management's responsibility statement

Year ended December 31, 2000

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

To fulfill its responsibility, the Corporation maintains systems of internal accounting controls, policies and procedures to ensure the reliability of financial information and the safeguarding of assets. The internal control systems are subject to periodic reviews by Samson Bélair/Deloitte & Touche, general partnership, as internal auditors. The external auditors, the Auditor General of Canada and Raymond Chabot Grant Thornton, general partnership, have audited the Corporation's financial statements and their report indicates the scope of their audit and their opinion on the financial statements.

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

Marc LeFrançois
Chairman of the Board

J. R. Paquette
Chief Financial Officer

Montreal, Canada
February 9, 2001

auditors' report

to the minister of transport

We have audited the balance sheet of VIA Rail Canada Inc. as at December 31, 2000 and the statements of operations and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2000 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the Financial Administration Act, we report that, in our opinion, these principles have been applied, except for the change in the method of accounting for employee future benefits as explained in note 3 to the financial statements, on a basis consistent with that of the preceding year.

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

Raymond Chabot Grant Thornton
General partnership
Chartered Accountants

L. Denis Desautels, FCA
Auditor General of Canada

Montreal, Canada
February 9, 2001

Ottawa, Canada
February 9, 2001

financial statements

as at December 31

Balance sheet

(in thousands)	Notes	2000	1999
Current assets			
Cash and term deposits		$ 18,441	$ 3,846
Accounts receivable, trade		6,995	11,262
Accounts receivable, other		7,000	15,682
Receivable from the Government of Canada		3,096	—
Temporary investments	6	39,539	50,039
Materials		17,031	16,535
		92,102	97,364
Long-term assets			
Capital assets	5	480,847	487,823
Asset renewal fund	6	37,825	28,260
Accrued pension	8	20,717	—
		539,389	516,083
		$ 631,491	$ 613,447
Current liabilities			
Accounts payable and accrued liabilities		$ 87,329	$ 86,965
Deferred revenue		6,091	5,037
		93,420	92,002
Long-term liabilities			
Accrued other employee future benefits	8	16,554	56,105
Other		5,087	5,539
		21,641	61,644
Deferred capital funding	9	482,476	487,107
Shareholder's equity (deficiency)			
Share capital	10	9,300	9,300
Contributed surplus		4,678	4,345
Retained earnings (deficit)		19,976	(40,951)
		33,954	(27,306)
		$ 631,491	$ 613,447

See accompanying notes to financial statements

On behalf of the Board,

Marlene McGraw, CA
Director and Chairman of the Audit Committee

Marc LeFrançois
Director and Chairman of the Board

year ended December 31

Statement of operations and retained earnings

(in thousands)	Notes	2000	1999
Revenue			
Passenger		$ 217,614	$ 202,096
Other		23,037	18,527
		240,651	220,623
Expenses			
Customer services		241,958	223,815
Equipment maintenance		82,764	77,459
Marketing and sales		27,123	25,909
Support services		38,820	38,643
General and administrative		15,125	21,812
Pension	3 and 8	(62,414)	1,625
Other employee future benefits	3 and 8	3,718	9,543
Amortization of capital assets		52,216	41,951
		399,310	440,757
Net operating loss before funding from the Government of Canada		158,659	220,134
Operating funding from the Government of Canada		170,304	170,000
Amortization of deferred capital funding		50,200	42,071
Net results of operations before taxes		61,845	(8,063)
Income and large corporation taxes		918	1,788
Net results of operations for the year		60,927	(9,851)
Retained earnings (deficit), beginning of year		(40,951)	(31,100)
Retained earnings (deficit), end of year		$ 19,976	$ (40,951)

See accompanying notes to financial statements

Year ended December 31

Statement of cash flows

(in thousands)	2000	1999
Operating activities		
Net results of operations for the year	$ 60,927	$ (9,851)
Non-cash charges (credits) to operations:		
Amortization of capital assets	43,235	41,100
Losses on write-off and disposal of capital assets	9,330	1,199
Amortization of investment tax credits	(349)	(348)
Amortization of deferred capital funding	(50,200)	(42,071)
Changes in non-cash working capital	13,871	15,603
Change in accrued pension	(20,717)	1,625
Change in accrued other employee future benefits	(39,551)	(1,621)
Change in other long-term liabilities	(103)	(102)
	16,443	5,534
Financing activities		
Capital funding from the Government of Canada	45,902	30,500
Receivable from the Government of Canada	(3,096)	—
	42,806	30,500
Investing activities		
Change in asset renewal fund	(9,565)	(18,578)
Change in temporary investments	10,500	(16,476)
Acquisition of capital assets	(45,902)	(10,910)
Proceeds from sale of capital assets	313	1,043
	(44,654)	(44,921)
Cash and term deposits		
Increase (decrease) during the year	14,595	(8,887)
Balance, beginning of year	3,846	12,733
Balance, end of year	$ 18,441	$ 3,846
Represented by:		
Cash	$ 1,038	$ (583)
Term deposits, 5.75%, maturing in January, 2001 (1999: 5.06%)	17,403	4,429
	$ 18,441	$ 3,846

See accompanying notes to financial statements

1. Authority and Objectives

VIA Rail Canada Inc. is a Crown corporation named in Part I of Schedule III to the Financial Administration Act. It was incorporated in 1977, under the Canada Business Corporations Act. The Corporation's vision is to be the best passenger transportation company in Canada with a mission to provide high-quality, low-cost passenger service. The Corporation uses the roadway infrastructure of other railway companies and relies on them to control train operations.

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

2. Accounting Policies

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

a) Funding from the Government of Canada

Operating funding, which pertains to services, activities and other undertakings of the Corporation for the management and operation of railway passenger services in Canada, is recorded in the Statement of operations and retained earnings. The amounts are determined on the basis of operating costs less commercial revenues excluding non-cash transactions relating to capital assets, pension plans, and other employee future benefits, and are based on the operating budget approved by the Government of Canada for each year.

Funding for depreciable capital assets is recorded as deferred capital funding on the Balance Sheet and amortized on the same basis and over the same periods as the related capital assets. Upon disposition of the funded depreciable capital assets, the Corporation recognizes into income all remaining deferred capital funding related to these capital assets. Funding for non-depreciable capital assets is recorded as contributed surplus.

b) Materials

Materials are valued at weighted average cost.

c) Capital assets

Capital assets acquired from Canadian National Railway and Canadian Pacific Limited at the start of operations in 1978 were recorded at the net transfer values while subsequent additions, including those acquired under capital leases, are recorded at cost.

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

Retired assets are written down to their net realizable value.

d) Amortization of capital assets

Amortization of capital assets is calculated on a straight-line basis at rates sufficient to write off the cost of capital assets, less their residual value, over their estimated useful lives, as follows:

Rolling stock	12 to 29 years
Maintenance buildings	25 years
Stations and Facilities	20 years
Infrastructure improvements	5 to 38 years
Leasehold improvements	5 to 20 years
Machinery and Equipment	4 to 15 years
Information systems	3 to 7 years
Other assets	3 to 10 years

No amortization is provided for projects in progress and retired assets.

e) Leases

Capital assets recorded under capital leases are amortized on a straight-line basis over 20 years, which is representative of their useful lives.

Rental payments under operating leases are expensed as incurred.

f) Deferred credits

Investment tax credits are amortized over the estimated useful lives of the related capital assets. The amortization of deferred investment tax credits is recorded as a reduction of the amortization of capital assets. These credits are included in other long-term liabilities.

g) Employee future benefits

The Corporation accrues obligations under its employee future benefit plans and has adopted the following policies:

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

Amortization of past service costs is calculated on a straight-line basis over the expected average remaining service lives of the active employee groups.

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

The excess of the net actuarial gain or loss over 10% of the greater of the benefit obligation and the fair value of plan assets in any one year is amortized over the average remaining service lives of active employees.

h) VIA Préférence program

The incremental costs of providing travel awards under the Corporation's VIA Préférence frequent traveller reward program are accrued as the entitlements to such awards are earned and are included in accounts payable and accrued liabilities. The revenues from the sale of point credits to participating partners are recorded as revenue in the year in which the credits are sold.

i) Financial instruments

The estimated fair value of financial instruments, except for the asset renewal fund and temporary investments, approximates their carrying value due to their current nature.

The temporary investments are carried at the lower of cost and market.

The asset renewal fund is carried at cost.

j) Measurement uncertainty

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Claims receivable, amortization of capital assets, accrued pension, accrued other employee future benefits and contingencies are the most significant items where estimates are used. Actual results could differ from those estimates.

3. Adoption of new accounting standard — Employee future benefits

The Corporation adopted, on a prospective basis, the new recommendation issued by the Canadian Institute of Chartered Accountants with respect to the accounting for pension and other types of employee future benefits. Under the new recommendation, the costs of post-retirement, post-employment benefits other than pensions are accrued. The new recommendation also requires a change in the discount rate used to value pension benefit obligations and service costs from an estimated long-term rate to a market-based interest rate. The impact of adopting the new recommendation was an increase in net earnings of $59.4 million for the pension plans and a decrease in net earnings of $2.9 million for the other employee future benefit plans.

4. Reconciliation of net results of operations to Government funding basis

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

(in millions of dollars)	2000	1999
Net results of operations for the year	60.9	(9.8)
Items not requiring (not providing) operating funds:		
Amortization and losses on write-off and disposal of capital assets	52.6	42.3
Amortization of deferred capital funding	(50.2)	(42.1)
Pension	(62.4)	1.6
Employee future benefits to be funded in subsequent years	3.1	6.4
Adjustment for accrued compensation	1.7	—
Payment of prior years' reorganization charges	(5.3)	(4.4)
Operating funding surplus (deficit) for the year	0.4	(6.0)

5. Capital assets

(in millions of dollars)	2000			1999
	Cost	Accumulated Amortization	Net	Net
Land	4.7	—	4.7	4.3
Rolling stock	505.2	284.2	221.0	242.8
Maintenance buildings	160.1	89.0	71.1	75.5
Stations and Facilities	34.5	16.0	18.5	19.8
Infrastructure improvements	94.9	34.2	60.7	61.2
Leasehold improvements	90.1	63.3	26.8	29.3
Machinery and Equipment	28.9	22.8	6.1	7.5
Information systems	60.3	53.9	6.4	10.7
Other assets	18.8	18.7	0.1	0.2
	997.5	582.1	415.4	451.3
Projects in progress			43.8	15.0
Retired assets (at net realizable value)			21.6	21.5
			480.8	487.8

On December 31, 2000 the gross value of assets under capital leases included above was $3.1 million (1999: $3.2 million) and related accumulated amortization thereon amounted to $2.3 million (1999: $2.2 million).

Projects in progress primarily consist of rolling stock and information systems.

6. Temporary investments and asset renewal fund

The Corporation has been authorized by the Treasury Board of the Government of Canada to segregate proceeds from the sale or lease of surplus assets as well as the operating savings resulting from the rationalization of its maintenance activities, in a manner which ensures that these funds are retained for future capital projects.

The temporary investments and asset renewal fund include the following investment instruments:

(in millions of dollars)	2000		1999	
	Cost	Market value	Cost	Market value
Canadian bonds and discount notes	29.7	32.7	30.3	30.6
Pooled equity unit trust	38.1	41.7	38.1	46.8
Cash and short-term investments	9.5	9.5	9.9	9.9
Balance, end of year	77.3	83.9	78.3	87.3
Represented by:				
Temporary investments	39.5	42.9	50.0	55.9
Asset renewal fund	37.8	41.0	28.3	31.4
	77.3	83.9	78.3	87.3

The temporary investments represent the amount that the Treasury Board has approved to fund operating deficits and certain capital assets while the balance of the asset renewal fund represents the funds that are retained for future investments in capital assets.

The effective rate of return on Canadian bonds and discount notes for 2000 and 1999 varies between 4.0% and 8.5% and mature between January 2001 and December 2031.

The fair value of Canadian bonds, discount notes and pooled equity unit trust is equivalent to the market value based on the current bid price at the balance sheet date.

The investment decisions for the Temporary investments and asset renewal fund are consistent with the Minister of Finance of Canada Financial Risk Management Guidelines for Crown Corporations and the Corporate Investment Policy. The Corporation is not encountering any significant market, cash flow or interest rate risks related to these investments.

7. Income and large corporation taxes

The Corporation has net timing differences of $6.9 million (1999: $75.7 million) resulting from items not deducted for income tax purposes, the benefit of which has not yet been recognized in the financial statements. These timing differences generally result from the accrual of pension costs and other employee future benefits costs and contingencies. The corporation has unused tax losses in the amount of $19.6 million of which $9.7 million will expire in the year 2005 and $9.9 million will expire in the year 2007.

8. Accrued employee future benefits

The Corporation provides defined benefit pension plans, post retirement and post-employment benefits to all its permanent employees.

Included in other benefit plans are expenses incurred by the Corporation relating to workers' compensation, post-retirement and post-employment benefits.

The latest actuarial valuations of the pension plans were carried out as at December 31, 1998 by external actuaries who are members of the Canadian Institute of Actuaries.

Based on these actuarial valuations and projections to December 31, 2000, the net income (expense) and accrued benefit asset (liability) for the Corporation's plans are as follows:

(in millions of dollars)	2000	1999	2000	1999	2000
	Pension plans		Network restructuring & reorganization charges		Other benefit plans
Net income (expense)	61.8	(1.6)	(0.8)	(9.5)	(7.4)
Accrued benefit asset (liability)	20.7	(41.7)	(19.2)	(21.0)	(2.9)

The current portion of the network restructuring & reorganization charges in 2000 of $5.6 million (1999: $6.6 million) is included with accounts payable and accrued liabilities.

Information concerning the Corporation's defined benefit plans as at December 31, in aggregate, is as follows:

(in millions of dollars)	2000	1999	2000	1999	2000
	Pension plans		Network restructuring & reorganization charges		Other benefit plans
Accrued benefit obligation	1,000.5	981.8	19.2	21.0	24.6
Fair value of plan assets	1,428.1	1,123.8	—	—	—
Funded status — surplus (deficit)	427.6	142.0	(19.2)	(21.0)	(24.6)

The plan assets are at fair value for 2000 and at actuarial adjusted market value for 1999.

The significant actuarial assumptions adopted in measuring the Corporation's accrued benefit obligations are as follows:

	2000	1999	2000	1999	2000
	Pension plans		Network restructuring & reorganization charges		Other benefit plans
Discount rate	7.0%	7.5%	7.0%	5.0%	7.0%
Expected long-term rate of return on plan assets	8.0%	7.5%	—	—	—
Rate of compensation increase	3.5%	4.5%	2.0%	2.0%	3.5%

Health care benefits included in other benefit plans are measured using the Canadian Consumer Price Index (CPI) plus 7.0%. The rate was assumed to decrease gradually to CPI plus 1.0% over 7 years and remain at that level thereafter.

Other information concerning the Corporation's defined benefit plans is as follows:

(in millions of dollars)	2000	1999	2000	1999	2000
	Pension plans		Network restructuring & reorganization charges		Other benefit plans
Employees' contributions	7.9	8.4	—	—	—
Benefits paid	67.9	63.7	6.0	7.9	4.5

The Corporation did not contribute to the pension funds in 2000 and 1999 since the plans were in a surplus position and as such the Corporation has a contribution holiday.

9. Deferred capital funding

(in millions of dollars)	2000	1999
Balance, beginning of year	487.1	499.2
Asset renewal fund replenishment	—	30.5
Government funding for depreciable capital assets	45.9	—
Government funding for land investment transferred to contributed surplus	(0.4)	(0.5)
Amortization of deferred capital funding	(50.2)	(42.1)
Balance, end of year	482.4	487.1

10. Share capital

The authorized share capital of the Corporation is comprised of an unlimited number of common shares of no par value. As at December 31, 2000 and 1999, 93,000 shares at $100 per share are issued and fully paid.

11. Commitments

a) The future minimum payments relating to operating leases mainly for real estate and computer equipment are as follows:

(in millions of dollars)	
2001	14.2
2002	9.7
2003	8.7
2004	7.3
2005	7.4
Subsequent years up to 2049	137.4
	184.7

b) The Corporation has entered into train service agreements for the use of tracks and control of train operations expiring up to December 31, 2008.

c) The Corporation has issued letters of credit totalling approximately $9.4 million (1999: $9.7 million) to various provincial government workers' compensation boards as security for future payment streams.

d) The Corporation has entered into swap contracts as a means of stabilizing the price of diesel fuel purchases. As at December 31, 2000, $8.5 million of these contracts are outstanding.

12. Related party transactions

The Corporation is related in terms of common ownership to all Government of Canada created departments and agencies, and enters into transactions with these entities in the normal course of business on trade terms applicable to all individuals and enterprises and are recorded at exchange value.