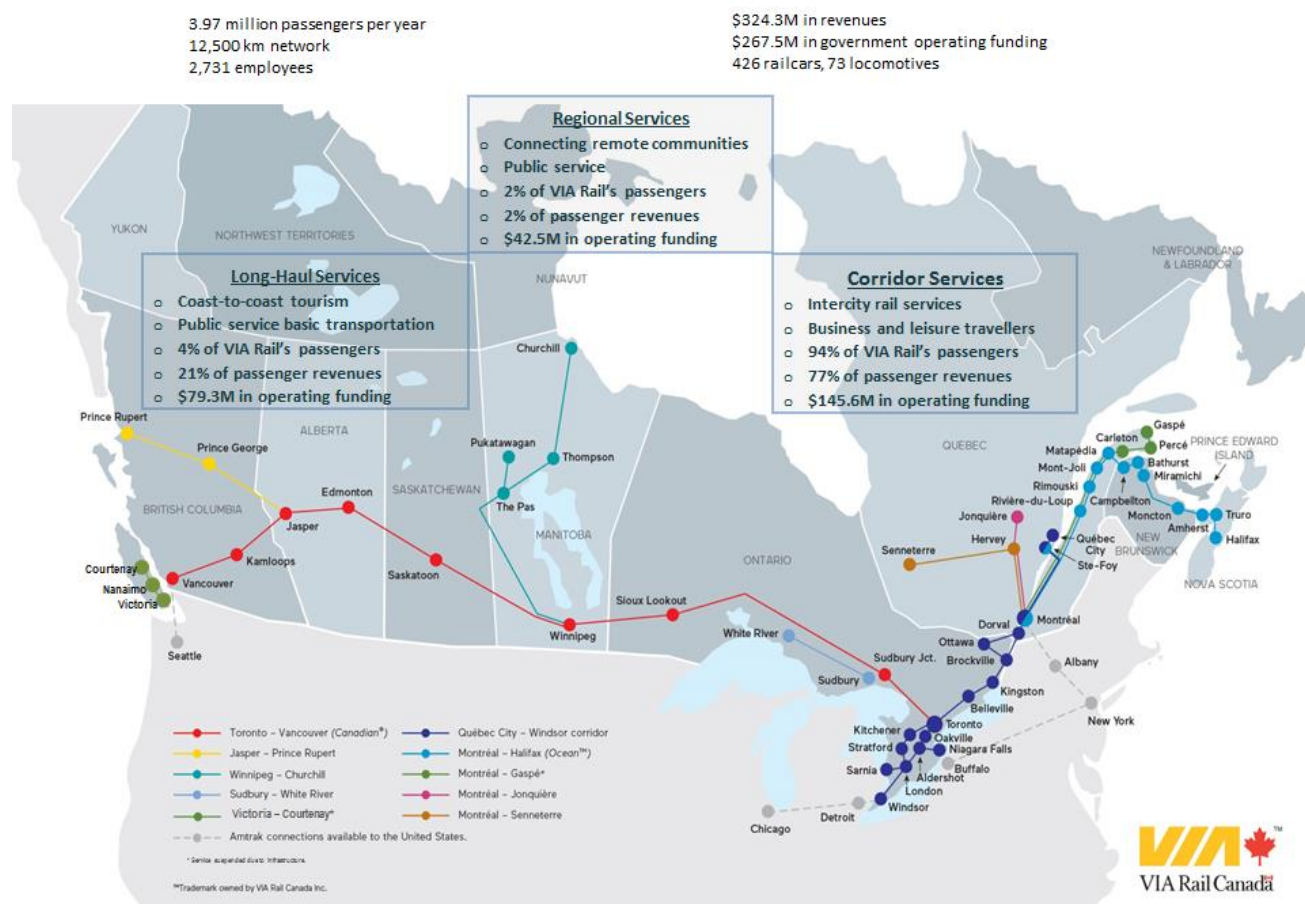
frequencies are long-standing challenges to the continued sustainability of federally operated passenger rail services.”

"Intercity passenger rail services connect cities and cover longer distances than commuter rail. Intercity passenger rail service plays a modest role in transportation across Canada, although in the Windsor–Quebec City Corridor it captures about eight percent of the travel market (by trips). The majority of VIA Rail trips are in the Toronto–Ottawa–Montreal Corridor, and they represent VIA's core business, although VIA advised the CTA Review that operations are hampered by slow speeds and limited access to track (VIA uses CN's track for much of this service). VIA Rail makes the case that the construction and use of a dedicated passenger rail track in this Corridor would significantly diminish the need for subsidies, at least for Corridor operations. In addition to the subsidies, which are significant, VIA also pays CN and CP for track access. This contrasts with the use of roadways and highways, where the principle of direct user-pay is generally not in effect, except in limited portions (i.e. Highway 407 in Ontario – although it may be argued that drivers on roads pay indirectly for use through fuel taxes.) If it were, particularly in respect of highway transportation in the Windsor–Quebec City Corridor (the Corridor), perhaps travellers would see passenger rail as a more attractive option and ridership might increase. There is known to be significant friction between VIA Rail and CN in the Corridor. VIA Rail has requested but not yet received additional frequencies and has experienced poor ontime performance. VIA indicates that this had a negative effect on ridership between 2010 and 2014. VIA attributes the poor on-time performance to the priority accorded to freight trains over passenger trains. While research indicates that lower on-time performance may not be a reliable driver of ridership levels in the Corridor, there is inherent incompatibility between freight and passenger trains. Conventional passenger rail trains are short, light, and capable of travelling at higher speeds than freight trains. Highway congestion within the Corridor has been increasing and the time may be ripe to seek private sector investment in the infrastructure required to significantly improve this service”.

2.3 Overview of VIA Rail's Business

VIA Rail operates 494 trains per week in all regions of Canada over approximately 12,500 kilometres of rail infrastructure. In 2016, VIA Rail carried 3.97 million passengers yielding 858 million passenger-miles and 6.5 million total train-miles ran (miles rather than kilometres are the rail industry standard). Historically, the Corporation has divided its business into three distinct types of services: Corridor, Long-Haul, and Regional.

VIA RAIL'S NETWORK 2016



2.3.1 VIA Rail Services

VIA Rail organizes its businesses along four product groups: Central Canada (the Quebec City–Windsor Corridor), Eastern Canada, Western Canada, and Regional Services.

a) Central Canada: Corridor Services

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

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

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

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

b) Long-Haul Services

i. The *Canadian*



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

The *Canadian* is an iconic, world-renowned train. In a tribute to Canada's railway heritage, the current ten dollar banknote depicts a portrait of Sir John A. Macdonald and the *Canadian* in the Rockies along with a VIA Rail route map.

The *Canadian* has three classes, *Economy*, *Sleeper Plus*, and *Prestige*. These classes offer coach seating or sleeping accommodations, meals service, and dome cars for sightseeing. The *Canadian* is a hybrid travel product, serving both tourism and intercity travellers along the route, including some remote communities. VIA Rail operates this service with stainless-steel HEP cars built in the 1950s. The interiors of some of the cars have been refurbished to provide a refreshed and more updated look.

The *Canadian's Sleeper Plus* class offers meals service, sleeping accommodations, a dome car for sightseeing, and transportation services to intercity travellers along the route.

VIA Rail has also introduced twelve rebuilt cars, with eight sleepers and four dome / lounge / sleeper cars that have accessible sleeping accommodations, with total travel accommodations for up to 24 passengers per train. With these rebuilt cars that form the *Prestige* Class service, VIA Rail now provides accessible accommodations on the *Canadian* that fully comply with the Canadian Transportation Agency's *Code of Practice - Passenger Rail Car Accessibility and Terms and Conditions of Carriage by Rail of Persons with Disabilities*.

ii. The Ocean

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



c) Regional Services

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

- Jasper – Prince-Rupert (AB, BC);
- Victoria – Courtenay (BC);
- Winnipeg – Churchill (MB through a portion of SK);
- The Pas – Pukatawagan (MB) - managed by the Keewatin Railway Corporation;
- Sudbury – White River (ON) – Canadian Pacific;
- Montreal – Senneterre / Jonquière (QC); and
- Matapédia – Gaspé (QC).

Regional services required an average subsidy of \$557 per passenger carried in 2016. These are public services offered as part of the Government of Canada's transportation system and are designed to provide transportation to all Canadians and communities, including those in remote areas. These services offer some seasonal peak volume, whether during cottage season in Quebec and Northern Ontario, or tourist season (Canadian and international) in Northern British Columbia and Northern Manitoba (for example, polar bear season in the Hudson Bay area in October).

Both the Victoria-Courtenay and Matapédia-Gaspé services have been suspended for safety reasons due to the poor condition of the rail infrastructure. Reinstatement of service will take place only once the quality of the infrastructure has been restored and VIA Rail is satisfied that it is safe to operate and that reasonable track speeds, schedules, and connectivity (for Gaspé) are achievable.

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

2.3.2 Canada's 150th Anniversary

In recognition of the 150th anniversary of the Confederation of Canada, VIA Rail is taking part in several initiatives organized across the country. These activities were selected for their role in bringing Canadians together, promoting our culture, and fostering diversity.

These events will reach out to Canadians from Coast to Coast, often by using the train to transport participants, or as a symbol of Canada's rich railway history. These events are Artistic, Sporting, Educational, and Entertaining in nature, and speak to the diversity of Canada. Additionally, VIA Rail is an important sponsor of Ottawa 2017, and very involved in many important events throughout 2017 taking place in the Nation's Capital. Ottawa 2017 Events include or have included, special trains to RedBull® Crashed Ice from Quebec City, Montreal and Toronto; Juno Express Trains to Ottawa from Montreal and Toronto and in November, a Special Grey Cup Express from Toronto to Ottawa. VIA Rail supports a series of local celebrations throughout the calendar year in Vancouver, Winnipeg, Churchill, Toronto, Montreal, Quebec City, Halifax, and Kingston.

Over the course of the year, Canadians will be able to participate in many events organized as part of the 150th anniversary of Confederation. VIA Rail will make travel easier for participants and festival-goers heading to select Canadian Heritage signature projects across the country, as well as other major events including:

- The 150 Years Young project – Apathy is Boring
- Edges of Canada – NYO Canada
- LandMarks2017 – Partners in Art
- National Canadian Film Day 150 – REEL CANADA
- Canada Games in Winnipeg
- The Walrus Talks – Conversations about Canada
- YMCA LocalMotion Challenge
- Travelling through history – Fondation Paul Gérin-Lajoie
- Daughters of the Vote – Equal Voice
- The Memorial Cup competition in Windsor
- Sports events in Winnipeg and Vancouver
- Music festivals in Halifax
- Military events

Other events that VIA Rail is an active partner include:

- Memorial Cup in Windsor
- Black History Month, Breakfast Club, in Toronto and Ottawa
- Invictus Relay in Vancouver, Edmonton, Winnipeg, Montreal, Quebec City
- Invictus Games in Toronto and Niagara Falls
- Family Days at Canadian Forces Base Kingston and Canadian Forces Base Ottawa
- Navy Bike Ride in Ottawa
- Rendez-Vous Canada in Calgary
- HNIC Play on 4 on 4 in Winnipeg and Halifax
- Army Run in Ottawa
- NHL Outdoor Classic in Ottawa

VIA Rail has also wrapped 22 locomotives and 17 cars in the Canada 150 colours and installed posters and banners in its stations to invite travellers to take part in the festivities. The VIA Rail mini-train (used at family events) will be re-painted for Canada 150 use this summer. As well, the Canada 150 logo is on napkins, coffee cups, baggage tags, and staff lanyards throughout the country.



Canada 150 Youth Pass

Over 4,000 youth will be able to discover Canada in July 2017 through the Canada 150 Youth Pass. By offering youth 25 and younger (or students over 25 with an International Student Card) a pass for \$150, VIA Rail encouraged youth to get on board for the Canada 150 celebrations in July 2017. This pass, which provides access to unlimited economy travel on all VIA Rail routes during the month of July, sold out in less than 36 hours. VIA Rail had planned to sell 1867 passes to coincide with Canada's Confederation, but due to high demand together with the unfortunate crash of our reservation system, the sale of the Canada 150 Youth Pass was extended.

2.3.3 Centennial of the Battle of Vimy Ridge

VIA Rail has partnered with the Vimy Foundation to help commemorate the centennial of the Battle of Vimy Ridge in order to mark this pivotal event from World War I and honour the military community. Throughout the month of April 2017, trains in the Québec City-Windsor Corridor will don a special logo created to commemorate the event, which includes the Vimy monument and the date of the Battle. From April 3rd to April 9th 2017, VIA Rail distributed Vimy monument pins to passengers onboard certain trains.

2.3.4 Assets Used to Support the Services

a) Rail infrastructure

VIA Rail operates under Train Service Agreements (TSAs) with the host railways (CN, CP and other railways that own the majority of the track on which VIA Rail operates).

Infrastructure owners are mostly rail operators (primarily freight carriers) that conduct their own business on the same infrastructure. As a result, VIA Rail competes with the host for capacity. As freight traffic has increased drastically since the financial crisis of 2007-2008, VIA Rail has been unable to obtain the infrastructure access required for reliable, frequent, and on-time operations, which limits its competitiveness, cost recovery, profitability, and relevancy to travellers. This is a serious constraint noted by the Auditor General of Canada with its Special Examination Report that "existing rail service agreements with the main track-owning railway companies did not give VIA Rail trains the right-of-way".

VIA Rail management is of the view that priority access would not resolve the problem which relates to system capacity. Amtrak, which has legislative priority, suffers from the same issues as VIA Rail.

Reliability (on-time performance), efficiency (trip time), and convenience (frequencies) are three key success factors for passenger rail that are controlled by the host railway.

Increases in frequency clearly have a positive effect on both ridership and revenue. Annex 2 contains Amtrak examples that clearly illustrate the ridership-frequency and revenue-frequency relationships.

The following table outlines the route-miles (the standard distance measure used by North American railways) over which VIA Rail operates by type of service and by infrastructure owner:

Route-miles over which VIA Rail operates, by type of service and by infrastructure owner ('000)

Service	CN	HBR	CP(1)	VIA Rail (6)	Metrolinx (5)	GEXR (2)	SCFG (3)	SRVI (4)	Total
Corridor	758		0.2	186	98	55			1,099
Long-Haul	3,600				14				3,614
Regional & Remote	1,833	570	301				0	0	2,704
Total	6,191	570	302	186	112	55	0	0	7,417
% of Total	83%	8%	4%	3%	2%	1%	0%	0%	

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

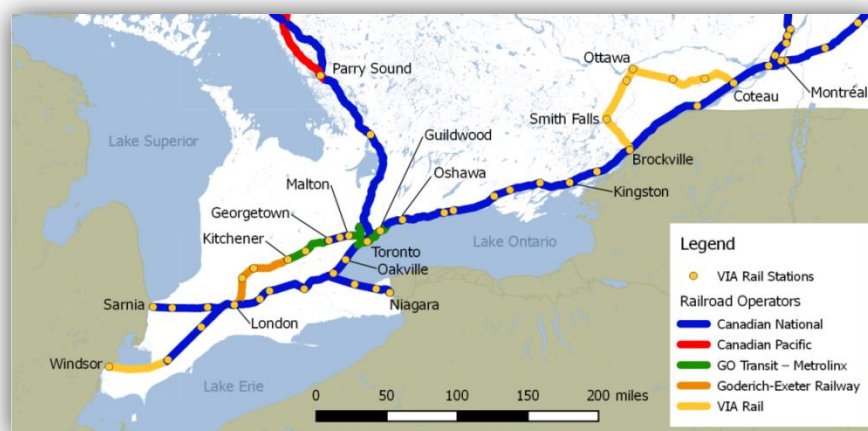
(1) & (6) CP – Brockville sub change of property (purchased by VIA Rail), continued use of CP Smith Falls; (2) & (5) GEXR – 33 Miles purchased by Metrolinx from CN, but operated by GEXR; (3) SCFG – Société du Chemin de Fer de la Gaspésie – 202 actual, current value of 0 due to no current operation and no indication as to when operations will continue; (4) SRVI – Southern Railway of Vancouver Island - 139 actual, but shows 0 due to no current operations.

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

Although VIA Rail owns only 3% of the infrastructure, it operates 12% of its train-miles on the portion it owns in the Corridor where several round trips per day occur. VIA Rail's infrastructure is comprised of segments between Chatham and Windsor in Ontario, and between Coteau, Ottawa and Brockville around Ottawa. In 2015, VIA Rail purchased the Brockville Subdivision from CP which can be utilized to avoid CN's congested lines and the bottleneck at Coteau Junction. VIA Rail had invested over \$70 million into this subdivision since the mid-eighties and, at the time of purchase, it represented 90% of traffic. VIA Rail gains demonstrable benefits with far better OTP where it owns and controls its infrastructure (please see Annex 3).

Consistent with its long-term strategy of infrastructure acquisitions in the Corridor, VIA Rail will continue to analyze the potential to increase its track ownership by purchasing the Kitchener to London segment of the Goderich-Exeter rail line, and as appropriate, other segments that may become available.

Infrastructure owners/leasees in Corridor Montreal - Windsor



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

Train-miles over which VIA Rail operates, by type of service and by infrastructure owner ('000)

Service	CN	VIA	CP	GEXR	HBR	SCFG	Metrolinx	SVI	Total
Corridor	3,694	837	1	81	-	-	400	-	5,014
Long-Haul	983	-	-	-	-	-	3	-	987
Regional	524	-	94	-	179	-	-	-	797
Total	5,202	837	95	81	179	-	404	-	6,797
% of Total	77%	12%	1%	1%	3%	0%	6%	0%	

The current TSA with CN expires on December 31, 2018. This is a significant risk for VIA Rail as a subsequent TSA could reduce track access, increase costs and impact frequencies, departure slots, and trip times.

Elsewhere, CN has reduced maintenance on lines that have seen significant decreases in freight traffic. These actions have led to a need to greatly lengthen passenger train schedules as train speeds have to be lowered on freight standard maintained tracks. In addition, longer travel times had an impact on VIA Rail's ability to offer an attractive travel option while also substantially increasing labour and fuel costs. VIA Rail had to acquire track that was necessary to sustain operations and recognizes that further acquisitions may be necessary, otherwise scheduled travel times will deteriorate further increasing VIA Rail's deficit.

For the most part, short line railways¹ own the infrastructure purchased from CN and CP when they divested track. The short line railways generally do not have the financial capacity to invest in infrastructure in order to maintain higher than freight train speeds. This limits the speed at which passenger trains can travel and leads to rail infrastructure deterioration. Further signs of the deterioration trend emerged as operational issues were faced in 2014 in Northern Manitoba (Hudson Bay Railway owned infrastructure) and even in Southwestern Ontario (GEXR operated infrastructure), leading to service cancellations and suspensions or slow orders.

b) Stations

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

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

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

Stations and Stops

Service	Stations	Shelters	Sign-posts/Platforms	Total
Corridor	42	4	2	48
Long-Haul	28	4	75	107
Regional & Remote	25	6	244	275
Total	95	16	321	430

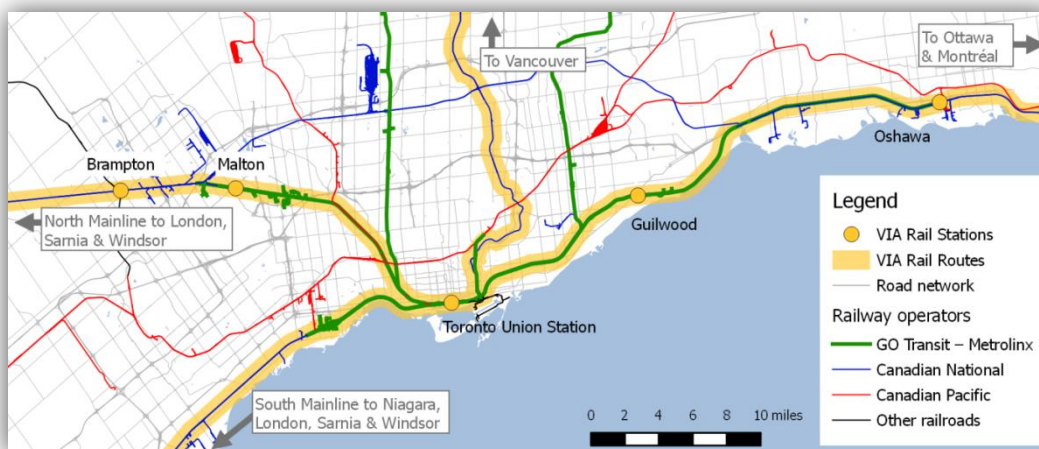
¹ Former branch lines of larger railroads or abandoned portions of main lines that serve a small number of towns and industries or haul cars for larger railroads

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

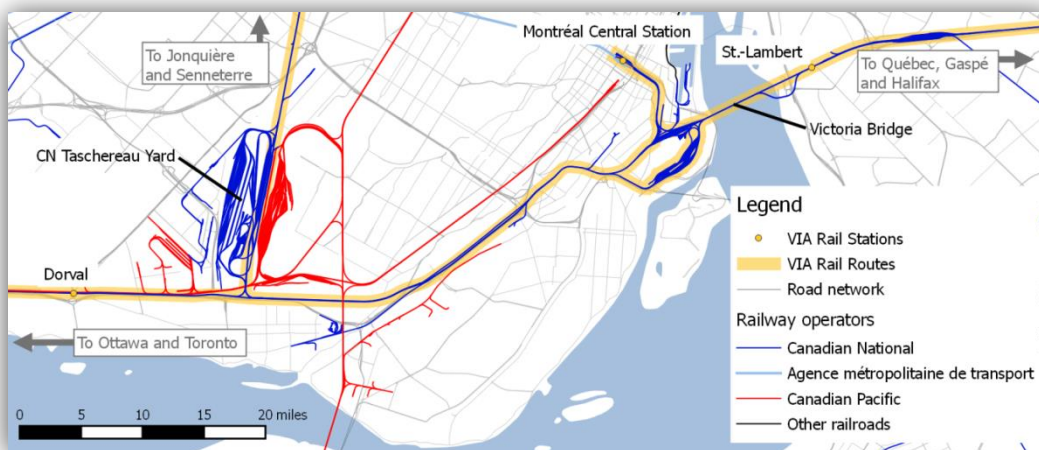
The fact that VIA Rail does not control its access to Toronto Union or Montreal Central stations is a major business risk. Downtown to downtown service is key for intercity passenger rail success.

VIA Rail's performance is highly dependent on these two major hubs. This access is affected by commuter operators in the Toronto and Montreal regions who are expanding rapidly, acquiring their own track from freight railroads, and are in the midst of multi-billion dollar development plans.

Toronto Union Station access routes



Montreal Central Station access routes



Property Divestiture and Development

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

VIA Rail will, where possible and beneficial, transfer ownership of some stations to municipalities, with VIA Rail leasing space within the stations. Communities will benefit from a station that can be used in a manner that better serves their needs.

c) Maintenance Centres

VIA Rail operates maintenance centres located in Vancouver, Winnipeg, Toronto, and Montreal where it performs servicing, cleaning, scheduled inspections and other repairs; major maintenance and other projects are also performed in Montreal. In addition, lighter maintenance activities, including servicing and cleaning, are performed at various points, such as Halifax, Quebec City, Ottawa, Windsor, and Jasper. Whenever possible, VIA Rail seeks to maximize the use of its facilities through service contracts with third parties or through the lease of space. Its long-standing relationship with Amtrak and West Coast Express (Vancouver's commuter train service) are examples, but many ad-hoc projects and smaller contracts, such as with private railway tourist operators, Agence Métropolitaine de Transport (AMT), or CAD Railways have been performed as well.

d) Equipment

VIA Rail's fleet of active equipment comprises 73 locomotives and 426 cars (see Annex 4). Although a sizeable portion of its fleet has been refurbished since 2008, and will continue to be for the next two years, these activities have only extended the useful life of the equipment by ten years.

Every VIA Rail train provides a high level of accessible transportation to persons with disabilities. For those aged 15 or older, one in seven Canadians (14% in 2012) suffers from a disability. That ratio increases to 43% above 75 years of age. As the Canadian population continues to grow and age rapidly, the ratio and the actual number of people with disabilities will grow dramatically. VIA Rail trains provide a more accessible service than automobiles, buses, or airplanes, and VIA Rail is committed to continuing to make improvements particularly with the renewal of the fleet and continuing upgrades to stations.

Independent fleet studies indicate that there is an immediate and urgent need to replace the Corridor fleet and that maintaining the Status Quo with the existing equipment presents a high operational risk. Therefore, VIA Rail is preparing for the next phase, which includes the replacement of its aging fleet.

e) Intermodal Partnerships

VIA Rail's vision is to be a smarter way to move people. All travellers undertake a journey to go from one physical location to another location, and almost invariably, every journey involves more than one mode of transport (which may include walking, car sharing, taxi, or public transit to or from a train station). As one of the most sustainable mobility options, we focus on providing the best customer experience and this inevitably includes providing passengers with a simplified and seamless travel experience. We are actively facilitating the move towards true sustainable mobility through intermodal partnerships. In recognition of its leadership on



intermodality, in 2013, VIA Rail was awarded the Global AirRail award for “AirRail Concept of the Year - Making VIA the Hub”.

VIA Rail has a relationship with Amtrak dating back to VIA Rail’s beginning, with a reciprocal agreement whereby each company sells tickets on the other’s behalf.

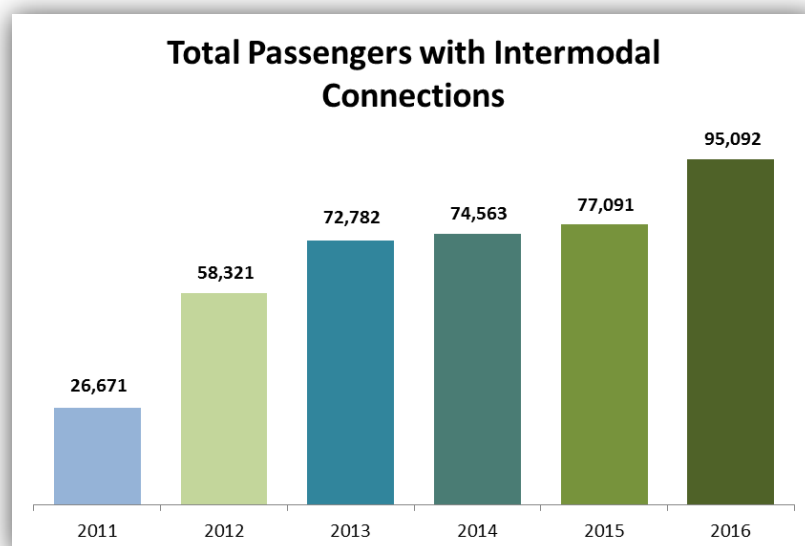
In addition, VIA Rail and Amtrak jointly operate the train between Toronto and New York City, through Niagara Falls.

In June 2015, VIA Rail partnered with Union Pearson Express (UP Express) - a dedicated airport rail link connecting Canada’s two busiest transportation hubs, Toronto Pearson International Airport and Union Station in downtown Toronto. Travel time is 25 minutes with departures every 15 minutes between 5:30am and 1:00am daily. Passengers can purchase tickets to Pearson Airport in one single transaction on VIA Rail’s website.

VIA Rail also offers complimentary shuttle to Montreal Trudeau Airport and provides wayfinding direction

for Porter’s complimentary shuttle to Billy Bishop Toronto City Airport. With additional frequencies and improved reliability, VIA Rail is becoming a true feeder partner to the Canadian airline industry thus reducing pressure on Canadian airports.

VIA Rail has partnered with Discount Car and Truck Rentals Ltd. as its official rental car partner to provide customers with a seamless travel connection option when they arrive at the train stations. The QuickCar™ white-blue-and-green branded rental kiosks have been installed in 10 high-traffic VIA Rail stations.



Each kiosk is equipped with a credit card reader and driver’s license scanner. Once customers initiate the vehicle rental process, they are quickly connected to a live Discount agent who is trained to guide them through a fast and easy rental process. The live interactive video link lets the customer and agent confirm the rental agreement details, mobilize the car using a smartphone, and get customers on the road without delay. Once the rental is processed, customers quickly receive an email with instructions on how to access the rental vehicle from VIA Rail’s parking lot.

VIA Rail has also partnered with Maritime Bus to simplify travel experience in Eastern Canada. Starting July 14, 2016, travellers are able to purchase Maritime Bus tickets online on VIA Rail’s website for trips such as Montreal to Charlottetown.

3. THE BUSINESS ENVIRONMENT, STRATEGIC DIRECTION, RESULTS OVERVIEW

3.1 General

The major determinants of travel demand growth are gross domestic product (GDP) and population growth. Between 2012 and 2016, Canada's real GDP grew 1.8% per year for a total growth of 9.2%. Over the same period, Canada's population grew by 1.1% per year for a total growth of 5.7%.

Another determinant of travel demand from foreign visitors is Canada's attractiveness and affordability as a destination. The depreciation of the Canadian dollar has made Canada a more desirable destination.

From 2012 to 2016, the economic recovery translated into a 16.3% rate of growth of Canadian tourism GDP (nominal) and a 24.5% increase in foreign tourism.

During this same period, VIA Rail saw its:

- Annual ridership grow by 1.3%, increasing from 3.92 million to 3.97 million; and
- Passenger revenues grow by 17.0%, increasing from \$257.4 million to \$301.1 million.

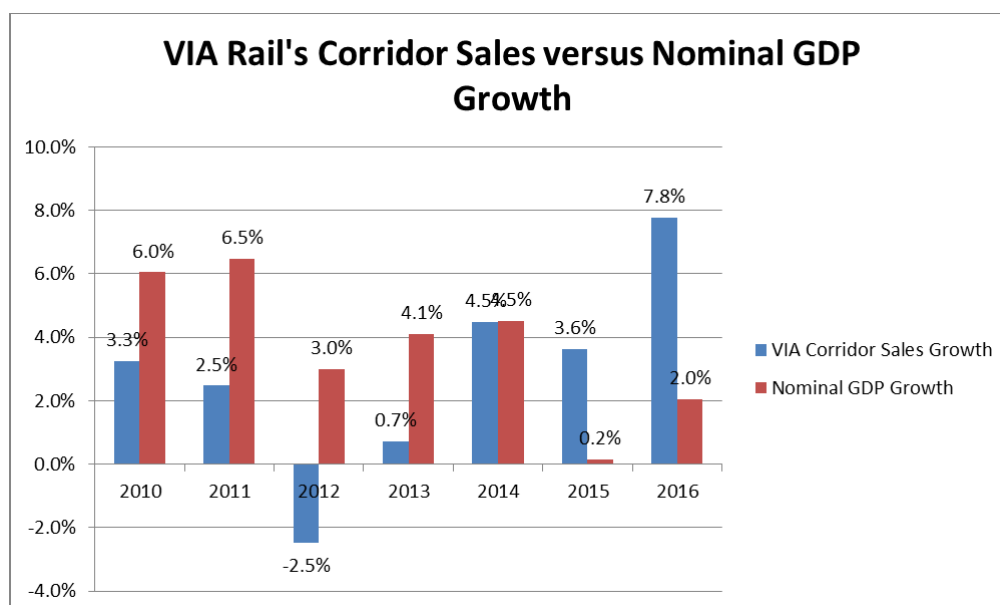
In mid-2014, VIA Rail shifted to a new customer driven strategy and reversed the decline in revenues. As a result, VIA Rail achieved its best revenues ever for a given month in August 2016 with revenues exceeding \$30 million. VIA Rail is also pleased to report a strong first half in 2017, where ridership increased by 7.7% and passenger revenues increased by 12.5% over the first half of 2016.

The best measure of overall efficiency is the cost recovery ratio – Total Revenue per Available Seat Miles divided by Total operating expenses per Available Seat Miles.

VIA Rail has achieved these results by:

- Adding new frequencies and new stations stops;
- Adding new Quebec City to Ottawa direct trains;
- Optimizing schedules and equipment cycling; having trains at the times that are most advantageous for our customers;
- Improving service offerings with revamped *Business* and *Prestige* services;
- Improving meal and on board offerings;
- Improving revenue management strategies aligned to above;
- Sharpening and modernizing its message using targeted and efficient marketing and advertising, including digital media;
- Providing more value for its customers and charging more for it while also retaining price conscious passengers in a targeted way;
- Having strong contribution from Pass Products;
- Enhancing media and website; and
- Launching mobile application.

With these and other improvements, VIA Rail has attained new markets and revenue veins and achieved the impressive passenger revenue growth for 2016 (+9.5% over 2015), which has led to improved contribution.



3.2 Passenger Rail examples and the Canadian context

In the late 19th and early 20th centuries, rail carried an overwhelming share of intercity passenger travel around the world. With the advent of automobiles, buses and airplanes, and the enormous investments in road and air infrastructure by governments, especially in the developed world, the market share of rail dropped precipitously after World War II. Since the 1960s, there has been a revival of passenger rail founded on dedicated passenger corridors, achieving the proper mix of conventional and high speed trains and continued access through interoperability of local, regional and intercity trains. The most successful passenger rail countries Germany and Japan have achieved this to present the best alternative to the car (conventional speed trains) and the plane (high speed trains).

The key attributes for successful passenger rail are reliability, high frequency, and competitive trip times. This is why all G7 countries, except for Canada, have dedicated passenger rail lines. Currently just over half of the G20 countries have, or have under construction, dedicated passenger rail lines. Within the next ten years, almost all G20 and several other countries will benefit from dedicated passenger rail infrastructure.

In the 1950s, the Japanese Government made a firm commitment to rail as a key component of its passenger transport strategy. In particular, it legislated inter-operability in order to ensure downtown access to all intercity, regional, and local trains, with no transfers.

Passenger rail provides the ability to move very large amounts of people from city centre to city centre very safely (e.g., not a single fatality in Japan and France since their introduction over 50 and 33 years ago, respectively), in an environmentally sustainable manner, efficiently, and productively. Passenger rail is competitive with other modes for distances between 150 and 600 kilometres, where there is sufficient density of population, but it has also shown itself to be successful even in relatively low-density countries such as Sweden.

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

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

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

3.2.1 Recent Developments

a) Northeast Corridor

The United States continues to improve its rail network. In the Northeast Corridor where Amtrak offers a mix of local service and express service (the Acela Express) to achieve impressive market shares, Amtrak is investing \$2.45 billion to modernize and expand the Acela Express service. As part of this modernization, Amtrak has awarded a contract to Alstom to produce 28 next-generation trainsets that will replace the existing Acela equipment, which was constructed between 1999 and 2001.

The new trainsets, that will enter revenue service in 2021, will have one-third more passenger seating capacity while maintaining the current seating comfort. The new trainsets will operate along the Washington – New York – Boston Northeast Corridor initially at speeds up to 160 mph and will be capable of speeds up to 186 mph taking advantage of future infrastructure improvements.

b) Texas

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

c) California

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

d) United Kingdom

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

The UK government believes the rail is an economic development tool, worth spending over £80 billion (\$160 billion). It has tabled a bill in Parliament to go forward with the first phase of HS2 (London-Birmingham-Manchester-Leeds) at a cost of £22 billion for 140 miles. The UK Government has also promised to build HS3, a £7 billion east-west link in the centre of the country (the trans-Pennine rail link), to decentralize activities away from London. The U.K. Government is also currently building the new Greater London west-east 73 mile Crossrail 1 at a cost of £16 billion, with £42 billion in economic benefits forecast, and is now promising the south-north London Crossrail 2 (£25 billion).

3.2.2 The Canadian Context: Dedicated High Frequency Passenger Rail

In Europe, trains were built in the mid-19th century to link populations (cities, towns, and villages). In Canada, the transcontinental railway was built to bring materials west to build the towns and villages that became a part of this great country. This is why Canada's rail infrastructure was made for freight carriage and not passenger travel.

Catching up to the rest of the world does not mean leapfrogging to the fastest train. It means building the proper mix of conventional speed trains and high speed trains over time in order to achieve the most competitive mix of low Greenhouse Gas emissions in order to attract passengers from less energy efficient means such as the car.

The most successful passenger rail systems around the world invest in modest, incremental improvements to the existing rail network. Eventually, some make major investments in new rail technology, but dedicated passenger tracks are essential for success. In Canada's case, improving the current network by investing in Dedicated High Frequency Passenger Rail will lead to most of the benefits of high-speed rail, at a much lower capital cost, with less risk, and in a shorter time period.

The key is to secure and invest in dedicated track for passenger rail in high-density corridors such as Toronto-Ottawa-Montreal. By offering more frequencies when passengers want them and freeing up rail capacity for freight and commuter operators, passenger rail can become much more reliable and better meet market demand. Dedicated track allows speeds up to 110 mph (177 km/h) which would significantly improve trip times. Relieving congestion on the rest of the rail infrastructure would provide the maximum economic benefits to the Canadian economy and Canadians.

While there are no universally accepted passenger rail speed definitions, generally accepted speed ranges are as follows:

- conventional rail speed: maximum speed of up to 90-110 mph (145-177 km/h);
- higher-speed (medium-speed) rail: above 90-110 mph (145-177 km/h), but no faster than 125-150 mph (200-240 km/h); and
- high-speed rail: beyond 125-150 mph (200-240 km/h).

3.3 Corridor

3.3.1 Financial Performance – 2012 to 2016

In 2016, VIA Rail has achieved unprecedented passenger and revenue growth due to the strategic shift the Company made in 2014. In mid-2014, VIA Rail aggressively adopted a customer centric strategy

aimed at putting trains where passengers wanted them. This has led to a substantial improvement in the Company's performance.

a) Revenues

In 2016, 3.7 million passengers travelled in the Corridor, representing 94% of VIA Rail's traffic and 77% of passenger revenue. Following a small increase of ridership from 3.6 million in 2012, revenues increased from \$196.5 to \$231.7 million (17.9%) due to better revenue management strategies.

Between 2011 and 2013, VIA Rail adopted a strategy of eliminating shorter services, and focusing on long-distance intercity. This, coupled with a price reduction strategy to increase volumes, resulted in a drop in revenue and total of passengers during that period.

In the second half of 2014, the Corporation revised its pricing strategy to better reflect the value offered and restored services to intermediate points. As a result, while revenues had been decreasing in 2012 and 2013, revenues increased 18.4% between 2013 and 2016. This new strategy, supported by efficient seat inventory management, together with other initiatives such as enhanced on board services, new menus, new student pass product, etc., resulted in a substantial improvement of the Corporation's relative performance on all matrices. This turnaround occurred despite considerable headwind from continued OTP and trip time deterioration. A large contributor to improved on-time performance is the significant reduction of traffic on CN lines (a 10% reduction in shipments), however this decrease is temporary and cannot be assured to continue in the long-term.

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

b) Operating Expenses

For the period between 2012 and 2016, operating expenses increased \$23.8 million (12.7%) due to increased compensation costs (mainly due to poor OTP), track access costs, and maintenance costs.

c) Contribution and Efficiency

In 2016, the Corridor's operating ratio (revenue/expenses) recovered to 110%. It had deteriorated from 105% to a low of 102% in 2013.

From 2012 to 2013, the Corridor's contribution to VIA Rail's expenses had reduced by 56% from \$9.4 million to \$4.1 million, due to reductions in services, price reductions, and losses of economies of scale. This number has since recovered to \$20.7 million.

Contribution measures the amount contributed to paying VIA Rail's overhead costs (some of which are not necessarily associated with the Corridor).

3.3.2 Business Environment, Threats and Opportunities, and Strategy

a) Business Environment

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

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

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

The last four years show that Canada's rail infrastructure is reaching well beyond the upper limit of its capability and capacity, which will ultimately lead to continued declining VIA Rail OTP, ridership, and financial performance. To add perspective, the fastest travel time from Montreal to Toronto in Canada's Sesquicentennial year will take almost one hour longer than it did in the country's Centennial year.

The inability to overcome the obstacles of low frequencies, ever increasing trip times, and the deterioration of OTP impacts VIA Rail's competitiveness. Ongoing surveys of current VIA Rail passengers indicate that they only make one third of their trips by passenger rail. Of these same passengers, 40% indicate that this low number, despite their preference for rail, is due to inadequate frequencies and scheduling.

The potential impact on VIA Rail's plans and operations of the Ontario Government's recent announcement of the possible investment in high speed rail between Toronto - Kitchener - London by 2025, and eventually London – Windsor, cannot be assessed or incorporated at this time. Such an investment would have a significant impact but should complement VIA Rail's own plans.

VIA Rail will engage with the Ontario planners and officials at the earliest opportunity to ensure that whatever the final design of project, it is compatible and complementary to VIA Rail's own initiatives. The objective would be to provide the maximum degree of inter-operability and inter-modality across the network and ensure a seamless and fluid passenger experience to enhance the benefit that intercity passenger rail can provide to all Canadians.

One of the most common misconceptions is that VIA Rail's main competitor is the airplane. However, due to the distances between the three large cities within the corridor (Toronto, Ottawa, Montreal), VIA Rail's main competitor is in fact the car, which makes up 90% of the total travel market within the Corridor. If the total car and train trip time market is isolated, VIA Rail currently only captures 5%, which compares unfavorably to two other popular international corridors shown below:

Characteristics of Selected Intercity Corridors

	Rail Share	Frequency	Avg. Speed	Equipment	Total Pop.	Distance	Infrastructure
Toronto-Ottawa-Montreal	5%	11 / day	98 km/h	Conventional	12 M	573 km	Shared
New York City - Washington DC	14% (in 2003)	40 / day	127 km/h	Conventional	29 M	361 km	Mostly Dedicated
Rome - Milan	69%	40 / day	200 km/h	High Speed	9 M	574 km	Dedicated

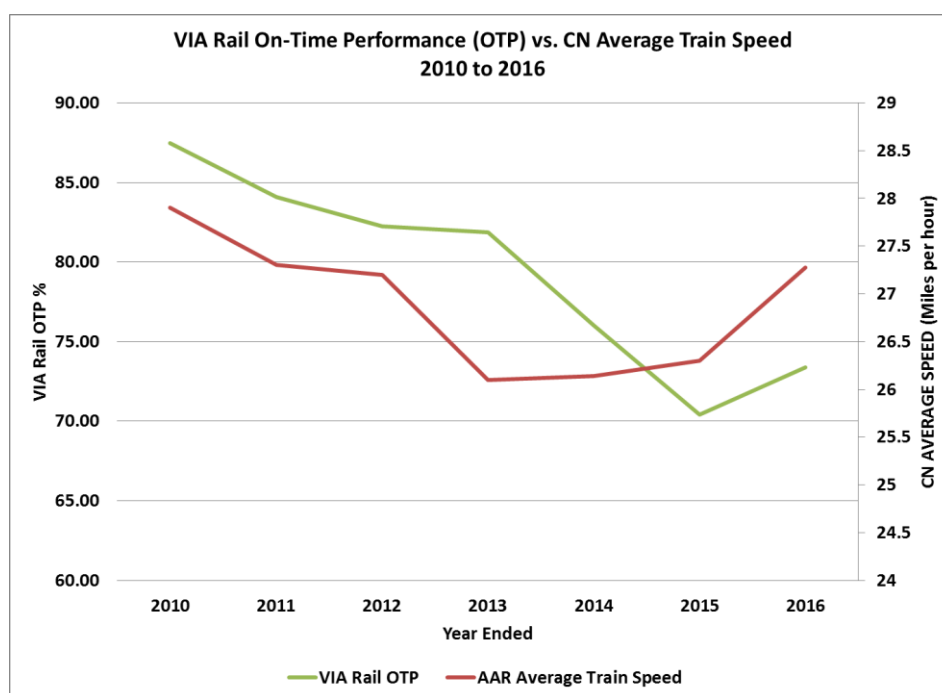
It is evident that if VIA Rail were to increase frequency and acquire its own dedicated infrastructure, its market share to car would increase considerably.

b) Future Trends: Threats and Opportunities

i. Rail Infrastructure Access

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

Notwithstanding the current temporary reduction, long-term growth in Carloads per Route Mile (a traditional North American measure of freight traffic) coupled with longer, heavier, and slower CN trains has had a disastrous effect on VIA Rail's OTP and trip times. A secondary effect has been the accelerated deterioration of tracks leading to ever increasing slow orders for track repairs. In addition, the recent government directive to slow the speed of oil trains will further restrict rail traffic flow. The following graph shows the relationship of VIA Rail's OTP and CN's average train speed:



ii. Station Access

In addition to the above noted infrastructure congestion, VIA Rail relies on continued access to Union Station and Central Station.

Union Station

Union Station rail infrastructure as well as the rail corridors accessing Union Station are owned by Metrolinx (GO). Metrolinx coordinates with the Province of Ontario, the federal government and VIA Rail on High Speed Rail and High Frequency Rail initiatives, the optimization of shared resources such as Union Station and rail corridors, and the integration of services for a seamless traveller experience.

Montreal Central Station

Montreal Central Station has not reached the level of congestion of Union Station. In addition to co-existing with Réseau de Transport Métropolitain (RTM, formerly AMT) and Amtrak, VIA Rail will also coexist with the CDPQ's proposed new light rail system, the REM project.

VIA Rail remains convinced that it can work with CDPQ Infra (CDPQ's infrastructure subsidiary) to implement technological solutions to maintain its Central Station access, as is the case with existing examples of similar shared use of infrastructure in other jurisdictions. If this is not possible, VIA Rail is convinced of its ability to implement solutions and make the necessary adjustments to minimize their impact on the one million VIA Rail passengers currently transiting through Central Station as well as future new travellers through future continued growth.

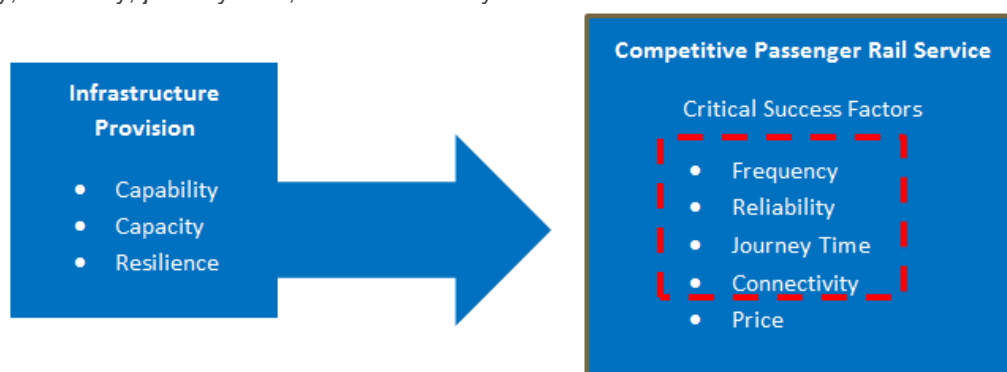
While the construction and operation of the REM project is expected to impact VIA Rail's current and future operations, once the REM project is operating, VIA Rail will coexist and employ its best efforts to offer travellers an integrated alternative to the car, both within and beyond the metropolitan area. The combined impact of the two operations will therefore be crucial in many respects: metropolitan ridership will double and intercity ridership could almost triple; GHGs will decrease by almost 70,000 tonnes, between Montreal and Quebec City alone, through the elimination of more than 250 million kilometres otherwise travelled by car; and the optimization of public investments will further stimulate our economy.

Taken together, the REM project and VIA Rail's continued growth can help prepare for a more sustainable future for Canada, by paving the way for economic prosperity, and improving quality of life and the environment. Passenger rail service provides an affordable, accessible alternative to the car and is part of the solution for curbing climate change in Canada.

3.3.3 Corridor Strategy

Strategic Environment

VIA Rail operates within an environment with an inherent limiting factor: the sharing of capacity with freight. Because of capacity issues, it is incapable of offering an attractive alternative to automobile travel. A competitive passenger rail service is dependent on the provision of high quality infrastructure that drives four of the five critical success factors when it comes to competitive passenger rail services: frequency, reliability, journey time, and connectivity.



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

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

1. A strong substitute product: the car

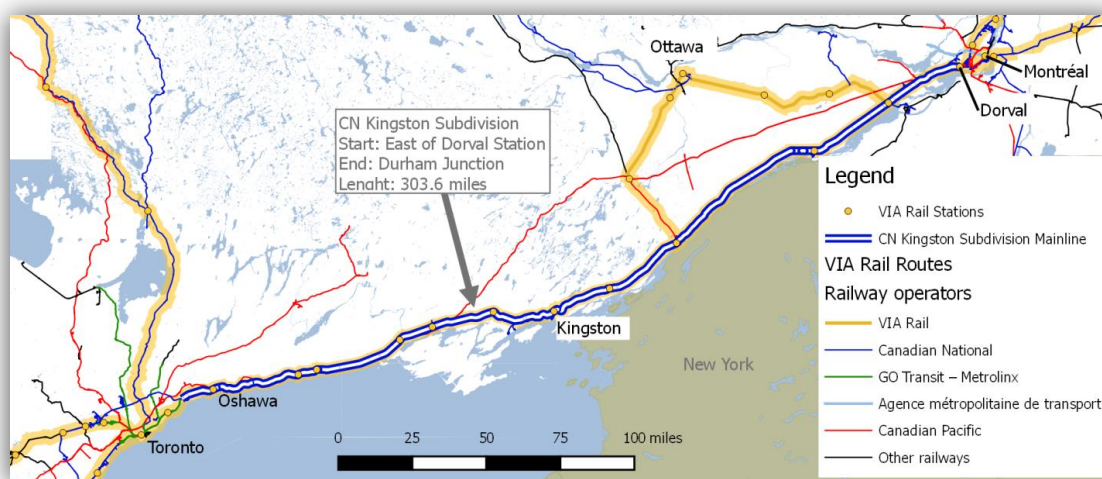
Rail has one advantage over the car, access to the downtown core on an uncongested right-of-way that allows it to bring passengers downtown while avoiding traffic congestion. This advantage has promoted commuter and regional rail and can promote intercity rail.

<u>Critical Success Factor</u>	<u>Car</u>	<u>VIA Rail Current</u>	<u>VIA Rail High Frequency Rail Proposal</u>
Convenience	Always available for departure	Very limited frequencies	Train every hour
Reliability	Subject to road congestion	Subject to freight congestion	Dedicated tracks
Journey Time	Increasing	Increasing	Reduced
Connectivity	Maximum	Limited by suboptimal timetable and reliability	Optimized
Price	Full cost of ownership not considered in incremental trip decision	Challenge to increase prices while providing deteriorating value	Accessible

2. A key supplier with overwhelming negotiating power:

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

Kingston Subdivision



As the track owner, CN will naturally favour its trains. As noted earlier, unlike elsewhere, passenger trains in Canada do not have operational priority. CN can essentially veto or unilaterally alter any request to improve passenger travel times and frequencies. Consequently, the host railways are able to:

1. Charge a premium for additional frequencies by requiring capital expenditures for enhancing their infrastructure, without any offset in operating cost charged;
2. Deny liability for performance;
3. Limit frequencies;
4. Dictate schedules; and
5. Control travel times.

The Office of the Auditor General of Canada (OAG) has noted within its 2016 Special Examination Report, referenced earlier, that with the improvements made to Kingston Subdivision Rail Infrastructure, VIA Rail did not gain the expected additional trains and reduced travels times despite increased costs. Excerpt below from the OAG 2016 Special Examination:

Initial project Expected benefits set out by the Corporation in 2007	Revised project in light of Canada's 2009 Economic Action Plan	Project completed or in progress as of 31 December 2014 and results obtained
Improvements made to the Kingston Subdivision rail infrastructure (tracks belonging to freight carriers, not to VIA)		
Initial budget—\$21 million	Revised budget—\$251 million	Cost—\$318.5 million
Planned scope of work Improvements made to tracks and station infrastructure.	Revised scope of work Additional \$230 million to build 160 kilometres of triple tracks on Kingston Subdivision infrastructure, at an estimated cost of \$1.6 million per kilometre.	Work carried out 70 kilometres of triple tracks, at a cost of \$4.5 million per kilometre.
Expected benefits <ul style="list-style-type: none"> • 12 additional trains • Reduced travel time • Improved on-time performance, which stood at 82 percent • \$32 million in additional revenues • 23-percent increase in ridership 	Revised expected benefits <ul style="list-style-type: none"> • 14 additional trains • Reduced travel time • Improved on-time performance • \$32 million in additional revenues • 23-percent increase in ridership 	Actual results obtained <ul style="list-style-type: none"> • 8 additional trains • Increased travel time • Worsened on-time performance (average of about 65 percent) • Anticipated additional revenues not obtained • 17-percent decrease in ridership since 2009

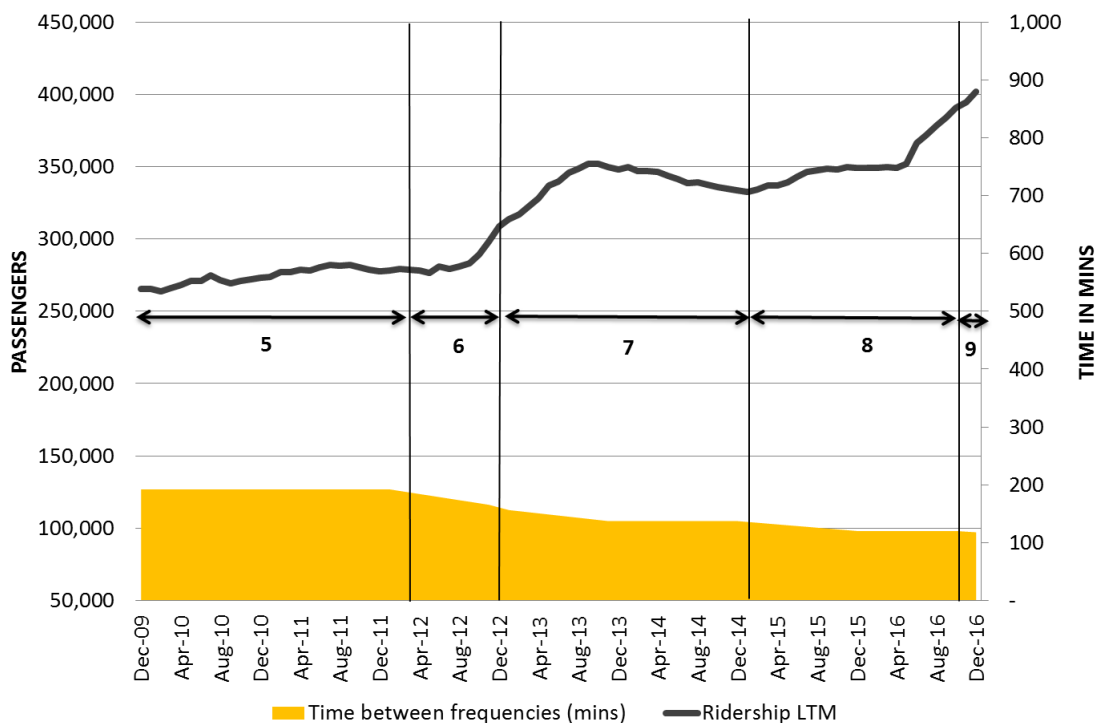
As result of the host railways' bargaining position, passenger rail's competitiveness with the car has decreased and has added significant operating costs and capital requirements. These have resulted in an increasing VIA Rail deficit and further cost to the Government of Canada.

a) Current Market: Frequency Increases

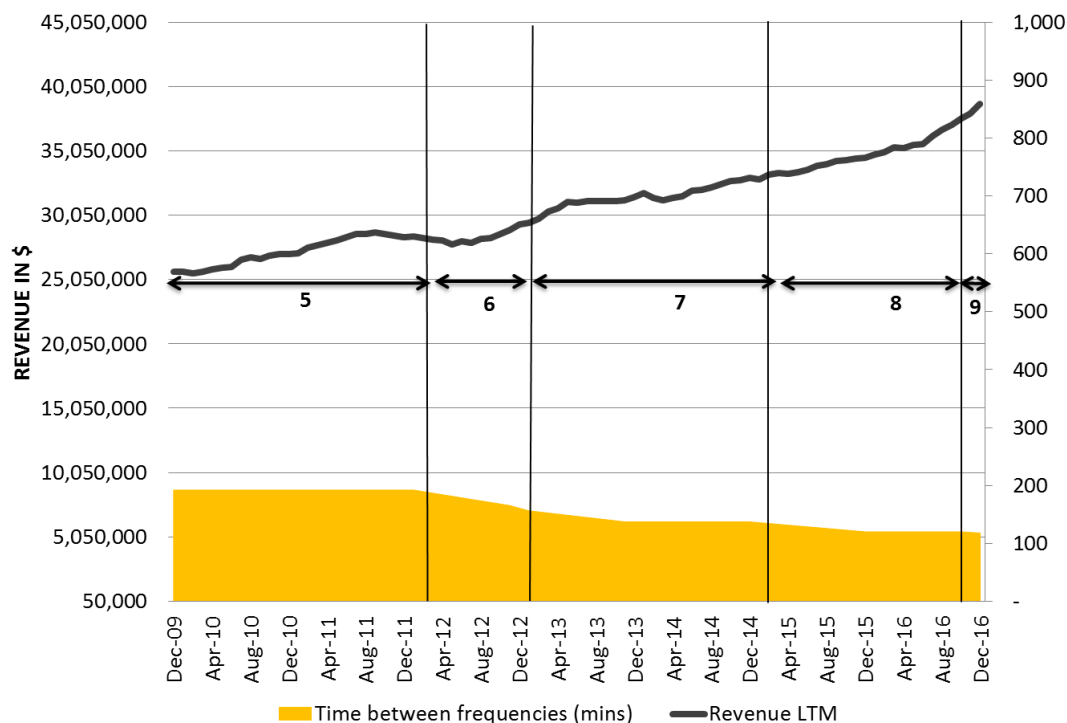
Increases in frequency clearly have a positive effect on both ridership and revenue.

As illustrated below, increases in frequency in VIA Rail's Toronto - Ottawa route have resulted in both increased ridership and revenue.

TORONTO - OTTAWA TOTAL PASSENGERS - FREQUENCY



TORONTO - OTTAWA TOTAL REVENUE - FREQUENCY



The following table illustrates key attributes of highlighted Corridor routes in the current environment.

Key Route Attributes

	Montreal-Ottawa	Toronto-Ottawa	Toronto-Montreal
Trip Time			
Car*	2:00	4:30	5:30
VIA Rail**	1:47	4:05	4:49
Frequency			
Car	Unlimited	Unlimited	Unlimited
VIA Rail	6	9	6
Average Fare	\$48.50	\$74.20	\$82.00
Average Fare per Route-Mile	\$0.42	\$0.27	\$0.24

*Car trip time – Google Map

**VIA Rail trip time – Scheduled Fastest Train

Generally speaking, depending upon frequencies and trip time, the ideal distance for intercity passenger rail is between 150 to 600 kilometres.

b) Strategic Direction

In the Quebec City-Windsor Corridor, VIA Rail finds itself at a crossroads of vital strategic decisions. It will not be capable of fulfilling its mandate if it does not take corrective actions.

Essentially the core issues faced are:

- VIA Rail's LRC fleet is aging and affected by corrosion; and
- VIA Rail operates in an increasingly congested environment that will lead to deteriorating service and financial performance.

Renewing and modernizing the fleet will significantly improve intercity rail services in the Corridor. The Government of Canada's 2016 Budget acknowledged the need for new fleet and provided *"\$7.7 million in 2016-17 on a cash basis to VIA Rail to support technical studies and other pre-procurement activities related to the renewal of VIA Rail's fleet, for safety upgrades at grade crossings on tracks owned by VIA Rail, and for investments in improved security at VIA Rail stations."*

To fully revitalize passenger rail across Canada so that it better contributes to national economic and environmental well-being, VIA Rail's financial viability must be improved. VIA Rail's proposal for High Frequency Rail provides the practical opportunity to transform the role of passenger rail services in Canada, materially contribute to government objectives and secure its long-term financial sustainability.

In addition to both Fleet Renewal and High Frequency Rail proposals, VIA Rail has implemented or is considering various initiatives to reduce the rate of increase of required government funding including:

1. Adding new frequencies and station stops in the Quebec City – Windsor Corridor;
2. Potentially acquiring the north mainline between Kitchener and London (for improved track access, control, trip times, reliability and OTP);
3. Implementing a push-pull strategy (mode of operation allowing the trains to be driven from either end, reducing operating costs and station turn-around times and improving equipment utilization); and
4. Improving train cycling (optimizing the use of personnel and the fleet to better match supply to demand).

In Southwestern Ontario, VIA Rail is considering changing train cycling and frequencies aimed at increasing ridership and revenue while optimizing operating cost structures and improving the bottom line by giving the market what it needs. This would be done by optimizing schedules, train cycling, and travel

and connecting opportunities to improve service to passengers and communities. The key concept is to better deploy the existing trains, crews, assets, and operating costs, and add additional trains in order to increase revenues more than the increase in operating costs. VIA Rail also has a good cooperative relationship with Metrolinx that can help in optimizing the use of infrastructure.

c) Strategic Options

VIA Rail can implement one of three strategic options:

- Continue Status Quo operation;
- Continue operating Status Quo but with Fleet Renewal; or
- Implement High Frequency Rail with Fleet Renewal.

i. Continue Status Quo operation

VIA Rail's LRC fleet, which is the cornerstone of the Company's operations in the Corridor (60.6% of the corridor car fleet), has been identified by engineers as being affected by corrosion.

The average age of the equipment in VIA Rail's entire fleet is over 42 years old (over 24 years for the locomotives and over 44 years for the cars). To date, they have accumulated a total 4 billion kilometres or about 8 million kilometres per unit.

The state of the equipment has an obvious effect on the quality of our passengers' travel experience as well as on OTP and increased maintenance costs due to reliability. VIA Rail can continue in the same environment (i.e. existing host railway arrangements and current equipment) for a short period and operate with the existing Corridor equipment assets and maintenance program into 2018. Beyond this point the risk posed by the degraded structure of the majority of Corridor passenger equipment leaves VIA Rail with no option towards the removal of equipment from service.

Total Government Funding - Status Quo (Annex 1 for further details)

Year ending on December 31st	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Government Operating Funding Required	240.1	249.7	258.1	266.2	285.3
Government Capital Funding Required	139.2	180.6	172.7	182.0	96.4
Total Government Funding Before Pension Costs	379.3	430.3	430.8	448.2	381.7
Government Pension Funding Required	49.0	42.0	37.0	37.0	37.0
Total Government Funding Required	428.3	472.3	467.8	485.2	418.7

As a result of Budget 2017, VIA Rail has approved funding for Status Quo operations until March 31, 2020.

ii. Continue operating Status Quo but with Fleet Renewal

Passenger amenities and overall experience will be markedly improved. Reliability will increase. The environmental benefits of new locomotives on local air quality are substantial and best support federal and provincial environmental objectives.

This fleet procurement is necessary to maintain existing services levels. Moreover, this investment can be readily built upon should the High Frequency Rail proposal be approved. The additional fleet required would be procured or upgraded for electrification as a separate option on the base order.

iii. High Frequency Rail with Fleet Renewal

VIA Rail has proposed a \$4.0 billion plan to achieve High Frequency Rail (HFR) service in the Windsor-Quebec City corridor, in particular between Toronto, Ottawa, Montreal and Quebec City. As the Government of Canada noted in Budget 2016: Growing the Middle Class: *“VIA Rail has developed a proposal for a high frequency rail service within the Windsor-Quebec City corridor that could see VIA Rail operate on dedicated tracks exclusive to its services. This could permit increased service frequencies, improved on-time performance and reduced trip times.”*

This infrastructure project would leverage the \$1.5 billion investment in a new fleet needed for Corridor services.

The investment in the HFR project would contribute to the growth of the middle class, which the government addressed in its 2015 Speech from the Throne. It would extend the commutable distance to metropolitan areas allowing greater access to home ownership “out of town” while maintaining employment in cities. In itself, the construction of dedicated tracks and HFR infrastructure would create 50,000 person-years of work.

Further, it is estimated that the HFR project would create up to 334,400 person-years of permanent employment across Canada over the next 30 years from the increased productivity linked to stronger connections between people, companies and regions. VIA Rail’s project would do its part in growing the middle class by supporting inclusive growth strategies through improved regional accessibility.

VIA Rail’s vision for HFR service would also result in significant benefits to the environment, helping Canada achieve its COP21 commitment in the 2015 Paris Agreement to reduce greenhouse gas (GHG) emissions to 30% below 2005 levels by 2030.

As stated by the Prime Minister on November 29, 2016: “Canadians know that strong action on the environment is good for the economy.”

iv. Other Strategic and Tactical Initiatives

VIA Rail continues to implement new strategies to improve its current services. As mentioned earlier, revenue growth has been and will continue to be achieved through the introduction of:

- New Quebec City to Ottawa direct trains;
- Push-pull operations between Toronto and Ottawa;
- Improved service offerings with revamped *Business* and *Prestige* services;
- Improved meal and on board offerings;
- Improved revenue management strategies aligned to above;
- Strong contribution from Pass Products;
- Media and website enhancements; and
- Mobile application launch.

In addition, VIA Rail will also implement strategies that will provide customers, employees and communities with a personalized and authentic experience by:

- Leveraging data intelligence and machine learning to anticipate and respond to existing and potential customer needs in real-time;
- Providing tailoring content, offers, and unique propositions that are ideal at each interaction point;

- Creating an automated, mobile-centric digital experience to promote efficiency, ease and accessibility; and
- Providing a customizable workplace environment for VIA Rail employees to match the organizational needs with their own individual ones.

VIA Rail will leverage innovative solutions and thinking to connect our passengers, employees, and assets by:

- Providing a seamless experience through integration of our business processes with those of our partners;
- Transforming stations into sustainable mobility hubs offering a wide range of services, both commercial and social/cultural;
- Creating geographic and organization networks through advanced solutions; and
- Leveraging technology on all VIA Rail assets: trains, stations, maintenance centres, and systems, to run a fluid, safe and, secure service.

VIA Rail will foster collaborative relationships that create symbiotic and mutually-beneficial outcomes by:

- Building partnerships with diverse stakeholders to create value;
- Nurturing innovative networks through open and collaborative alliances; and
- Fostering a culture of organic teams rewarded by an entrepreneurial and results-oriented spirit.

VIA Rail will become a sustainable organization capitalizing on advanced and modular technologies by:

- Becoming a carbon-net positive organization by investing in cleaner technologies that use renewable energy sources and sustainable materials;
- Optimizing safety and security data analytics to inform smart proactive decision-making;
- Using innovative technologies to improve customer experience; and
- Reshaping the way we buy, build and maintain our assets.

In addition, VIA Rail also intends to implement strategic station investments that will enhance the customer travel experience, improve accessibility, intermodality, and sustainable mobility.

3.4 Long-Haul and Regional

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

The *Sleeper* class targets travellers who wish to discover Canada's scenery at a leisurely pace. Global conditions and the depreciating Canadian dollar currently provide favourable conditions for these services.

The Corporation provides extensive services to Indigenous communities across Canada, many of which depend on the train as the only viable or reliable means of transportation, in many cases for both the transportation of people and goods. In fact, VIA Rail's Long-Haul and Regional/Remote trains serve 192 First Nations reserves across Canada.

In order to help travellers make the most of the 150th anniversary of Confederation, VIA Rail will offer Canadians a unique opportunity to explore Canada from coast to coast. From March to October, the company is offering the "Pan Canadian", which will offer a four night minimum trip on a combination of trains that will provide travel to any two of Canada's three coasts. Specially designed trips will allow travellers to discover the cities along the following routes:

- Vancouver – Winnipeg – Churchill
- Vancouver – Toronto – Montreal – Halifax
- Halifax – Montreal – Toronto – Winnipeg – Churchill

Travellers who opt for this adventure can take a guided tour through the Maligne River area, one of Jasper National Park's most spectacular areas. They will have the opportunity to visit the Canadian Museum for Human Rights in Winnipeg and to discover the colourful neighbourhoods for which Toronto is famous. They will see the impressive Niagara Falls, one of the great natural wonders of the world. In Ottawa, they can take part in a cultural tour to see the priceless masterpieces at the National Art Gallery and the fascinating historical displays at the Canadian Museum of History and the Canadian War Museum. Travellers will also enjoy a walking tour of Old Montreal and will learn about the history, architecture, and secrets of this fascinating city. On the east coast, they will be charmed by Peggy's Cove.

3.4.1 The Canadian

a) Financial Performance – 2012 to 2016

i. Revenues

From 2012 to 2016, the *Canadian's* revenues increased 31.3% primarily due to the popularity of the *Prestige* sleeper class, and increased fares in 2013 and 2014. From a high of 112,000 passengers in 2012, ridership has steadily declined to the current level of 93,000. This reflects a cut in frequencies and deterioration in OTP from 70% in 2012 to a current 54% in 2016. In 2016, the *Canadian* generated \$54.3 million in passenger revenue.

ii. Operating Expenses

Between 2012 and 2016, the *Canadian's* expenses increased by 5.3%, mainly due to inflation and wage increases, partially offset by a reduction in frequencies in the off-peak.

iii. Contribution and Efficiency

Between 2012 and 2016, the *Canadian's* negative contribution greatly improved, going from \$14.9 to \$4.9 million (a reduction of 67%). The operating ratio rose from a low of 74% in 2012 to 92% in 2016. This was achieved in part due to an improved environment for Canadian tourism but, also, because the addition of value added products such as the *Prestige* product, which is directly targeted to high-value passengers.

b) Operational Issues

Apart from the 12 newly renovated *Prestige* cars, the *Canadian* operates with an aging fleet of HEP I equipment that is over 60 years old, and that has not been overhauled since the early 1990s. Additional information on VIA Rail's fleet is available in Section 6.

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

Year	2009	2010	2011	2012	2013	2014	2015	2016
OTP	84%	84%	74%	70%	60%	33%	38%	54%

From 2010 to 2015, the *Canadian's* OTP has deteriorated drastically with some delays being as long as 24 hours. These delays lead to substantial difficulties for tourists who schedule connections between the *Canadian* with a cruise ship or some other leg of their vacation; unreliability is one of the major sources of negative comments on travel social media. As VIA Rail's flagship train, poor reliability may also reflect poorly on Canadian Tourism itself.

While VIA Rail continues to prudently advise passengers when booking: *"While VIA endeavors to operate on time, the realities of increased freight traffic on tracks that we do not own may give rise to significant delays. We suggest that you do not arrange connecting transportation on the day of your arrival"*.

"Be very careful when booking the Canadian"

★★★★★ Reviewed 17 June 2015

Two weeks ago we were on our first Holiday in Canada which is truly a beautiful Country with delightful people.

The key part of our visit was to travel on Via Rail's "The Canadian" from Toronto to Vancouver with a break in Jasper and this is where it went horribly wrong.

We were due to depart Jasper on Sunday the 31st May @ 14:30 but actually left on the 1st June @ 00:40 (a delay of over 10 hours) and arrived in Vancouver @19:30 as opposed to 09:42.

This meant that we went through the Rockies during the night and lost a whole day in Vancouver.

"If You Want a Slow Trip This is for You"

★★★★★ Reviewed 5 July 2015

My wife and i were excited when we boarded the train in Toronto for the Trans Canada Crossing to Vancouver.

We both were very disappointed with the constant stops throughout the five day trip to allow freight trains to have precedence on the train track, with delays of over an hour sitting in a siding, the gloss soon wore off.


Select going trip


Sep 28
Wed

Sep 29
Thursday

Sep 30
Fri

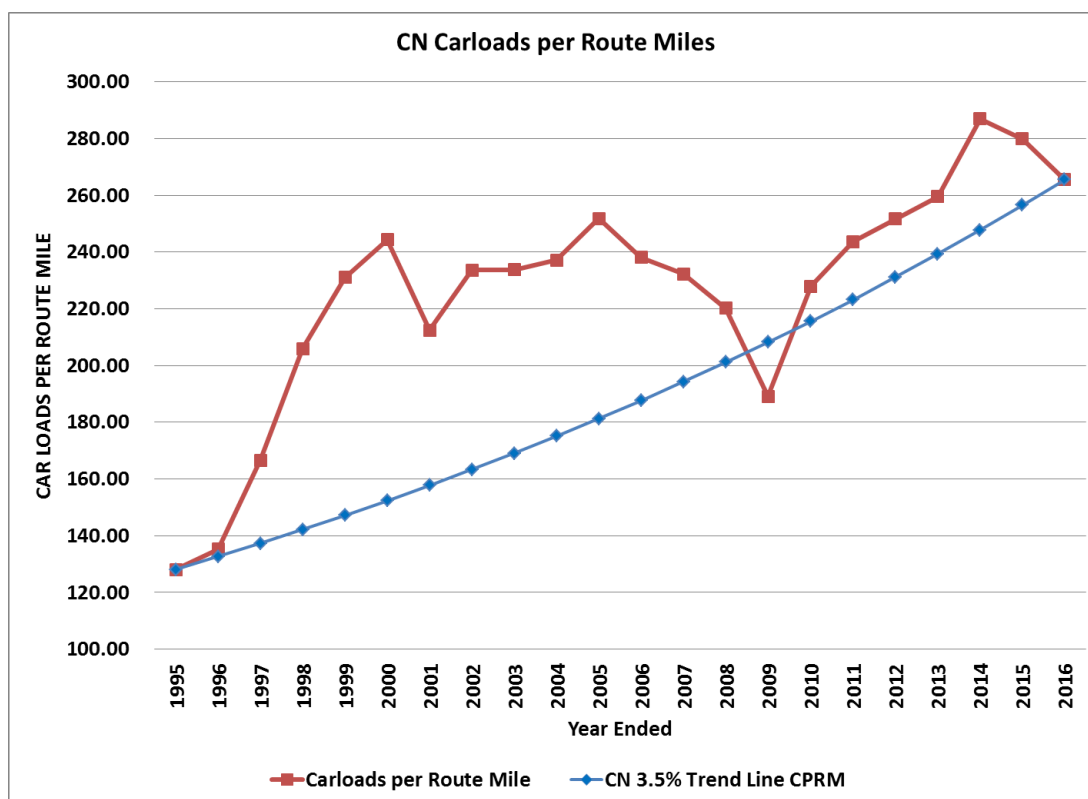
From **TORONTO UNION STATION** to **VANCOUVER**

Train	Sorted by: Departure ▲	Arrival ▲	Duration ▲	
1	SEP 29 22:00 PM	OCT 3 09:42 AM	3 d 14 h 42 m	 <div> Economy - Escape fare </div> <div> Select and continue </div> <div> > Shop for Fares </div>


While VIA endeavors to operate on time, the realities of increased freight traffic on tracks that we do not own may give rise to significant delays. We suggest that you do not arrange connecting transportation on the day of your arrival.

New search

OTP has improved this year to 54%, as a result of sharply diminished freight rail traffic, as evidenced by the 5% decline of CN's Carloads per Route Mile from 2015 to 2016 together with collaborative efforts by host operators.



This decline is only temporary, and as the economy recovers, and as commodity prices, particularly oil, rebound, it is inevitable that OTP will again deteriorate.

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

3.4.2 The Ocean

a) Financial Performance – 2012 to 2016

i. Revenues

In 2012, VIA Rail reduced the *Ocean's* frequency from six return trains a week to three. This resulted in a 27.2% reduction in revenue for the service between 2012 and 2016. Ridership reduced 40.8% over the period and was offset by a 33.9% increase in revenue per passenger. Average miles per passengers also increased 13.3% from 456 miles to 517 reflecting less usage for local intercity travel. In 2016, the *Ocean* generated \$9.9 million in revenue and carried about 78,000 passengers, of which about 19,000 were in *Sleeper* class and 59,000 were in *Economy* class.

ii. Operating Expenses

The 2012 cut in frequency resulted in approximately a one-third reduction in direct operating expenses. When comparing 2012 to 2016, expenses in 2016 were \$21.9 million, 19.6% less than in 2012, due to the impact of inflation.

iii. Contribution and Efficiency

Notwithstanding service cuts, the *Ocean's* negative contribution has moderately improved over the period, decreasing from \$13.6 to \$12 million (-12%).

b) Operational Issues

Over the past decade, the rail infrastructure has degraded to the point where service was threatened. In 2014, a 44-mile section of CN track on which the *Ocean* operates through New Brunswick (the Newcastle Subdivision) was in jeopardy of service discontinuance (due to CN deciding to abandon the track), which would have resulted in either re-routing or in cancellation of the service. This abandonment of track between Bathurst and Miramichi would have truncated the route of the *Ocean*. After a review and evaluation of alternatives, it was decided that VIA Rail would invest an estimated amount of \$10.2 million on infrastructure and bridge repairs for that section. Work was started in 2014 and was expected to reduce the trip time by about 30 minutes.

The only work element subject to change for this section of track was the underwater bridge work, for which CN rail had provided an estimated cost of \$2.2 million. CN has since, following underwater assessments and detailed design, revised its repairs estimate for the bridge at mileage 62.2 Newcastle subdivision to the amount of \$7.5 million, (including 15% for engineering, monitoring, and project management) while the second bridge at mileage 63.0 is estimated at \$2 million, however this amount is yet to be confirmed by market pricing. Therefore, at the time of writing, the estimated cost for the underwater bridge repairs is on the order of ~\$9.5 million versus the original CN estimate of \$2.2 million, an increase of \$7.3 million, which will result in a revised total of ~ \$17.5 million.

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

VIA Rail is currently investigating the possibility of an eastern intercity corridor service from Halifax to Campbellton, as further detailed in Section 3.4.4 of this Plan.

3.4.3 Regional services

a) Financial Performance – 2012 to 2016

i. Revenues

From 2012 to 2016, revenues decreased from \$6.0 to \$5.3 million (-12.0%) after hitting a low of \$4.0 million in 2014. After listening to community feedback late in 2014 and early 2015, VIA Rail tailored the Regional service to better match its customers' needs. As a result, from 2014 to 2015, passenger revenues increased for the first time in five years by \$0.8 million (19.5%), and once again from 2015 to 2016 by \$0.5 million (9.5%).

ii. Operating Expenses

For the period between 2012 and 2016 expenses decreased by \$0.6 million (1.8%).

b) Operational Issues

VIA Rail has suspended the Victoria-Courtenay (since 2011) and Matapédia-Gaspé (since 2013) services for safety reasons due to the poor condition of the rail infrastructure. For Victoria-Courtenay the infrastructure owner, the Island Corridor Foundation, is responsible for the restoration of the rail

infrastructure. In Matapédia-Gaspé the infrastructure owner is the Société du Chemin de Fer de la Gaspésie (SCFG), which was recently purchased by the Government of Quebec in May 2015.

Reinstatement of service will take place only once the infrastructure work is completed and VIA Rail is satisfied that it is safe to operate on the rail infrastructure and that reasonable track speeds, schedules and connectivity (for Gaspé) are achievable.

3.4.4 Strategic Direction

a) Long-Haul Strategies

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

These trains serve:

- Canadian and international tourists attracted to the scenic views, overnight accommodations, and (in the case of the *Canadian*) the unique heritage art deco, sleeping, viewing and dining rail equipment;
- Regional and intercity travellers, many who reside in remote areas without year-round roads, reliable driving conditions for private car/bus travel, or who face long drives; and
- To a far lesser degree, long-distance intercity travellers unable to, or seeking to avoid, travel by air.

i. Eastern Intercity

In 2012, the *Ocean*'s frequencies were cut from six to three per week. With this reduction of frequencies, the *Ocean* does not have sufficient frequencies to deliver an adequate travel alternative in the intercity and regional markets such as between Quebec City and among Rivière-du-Loup, Campbellton, Moncton and Halifax.

VIA Rail is currently exploring an eastern intercity corridor service from Halifax to Campbellton, which would fill in the frequency gap that was created when the *Ocean* was reduced from six to three weekly frequencies and benefit local travellers. This initiative is pending infrastructure updates and equipment testing by the host railway.



As previously noted, passenger rail service is important to the communities of Nova Scotia and New Brunswick, as illustrated by this excerpt from the CTA Review:

“Passenger rail service may be the only viable transportation option for many residents living in communities in Nova Scotia and New Brunswick . . . The need for this passenger service is becoming more acute given the ageing demographic in Atlantic Canada that is highly dependent on public transportation services. We recommend that the CTA include an appropriate provision that would commit the federal government to guarantee the existing level of service as a minimum and provide appropriate resources to VIA Rail as required to continue pursuing and implementing new initiatives to rebuild the service.” — Atlantic Canada Ministers of Transportation Submission to the CTA Review January 23, 2015

b) Regional Strategies

VIA Rail, as part of its mandate, provides service to regions not easily accessible by other modes of transportation. As such, the potential markets and competitive landscape are restricted and only account for 2% of VIA Rail’s revenues. Historically, these services have not undergone much change other than when faced with track abandonments. However, VIA Rail has made, and continues to make, efforts to meet with key community representatives to understand the needs of the current and potential users relying on these services. VIA Rail has been proactive in implementing improvements to these services and intends to support the communities it serves by maintaining access. The service that VIA Rail provides is highly valued by these communities, and as a result of these improvements and initiatives, revenues have increased by 9.5% over 2015.

Recent initiatives include:

The Mackenzie Community School Canoe Trip pictured below.



The “Aurora Season” on the Churchill train service. VIA Rail has worked closely with Travel Manitoba (DMO), tour operators and the Town of Churchill, to bring tourists to Churchill by train to view the northern lights. Launched in January 2017, this has been a very successful initiative, resulting with YTD revenues 40+% greater than 2016.

VIA Rail has partnered with Travel Manitoba to film a video showcasing the Park car for Aurora viewing. This video is set to run in commercials that will include showing on Air Canada flight screens.

This summer, we will also partner with the University of Manitoba to promote the new Churchill Marine Observatory that will begin construction. A dining car will be wrapped with imagery from the Churchill region (at their costs), with table inlays in the dining car with media regarding the region. Academics and researchers take the train to travel to Churchill, providing educational material to our customers. We will also provide digital media opportunities in the stations and on board for customers to learn about the research that will be performed at Churchill.

VIA Rail is also working with Senneterre towards promoting their summer trips between Senneterre and Press and/or La Tuque.

The *Ocean* provides transportation services to rural areas in New Brunswick and Nova Scotia who use the service for access to regional centres (Moncton, Halifax) and neighbouring communities. It also passes adjacent to several First Nations reserves.

Looking at travel patterns on the *Ocean*, two clear travel market segments can be seen: long-distance travellers between the Maritimes and Central Canada (CBTN-HLFX↔MTRL-QBEC) and regional travellers (CBTN-MCTN↔HLFX) where passengers remain within the Maritimes.

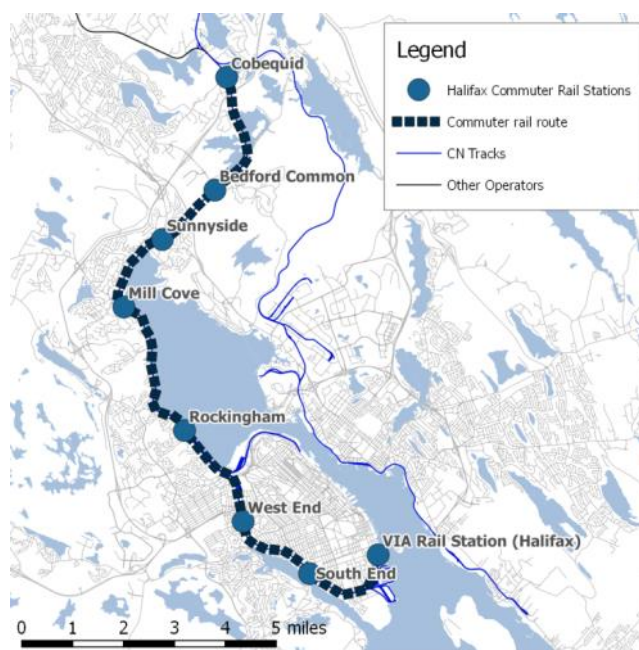
For regional travellers who do not use sleeper accommodations, a smaller fleet with coach seating would lower operating costs, enabling greater frequencies. This would enhance the appeal for regional travellers, effectively providing a daily service (when combined with the ‘Coast-to-Coast’ service) for the Maritimes.

c) Halifax Regional Municipality (HRM) Commuter Rail

In 2014, the Halifax Regional Municipality (HRM) engaged the rail consulting firm of CPCS Transcom to conduct a Commuter Rail Feasibility Study. The study was completed in the spring of 2015 and proposed various options with capital cost estimates ranging from \$26 million to \$45 million together with estimated annual operating costs of \$14 to \$16 million.

HRM, having been previously briefed by VIA Rail regarding the proposed “Regional Service in Atlantic Canada”, requested a review of the CPCS Commuter Rail Feasibility Study. Following briefing on the proposed “Regional Service in Atlantic Canada” in the Fall of 2015, HRM officials asked VIA Rail to review the report.

VIA Rail concluded that the commuter service could be provided at lower cost than what is proposed within the CPCS study, with some route and operational adjustments. VIA Rail would be well positioned to provide maintenance and operational commuter services in Halifax, by using its existing infrastructure and resources. This would provide the opportunity for VIA Rail to optimize existing assets, share the costs of other VIA Rail train services in the region, and generate revenues. HRM would benefit from lower operating costs and VIA Rail’s operational expertise. VIA Rail has met with HRM to assess a possible three year-pilot program for commuter train service between VIA Rail’s Halifax station and Windsor Junction. This service would be contingent upon an agreement with CN for the appropriate train frequencies. VIA Rail could provide RDC (Rail Diesel Car; self-propelled diesel multiple units that do not require a locomotive) in a manner similar to that of the Victoria – Courtenay service.



VIA Rail would operate the commuter service on behalf of the Halifax Regional Municipality, who would be the owner and financial backer of the service. VIA Rail is not the promoter of the project but is responding to the HRM request for help in bringing commuter rail to the people of Halifax.

As noted within Section 2.3.4 of this Plan, VIA Rail has a great deal of expertise in supporting commuter operations, most notably providing maintenance and servicing to West Coast Express in Vancouver.

3.5 Other Expenses

3.5.1 Unallocated Expenses Net of Other Revenues

VIA Rail's operating deficit before pensions grew from \$208.9 million in 2012 to \$235.5 million in 2016 (+12.7%). Unallocated expenses increased by \$49.4 million including a \$3.8 million increase in other revenue. The increases in costs are primarily due to increases in overhead and corporate costs.

3.5.2 Capital Expenditures

VIA Rail's capital funding, including additional funding provided by Budget 2017, is insufficient for major fleet or infrastructure programs, which would be required for significant trip-time and train frequency improvements that would lead to transformative change.

Equipment

The major equipment project is the LRC Car Fleet Rebuild project at VIA Rail's Montreal Maintenance Centre and the accompanying rebuild projects at external contractors (CAD Railway Services and Gaspésie Diesel), which include the LRC car structural repairs. Other equipment projects include Renaissance *Ocean* Fleet Upgrades, Renaissance State of Good Repair (*Ocean* only), and HEP II State of Good Repairs (Safety Issues Only).

Infrastructure

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

Maintenance Infrastructure

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

Station Upgrades

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

Union Station

The \$4.7 million allocated capital for Union Station was used in 2016 for revitalization initiatives.

IT Projects

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

Other projects include:

- Project Online Migration

- Enterprise Customer Relationship Management (CRM)
- Seat Information Enhancement
- On Board Wi-Fi NOC End Of Life Upgrade
- GPS Train Safety (POC)
- Late Train Travel Credit (LTTC)
- CRM Expansion
- RMS - Records Management System
- Multi Channel Contact Center
- Workforce Management
- Canadian Anti-SPAM Legislation (CASL)
- Radio Dispatch Consoles Upgrade
- Procure to pay - Procurement/Contract
- Locomotive Engineers Training Program
- Parts Catalog POC
- Network Planning Solution
- eLogbook
- IAM - Identity Access Management

Administration

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

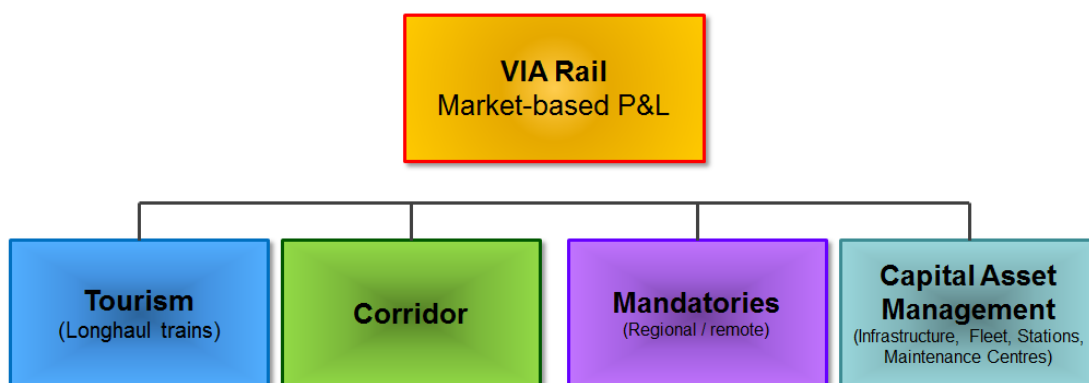
Total Capital Expenditures for 2015 and 2016

(Millions of Dollars)	Actual 2015	Actual 2016
Equipment Projects	35.2	28.5
Infrastructure Projects	32.7	24.6
Maintenance Projects	2.3	6.1
Station Upgrading Projects	3.5	7.6
Union Station	0.0	4.7
Information Technology Projects	22.3	18.7
Administration Projects	1.9	0.8
Total Capital Expenditures	97.9	91.0

3.6 Vision 2020 and Destination 2025

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

The new organization was approved by the Board of Directors and on a high-level basis, it resembles the table below:



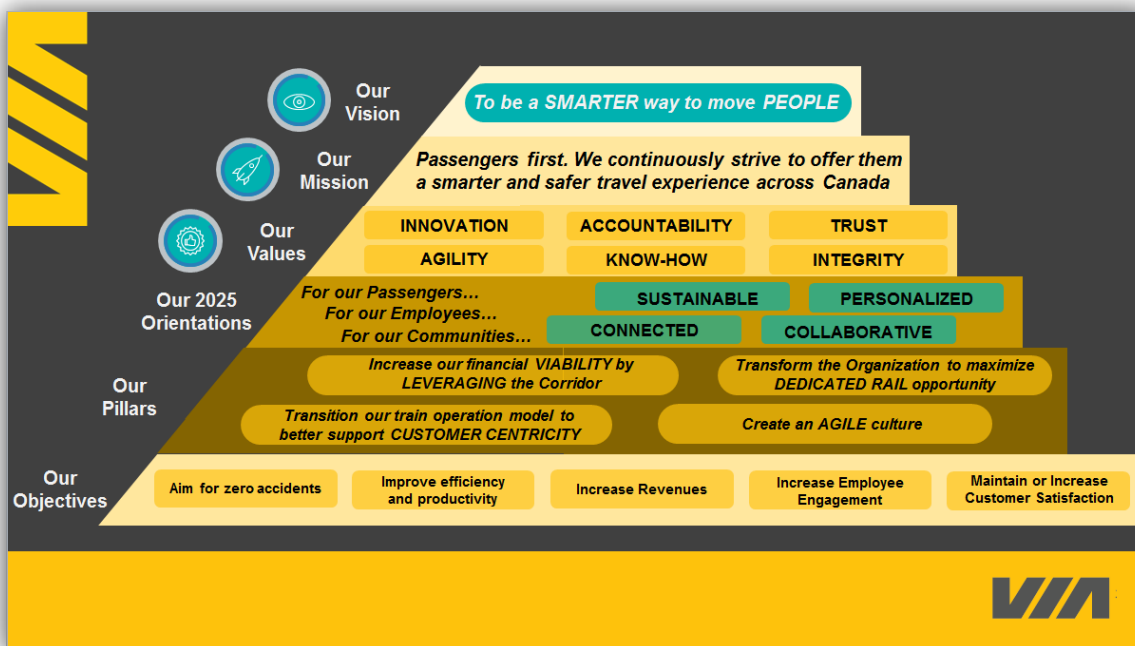
The vision realigns VIA Rail's activities to improve customer service, financial efficiency, and operational excellence. In this market-based structure, each business line will become its own "Profit and Loss" (P&L) centre. These business lines are responsible for the operations, capital investment,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

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

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

- Further advancing VIA Rail's position as the most customer focused transportation company in Canada and passenger railway in the world;
- Continuing to invest, when funding is available, primarily in VIA Rail's own infrastructure in order to:
 - enhance the safety and security of operations;
 - improve train reliability and on-time performance; and
 - introduce more train frequencies and significantly improve reliability and decrease trip times to grow revenue, thereby reducing dependence on the Government of Canada;
- Owning more infrastructure rail or possibly sharing with other passenger rail organizations;
- Investing in third party infrastructure only when there are no viable alternatives and benefits would be contractually guaranteed;
- Focusing on enhancing value to customers and pricing as close as possible to the real inherent value of the product to maximize revenue per passenger, while continuing to serve as many communities in Canada as possible;
- Continuing to be as efficient as possible and frugal with taxpayers dollars (financial excellence resulting in a minimum Government of Canada subsidy);
- Being a public service company with a commercial delivery; and
- Engaging employees and the community.

VIA Rail has and continues to develop strategies and initiatives to enhance the Corporation's market, financial, operational, safety, and security performance as highlighted below:



These strategies will further advance VIA Rail's position as the most customer focused transportation company in Canada and passenger railway in the world by:

- Being willing to try new things and take calculated business risks;
- Anticipating customer needs and staying ahead of technological and behavioral trends;
- Making all interactions with customers simple, seamless, and satisfying;

- Identifying and communicating with current, infrequent and new customers through the least costly and most effective means;
- Fully implementing Customer Relationship Management (CRM);
- Replacing the obsolete reservation system;
- Making stations attractive and appealing to customer, easy to navigate and efficient to operate;
- Continuing to add Inter-modal connections;
- Increasing partnerships with other carriers and related industries;
- Modernizing and outsourcing food and beverage service;
- Streamlining and automating all processes, systems, and procedures, both customer contact and internal;
- Continuing to introduce industry-leading technology such as GPS Train Control, locomotive engineer tablets, and automated crew calling;
- Ensuring that VIA Rail continues as one of Canada's top 100 employers;
- Compensating staff on the basis of merit, performance, and achievement;
- Hiring, training, and retaining, high quality, customer-focused staff throughout the organization;
- Hiring 10% of new employees from the ranks of Veterans and Reservists and 15% from diverse minorities;
- Promoting gender parity throughout the organization;
- Using Equipment Maintenance "Centres of Excellence" to engage employees and to tap into their knowledge;
- Implementing an apprenticeship program for skilled trade equipment maintenance and other employees;
- Continuously improving culture in Equipment Maintenance with focus on equipment safety, reliability, availability and efficiency; and
- Celebrating Canada 150 in 2017 with events and celebrations across the country.

4. OVERVIEW OF THE 2017-2021 OPERATING PLAN

In December 2016, VIA Rail submitted business cases to Transport Canada with respect to two strategic initiatives with the objective of substantially modernizing and enhancing the importance and availability of VIA Rail service to Canadians, while improving its financial viability. The first initiative is the renewal of the Quebec - Windsor Corridor car and locomotive fleet. The second proposes to build a dedicated passenger rail line between Quebec, Montreal, Ottawa, and Toronto. In the context of modernization, VIA Rail also provided Transport Canada with its views with respect to its Long-Haul and Regional services. VIA Rail continues to work with Transport Canada in the analysis of these modernization strategies while emphasizing the urgency to move forward on the replacement of the Corridor fleet.

Since 2014, as described in VIA Rail's corporate plans, the corporation has been pursuing financially viable growth through its ongoing operations. VIA Rail is exploring opportunities to improve its offerings to Canadians and generate growth and financial viability through the expansion or addition of train services, including the acquisition or construction of new infrastructure. Initiatives that VIA Rail is currently analyzing and some others which have been underway for several years are part of these opportunities.

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

4.1 Revenues

Total system passenger revenues are forecast to decline by 3.2%, from \$301.1 million in 2016 to \$291.4 million in 2021.

Corridor

The bulk of the decline is due to the forecast revenue decline of 8.7% in the Corridor, with annual revenues declining from \$231.7 million in 2016 to \$211.4 million in 2021. This revenue decline is a result of the previously discussed combination of limited frequencies, increasing trip times, and deteriorating OTP, paired with the added reality of an aging fleet, which will require retirement of cars and service reductions. This decline is a conservative forecast that includes the Corporation's best mitigation efforts, which include the additions of new frequencies in 2016.

The Canadian

The *Canadian* is forecast to have revenue growth of 15.4% (from \$54.3 to \$62.6 million) over the Plan period. Deteriorating OTP and long trip time delays, and consequently uncertain arrival times, will result in declining passenger volumes. VIA Rail is currently studying the possibility of changing the *Canadian* service (reduced frequencies or other means) to mitigate the impact of deteriorated OTP on passengers.

The Ocean

Passenger revenues for the *Ocean* are forecast to grow by 14.8%, from \$9.9 million in 2016 to \$11.3 million in 2021, mainly due to GDP growth and inflation as well as certain on board service enhancements, which will allow for price increases.

Regional

Regional services are forecast to have revenue growth of 14.4% (from \$5.3 to \$6.0 million) over the Plan period, chiefly due to GDP growth and inflation. As well, service delivery is being adjusted to better match its customers' needs, also potentially stimulating passenger growth.

Other Revenues

Other Revenues are categorized as revenues not incurred from direct passenger revenues. They can be categorized as revenues from station activity, marketing and sales activity, maintenance operations, or corporate activities. Other Revenues are forecast to grow 1.8% (from \$23.3 to \$23.7 million).

4.2 Operating Expenses

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

Service expenses are expected to increase from \$322.8 million in 2016 to \$333.4 million in 2021, or 3.3% over that period. Expenses growth is expected to be small as the aging Corridor fleet will require retiring cars and eventually reduce service offerings.

Corridor

Expenses are forecast to decline from \$210.9 million in 2016 to \$200.0 million in 2021, or 5.2% over the period.

The Canadian

Expenses for the *Canadian* are forecast to increase from \$59.2 million in 2016 to \$73.4 million in 2021, or 24.1% over the period, due mainly to salary increase, deteriorating trip times and OTP, and inflation.

The Ocean

While expenses decreased by 19.6% from 2012 to 2016 on account of frequency reductions, expenses are forecast to grow from \$21.9 million in 2016 to \$25.4 million in 2021, or 16.0% over the period, due mainly to salary increase and inflation.

Regional

Expenses for Regional services forecast to increase from \$30.8 million in 2016 to \$34.6 million in 2021, or 12.4% over the period, due mainly to salary increase and inflation.

4.3 Capital Expenditures

The shareholder approved \$60 million annually, which was used for ongoing capital requirements for FY 2014-2015, through 2016-2017. This funding was invested towards the upkeep of VIA Rail's asset base and to maintain a state of good repair. Budget 2017 granted VIA Rail \$424.3 million for FY 2017-2018 through 2019-2020. This funding is only sufficient to keep VIA Rail's assets in a state of good repair, not for any major replacement or acquisition program.

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

4.4 New Federal Government Infrastructure Investments

On November 24, 2014, the Prime Minister announced that the Federal Government would be investing \$5.8 billion to build and renew infrastructure across the country. A total of \$102 million in capital funding

has been earmarked for VIA Rail: \$18.6 million for FY 2015-2016 and \$83.4 million for FY 2017-2018. This funding targets infrastructure, safety, and trip time improvements in the Ottawa-Montreal rail corridor.

Budget 2016 provided \$7.7 million in FY 2016–2017 to support technical studies and other pre-procurement activities related to the renewal of VIA Rail's fleet, for safety upgrades at grade crossings on tracks owned by VIA Rail, and for investments in improved security at VIA Rail's stations. The Budget also provided \$3.3 million to Transport Canada over three years to support an in-depth assessment of VIA Rail's Windsor-Quebec City corridor dedicated track high-frequency rail proposal. The federal budget also provided \$34.0 million for improvements to VIA Rail's maintenance centres and stations, including upgrades to electrical and mechanical systems and roof upgrades.

4.5 New Grade Crossings Regulations

On December 17, 2014, the Government of Canada published Grade Crossings Regulations that establish new safety standards aimed at reducing the frequency of accidents at grade crossings. One of the key elements of the new regulations is that road authorities, private entities, and railway companies will be required to maintain sightlines at grade crossings. A period of seven years is allowed for the standards to be phased-in for existing grade crossings.

Sightlines will be preserved by prohibiting the construction or placement of structures and objects that obstruct them, including the control of tree and brush growth. Sightline modifications may also be required on vehicle roadways. Due to their higher speeds, passenger trains generally require longer sightlines, therefore, the implementation costs will proportionately have a greater impact on VIA Rail than other railways.

VIA Rail is in the process of doing work on its own infrastructure (186 miles) of \$3 million to comply with the regulations. In March 2017, Budget 2017 provided VIA Rail with funding towards CN's and other host railroads' compliance efforts.

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

4.6 Additional Requirements for 2017 to 2021

VIA Rail is at a decision point as it faces increasing pressure in its operating environment. In its relationship with the host railways, VIA Rail has essentially little or no control over the key factors of operating in an efficient businesslike manner. The Corporation cannot readily add frequencies, control trip times, or reverse deteriorating OTP, which together compose the key measures required to attract and retain ridership.

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

Paradoxically, these increasing operating losses and possible service reductions will occur in an environment where intercity passenger rail should be experiencing steady growth. Continued economic growth, increased road congestion, increased air congestion, increased environmental awareness, increasing energy prices, and an aging population, together with a train-oriented younger generation (as shown by student segment ticket growth) create an environment where passenger rail should thrive. Failing the implementation of a new passenger rail operating paradigm, Canada will continue to lag

behind other countries in implementing a modern passenger railway system and will forego its inherent socio-economic benefits, such as improved employment mobility and business connectivity.

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

4.6.1 Ongoing Capital

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

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

4.6.2 Fleet Renewal

VIA Rail's fleet, despite numerous improvements that were provided in last year's thorough refurbishments, is coming to the end of its commercial life. Given the lengthy process of acquiring new equipment, VIA Rail developed a proposed plan to support the renewal of its rolling stock fleet.

4.6.3 Station Renewal

This Corporate Plan provides for continued investments at levels that will ensure the protection of the assets integrity and state of good repair, of proposed strategic investments that will help in supporting the growth of the business, improving operations, and the customer experience, while contributing to VIA's commitment towards sustainable mobility. VIA Rail has performed a detailed condition based review of its stations and maintenance centres.

4.6.4 Infrastructure Investments

Investment in VIA Rail's own infrastructure has demonstrated positive financial returns for VIA Rail and the shareholder, and improved service to the travelling public. VIA Rail intends to invest primarily in its own track for additional frequencies and increased reliability, and will identify and consider pursuing strategic infrastructure acquisitions in the Corridor. Third-party infrastructure investments will be considered only when necessary and when there is a contractual guarantee of clear, tangible, and substantial benefits.

With a view towards continuing through on this strategy and ensuring its continued key access within Montreal's downtown Central Station, VIA Rail was in the preliminary process of purchasing the Montreal Central Station rail corridor, and was in discussions with CN. VIA Rail had not yet gained shareholder approval for this purchase.

On August 24, 2016, CDPQ Infra and CN entered into an agreement for the sale of Montreal Central Station rail corridor for the CDPQ's proposed new REM light rail system.

While the construction and operation of REM are expected to impact VIA Rail's current and future operations, VIA Rail is convinced of our ability to implement solutions and make the necessary adjustments to minimize their impact on the current one million VIA Rail passengers currently transiting through Central Station as well as new travellers acquired through growth in the future.

Once the REM project is operating, VIA Rail will easily coexist and offer travellers an irresistible, integrated alternative to the car, both within and beyond the metropolitan area. The combined impact of the two operations will therefore be crucial in many respects: metropolitan ridership will double and intercity ridership could almost triple; the GHGs will decrease by almost 70,000 tonnes, between Montreal

and Quebec City alone, through the elimination of more than 250 million kilometres otherwise travelled by car; and the optimization of public investments will further stimulate our economy.

VIA Rail is considering purchasing a 55 mile section of the Guelph Subdivision between Kitchener and London. This potential purchase has key strategic value as it would secure continued track access to London, allow for future growth, permit the addition of new frequencies, and improve trip times. VIA Rail already forms the majority of rail traffic on this section. An investment for the replacement of jointed rail with continuous welded rail, crossings upgrades, and addition of new sidings would improve safety and further improve operational performance, provide a better customer experience, and increase revenues.

VIA Rail also requires capital funding for new track infrastructure between Montreal and Ottawa connecting VIA Rail tracks to CP track, which can be utilized to avoid CN's congested lines and the bottleneck at Coteau Junction.

VIA Rail has also completed and provided a detailed feasibility study and business case to enable a high-frequency Toronto-Ottawa-Montreal Corridor service over exclusive passenger tracks to be acquired between Smiths Falls, Peterborough, and Toronto. In conjunction, VIA Rail will also develop a plan for the Toronto-Peterborough line and will seek approval to obtain access to the specific funding set aside for that project.

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

5. HUMAN RESOURCES

5.1 Workforce

VIA Rail had 2,731 active employees at the end of 2016. Of these, a total of 2,165 employees were under collective agreements and non-unionized staff made up the remaining 566 employees. The latter includes a wide range of positions, such as front line, middle and senior managers, professionals, administrative support and technical specialists, as well as the eight executive positions.

5.1.1 Forbes 250 Best Employers

VIA Rail is pleased that it ranked highly at number 100 in the Forbes 2017 edition of Canada's 250 Best Employers. VIA Rail's ranking is reflective of its employees pride and contribution. Forbes asked more than 8,000 Canadian workers to identify, on a scale of 1 to 10, as to how they would recommend their employer or another employer in their industry. The list includes 250 companies with over 500 employees, operating in 25 types of industries ranging from multinationals to financial institutions to universities and government agencies.

Inclusion and Diversity

Inclusion and diversity is part of the objectives of VIA Rail's President and Chief Executive Officer. The Chief Human Resources Officer is the Corporation's inclusion and diversity Champion and is responsible for the overall definition and implementation of the program in such matters. Within the Corporation, all Chiefs in their own division are accountable for reaching the Corporate Diversity Targets. VIA Rail's inclusion and diversity programs are overseen by a national committee and supported by several regional diversity committees. In 2016, the committees met to plan and execute inclusion and diversity awareness initiatives and/or activities.

In 2017, VIA Rail is planning to introduce the following programs for women:

For all women:

- Provide co-development groups for women in managerial positions; and
- Collaborate with unions to promote women in non-traditional occupations.

For women identified as high-potential:

- Encourage their participation in a 14-week development coaching and networking program called "L'EFFET A";
- Introduce quarterly lunch and learn sessions with our female executives;
- Identify opportunities to increase visibility with all executives; and
- Continue to offer conferences, luncheons, development programs, and co-development through the Women Executive Network (WXN).

For women identified as top talent:

- Offer a mentorship program by a member of the executive, or external coaching, for those currently identified as successors for executive positions.

5.1.2 Employment of Veterans and Reservists

VIA Rail recognizes that transitioning members of the Canadian Armed Forces, Veterans, or Reservists share common values such as discipline, dedication to country, and service to fellow Canadians. Military members and Veterans are highly qualified professional individuals with years of acquired know-how and leadership that will help VIA Rail succeed.

VIA Rail is proud to recognize the service of Canada's veterans and reservists by implementing initiatives such as special fare offers that provide significant discounts for Military members and veterans and their families that target to carry over 35,000 people annually. VIA Rail also expresses its support with partnerships with the Royal Canadian Legion's Nation Poppy Campaign or the Vimy Foundation, and its initiatives such as Wounded Warriors, True Patriot Love, and Women in Defense and Security which aim to improve the morale and welfare of active service personnel, veterans, and their families.

VIA Rail has been honoured as the best employer in Quebec by the Canadian Forces Liaison Council (CFLC), having received on March 18, 2017, the "Award of Excellence for Best Practice in Employer Support for Canada's Reserve Forces" at a ceremony held at the Charles-Michel de Salaberry Armoury in Laval. The event was attended by nearly a hundred representatives from the military community and hosted by Brigadier General Louis de Sousa.

In honour of his commitment to the Canadian Armed forces, his support for veterans and reservists and loyalty to Canada, on March 23, 2017, VIA Rail's President and Chief Executive Officer, Yves Desjardins-Siciliano, was appointed an Honorary Lieutenant-Colonel of the Régiment de Maisonneuve. Founded in 1880, the Régiment de Maisonneuve is the official regiment of the City of Montreal.

VIA Rail has set a goal that 10% of new hires be veterans and reservists. To that end, VIA Rail is working with Veterans Affairs Canada, Canada Company Military Employment Transition (MET), and the Mission Emploi employment programs, to connect potential applicants from the Canadian Armed Forces (CAF) members and Veterans with VIA Rail jobs.

5.1.3 Reservists

VIA Rail has also put into effect an employment Policy for Reservists to ensure that these members of our workforce are able to take an authorized leave of absence for their military training and service without impacting their pay, benefits, and career progression.

5.1.4 Apprenticeship Program

VIA Rail is currently implementing an apprenticeship program. This program, under the Chief Mechanical and Maintenance Officer, will use a mentoring approach in order to build on the skills of more experienced workers and ensure the transfer of knowledge before their retirement. The apprentices, those who have fewer job-specific skills, will be supported by mentors who will pass on their knowledge and skills. This will ensure that VIA Rail will have successors that are adequately trained. Participants will benefit greatly from this program, as will VIA Rail.

5.2 Labour relations and collective agreements

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

5.2.1 Unifor (formerly CAW)

Unifor is the largest union in Canada, representing more than 300,000 workers across twenty sectors of the economy and accounts for the majority of unionized employees at VIA Rail. The previous agreement with Unifor expired on December 31, 2015. A four year agreement was reached on June 12, 2016, and was ratified on July 14, 2016.

5.2.2 Teamsters Canada Rail Conference (TCRC)

The TCRC represents locomotive engineers. The current agreement expired on December 31, 2014, and negotiations are underway.

5.3 Compensation

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

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

5.4 Alignment with Government of Canada Pension Plans

VIA Rail's pension plans are significantly less generous than the Public Service pension plan.

VIA Rail has two defined benefit plans: one for its unionized employees, and the other for its non-unionized staff. Because on a solvency basis, liabilities are calculated by discounting them using long-term Government bond yields, the all-time record low long-term interest rates we are experiencing have negatively affected most Canadian defined benefit pension plans. To contain pension costs and to align with government cost reduction initiatives, VIA Rail has implemented a number of initiatives over the past few years:

- Achieving returns on assets significantly above the median Canadian pension plan returns over the past 20 years, despite a decision almost a decade ago to adopt a more conservative (lower risk / lower return) asset mix to better match assets to liabilities suitable to a mature and relatively large pension plan such as VIA Rail's;
- Changing the administration of automatic consent to withdraw the full pension value for those leaving VIA Rail before age 55;
- Streamlining pension plan administration costs;
- Gradually increasing employee contributions to the government's 50/50 target by 2017, in line with the Budget 2012 and Budget 2013 objectives; and
- Implementing the portfolio replication methodology for the solvency valuation reducing the solvency deficit.

5.5 Employee Engagement

Engaged employees are essential for VIA Rail to reach its business goals, to maintain excellent customer service, and ultimately, to improve employee retention and generate a positive impact on financial performance. When a prior employee Engagement Survey was conducted in 2011, this resulted with the clear definition of certain corporate priorities. One of the key drivers of engagement is the quality of leadership and the ability for a manager to coach and develop his own team.

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

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

VIA Rail conducted its most recent employee Engagement Survey in September 2016 and the results were announced in November. The results were positive: unionized employees' engagement increased to 54% from 49% in 2015 and non-unionized employees engagement increased to 64% from 57% in 2015.

The engagement rate for employees within various management groups experienced a significant increase to 66% from 53%. This is important as engagement across an organization is greatly influenced by its managers.

The overall increase of engagement since 2011 is a noteworthy 11% (57% vs. 46%), and the number of employees who are very disengaged is decreasing (21% vs. 33% in 2011).

5.6 Succession planning

With 50% of its workforce being 50 years and older, VIA Rail puts a great emphasis on managing succession through all levels of management to guarantee business continuity.

In order to minimize gaps in the pipeline for key senior management positions, VIA Rail provides opportunities for top talent to develop skills necessary for future roles. The goal is to merge talented employees' capabilities and career aspirations with VIA Rail's business strategy and talent needs.

In addition, the Corporation's career site was updated to be better aligned with its new branding and employee value proposition, as well as to promote ethics, diversity, and inclusion. In 2016, approximately 32% of our employees were women, 10% visible minorities, 2% people with disabilities and 2% Aboriginal People. VIA Rail continues to improve its selection processes to ensure that it identifies the best candidates to fill positions.

6. FLEET CONDITION

VIA Rail has not acquired any new equipment since December 2001 and the entire fleet is generally very old and in need of repair (see Annex 4). An independent study of VIA Rail's fleet carried out in 2015 states that there is an immediate and urgent need to replace the Corridor fleet.

The average age of the equipment in VIA Rail's fleet is over 41 years old (over 24 years for the locomotives and over 44 years for the cars). To date, they have accumulated a total 4 billion kilometres or about 8 million kilometres per unit.

In the second quarter of 2016, the most common VIA rail customer complaints were equipment-related, referencing the quality of the interiors and heating systems:

"From the moment I sat down, it was warm in the car; I had hoped once we started to move, the car would cool down. It didn't. I brought my discomfort with the excessive heat to the attention of the car attendant. Thirty minutes later, no difference. I once again asked for some relief from the heat. The heat persisted. Near the end of the trip, I asked the attendant if others had complained; "yes", was the response."

"I was dismayed at the car on the return trip. It looked like it was something out of the sixties. We may as well have been in economy class as far as the seats and the room available. The back of the seat was falling off in front of me and there were bits hanging in a couple of places. The windows were filthy as if it had been hastily taken out of storage. The ride was deplorable especially at high speed..."

6.1 Asset condition

6.1.1 Cars

LRC

- VIA Rail has 97 LRC cars, which represent 60.6% of the Corridor fleet;
- An independent engineering evaluation identified that the LRC's aluminum car body is subject to corrosion and structural issues; and
- The fleet has already gone through two major overhaul programs for corrosion repair and renewal of vehicle interiors as well as its mechanical and electrical systems all for the purpose of extending the LRC's life, but further refurbishment is not an option.

HEP II

- 33 HEP II cars are currently in service, representing 20.6% of the Corridor fleet;
- They are over 60 years old and they have greatly exceeded their useful service life;
- They were acquired in used condition from various sources during the 1980's therefore they are not a standardized fleet which compromises VIA Rail's efficiency;
- Although the stainless steel car body shells can last almost indefinitely, the rest of the components (undercarriage, interiors, systems, fixtures, and fittings) cannot, and require major revamping every 30 years; and
- A program to replace the bogies (part of the undercarriage) and provide new interiors would still yield an-outdated car type with limited market appeal.

Renaissance – Corridor portion

- There are 30 Renaissance cars assigned to the Corridor, representing the remaining 18.8% of the Corridor fleet;
- They were originally manufactured in the UK in 1995-96, with final assembly of a portion of the fleet performed in Canada between 2001 and 2003;

- They have the lowest reliability of the Corridor fleet;
- Their mild steel car bodies are corroding at the roof, side sills and posts. The full extent of the corrosion is unknown without a major overhaul (i.e. “opening” vehicle);
- A major investment to the Corridor Renaissance fleet would be needed to improve their reliability and reduce their burdensome maintenance costs and to extend their useful life and marketability;
- A minimum overhaul/repair is needed to resolve HVAC problems, interior/exterior roof leaks, corrosion, door/step operation, public address systems, and interior conditions;
- Due to their European design, sourcing of spare parts is an issue; and
- Remaining service life of these train sets without major investment is less than 10 years.

6.1.2 Locomotives

F40 Locomotives

- There are 52 F40 locomotives, of which 19 are assigned to the Corridor. This represents 47.5% of the Corridor locomotive fleet;
- The age of the fleet is close to 30 years;
- Their reliability improved following a major overhaul/rebuild performed between 2007-2012, however reliability and availability are declining with age;
- The condition and structural integrity of the bogies and locomotive frames are in decline due to high mileage, rough service conditions, and issues with corrosion;
- They require overhaul redesign to integrate crashworthiness standards for fuel tanks; and
- They do not comply with Canada’s minimum environmental regulatory requirements (Tier 0), nor do they meet industry Best Practice exhaust emission standards (Tier 4) which will be a mandatory requirement for the next major overhaul/rebuild.

P42 Locomotives

- All 21 P42s are assigned in the Corridor and represent the remaining 52.5% of the Corridor locomotive fleet;
- They are 16 years old;
- The condition and structural integrity of the bogies and locomotive frames are in decline due to high mileage, rough service conditions and issues with corrosion;
- The monocoque design of the P42 cannot be overhauled to integrate the newly proposed crashworthiness safety standards for cab design and fuel tanks;
- They are due for a half-life overhaul to address mechanical and electrical reliability issues, car body corrosion at the fuel tank level, bogie ride stability, and air dryer issues; and
- They do not comply with Canada’s minimum environmental regulatory requirements (Tier 0), nor do they meet industry Best Practice exhaust emission standards (Tier 4) which will be a mandatory requirement for the next major overhaul/rebuild.

7. CORPORATE SECURITY STRATEGY

As Canada's national passenger rail service, VIA Rail recognizes the important responsibility it has to ensure Canadians move reliably, comfortably, and conveniently across Canada, reaching their destinations safely and securely. A strong sense of security in VIA Rail's service improves the customer experience and builds passenger confidence.

Security concerns within the passenger rail environment can be broad in nature, ranging from public disorders, theft, vandalism, assault and weapon offences, trespassing, aggressive and anti-social behaviour, to terrorist threats and violent crime. The vulnerabilities of passenger rail to terrorism and violent crime are amongst the most significant concerns facing mass transit today, with the potential to cause massive casualties, extensive economic damage and disruption, and receive widespread attention nationally and abroad. Recent violent armed attacks against passenger rail systems in Europe have highlighted the vulnerability of rail travel and the necessity to improve rail security here at home.

In North America, law enforcement agencies have thwarted several planned attacks on rail systems, including a failed terrorist plot to derail a VIA Rail train in 2013. In 2015, Transport Canada and the Integrated Terrorism Assessment Centre jointly assessed the terrorist threat level to Canada's passenger rail network at medium, which "indicates that an individual or group within Canada or abroad has the intent and capability to commit an act of terrorism and that a violent act of terrorism could occur" aboard a commuter or intercity passenger train, in a station, or on railway lines used by commuter or intercity passenger trains.

Amidst a heightened intercity passenger rail threat environment in Canada, VIA Rail developed a Security Strategy in 2015 with industry experts to define key security elements to address VIA Rail's security needs, tailored to the Corporation's unique intercity passenger rail environment.

8. ENTERPRISE RISK MANAGEMENT

Prior to 2015, different groups within VIA Rail would perform their own risk assessments without central coordination and standardized methods.

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

In doing so, VIA Rail now performs regular risk assessments and quarterly monitoring of key risks, which allows the Executive Committee to update risks for review with the Governance, Risk and Strategy (GRS) Committee of the Board.

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

Additionally, in September 2015, VIA Rail was named as the winner of a Safety and Environment Award from the Railway Association of Canada for its Enterprise Risk Management system.

The following section details the key risks that could potentially affect VIA Rail's strategic objectives.

8.1 Safety of Passengers, Employees and the Public

The safety and security of passengers, employees, and the public constitute VIA Rail's primary concern. A collision, derailment, or crossing/pedestrian accident would have tremendous human impact. Similarly, contaminated food items or beverages could also pose a safety concern to passengers. In addition to the human impacts, these occurrences can also pose financial, environmental, and reputational impacts. Events such as the 2013 terrorist plot against a VIA Rail train or the detonation of an explosive device in a taxicab in Strathroy, Ontario in August 2016 are a reminder of the importance of remaining vigilant at all times.

In addition, the safety of passengers, employees, or the public may be negatively impacted by train collisions or derailments on the main line, crossing, or pedestrian accidents, or other events.

8.2 Employee Contribution

Employee contribution is crucial to VIA Rail's continued success in a highly competitive travel and tourism sector. Despite scoring well on customer service surveys, strong employee contribution continues to be an important competitive advantage.

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

Risk components included are:

- Skills gap for strategic goals achievement;
- Locomotive engineer staffing and experience;
- Resiliency of critical operational positions; and
- Relationships with employees and engagement.

8.3 Government and Strategy

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

Risk components included are:

- New regulations; and
- Pension liabilities.

8.4 Operating Funding

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

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

Risk Treatments

- Managing revenues to obtain the right balance of yield per passenger and the number of passengers;
- Developing and deploying commercial strategies to increase ridership, grow revenues, and augment the relevance of VIA Rail and its services;
- Continuing cost management;
- Obtaining approval of sufficient operating funding to secure the operations over the planning period;
- Working with Transport Canada on a long-term solution to identify and revise an appropriate level of base funding; and
- Managing fuel cost fluctuations through consumption analysis and initiatives to reduce fuel consumption, and deploying a hedging strategy to manage the price risk component.

8.5 Funding of Pension Plan Liabilities

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

8.6 Capital Funding

Budget 2014 approved \$60 million in capital funding for Fiscal Years 2014–2015 through 2016-2017. On November 24, 2014, the Federal Government has announced an additional \$102 million of capital funding that will be invested in the amounts of \$18.6 million and \$83.4 million for FY 2015-2016 and FY 2016-

2017 respectively. This additional funding was used to increase reliability, safety, and speed of VIA Rail's service in the Ottawa-Montreal rail corridor.

Budget 2016 provided \$34 million for improvements to VIA Rail's maintenance centres and stations, including upgrades to electrical and mechanical systems and roof upgrades.

Budget 2017 provides VIA Rail \$424 million for FY 2017-2018 through 2019-2020. This funding is only sufficient to keep VIA Rail's assets in a state of good repair, not for any major replacement or acquisition program, whether of equipment or infrastructure.

Beyond April 2020, capital requirements are unfunded. Moreover, it is important to note that existing funding is sufficient only to maintain a state of good repair. Failing to have the availability of future funding, VIA Rail will not be capable of maintaining its equipment in a state of good repair and will not be in a position to deliver its mandate.

8.7 Revenue Generation

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

Risk components include:

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

8.8 Infrastructure Availability, Reliability and Quality

The availability, reliability and quality of the rail infrastructure used by VIA Rail may have a positive or negative impact on OTP, trip time and the ability to add frequencies to effectively meet market demand, influencing passenger satisfaction, their propensity to take the train and, eventually, the number of VIA Rail passengers served and revenues earned.

The services provided by host railways, such as CN and CP, have been deteriorating and represent a risk. Host railways and VIA Rail often have conflicting peak demands and we must reach compromises for adequate track access. While not a panacea, passenger trains in Canada do not enjoy the operational priority as in virtually all other countries, including the United States, where Amtrak also happens to pay approximately 50% less for track access. A major upcoming risk is that the TSA with CN will expire at the end of 2018.

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

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

8.9 Equipment Availability, Reliability and Quality

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

An independent report by the engineering firm Interfleet notes that a high probability of an enforced retirement of the LRC cars due to structural (corrosion) issues not only exists, but would greatly

jeopardize VIA Rail's ability to provide services and fulfill its mandate. Furthermore, an older fleet generally means increased requirements and growing costs for maintenance. Therefore, VIA Rail needs to plan its operations in the short, medium, and long-term accordingly, primarily for the key LRC fleet used in the Corridor, for which only 10 years of service have been added through the latest investment program. Section 3.3.3 details the age of the fleet.

8.10 Information Technology

The availability, reliability, and responsiveness of existing and new information technology (IT) may have an impact on the achievement of VIA Rail's strategic objectives and management of other key risks. VIA Rail has no appetite for a decrease in the availability, reliability, responsiveness, and optimization of its IT platforms. VIA Rail has a risk appetite for the development of new cost-effective, integrated, engaging, or revenue-generating IT strategies that support the achievement of strategic objectives.

Security risks such as hacking attempts materialize regularly around the world and affect financial institutions and large retail companies in particular. No corporation can afford to neglect IT security risk and VIA Rail intends to continue managing that risk and improving its risk treatments.

VIA Rail will reassess these risks and consider new treatments within the planning horizon.

Risk components included in the map are:

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

ANNEX 1 – KEY FINANCIAL TABLES

VIA RAIL CANADA INC. 2017 - 2021 CORPORATE PLAN OPERATING FUNDING STATEMENT

VIA FISCAL YEAR ENDING DECEMBER 31								
(MILLIONS OF DOLLARS)	ACTUAL		PLAN					TOTAL
	2015	2016	2017	2018	2019	2020	2021	2017-2021
REVENUES								% Change
								2021 vs 2016
Total Operating Revenues	297.8	324.3	340.6	347.7	343.1	346.4	315.1	1,692.9
								-2.8%
EXPENSES								
Total Operating Expenses	525.6	559.9	580.7	597.3	601.3	612.6	600.4	2,992.3
								7.2%
Operating Deficit Before Government Subsidy and Pension Costs	227.8	235.5	240.1	249.7	258.1	266.2	285.3	1,299.4
								21.1%
less: transfer of capital funding to operating funding	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Government Subsidy	234.0	241.8	240.1	249.7	258.1	160.4	146.8	1,055.1
Operating Funding Surplus / (Deficit) before Pension Costs	6.2	6.3	0.0	0.0	0.0	(105.8)	(138.5)	(244.3)
PENSION COSTS								
Total Pension Costs	52.2	32.0	49.0	42.0	37.0	37.0	37.0	202.0
								15.6%
less: Supplementary Government Pension Funding	59.0	54.0	49.0	42.0	37.0	10.0	0.0	138.0
Pension Costs Funding Surplus / (Deficit)	6.8	22.0	0.0	0.0	0.0	(27.0)	(37.0)	(64.0)
Operating Surplus / (Deficit) after Government Funding	13.0	28.3	0.0	0.0	0.0	(132.8)	(175.5)	(308.3)

*Including an additional pay period

NOTE: May not add due to rounding

VIA RAIL CANADA INC.
2017 - 2021 CORPORATE PLAN
SUMMARY - TOTAL CAPITAL EXPENDITURES

VIA FISCAL YEAR ENDING DECEMBER 31								
(MILLIONS OF DOLLARS)	ACTUAL		PLAN					TOTAL 2017-2021
	2015	2016	2017	2018	2019	2020	2021	
MAJOR CAPITAL PROGRAMS								
Equipment Projects	35.2	28.5	28.5	61.5	73.4	85.6	33.4	282.4
Infrastructure Projects	32.7	24.6	60.2	61.9	56.3	53.3	20.0	251.8
Sub-Total Major Programs	67.9	53.1	88.7	123.4	129.7	139.0	53.4	534.2
Other Capital Programs	30.0	37.9	53.2	57.5	43.0	43.0	43.0	239.7
Total Capital Expenditures	97.9	91.0	141.9	180.9	172.7	182.0	96.4	773.9
less: use of Asset Renewal Fund (ARF)	0.0	(4.7)	(2.7)	(0.4)	0.0	0.0	0.0	(3.1)
Transfer of capital funding to operating funding								
Gov't Capital Funding Required	97.9	86.3	139.2	180.6	172.7	182.0	96.4	770.8
Funding - \$903M	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Montreal - Ottawa (November 2014 Program)	12.4	27.2	43.0	4.4	0.0	0.0	0.0	47.4
Additional Funding Approved	85.5	59.1	96.2	176.2	172.7	45.5	0.0	490.6
Total Gov't Capital Funding	97.9	86.3	139.2	180.6	172.7	45.5	0.0	537.9
Funding Shortfall / (Surplus)	0.0	0.0	0.0	0.0	0.0	136.5	96.4	232.9

NOTE: May not add due to rounding

VIA RAIL CANADA INC.
2017 - 2021 CORPORATE PLAN
FUNDING REQUIREMENTS AND SOURCES

VIA FISCAL YEAR ENDING DECEMBER 31									
	(MILLIONS OF DOLLARS)	ACTUAL	FORECAST	PLAN					TOTAL
		2015	2016	2017	2018	2019	2020	2021	2017-2021
APPROVED FUNDING	Operating Funding Reference Level	146.8	146.8	146.8	146.8	146.8	146.8	146.8	733.9
	Additional Operating Funding Approved	87.2	95.0	93.3	102.9	111.3	13.6	0.0	321.2
	Total Operating Funding - Approved	234.0	241.8	240.1	249.7	258.1	160.4	146.8	1,055.1
	Pension Funding Approved	59.0	54.0	10.2	0.0	0.0	0.0	0.0	10.2
	Additional Pension Funding	0.0	0.0	38.8	42.0	37.0	10.0	0.0	127.8
	Total Pension Funding - Approved	59.0	54.0	49.0	42.0	37.0	10.0	0.0	138.0
	Capital Funding Approved	85.5	73.4	99.3	158.7	172.7	45.5	0.0	476.2
	Montreal - Ottawa (November 2014 Program)	12.4	36.6	38.1	0.0	0.0	0.0	0.0	38.1
	Total Capital Funding - Approved	97.9	110.0	137.4	158.7	172.7	45.5	0.0	514.2
	Total Gov't Funding Approved	390.9	405.8	426.5	450.4	467.8	215.9	146.8	1,707.3
FUNDING REQUIREMENTS	Operating Funding required	227.8	235.5	240.1	249.7	258.1	266.2	285.3	1,299.4
	Pensions Costs Funding required	52.2	32.0	49.0	42.0	37.0	37.0	37.0	202.0
	Capital Funding Required	85.5	59.1	96.2	176.2	172.7	45.5	0.0	490.5
	Montreal - Ottawa (November 2014 Program)	12.4	27.2	43.0	4.4	0.0	0.0	0.0	47.4
	Sustainable Capital for future years	0.0	0.0	0.0	0.0	0.0	136.5	96.4	232.9
	Total Capital Funding required	97.9	86.3	139.2	180.6	172.7	182.0	96.4	770.8
	Total Via Gov't Funding Required	377.9	353.8	428.3	472.2	467.8	485.2	418.7	2,272.2
FUNDING DEFICIT	Operating Funding Surplus / (Deficit)	6.2	6.3	0.0	0.0	0.0	(105.8)	(138.5)	(244.3)
	Pension Costs Funding Surplus / (Deficit)	6.8	22.0	0.0	0.0	0.0	(27.0)	(37.0)	(64.0)
	Capital Funding Surplus / (Deficit)	0.0	23.7	(1.8)	(21.9)	0.0	(136.5)	(96.4)	(256.6)
	Total Funding Surplus/(deficit)	13.0	51.9	(1.8)	(21.9)	0.0	(269.3)	(272.0)	(564.9)
ADDITIONAL FUNDING REQUIRED (1)	Additional Operating Funding - Operating Deficit Before Pension	0.0	0.0	0.0	0.0	0.0	105.8	138.5	244.3
	Additional Operating Funding - Pension Plans	0.0	0.0	0.0	0.0	0.0	27.0	37.0	64.0
	Additional Capital Funding	0.0	0.0	0.0	0.0	0.0	136.5	96.4	232.9
	Total Additional Funding Requested	0.0	0.0	0.0	0.0	0.0	269.3	272.0	541.3
CAPITAL FUNDING REPROFILING	Proposed Reprofitting of Capital Funding (2)	0.0	(23.7)	1.8	21.9	0.0	0.0	0.0	23.7
	Total Capital Funding Reprofiling Requested	0.0	(23.7)	1.8	21.9	0.0	0.0	0.0	23.7

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

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

VIA RAIL CANADA INC.
2017 - 2021 CORPORATE PLAN
STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME

VIA FISCAL YEAR ENDING DECEMBER 31							
(MILLIONS OF DOLLARS)	ACTUAL 2015	ACTUAL 2016	2017	2018	PLAN 2019	2020	2021
Operating Deficit Before Government Subsidy	(280.0)	(267.5)	(289.1)	(291.7)	(295.1)	(303.2)	(322.3)
Non Funded Items:							
Depreciation, amortization, impairment and losses on disposal of property, plant and equipment and intangible assets	(83.8)	(103.5)	(83.6)	(86.7)	(90.3)	(95.8)	(100.7)
Post-employment and other employee benefits contributions in excess of expenses and remeasurements of defined benefit plans	14.8	1.2	23.1	13.9	8.9	8.9	8.9
Adjustment for accrued compensation	(0.9)	(1.9)	(1.9)	(2.0)	(2.0)	(2.1)	(2.1)
Other	0.2	(1.5)	0.0	0.0	0.0	0.0	0.0
Operating loss before funding from the Government of Canada	(353.4)	(361.3)	(351.5)	(366.3)	(378.5)	(392.1)	(416.1)
Operating funding from the Government of Canada	280.0	267.5	289.1	291.7	295.1	170.4	146.8
Amortization of deferred capital funding	82.6	102.3	81.5	84.5	88.1	93.6	98.5
Net income (loss) for the year	9.2	8.5	19.2	9.8	4.8	(128.1)	(170.9)

VIA RAIL CANADA INC.
2017 - 2021 CORPORATE PLAN
BALANCE SHEET

VIA FISCAL YEAR ENDING DECEMBER 31							
(MILLIONS OF DOLLARS)	ACTUAL 2015	ACTUAL 2016	2017	2018	PLAN 2019	2020	2021
Current assets	72.0	82.2	68.4	69.4	70.3	71.5	71.4
Long-term assets	1,285.0	1,267.2	1,325.5	1,419.7	1,502.1	1,587.4	1,583.1
TOTAL ASSETS	1,357.0	1,349.4	1,393.9	1,489.2	1,572.4	1,658.9	1,654.5
Current liabilities	155.9	162.4	153.2	156.5	159.3	294.5	471.9
Long-term liabilities	51.9	75.9	52.8	38.9	30.0	21.1	12.2
Deferred capital funding	1,263.1	1,247.1	1,304.8	1,400.8	1,485.4	1,573.8	1,571.8
TOTAL LIABILITIES	1,470.9	1,485.5	1,510.9	1,596.3	1,674.8	1,889.4	2,055.9
Share capital	9.3	9.3	9.3	9.3	9.3	9.3	9.3
Balance, beginning of year	(168.1)	(123.2)	(145.4)	(126.2)	(116.4)	(111.7)	(239.8)
Net income (loss) for the year	44.9	(22.2)	19.2	9.8	4.8	(128.1)	(170.9)
Balance, ending of year	(123.2)	(145.4)	(126.2)	(116.4)	(111.7)	(239.8)	(410.7)
SHAREHOLDER'S EQUITY (DEFICIENCY)	(113.9)	(136.1)	(116.9)	(107.1)	(102.4)	(230.5)	(401.4)
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	1,357.0	1,349.4	1,393.9	1,489.2	1,572.4	1,658.9	1,654.5

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

**VIA RAIL CANADA INC.
2017 - 2021 CORPORATE PLAN
STATEMENT OF CASH FLOWS**

VIA FISCAL YEAR ENDING DECEMBER 31							
(MILLIONS OF DOLLARS)	ACTUAL 2015	ACTUAL 2016	2017	2018	PLAN 2019	2020	2021
Operating activities							
Net income (loss) for the year	9.1	8.3	19.2	9.8	4.8	(128.1)	(170.9)
Adjustments to determine net cash from (used in) operating activities:							
Amortization of property, plant and equipment and intangible assets	83.8	103.5	83.6	86.7	90.3	95.8	100.7
Amortization of deferred capital funding	(82.6)	(102.3)	(81.5)	(84.5)	(88.1)	(93.6)	(98.5)
Post-employment and other employee benefits contributions in excess of expenses and remeasurements of defined benefit plans	(14.8)	(1.2)	(23.1)	(13.9)	(8.9)	(8.9)	(8.9)
Net change in non-cash working capital items and other minor items (operating and investment activities)	14.6	(17.3)	(3.8)	2.0	1.9	134.8	177.5
Net cash (used in) provided by operating activities							
Investment activities							
Capital funding from the Government of Canada	82.4	101.1	139.2	180.6	172.7	182.0	96.4
Change in asset renewal fund	0.4	0.0	7.4	0.4	0.0	0.0	0.0
Acquisition of property, plant and equipment and intangible assets	(97.9)	(91.0)	(141.9)	(180.9)	(172.7)	(182.0)	(96.4)
Net cash (used in) provided by investing activities	(14.7)	10.4	4.7	0.0	0.0	0.0	0.0
Cash and cash equivalents							
Increase (decrease) during the year	(4.6)	1.5	(0.9)	0.1	0.0	0.0	0.0
Balance, beginning of year	13.9	9.3	10.9	10.0	10.0	10.0	10.0
Balance, end of year	9.3	10.9	10.0	10.0	10.0	10.0	10.0

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

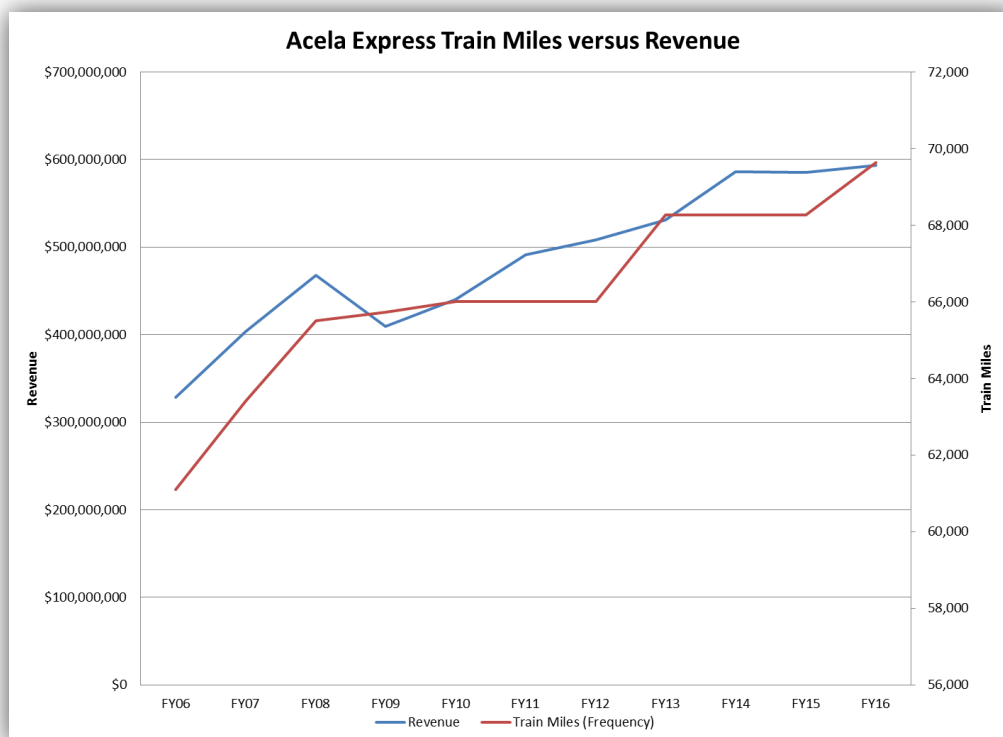
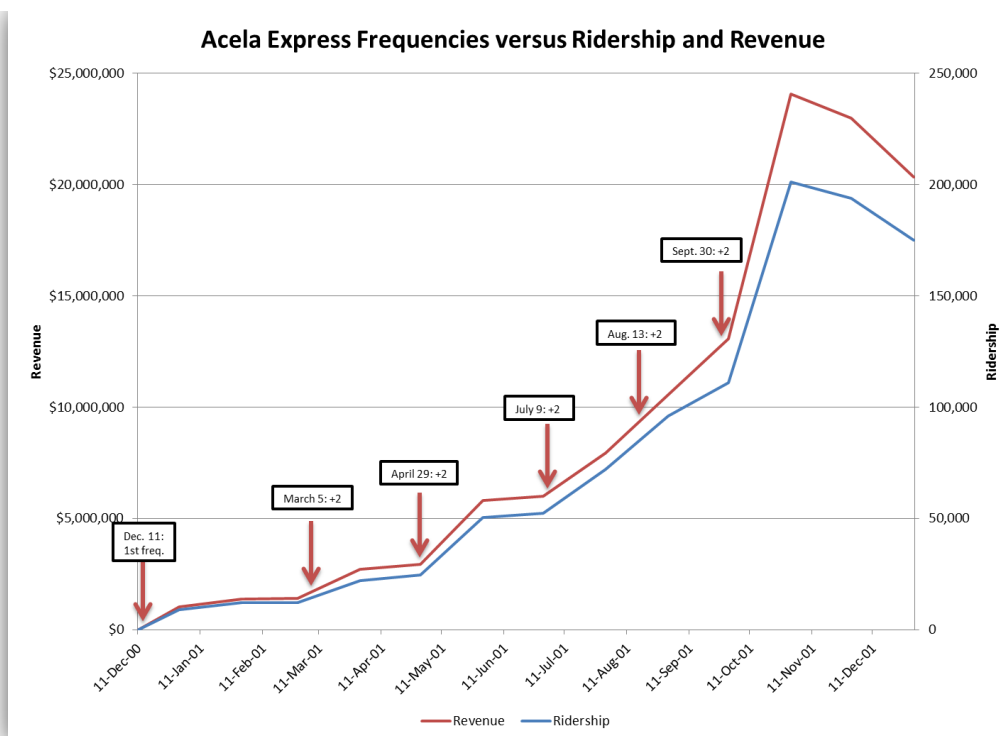
VIA RAIL CANADA INC.
2017 - 2021 CORPORATE PLAN
FUNDING REQUIREMENTS AND SOURCES

GOVERNMENT FISCAL YEAR ENDING MARCH 31									
	(MILLIONS OF DOLLARS)	ACTUAL	ACTUAL	PLAN					TOTAL
		2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022	2017-2021
APPROVED FUNDING	Operating Funding Reference Level	146.8	146.8	146.8	146.8	146.8	146.8	146.8	733.9
	Additional Operating Funding Approved	89.6	96.6	97.1	105.0	113.5	0.0	0.0	315.5
	Total Operating Funding - Approved	236.4	243.4	243.9	251.8	260.3	146.8	146.8	1,049.5
	Pension Funding Approved	55.6	47.5	0.0	0.0	0.0	0.0	0.0	0.0
	Additional Pension Funding	0.0	0.0	51.5	40.5	35.8	0.0	0.0	127.8
	Total Pension Funding - Approved	55.6	47.5	51.5	40.5	35.8	0.0	0.0	127.8
	Capital Funding Approved	78.4	63.4	127.8	162.2	175.0	0.0	0.0	60.0
	Montreal - Ottawa (November 2014 Program) (1)	13.3	40.3	33.4	0.0	0.0	0.0	0.0	60.0
	Total Capital Funding - Approved	91.7	103.7	161.2	162.2	175.0	0.0	0.0	498.4
	Total Gov't Funding Approved	383.7	394.6	456.5	454.5	471.0	146.8	146.8	1,675.6
FUNDING REQUIREMENTS	Operating Funding required	224.7	237.6	243.9	251.8	260.3	270.4	287.7	1,314.0
	Pensions Costs Funding required	49.0	25.7	51.5	40.5	35.8	37.0	37.0	201.7
	Capital Funding Required	78.4	51.6	139.6	162.2	175.0	0.0	0.0	476.8
	Montreal - Ottawa (November 2014 Program)	13.3	33.4	40.3	0.0	0.0	0.0	0.0	40.3
	Sustainable Capital for future years	0.0	0.0	0.0	0.0	0.0	162.5	95.3	257.8
	Total Capital Funding required	91.7	85.0	179.9	162.2	175.0	162.5	95.3	774.9
	Total Via Gov't Funding Required	365.5	348.3	475.2	454.5	471.0	469.9	420.0	2,290.6
FUNDING DEFICIT	Operating Funding Surplus / (Deficit)	11.7	5.7	0.0	0.0	0.0	(123.6)	(140.9)	(264.5)
	Pension Costs Funding Surplus / (Deficit)	6.6	21.8	0.0	0.0	0.0	(37.0)	(37.0)	(74.0)
	Capital Funding Surplus / (Deficit)	0.0	18.7	(18.7)	0.0	0.0	(162.5)	(95.3)	(276.5)
	Total Funding Surplus/(deficit)	18.2	46.3	(18.6)	0.0	0.0	(323.1)	(273.2)	(615.0)
ADDITIONAL FUNDING REQUIRED (1)	Additional Operating Funding - Operating Deficit Before Pension	0.0	0.0	0.0	0.0	0.0	123.6	140.9	264.5
	Additional Operating Funding - Pension Plans	0.0	0.0	0.0	0.0	0.0	37.0	37.0	74.0
	Additional Capital Funding	0.0	0.0	0.0	0.0	0.0	162.5	95.3	257.8
	Total Additional Funding Requested	0.0	0.0	0.0	0.0	0.0	323.1	273.2	596.3
CAPITAL FUNDING REPROFILING	Proposed Reprofitting of Capital Funding (2)	0.0	(18.7)	18.7	0.0	0.0	0.0	0.0	18.7
	Total Capital Funding Reprofitting Requested	0.0	(18.7)	18.7	0.0	0.0	0.0	0.0	18.7

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

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

ANNEX 2 – AMTRAK FREQUENCY VERSUS RIDERSHIP AND REVENUE



ANNEX 3 – OTP ON VIA RAIL SEGMENTS

2016		
OTP on segments owned by VIA (10 min tolerance)		OTP of Overall Trip (15 min tolerance)
Coteau – Ottawa	93.4%	75.8%
Smiths Falls – Ottawa	95.9%	75.8%
Brockville – Smiths Falls	95.2%	75.8%
Bloomfield – Windsor	98.7%	85.4%

ANNEX 4 – VIA RAIL’S FLEET PROFILE

Equipment Type and Description	Quantity	Year Built	Latest Rebuild	No. of Major Rebuilds	Age by 2020 (Years)	Deployment
Locomotives						
General Motors F-40	52	1986	2009	1	34	All Services
General Electric P-42	21	2001			19	Corridor
Total Locomotive	73					
Cars:						
Light, Rapid, Comfortable (LRC)	97	1981	2011	1	39	Corridor
Head End Power (HEP 1&2 - stainless steel heritage)	204	1947	1995	1	73	Corridor, Canadian & Regional
Renaissance (from U.K.)	106	1995	2001			Corridor & Ocean
Other	19	1954 - 2000	1994-2012			Regional
Total Cars	426				20-66	
TOTAL FLEET	499					
Total Corridor Fleet	200(40 Locos & 160 cars)					

ANNEX 5 – LAST FIVE YEARS: CORRIDOR

LAST FIVE YEARS: CORRIDOR

RIDERSHIP IS DIRECTLY AFFECTED BY OTP AND FREQUENCY - BOTH ARE UNDER HOST RAILWAYS CONTROL

- As VIA Rail reduces service, ridership is negatively affected
- This ridership is highly negatively affected by OTP deterioration
- VIA Rail's OTP is primarily determined by the host railways on which it operates
- Furthermore, service level is decided by the host railway, who determine the number of frequencies available to VIA Rail

