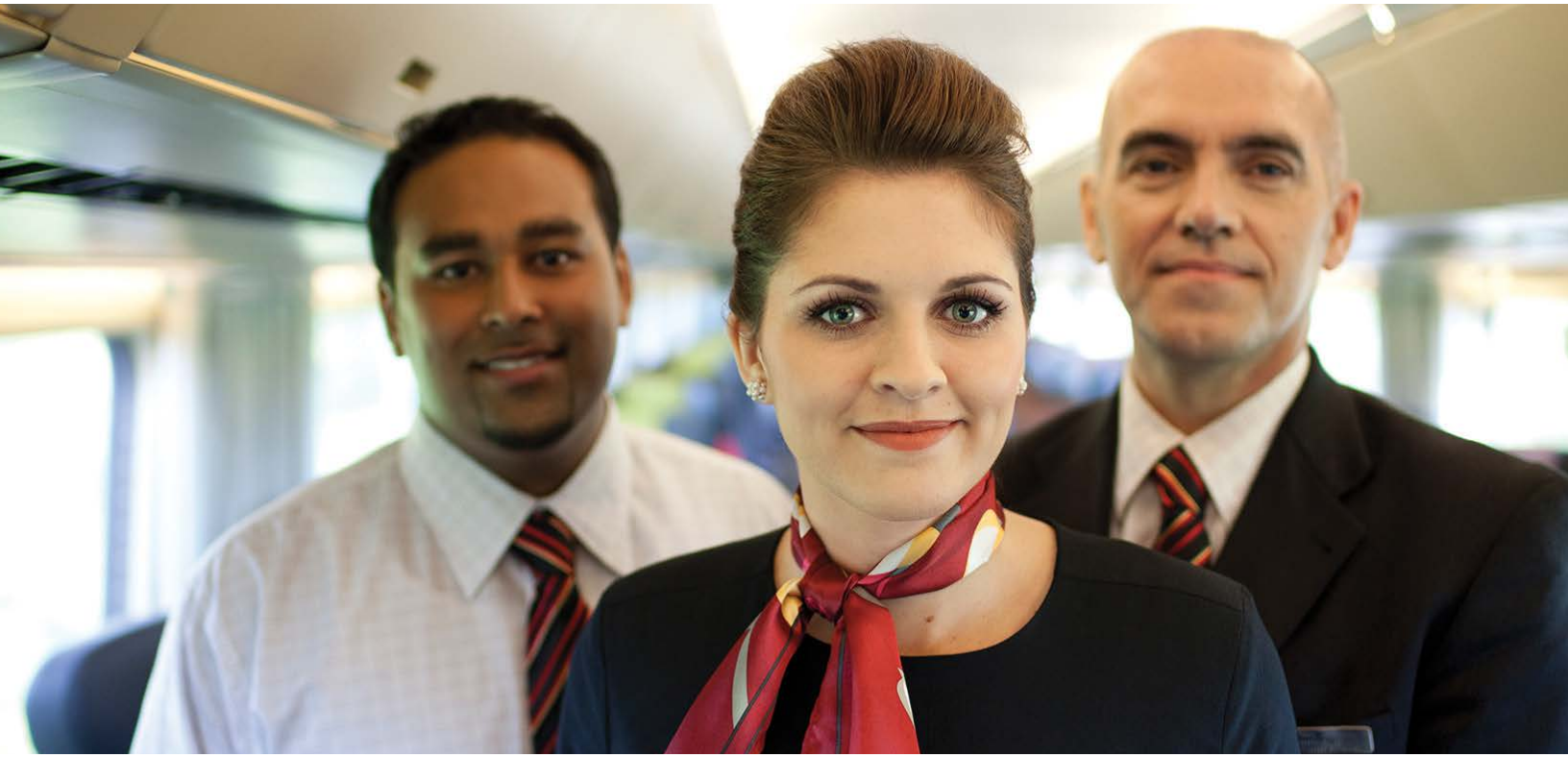
2014 THIRD QUARTER REPORT



VIA Rail Canada

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MESSAGE FROM THE PRESIDENT

It was a busy and productive summer at VIA Rail. New campaigns were launched, new technology tested and we added one new train in each direction on our Toronto-Ottawa route as of October 31st. The list of our activities over the third quarter is impressive as we strive to improve our service to Canadians.

In doing so, with the aim of getting more people on our trains, we are also helping to keep Canada environmentally and economically strong. VIA Rail has a notable environmental record that has been improving year over year. As our fuel consumption decreases (thanks to more efficient trains and the optimization of their use) so too do our greenhouse gas emissions. Compared to 2009, VIA Rail trains use 26% less fuel and therefore emit 26% less greenhouse gasses into the air. And, when measuring by available seat per vehicle, VIA Rail's greenhouse gas emissions are about one-fifth of those emitted by flying, and of half those emitted by driving a car.

The environmental footprint created by the mobility of Canadians is an important issue that VIA Rail takes to heart. In September, we participated in the United Nations' Climate Summit to promote train travel as a responsible means of transport through my participation on a panel discussing sustainable mobility. This theme, and that of the future of passenger rail in Canada were further discussed at my first public address at the Board of Trade of Montreal. Highlights of this speech can be watched on VIA Rail's YouTube channel. Each of us is responsible for our choice of transportation. VIA Rail intends to simplify this decision by making the train an easy and comfortable choice, and one that is also more environmentally friendly.

From a financial perspective, VIA Rail's story this quarter gives us reason to be optimistic. Our trend, beginning in May of this year, of increasing revenues and lowering our operating deficit continued. However, passenger volume growth is taking more time to materialize. Unfortunately, unless our on time performance improves, service reliability will remain an obstacle to passenger growth.

Furthermore, in the first quarter of 2014 we were forecasting a greater loss than originally planned for the year. However, by the end of the third quarter, thanks to disciplined cost control and month-over-month revenue increases, the year-end loss forecasted decreased significantly. If the trend continues, we are cautiously optimistic that we will meet our planned loss for the year. This is a very notable turnaround for which we have both our passengers and our employees to thank. From headquarters and maintenance center employees right through to the front-line staff who serve our passengers, all are committed to improve VIA Rail's future. Also this quarter, we are thrilled to have welcomed the 100,000th Canadian military passenger onboard our trains, as part of a special program offered to members of the military and their families since November, 2010.

For all of our successes, we also have Mr. Paul G. Smith to thank. Mr. Smith joined our Board of Directors in 2007, and has served as its Chair for the past four years. In August, he announced his departure from the Board. Over his eight years of service, VIA Rail has modernized and evolved almost every aspect of our operations. We have strengthened our relationship with stakeholders in Ottawa and with the communities we serve. VIA Rail has become a more transparent corporation, with new Governance policies created and more proactive disclosure to Canadians. All the while, initiatives were implemented to improve efficiency with an emphasis on responsible economic management. From everyone at VIA Rail, we wish to thank Paul G. Smith for the years he worked at VIA Rail, serving the Canadian people. In many ways, we are a better company now then we were when Mr. Smith began his mandate.

As we continue our ongoing work to improve our services, we welcome you to read about our projects and our financial results in this report and send us your thoughts. We recently hit a milestone of 120,000 Facebook fans, whose communication and feedback is very valuable to us. We hope to count you among them, and among our followers on Twitter. More importantly, we hope to welcome you onboard our trains soon.

Finally, I'd like to take a moment to acknowledge recent events. As I write, all Canadians are reeling from the tragedies that occurred in St. Jean-sur-Richelieu and Ottawa and the fallen soldiers, Warrant Officer Patrice Vincent and Corporal Nathan Cirillo. VIA Rail has always had a close affiliation with the Canadian Military, who risk so much in defense of our freedoms and our rights. Our commitment to Canadian soldiers and their families remains unwavering, now more than ever. Our thoughts are with all those affected by these terrible events.

YVES DESJARDINS-SICILIANO
President and Chief Executive Officer VIA Rail Canada

THIRD QUARTER AT A GLANCE

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

	Q3 - 2014	Q3 - 2013	YTD - 2014	YTD - 2013
KEY FINANCIAL INDICATORS (IN MILLIONS OF DOLLARS)				
Total passenger revenues (1)	77.0	72.2	194.5	187.6
Total revenues (1)	**82.4**	**77.2**	**209.6**	**202.4**
Operating expenses (1)	130.3	127.7	377.1	368.1
Contributions for employee benefits (1)	17.9	24.4	59.8	72.4
Total Operating expenses (1)	**(148.2)**	**(152.1)**	**(436.9)**	**(440.5)**
Operating Income (Deficit)	**(65.8)**	**(74.9)**	**(227.3)**	**(238.1)**
Capital expenditures	(17.2)	(17.0)	(53.5)	(65.1)
Total Funding Required	**(83.0)**	(91.9)	(280.8)	(303.2)
Government Operating Funding	65.8	74.9	227.3	238.1
Government Capital Funding	17.3	16.8	53.1	64.5
Total Government Funding	**83.1**	**91.7**	**280.4**	**302.6**
Asset Renewal Funding	**(0.1)**	**0.2**	**0.4**	**0.6**
KEY OPERATING STATISTICS (2)				
Total passenger-miles (IN MILLIONS)	**233**	236	611	629
Total seat-miles (IN MILLIONS)	**368**	392	1,009	1,129
Operating deficit per passenger-mile (IN CENTS)	**28.2**	31.7	37.2	37.9
Yield (CENTS PER PASSENGER-MILE)	**32.3**	30.1	31.0	29.3
Train-miles operated (IN THOUSANDS)	**1,584**	1,608	4,621	4,701
Car-miles operated (IN THOUSANDS)	**10,704**	11,455	27,770	30,788
Average passenger load factor (%)	**63**	60	61	56
Average number of passenger-miles per train mile	**147**	147	132	134
On-time performance (%)	**77**	83	76	84
Number of full time equivalent employees during the period	**2,798**	2,825	2,600	2,684

(1) Financial statement amounts were adjusted to reflect funded activities

(2) Key operating statistics are unaudited

KEY OPERATING STATISTICS BY SERVICE GROUP FOR THE THIRD QUARTER OF 2014

Train Service	Passenger Revenues* (IN THOUSANDS)	Passengers	Passenger-Miles (IN THOUSANDS)	Government Funding (PER PASSENGER MILE)
Québec City - Windsor Corridor	$50,859	893,660	165,482	$0.23
Longhaul West	$19,454	40,099	47,568	$0.19
Longhaul East	$3,250	24,890	13,706	$0.51
Mandatory Services	$1,574	22,469	6,025	$1.98
Total	$75,137	981,118	232,781	$0.28

* Before off train and other passenger revenues.

KEY OPERATING STATISTICS BY SERVICE GROUP FOR THE THIRD QUARTER OF 2013

Train Service	Passenger Revenues* (IN THOUSANDS)	Passengers	Passenger-Miles (IN THOUSANDS)	Government Funding (PER PASSENGER MILE)
Québec City - Windsor Corridor	$47,524	911,648	168,177	$0.26
Longhaul West	$18,011	37,761	44,607	$0.24
Longhaul East	$3,214	24,670	13,949	$0.56
Mandatory Services	$2,311	31,978	9,567	$1.30
Total	$71,059	1,006,057	236,300	$0.32

* Before off train and other passenger revenues.

THIRD QUARTER HIGHLIGHTS

SALES AND MARKETING

ACCESSIBLE CABIN ON THE CANADIAN

The first new Prestige Park car accessible cabin was put into service on VIA Rail's *Canadian* train, running between Toronto and Vancouver, thus opening up the cross country Sleeper Plus class experience to clients with disabilities.

The accessible cabin features, a fully accessible bathroom with shower, a flat-screen television and room for two to sleep comfortably.

SOCIAL MEDIA

VIA Rail has been committed to open communication with the online community through its social media accounts for several years. Our online presence has been growing steadily and we are happy to be marking another milestone this quarter. We now have over 120,000 fans following us on Facebook, which shows an increase of 11% since the beginning of the year! Facebook is a great way for VIA Rail to connect with Canadians, get feedback on our service and communicate news and offers.

FARE INITIATIVES

NEW STUDENT PASSES

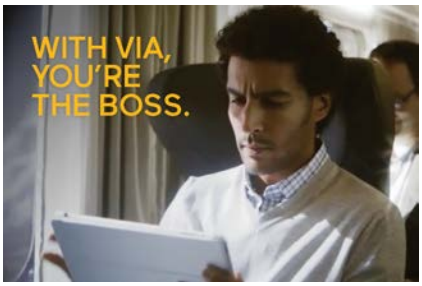
Following the success of the Summer Pass (See "Summer Youth Pass" on next page for more information), VIA Rail introduced two new products for the student market this quarter: a 20/20 discount card ($20 card that offers 20% off Economy class fares and 10% off the Escape fare) and the Semester Pass (offering unlimited travel during the semester). A campaign to promote these new products was launched during the back-to-university period with tactical teams on-site at university campuses. To date, the results have been positive and additional projects are being planned for the upcoming holiday season and the next semester.

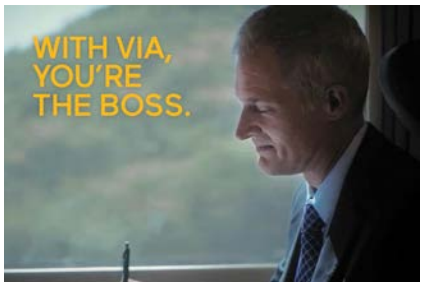
NEW BUSINESS CAMPAIGN

A new campaign targeting the Business class market was launched this quarter. The new advertisements are customer-focused and encourage passengers to use their travel time however they choose, for work or leisure, because at VIA Rail, "You're the Boss!". The ads can be viewed on VIA Rail's YouTube channel.

NEW SUMMER YOUTH PASS

To encourage students to discover their country during the summer months, VIA Rail launched an unlimited travel pass for youth, valid for travel in July and August. The sale results exceeded expectations and thus, we will enhance and distribute this product again in 2015.

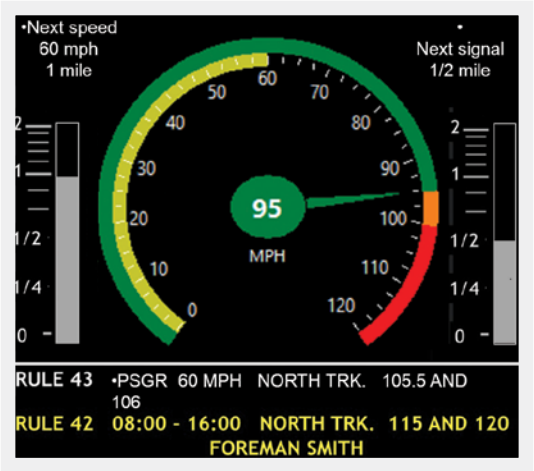




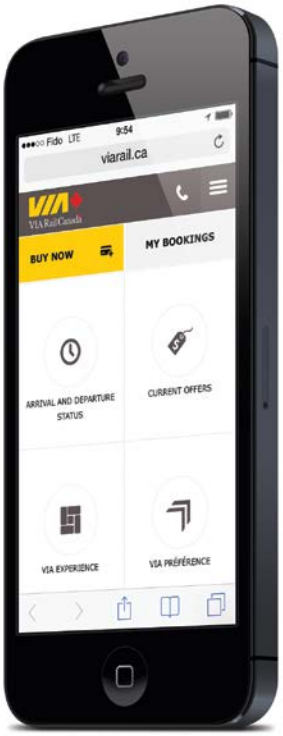
TECHNOLOGY

GPS TRAIN SAFETY SYSTEM

VIA Rail is proud to have developed and built, in house, a new train safety system using GPS tracking – the first of its kind in Canada. The proof of concept was successful and the system is currently being tested. The safety system will assist Locomotive Engineers by providing notifications of upcoming speed changes or restrictions, approaching changes in applicable rules and upcoming landmarks along the route. For locomotive engineers, the system will help reduce stress by providing the assistance they need to perform essential tasks, as well as improve overall safety of rail operations.



An example of information available trough the GPS Train Safety System



NEW MOBILE PORTAL

VIA Rail launched a new version of its mobile portal page. The user-friendly "big tile" navigation provides easy access to train status information, ticket reservation, special offers and links to VIA Préférence (VIA Rail's loyalty program) and VIA Experience (a page where travellers share their train travel stories).

ON TRAIN ENTERTAINMENT

Originally launched in 2013, VIA Rail upgraded its complimentary On Train Entertainment system and doubled the video content library. The portal now offers 150 hours of all-Canadian programming for passengers to choose from. Daily news, and TV shows from the CBC, animation and documentaries from the National Film Board, and vignettes from Historica Canada and the Canadian Heritage Information Network can now be found on all of VIA Rail's trains within the Québec city - Windsor corridor.

TRAIN PROJECTS

Our Light, Rapid, Comfortable (LRC) cars have been undergoing an overhaul. By the end of the third quarter 2014, there were 19 renovated Economy Class cars and 22 refurbished Business Class cars in service. By the end of 2014, 3 more Economy class and 4 more Business class cars will be completed.

STATION PROJECTS

A renovation project at VIA Rail's Brockville station was officially launched. Renovations to the station, originally built in 1872, include a new roof, a new building envelope, and new lighting and finishes, door and window replacement, the installation of an automatic door and other accessibility improvements for people with disabilities. The building adjacent to the station will also be demolished and a passenger shelter will be built in its place.

As well, VIA Rail officially opened the overhead walkway and heated central platform at Cobourg station.

Cobourg station

INTER-MODALITY

VIA Rail partnered with the Canadian company AccesRail to extend its distribution reach to over 120,000 travel agencies through its Global Distribution Systems. This will enhance our air-rail inter-modal offering. This quarter also saw China's Hainan Airlines become our first interline partner; one fare that includes both modes of transport and a single e-ticket including both air and rail segments will be offered and issued by travel agencies through Hainan.

VIA Rail also entered into a partnership with Union Pearson (UP) Express, which will link Toronto Union Station with Toronto's Pearson airport. The UP Express is expected to be in operation by spring 2015, in time for the Pan Am games. It is being estimated that the UP Express will remove 1.2 million car trips from the roads in its first year of operation alone. Switching from road to rail will also reduce greenhouse gas emissions.

OPERATIONS

The introduction of two more trainsets within the Québec city – Windsor corridor has provided over 5,000 additional seats weekly in this area. This allowed VIA Rail to redistribute the rest of its fleet more optimally and to provide more travel options for customers.

STUDENT CAREER EXPLORATION

As part of a career exploration course for high school students, VIA Rail opened its doors to eight enthusiastic participants. The course offered youths aged 14-17 the opportunity to explore occupations and professions related to their career interests. Participants visited VIA Rail's Montréal Maintenance Center, our train stations in both Montréal and Ottawa, and took a familiarization trip onboard our trains.

"This was a great way for the next generation to discover and learn about VIA Rail. The career exploration internship allowed me to share some of the passion and knowledge I've acquired over my 13 year career at VIA Rail, and introduce these students to future possibilities."

– Véronique Dupuis, Coordinator, Talent Acquisition, VIA Rail

SAFETY

OPERATION LIFESAVER

VIA Rail continues working with Operation Lifesaver (OL), a partnership association of the Railway Association of Canada, with a goal to educate Canadians about safety around rail property and trains. This quarter we participated and presented information about OL at the Canadian Rail Summit in Montréal.

VIA RAIL SELF-GOVERNANCE ON CN TRACKS

VIA Rail crews are now exempt from carrying Canadian National (CN) General Operating Instructions in certain safety sections (6.0, 7.0 and 9.0) on CN property and will henceforth be governed by VIA Rail's own internal instructions.

"This milestone is recognition that VIA Rail has the expertise and the credibility to manage its own operating instructions even when operating on another rail company's infrastructure. It is a testament to the high level of safety and trust achieved by VIA Rail and to the work that is being done to continuously improve our safety and operating standards."

– Hoang Tran, Senior Specialist, Operating Practices and Regulatory Compliance, VIA Rail.

ENVIRONMENT

FUEL CONSUMPTION

Through VIA Rail's continued fuel conservation initiatives, which now include personalized Energy Management Score Cards for Locomotive Engineers, we have continued to reduce our fuel consumption. Between January and September, 2014, VIA Rail saw a 7.5% reduction of fuel consumed and the fuel expense decreased by $0.9 million compared to the same period in 2013.

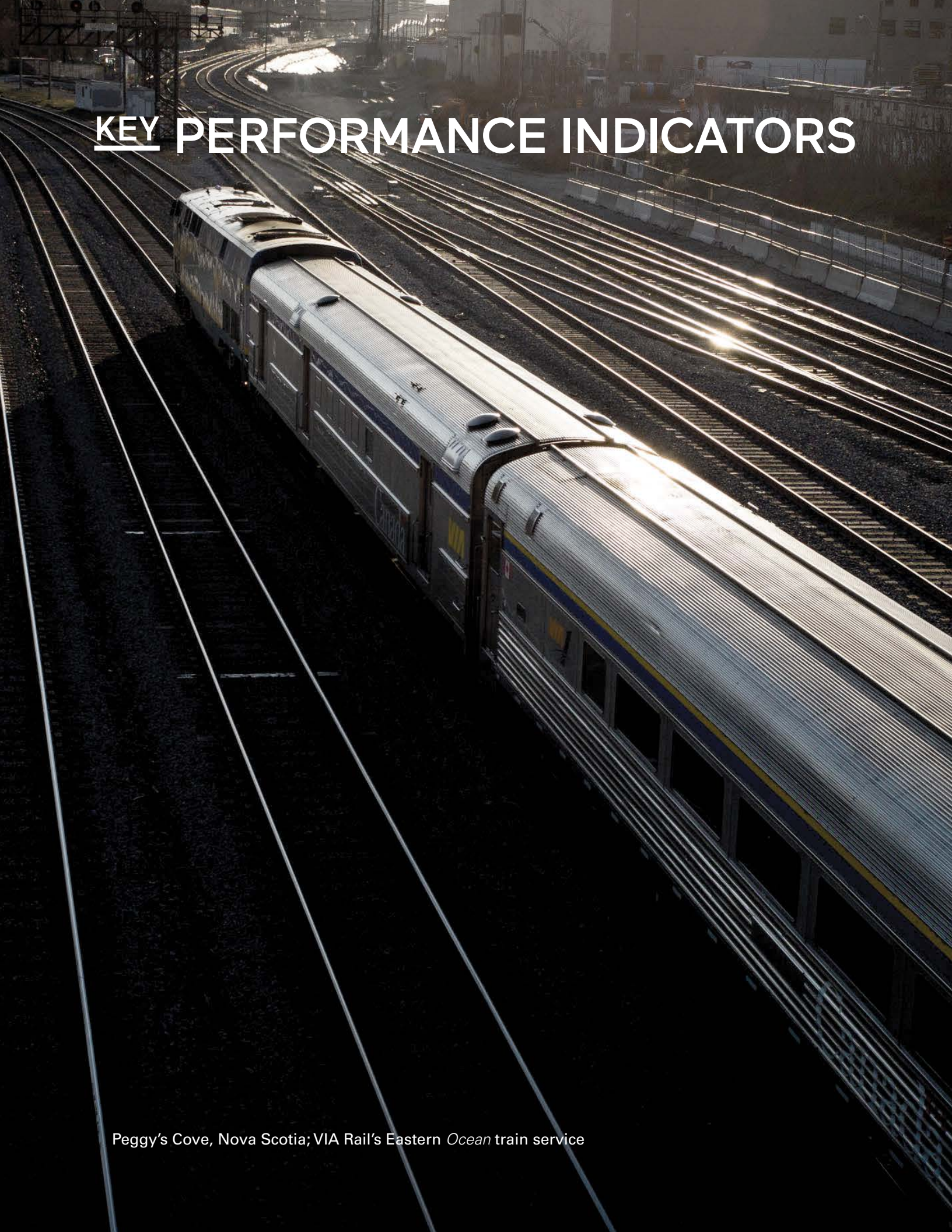
ON TIME PERFORMANCE AND DEDICATED TRACKS

This past year and specifically in the third quarter of 2014, VIA Rail's On Time Performance (OTP) continued to deteriorate. This quarter saw a new low of 77% OTP across our network. This compares to 83% during the same quarter of 2013 and an average of 82% for the full calendar year of 2013.

The reason for the decline is the steady increase of train traffic on Canada's mix-use railway infrastructure. Freight and commuter railways, in addition to VIA Rail, have all added frequencies in response to greater demand for rail freight and passenger services over the past few years. All these trains share the same mix-use network, which has resulted in greater congestion on the railway infrastructure. Unfortunately, the steady decline in VIA Rail's OTP has resulted in the decline of passenger confidence. This factor, more than any other, limits VIA Rail's ability to grow its customer base.

An efficient rail transportation network is a cornerstone of a strong economy in terms of both moving goods to markets and the mobility of the population. It is also essential to prevent and relieve congestion from other modes of transport. Improving traffic flow will mean better reliability across the board, better customer service for everyone, and renewed confidence in the efficiency of trains for both freight shippers and passengers. This is why VIA Rail is exploring options to acquire dedicated tracks where and when opportunities arise. Dedicated tracks owned and controlled by VIA Rail will significantly improve its OTP. It will also allow VIA Rail to add frequencies and design train schedules reflecting actual passenger demand. In summary, it will improve its service to Canadians.

KEY PERFORMANCE INDICATORS



Peggy's Cove, Nova Scotia; VIA Rail's Eastern *Ocean* train service

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

	Q3 - 2014	Q3 - 2013
Total Revenue per Employee ($000s) Annualized quarterly revenues divided by the number of employees (full time equivalent). A measure of productivity.	**118**	109
Passenger Revenues per Available Seat-Mile (¢) Revenues divided by available seat-miles.	**20.7**	18.3
Direct Costs per Available Seat-Mile (¢) Direct costs divided by available seat-miles.	**25.2**	23.2
On-Time Performance (%) Excludes mandatory services.	**77**	83
Employee Attendance (%) Total hours worked per month divided by the total possible work hours per month.	**92.7**	92.4
Train Incidents per Million Train-Miles Includes collisions between two (2) trains; derailments with at least one wheel off the track; all cardinal rule violations; excludes crossing accidents and trespassing.	**1.9**	0.6

GOVERNANCE AND ACCOUNTABILITY

THE BOARD OF DIRECTORS

In August, Paul G. Smith stepped down as Chair of the Board of VIA Rail, after eight years of service. Eric Stefanson, appointed to VIA Rail's Board in 2007, was named Interim Chair of the Board since that time.

The Board of Directors consists of the Chair, the President and Chief Executive Officer and ten directors appointed by the Government of Canada. Of the ten directors (not including the CEO of VIA Rail), five are women and five are men. The Board is responsible for overseeing the strategic direction and management of the Corporation, and reports on VIA Rail's operations to parliament through the Honourable Lisa Raitt, Minister of Transport.

PUBLIC MEETINGS AND REPORTS

During the third quarter of 2014, one Board meeting was held. The four different Board committees met a total of five times. The attendance rate of Board members at these meetings was 100%. Cumulative fees paid to Board members during this time period totalled $48,124.

ACCESS TO INFORMATION AND PRIVACY

VIA Rail believes that openness and transparency are the starting point in building a trusted relationship with customers, its partners and with the public in general. VIA Rail became subject to both the *Access to Information Act* and *the Privacy Act* in 2007. Since then, we have been committed to responding to information requests from the public, the media and all those interested in VIA Rail's operations. During the third quarter of 2014, VIA Rail received 11 new requests, 2 of which were still in progress at the end of the quarter.

PROMOTION OF OFFICIAL LANGUAGES

VIA Rail complies with the *Official Languages Act* and is proud to offer its services in both official languages. During the third quarter of 2014, VIA Rail promoted Canada's two official languages by contributing to events with partners such as *Théâtre du Cercle de Molière, the Morrin Center, and the Symposium des Rocheuses.*

COMMUNITY INVOLVEMENT

VIA Rail works with a variety of local, regional and national charity groups and non-profit organizations to support community activities, fundraisers and initiatives across the country. Promotional travel credits are donated to qualifying organizations. Donation requests may be submitted through VIA Rail's website.

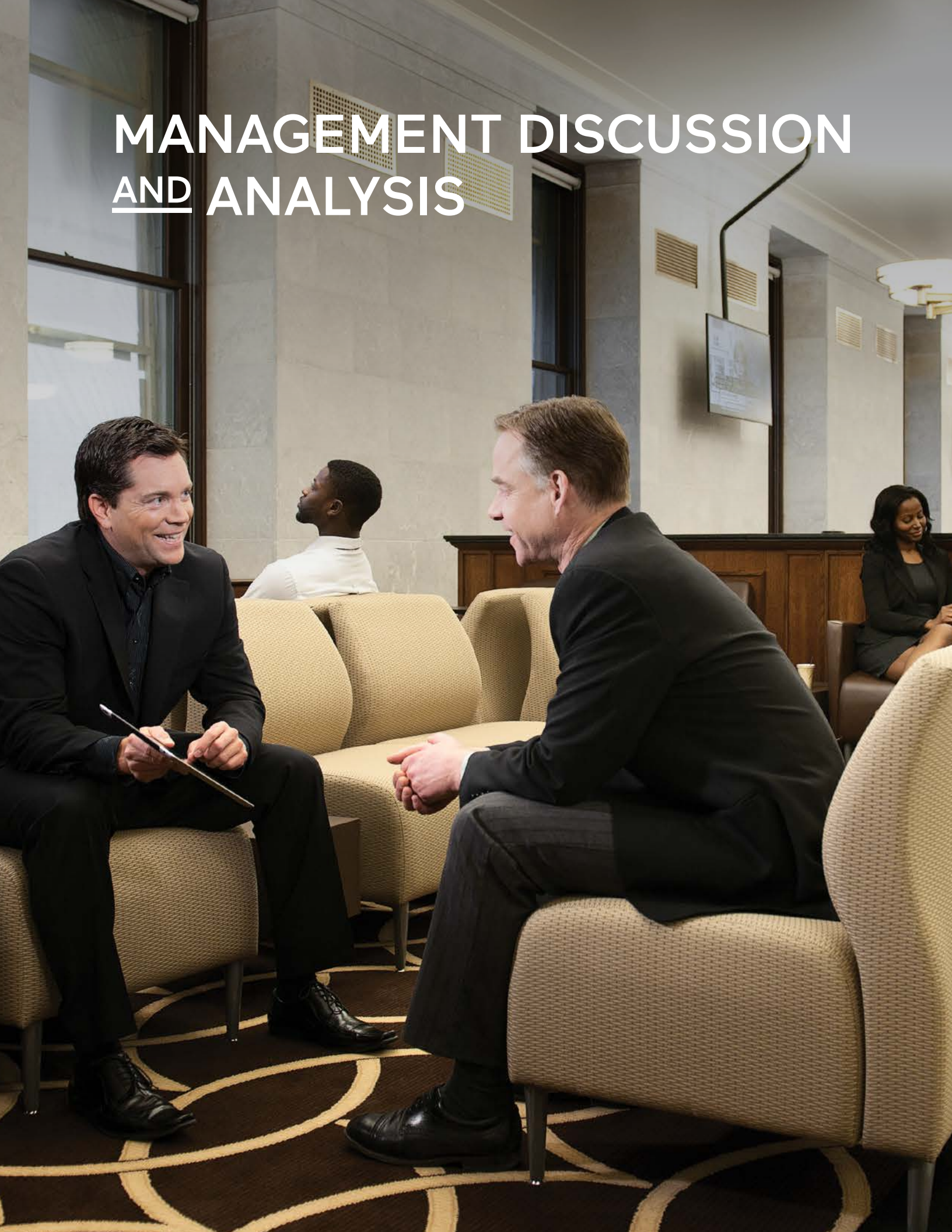
During the third quarter of 2014, VIA Rail supported 382 non-profit and charitable organizations with travel credit donations representing $343,110.

TRAVEL, HOSPITALITY AND CONFERENCE EXPENSES

The following travel, hospitality and conference expenses were submitted during the third quarter of 2014:

Paul G. Smith, Chair of the Board	$3,150
Yves Desjardins-Siciliano, President and CEO	$15,261
Executive management committee (8 members)	$7,017
Board of Directors (10 members)	$8,179

MANAGEMENT DISCUSSION AND ANALYSIS



This is a review of VIA Rail Canada's operations, performance and financial position for the quarter and nine-month period ended September 30, 2014, compared with the quarter and nine-month period ended September 30, 2013. It should be read in conjunction with the condensed financial statements and notes.

1. FINANCIAL HIGHLIGHTS

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

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

	Quarters ended September 30				Nine-month periods ended september 30			
IN MILLION OF CANADIAN DOLLARS	**2014**	2013	Var $	Var %	**2014**	2013	Var $	Var %
Passenger Revenues *	**77.0**	72.2	4.8	6.6	**194.5**	187.6	6.9	3.7
Total Revenues *	**82.4**	77.2	5.2	6.7	**209.6**	202.4	7.2	3.6
Operating expenses *	**130.3**	127.7	2.6	2.0	**377.1**	368.1	9.0	2.4
Employer contributions for employee benefits *	**17.9**	24.4	(6.5)	(26.6)	**59.8**	72.4	(12.6)	(17.4)
Total Operating expenses *	**148.2**	152.1	(3.9)	(2.6)	**436.9**	440.5	(3.6)	(0.8)
Operating Loss	**(65.8)**	(74.9)	(9.1)	(12.1)	**(227.3)**	(238.1)	(10.8)	(4.5)
Operating funding from Government of Canada	**65.8**	74.9	(9.1)	(12.1)	**227.3**	238.1	(10.8)	(4.5)
Non funded elements and other accounting adjustments								
Employee Benefits to be funded in subsequent years	**8.4**	10.2	(1.8)	(17.6)	**32.0**	31.6	0.4	1.3
Depreciation and amortization/ Impairment and loss (gain) on disposal of property, plant and equipment and intangible assets	**(19.1)**	(18.3)	(0.8)	(4.4)	**(56.6)**	(53.6)	(3.0)	(5.6)
Amortization of deferred capital funding	**18.7**	18.0	0.7	3.9	**55.3**	52.7	2.6	4.9
Other	**1.0**	4.4	(3.4)	(77.3)	**(0.1)**	4.7	(4.8)	n/a
Net income (loss) for the quarter	**9.0**	14.3	(5.3)	(37.1)	**30.6**	35.4	(4.8)	(13.5)
Actuarial gain (loss) on defined benefit plans	**(18.6)**	68.3	(86.9)	(127.2)	**(81.5)**	266.9	(348.4)	(130.5)
Total comprehensive income (loss)	**(9.6)**	82.6	(92.2)	(111.6)	**(50.9)**	302.3	(353.2)	(116.8)

* Financial statements amounts adjusted to reflect funded activities

HIGHLIGHTS OF THE QUARTER

Compared with the quarter ended September 30, 2013:

- Revenues have increased by 6.7 percent and total $82.4 million for the quarter;
- Funded Operating expenses decreased by 2.6 percent and amount to 148.2 million for the quarter;
- Operating loss funded by the Government of Canada decreased by 12.1 percent to $65.8 million for the quarter;
- There is a net income of $9.0 million for the quarter, compared to a net income of $14.3 million for the same quarter of 2013;
- There were actuarial losses on defined benefit plans of $18.6 million for the quarter compared to gains of $68.3 million for the corresponding quarter last year;
- There is a total comprehensive loss of $9.6 million for the quarter, compared to a gain of $82.6 million for the third quarter of 2013.

HIGHLIGHTS OF THE NINE-MONTH PERIOD

Compared with the nine-month period ended September 30, 2013:

- Revenues have increased by 3.6 percent and total $209.6 million for the period;
- Funded Operating expenses decreased by 0.8 percent and amount to 436.9 million for the period;
- Operating loss funded by the Government of Canada decreased by 4.5 percent to $227.3 million for the period;
- There is a net income of $30.6 million for the period, compared to a net income of $35.4 million for the same period in 2013;
- There were actuarial losses on defined benefit plans of $81.5 million for the period compared to gains of $266.9 million for the corresponding period last year;
- There is a total comprehensive loss of $50.9 million for the period, compared to an income of $302.3 million in 2013.

2. HIGHLIGHTS OF OPERATING RESULTS

This section of the document provides comments on the funded activities of the quarter and nine-month period ended September 30, 2014 (before non-funded elements and other accounting adjustments).

A) PASSENGER REVENUES

	REVENUES (IN '000 000$)							
	Quarters ended September 30				Periods ended September 30			
	2014	2013	Var $	Var %	**2014**	2013	Var $	Var %
Corridor East	**41.0**	38.5	2.5	6.5	**116.7**	112.8	3.9	3.5
SWO	**9.9**	9.0	0.9	10.0	**29.1**	27.0	2.1	7.8
Corridor	**50.9**	47.5	3.4	7.2	**145.8**	139.8	6.0	4.3
Ocean	**3.3**	3.2	0.1	3.1	**6.6**	6.6	0.0	0.0
Canadian	**19.4**	18.0	1.4	7.8	**34.1**	33.0	1.1	3.3
Mandatory Services	**1.5**	2.3	(0.8)	(34.8)	**2.9**	4.7	(1.8)	(38.3)
Non Corridor	**24.2**	23.5	0.7	3.0	**43.6**	44.3	(0.7)	(1.6)
Other	**1.9**	1.2	0.7	58.3	**5.1**	3.5	1.6	45.7
TOTAL	**77.0**	72.2	4.8	6.6	**194.5**	187.6	6.9	3.7

	PASSENGER MILES (IN '000 000)							
	Quarters ended September 30				Periods ended September 30			
	2014	2013	Var #	Var %	**2014**	2013	Var #	Var %
Corridor East	**136.5**	139.3	(2.8)	(2.0)	**387.2**	395.6	(8.4)	(2.1)
SWO	**29.0**	28.9	0.1	0.3	**87.1**	82.8	4.3	5.2
Corridor	**165.5**	168.2	(2.7)	(1.6)	**474.3**	478.4	(4.1)	(0.9)
Ocean	**13.7**	14.0	(0.3)	(2.1)	**29.5**	31.0	(1.5)	(4.8)
Canadian	**47.6**	44.6	3.0	6.7	**94.8**	98.6	(3.8)	(3.9)
Mandatory Services	**6.0**	9.6	(3.6)	(37.5)	**12.8**	20.9	(8.1)	(38.8)
Non Corridor	**67.3**	68.2	(0.9)	(1.3)	**137.1**	150.5	(13.4)	(8.9)
TOTAL	**232.8**	236.4	(3.6)	(1.5)	**611.4**	628.9	(17.5)	(2.8)

* Revenue amounts were adjusted to reflect funded activities

Passenger revenues total $77.0 million for the quarter, an increase of 6.6 percent compared to the corresponding quarter last year. The increase stems from higher revenues generated in all major train services with the exception of Mandatory services. This quarter again, revenues on Mandatory services declined as a result of the interruption of the Montreal-Gaspe route (the service was interrupted in September 2013 and has not yet resumed).

FOR THE QUARTER:

- Corridor East revenues are 6.5 percent above last year, and due mainly to improved yields (8.7 percent), partly offset by lower volumes (2.0 percent fewer passenger-miles);
- Revenues in SWO have increased by 10.0 percent, also as a result of higher yields (9.6 percent), and slightly higher volumes (0.3 percent more passenger-miles);
- Revenues on the *Ocean* are 3.1 percent above last year, and the increase is attributable to improved yields (5.4 percent), partly offset by lower volumes (2.1 percent less passenger-miles);
- Revenues on the *Canadian* have increased by 7.8 percent over the corresponding quarter last year. The performance results from higher volumes (6.7 percent more passenger-miles), as well as improved yields (1.0 percent);
- Revenues on Mandatory services have decreased by 34.8 percent, and the decrease is mainly due to the interruption of the Montreal-Gaspe service which has not operated since September 2013.

FOR THE NINE-MONTH PERIOD:

- Corridor East revenues are 3.5 percent above last year, and due mainly to improved yields (5.7 percent), partly offset by lower volumes (2.1 percent fewer passenger-miles);
- Revenues in SWO have increased by 7.8 percent, as a result of higher volumes (5.2 percent more passenger-miles), combined with improved yields (2.5 percent);
- Revenues on the *Ocean* are in line with last year. Although volumes have decreased (4.8 percent less passenger-miles), yields have improved (5.1 percent);
- Revenues on the *Canadian* have increased by 3.3 percent compared to the corresponding period in 2013. The performance is mainly attributable to higher yields (7.5 percent), partly offset by lower volumes (3.9 percent less passenger-miles);
- Revenues on Mandatory services have decreased by 38.3 percent, and the decrease is mainly due to the interruption of the Montreal-Gaspe service which has not operated since September 2013.

B) OPERATING EXPENSES

IN MILLIONS OF CANADIAN DOLLARS	Quarters ended September 30				Nine-month periods ended September 30			
	2014	2013	Var $	Var %	**2014**	2013	Var $	Var %
Compensation & Benefits *	**64.3**	59.6	4.7	7.9	**167.3**	164.1	3.2	2.0
Train Operations & Fuel	**31.8**	31.4	0.4	1.3	**93.8**	91.8	2.0	2.2
Realized loss (gain) on derivative financial instruments	**(0.1)**	(0.4)	0.3	75.0	**(1.0)**	(0.4)	(0.6)	(150.0)
Corporate Tax expense (recovery)	**0.2**	0.0	0.2	n/a	**0.5**	0.0	0.5	n/a
Other operating expenses *	**34.1**	37.1	(3.0)	(8.1)	**116.5**	112.6	3.9	3.5
TOTAL OPERATING EXPENSES (BEFORE EMPLOYER CONTRIBUTIONS FOR EMPLOYEE BENEFITS)	**130.3**	127.7	2.6	2.0	**377.1**	368.1	9.0	2.4
Employer Contributions for employee benefits*	**17.9**	24.4	(6.5)	(26.6)	**59.8**	72.4	(12.6)	(17.4)
TOTAL FUNDED OPERATING EXPENSES	**148.2**	152.1	(3.9)	(2.6)	**436.9**	440.5	(3.6)	(0.8)

*Financial statement amounts adjusted to reflect funded activities

FOR THE QUARTER:

- Operating expenses before employer contributions for employee benefits rose by 2.0 percent and totaled $130.3 million for the quarter. The increase is mainly due to higher compensation and benefits costs (recording of a provision for variable incentive compensation given the better than planned financial performance);
- Employer contributions for employee benefits decreased by 26.6 percent and total $17.9 million for the quarter, as a result of the sharp solvency improvement experienced in 2013 which modestly reduced the Corporations' required funding for its pension plans.

FOR THE NINE-MONTH PERIOD:

- Operating expenses before employer contributions for employee benefits rose by 2.4 percent and totaled $377.1 million for the period. The increase is also due to higher compensation and benefit costs (recording of a provision for variable incentive compensation given the better than planned financial performance), as well as train operations and fuel costs. Other increases affected maintenance material costs (additional wheel and locomotive repairs), and other data processing costs (for new systems implemented in 2013);
- Employer contributions for employee benefits decreased by 17.4 percent and total $59.8 million for the period, the decrease also results from the sharp solvency improvement experienced in 2013 which improved modestly the regulatory basis of the Corporation's pension plans for funding requirement.

3. CAPITAL INVESTMENTS

Fixed assets (net of accumulated depreciation) amount to $1,247.7 million, down $3.1 million compared to the balance as at December 31, 2013. Capital investments totaled $17.2 million for the quarter and $53.5 million for the period.

- Investments of $6.8 million were made in Major Equipment projects including $5.5 million for the LRC car fleet revitalization project, and $1.1M for the HEP1 cars modernization program. So far this year, investments in Major Equipment total $24.6 million, of which $17.1 million pertain to the LRC car fleet revitalization, and $7.4 million relate to the HEP1 cars;
- Investments of $1.4 million were made in Major infrastructure projects, all for the improvement of the GEXR Guelph Subdivision project. On a cumulative basis, $4.4 million were invested in the GEXR Guelph Subdivision project, and $1.1 million were invested in the CN Kingston subdivision where sections of a third track are added to minimize congestion;
- A total of $4.9 million was invested in Information Technology projects during the quarter (including the mainframe migration and scheduling and bidding process improvement projects), bringing the year to date investments at $10.0 million;
- Investments of $2.2 million were made in other infrastructure projects during the quarter, and $5.2 million so far this year.

4. CASH FLOW AND FINANCIAL POSITION

The Corporation's cash balance is $21.1 million as at September 30, 2014, which is $0.7M below the balance as at December 31, 2013, and down $0.7 million compared to the balance at June 30, 2014. The decrease in cash for the quarter is due to the change in non-cash working capital items, partly offset by the change in capital funding receivable from the Government of Canada.

5. RISK ANALYSIS (COMPARED TO DECEMBER 31, 2013)

This section highlights the main risks to which the Corporation is exposed and shows the trend compared to the previous year.

RISK	TREND	CURRENT SITUATION
DETERIORATION OF ON-TIME PERFORMANCE		
On-Time performance remained an issue during the quarter, especially on the *Canadian* where it deteriorated from 41 percent during the second quarter down to 25 percent this quarter, having negative impact on customer satisfaction and resulting in additional operational costs.	↑	The Corporation continues to work with the various track owners, including CN which owns most of the infrastructure, to try and resolve the issues causing train delays, and improve on-time performance.
NEW REQUIREMENTS CONCERNING GRADE CROSSINGS REGULATIONS		
Transport Canada has put out a new regulatory agenda concerning grade crossings regulations which may require that VIA and other infrastructure owners modify their crossing infrastructure and reduce speed of trains near crossings.	→	Transport Canada is expected to publish the new requirements before the end of 2014. Once these requirements are known, a VIA team comprised of Operations and Safety and Security department representatives will assess the required steps and associated costs to comply with the new regulations.
PASSENGER REVENUES		
Strong competitive and difficult economic environment continue to challenge revenue growth.	↓	This quarter again, initiatives implemented by VIA to mitigate the impact of the competition and difficult economic environment have generated a significant increase in revenues, achieved through improved yields. These results are positive however, passenger volumes have continued to decline, therefore future initiatives and strategies will aim at improving yields but also generating additional ridership.

↑ INCREASING → STABLE ↓ DECREASING

RISK	TREND	CURRENT SITUATION
CAPITAL INVESTMENT PROJECTS		
Major delays in equipment projects, or an increase in project costs would adversely affect VIA's financial performance.		Only 3 major equipment projects remain representing now less than 10% of the original capital envelope ($903M).
OPERATING FUNDING		
VIA continues to face operational funding challenges.		The Corporation is continuously pursuing the development and the implementation of a range of initiatives to reduce its deficit by increasing revenues and reducing costs. Furthermore, VIA continues to work with Transport Canada to address the challenge of operating loss and develop sustainable funding solutions. VIA received new envelopes for 2014-2015 fiscal year.
CAPITAL FUNDING		
VIA needs to continue investing in equipment, stations, maintenance systems, facilities and information technology, when the current investment program is completed.		The Corporation is working with Transport Canada to address ongoing capital funding requirements, and to ensure that VIA has the capital funding it requires to deliver on its mandate. VIA received new envelopes for ongoing capital for fiscal year 2014-2015.

INCREASING STABLE DECREASING

RISK	TREND	CURRENT SITUATION
PENSION COSTS		
Pension costs may vary significantly given the sensitivity to discount rates and demographics.	↓	A sharp increase in long term rates in the recent months improved pension funds solvency position. This improvement was reduced by the impact of a recently revised guidance from Canadian institute of Actuaries (CIA) in prescribed annuity rates.
FUEL COST FLUCTUATIONS		
Fuel is a major cost for passenger rail operations, and fuel costs could vary significantly from VIA's estimates due to the uncertainty and volatility of fuel prices.	↓	Fuel consumption has decreased compared to previous years as a result of the introduction of the refurbished locomotives as well as other initiatives to reduce fuel consumption. VIA's proven hedging strategy adds certainty to future fuel costs and can delay the impact of fuel price fluctuations. Given that contracts used to hedge fuel prices are denominated in U.S. dollars, VIA also hedges against foreign exchange risks.

6. OUTLOOK

Results of the third quarter of 2014 were again very positive both in terms of revenues and expenses. The tactical actions taken to ensure yields continue to be maximized generating positive results.

The new technology introduced in 2013 and since the beginning of 2014 has continued to allow us to reduce fuel consumption in our locomotives and help modernizing our stations.

Management is pursuing efforts to identify and implement additional cost reduction initiatives and other automation projects which will improve efficiency while maintaining high customer service levels and satisfaction.

INTERIM CONDENSED FINANCIAL STATEMENTS

A polar bear in Manitoba; VIA Rail's remote train service

MANAGEMENT'S RESPONSIBILITY STATEMENT

QUARTER ENDED SEPTEMBER 30, 2014

Management 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 is necessary to enable the preparation of quarterly financial statements that are free from material misstatement.

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.

Yves Desjardins-Sicilliano
President and
Chief Executive Officer

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

Montréal, Canada
November 21, 2014

INTERIM CONDENSED FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION

As at (IN THOUSANDS OF CANADIAN DOLLARS)	September 30, 2014 (unaudited)	December 31, 2013 (audited)
CURRENT ASSETS		
Cash	**$ 21,069**	21,757
Accounts receivable, trade	**5,445**	5,696
Prepaids, advances on contracts and other receivables	**2,980**	3,808
Derivative financial instruments	**1,114**	1,733
Materials	**23,745**	24,924
Asset Renewal Fund	**8,217**	12,164
	62,570	70,082
NON-CURRENT ASSETS		
Property, plant and equipment (NOTE 8)	**854,478**	854,630
Intangible assets (NOTE 9)	**393,259**	396,165
Asset Renewal Fund	**746**	610
	1,248,483	1,251,405
Total assets	**$ 1,311,053**	$ 1,321,487
CURRENT LIABILITIES		
Trade and other payables (NOTE 10)	**$ 77,592**	$ 90,223
Provisions (NOTE 11)	**14,382**	13,219
Deferred government funding	**2,544**	5,595
Derivative financial instruments	**2,160**	-
Deferred revenues (NOTE 14)	**36,278**	30,770
	132,956	139,807
NON-CURRENT LIABILITIES		
Post-employment and other employee benefits (NOTE 12)	**93,199**	43,699
	93,199	43,699
DEFERRED CAPITAL FUNDING (NOTE 13)	**1,235,186**	1,237,399
SHAREHOLDER'S EQUITY		
Share capital	**9,300**	9,300
Retained earnings	**(159,588)**	(108,718)
	(150,288)	(99,418)
Total liabilities and shareholder's equity	**$ 1,311,053**	$ 1,321,487

Commitments (Notes 15)

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

Approved on behalf of the Board,

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

Eric Stefanson FCA
Director and
Interim Chair of the Board

INTERIM CONDENSED FINANCIAL STATEMENTS

STATEMENT OF OPERATIONS AND OTHER COMPREHENSIVE INCOME

Period ended September 30 (IN THOUSANDS OF CANADIAN DOLLARS) (UNAUDITED)	Quarters ended		Nine-month periods ended	
	2014	2013	2014	2013
REVENUES				
Passenger	**$ 76,397**	$ 72,186	**$ 193,152**	$ 187,322
Other	**5,364**	5,108	**15,205**	15,136
	81,761	77,294	**208,357**	202,458
EXPENSES				
Compensation and employee benefits	**69,857**	69,574	**191,364**	201,077
Train operations and fuel	**31,785**	31,427	**93,774**	91,779
Stations and property	**7,971**	7,989	**26,425**	25,357
Marketing and sales	**6,186**	6,441	**22,397**	22,559
Maintenance material	**6,457**	6,615	**22,145**	20,348
On-train product costs	**4,353**	4,337	**11,655**	11,594
Operating taxes	**1,338**	2,365	**7,075**	8,031
Professional services	**2,463**	1,837	**7,043**	6,210
Telecommunications	**2,826**	2,492	**10,290**	8,735
Depreciation and amortization (NOTE 8 & 9)	**18,480**	18,268	**54,699**	53,360
Impairment and loss (gain) on disposal of property, plant and equipment and intangible assets	**582**	-	**1,868**	157
Unrealized net loss (net gain) on derivative financial instruments	**2,479**	(90)	**2,779**	(569)
Realized loss (gain) on derivative financial instruments	**(115)**	(387)	**(1,046)**	(429)
Other	**2,412**	4,952	**9,407**	9,549
	157,074	155,820	**459,875**	457,758
Operating loss before funding from the Government of Canada and income taxes	**75,313**	78,526	**251,518**	255,300
Operating funding from the Government of Canada (NOTE 7)	**65,757**	74,918	**227,284**	238,079
Amortization of deferred capital funding (NOTE 13)	**18,749**	17,989	**55,312**	52,655
Net income before income taxes	**9,193**	14,381	**31,078**	35,434
Income tax (expense) recovery	**(164)**	-	**(489)**	-
Net income for the period	**9,029**	14,381	**30,589**	35,434
Other comprehensive income (loss)				
Amounts not to be reclassified subsequently to net income:				
Actuarial gain (loss) on defined benefit plans (NOTE 12)	**(18,603)**	68,290	**(81,459)**	266,904
Other comprehensive income (loss) for the period	**(18,603)**	68,290	**(81,459)**	266,904
Total comprehensive income (loss) for the period	**$ (9,574)**	$ 82,671	**$ (50,870)**	$ 302,338

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

INTERIM CONDENSED FINANCIAL STATEMENTS

STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

Period ended September 30 (IN THOUSANDS OF CANADIAN DOLLARS) (UNAUDITED)	Quarters ended		Nine-month periods ended	
	2014	2013	2014	2013
Share Capital	**$ 9,300**	$ 9,300	**$ 9,300**	$ 9,300
Retained Earnings				
Balance, beginning of period	**(150,014)**	(234,498)	**(108,718)**	(454,165)
Net income for the period	**9,029**	14,381	**30,589**	35,434
Other comprehensive income (loss) for the period	**(18,603)**	68,290	**(81,459)**	266,904
Balance, end of period	**(159,588)**	(151,827)	**(159,588)**	(151,827)
Total Shareholder's equity	**$ (150,288)**	$ (142,527)	**$ (150,288)**	$ (142,527)

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

INTERIM CONDENSED FINANCIAL STATEMENTS

STATEMENT OF CASH FLOWS

Period ended September 30 (IN THOUSANDS OF CANADIAN DOLLARS) (UNAUDITED)	Quarters ended		Nine-month periods ended	
	2014	2013	2014	2013
OPERATING ACTIVITIES				
Net income for the period	**$ 9,029**	$ 14,381	**$ 30,589**	$ 35,434
Adjustments to determine net cash (used in) from operating activities:				
Depreciation and amortization (NOTE 8 & 9)	**18,480**	18,268	**54,699**	53,360
Loss (gains) on disposal of property, plant and equipment and intangible assets	**582**	-	**1,868**	157
Amortization of deferred investment tax credits	**-**	(70)	**-**	(211)
Amortization of deferred capital funding (NOTE 13)	**(18,749)**	(17,989)	**(55,312)**	(52,655)
Interest income	**(182)**	(171)	**(413)**	(446)
Change in fair value of financial instruments (Asset Renewal Fund)	**(20)**	(87)	**(136)**	(361)
Unrealized net loss (net gain) on derivative financial instruments	**2,479**	(90)	**2,779**	(569)
Post-employment and other employee benefit expenses (NOTE 12)	**9,540**	14,125	**27,865**	40,961
Employer post-employment and other employee benefit contributions (NOTE 12)	**(17,940)**	(24,332)	**(59,824)**	(72,537)
Net change in non-cash working capital items	**16,662**	(828)	**(9,270)**	8,369
Net cash (used in) provided by operating activities	**19,881**	3,207	**(7,155)**	11,502
INVESTING ACTIVITIES				
Capital funding (NOTE 13)	**17,329**	16,847	**53,099**	64,524
Change in capital funding receivable from the Government of Canada	**(18,949)**	7,453	**12,636**	5,476
Acquisition of investments in the Asset Renewal Fund	**(3,665)**	(10,974)	**(18,132)**	(38,695)
Proceeds from sale and maturity of investments in the Asset Renewal Fund	**6,065**	10,997	**22,079**	38,718
Change in capital accounts payable and accrued liabilities	**(4,329)**	(12,848)	**(10,119)**	(15,305)
Acquisition of property, plant and equipment and intangible assets (NOTE 8 & 9)	**(17,191)**	(17,033)	**(53,495)**	(65,106)
Interest received	**182**	171	**413**	446
Proceeds from disposal of property, plant and equipment and intangible assets	**4**	14	**(14)**	14
Net cash (used in) provided by investing activities	**(20,554)**	(5,373)	**6,467**	(9,928)
CASH				
Increase (decrease) during the period	**(673)**	(2,166)	**(688)**	1,574
Balance, beginning of period	**21,742**	19,597	**21,757**	15,857
BALANCE, END OF PERIOD	**$ 21,069**	$ 17,431	**$ 21,069**	$ 17,431

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

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

AS AT SEPTEMBER 30, 2014 (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, Montreal (Quebec). The Corporation's vision is to make passenger rail the preferred way to move and connect people in Canada with a mission to offer a safe, attractive and stress-free travel experience, while consistently providing the best value for money. The Corporation uses the roadway infrastructure of other railway companies and relies on them to control train operations.

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

The Corporation has one operating segment, passenger transportation and related services 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 21, 2014.

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, 2013, which have been prepared in accordance with the IFRS. Certain comparative figures in the quarterly financial statements have been reclassified to conform to the December 31, 2013 presentation.

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. CHANGES IN ACCOUNTING POLICIES

The Corporation has adopted the amendments of IAS 36 - *Impairment of Assets* - effective January 1, 2014, which requires additional disclosure on the measurement of the recoverable amount of impaired assets, particularly if the amount is based on the fair value less costs of disposal. This amendment has no impact on the financial statements.

IAS 19 – *Employee Benefits (2011)* - On November 21, 2013, the IASB issued amendments to IAS 19, Employee Benefits, entitled "Amendments to IAS 19, Defined Benefit Plans: Employee Contributions". The amendments apply to contributions from employees or third parties to defined benefit plans. The objective of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. These amendments have no impact on the financial statements.

The "Annual Improvements to IFRSs 2010-2012 Cycle" and the "Annual Improvements to IFRSs 2011-2013 Cycle" issued in December, 2013, included a number of amendments to various IFRSs. The Corporations has analyzed these amendments and has determined that they have no impact on the financial statements.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in these unaudited interim condensed financial statements are disclosed in note 4 of the Corporation's annual financial statements for the year ended December 31, 2013.

5. FUTURE ACCOUNTING CHANGES

IFRS 9 - *Financial Instruments* – is a new Standard for financial instruments that is ultimately intended to replace IAS 39 in it's entirely. The new standard sets out the recognition and measurement requirements for financial instruments and some contracts to buy or sell non-financial items.

This standard is applicable retrospectively, with early adoption permitted. The date of application is for annual reporting periods beginning on or after January1, 2018. The Corporation does not intend to early adopt IFRS 9. The extent of the impact of adoption of IFRS 9 has not yet been determined.

IFRS 15 - *Revenue from Contracts with Customers* - The standard specifies how and when revenue should be recognized as well as requiring more informative and relevant disclosures. The standard supersedes IAS 18 *Revenue*, IAS 11 *Construction Contracts* and a number of revenue-related interpretations. Application of the standard is mandatory and it applies to nearly all contracts with customers: the main exceptions are leases, financial instruments and insurance contracts.

This standard is applicable retrospectively for periods beginning on or after January 1, 2017 with early application permitted. Management is currently evaluating the impact of the new standard.

6. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of the interim condensed financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future years.

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

Changes to accounting estimates are recognized in the period in which the estimate is revised. 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, 2013.

7. 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 Operations and Other Comprehensive Income in one period may be funded by the Government of Canada in different periods. Accordingly, the Corporation has a different operating loss before funding from the Government of Canada and income taxes for the period on a government funding basis than on an IFRS basis. These differences are outlined below:

(IN MILLIONS OF DOLLARS)	Quarters ended September 30		Nine month periods ended September 30	
	2014	2013	2014	2013
Operating loss before funding from the Government of Canada and income taxes	**75.3**	78.5	**251.5**	255.3
Items requiring (providing) operating funds:				
Income tax expense (recovery)	**0.2**	-	**0.5**	-
Items not requiring (not providing) operating funds:				
Depreciation and amortization	**(18.5)**	(18.3)	**(54.7)**	(53.4)
Impairment and (loss) gain disposal of property, plant and equipment and intangible assets	**(0.6)**	-	**(1.9)**	(0.2)
Post-employment and other employee benefits contribution in excess of expenses	**8.4**	10.2	**32.0**	31.6
Unrealized net gain (net loss) on derivative financial instruments	**(2.5)**	0.1	**(2.8)**	0.6
Adjustment for accrued compensation	**4.1**	4.2	**3.9**	3.9
Increase in investment fair value	**-**	0.1	**0.1**	0.4
Other	**(0.6)**	0.1	**(1.3)**	(0.1)
Operating funding from the Government of Canada	**65.8**	74.9	**227.3**	238.1

8. PROPERTY, PLANT AND EQUIPMENT

(IN MILLIONS OF DOLLARS)	January 1, 2014	Additions	Disposals	Transfers	September 30, 2014
Cost:					
Land	12.1	-	-	-	**12.1**
Rolling stock	871.7	-	(13.0)	19.7	**878.4**
Maintenance buildings	138.0	-	(4.2)	0.4	**134.2**
Stations and facilities	105.9	-	(2.2)	19.1	**122.8**
Owned infrastructures	181.2	-	(1.2)	7.1	**187.1**
Leasehold improvements	78.0	-	(1.6)	0.4	**76.8**
Machinery and equipment	31.1	-	(0.1)	0.1	**31.1**
Computer hardware	29.8	-	(0.1)	1.3	**31.0**
Other property, plant and equipment	8.2	-	(2.2)	0.8	**6.8**
Projects in progress	84.9	40.9	-	(48.9)	**76.9**
Total cost	1,540.9	40.9	(24.6)	-	**1,557.2**
Accumulated depreciation:					
Rolling stock	417.6	23.1	(12.2)	-	**428.5**
Maintenance buildings	89.1	2.1	(4.1)	-	**87.1**
Stations and facilities	33.5	3.3	(2.0)	-	**34.8**
Owned infrastructures	59.0	4.1	(1.2)	-	**61.9**
Leasehold improvements	45.2	1.8	(1.6)	-	**45.4**
Machinery and equipment	23.3	0.9	(0.2)	-	**24.0**
Computer hardware	13.9	4.1	(0.1)	-	**17.9**
Other property, plant and equipment	4.7	0.3	(1.9)	-	**3.1**
Total accumulated depreciation	686.3	39.7	(23.3)	-	**702.7**
Total net carrying amount	854.6	1.2	(1.3)	-	**854.5**

9. INTANGIBLE ASSETS

(IN MILLIONS OF DOLLARS)	January 1, 2014	Additions	Disposals	Transfers	September 30, 2014
Cost:					
Software	73.5	-	(5.1)	11.9	**80.3**
Right of access to rail infrastructure	415.4	-	(0.5)	0.3	**415.2**
Other intangible assets	4.1	-	-	-	**4.1**
Projects in progress	24.0	12.6	-	(12.2)	**24.4**
Total cost	517.0	12.6	(5.6)	-	**524.0**
Accumulated amortization:					
Software	59.4	6.7	(5.1)	-	**61.0**
Right of access to rail infrastructure	60.2	8.2	-	-	**68.4**
Other intangible assets	1.2	0.1	-	-	**1.3**
Total accumulated amortization	120.8	15.0	(5.1)	-	**130.7**
Total net carrying amount	396.2	(2.4)	(0.5)	-	**393.3**

10. TRADE AND OTHER PAYABLES

The Trade and other payables balance include the following:

(IN MILLIONS OF DOLLARS)	September 30, 2014	December 31, 2013
Wages payable and accrued	**34.8**	36.7
Capital Payables	**9.8**	19.8
Trade payables	**28.2**	28.0
Capital tax, income tax and other taxes payable	**4.7**	5.5
Other	**0.1**	0.2
	77.6	90.2

11. PROVISIONS

The provision balance includes:

(IN MILLIONS OF DOLLARS)	January 31, 2014	Charge (used)	Reversal (used)	Reversal (not used)	September 30, 2014
Environmental costs	1.1	0.6	(1.3)	-	**0.4**
Litigation and equipment repairs (NOTE A)	11.8	3.0	(0.5)	(0.3)	**14.0**
Restructuring costs	0.3	-	(0.2)	(0.1)	**-**
Total provisions	13.2	3.6	(2.0)	(0.4)	**14.4**

A) LITIGATION AND CONTRACTUAL DISPUTES

The Corporation is subject to claims and legal proceedings brought against it in the normal course of business. Also, the Corporation incurs equipment repair costs as a result of crossing accidents and other incidents causing damages to rolling stock. Such matters are subject to many uncertainties. Management believes that adequate provisions have been made in the accounts where required and the ultimate resolution of such contingencies is not expected to have a material adverse effect on the financial position of the Corporation.

12. POST EMPLOYMENT AND OTHER EMPLOYEE BENEFITS

The Corporation provides a number of funded defined benefit pension plans as well as unfunded other post-employment benefits including post-retirement medical, dental and life insurance benefits. The Corporation also provides 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. The actuarial valuations for employee benefits are carried out by external actuaries who are members of the Canadian Institute of Actuaries.

A) PENSION PLANS AND POST-EMPLOYMENT BENEFIT PLANS

The financial and demographic assumptions used to determine the actuarial valuations of the pension plans were the same assumptions as disclosed in the Corporation's annual financial statements for the year ended December 31, 2013, except for the discount rate used to determine the defined benefit obligation that was decreased to 4.10% while the discount rate used to determine the defined benefit cost was increased to 4.80%.

The financial and demographic assumptions used to determine the actuarial valuations of the post-employment benefits were the same assumptions as disclosed in the Corporation's annual financial statements for the year ended December 31, 2013.

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

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 DOLLARS)	Pension Plans		Post-employment Benefit Plans	
	September 30, 2014	December 31, 2013	September 30, 2014	December 31, 2013
DEFINED BENEFIT OBLIGATION:				
Balance at beginning of the period	**1,925.3**	2,078.0	**16.3**	19.1
Service cost	**18.2**	30.0	**0.3**	0.5
Interest expense	**61.3**	81.9	**0.6**	0.8
Employee contributions	**9.3**	10.9	**-**	-
Benefits paid	**(76.5)**	(97.1)	**(0.3)**	(0.5)
Effect of change in demographic assumptions	**-**	32.9	**-**	(0.6)
Effect of change in financial assumptions	**198.2**	(248.5)	**-**	(2.4)
Effect of employee transfers	**-**	8.3	**-**	-
Effect of experience adjustments	**-**	28.9	**-**	(0.6)
Balance at end of the period	**2,135.8**	1,925.3	**16.9**	16.3
FAIR VALUE OF PLAN ASSETS:				
Balance at beginning of the period	**1,923.9**	1,735.0	**-**	-
Interest Income	**58.9**	67.7	**-**	-
Return on plan assets (excluding interest income)	**116.7**	113.2	**-**	-
Employer contributions	**54.4**	87.9	**0.3**	0.5
Employee contributions	**9.3**	10.9	**-**	-
Benefits paid	**(76.5)**	(97.1)	**(0.3)**	(0.5)
Effect of employee transfers	**-**	8.3	**-**	-
Administration expenses	**(1.4)**	(2.0)	**-**	-
Balance at end of the period	**2,085.3**	1,923.9	**-**	-
Net Defined benefit liability	**(50.5)**	(1.4)	**(16.9)**	(16.3)

B) LONG-TERM EMPLOYEE BENEFIT PLANS

The financial and demographic assumptions used to determine the actuarial valuations of the long-term employee benefit plans were the same assumptions as disclosed in the Corporation's annual financial statements for the year ended December 31, 2013.

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

(IN MILLIONS OF DOLLARS)	September 30, 2014	December 31, 2013
LONG-TERM EMPLOYEE BENEFIT OBLIGATION:		
Balance at beginning of the period	**23.8**	22.0
Service cost	**3.6**	5.4
Interest expense	**0.8**	0.8
Benefits paid	**(4.3)**	(5.8)
Effect of change in demographic assumptions	**-**	0.8
Effect of change in financial assumptions	**-**	(0.2)
Effect of experience adjustments	**-**	0.8
Balance at end of the period	**23.9**	23.8
FAIR VALUE OF PLAN ASSETS:		
Balance at beginning of the period	**-**	-
Employer contributions	**4.3**	5.8
Benefits paid	**(4.3)**	(5.8)
Balance at end of the period	**-**	-
Net long-term employee benefit liability	**(23.9)**	(23.8)

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

C) OTHER LONG-TERM EMPLOYEE BENEFIT PLANS

Other long-term benefit plans include job security benefits administered by various union agreements. These benefits are calculated on an event driven basis and represents managements best estimates of the present value of all future projected payments to unionized employees. Based on the actuarial valuation and projections to September 30, the summary of the principal valuation results is as follows:

(IN MILLIONS OF DOLLARS)	September 30, 2014	December 31, 2013
OTHER LONG-TERM EMPLOYEE BENEFIT OBLIGATION:		
Balance at beginning of the period	**2.2**	4.2
Service cost	**0.6**	(0.6)
Benefits paid	**(0.9)**	(1.4)
Balance at end of the period	**1.9**	2.2
FAIR VALUE OF PLAN ASSETS:		
Balance at beginning of the period	**-**	-
Employer contributions	**0.9**	1.4
Benefits paid	**(0.9)**	(1.4)
Balance at end of the period	**-**	-
Net other long-term employee benefit liability	**(1.9)**	(2.2)

D) SUMMARY OF PENSIONS 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 DOLLARS)	September 30, 2014	December 31, 2013
Liabilities:		
Pension Plans	**(50.5)**	(1.4)
Post-employment benefit plans	**(16.9)**	(16.3)
Long-term employee benefit plans	**(23.9)**	(23.8)
Other long-term employee benefits	**(1.9)**	(2.2)
Net Defined benefit liability	**(93.2)**	(43.7)

Total amounts recognized in the Statement of Operations and Other Comprehensive Income:

(IN MILLIONS OF DOLLARS)	Quarters ended September 30		Nine month periods ended September 30	
	2014	2013	2014	2013
Operating expense:				
Pension Plans	**7.6**	12.1	**22.0**	34.6
Post-employment benefit plans	**0.3**	0.4	**0.9**	1.0
Long-term employee benefit plans	**1.5**	1.5	**4.4**	4.6
Other long-term employee benefits	**0.1**	0.2	**0.6**	0.8
Total	**9.5**	14.2	**27.9**	41.0

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

(IN MILLIONS OF DOLLARS)	Quarters ended September 30		Nine month periods ended September 30	
	2014	2013	2014	2013
Other comprehensive income (loss):				
Pension Plans	**18.6**	(68.3)	**81.5**	(266.9)
Total	**18.6**	(68.3)	**81.5**	(266.9)

13. 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 DOLLARS)	September 30, 2014	December 31, 2013
Balance, beginning of the period	**1,237.4**	1,229.0
Government funding for property, plant and equipment and intangible assets (including the cost of land)	**53.1**	90.8
Amortization of deferred capital funding	**(55.3)**	(82.4)
Balance, end of the period	**1,235.2**	1,237.4

14. DEFERRED REVENUE

Deferred revenue is comprised of the following:

(IN MILLIONS OF DOLLARS)	September 30, 2014	December 31, 2013
Advanced ticket sales	**15.1**	11.1
Gift cards	**2.7**	2.7
Non-monetary transactions	**2.5**	2.3
VIA Préférence	**14.4**	14.0
Other	**1.6**	0.7
Total deferred revenue	**36.3**	30.8

15. COMMITMENTS

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

b) As at September 30, 2014, the Corporation has outstanding major contract commitments amounting to $41.1 million (December 31, 2013: $42.1 million) consisting mainly for the completion of rolling stock refurbishment and infrastructure improvement projects.

c) As mentioned in note 1, the Corporation has entered into train service agreements for the use of tracks and the control of train operations that expire on December 31, 2018.

d) The Corporation has provided letters of credit from a banking institution totalling approximately $30.4 million (December 31, 2013: $28.5 million) to various provincial government workers' compensation boards as security for future payment streams.

16. FINANCIAL INSTRUMENTS

The Corporation financial instruments are exposed to the same risk as disclosed in its annual financial statements for the year ended December 31, 2013.