2011 SECOND QUARTER REPORT

CONNECTION

TRANSFORMATION

EVOLUTION

A GREEN CHOICE

VIA Rail Canada

CONTENT

MESSAGE FROM THE PRESIDENT

VIA performed well during the second quarter of 2011, with revenues and ridership continuing the momentum for growth achieved since the beginning of the year. Total revenues were four (4) percent higher compared to the second quarter of 2010, and year-to-date revenues are five (5) percent higher than last year.

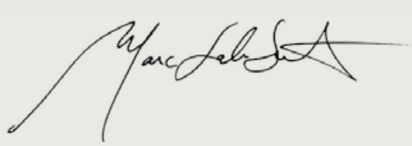
Our focus on eliminating waste, increasing productivity and containing costs also delivered good results. Operating expenses before pension costs and corporate taxes were slightly lower than in the second quarter of 2010. Direct operating costs per available seat mile were reduced by 10 percent compared with the second quarter of 2010. As a result, VIA has reduced its operating deficit before government funding and corporate taxes by close to two (2) million dollars for the quarter and five (5) million dollars when including the first quarter.

At the same time, we continued to enhance the quality of service we deliver, building better connections with our customers, other passenger services, and the communities we serve.

Recently launched partnerships with GO Transit and other transportation partners now provide more integrated travel connection solutions to our customers. Online, our new social media strategy, which has already been cited as a good example of how to connect with customers, enhances VIA's presence, allowing customers to reach us quickly through forums such as Facebook and Twitter. Through our capital investment program, customers are also enjoying better Internet connections thanks to a much improved mobile Wi-Fi service on our trains. In fact, as progress continues, VIA's service is being recognized by some as the fastest mobile Wi-Fi in the transportation world. Moreover, our first Annual Public Meeting in June provided an excellent forum for a public discussion of VIA's performance and plans for the future, including a live simultaneous webcast for those who could not attend in person.

During this quarter the Teamsters Canada Rail Conference (TCRC), representing VIA's locomotive engineers and yardmasters, ratified a four-year contract with VIA. Following the agreement reached last year with the Canadian Auto Workers (CAW), this provides stability for VIA's operations and for VIA's customers. It also ensures that the corporation is prepared to address future challenges as a team.

This is critical as we prepare for the future. The progress we are making on key equipment, infrastructure and station investment projects makes 2011 a pivotal year, and it will allow us to introduce more trains, more frequent services, and faster trip times in 2012.



Marc Laliberté
President and Chief Executive Officer

OUR BUSINESS

VIA Rail operates Canada's national passenger rail service on behalf of the Government of Canada. An independent Crown corporation established in 1977, VIA provides a safe, efficient and environmentally responsible service in both official languages from coast to coast. VIA operates up to 500 trains weekly on 12,500 kilometres of track, connecting over 450 Canadian communities. With approximately 2,800 employees, VIA carried more than 4.1 million passengers in 2010.

2011: SECOND QUARTER AT A GLANCE

(IN MILLIONS OF DOLLARS)	Q2-2011	Q2-2010	YTD 2011	YTD 2010
KEY FINANCIAL INDICATORS				
Total passenger revenue	**64.5**	62.5	**121.6**	116.1
Total revenue	**69.1**	66.4	**130.8**	124.1
Operating expenses	**131.3**	132.8	**262.0**	270.0
Pension expense	**9.7**	7.2	**21.7**	12.0
Total operating expenses	**141.0**	140.0	**283.7**	282.0
Government funding	**75.7**	80.0	**137.4**	136.0
Amortization of deferred capital funding	**9.7**	11.6	**21.0**	22.8
Corporate tax expense	**(3.8)**	0.1	**(3.7)**	0.2
Net gain (loss) for the quarter	**17.3**	17.9	**9.2**	0.7
Capital expenditures	**54.5**	50.2	**110.3**	105.7
KEY OPERATING STATISTICS				
Total passenger-miles (IN MILLIONS)	**206**	208	**389**	384
Total seat-miles (IN MILLIONS)	**388**	375	**736**	704
Government operating funding per passenger-miles (IN CENTS)	**34.9**	35.3	**39.3**	41.1
Yield (CENTS PER PASSENGER-MILE)	**31.0**	29.9	**31.0**	29.9
Train-miles operated (IN THOUSANDS)	**1,640**	1,659	**3,268**	3,318
Car-miles operated (IN THOUSANDS)	**11,659**	11,180	**20,853**	20,745
Average passenger load factor (%)	**53.2**	55.6	**52.9**	54.6
Average number of passenger-miles per train mile	**126**	126	**119**	116
On-time performance (%)	**85**	81	**81**	84
Number of full time employees at end of period	**2,802**	2,851	**2,802**	2,851

KEY OPERATING STATISTICS PER SERVICE GROUP, SECOND QUARTER, 2011

Train Service	Passenger Miles (in thousands)	Passenger Revenues (in thousands)	Passengers (in thousands)	Government Funding per Passenger Mile
Windsor-Quebec City Corridor	150,406	$48,122	903	$0.19
Long-distance and Tourism				
The *Canadian*	35,097	$11,481	29	$0.27
The *Ocean*	13,744	$2,928	30	$0.57
Mandatory Services	6,977	$1,583	26	$1.60

KEY OPERATING STATISTICS PER SERVICE GROUP, YEAR-TO-DATE TO JUNE 30, 2011

Train Service	Passenger Miles (in thousands)	Passenger Revenues (in thousands)	Passengers (in thousands)	Government Funding per Passenger Mile
Windsor-Quebec City Corridor	300,038	$97,278	1,824	$0.23
Long-distance and Tourism				
The *Canadian*	50,493	$15,173	43	$0.52
The *Ocean*	25,952	$5,542	57	$0.72
Mandatory Services	12,766	$2,821	50	$1.84

CAPITAL INVESTMENT

In 2007 the Government of Canada announced a five-year, $516 million capital investment in passenger rail infrastructure and equipment. Another $407 million was made available for capital projects in 2009, through the Government's economic stimulus funding program, Canada's Economic Action Plan.

With this investment, totalling $923 million, VIA is expanding track capacity, building better traffic control systems, modernizing passenger facilities and stations, and renewing equipment. When these major capital projects are complete, we will be able to operate more trains, deliver faster trip times, offer more frequent departures, and provide a better quality of service to Canadians.

As of June 30, 2011 VIA has completed the following:

- Installation of Computerized Traffic Control systems, new sidings and crossings, and 10 miles of new fencing in our Brockville subdivision, Eastern Ontario;
- Rebuilding of 30 F-40 locomotives (out of a total of 53) to improve reliability, efficiency and environmental performance, and extend the life of the locomotives by 15-20 years;
- Rebuilding of two (2) LRC (Light, Rapid, Comfortable) passenger cars (out of a total of 98) to improve reliability, accessibility, passenger comfort and environmental performance, and to extend the life of the cars by 15-20 years;
- Rebuilding three (3) Renaissance cars (from a total of 59 cars) with improved accessibility features for travellers with special needs;
- Major enhancements to mobile Wi-Fi services, as work on implementing a new Wi-Fi infrastructure continues.

Work on building and renovating passenger stations across the network, as well as major infrastructure projects in the Windsor-Quebec City Corridor, continued on schedule.

KEY PERFORMANCE INDICATORS

VIA's managers use six (6) key performance indicators to monitor operational performance. These indicators are shared each month with employees, and help to identify areas where the corporation is performing well, and areas where improvements are needed. In the second quarter of 2011 performance improved on all but one of these measures, compared with the second quarter of 2010.

SAFETY:
TRAIN INCIDENTS PER MILLION TRAIN-MILES

This measure reflects VIA's efforts to achieve continuous improvements in operational safety. Train incidents include events such as train-to-train collisions, derailments, and rule violations. There were five (5) incidents this quarter, compared to nine (9) incidents in Q2-2010. While this is a significant improvement, VIA's goal is to achieve zero incidents.

Highway-rail crossing accidents and trespassing incidents are not included in this measure of safety performance, since the majority of these are beyond VIA's control. Unfortunately, there were six (6) highway-rail crossing and trespassing accidents resulting in serious injury or death to five (5) people. VIA continues to take a very proactive approach in working with communities and the public to prevent accidents caused by third parties. Since many of these incidents occur at rail crossings located on private property, VIA is contacting owners and encouraging them to make use of Transport Canada grants for closing these crossings. VIA also continued an outreach program, identifying high-risk crossing and trespassing areas, and working with local police and other agencies to increase vigilance and public awareness concerning the dangers involved.

CUSTOMER SATISFACTION:

ON-TIME PERFORMANCE

On-time performance is a key driver of customer satisfaction, and improving performance is a priority for VIA Rail. On-time performance increased from 81 percent to 85 percent over Q2-2010.

A number of initiatives in areas such as On-Time Departures, Maintenance and Servicing, and Train Operations Safety are now underway to identify and resolve problems which cause delays.

During the second quarter of 2011 VIA developed a new Connecting Passengers Protocol, which sets out standards and procedures to ensure VIA trains depart on time. This protocol focuses on making passenger connections as efficient as possible, re-accommodating passengers on other trains if necessary in order to ensure the on-time departures of all trains, wherever possible.

REVENUES:

PASSENGER REVENUES PER AVAILABLE SEAT-MILE

This is a measure of profitability, obtained by dividing total passenger revenues by total available seat-miles. (Seat-miles are the number of seats available for sale multiplied by the number of miles travelled.) VIA made a strategic decision this quarter to increase the number of available seat miles, knowing that this could have a negative impact on this performance indicator. As expected, revenues per available seat mile dropped slightly by 0.15 cents compared to Q2-2010. However, by making excess seat inventory available for sale at very attractive prices, this allowed VIA to make incremental revenue gains at zero or very low incremental costs.

COSTS:
DIRECT COSTS PER AVAILABLE SEAT-MILE

This measure indicates direct operating costs divided by total available seat-miles. Direct costs per available seat-mile were 10 percent lower than in Q2-2010. Major direct cost items such as compensation were lower. Fuel prices, as well as fuel consumption, were also lower.

PRODUCTIVITY:
TOTAL REVENUES PER EMPLOYEE

This measure indicates year-to-date revenues (annualized) divided by the number of emplyees (converted to full time equivalents).

Revenues per employee were six (6) percent higher than in Q2-2010, reflecting both significant revenue growth across VIA's network, and the fact that VIA's workforce is smaller than the previous year. Higher revenue per employee was achieved in each service except for Mandatory services.

EMPLOYEE ENGAGEMENT:
ATTENDANCE

This measure indicates total hours of employee absences per month divided by the total possible work hours per month. Average employee attendance was up slightly in 2011 compared to the same period in 2010.

VIA has recently implemented a number of initiatives which are expected to improve attendance in upcoming quarters. A new Attendance Policy and Attendance Management Program clarify attendance expectations for all managers/supervisors and employees. Managers and supervisors now have clear guidelines and processes, as well as appropriate tools for measuring and monitoring absenteeism. This will allow better control of day-to-day operations and greater efficiency.

COMMUNITY RELATIONS AND ACCOUNTABILITY

THE BOARD OF DIRECTORS

The Board of Directors consists of 14 persons. 13 members are appointed by the Government of Canada whereas the President and Chief Executive Officer is an ex-officio member of the Board. The Board is responsible for overseeing the strategic direction and management of the Corporation, and reports on VIA's operations to the Minister of Transport.

During the second quarter of 2011, three (3) Board meetings and nine (9) Board Committee meetings were held. The average attendance rate by Directors at these meetings was 89 percent. The cumulative fees paid to Board of Directors members for the second quarter of 2011 was $55,899.

ANNUAL PUBLIC MEETING

VIA held its first Annual Public Meeting on June 14 at the Ottawa train station. Broadcast simultaneously on the Internet, the meeting provided an opportunity for the public to learn about VIA's business operations, financial performance and VIA's projects for improvements. It also gave the public a chance to speak directly with VIA's Chairman, President and executive officers. The Chairman, President and executive officers also answered questions sent by email from members of the public who could not attend in person.

In conjunction with the meeting, VIA held a reception for local stakeholders, business partners, Members of Parliament and VIA Préférence program members, and met with the newly appointed federal transport ministers.

OFFICIAL LANGUAGES

VIA is committed to the principles of the Official Languages Act. VIA employees share this commitment with customers through "active offer" – demonstrating a willingness to provide service in either English or French. All internal and external communications are written in French and in English, and VIA uses both languages in its business practices.

During the second quarter of 2011 VIA received zero complaints from the Office of the Commissioner of Official Languages.

VIA has launched an active outreach program working with Official Language Minority Community (OLMC) organizations to support linguistic duality across Canada. The program includes engaging with organizations to discuss VIA's bilingual services available to them, and sponsorships for community fundraising events. During the second quarter of 2011 VIA provided sponsorship support to the Société francophone de Victoria and Francofonds in Winnipeg.

SOCIAL MEDIA

VIA launched its official Facebook page in April, and received an immediate and positive response. Within a few weeks, VIA had more than 40,000 Facebook "fans" – more than many other passenger services, including well-established airlines.

The VIA Facebook page provides an opportunity for people to share their thoughts and train travel experiences with VIA, as well as learn about the latest VIA news, offers and promotions. Along with Twitter, email, and VIA's award-winning website, Facebook is part of VIA's strategy to recruit more customers, establish a strong online presence, and engage in a more dynamic dialogue than is possible through more traditional media.

ENVIRONMENT

VIA continued its commitment to environmentally sound practices in the second quarter of 2011.

In June, VIA's Montreal Maintenance Centre successfully maintained its ISO 14001 certification for the year following an external audit. During the audit, no non-conformities were found. The system weaknesses related to training and hazardous material management that were identified, are presently being addressed by VIA management.

At VIA's Toronto Maintenance Centre, a new fuelling storage and distribution system was activated during the second quarter of 2011. The new system not only meets all current environmental regulations and standards, but also improves fuelling practices and performance, ensuring a more efficient process overall. Access to real-time information on the consumption of fuel also allows VIA to more accurately manage its fuel usage.

ACCESS TO INFORMATION AND PRIVACY

VIA receives and responds promptly to information requests under the Access to Information Act and the Privacy Act. During the second quarter of 2011 VIA received 14 such requests, which were in process 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 that have submitted requests through VIA's website.

During the second quarter of 2011 VIA supported 266 non-profit and charitable organizations with travel credit donations representing a total value of $290 000

TRAVEL, HOSPITALITY, CONFERENCE EXPENSES

The following travel, hospitality and conference expenses were submitted during the second quarter of 2011:

Paul G. Smith, Chairman of the Board - $ 2,300
Marc Laliberté, President and CEO - $9,800
Executive management committee members - $ 26,700
Board of Directors members – $21,500

During the second quarter of 2011, the President and CEO travelled to Poland to attend the Annual General Meeting of the International Union of Railways (UIC), for which he is an Executive Board member. Expenses associated with this conference totalled $7,000, and are included in the above sum.

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

MANAGEMENT DISCUSSION & ANALYSIS

MANAGEMENT DISCUSSION AND ANALYSIS

This is a review of VIA Rail Canada's operations, performance and financial position for the quarter and year to date ended June 30, 2011, compared with the quarter and year to date ended June 30, 2010. It should be read in conjunction with the unaudited financial statements and notes.

The financial statements are prepared in accordance with international financial reporting standards (IFRS). Figures for 2010 have been adjusted and converted to international financial reporting standards (IFRS), as the annual report for 2010 presented financial statements under Canadian Generally Accepted Accounting Standards (Canadian GAAP).

1. FINANCIAL HIGHLIGHTS

	Quarter ended June 30				Semester ended June 30			
In Millions of Canadian dollars	2011	2010	Var $	Var %	2011	2010	Var $	Var %
Passenger revenues	64.5	62.5	2.0	3.2%	121.6	116.1	5.5	4.7%
Total revenues	69.1	66.4	2.7	4.1%	130.8	124.1	6.7	5.4%
Operating expenses	141.0	140.0	1.0	0.7%	283.7	282.0	1.7	0.6%
Operating defecit before funding from Government of Canada and corporate taxes	(71.9)	(73.6)	(1.7)	-2.3%	(152.9)	(157.9)	(5.0)	-3.2%
Operating funding from Government of Canada	75.7	80.0	(4.3)	-5.4%	137.4	136.0	1.4	1.0%
Amortization of deferred capital funding	9.7	11.6	(1.9)	-16.4	21.0	22.8	(1.8)	-7.9%
Corporate tax expense (Recovery)	(3.8)	0.1	3.9	n/a	(3.7)	0.2	3.9	n/a
Net income and comprehensive income for the quartar	17.3	17.9	(0.6)	-3.4%	9.2	0.7	8.5	n/a

After six months completed in 2011, revenues have increased by 5.4% compared to last year; passenger-miles have grown by 1.3% combined with higher fares achieved through the Corporation's revenue management program, especially in the Quebec City-Windsor Corridor and Western Longhaul routes.

Operating expenses rose by $1.7M, the increase strictly due to higher pension costs ($9.7M), other expenses have decreased by $8.0M.

As a result, the Corporation has reduced its Operating deficit before funding from the Government of Canada and Corporate taxes by $5.0M (3.2%).

HIGHLIGHTS OF THE QUARTER

Compared with the quarter ended June 30, 2010:

- Revenues have grown by 4.1% and total $69.1M for the quarter.
- Operating expenses have increased by 0.7% and amount to $141.0M for the quarter.
- Funding from Government of Canada decreased by 5.4% to $75.7M for the quarter.
- There is a net profit of $17.3M for the quarter, compared to a profit of $17.9M for the same quarter of 2010.

HIGHLIGHTS OF THE SIX MONTHS ENDED JUNE 30, 2011

Compared with the semester ended June 30, 2010:

- Revenues have grown by 5.4% and total $130.8M for the period.
- Operating expenses have increased by 0.6% and amount to $283.7M for the period.
- Funding from Government of Canada increased by 1.0% to $137.4M for the period.
- There is a net profit of $9.2M for the semester, compared to a profit of $0.7M for the same semester in 2010.

2. HIGHLIGHTS OF OPERATING RESULTS

a) Passenger Revenues

	Revenues (in '000 000$)							
	Quarter ended June 30				Semester ended June 30			
	2011	2010	Var $	Var %	2011	2010	Var $	Var %
Corridor East	$37.6	$36.2	$1.4	3.9%	$74.9	$71.5	$3.4	4.8%
SWO	$10.6	$10.0	$0.6	6.0%	$22.4	$21.0	$1.4	6.7%
Ocean	$2.9	$2.9	$0.0	0.0%	$5.5	$5.4	$0.1	1.9%
Canadian	$11.5	$11.0	$0.5	4.5%	$15.2	$14.3	$0.9	6.3%
Mandatory Services	$1.6	$1.8	($0.2)	-11.1%	$2.8	$3.0	($0.2)	-6.7%
Other	$0.3	$0.6	($0.3)	-50.0%	$0.8	$0.9	($0.1)	-11.1%
Total	$64.5	$62.5	$2.0	3.2%	$121.6	$116.1	$5.5	4.7%

	Passenger miles (in '000 000)							
	Quarter ended June 30				Semester ended June 30			
	2011	2010	Var	Var %	2011	2010	Var	Var %
Corridor East	120.8	120.2	0.6	0.5%	237.5	232.9	4.6	2.0%
SWO	29.6	29.9	(0.3)	-1.0%	62.6	61.4	1.2	1.9%
Ocean	13.7	14.6	(0.9)	-6.0%	25.9	26.7	(0.8)	-3.0%
Canadian	35.1	35.7	(0.6)	-1.6%	50.5	49.6	0.9	1.9%
Mandatory Services	7.0	8.0	(1.0)	-12.5%	12.7	13.8	(1.1)	-7.8%
Other	-	-	-	-	-	-	-	-
Total	206.2	208.4	(2.2)	-1.0%	389.2	384.4	4.8	1.3%

Passenger revenues have increased by 3.2% and total $64.5M for the quarter. On a cumulative basis, they have grown by 4.7% and amount to $121.6M. The performance of the quarter is explained by the increase in yields (revenues per passenger-mile), partly offset by a reduction in ridership.

The new MOT (Montreal-Ottawa-Toronto) service was introduced in April 2011 to provide additional frequencies between Montreal and Toronto (via Ottawa). Major infrastructure work will be completed in 2012 and additional trains added on the Toronto-Ottawa line.

On a cumulative basis, the increase stems from higher yields, ridership remaining stable compared to last year. Passenger-miles have grown reflecting the longer average trip lengths made by passengers.

For the quarter:

- Corridor East revenues are 3.9% higher than those of the previous year, and result mainly from the higher yields (3.2% vs last year). Passenger miles have grown slightly (+0.5%).
- Revenues in SWO have increased by 6.0% as a result of higher yields (+6%). Passenger levels are similar, but passenger-miles have decreased by 1.0% reflecting shorter trip lengths.
- Revenues on the Eastern service have remained stable compared to the last year, ridership has decreased (6.0% less passenger-miles) but yields have increased.
- Revenues on the Canadian have grown by 4.5% over the previous year. The performance stems from higher yields (+6.3%). Ridership also increased but passengers travelled on shorter distances, as reflected in the passenger-miles which have decreased by 1.6% compared to the same quarter last year.
- Mandatory Services have generated lower revenues, and the situation is directly attributable to the interruption of the Victoria-Courtenay service since April 2011 (busing service offered until the end of June 2011).

For the semester:

- Corridor East revenues have grown by 4.8%, resulting mostly increased yields (+2.7%). Ridership is similar to last year, but passenger-miles increased (+2.0%) reflecting the growth on end-to-end markets.
- Revenues in SWO have increased by 6.7% also as a result of higher yields (+4.9%) and passenger levels.
- Eastern Longhaul revenues have grown by 1.9% due to the increased yields (+5.7%), partly offset by the decline in ridership, reflected in the decrease of 3.0% in passenger-miles compared to last year.
- Revenues on the Canadian are 6.3% above last year's levels, due to the combination of yields (+3.9%) and ridership.
- Mandatory Services have generated lower revenues, a direct impact of the interruption of the Victoria-Courtenay service since April 2011 (busing service offered until the end of June 2011).

2. HIGHLIGHTS OF OPERATING RESULTS
b) Operating Expenses

	For the quarter ended June 30				For the semester ended June 30			
In Millions of Canadian dollars	2011	2010	Var $	Var %	2011	2010	Var $	Var %
Compensation & Benefits	47.8	49.8	(2.0)	-4.0%	102.2	105.9	(3.7)	-3.5%
Train Operations & Fuel	31.3	28.8	2.5	8.7%	60.7	57.4	3.3	5.7%
Other operating expenses	50.1	51.8	(1.7)	-3.3%	102.2	103.3	(1.1)	-1.1%
Unrealized loss (gain) on derivative financial instruments	3.7	0.7	3.0	n/a	(0.3)	(0.1)	0.2	200.0%
Realized loss (gain) on derivative financial instruments	(1.6)	1.7	(3.3)	-194.1%	(2.8)	3.5	(6.3)	-180.0%
Total Operating expenses before pension costs, amortization of deferred capital funding & Corporate Tax expense	131.3	132.8	(1.5)	-1.1%	262.0	270.0	8.0	-3.0%
Pension Costs - Employer contributions	9.7	7.2	2.5	34.7%	21.7	12.0	9.7	80.8%
Total Operating expenses before amortization of deferred capital funding & Corporate Tax expense	141.0	140.0	1.0	0.7%	283.7	282.0	1.7	0.6%
Corporate Taxes	(3.8)	0.1	(3.9)	n/a	(3.7)	0.2	(3.9)	n/a
Total Operating expenses before amortization of deferred capital funding	137.2	140.1	(2.9)	-2.1%	280.0	282.2	(2.2)	-0.8%

For the quarter:

- Operating expenses before pension contributions, amortization of deferred capital funding & Corporate tax expense decreased by $1.5M and total $131.3M for the quarter, mainly due to reductions in compensation and benefit costs, the gain realized on derivative financial instruments and other operating expenses including employee future benefits and maintenance material costs. These reductions were partly offset by increases in train operations and fuel expenses, as well as to an unrealized loss on derivative financial instruments.
- Fuel prices increased versus the previous year but the increase was offset by the gains realized on derivative financial instruments purchased through the Corporation's hedging policy. The Corporation realized a gain of $1.6M for the quarter, compared to a loss of $1.7M for the same period last year.
- The Corporation generated a credit of $3.8M in Corporate taxes, compared to an expense of $0.1M for the second quarter of 2010. The credit stems from a tax refund received for prior years' taxes.

For the semester:

- Operating expenses before pension contributions, amortization of deferred capital funding & Corporate tax expense decreased by $8.0M and amount to $262.0M. The decrease results primarily from reductions in compensation and benefits costs, maintenance material costs as well as the gains realized on derivative financial instruments. They are partly offset by increases in train operations and fuel expenses.
- Fuel prices increased versus the previous year but the increase was offset by the gains realized on derivative financial instruments purchased through the Corporation's hedging policy. Gains of $2.8M were realized during the semester, compared to a loss of $3.5M incurred in the same period last year.
- The Corporation generated a credit of $3.7M in Corporate taxes, as compared to an expense of $0.2M for the second quarter of 2010. The credit stems mainly from a tax refund received for prior years' taxes.

3. CAPITAL INVESTMENTS

Fixed assets (net of accumulated depreciation) amount to $1,051.5M, up $86.2M compared to the balance as at December 31, 2010. Capital investments for the quarter totaled $54.5M, and $110.3M for the semester.

- Investments of $33.0M were made in major infrastructure projects, mostly on the CN Kingston subdivision between Toronto and Brockville. On a year to date basis, investments total $59.5M. Work is done to add sections of a third track between Toronto and Brockville to minimize congestion.
- A total of $15.3M was invested in major equipment projects, including $4.7M for the LRC car fleet rebuild project, and $6.6M for the F40 locomotive fleet rebuild project. After 6 months completed this year, a total of $37.3M was invested in major equipment projects.
- Investments of $3.3M were also made in Information Technology projects during the quarter, bringing the cumulative investments to $6.0M for the semester.

4. CASH FLOW AND FINANCIAL POSITION

For the quarter:
Cash position increased by $0.8M in the second quarter of 2011 versus and increase of $20.5M for the same period in 2010 due mainly to the investment in Property, Plan and Equipment.

For the semester:
Cash position decreased by $59.2M in the first semester of 2011 versus and increase of $18.4M for the same period in 2010 due mainly to a reduction in Deferred Government Funding of $51M and to the investment in Property, Plan and Equipment of $29M.

The reduction in cash position since December 31, 2010 stems from the investments made in property, plant and equipment ($137.0M), and cash used for operating activities ($48.7M), partly offset by the funding received. The Corporation received $110.3M of capital funding from the Government of Canada during the semester.

5. RISK ANALYSIS

A) 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.

B) 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.

C) 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's managers have developed a crossing protection/fences and closure program and work 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.

D) PENSION PLANS

Pension plans liabilities continue to represent a significant risk to the Corporation due to their size ($1.6B). Adverse investment returns and changes in interest rates can materially impact the funding status of the plans, and directly amplify the volatility in annual funding requirements. In recent years, the Corporation has implemented measures to mitigate this risk such as adjusting certain management practices and by aggressively reducing pension administrative expenses. The Corporation continues to explore means of further reducing this significant corporate risk.

E) 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 therefore launched, in December 2010, a training program for new locomotive engineers, with the first class scheduled to graduate in 2012. Two additional classes will start in 2012, for graduations in 2012 and 2013.

F) PASSENGER REVENUES

Following a sharp decline in travel markets in 2008, growth in ridership and revenues slowed compared to previous years. 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, and generating additional revenues from real estate projects and through information technology improvements that support revenue management initiatives.

G) 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.

H) CAPITAL INVESTMENT PROJECTS

Major delays in infrastructure or equipment projects, or an increase in project costs would adversely affect VIA's financial performance. VIA's managers monitor the progress of all projects closely in order to mitigate this risk, adjusting production timelines as needed to keep projects on track. In addition, VIA's Executive Capital Steering Committee meets regularly to discuss the status of all capital investment projects.

I) RE-PROFILING OF CAPITAL FUNDS

In 2007, Treasury Board approved a capital investment program of $516 million which was later re-profiled within the 2007-2013 government fiscal years. If major delays were experienced in the infrastructure or equipment projects and completion date was beyond 2013, re-profiling of capital funds allocated to these projects would be required. Historically, re-profiling of funds which were justified were approved, and VIA's Executive Capital Steering Committee meets regularly to monitor and discuss the status of all capital project.

6. OUTLOOK

VIA's Corporate Plan expressed confidence in achieving revenue growth and higher productivity in 2011. The results of the second quarter indicate that the corporation is on track to achieving these goals, as well as showing a return to growth in ridership.

VIA remains committed to the goals set out in the Corporate Plan for 2011. Marketing strategies will continue to focus on maintaining and building on ridership gains achieved this year. Lean management initiatives and a focus on productivity throughout the organization will help to ensure continuous improvements in efficiency.

As capital investment projects are completed in the coming months and in 2012, VIA will ensure that passenger rail delivers better value, to more Canadian travellers, while maintaining rigorous control over operating costs.