2012 FIRST QUARTER REPORT

EVOLUTION

TRANSFORMATION

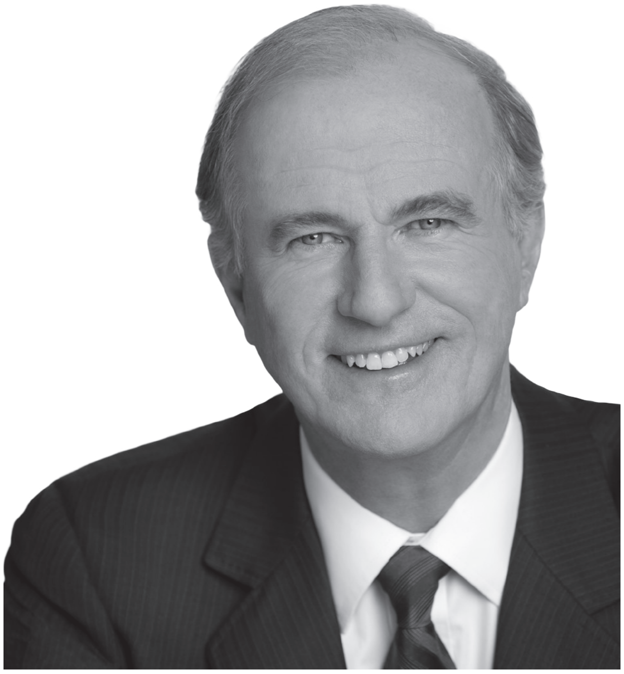
CONNECTION

A GREEN CHOICE

VIA Rail Canada

CONTENT

MESSAGE FROM THE PRESIDENT



Marc Laliberté
President and Chief Executive Officer

VIA faced a number of challenges with respect to revenues and ridership during the first quarter of 2012. While the performance of our long-distance and tourism trains in eastern and western Canada remained more or less consistent with the results achieved in 2011, services in the Windsor – Quebec City corridor did not continue the level of growth experienced last year. This is largely due to a mild winter, which encouraged more car travel, and the launch of new air and commuter rail services in Southwestern Ontario.

We launched a number of marketing initiatives during the quarter to address these challenges, and we will continue to refine our marketing efforts to attract more customers to train travel in the months ahead. At the same time, we have tightened cost controls to help offset lower revenues.

We also made good progress on initiatives to deliver more benefits to our customers, and to support sustainable growth in the future:

/ On-time performance improved significantly over the first quarter of 2011. Reliable on-time performance is the top priority for our customers, and we have made it a priority for all aspects of our operations. Our efforts are delivering excellent results.

- We launched a new schedule for Corridor services in January, offering more departure options for customers, including a new express route travelling between Ottawa-Toronto in less than four hours. These improved services should attract up to 100,000 more customers annually.
- We restructured the organization to integrate all operating activities under one chain of command focused on the customer, and decentralized operating teams into three regions. This brings operating decisions closer to the different markets we serve across Canada.
- We launched a new mobile booking service, which allows customers to reserve seats directly from their smartphones – the first of a number of key milestones in our technology program which are designed to speed up and streamline customer access, improve efficiency and reduce costs.
- We successfully completed 10 more Lean projects – projects which target ways to improve the efficiency of operations, while delivering better value to customers. These projects are part of VIA's corporate-wide Lean management strategy to increase value and eliminate waste.

These initiatives mark our progress as we complete major improvements to tracks, trains, technology and stations funded by the Government of Canada, and sharpen our business focus to capture the benefits of this investment. We are transforming passenger rail to deliver more value to Canadians, and to make passenger rail a more relevant, efficient and financially sustainable service for the future.

In closing, I must also note with great sadness the tragic accident which occurred on February 26, 2012, in Burlington, Ontario. The derailment of VIA train 92 injured some passengers, and took the lives of three locomotive engineers: Ken Simmonds, 56 years old, Peter Snarr, 52 years old, and Patrick Robinson, 40 years old. We are working with the Transportation Safety Board and CN Railway to help determine the cause of this accident. As we continue to mourn the loss of our colleagues and pray for their families, we are ever reminded to be mindful and maintain a continued commitment to safety in all aspects of our operations for our passengers, our employees and all Canadians.

FIRST QUARTER AT A GLANCE

	Q1-2012	Q1-2011
KEY FINANCIAL INDICATORS (IN MILLIONS OF DOLLARS)		
Total passenger revenues	**55.5**	57.1
Total revenues	**60.7**	61.6
Operating expenses	**153.9**	142.6
Government funding	**79.5**	61.7
Amortization of Deferred Capital Funding	**15.8**	11.3
Corporate Tax Expense	**0.5**	0.1
Net income (net loss) and comprehensive income	**1.6**	(8.1)
Capital expenditures	**43.3**	55.8
KEY OPERATING STATISTICS		
Total passenger-miles (IN MILLIONS)	**176**	183
Total seat-miles (IN MILLIONS)	**362**	348
Operating deficit per passenger-mile (IN CENTS) (1)	**53.0**	44.4
Yield (CENTS PER PASSENGER-MILE)	**30.9**	30.9
Train-miles operated (IN THOUSANDS)	**1,640**	1,628
Car-miles operated (IN THOUSANDS)	**9,700**	9,286
Average passenger load factor (%)	**49**	53
Average number of passenger-miles per train mile	**107**	112
On-time performance (%)	**88**	77
Average number of full time employees during the period	**2,716**	2,757

(1) Deficit before amortization of Deferred Capital Funding & Corporate Taxes.

KEY OPERATING STATISTICS BY SERVICE GROUP, FIRST QUARTER 2012

Train Service	Passenger Revenues (IN THOUSANDS)	Passengers (IN THOUSANDS)	Passenger-Miles (IN THOUSANDS)	Goverment Funding (PER PASSENGER MILE)
Windsor-Quebec City Corridor	$ 47,550	869	141,933	$ 0.32
Long-distance and Tourism				
The *Canadian*	3,745	15	16,127	1.06
The *Ocean*	2,962	34	13,687	0.76
Mandatory Services	791	16	4,011	3.09

TRANSFORMATION MILESTONES

VIA is transforming passenger rail in Canada to provide better service to Canadians, improve financial performance, and position rail for future growth.

Since 2007 the Government of Canada has committed $923 million to upgrade tracks, modernize passenger stations, and renew passenger trains and technology. To capture the benefits of this investment, VIA is transforming its own operations to increase efficiency and deliver more value to customers. At the same time it is aligning train services more closely with markets across Canada – matching train schedules, capacity and pricing to market demand.

CAPITAL INVESTMENT

The Transforming VIA website (www.viarail.ca/transformingVIA) provides up-to-date information on many of the train, track and station work currently underway across VIA's network. Image galleries and additional project details create a comprehensive online reference point for all projects.

Tracks

In January 2012 VIA completed a $50 million project to upgrade the portion of tracks it owns in the Windsor-Quebec City corridor (the Alexandria, Smiths Falls and Chatham subdivisions). Improvements will allow trains to run more efficiently, while enhancing the safety and security of train operations.

Work also continued on major projects to increase the capacity of CN-owned track between Brockville and Toronto, which will allow VIA to add more frequencies between Ottawa and Toronto as well as future frequencies between Montreal and Toronto.

Trains

VIA is rebuilding most of its locomotives and passenger cars to extend their life, enhance environmental performance and efficiency, and to provide better comfort and service to customers – including better accessibility for people with special mobility needs.

As of March 31, 2012, 42 of VIA's 53 F-40 locomotives have been completed, along with six (6) of VIA's 59 Renaissance passenger cars and 10 of 98 Light, Rapid, Comfortable (LRC) passenger cars. Six (6) Rail-Diesel (RDC) cars are yet to be completed.

During the quarter, VIA terminated the remainder of the Renaissance contract as well as a portion of the LRC contract as a result of the supplier's failure to meet the delivery schedule. A new schedule for completing this work is under development.

Stations

VIA is upgrading and modernizing key passenger stations across the country to serve customers more efficiently, and to address operational and safety needs.

VIA completed the restoration of the Panorama Lounge in Toronto's Union Station in January, 2012, providing more than twice the space available in the old lounge to Business and Sleeper class customers. The new lounge is one of a number of projects underway at the station to adapt to the increasing volume of customers and make the station a choice destination for passengers before and after their trips.

In March VIA completed the initial phase of construction of a new station in Belleville, Ontario, featuring a new island platform to accommodate a third line of track that will be completed later this year. The new, fully-accessible station will accommodate the growing number of passengers who use the facility each year.

TECHNOLOGY AND CUSTOMER EXPERIENCE

VIA is developing and implementing new technologies to enhance the customer's experience with passenger rail. In March VIA launched a new mobile booking engine, which allows customers with any web-enabled phone to purchase tickets or rail passes, get real-time departure and arrival updates for all Windsor – Quebec City trains, and maintain an online customer profile to make ticket purchases faster and easier. VIA Préférence members can also use the mobile booking engine, in addition to viarail.ca, to redeem their points towards the purchase of rail tickets.

During the first quarter of 2012 VIA also continued testing the use of BlackBerry phones by on-board employees, with all on-board employees expected to be equipped with the devices this year. The system allows staff to access passenger lists and information, as well as real-time train status, and will integrate with VIA's new electronic ticketing technology when it is implemented later this year. Among other benefits, the completed e-ticketing project will allow VIA to simplify and improve the customer experience when seeking schedule information, making reservations, and purchasing tickets. On-board Service Managers, and employees in some stations, will be able to validate tickets using the smartphone alongside a scanner.

VIA also launched a new Train Status Information tracking system, built on its enhanced on-train Wi-Fi platform. The new system uses GPS technology to update information every 10 seconds about the location, speed and direction of all trains in the Corridor.

NEW MONTREAL-OTTAWA-TORONTO SERVICES

VIA introduced new schedules for Montreal-Ottawa-Toronto services in January, including new express trains.

The new Ottawa-Toronto express trains make the non-stop journey in just three hours and 57 minutes. Ottawa customers also have the option of a new late evening departure from Ottawa for Montreal, allowing them to extend their stay in Ottawa beyond the dinner hour. Ottawa-bound travellers from Montreal also now have more end-of-day choices.

These scheduling changes now offer passengers travelling between Montreal and Toronto with two new trains, bringing the total number of weekday departures to ten.

These improvements are made possible by the federal government's major capital investment to improve and increase the capacity of track in the region. As additional infrastructure projects are completed, VIA plans to introduce more trains between Toronto and Montreal.

LEAN MANAGEMENT

Lean Management provides a set of techniques to improve efficiency by analyzing business activities, focusing on the value of those activities to customers, and eliminating wasted effort and resources that do not add value. VIA began implementing Lean Management in 2010-11, training coaches and developing awareness of the process throughout the organization, and launching Lean projects in areas such as improving the on-time performance, resolving customer complaints, and reducing equipment maintenance delays.

VIA has now started to implement the next phase of Lean Management – identifying larger scale projects for improvement, incorporating Lean processes into daily management, and encouraging a Lean corporate culture throughout the organization.

As of March 31, 2012, 13 Lean projects and initiatives had been completed, and another 21 projects were underway.

SOCIAL MEDIA

VIA was one of the first Canadian companies to advertise through online social media services, and has maintained active travel-related blogs for several years. In 2011 VIA expanded its use of social media to connect with customers, communities and stakeholders through Facebook (facebook.com/viarailcanada) and Twitter (twitter.com/via_rail). Along with email, and VIA's award-winning website (viarail.ca), social media helps VIA to maintain a strong online presence. With over 70,000 fans and followers – and growing daily – social media allows VIA to engage in a dynamic dialogue with customers every day.

In February 2012, VIA increased its social media presence with the launch of a new corporate blog, VIA Evolution (VIAEvolution.ca). The blog features weekly commentaries and insights from VIA executives on VIA's business strategy, initiatives and operations, and provides an opportunity to explain the reasoning behind VIA's business decisions. It also provides an opportunity for readers to comment or ask questions about those decisions.

Also in February, VIA co-hosted a live and online discussion on social media in Toronto, as part of the 2012 international Social Media Week. With over 5.6 million online impressions over a three-hour period, and a total of 7.5 million impressions in 48 hours, the event was the week's most popular session.

KEY PERFORMANCE INDICATORS

VIA 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.

	Q1-2012	Q1-2011
Total Revenue per Employee ($000s) YTD revenues divided by the number of employees. A measure of productivity.	**89**	89
Passenger Revenues per Available Seat-Mile (¢) Revenues divided by available seat-miles.	**15**	16
Direct Costs per Available Seat-Mile (¢) Direct costs divided by available seat-miles.	**24**	25
On-Time Performance (%) Excludes mandatory services	**88**	77
Employee Attendance (%) Total hours of absences per month divided by the total possible work hours per month.	**92**	91
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**	3

COMMUNITY AND GOVERNANCE

SAFETY OUTREACH

In February, 2012, a train derailment in Burlington, Ontario, caused the tragic death of three VIA locomotive engineers and injured several passengers. The Corporation is collaborating with the authorities investigating the accident, such as the Transportation Safety Board and its railway partner CN, owner of the track where the derailment occurred.

The vast majority of rail safety incidents occur at intersections where roads cross rail tracks, or involve pedestrians trespassing on rail property. During the first quarter of 2012 there were six (6) such incidents and five (5) related injuries and fatalities.

These types of incidents are often caused by people underestimating the risks of trespassing on rail property or trying to cross tracks in front of trains. VIA has developed a comprehensive community outreach program to help educate and raise public awareness of these dangers.

VIA continues to work with communities, schools, and law enforcement agencies to identify high-risk crossings and areas. For example, in Q1 VIA met with local authorities and CN police in Belleville, Ontario to discuss one such high risk crossing area. As a result, and in consultation with the community and industry partners, VIA developed of a comprehensive plan to support future Rail Safety Week public awareness activities in the Belleville area.

VIA also works with the owners of private property where road-rail crossings are located, encouraging them to eliminate these danger points through Transport Canada's Closure Crossing Program. These efforts earned VIA a safety award from the Railway Association of Canada in 2011, and continued to be a priority in the first quarter of 2012.

Additionally, during the first quarter of 2012, VIA's senior director for safety became a member of the International Rail Safety Conference (IRSC). The IRSC offers a forum for senior executives responsible for the management of rail safety to exchange experience and lessons to improve rail safety overall.

THE BOARD OF DIRECTORS

The Board of Directors consists of the Chairperson, the President and Chief Executive Officer and 11 other directors appointed by the Government of Canada. The Board is responsible for overseeing the strategic direction and management of the Corporation, and reports on VIA's operations to Parliament.

During the first quarter of 2012, one Board Meeting and five Board Committee meetings were held. The overall average attendance rate of Board members at these meetings was 100%. Cumulative fees for Board members during this time period totaled $27,549.

OFFICIAL LANGUAGES

VIA received no complaints under the Official Languages Act during the first quarter of 2012, and no complaints were outstanding.

VIA was a sponsor of the Rendez-vous de la Francophonie, an event associated with the Journée Internationale de la Francophonie. Celebrated on March 20 every year, the event promotes the French language and its many cultural expressions.

ACCESS TO INFORMATION AND PRIVACY

VIA is committed to responding promptly to information requests under the Access to Information Act and the Privacy Act. During the first quarter of 2012 VIA received 12 new requests, which were in progress at the end of the quarter.

COMMUNITY INVOLVEMENT

VIA 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's website.

During the first quarter of 2012, VIA supported 550 non-profit and charitable organizations with travel credit donations representing $385,459.

TRAVEL, HOSPITALITY AND CONFERENCE EXPENSES

The following travel, hospitality and conference expenses were submitted during the first quarter of 2012:

Paul G. Smith, Chairman of the Board - $586

Marc Laliberté, President and CEO - $6,943

Executive management committee members - $24,120

Board of Directors members – $16,140

Travel expenses submitted by the Board of Directors reflect the diverse geographical locations of the members.

MANAGEMENT DISCUSSION AND ANALYSIS

This is a review of VIA Rail Canada's operations, performance and financial position for the quarter ended March 31, 2012, compared with the quarter ended March 31, 2011. It should be read in conjunction with the unaudited interim condensed financial statements and notes.

The unaudited interim condensed financial statements are prepared in accordance with International Financial Reporting Standards (IFRS).

1. FINANCIAL HIGHLIGHTS

	Quarters ended March 31			
IN MILLIONS OF CANADIAN DOLLARS	**2012**	2011	Var $	Var %
Passsenger Revenues	**55.5**	57.1	(1.6)	(2.8)
Total Revenues	**60.7**	61.6	(0.9)	(1.5)
Operating expenses	**(153.9)**	(142.6)	(11.3)	(7.9)
Operating deficit before funding from Government of Canada and corporate taxes	**(93.2)**	(81.0)	(12.2)	(15.0)
Operating funding from Government of Canada	**79.5**	61.7	17.8	28.8
Amortization of deferred capital funding	**15.8**	11.3	4.5	39.8
Corporate taxes	**(0.5)**	(0.1)	(0.4)	n/a
Net income and comprehensive income for the quarter	**1.6**	(8.1)	9.7	119.6

Revenues have decreased by 1.5 percent compared to last year; passenger-miles have decreased by 3.9 percent, partly offset by higher yields achieved in the Windsor-Quebec City corridor and Long-distance and tourism routes.

Operating expenses rose by $11.3M, the increase mainly due to higher employee benefit costs.

As a result, the Operating deficit before funding from the Government of Canada, amortization of deferred capital funding and corporate taxes has increased by $12.2M.

For the quarter:

Compared with the quarter ended March 31, 2011:

/ Revenues have decreased by 1.5 percent and total $60.7M for the quarter;

/ Operating expenses before corporate taxes and amortization of deferred capital funding have increased by 7.9 percent and amount to $153.9M for the quarter;

/ Funding from Government of Canada increased by $17.8M to $79.5M for the quarter;

/ There is a net profit of $1.6M for the quarter, compared to a loss of $8.1M for the same quarter of 2011.

2. HIGHLIGHTS OF OPERATING RESULTS

a) Passenger Revenues

	REVENUES (IN '000 000$)				PASSENGER MILES (IN '000 000)			
	Quarters ended March 31				Quarters ended March 31			
	2012	2011	Var $	Var %	**2012**	2011	Var $	Var %
Corridor East	**36.8**	37.3	(0.5)	(1.3)	**112.5**	116.6	(4.1)	(3.5)
Southwestern Ontario (SWO)	**10.8**	11.9	(1.1)	(9.2)	**29.5**	33.0	(3.5)	(10.6)
Ocean	**3.0**	2.6	0.4	15.4	**13.7**	12.2	1.5	12.3
Canadian	**3.7**	3.7	0.0	0.0	**16.1**	15.4	0.7	4.5
Mandatory Services	**0.8**	1.2	(0.4)	(33.3)	**4.0**	5.8	(1.8)	(31.0)
Other	**0.4**	0.4	0.0	0	**-**	-	-	-
TOTAL	**55.5**	57.1	(1.6)	(2.8)	**175.8**	183.0	(7.2)	(3.9)

Passenger revenues total $55.5M for the quarter, a decrease of 2.8 percent compared to the corresponding quarter last year. The decrease stems from lower ridership, resulting from the combination of milder winter conditions in the Corridor (which encouraged more car travel) and increased competition from airline and bus companies in the Corridor (including the launch of new air services in Southwestern Ontario). The decrease in passenger volume was partly offset by higher yields in the Windsor-Quebec City corridor and Long-distance and tourism routes achieved through the Corporation's revenue management program.

For the quarter:

- Corridor East revenues are 1.3 percent below last year, and result mainly from lower ridership (3.5 percent less passenger miles), partly offset by higher yields (+2.3 percent). The decrease in passenger-miles during the quarter was more significant than the decrease of passengers, reflecting the fact that the erosion of ridership affected end to end markets;
- Revenues in SWO have decreased by 9.2 percent also as a result of lower ridership (10.6 percent less passenger-miles), partly offset by higher yields (+1.5 percent);
- Revenues on the *Ocean* have grown by 15.4 percent, due to increased volume (+12.3 percent passenger-miles) combined with higher yields (+2.8 percent);
- Revenues on the *Canadian* have remained stable. Passenger volumes increased compared to last year (4.5 percent more passenger-miles), but yields decreased (-4.3 percent) due to the fact that ridership grew in Economy where average fares are lower compared to Sleeper class;
- Mandatory services have generated lower revenues (-33.3 percent), the decrease directly attributable to the situation affecting the Montreal-Gaspé service. The train service cannot be provided all the way to Gaspé because of poor track conditions, the train therefore stops at Campbellton where passengers are transferred on a bus and taken to Gaspé. This situation has had a negative impact on ridership.

b) Operating Expenses

	Quarters ended March 31			
IN MILLIONS OF CANADIAN DOLLARS	**2012**	2011	Var $	Var %
Compensation & Benefits	**72.1**	66.4	5.7	8.6
Train Operations & Fuel	**32.4**	29.3	3.1	10.6
Other operating expenses	**52.6**	52.1	0.5	1.0
Unrealized loss (gain) on derivative financial instruments	**(2.4)**	(4.0)	1.6	40.0
Realized loss (gain) on derivative financial instruments	**(0.8)**	(1.2)	0.4	33.3
Total Operating expenses before amortization of deferred capital funding & corporate tax expense	**153.9**	142.6	11.3	7.9
Corporate taxes	**0.5**	0.1	0.4	n/a
TOTAL OPERATING EXPENSES BEFORE AMORTIZATION OF DEFERRED CAPITAL FUNDING	**154.4**	142.7	11.7	8.2

For the quarter:

- Operating expenses before amortization of deferred capital funding & corporate tax expense increased by $11.3M and total $153.9M for the quarter, mainly due to higher compensation and benefit costs (due to higher employee benefit costs), as well as higher train operations and fuel costs (including the impact of the realized gain on fuel hedging).

3. CAPITAL INVESTMENTS

Fixed assets (net of accumulated depreciation) amount to $1,178.6M, up $26.5M compared to the balance as at December 31, 2011. Capital investments for the quarter totaled $43.3M.

- Investments of $19.2M were made in major infrastructure projects, mostly on the CN Kingston subdivision of the Montreal-Toronto line. Work is done to add sections of a third track between Montreal and Toronto to minimize congestion;
- A total of $19.4M was invested in major equipment projects, including $8.7M for the F-40 locomotive fleet rebuild project, $4.8M for the HEP1 Modernization and Park Car Prototype projects, and $2.5M for the LRC car fleet rebuild project;
- Investments of $2.6M were made in Information Technology projects during the quarter;
- An total of $1.2M was invested in Station upgrade projects;

4. CASH FLOW AND FINANCIAL POSITION

The Corporation's cash balance is $15.0M as at March 31, 2012, up $1.7M compared to December 31, 2011.

The increase in cash position during the quarter is due to the proceeds generated from the sale of property, plant and equipment and intangible assets.

5. RISK ANALYSIS

RISK	TREND	CURRENT SITUATION
CAPITAL INVESTMENT PROJECTS Major delays in infrastructure or equipment projects, or an increase in project costs would adversely affect VIA's financial performance.		Issues concerning the production timelines of specific equipment projects have materialized and could delay the generation of benefits resulting from the completion of these projects. Since the begining of the year, VIA terminated the remainder of the Renaissance contract as well a portion of the LRC contract as a result of the supplier's failure to meet the delivery schedule. A new schedule for completion of work is under development.
PASSENGER REVENUES Passenger revenues and ridership have been declining since the fourth quarter of 2011.		VIA continues to implement initiatives to mitigate the impact of slow growth in passenger revenues. These include optimizing train services between Montreal, Ottawa and Toronto in growing markets, the introduction of new low fare product and through information technology improvements that support revenue generation initiatives.
OPERATING FUNDING VIA continues to face operational funding challenges.		The Corporation is pursuing the development and the implementation of a range of initiatives to reduce its deficit by reducing costs and increasing revenues. Furthermore, VIA continues to work with Transport Canada to address the challenge of operating loss and develop sustainable funding solutions.
PENSION COSTS Pension costs could increase significantly given current and projected discount rates as well as demographics.		Management will propose changes to the Pension plan programs to minimize cost increases and ensure costs are contained as much as possible.

 INCREASING  STABLE  DECREASING

RISK	TREND	CURRENT SITUATION
CAPITAL FUNDING VIA will need to continue investing in equipment, stations, maintenance systems, facilities and information technology after 2011, 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 a $60M envelope for the 2012-2013 year but ongoing capital funding will still be required for the future years.
RETIREMENT OF LOCOMOTIVE ENGINEERS VIA is dependant on the specialized set of skills of the engineers who operate its locomotives. More than half of VIA's locomotive engineers could retire by the end of the year 2015, and if VIA were to experience a substantial turnover in its locomotive engineer group, its business could be adversely affected.		The Corporation launched, in December 2010, a training program for new locomotive engineers, with the first class scheduled to graduate in 2012. An additional class has started in October 2011 and another additional class started in 2012, all of which will graduate at the end of 2012.
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.		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. Furthermore, 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.
CROSSING INCIDENTS VIA's trains operate through many protected and unprotected level road crossings where vehicles can cross and where incidents/accidents could occur.		VIA has developed a crossing improvement (protection, fences) and closure program. The Corporation works actively with communities and owners of the land where there are crossings. The objectives of the program are to close crossings where possible and to increase public awareness about the potential dangers they represent.

INCREASING STABLE DECREASING

6. OUTLOOK

The performance of revenues has been below expectations during the quarter, as ridership continued to decline.

Given the current situation, VIA has put in place its contingency plan to minimize the adverse impact that the uncertain economic conditions and sustained competition from airlines and bus companies have had on revenues during the quarter. This plan includes initiatives to stimulate revenues and measures to ensure that expenses are reduced so that authorized funding levels are respected.

VIA is also continuing to fine-tune its services, schedules and fares to serve markets more efficiently, and integrate passenger rail with other modes of public transportation services.

At the same time, VIA is focusing on completing its capital investment projects and will ensure that passenger rail delivers better value to more Canadian travellers, while maintaining rigorous control over operating costs.

INTERIM CONDENSED
FINANCIAL
STATEMENTS

MANAGEMENT'S RESPONSIBILITY STATEMENT

QUARTER ENDED MARCH 31, 2012

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.

Marc Laliberté
President
and Chief Executive Officer

Robert St-Jean, CA
Chief Financial
and Administration Officer

Montréal, Canada
May 29, 2012

INTERIM CONDENSED FINANCIAL STATEMENTS

Statement of Financial Position

As at (IN THOUSANDS OF CANADIAN DOLLARS)	March 31, 2012 (unaudited)	December 31, 2011 (audited)
CURRENT ASSETS		
Cash and cash equivalents	**$ 14,965**	$ 13,253
Accounts receivable, trade	**9,852**	10,707
Prepaids, advances on contracts and other receivables	**8,462**	11,147
Receivable from the Government of Canada	**7,323**	-
Derivative financial instruments	**4,304**	2,225
Materials	**21,836**	21,287
Asset Renewal Fund (NOTE 8)	**16,488**	24,022
	83,230	82,641
NON-CURRENT ASSETS		
Property, plant and equipment (NOTE 6)	**826,718**	814,876
Intangible assets (NOTE 7)	**351,904**	337,182
Asset Renewal Fund (NOTE 8)	**11,484**	9,881
Accrued benefit asset (NOTE 11)	**185,649**	186,937
	1,375,755	1,348,876
Total assets	**$ 1,458,985**	$ 1,431,517
CURRENT LIABILITIES		
Accounts payable and accrued liabilities (NOTE 9)	**$ 101,779**	$ 103,841
Provisions (NOTE 10)	**15,686**	18,050
Deferred government funding	**-**	6,148
Derivative financial instruments	**818**	1,173
Deferred revenues	**35,472**	26,734
	153,755	155,946
NON-CURRENT LIABILITIES		
Accrued benefit liability (NOTE 11)	**35,676**	35,425
Deferred corporate tax liabilities	**411**	-
Deferred investment tax credits	**495**	566
	36,582	35,991
DEFERRED CAPITAL FUNDING (NOTE 12)	**1,171,224**	1,143,800
SHAREHOLDER'S EQUITY		
Share capital	**9,300**	9,300
Retained earnings	**88,124**	86,480
	97,424	95,780
Total liabilities and shareholder's equity	**$ 1,458,985**	$ 1,431,517

Commitments (Notes 13)

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

Approved on behalf of the Board,

Eric L. Stefanson, FCA
Director and Chairman
of the Audit, Risk and Finance Committee

Paul G. Smith
Director and Chairman of the Board

INTERIM CONDENSED FINANCIAL STATEMENTS

Statement of Operations and Comprehensive Income

(IN THOUSANDS OF CANADIAN DOLLARS) (UNAUDITED) Quarter ended March 31	2012	2011
REVENUES		
Passenger	**$ 55,477**	$ 57,067
Other	**5,212**	4,580
	60,689	61,647
EXPENSES		
Compensation and employee benefits	**72,139**	66,404
Train operations and fuel	**32,388**	29,344
Stations and property	**9,407**	9,588
Marketing and sales	**7,704**	7,572
Maintenance material	**8,173**	9,319
On-train product costs	**3,266**	3,195
Operating taxes	**2,487**	3,122
Professional services	**1,980**	1,472
Amortization and losses on write-down and disposal of property, plant and equipment and intangible assets (NOTES 6 AND 7)	**15,612**	11,617
Unrealized net gain on derivative financial instruments	**(2,434)**	(3,996)
Realized gain on derivative financial instruments	**(802)**	(1,220)
Other	**3,986**	6,266
	153,906	142,683
OPERATING LOSS BEFORE FUNDING FROM THE GOVERNMENT OF CANADA AND CORPORATE TAXES	**93,217**	81,036
Operating funding from the Government of Canada	**79,495**	61,715
Amortization of deferred capital funding (NOTE 12)	**15,852**	11,324
Income (loss) before corporate taxes	**2,130**	(7,997)
Corporate tax expense	**486**	84
NET INCOME (NET LOSS) AND COMPREHENSIVE INCOME FOR THE PERIOD	**$ 1,644**	$ (8,081)

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

Statement of changes in Shareholder's Equity

(IN THOUSANDS OF CANADIAN DOLLARS) (UNAUDITED) Quarter ended March 31	2012	2011
BALANCE, BEGINNING OF PERIOD	**$ 95,780**	$ 75,630
Net income (net loss) and comprehensive income for the period	**1,644**	(8,081)
BALANCE, END OF PERIOD	**$ 97,424**	$ 67,549

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

INTERIM CONDENSED FINANCIAL STATEMENTS

Statement of Cash Flows

(IN THOUSANDS OF CANADIAN DOLLARS) (UNAUDITED) Quarter ended March 31	2012	2011
OPERATING ACTIVITIES		
Net income (net loss) and comprehensive income for the period	**$ 1,644**	$ (8,081)
Adjustments to determine net cash (used in) from operating activities:		
Amortization of property, plant and equipment and intangible assets	**13,729**	11,089
Losses on write-down and disposal of property, plant and equipment and intangible assets	**1,954**	627
Amortization of deferred investment tax credits	**(71)**	(99)
Amortization of deferred capital funding	**(15,852)**	(11,324)
Interest income	**(229)**	(242)
Deferred corporate taxes	**411**	-
Change in fair value of financial instruments (Asset renewal fund)	**(374)**	(456)
Unrealized net gain on derivative financial instruments	**(2,434)**	(3,996)
Net change in non-cash working capital items	**(7,459)**	(35,841)
Change in accrued benefit asset	**1,288**	(1,951)
Change in accrued benefit liability	**251**	301
Change in other non-current liabilities	**-**	(66)
Net cash used in operating activities	**(7,142)**	**(50,039)**
FINANCING ACTIVITIES		
Capital funding	**43,276**	66,671
Change in capital funding receivable from the Government of Canada	**4,524**	(6,671)
Net cash provided by financing activities	**47,800**	**60,000**
INVESTING ACTIVITIES		
Acquisition of investments in the Asset Renewal Fund	**(24,584)**	(39,836)
Proceeds from sale and maturity of investments in the Asset Renewal Fund	**30,889**	43,723
Change in Capital accounts payable and accrued liabilities	**(3,233)**	(18,386)
Acquisition of property, plant and equipment and intangible assets	**(43,270)**	(55,777)
Interest received	**229**	242
Proceeds from disposal of property, plant and equipment and intangible assets	**1,023**	56
Net cash used in investing activities	**(38,946)**	**(69,978)**
CASH AND CASH EQUIVALENTS		
Increase (decrease) during the period	**1,712**	(60,017)
Balance, beginning of period	**13,253**	76,829
BALANCE, END OF PERIOD	**$ 14,965**	$ **16,812**
REPRESENTED BY:		
Cash	**$ 6,418**	$ 2,188
Short-term investments	**8,547**	14,624
	$ 14,965	$ **16,812**

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

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

AS AT MARCH 31, 2012 (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 offer the best travel experience in Canada with a mission to work together to exceed customer expectations every time. 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 May 29, 2012.

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, 2011, 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 in these unaudited interim condensed financial statements are disclosed in note 4 of the Corporation's annual financial statement for the year ended December 31, 2011. The accounting policies have been applied consistently to all periods presented.

4. 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.

Estimates and underlying assumptions are reviewed on an ongoing basis. 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, 2011.

5. RECONCILIATION OF NET INCOME AND COMPREHENSIVE INCOME 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 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 a IFRS basis. These differences are outlined below:

(IN MILLIONS OF DOLLARS) Quarter ended March 31	2012	2011
Net income (net loss) and comprehensive income for the period	**1.6**	(8.1)
Items not requiring (not providing) operating funds:		
Amortization of property, plant and equipment and intangible assets	**13.7**	11.1
Losses on write-down and disposal of property, plant and equipment and intangible assets	**2.0**	0.6
Amortization of deferred capital funding	**(15.9)**	(11.3)
Employee benefits to be funded in subsequent years	**1.6**	(1.6)
Deferred corporate taxes expense	**0.4**	-
Unrealized net gain on derivative financial instruments	**(2.4)**	(4.0)
Adjustment for accrued compensation	**(5.9)**	(5.5)
Increase in investment's fair value	**(0.4)**	(0.5)
Other	**-**	0.4
Operating funding deficit for the period	**(5.3)**	(18.9)

6. PROPERTY, PLANT AND EQUIPMENT

(IN MILLIONS OF DOLLARS)	December 31, 2011	Additions	Retirement and Disposals	March 31, 2012
Cost:				
Land	9.6	0.2	-	**9.8**
Rolling stock	823.4	11.6	(10.7)	**824.3**
Maintenance buildings	138.4	-	(0.2)	**138.2**
Stations and facilities	64.2	16.0	-	**80.2**
Owned infrastructures	164.6	0.9	-	**165.5**
Leasehold improvements	73.6	-	(0.2)	**73.4**
Machinery and equipment	36.2	0.2	(0.1)	**36.3**
Computer hardware	12.7	-	(0.7)	**12.0**
Other property, plant and equipment	22.5	-	(0.3)	**22.2**
Total cost	1,345.2	28.9	(12.2)	**1,361.9**
Accumulated amortization and impairments:				
Rolling stock	386.5	6.9	(7.6)	**385.8**
Maintenance buildings	83.6	1.0	-	**84.6**
Stations and facilities	29.5	0.6	-	**30.1**
Owned infrastructures	51.4	1.1	-	**52.5**
Leasehold improvements	49.2	0.6	(0.2)	**49.6**
Machinery and equipment	27.1	0.3	(0.1)	**27.3**
Computer hardware	9.8	0.3	-	**10.1**
Other property, plant and equipment	19.6	-	-	**19.6**
Total accumulated amortization and impairments	656.7	10.8	(7.9)	**659.6**
Project in progress	126.3	26.4	(28.4)	**124.3**
Retired assets	0.1	-	-	**0.1**
Total net carrying amount	814.9	44.5	(32.7)	**826.7**

7. INTANGIBLE ASSETS

(IN MILLIONS OF DOLLARS)	December 31, 2011	Additions	Retirement and Disposals	Reclassification	March 31, 2012
Cost:					
Internally generated software	54.3	2.1	-	-	**56.4**
Right of access to rail infrastructure	173.4	0.6	-	-	**174.0**
Other intangible	3.5	-	-	-	**3.5**
Total cost	231.2	2.7	-	-	**233.9**
Accumulated amortization and impairments:					
Internally generated software	46.9	1.1	-	0.7	**48.7**
Right of access to rail infrastructure	43.9	1.6	-	-	**45.5**
Other intangible	1.5	-	-	(0.7)	**0.8**
Total accumulated amortization and impairments	92.3	2.7	-	-	**95.0**
Project in progress	198.3	16.8	(2.1)	-	**213.0**
Total net carrying amount	337.2	16.8	(2.1)	-	**351.9**

8. ASSET RENEWAL FUND

CHANGES IN THE ASSET RENEWAL FUND

The changes in the closing balance of the Asset Renewal Fund resulted from the following movements during the period:

(IN MILLIONS OF DOLLARS)	March 31, 2012	December 31, 2011
Balance at beginning of the period	**33.9**	40.9
Proceeds from sale or lease of surplus assets	**1.1**	0.5
Investment Income	**0.1**	0.4
Change in fair value	**0.3**	0.4
Less: Cash drawdown during the period	**(7.5)**	(8.3)
Balance at end of the period	**27.9**	33.9

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The Accounts payable and accrued liabilities balance includes the following:

(IN MILLIONS OF DOLLARS)	March 31, 2012	December 31, 2011
Wages payable and accrued	**43.9**	39.6
Capital Payables	**23.3**	26.6
Trade payables	**26.8**	29.5
Capital tax, income tax and other taxes payable	**7.1**	7.0
Other	**0.7**	1.1
	101.8	103.8

10. PROVISIONS

The provision balance includes:

(IN MILLIONS OF DOLLARS)	December 31, 2011	Charge (used)	Reversal (used)	Reversal (not used)	Other movements	March 31, 2012
Environmental costs	0.2	-	-	-	-	**0.2**
Litigation and contractual disputes	14.5	6.6	(4.0)	(4.5)	-	**12.6**
Restructuring costs	3.0	-	(0.5)	-	-	**2.5**
Other	0.4	-	-	-	-	**0.4**
Total provisions	18.1	6.6	(4.5)	(4.5)	-	**15.7**

LITIGATION AND CONTRACTUAL DISPUTES

The Corporation is subject to claims and legal proceedings brought against it in the normal course of business. 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.

On February 26, 2012, a train derailment with fatalities occurred. A class action suite was filed in the court of Ontario. The Corporation has recorded a provision for this accident.

In March of 2012, the corporation settled an outstanding matter before the Canadian Industrial Relations Board (CIRB) involving a restructuring of its labour force in 1997. The Corporation is no longer providing for this arbitration matter.

11. 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 BENEFITS PLANS

Based on these actuarial valuations and projections to March 31, the summary of the principal valuation results, in aggregate, excluding the self-insured workers' compensation benefits is as follows:

(IN MILLIONS OF DOLLARS)	Pension Plans		Post-employment Benefit Plans	
	March 31, 2012	December 31, 2011	March 31, 2012	December 31, 2011
ACCRUED BENEFIT OBLIGATION:				
Balance at beginning of the period	**1,860.5**	1,593.5	**16.8**	13.6
Current service cost	**7.2**	24.7	**0.2**	0.4
Interest cost	**20.8**	87.2	**0.2**	0.8
Plan amendment	**-**	-	**-**	0.6
Employee contributions	**2.6**	10.1	**-**	-
Benefits paid	**(23.4)**	(92.8)	**(0.2)**	(0.6)
Actuarial losses	**-**	237.8	**-**	2.0
Balance at end of the period	**1,867.7**	1,860.5	**17.0**	16.8
FAIR VALUE OF PLAN ASSETS:				
Balance at beginning of the period	**1,586.1**	1,588.2	**-**	-
Expected return on plan assets	**22.4**	97.7	**-**	-
Actuarial loss	**-**	(61.2)	**-**	-
Employer contributions	**11.1**	44.1	**0.2**	0.6
Employee contributions	**2.6**	10.1	**-**	-
Benefits paid	**(23.4)**	(92.8)	**(0.2)**	(0.6)
Balance at end of the period	**1,598.8**	1,586.1	**-**	-

(IN MILLIONS OF DOLLARS) Quarter ended March 31	2012	2011
Components of Pension cost:		
Current service cost	**7.2**	6.4
Interest cost	**20.8**	21.6
Expected return on plan assets	**(22.4)**	(24.2)
Actuarial loss recognized in the period	**7.0**	0.3
Total pension cost	**12.6**	4.1
Components of Post-employment benefit cost:		
Current service cost	**0.2**	0.1
Interest cost	**0.2**	0.2
Vested Past service cost	**0.1**	0.1
Total post-employment benefit costs	**0.5**	0.4

Amounts Recognized in the Statement of financial position:

(IN MILLIONS OF DOLLARS)	Pension Plans		Post-employment Benefit Plans	
	March 31, 2012	December 31, 2011	March 31, 2012	December 31, 2011
Benefit obligation	**(1,867.7)**	(1,860.5)	**(17.0)**	(16.8)
Fair value of plan assets	**1,598.8**	1,586.1	**-**	-
Deficit	**(268.9)**	(274.4)	**(17.0)**	(16.8)
Unamortized past service costs	**-**	-	**0.6**	0.7
Unamortized net actuarial loss	**454.5**	461.3	**3.6**	3.6
Net asset (liability)	**185.6**	186.9	**(12.8)**	(12.5)

B) LONG-TERM EMPLOYEE BENEFIT PLANS

Based on these actuarial valuations and projections to March 31, 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)	March 31, 2012	December 31, 2011
ACCRUED BENEFIT OBLIGATION:		
Balance at beginning of the period	**22.2**	20.9
Current service cost	**1.3**	5.0
Interest cost	**0.2**	1.0
Benefits paid	**(1.5)**	(6.6)
Actuarial losses	**-**	1.9
Balance at end of the period	**22.2**	22.2
FAIR VALUE OF PLAN ASSETS:		
Balance at beginning of the period	**-**	-
Employer contributions	**1.5**	6.6
Benefits paid	**(1.5)**	(6.6)
Balance at end of the period	**-**	-

Components of cost:

(IN MILLIONS OF DOLLARS) Quarter ended March 31	2012	2011
Current service cost	**1.3**	1.3
Interest cost	**0.2**	0.2
Total cost	**1.5**	1.5

Amounts Recognized in the Statement of financial position:

(IN MILLIONS OF DOLLARS)	March 31, 2012	December 31, 2011
Benefit obligation	**(22.2)**	(22.2)
Fair value of plan assets	**-**	-
Net liability	**(22.2)**	(22.2)

C) SUMMARY OF PENSIONS PLANS, POST-EMPLOYMENT BENEFIT PLANS AND LONG-TERM EMPLOYEE BENEFIT PLANS RECOGNIZED IN THE FINANCIAL STATEMENTS

Total amounts recognized in the Statement of financial position:

(IN MILLIONS OF DOLLARS)	March 31, 2012	December 31, 2011
Assets:		
Pension Plans	**185.6**	186.9
Liabilities:		
Post-employment benefit plans	**(12.8)**	(12.5)
Long-term employee benefit plans	**(22.2)**	(22.2)
Network Restructuring obligation	**(0.7)**	(0.7)
Total	**(35.7)**	(35.4)

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

(IN MILLIONS OF DOLLARS) Quarter ended March 31	2012	2011
Pension Plans	**12.6**	4.1
Post employment Benefit Plans	**0.5**	0.4
Long-term employee benefit plans	**1.5**	1.5
Total	**14.6**	6.0

12. 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)	March 31, 2012	December 31, 2011
Balance, beginning of the period	**1,143.8**	965.6
Government funding for property, plant and equipment and intangible assets (including the cost of land)	**43.3**	224.7
Amortization of deferred capital funding	**(15.9)**	(46.5)
Balance, end of the period	**1,171.2**	1,143.8

13. COMMITMENTS

As at March 31, 2012, the Corporation has outstanding major contract commitments amounting to $137.6 million (December 31, 2011: $182.8 million) consisting mainly in maintenance and completion of rolling stock refurbishment projects. The Corporation expects to make payments under these commitments over the next 2 years.

In the first quarter of 2012 the Corporation decided to cancel some major contracts involving the refurbishment of rail passenger cars. These cancellations have caused a reduction in the amount of the commitments but the costs related to the required completion of these projects will have a financial impact on the Corporation.

14. FINANCIAL INSTRUMENTS

The Corporation's financial instruments are exposed to the same risk as disclosed in its annual IFRS financial statements for the year ended December 31, 2011.

15. SUBSEQUENT EVENTS

On April 11 2012, the Corporation cancelled a contract with a supplier of an equipment overhaul project. The total value of this contract was $75.0 million. The amount of work in process as at March 31, 2012 was $16.0 million. The Corporation cannot, at this time, estimate the financial impact of this event.