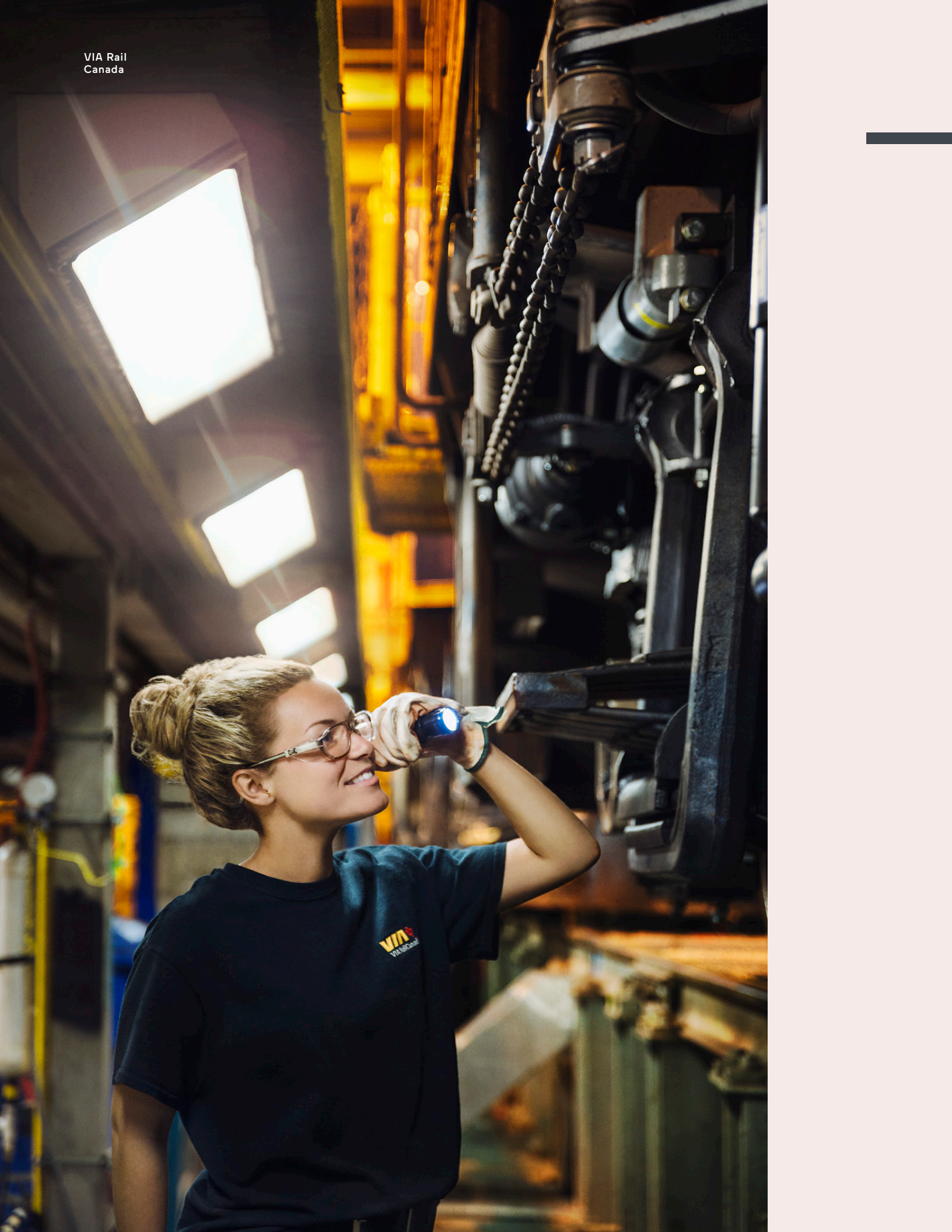


— Third Quarter Report 2020





— Management's Discussion and Analysis

1. Introduction

Management's discussion and analysis report outlines the financial results of VIA Rail for the quarter and the nine-month period ended September 30, 2020 compared with the quarter and the nine-month period ended September 30, 2019. This document should be read in conjunction with the interim condensed financial statements and notes.

Materiality

In assessing what information is to be provided in this report, management applies the materiality principle as guidance for disclosure. Management considers information material if it is probable that its omission or misstatement, judged in the surrounding circumstances, would influence decisions that VIA Rail's stakeholders make on the basis of the financial information.

Forward Looking Statement Disclosure

This Management's discussion and analysis report contains forward-looking statements which may be identified with the words "may", "likely to", "could". These statements reflect our evaluation of the information currently available and are subject to a number of risks and uncertainties referred to in the risk section of this document.

2. Corporate Overview

VIA Rail is a non-agent Crown corporation which operates Canada's national passenger rail service on behalf of the Government of Canada. The Corporation's objectives are to manage and provide a safe, efficient, reliable, and environmentally sustainable passenger rail service that meets the needs of travelers in Canada.

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

3. COVID-19 Pandemic

VIA Rail, as well as all other passenger transportation providers, has been significantly affected by the COVID-19 pandemic. The Corporation reduced its capacity by 79 per cent as demand for travel plummeted, resulting in a decrease of 83.9 per cent in revenues compared to the corresponding quarter last year.

Operating expenses for the quarter decreased in part due to the impact of the reduction in services but also as a result of cost cutting measures, such as employee layoffs and reduced pay for some employees not at work and the cancellation or delay of operating initiatives non-essential to current operations.

The cost savings will not be sufficient to offset the reduction in revenues, the Corporation is therefore still in discussion with Transport Canada to obtain additional emergency funding.

Safety of passengers and employees remains the Corporation's key priority and new health and safety measures have been implemented to address health & safety requirements. These measures include physical distancing in stations, health screening procedures for passengers boarding trains and the requirement for passengers and staff who interact with customers to wear protective face covering. Sanitizing products are distributed to passengers in key contact points and additional cleaning protocols have also been put in place on board trains, in stations, maintenance centers and offices.

4. Highlights of Financial Results and Major Key Operating Statistics

(in millions of Canadian dollars)	Quarters ended September 30				Nine-month periods ended September 30			
	2020	2019	Var \$	Var %	2020	2019	Var \$	Var %
Financial Performance								
Passenger revenues (section 5.2)	15.5	113.5	(98.0)	(86.3%)	63.9	287.5	(223.6)	(77.8%)
Other revenues	3.7	5.7	(2.0)	(35.1%)	12.0	16.9	(4.9)	(29.0%)
Total revenues	19.2	119.2	(100.0)	(83.9%)	75.9	304.4	(228.5)	(75.1%)
Operating expenses (section 5.3)	148.9	205.4	(56.5)	(27.5%)	496.4	602.3	(105.9)	(17.6%)
Operating loss before funding from the Government of Canada and income taxes (section 5.1)	(129.7)	(86.2)	(43.5)	(50.5%)	(420.5)	(297.9)	(122.6)	(41.2%)
Operating funding from the Government of Canada (section 5.1)	91.0	48.4	42.6	88.0%	315.4	207.0	108.4	52.4%
Amortization of deferred capital funding	29.8	26.3	3.5	13.3%	77.3	77.3	-	0.0%
Income tax expense	-	0.1	(0.1)	(100.0%)	0.2	0.2	-	0.0%
Net loss for the period	(8.9)	(11.6)	2.7	23.3%	(28.0)	(13.8)	(14.2)	(102.9%)
Remeasurements of defined benefit components of the pension plans and post-employment benefit plans	16.2	50.3	(34.1)	(67.8%)	(40.3)	(57.3)	17.0	29.7%
Comprehensive income (loss) for the period	7.3	38.7	(31.4)	(81.1%)	(68.3)	(71.1)	2.8	3.9%
Financial Position and Cash Flows								
Total assets (section 5.4)	1,684.6	1,597.9	86.7	5.4%	1,684.6	1,597.9	86.7	5.4%
Total liabilities and deferred capital funding (section 5.4)	1,889.8	1,734.8	155.0	8.9%	1,889.8	1,734.8	155.0	8.9%
Cash (section 5.5)	15.7	10.7	5.0	46.7%	15.7	10.7	5.0	46.7%
Net cash (used in) operating activities (section 5.5)	(35.4)	(26.4)	(9.0)	(34.1%)	(40.1)	(23.7)	(16.4)	(69.2%)
Net cash provided by (used in) investing activities (section 5.5)	15.9	(3.8)	19.7	518.4%	54.5	21.5	33.0	153.5%
Net cash (used in) financing activities (section 5.5)	(0.7)	(0.6)	(0.1)	(16.7%)	(2.1)	(1.9)	(0.2)	(10.5%)
Capital funding (section 5.5)	46.8	43.3	3.5	8.1%	187.0	190.0	(3.0)	(1.6%)
Key Operating Statistics								
Train-miles operated (in thousands)	588	1,761	(1,173)	(66.6%)	2,104	5,192	(3,088)	(59.5%)
Seat-miles (in millions)	98	465	(367)	(78.9%)	397	1,331	(934)	(70.2%)
Passengers-miles (in millions)	50	308	(258)	(83.8%)	187	788	(601)	(76.3%)
Passengers (in thousands)	246	1,364	(1,118)	(82.0%)	949	3,712	(2,763)	(74.4%)
Average passenger load factor (%)	51	66	(15)	(22.7%)	47	59	(12)	(20.3%)
RASM (revenue per available seat-mile) (in cents) - Note 1	15.82	24.41	(8.59)	(35.2%)	16.10	21.60	(5.50)	(25.5%)
CASM (cost per available seat-mile) (in cents) - Note 1	151.94	44.17	107.77	244.0%	125.04	45.25	79.79	176.3%
Cost recovery ratio (%) - Note 1	12.9	58.0	(45.1)	(77.8%)	15.3	50.5	(35.2)	(69.7%)
Operating deficit per passenger-mile (in cents)	182.7	15.7	167.0	1,063.7%	168.5	26.3	142.2	540.7%
On-time Performance (%)	51	63	(12)	(19.0%)	67	66	1	1.5%

(Amounts in bracket represent decreases)

Note 1: based on funded results

Financial Highlights

Third quarter

- Total revenues decreased by 83.9 per cent due to the decreased ridership and associated service adjustments caused by the impact of COVID-19.
- Operating expenses decreased by 27.5 per cent primarily due to the lower costs for train operations and fuel, as well as compensation costs, reflecting the service adjustments and employee layoffs made during the quarter.
- The operating loss increased by 50.5 per cent due to a higher decrease in revenues than the decrease in operating expenses.
- Operating funding increased by 88.0 per cent, reflecting the higher amounts required for funded activities.
- VIA Rail generated a comprehensive income of \$7.3 million compared to a comprehensive income of \$38.7 million in 2019. The variation is due to the remeasurements of the defined benefit components of the pension plans and post-employment benefit plans.

Nine-month period

- Total revenues decreased by 75.1 per cent also due to lower ridership in all train services caused by the impact of COVID-19.
- Operating expenses decreased by 17.6 per cent, reflecting the decrease in capacity deployed since the end of the first quarter of 2020.
- The operating loss increased by 41.2 per cent because the decrease in revenues was greater than the decrease in operating expenses.
- Operating funding increased by 52.4 per cent, reflecting the higher amounts required for funded activities.
- VIA Rail generated a comprehensive loss of \$68.3 million compared to a comprehensive loss of \$71.1 million in 2019. The variation is due to the remeasurements of the defined benefit components of the pension plans and post-employment benefit plans.

All key operating statistics were negatively impacted during the third quarter and on a cumulative basis by the events described. On-time performance declined during the quarter, due mainly to work on third party infrastructure which resulted in slow orders and delays, but remains, on a year-to-date basis, still in line with last year's level.

5. Analysis of Financial Results

5.1 Comparison of IFRS and Funded Operating Results

(in millions of Canadian dollars)	Quarters ended September 30				Nine-month periods ended September 30			
	2020	2019	Var \$	Var %	2020	2019	Var \$	Var %
Operating loss on a funded basis	(91.0)	(48.4)	(42.6)	(88.0%)	(315.4)	(207.0)	(108.4)	(52.4%)
NON-FUNDED ADJUSTMENT TO REVENUES								
Adjustment for VIA Préférence points and other	0.4	0.1	0.3	300.0%	0.7	(0.3)	1.0	333.3%
NON-FUNDED ADJUSTMENTS TO EXPENSES								
Pension and other employee future benefits	(6.5)	(3.6)	(2.9)	(80.6%)	(19.1)	(9.4)	(9.7)	(103.2%)
Depreciation of property, plant and equipment, depreciation of right-of-use assets, amortization of intangible assets, impairment and loss on disposal	(30.9)	(27.2)	(3.7)	(13.6%)	(80.4)	(79.8)	(0.6)	(0.8%)
Other provisions for non-cash items	(1.7)	(7.1)	5.4	(76.1%)	(6.3)	(1.4)	(4.9)	(350.0%)
Total non-funded adjustments to expenses	(39.1)	(37.9)	(1.2)	(3.2%)	(105.8)	(90.6)	(15.2)	(16.8%)
Total items not requiring funds from operations	(38.7)	(37.8)	(0.9)	(2.4%)	(105.1)	(90.9)	(14.2)	(15.6%)
Operating loss under IFRS	(129.7)	(86.2)	(43.5)	(50.5%)	(420.5)	(297.9)	(122.6)	(41.2%)
Operating funding from the Government of Canada	91.0	48.4	42.6	88.0%	315.4	207.0	108.4	52.4%
Amortization of deferred capital funding	29.8	26.3	3.5	13.3%	77.3	77.3	-	0.0%
Net loss before income taxes	(8.9)	(11.5)	2.6	22.6%	(27.8)	(13.6)	(14.2)	(104.4%)
Income tax expense	-	0.1	(0.1)	100.0%	0.2	0.2	-	0.0%
Net loss under IFRS for the period	(8.9)	(11.6)	2.7	23.3%	(28.0)	(13.8)	(14.2)	(102.9%)
Remeasurements of the defined benefit component of the pension plans and post-employment benefit plans	16.2	50.3	(34.1)	(67.8%)	(40.3)	(57.3)	17.0	29.7%
Comprehensive income (loss) for the period	7.3	38.7	(31.4)	(81.1%)	(68.3)	(71.1)	2.8	3.9%

(Amounts in bracket represent decreases)

Net loss under IFRS for the quarter:

Net loss of \$8.9 million this quarter, compared to a net loss of \$11.6 million last year, representing an improvement of \$2.7 million mainly due to:

- Higher government funding received during the quarter (\$42.6 million) as a consequence of:
- Higher operating loss (\$43.5 million), attributable to lower revenues of \$100.0 million partly offset by lower expenses of \$56.5 million.
- Higher amortization of deferred capital funding (\$3.5 million).

Net loss under IFRS for the nine-month period:

Net loss of \$28.0 million for the nine-month period, compared to a net loss of \$13.8 million last year, representing a deterioration of \$14.2 million mainly due to:

- Higher operating loss (\$122.6 million), attributable to lower revenues of \$228.5 million partly offset by lower expenses of \$105.9 million.
- Higher government funding received during the nine-month period (\$108.4 million).

Comprehensive income of \$7.3 million in the third quarter of 2020 and comprehensive loss of \$68.3 million for the nine-month period ended September 30, 2020 include the following:

Remeasurement of defined benefit component of the pension plans and post-employment benefit plans is composed of quarterly non-cash remeasurements resulting from changes in actuarial assumptions and the return on pension plan assets.

Remeasurement of the defined benefit component of the pension plans and post-employment benefit plans of \$16.2 million in the third quarter of 2020 is due to an actuarial loss of \$36.7 million on the defined benefit obligation arising from a 10 basis point decrease in the discount rate since June 30, 2020 and to a remeasurement gain of \$52.9 million resulting from higher actual rate of return on plan assets.

The remeasurement of the defined benefit component of the pension plans and post-employment benefit plans of (\$40.3) million for the nine-month period is due to the decrease in discount rate used to determine the defined benefit obligation (2.70 per cent as at September 30, 2020 compare to 3.10 per cent as at December 31, 2019), which resulted in an actuarial loss of \$143.8 million, partly offset by a return on plan assets of \$104.9 million during the period. The remeasurement also includes an actuarial loss of \$1.4 million due to the decrease in discount rate used to determine the post-employment benefit obligation (2.80 per cent as at September 30, 2020 compared to 3.10 per cent as at December 31, 2019).

Comprehensive income of \$38.7 million in the third quarter of 2019 and comprehensive loss of \$71.1 million for the nine-month period ended September 30, 2019 include the following:

The remeasurement of the defined benefit component of the pension plans of \$50.3 million for the third quarter of 2019 is due to an actuarial gain of \$29.0 million arising from a 10 basis point increase in the discount rate since June 30, 2019 and to a remeasurement gain of \$21.3 million resulting from higher return on assets.

The remeasurement of the defined benefit component of the pension plans of (\$57.3) million for the nine-month period ended September 30, 2019 was due to the decrease of the discount rate used to determine the defined benefit obligation (3.00 per cent as at September 30, 2019 compared to 3.90 per cent as at December 31, 2018) which resulted in an actuarial loss of \$270.4 million for the period, partly offset by a return on plan assets of \$217.0 million generated during the period. The remeasurement also includes an actuarial loss of \$3.9 million due to the decrease in discount rate used to determine the post-employment obligation (3.00 per cent as at September 30, 2019 compared to 4.00 per cent as at December 31, 2018).

5.2 Revenues

(in millions of Canadian dollars)	Quarters ended September 30				Nine-month periods ended September 30			
	2020	2019	Var \$	Var %	2020	2019	Var \$	Var %
Passenger revenues								
Corridor East	12.3	68.1	(55.8)	(81.9%)	44.1	186.5	(142.4)	(76.4%)
Southwestern Ontario (SWO)	2.3	12.9	(10.6)	(82.2%)	10.5	37.6	(27.1)	(72.1%)
Québec City – Windsor corridor	14.6	81.0	(66.4)	(82.0%)	54.6	224.1	(169.5)	(75.6%)
Ocean	-	4.9	(4.9)	(100.0%)	1.1	9.2	(8.1)	(88.0%)
Canadian	-	23.8	(23.8)	(100.0%)	3.1	44.5	(41.4)	(93.0%)
Regional services	0.4	2.1	(1.7)	(81.0%)	1.0	3.6	(2.6)	(72.2%)
Non corridor	0.4	30.8	(30.4)	(98.7%)	5.2	57.3	(52.1)	(90.9%)
Other	0.5	1.7	(1.2)	(70.6%)	4.1	6.1	(2.0)	(32.8%)
Total passenger revenues under IFRS	15.5	113.5	(98.0)	(86.3%)	63.9	287.5	(223.6)	(77.8%)
Other revenues	3.7	5.7	(2.0)	(35.1%)	12.0	16.9	(4.9)	(29.0%)
Total revenues under IFRS	19.2	119.2	(100.0)	(83.9%)	75.9	304.4	(228.5)	(75.1%)
Adjustment for VIA Préférence points (non-funded) and other	(0.4)	(0.1)	(0.3)	(300.0%)	(0.7)	0.3	(1.0)	(333.3%)
TOTAL FUNDED REVENUES	18.8	119.1	(100.3)	(84.2%)	75.2	304.7	(229.5)	(75.3%)

(Amounts in bracket represent decreases)

Passengers (in thousands)	Quarters ended September 30				Nine-month periods ended September 30			
	2020	2019	Var #	Var %	2020	2019	Var #	Var %
Passengers								
Corridor East	185.6	980.7	(795.1)	(81.1%)	673.6	2,678.0	(2,004.4)	(74.8%)
Southwestern Ontario (SWO)	50.4	295.7	(245.3)	(83.0%)	240.1	856.5	(616.4)	(72.0%)
Québec City – Windsor corridor	236.0	1,276.4	(1,040.4)	(81.5%)	913.7	3,534.5	(2,620.8)	(74.1%)
Ocean	-	29.5	(29.5)	(100.0%)	8.2	61.4	(53.2)	(86.6%)
Canadian	-	34.0	(34.0)	(100.0%)	5.7	66.1	(60.4)	(91.4%)
Regional services	10.0	23.9	(13.9)	(58.2%)	21.6	50.0	(28.4)	(56.8%)
Non corridor	10.0	87.4	(77.4)	(88.6%)	35.5	177.5	(142.0)	(80.0%)
TOTAL PASSENGERS	246.0	1,363.8	(1,117.8)	(82.0%)	949.2	3,712.0	(2,762.8)	(74.4%)

(Amounts in bracket represent decreases)

Passenger revenues

Passenger revenues have decreased by \$98.0 million (86.3 per cent) during the quarter and have decreased by \$223.6 million (77.8 per cent) for the nine-month period. These decreases are mainly attributable to events that started during the first quarter of 2020.

On February 6, 2020, the blockades forced VIA Rail to cancel all its services on the network except for the Sudbury-White river and Churchill-The Pas routes. Most services resumed at the end of February and in early March, except for the service on the Prince Rupert-Prince George-Jasper route which resumed on July 5.

On March 11, 2020, the World Health Organization characterized the outbreak of a strain of the novel coronavirus ("COVID-19") as a pandemic which has resulted in a series of public health and emergency measures that have been put in place to combat the spread of the virus. On March 12, 2020, in response to the COVID-19 outbreak, VIA Rail enforced special health and safety measures for its passengers and employees, and subsequently reduced service levels for most major train services.

Québec City – Windsor corridor

Revenues and ridership for the quarter and the nine-month period were directly impacted by the COVID-19 pandemic.

Corridor service was partially reduced to 50 per cent on March 17, with further reductions on March 23 (operations reduced to 33 per cent and further reduced to 18 per cent on March 31), and gradually increased back to 28 per cent during the second quarter and up to 46 per cent during the third quarter.

Revenues for the quarter have decreased by \$66.4 million (82.0 per cent) and have decreased by \$169.5 million (75.6 per cent) for the nine-month period. These decreases stem in most part from lower ridership of 81.5 per cent for the quarter and of 74.1 per cent on a cumulative basis.

5.2 Revenues (cont'd)

Non corridor

Ocean

No revenues were generated during the third quarter on this service since it ceased operating in March 2020.

The service was initially shut down on February 14 as a result of the blockades and resumed on February 28. It was shut down again on March 13 and on May 6, the suspension of the service has been extended indefinitely because of the COVID-19 pandemic and the travel restrictions in New Brunswick.

Revenues for the quarter have consequently decreased by \$4.9 million (100.0 per cent) and by \$8.1 million (88.0 per cent) for the nine-month period. Ridership also decreased by 100.0 per cent for the quarter and by 86.6 per cent for the nine-month period.

Canadian

No revenues were generated during the third quarter on this service since it also ceased operating in March 2020.

The service was initially shut down on February 12 as a result of the blockades and resumed on March 4. It was shut down again on March 13 because of the COVID-19 pandemic. On May 6, in light of the continued expansion of travel limitations as well as the physical distancing and isolation measures, the service was suspended but is scheduled to resume on December 11, 2020.

Revenues for the quarter are consequently \$23.8 million (100.0 per cent) lower than last year and have decreased by \$41.4 million (93.0 per cent) for the nine-month period. Ridership has decreased by 100.0 per cent for the quarter and by 91.4 per cent for the nine-month period.

Regional services

Revenues on Regional services have decreased by \$1.7 million (81.0 per cent) for the quarter, and by \$2.6 million (72.2 per cent) for the nine-month period.

The Jasper to Prince-Rupert service was cancelled on February 14 due to the blockades and resumed on July 5.

The Winnipeg to Churchill service was interrupted South of The Pas between February 15 and February 28 as a result of the blockades. Since March 24 and as a result of the COVID-19 pandemic, the service has been operating with Economy class only and remains the only VIA Rail train service operating on a regular schedule.

The Montreal-Jonquière and Montreal-Senneterre services were interrupted between February 14 and March 4 due to the February blockades. Together with the Sudbury-White River service (which was not affected by the February blockades), they have been operating at one third of their regular frequencies since March 23 because of the COVID-19 pandemic.

Other revenues

Other revenues for the quarter have decreased by \$2.0 million (35.1 per cent) and by \$4.9 million (29.0 per cent) for the nine-month period. These decreases are attributable to lower station revenues due to the loss of tenants in some stations and to rent relief provided to some tenants as part of the Canada Emergency Commercial Rent Assistance (CECRA) program, as well as to lower third-party revenues at the Toronto Maintenance Center.

5.3 Operating Expenses

(in millions of Canadian dollars)	Quarters ended September 30				Nine-month periods ended September 30			
	2020	2019	Var \$	Var %	2020	2019	Var \$	Var %
Compensation and employee benefits	69.6	89.1	(19.5)	(21.9%)	228.1	257.6	(29.5)	(11.5%)
Train operations and fuel	13.9	37.5	(23.6)	(62.9%)	52.5	111.9	(59.4)	(53.1%)
Stations and property	8.3	8.6	(0.3)	(3.5%)	28.7	29.2	(0.5)	(1.7%)
Marketing and sales	3.3	9.5	(6.2)	(65.3%)	13.1	26.5	(13.4)	(50.6%)
Maintenance material	6.8	9.2	(2.4)	(26.1%)	24.0	28.8	(4.8)	(16.7%)
Professional services	1.3	3.6	(2.3)	(63.9%)	7.0	13.6	(6.6)	(48.5%)
Telecommunications	4.6	5.9	(1.3)	(22.0%)	16.3	16.5	(0.2)	(1.2%)
Depreciation and amortization	24.5	25.6	(1.1)	(4.3%)	73.6	77.7	(4.1)	(5.3%)
Impairment and loss on disposal of property, plant and equipment and intangible assets	6.4	1.6	4.8	300.0%	6.8	2.1	4.7	223.8%
Unrealized (net gain) net loss on derivative financial instruments	(1.2)	1.6	(2.8)	(175.0%)	8.7	(1.9)	10.6	557.9%
Other	11.4	13.2	(1.8)	(13.6%)	37.6	40.3	(2.7)	(6.7%)
Total operating expenses under IFRS	148.9	205.4	(56.5)	(27.5%)	496.4	602.3	(105.9)	(17.6%)
Non-funded adjustments (section 4.1)	(39.1)	(37.9)	(1.2)	(3.2%)	(105.8)	(90.6)	(15.2)	(16.8%)
Total funded expenses	109.8	167.5	(57.7)	(34.4%)	390.6	511.7	(121.1)	(23.7%)

(Amounts in bracket represent decreases)

(Explanations are provided for expenses for which quarterly variances are of \$3 million or more, or 10 per cent or more)

The Corporation, in its objective to reduce costs and minimize the impact of the pandemic on its revenues and deficit, has implemented various cost saving measures including:

- The reduction of certain of its operating expenses in proportion to the level of operations,
- Employee layoffs and reduction of compensation for some employees not working,
- Reduction of publicity and advertising activities,
- Reduction of services in stations as well as
- Reduction of administrative costs and the postponement of non-essential initiatives.

VIA Rail's cost structure includes a substantial portion of fixed costs which cannot easily be reduced on a short-term basis, the Corporation is therefore constantly looking for different ways to maintain variable costs as the lowest level possible.

5.3 Operating Expenses (cont'd)

Total operating expenses decreased by \$56.5 million (27.5 per cent) for the quarter, and by \$105.9 million (17.6 per cent) for the nine-month period. The primary variances are:

Compensation and employee benefits

The expenses decreased by \$19.5 million (21.9 per cent) during the quarter and by \$29.5 million (11.5 per cent) for the nine-month period. The decreases result mainly from the reduced level of operations as a consequence of the COVID-19 pandemic, as well as from employee layoffs and reduction of pay for some employees not at work.

Train operations and fuel

The expenses decreased by \$23.6 million (62.9 per cent) during the quarter and by \$59.4 million (53.1 per cent) for the nine-month period. The decreases result mainly from the reduced level of operations as a consequence of the COVID-19 pandemic.

Marketing and sales

The expenses decreased by \$6.2 million (65.3 per cent) during the quarter, and by \$13.4 million (50.6 per cent) for the nine-month period as a consequence of lower credit card commissions as less sales were generated given the reduced level of frequencies as well as to the suspension of advertising campaigns.

Maintenance material

The expenses have decreased by \$2.4 million (26.1 per cent) for the quarter, and by \$4.8 million (16.7 per cent) for the nine-month period. The decrease reflects the lower utilization of equipment with the reduced level of services.

Professional services

The expenses decreased by \$2.3 million (63.9 per cent) during the quarter and by \$6.6 million (48.5 per cent) for the nine-month period. These decreases are attributable to the fact that because of the COVID-19 pandemic, various initiatives requiring consulting services non-essential for current operations have been postponed or cancelled.

Impairment and loss on disposal of property, plant and equipment and intangible assets

The expenses increased by \$4.8 million (300.0 per cent) during the quarter and have increased by \$4.7 million (223.8 per cent) for the nine-month period.

The increases for the quarter and the nine-month period are due to the fact that, as part of capital projects, replaced assets with remaining book value were written off.

Unrealized (net gain) net loss on derivative financial instruments

Net gain of \$1.2 million for the quarter and net loss of \$8.7 million for the nine-month period compared to a net loss of \$1.6 million for the quarter ended September 30, 2019 and a net gain of \$1.9 million for the nine-month period. Net loss for the cumulative period ending September 30, 2020 reflects the fact that market fuel prices are lower than contract prices, explaining the loss of \$8.7 million, however market prices have increased compared to what they were as at June 30, 2020 justifying the gain during the third quarter.

5.4 Financial Position

(in millions of Canadian dollars)	September 30, 2020	December 31, 2019	Var \$	Var %
ASSETS				
Current assets	102.5	128.4	(25.9)	(20.2%)
Advance on contract	58.3	63.6	(5.3)	(8.3%)
Property, plant and equipment	1,152.7	1,023.2	129.5	12.7%
Right-of-use assets	29.7	32.3	(2.6)	(8.0%)
Intangible assets	337.3	345.2	(7.9)	(2.3%)
Other	0.9	0.8	0.1	12.5%
Employee benefit assets	3.2	4.4	(1.2)	(27.3%)
Total assets	1,684.6	1,597.9	86.7	5.4%
LIABILITIES				
Current liabilities	191.6	209.2	(17.6)	(8.4%)
Other payables	16.2	9.4	6.8	72.3%
Lease liabilities	28.3	30.3	(2.0)	(6.6%)
Employee benefit liabilities	137.0	78.9	58.1	73.6%
Total liabilities	373.1	327.8	45.3	13.8%
Deferred capital funding	1,516.7	1,407.0	109.7	7.8%
Share capital	9.3	9.3	-	0.0%
Accumulated deficit, beginning of period	(146.2)	(94.9)	(51.3)	(54.1%)
Net loss	(28.0)	(10.9)	(17.1)	(156.9%)
Other comprehensive loss	(40.3)	(40.4)	0.1	0.2%
Accumulated deficit, end of period	(214.5)	(146.2)	(68.3)	(46.7%)
Total liabilities and shareholder's deficit	1,684.6	1,597.9	86.7	5.4%

(Amounts in bracket represent decreases)

The main changes in the Statement of Financial Position result from the following major elements:

Assets

Total assets have increased by \$86.7 million due mainly to acquisitions of property, plant and equipment partly offset by lower current assets mostly due to lower amount receivable from the Government of Canada and lower advance on contract due to an amount transferred in work in progress.

Liabilities and deferred capital funding

Total liabilities have increased by \$45.3 million mainly due to an increase in employee benefit liabilities by \$58.1 million because of the decrease in discount rates. Deferred capital funding has also increased by \$109.7 million due to capital investments.

5.5 Liquidity, Cash Flows and Capital Investments

Liquidity and cash flows

(in millions of Canadian dollars)	Quarters ended September 30				Nine-month periods ended September 30			
	2020	2019	Var \$	Var %	2020	2019	Var \$	Var %
Balance, beginning of period	35.9	41.5	(5.6)	(13.5%)	3.4	14.8	(11.4)	(77.0%)
Net cash (used in) operating activities	(35.4)	(26.4)	(9.0)	(34.1%)	(40.1)	(23.7)	(16.4)	(69.2%)
Net cash provided by (used in) investing activities	15.9	(3.8)	19.7	518.4%	54.5	21.5	33.0	153.5%
Net cash (used in) financing activities	(0.7)	(0.6)	(0.1)	(16.7%)	(2.1)	(1.9)	(0.2)	(10.5%)
Balance, end of period	15.7	10.7	5.0	46.7%	15.7	10.7	5.0	46.7%

(Amounts in bracket represent decreases)

Operating activities

Net cash decreased by \$9.0 million (34.1 per cent) for the quarter and by \$16.4 million (69.2 per cent) for the nine-month period. The decrease for the quarter is mainly due to the variance of (\$32.6) million in working capital items, as shown in Note 17 of the interim condensed financial statements. The decrease for the nine-month period is also mainly due to the variance of (\$42.5) million in working capital items.

Investing activities

Net cash increased by \$19.7 million for the quarter and by \$33.0 million for the nine-month period. These increases are mainly due to the higher amount of government funding received during the quarter and the nine-month period than the amount of acquisition of property, plant and equipment and intangible assets.

Financing activities

Net cash remained stable for the quarter and for the nine-month period compared to previous year. The application of IFRS 16 as at January 1, 2019 provide comparable figures for the year 2020.

Funded capital investments

Property, plant and equipment and intangible assets totaled to \$1,490.0 million as at September 30, 2020, which is an increase of \$121.6 million compared to the balance as at December 31, 2019.

Funded capital investments of \$187.0 million were invested during the nine-month period.

They exclude an amount of \$6.8 million which is not payable now and will therefore be requested to the Government of Canada in the coming years (refer to note 17 of the interim condensed financial statements). Total investments for the year include an amount of \$2.5 million relating to an advance on contract which was received during the period and will be transferred to property, plant and equipment in future years.

(in millions of Canadian dollars)	Quarters ended September 30				Nine-month periods ended September 30			
	2020	2019	Var \$	Var %	2020	2019	Var \$	Var %
Equipment	6.0	11.0	(5.0)	(45.5%)	21.9	33.6	(11.7)	(34.8%)
Infrastructure	2.2	3.9	(1.7)	(43.6%)	6.2	8.0	(1.8)	(22.5%)
Information technology	3.3	2.9	0.4	13.8%	11.4	12.4	(1.0)	(8.1%)
Stations	4.7	8.3	(3.6)	(43.4%)	13.8	14.8	(1.0)	(6.8%)
Fleet Replacement Program	29.5	4.0	25.5	637.5%	127.4	9.0	118.4	1,315.6%
Other	1.1	3.4	(2.3)	(67.6%)	3.8	8.4	(4.6)	(54.8%)
Capital investments	46.8	33.5	13.3	39.7%	184.5	86.2	98.3	114.0%
Advance on contract – Fleet Replacement Program	-	9.8	(9.8)	(100.0%)	2.5	103.8	(101.3)	(97.6%)
Total	46.8	43.3	3.5	8.1%	187.0	190.0	(3.0)	(1.6%)

(Amounts in bracket represent decreases)

The most significant investments made during the quarter were in equipment projects such as the Fleet Replacement Program as well as the HEP long haul and Corridor equipment rebuild program.

6. Results compared to the 2019-2023 Corporate Plan ⁽¹⁾

(1): The Corporate plan provides information on funded activities, therefore comparison between actual and planned results are based on funded activities.

Although the Corporation is working towards achieving the goals and strategies identified in its corporate plan, the financial results of the quarter differ from the plan as a result of the impact of the February blockades and the COVID-19 pandemic, mostly due to lower revenues reflecting the sharp decrease in travel and the associated reductions in capacity.



In terms of capital expenditures, work progresses on the major strategic projects identified in the plan such as the Fleet Replacement Program, rolling equipment modernisation and station upgrades.

7. Risk Analysis

This section highlights VIA Rail's key risks which may have potential impact on the Corporation's financial results and provides information on risks for which the trend or status has changed compared to the status as at December 31, 2019.

This section must be read in conjunction with the risk section of the Management Discussion and Analysis as at December 31, 2019, included in the 2019 Annual Report.

The COVID-19 pandemic has not only significantly affected VIA Rail's operations during the third quarter and nine-month period, it also has an impact on the following risks.

Nature of Risk	Trend	Current Situation
Government and Strategy		
<p>VIA Rail has limited powers as a non-agent Crown Corporation and is dependent on annual government budgetary allocations to fund its operations, capital and pension obligations.</p> <p>Insufficient funding constitutes a risk in the efficient delivery of its services, as well as in the planning and execution of its medium-to-long term strategies.</p>		<p>VIA Rail received, in July 2020, confirmation of funding envelopes for operations, capital and pension costs for the next five years.</p> <p>However, the COVID-19 pandemic and February 2020 blockades have significantly impacted VIA Rail's financial results, and with a second threat of a second wave of the coronavirus, current confirmed funding levels will not be sufficient to offset the potential operating deficit. Significant additional funding will be required, and VIA Rail is in discussion with Transport Canada representatives to address the additional funding.</p>
Revenue generation		
<p>Failure to meet the Corporation's revenue plan can cause the funding to be insufficient and lead to cost/service reductions.</p> <p>Current revenue challenges include:</p> <ul style="list-style-type: none"> ○ Deterioration of on-time performance ○ Infrastructure access challenges (freight congestion, speed issues, blockades) ○ Reduced capacity due to aging fleet ○ Competition ○ Deteriorating economic environment (recession or other decisions to limit travel). 		<p>VIA Rail's service levels have been dramatically reduced as a result of the COVID-19 pandemic with its impact on travel and social distancing requirements. VIA Rail's current service levels represent approximately 41 per cent of normal levels, and with very low ridership, revenues are significantly lower than normal. Should the situation sustain in the future months, the revenue plan will not be achieved, and even with cost containment measures additional funding will be required to compensate for lost revenues.</p>



Increasing





Stable



Decreasing

7. Risk Analysis (cont'd)

Nature of Risk	Trend	Current Situation
Equipment quality, availability and reliability		
<p>VIA Rail's equipment is aging, and its reliability has deteriorated in the past few years, resulting in delays and additional operating costs.</p> <p>Maintenance costs could increase significantly in upcoming years until a new fleet is introduced as reliability of the aging fleet may continue to deteriorate.</p>		<p>The COVID-19 pandemic has impacted the production schedule of the Corridor Fleet replacement and the refurbishment of our HEP equipment as part of our Heritage Program.</p> <p>These delays could result in additional costs as well as issues related to the availability of the equipment and potential impact on our available capacity.</p> <p>Management is working with suppliers involved in the various projects to mitigate the risks and ensure delivery timelines are met whenever possible and that potential delays will be minimal.</p>
Costs influenced by external factors		
<p>Elements exist outside the Corporation's control such as harsh weather and financial and commodity market conditions that can have an adverse impact on costs such as fuel, equipment maintenance and pension costs. Failure to meet the budgeted costs can cause funding to be insufficient and lead to service reductions.</p>		<p>As a result of the COVID-19 pandemic, capital market developments year to date have negatively impacted the financial position of defined benefit pension plans, with absent changes in pension funding regulation, is likely to result in an increase in pension costs in future years, subject to future market developments.</p>



Increasing



Stable



Decreasing

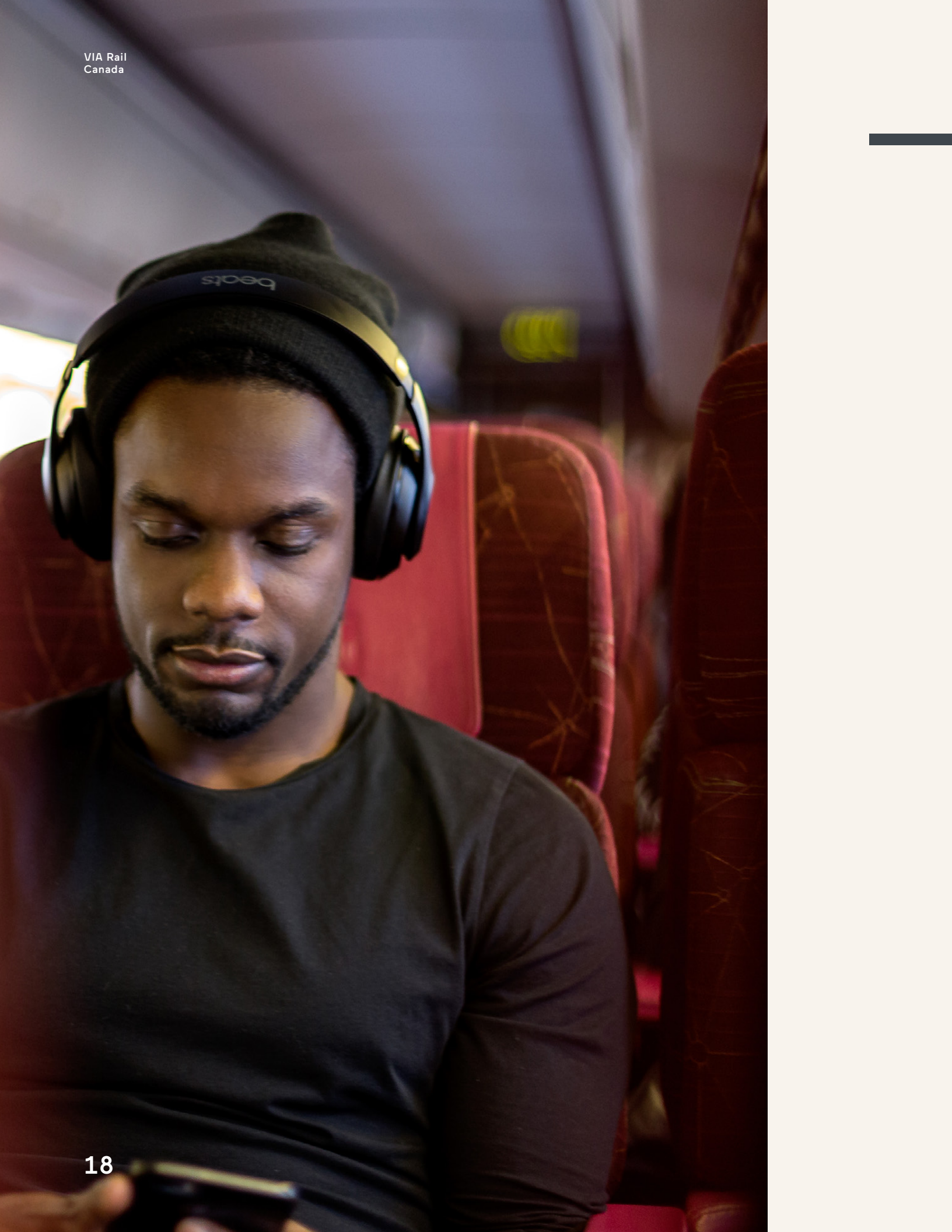
8. Outlook

The results of the third quarter have been, just as those of the previous quarter, greatly impacted by the COVID-19 pandemic and have significantly deteriorated compared to last year.

The reduction of service levels on the Corridor, and the suspension of service on the *Canadian* (until December 11, 2020) and on the *Ocean* (indefinitely), as well as the cost reduction measures management has put in place have generated cost savings, however the revenue loss is so significant that it is not offset by the savings in expenses.

The situation with regards to the COVID-19 pandemic, and the emergence of a second wave of the pandemic, is such that it is still difficult to assess when operations will return to more normal levels. The future revenue potential is currently unknown and will be based on the ability to have both essential and non-essential travel and the level of confidence travelers have regarding the safety of train travel. It is currently most probable that the 2020 and 2021 financial results will be well below planned levels and those achieved in 2019, resulting in additional funding requirements.

In the meantime, management maintains its focus on minimizing operating costs with measures such as temporarily laying off a portion of its workforce and cancelling/delaying non-essential operational initiatives. Major strategic projects such as the Fleet Replacement Program, Heritage Program and the new reservation system have been maintained. Management continues to be in close contact with the Government of Canada to assess the situation and identify additional funding options during this unprecedented situation.



— Interim Condensed Financial Statements

Management's Responsibility Statement

Quarter ended September 30, 2020

Management of the Corporation is responsible for the preparation and fair presentation of these quarterly financial statements in accordance with the Treasury Board of Canada Standard on Quarterly Financial Reports for Crown Corporations, and for such internal controls as management determines are necessary to enable the presentation of quarterly financial statements that are free from material misstatements.

Management is also responsible for ensuring all other information in this quarterly financial report is consistent, where appropriate, with the quarterly financial statements.

Based on our knowledge, these unaudited quarterly financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of the Corporation, as at the date of and for the periods presented in the quarterly financial statements.



Cynthia Garneau

President and Chief Executive Officer



Patricia Jasmin, CPA, CA

Chief Financial Officer

Montréal, Canada
November 20, 2020

Interim Condensed Financial Statements

Statement of Financial Position

(in thousands of Canadian dollars)	September 30, 2020 (unaudited)	December 31, 2019 (audited)
CURRENT ASSETS		
Cash	\$ 15,679	\$ 3,355
Trade and other receivables (Note 7)	47,670	87,808
Other assets	7,755	5,193
Derivative financial instruments (Note 8)	-	834
Materials	30,303	30,082
Asset Renewal Fund	1,096	1,096
	102,503	128,368
NON-CURRENT ASSETS		
Advance on contract	58,282	63,582
Property, plant and equipment (Note 9)	1,152,746	1,023,194
Right-of-use assets (Note 12)	29,648	32,291
Intangible assets (Note 10)	337,307	345,152
Asset Renewal Fund	873	873
Employee benefit assets (Note 15)	3,191	4,435
	1,582,047	1,469,527
Total Assets	\$ 1,684,550	\$ 1,597,895
CURRENT LIABILITIES		
Trade and other payables (Note 11)	\$ 106,644	\$ 158,593
Deferred capital funding from the Government of Canada	42,444	-
Lease liabilities (Note 12)	2,666	2,771
Provisions (Note 13)	10,108	8,399
Derivative financial instruments (Note 8)	9,392	1,546
Deferred revenues (Note 14)	20,311	37,928
	191,565	209,237
NON-CURRENT LIABILITIES		
Other payables	16,170	9,404
Lease liabilities (Note 12)	28,319	30,300
Employee benefit liabilities (Note 15)	137,025	78,878
	181,514	118,582
Deferred capital funding (Note 16)	1,516,715	1,407,023
SHAREHOLDER'S DEFICIENCY		
Share capital	9,300	9,300
Accumulated deficit	(214,544)	(146,247)
	(205,244)	(136,947)
Total Liabilities and Shareholder's deficiency	\$ 1,684,550	\$ 1,597,895

Commitments (Note 19)

The notes are an integral part of the interim condensed financial statements.

Interim Condensed Financial Statements

Statement of Comprehensive Income

	Quarters ended September 30		Nine-month periods ended September 30	
(in thousands of Canadian dollars) (unaudited)	2020	2019	2020	2019
REVENUES (Note 5)				
Passenger	\$ 15,539	\$ 113,494	\$ 63,946	\$ 287,470
Other	3,622	5,734	11,964	16,943
	19,161	119,228	75,910	304,413
EXPENSES				
Compensation and employee benefits	69,547	89,170	228,068	257,645
Train operations and fuel	13,942	37,509	52,504	111,863
Stations and property	8,320	8,645	28,674	29,198
Marketing and sales	3,318	9,463	13,126	26,493
Maintenance material	6,755	9,173	23,994	28,782
On-train product costs	2,094	7,102	11,354	19,355
Operating taxes	2,716	3,063	8,188	9,521
Professional services	1,320	3,579	7,012	13,611
Telecommunications	4,613	5,941	16,349	16,520
Depreciation of property, plant and equipment (Note 9)	17,912	18,514	53,855	56,127
Depreciation of right-of-use assets (Note 12)	879	820	2,643	2,457
Amortization of intangible assets (Note 10)	5,661	6,250	17,067	19,113
Loss on disposal of property, plant and equipment (Note 9)	306	599	712	1,087
Impairment on property, plant and equipment (Note 9)	6,062	-	6,062	-
(Gain) loss on disposal of intangible assets (Note 10)	(2)	1,057	-	1,057
Unrealized (net gain) net loss on derivative financial instruments	(1,256)	1,580	8,680	(1,889)
Realized net loss (net gain) on derivative financial instruments	3,046	39	8,478	(528)
Interest expense on lease liabilities	241	254	725	695
Other	3,283	2,646	8,848	11,216
	148,757	205,404	496,339	602,323
OPERATING LOSS BEFORE FUNDING FROM THE GOVERNMENT OF CANADA AND INCOME TAXES	(129,596)	(86,176)	(420,429)	(297,910)
Operating funding from the Government of Canada (Note 6)	90,913	48,419	315,362	207,035
Amortization of deferred capital funding (Note 16)	29,808	26,313	77,316	77,333
Net loss before income taxes	(8,875)	(11,444)	(27,751)	(13,542)
Income tax expense	76	86	228	224
NET LOSS FOR THE PERIOD	(8,951)	(11,530)	(27,979)	(13,766)
Other comprehensive income (loss)				
Amounts not to be reclassified subsequently to net income (net of tax):				
Remeasurements of the defined benefit component of the pension plans and post-employment benefit plans (Note 15)	16,228	50,314	(40,318)	(57,278)
	16,228	50,314	(40,318)	(57,278)
COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	\$ 7,277	\$ 38,784	\$ (68,297)	\$ (71,044)

The notes are an integral part of the interim condensed financial statements.

Interim Condensed Financial Statements

Statement of Changes in Shareholder's Deficiency

(in thousands of Canadian dollars) (unaudited)	Quarters ended September 30		Nine-month periods ended September 30	
	2020	2019	2020	2019
SHARE CAPITAL	\$ 9,300	\$ 9,300	9,300	\$ 9,300
Accumulated deficit				
Balance, beginning of period	(221,821)	(204,728)	(146,247)	(94,900)
Net loss for the period	(8,951)	(11,530)	(27,979)	(13,766)
Other comprehensive income (loss) for the period	16,228	50,314	(40,318)	(57,278)
Balance, end of period	(214,544)	(165,944)	(214,544)	(165,944)
Total Shareholder's deficiency	\$ (205,244)	\$ (156,644)	(205,244)	\$ (156,644)

The notes are an integral part of the interim condensed financial statements.

Interim Condensed Financial Statements

Statement of Cash Flows

	Quarters ended September 30		Nine-month periods ended September 30	
(in thousands of Canadian dollars) (unaudited)	2020	2019	2020	2019
OPERATING ACTIVITIES				
Net loss for the period	\$ (8,951)	\$ (11,530)	\$ (27,979)	\$ (13,766)
Adjustments to determine net cash (used in) provided by operating activities:				
Depreciation of property, plant and equipment (Note 9)	17,912	18,514	53,855	56,127
Depreciation of right-of-use assets (Note 12)	879	820	2,643	2,457
Amortization of intangible assets (Note 10)	5,661	6,250	17,067	19,113
Loss on disposal of property, plant and equipment (Note 9)	306	599	712	1,087
Impairment of property, plant and equipment (Note 9)	6,062	-	6,062	-
(Gain) loss on disposal of intangible assets (Note 10)	(2)	1,057	-	1,057
Amortization of deferred capital funding (Note 16)	(29,808)	(26,313)	(77,316)	(77,333)
Interest income	(77)	(185)	(352)	(750)
Interest paid	(241)	(254)	(725)	(695)
Unrealized (net gain) net loss on derivative financial instruments	(1,256)	1,580	8,680	(1,889)
Post-employment and other employee benefit expenses (Note 15)	11,966	9,249	36,735	30,192
Employer post-employment and other employee benefit contributions (Note 15)	(5,486)	(5,724)	(17,662)	(20,820)
Interest expense on lease liabilities	241	254	725	695
Net change in working capital items (Note 17)	(32,631)	(20,759)	(42,548)	(19,203)
Net cash (used in) operating activities	(35,425)	(26,442)	(40,103)	(23,728)
INVESTING ACTIVITIES				
Government funding received related to acquisition of property, plant and equipment and intangible assets (Notes 7, 16, 17)	124,000	22,698	269,962	115,443
Government funding received related to an advance on contract (Note 16)	-	9,800	2,482	103,799
Cash drawdown from the Asset Renewal Fund	-	-	-	2,000
Acquisition of property, plant and equipment and intangible assets (Notes 9, 10, 11 and 17)	(108,126)	(26,677)	(215,801)	(96,748)
Payment of an advance on contract	-	(9,800)	(2,482)	(103,799)
Interest received	77	185	352	750
Proceeds from the disposal of property, plant and equipment and intangible assets	-	-	-	1
Net cash provided by (used in) investing activities	15,951	(3,794)	54,513	21,446
FINANCING ACTIVITIES				
Payment of the lease liabilities	(725)	(604)	(2,086)	(1,883)
Net cash (used in) financing activities	(725)	(604)	(2,086)	(1,883)
CASH				
(Decrease) increase during the period	(20,199)	(30,840)	12,324	(4,165)
Balance, beginning of period	35,878	41,498	3,355	14,823
Balance, end of period	\$ 15,679	\$ 10,658	\$ 15,679	\$ 10,658
REPRESENTED BY:				
Cash	15,679	10,658	15,679	10,658
	\$ 15,679	\$ 10,658	\$ 15,679	\$ 10,658

The notes are an integral part of the interim condensed financial statements.

Notes to the Interim Condensed Financial Statements

For the period ended September 30, 2020 (unaudited)

1. Authority and Objectives

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

The Corporation is subject to a directive (P.C. 2013-1354) that was issued on December 9, 2013, and a related subsequent directive (P.C. 2016-443) that was issued on June 3, 2016, pursuant to sections 89.8 and 89.9 of the *Financial Administration Act*. As per these directives, the Corporation must obtain Treasury Board approval on the terms and conditions of employment of its non-unionized employees who are not appointed by Governor in Council. The Corporation confirms that the requirements of these directives have been met.

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

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

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

These interim condensed financial statements were approved and authorized for issue by the Board of Directors on November 20, 2020.

Global COVID-19 Pandemic

On March 11, 2020, the World Health Organization characterized the outbreak of a strain of the novel coronavirus ("COVID-19") as a pandemic which has resulted in a series of public health and emergency measures that have been put in place to combat the spread of the virus. On March 12, 2020, in response to the COVID-19 outbreak, the Corporation enforced special health and safety measures for its passengers and employees, and subsequently reduced service levels for most major train services. During the period, the Corporation faced a severe and abrupt drop in services and a corresponding decline in revenue as a result of the COVID-19 pandemic. The impact of the COVID-19 pandemic began to be felt at the end of the first quarter. These impacts include drastic declines in earnings and cash from operations, increasing the necessity to obtain funding from the Government of Canada. With a limited visibility on travel demand, the Corporation cannot predict the full impact of the pandemic and is actively monitoring the situation.

2. Basis of Preparation

a) Statement of compliance

Section 83 of the *Financial Administration Act* requires that most parent Crown corporations prepare and make public quarterly financial reports for periods beginning on or after April 1, 2011 compliant with the *Standard on Quarterly Financial Reports for Crown Corporations*.

These unaudited interim condensed financial statements have been prepared in accordance with IAS 34 – *Interim Financial Reporting*. The interim condensed financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2019, which have been prepared in accordance with the IFRS.

b) Functional and presentation currency

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

3. Summary of Significant Accounting Policies

The significant accounting policies applied for these condensed interim financial statements are presented in Note 4 of the Corporation's annual financial statements for the year ended December 31, 2019.

4. Key Sources of Estimation Uncertainty and Critical Judgments

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

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

They are reviewed on an ongoing basis. Changes to accounting estimates are recognized in the period in which the estimate is revised and in any future period affected. However, uncertainties relating to estimates, judgments and assumptions could result in outcomes that would require a material adjustment to the carrying amount of the asset or liability affected in future years. Key sources of estimation uncertainty and assumptions are disclosed in Note 5 of the Corporation's annual financial statements for the year ended December 31, 2019.

5. Revenues

The following table disaggregates the revenue by major sources:

(in millions of Canadian dollars)	Quarters ended September 30		Nine-month periods ended September 30	
	2020	2019	2020	2019
REVENUES				
Transportation and accommodation	15.3	109.9	62.4	278.6
On-train food and beverages and other	0.2	3.6	1.5	8.9
Revenues from passengers	15.5	113.5	63.9	287.5
Investment income	0.1	0.3	0.4	0.8
Third-party servicing	1.5	2.4	4.8	6.9
Rental income and other (Note 12)	2.1	3.0	6.8	9.2
Revenues from other sources	3.7	5.7	12.0	16.9
Total revenues	19.2	119.2	75.9	304.4

6. Reconciliation of Operating Loss to Government Funding

The Corporation receives its funding from the Government of Canada based primarily on cash flow requirements. Items recognized in the Statement of Comprehensive Income in one period may be funded by the Government of Canada in different periods. Accordingly, the Corporation has different net results of operations for the period on a government funding basis than on an IFRS basis. These differences are outlined below:

	Quarters ended September 30		Nine-month periods ended September 30	
(in millions of Canadian dollars)	2020	2019	2020	2019
Operating loss before funding from the Government of Canada and income taxes	129.6	86.2	420.4	297.9
Items requiring operating funds:				
Income tax expense	-	0.1	0.2	0.2
Items (not requiring) not providing operating funds:				
Depreciation of property, plant and equipment	(18.0)	(18.5)	(53.9)	(56.1)
Depreciation of right-of-use assets	(0.8)	(0.9)	(2.6)	(2.5)
Amortization of intangible assets	(5.7)	(6.2)	(17.1)	(19.1)
Loss on disposal of property, plant and equipment	(0.3)	(0.6)	(0.7)	(1.1)
Impairment on property, plant and equipment	(6.1)	-	(6.1)	-
Loss on disposal of intangible assets	-	(1.0)	-	(1.0)
Post-employment and other employee benefit contributions in excess of expenses	(6.5)	(3.6)	(19.1)	(9.4)
Unrealized net gain (net loss) on derivative financial instruments	1.2	(1.6)	(8.7)	1.9
Non-cash transactions relating to lease liabilities	1.0	0.9	2.8	2.6
Interest expense on lease liabilities	(0.2)	(0.3)	(0.7)	(0.7)
Adjustment for accrued compensation	(3.5)	(6.2)	0.2	(5.4)
Adjustment for VIA Préférence	0.1	0.2	(0.3)	(0.1)
Other	0.2	(0.1)	1.0	(0.2)
Operating funding from the Government of Canada	91.0	48.4	315.4	207.0

7. Trade and Other Receivables

The trade and other receivables balance includes the following:

(in millions of Canadian dollars)	September 30, 2020	December 31, 2019
Trade	3.1	3.5
Other receivables	5.4	4.3
Loss allowance	(1.0)	(0.2)
Trade and other receivables classified at Amortized cost	7.5	7.6
Amount receivable from the Government of Canada – Operating funding	24.6	36.1
Amount receivable from the Government of Canada – Capital funding (Note 17)	-	43.0
Sales taxes	15.6	1.1
Total trade and other receivables	47.7	87.8

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

The net book value of the past due receivables of the Corporation is \$2.1 million (December 31, 2019: \$1.5 million) at the closing date. The maturity of these receivables is detailed in the following table:

(in millions of Canadian dollars)	September 30, 2020	December 31, 2019
Not impaired and past due by:		
0 to 30 days	0.6	1.1
31 to 60 days	0.2	0.3
61 to 90 days	0.1	-
Over 90 days	-	0.1
Total	0.9	1.5

The Corporation has recognized in the current period an amount of \$0.8 million of impairment loss arising from contracts with customers and other receivables, which is presented in the line "Other" in the Statement of Comprehensive Income (September 30, 2019: \$0.6 million).

8. Derivative Financial Instruments

The Corporation uses commodity swaps where it exchanges cash payments based on variations in the price of a commodity (i.e. heating oil) compared to the agreed benchmark.

At the end of the period, the fair values of the derivative financial instruments are as follows:

Commodity swaps	September 30, 2020		December 31, 2019	
	Notional quantity (000's of U.S. gallons)	Fair value CAD (millions)	Notional quantity (000's of U.S. gallons)	Fair value CAD (millions)
Total assets	-	-	10,584	0.8
Total liabilities	14,154	9.4	7,560	1.5

As at September 30, 2020, the commodity swaps in CAD have a fixed price per U.S. gallon between 1.730 and 3.040 CAD (December 31, 2019: between 2.374 and 3.040 CAD). The maturity dates range between 2020 and 2022 (December 31, 2019: 2020 and 2021). These financial instruments have a monthly settlement schedule.

As at September 30, 2020 and December 31, 2019, there were no forward foreign exchange contracts.

9. Property, Plant and Equipment

(in millions of Canadian dollars)	Land	Rolling stock	Maintenance buildings	Stations and facilities (Note 1)	Owned infrastructures	Leasehold improvements	Machinery and equipment	Computer hardware	Other	Projects in progress	Total
Cost:											
January 1, 2020	17.0	958.1	173.2	165.0	307.2	95.8	33.9	48.5	9.3	178.6	1,986.6
Additions	-	-	-	-	-	-	-	-	-	190.2	190.2
Disposals	-	(2.4)	(0.8)	(0.4)	(2.3)	-	(0.1)	-	-	-	(6.0)
Transfers	-	10.2	1.8	4.4	0.7	0.2	1.5	0.1	0.4	(19.3)	-
Total cost	17.0	965.9	174.2	169.0	305.6	96.0	35.3	48.6	9.7	349.5	2,170.8
Accumulated depreciation and impairment:											
January 1, 2020	-	586.1	108.9	54.4	105.4	53.1	19.6	32.4	3.5	-	963.4
Additions	-	30.2	1.8	5.1	7.4	2.9	1.3	4.7	0.5	-	53.9
Disposals	-	(2.3)	(0.8)	(0.4)	(1.7)	-	(0.1)	-	-	-	(5.3)
Impairment losses	-	6.1	-	-	-	-	-	-	-	-	6.1
Total accumulated depreciation and impairment	-	620.1	109.9	59.1	111.1	56.0	20.8	37.1	4.0	-	1,018.1
Total carrying amount	17.0	345.8	64.3	109.9	194.5	40.0	14.5	11.5	5.7	349.5	1,152.7

Note 1 – The Corporation leases to third parties a small surface area of certain stations belonging to it. Given that this is only a non-significant proportion of certain stations, these assets are not presented on a separate line.

10. Intangible Assets

(in millions of Canadian dollars)	External software	In-house developed software	Right of access to rail infrastructure	Other	Projects in progress	Total
Cost:						
January 1, 2020	109.5	7.8	438.2	5.4	6.8	567.7
Additions	-	-	-	-	9.2	9.2
Disposals	-	-	-	-	-	-
Transfers	0.2	-	0.1	-	(0.3)	-
Total cost	109.7	7.8	438.3	5.4	15.7	576.9
Accumulated amortization and impairment:						
January 1, 2020	87.1	7.8	124.6	3.0	-	222.5
Additions	8.0	-	8.7	0.4	-	17.1
Disposals	-	-	-	-	-	-
Total accumulated amortization and impairment	95.1	7.8	133.3	3.4	-	239.6
Total carrying amount	14.6	-	305.0	2.0	15.7	337.3

11. Trade and Other Payables

The trade and other payables balance includes the following:

(in millions of Canadian dollars)	September 30, 2020	December 31, 2019
Wages payable and accrued	42.9	46.5
Accounts payable and accruals – Trade	22.6	38.9
Accounts payable and accruals – Capital assets	32.3	63.3
Trade and other payables classified at Amortized cost	97.8	148.7
Capital tax, income tax and other taxes payable	8.6	6.9
Deductions at sources	0.2	3.0
Total trade and other payables	106.6	158.6

12. Leases

The Corporation as a lessee:

The Corporation leases several assets including lands, office spaces, stations and facilities and information technologies equipment. The carrying amounts of right-of-use assets recognized and the movement during the period are as follow:

(in millions of Canadian dollars)	Land	Office spaces	Stations and facilities	Information technology equipment	Total
Cost:					
January 1, 2020	0.5	10.0	23.4	1.7	35.6
Total cost	0.5	10.0	23.4	1.7	35.6
Accumulated depreciation:					
January 1, 2020	-	1.7	1.1	0.5	3.3
Additions	-	1.4	0.9	0.4	2.7
Total accumulated depreciation	-	3.1	2.0	0.9	6.0
Net carrying amount	0.5	6.9	21.4	0.8	29.6

Amount recognized in the Statement of Comprehensive Income:

Quarters ended September 30 (in millions of Canadian dollars)	2020	2019
Expense relating to short-term leases	3.1	1.3
Expense relating to low-value assets	0.1	-

Total cash outflow is \$6.0 million (September 30, 2019: \$3.9 million).

The Corporation has not entered into any sale and leaseback transactions in the current or prior period and has no income from subleasing right-of-use assets. The Corporation has not entered in any variable leases that do not depend on an index or rate.

The carrying amounts of lease liabilities and the movements of the period are as follow:

(in millions of Canadian dollars)	September 30, 2020	December 31, 2019
Balance, beginning of period	33.1	35.0
Additions	-	0.6
Accretion of interest	0.7	1.0
Payments	(2.8)	(3.5)
Balance, end of period	31.0	33.1
Current	2.7	2.8
Non-current	28.3	30.3
Total lease liabilities	31.0	33.1

13. Provisions

The provisions balance includes the following:

(in millions of Canadian dollars)	January 1, 2020	Additional provisions recognized	Provisions utilized	Unused amounts reversed	September 30, 2020
Environmental costs	0.6	-	-	-	0.6
Litigation and equipment repairs (Note 1)	7.8	4.5	(1.5)	(1.3)	9.5
Total provisions	8.4	4.5	(1.5)	(1.3)	10.1

Note 1: Litigation and equipment repairs

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

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

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

14. Deferred Revenues

Deferred revenues are comprised of the following:

(in millions of Canadian dollars)	September 30, 2020	December 31, 2019
Advance ticket sales	4.5	21.4
VIA Préférence	11.5	11.2
Non-monetary transactions	1.7	1.5
Gift cards	1.7	1.8
Other	0.9	2.0
Total deferred revenues	20.3	37.9

Advance ticket sales, which represent contract liabilities, relate to payments received in advance of performance under the contract. Contract liabilities are recognized as revenue as the Corporation performs the contract.

15. Employee Benefit Assets and Liabilities

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

As disclosed in Note 21 Employee benefit assets and liabilities of the Corporation's 2019 audited annual report, the Corporation reviews its actuarial assumptions at each reporting period to ensure that the net defined benefit asset (liability) recognized in the financial statements is updated for significant changes arising from non-recurring events. The impact on the net defined benefit asset (liability) arising from any such changes in assumptions is recognized in other comprehensive income as remeasurement for the period.

The significant actuarial assumptions used for the purposes of determining the defined benefit obligation and pension benefit costs were:

	September 30, 2020	December 31, 2019
ASSUMPTIONS – DISCOUNT RATES		
Assumptions for the calculation of the obligation		
Defined benefit component of the pension plans	2.70%	3.10%
Post-employment benefit plans	2.80%	3.10%
Long-term employee benefit plans	2.90%	2.90%
Assumptions for the calculation of the costs		
Defined benefit component of the pension plans	3.10%	3.90%
Post-employment benefit plans	3.10%	4.00%
Long-term employee benefit plans	2.90%	3.60%

15. Employee Benefit Assets and Liabilities (cont'd)

a) Defined benefit component of the pension plans and post-employment benefits plans

Based on these actuarial valuations and projections to September 30, the summary of the principal valuation results, in aggregate, is as follows:

(in millions of Canadian dollars)	Defined benefit component of the pension plans		Post-employment benefit plans	
	September 30, 2020	December 31, 2019	September 30, 2020	December 31, 2019
DEFINED BENEFIT OBLIGATION:				
Balance, beginning of period	2,535.3	2,284.0	26.1	22.1
Service cost	27.7	27.8	0.3	0.3
Past service cost	-	-	-	0.2
Interest expense	50.9	88.0	0.5	0.9
Employee contributions	9.6	14.1	-	-
Benefits paid	(100.1)	(135.1)	(0.5)	(0.7)
Effect of change in demographic assumptions	-	(1.2)	-	-
Effect of change in financial assumptions	143.8	257.7	1.4	3.2
Effect of experience adjustments	-	-	-	0.1
Balance, end of period	2,667.2	2,535.3	27.8	26.1
FAIR VALUE OF PLAN ASSETS:				
Balance, beginning of period	2,506.4	2,301.4	-	-
Interest income	49.9	87.8	-	-
Return on plan assets (excluding interest income)	104.9	219.3	-	-
Employer contributions	13.3	21.1	0.5	0.7
Employee contributions	9.6	14.1	-	-
Benefits paid	(100.1)	(135.1)	(0.5)	(0.7)
Administration expenses	(3.1)	(2.2)	-	-
Balance, end of period	2,580.9	2,506.4	-	-
Net defined benefit liability	86.3	28.9	27.8	26.1

b) Long-term employee benefit plans

Based on these actuarial valuations and projections to September 30, the summary of the principal valuation results for the long-term employee benefits, including self-insured workers' compensation benefits is as follows:

(in millions of Canadian dollars)	September 30, 2020	December 31, 2019
LONG-TERM EMPLOYEE BENEFIT OBLIGATION:		
Balance, beginning of period	19.2	17.3
Service cost	2.8	3.5
Interest expense	0.5	0.6
Benefits paid	(3.0)	(5.4)
Effect of change in demographic assumptions	-	0.8
Effect of change in financial assumptions	-	(2.2)
Effect of experience adjustments	-	4.6
Balance, end of period	19.5	19.2
FAIR VALUE OF PLAN ASSETS:		
Balance, beginning of period	-	-
Employer contributions	3.0	5.4
Benefits paid	(3.0)	(5.4)
Balance, end of period	-	-
Net long-term employee benefit liability	19.5	19.2

c) Summary of pension plans, post-employment benefit plans and long-term employee benefit plans recognized in the interim condensed financial statements

Total amounts recognized in the Statement of Financial Position:

(in millions of Canadian dollars)	September 30, 2020	December 31, 2019
Assets:		
Defined benefit component of the pension plans	3.2	4.4
Liabilities:		
Defined benefit component of the pension plans	89.5	33.3
Post-employment benefit plans	27.8	26.1
Long-term employee benefit plans	19.5	19.2
Other long-term employee benefits	0.2	0.3
Total liabilities	137.0	78.9

Total amounts recognized in the Statement of Comprehensive Income:

(in millions of Canadian dollars)	Quarters ended September 30		Nine-month periods ended September 30	
	2020	2019	2020	2019
Operating expenses:				
Defined benefit component of the pension plans	9.9	7.9	31.8	26.1
Post-employment benefit plans	0.3	0.4	0.8	0.8
Long-term employee benefit plans	1.1	1.0	3.3	3.1
Other long-term employee benefits	0.6	-	0.8	0.2
Total	11.9	9.3	36.7	30.2

These operating expenses are included in the "Compensation and employee benefits" line item of the Statement of Comprehensive Income.

(in millions of Canadian dollars)	Quarters ended September 30		Nine-month periods ended September 30	
	2020	2019	2020	2019
Other comprehensive income (loss):				
Defined benefit component of the pension plans	16.2	50.3	(38.9)	(53.4)
Post-employment benefit plans	-	-	(1.4)	(3.9)
Total	16.2	50.3	(40.3)	(57.3)

16. Deferred Capital Funding

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

(in millions of Canadian dollars)	September 30, 2020	December 31, 2019
Balance, beginning of period	1,407.0	1,257.0
Government funding for property, plant and equipment and intangible assets (including the cost of land)	184.5	204.1
Government funding for an advance on contract	2.5	63.6
Total Government funding for property, plant and equipment, intangible assets and advance on contract	187.0	267.7
Amortization of deferred capital funding	(77.3)	(117.7)
Balance, end of period	1,516.7	1,407.0

17. Supplemental Cash Flows Information

Net change in working capital items:

(in millions of Canadian dollars)	Quarters ended September 30		Nine-month periods ended September 30	
	2020	2019	2020	2019
Trade and other receivables	(32.0)	(19.2)	(2.9)	(19.1)
Other assets	1.8	1.7	(2.6)	(1.3)
Materials	0.6	(1.8)	(0.2)	(4.1)
Trade and other payables	0.1	8.5	(20.9)	2.2
Deferred operating funding from the Government of Canada	(6.4)	-	-	-
Provisions	1.6	(0.8)	1.7	(0.1)
Deferred revenues	1.7	(9.2)	(17.6)	3.2
Total	(32.6)	(20.8)	(42.5)	(19.2)

The change in trade and other receivables excludes an amount of \$43.0 million (September 30, 2019: \$23.6 million) in relation to government funding for capital expenditures, as the amount relates to investing activities.

The change in trade and other payables excludes an amount of (\$31.0) million (September 30, 2019: (\$10.5) million) in relation to the acquisition of property, plant and equipment and intangible assets, as this amount relates to investing activities. As at September 30, 2020, there is no advance on contract payable in relation to investing activities (September 30, 2019: (\$74.4) million).

The net change in working capital items also excludes an amount of \$42.4 million (September 30, 2019: \$5.7 million) from the change in current deferred capital funding from the government of Canada as this amount relates to investing activities.

Investing activities supplemental information:

	Quarters ended September 30		Nine-month periods ended September 30	
	2020	2019	2020	2019
(in millions of Canadian dollars)				
Acquisition of property, plant and equipment and intangible assets	(51.0)	(33.5)	(199.4)	(86.2)
Advance on contract transferred in work in progress	2.3	-	7.8	-
Change in accounts payable and accruals – Capital assets	(61.4)	6.8	(31.0)	(10.5)
Change in other payables	2.0	-	6.8	-
Total cash out for acquisition of property, plant and equipment and intangible assets	(108.1)	(26.7)	(215.8)	(96.7)
Government funding invoiced for property, plant and equipment and intangible assets	46.8	33.5	184.5	86.2
Change in amount receivable from the Government of Canada – Capital funding	77.3	(10.8)	85.5	29.2
Total Government funding received for property, plant and equipment and intangible assets	124.1	22.7	270.0	115.4

18. Financial Risks

The Corporation's financial instruments are exposed to the same risks, except for the fuel price risk, as disclosed in its annual financial statements for the year ended December 31, 2019. Due to the greater volatility of the markets, the potential fluctuations of the fuel prices could have a significant impact on the financial statements.

19. Commitments

The following table presents the contractual commitments of the Corporation that are not included in the Statement of Financial Position.

(in millions of Canadian dollars)	September 30, 2020				December 31, 2019
	Total commitments	Less than 1 year	From 1 to 5 years	More than 5 years	Total commitments
COMMITMENTS RELATING TO OPERATIONS:					
Non-cancellable leases: Lessee	11.2	2.5	6.9	1.8	13.1
Technical services	356.1	-	33.7	322.4	356.1
Total	367.3	2.5	40.6	324.2	369.2
COMMITMENTS RELATING TO MAJOR CAPITAL INVESTMENTS:					
Rolling stock	812.2	158.7	653.5	-	935.2
Maintenance buildings	1.1	1.1	-	-	0.2
Stations and facilities	7.9	7.9	-	-	4.7
Owned infrastructures	5.3	5.3	-	-	6.3
Software	18.0	18.0	-	-	3.1
Computer hardware	1.7	1.7	-	-	5.1
Total	846.2	192.7	653.5	-	954.6
Total commitments	1,213.5	195.2	694.1	324.2	1,323.8

a) As mentioned in Note 1, the Corporation has entered into train service agreements for the use of tracks and the control of train operations. No amounts are included in the table above regarding those contracts since the amount of the commitments depends on the annual usage of the tracks.

b) The Corporation has provided letters of credit from a banking institution totaling approximately \$24.2 million (December 31, 2019: \$24.2 million) to various provincial government workers' compensation boards as security for future payment streams.

