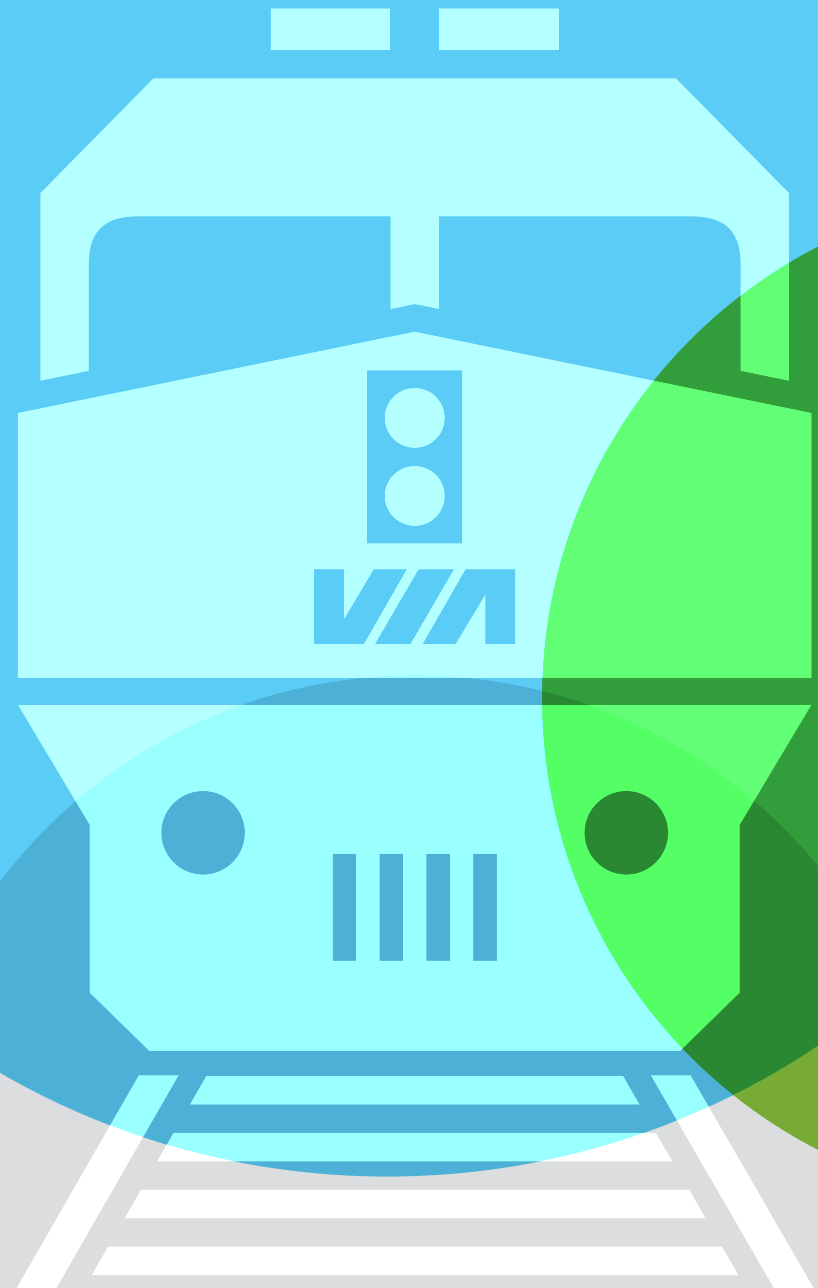


VIA Rail Canada

2013 SECOND QUARTER REPORT

A GREEN CHOICE

VIA Rail Canada

CONTENT

MESSAGE FROM THE PRESIDENT

As I write this message, Canadians are still reeling from the shock of the tragic events of Lac Mégantic in Québec. The impact of such a devastating loss of life on a community is difficult to imagine. At times like these, every Canadian is a citizen of Lac Mégantic.

As active participants in the railroad industry, all VIA Rail employees and partners have a responsibility to learn from such tragedies. To do so, we must commit ourselves to ensuring that every day, and in everything we do, all of us have the safety and security of our people, our passengers, and the general public at the forefront of our minds. It is with that commitment in mind that we will be reading the Transport Safety Board of Canada's report and recommendations about the Lac Mégantic derailment.

To that end, in June, the Transport Safety Board of Canada (TSB) released their report about the derailment of VIA Rail Train 92, which occurred on February 26, 2012, in Burlington, Ontario. The report demonstrated a thorough review of the circumstances surrounding this tragic accident. Among its recommendations, the TSB suggested that although the presence of audio and video recording devices on board the train may not have prevented the tragedy, it may have provided useful information. In line with that recommendation, starting in early 2014, all VIA Rail locomotives will be equipped with outward-facing cameras. As well, VIA Rail management, with the support of the leaders of its locomotive engineers' union (Teamsters Canada) started to work towards the introduction of voice recording devices inside its locomotives, to be completed by year-end 2014. These two initiatives underline our ongoing commitment to keep improving the safety and security of our employees, our passengers and the general public.

These recent events remind us all that we work in an industry with many potential risks. In our environment, safety and security must never be assumed. In the second quarter of 2013, our focus was on safety and security, which has always been, and continues to be, our personal priority. All of us at VIA Rail are committed to remain vigilant, and always look for ways to enhance the safety and security of our operations.

Marc Laliberté
President and Chief Executive Officer
VIA Rail Canada

SECOND QUARTER AT A GLANCE

	Q2 - 2013	Q2 - 2012	S1 - 2013	S1 - 2012
KEY FINANCIAL INDICATORS (IN MILLIONS OF DOLLARS)				
Total passenger revenues	**61.1**	63.5	**115.1**	119.0
Total revenues	**66.2**	68.1	**125.2**	128.8
Operating expenses before employee benefits	**141.4**	134.4	**276.2**	274.0
Employee benefits	**12.6**	7.4	**25.7**	19.9
Operating expenses	**154.0**	141.8	**301.9**	293.9
Operating funding from the Government of Canada	**79.9**	72.0	**163.2**	151.5
Amortization of deferred capital funding	**17.5**	13.5	**34.6**	29.4
Corporate taxes (recovery)	**0.0**	(0.1)	**0.0**	0.0
Net income (loss)	**9.6**	11.9	**21.1**	15.8
Actuarial gains (losses) on defined benefit plans	**65.3**	(37.0)	**198.6**	(53.1)
Total comprehensive income (loss)	**74.9**	(25.1)	**219.7**	(37.3)
Capital expenditures	**24.5**	40.8	**48.1**	84.0
KEY OPERATING STATISTICS (1)				
Total passenger-miles (IN MILLIONS)	**208**	200	**393**	376
Total seat-miles (IN MILLIONS)	**385**	390	**737**	752
Operating funding per passenger-mile (IN CENTS) (2)	**38.4**	36.0	**41.6**	40.3
Yield (CENTS PER PASSENGER-MILE)	**28.8**	31.0	**28.8**	30.9
Train-miles operated (IN THOUSANDS)	**1,583**	1,636	**3,094**	3,276
Car-miles operated (IN THOUSANDS)	**10,739**	11,575	**19,333**	21,275
Average passenger load factor (%)	**54**	51	**53**	50
Average number of passenger-miles per train mile	**131**	122	**127**	115
On-time performance (%)	**86**	82	**84**	85
Average number of full time employees during the period	**2,688**	2,792	**2,613**	2,779

(1) Key operating statistics are unaudited.
(2) Operating government funding received during the period.

PASSENGER REVENUES AND RIDERSHIP FOR THE SECOND QUARTER OF 2013

Train Service	Passenger Revenues* (IN THOUSANDS)	Passengers (IN THOUSANDS)	Passenger-Miles (IN THOUSANDS)	Government Funding (PER PASSENGER MILE)
Corridor	$45,990	866	155,687	$0.28
Longhaul West	$11,448	29	37,014	$0.37
Longhaul East	$1,912	18	9,227	$0.94
Mandatory Services	$1,357	24	6,170	$2.18
Total	**$60,707**	**937**	**208,098**	**$0.38**

* Before off-train and other passenger revenues.

SECOND QUARTER HIGHLIGHTS

SAFETY AND SECURITY

Safety and Security are on-going top priorities for VIA Rail, and the second quarter of 2013 was no exception. Below is a sampling of activities that took place across the country between April and June, 2013.

Activities in partnership with Operation Lifesaver:

/ Training of VIA Rail Locomotive Engineers to be Operation Lifesaver presenters

/ Safety and prevention presentations in schools and at other event locations during Operation Lifesaver Public Rail Safety Week

/ Operation Lifesaver's *Public Rail Safety Guide* made available in VIA Rail stations and on trains

/ Hosted and participated in the Operation Lifesaver Safety Day in Glen Robertson

Other activities of note:

/ Launch of National Public Rail Safety Week (RSW) with Minister Fletcher at VIA Rail's Ottawa Station

/ Participated in International Level Crossing Awareness Day (ILCAD)

/ Presented information about bike safety around trains and railroads at Vélo Plaisir in Lasalle, Québec

/ NAOSH (North American Occupational Safety and Health) Week Activities included partnering in the Drive Safe Campaign, which focussed on railway crossing safety as well as internal surveys and presentations to improve health and safety

/ Moncton Station Safety Day organized in collaboration with Canadian National and Operation Lifesaver. Focus on public safety at railway crossings and on rail property as well as employee safety in the workplace

/ Events in Vancouver and Halifax involved safety-themed game shows and a community Safety Day

On-going Safety and Security Projects

Over the past few years, VIA Rail has worked to close many private crossings in favour of safer public crossings. We are committed to continue addressing high risk areas and in this vein have an on-going partnership with law enforcement and the communities we serve. In the second quarter of 2013, more fencing was installed to eliminate or reduce the risk of trespassing and increase safety for all.

Internally, VIA Rail's Critical Care Program, which includes peer support groups and an expansive Employee Assistance Program has seen a significant decrease in additional time lost related to traumatic incidents. In May 2013, the first of our semi-annual peer support workshops took place in Gananoque, ON.

BEING CANADIAN

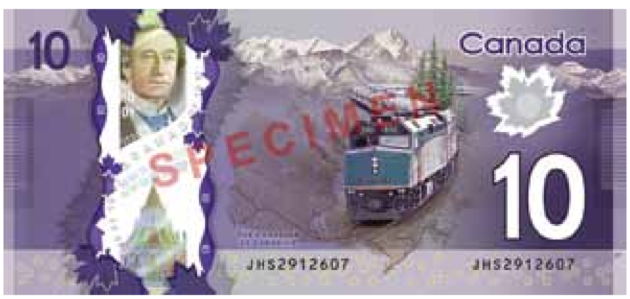
The second quarter of 2013 was an opportunity for VIA Rail to show how it connects Canada's communities and its people. For many Canadian families, the train is where their Canadian experience began.

2017 Starts Now

From April through June, VIA Rail partnered with the Canadian Broadcasting Corporation/Radio-Canada and the Community Foundations of Canada (CFC) on the **CANADA 150/2017 STARTS NOW** conference series. The 12 one-day events, which took place across the country from Vancouver to Halifax, were designed to spark the national conversation about Canada's upcoming 150th anniversary of Confederation, and how we should celebrate the historic event. From musician Paul Shaffer to Canadian Paralympic athlete Chantal Petitclerc, the inspiring speakers were comprised of proud Canadians from all walks of life. All of the conferences can be viewed at **2017startsnow.ca**.

VIA Rail: A "Treasured" Company

On April 30th, the Bank of Canada unveiled the new $10 banknote, which will feature VIA Rail's own long-haul train the *Canadian*, running from Toronto to Vancouver. We are thrilled to be found on the new polymer currency, alongside other major icons of national historic significance, such as the Canadarm ($5 banknote) and the Vimy Memorial ($20 banknote). In November 2013, all Canadians will have an opportunity to carry a reminder of VIA Rail's role in Canadian history, in the palm of their hand.



Sir John A Macdonald, Back by Popular Demand

In May, VIA Rail's Eastern long-haul train, the *Ocean*, hosted two actors from the Sir John A Macdonald Bicentennial Commission. These trained and costumed performers played the roles of Sir John A Macdonald and Calvin Hobbes, regaling the passengers with stories and songs. The entertainment proved both educational and very well received. In September 2013, the Bicentennial Commission will re-embark on the journey across Eastern Canada, performing over two weekends. Welcome back, Sir John A!

VIA Rail Welcomes 1,500 New Citizens to Canada

In July 2012, VIA Rail announced a fantastic new initiative with the Institute for Canadian Citizenship (ICC): members of the ICC's Cultural Access Pass program – a program exclusive to new citizens – are offered 50 per cent off the lowest available fare, in any class, one way or round trip, with no blackout periods, for them and up to four of their children under the age of 18, in their first year of citizenship.

The first year of this successful initiative resulted in 1,500 new citizens travelling by train to explore Canada. It's our way of saying, "Welcome home!"

INTERMODALITY AWARD

VIA Rail's vision for intermodality , "Making VIA the Hub", positions VIA Rail as an enabler for greater cooperation between air-rail (as well as with other modes of travel) in order to provide seamless door-to-door travel experiences. As a result of implementing many intermodal partnerships, www.viarail.ca is morphing into a travel search and booking facility for anyone (from anywhere in the world), planning a trip to Canada.

This initiative was honoured with the "Air Rail Concept of the Year" Award at the 2013 Global AirRail Awards (GARA) Ceremony in Frankfurt, Germany.

NEW BUSINESS CLASS

As part of the Government of Canada's $1 Billion investment in VIA Rail, the first new LRC (Light, Rapid, Comfortable) Business Class car was completed and put into service this quarter. In addition to mechanical and electrical system upgrades, the renewed cars will offer passengers more space and additional leg-room, thanks to the seating arrangement which has one less seat per row. The new reclining and adjustable seats are now equipped with an extra table to hold a drink or other items, leaving the drop down table free for a meal, documents or a computer. Complete upgrades to the car interiors also include renewed washrooms, carpets, lighting and window frames.

The refurbishment is being managed internally, at VIA Rail's Montreal Maintenance Center. Work on the balance of the LRC Business Class cars is underway and additional cars will be completed and put into service in the fall of 2013. The entire refurbishment is expected to be complete by autumn 2014.

NEW SIMPLIFIED PRICING STRUCTURE

In June, we announced the launch of a new, simplified pricing structure which combines flexibility with an enhanced shopping experience. This new system allows preferential ticket rates to be available right up to the day of departure. The respective features of Economy Class and Business Class are clearly presented, facilitating the choice of between the five rate classes: ESCAPE, ECONOMY, ECONOMY PLUS, BUSINESS, and BUSINESS PLUS. Fares vary based on the exchange and refund conditions, the privileges offered pre-boarding and the services offered on-board, including meal and beverage services, access to Business Class lounges, access to priority boarding and a priority ticketing line. This pricing structure is in line with our strategy of offering a range of fare and class options to suit any budget, in order to continue to attract new clients and stimulate train travel.

NEW BAGGAGE POLICY

As of June 1st, a new checked baggage policy was implemented. This is part of a larger new baggage policy which was designed to make the travel experience on board the train even safer and more enjoyable for all. The new policy's objectives include reducing employee and passenger injuries due to baggage handling, and reducing departure and en-route delays due to baggage handling.

Previously, handling baggage was a leading contributor to on board injuries. Following the implementation of the new policy, employee injury days lost due to baggage handling was reduced by 76% when comparing the period of October 31, 2012 – June 15, 2013 to the same timeframe in the previous year.

Guidelines can be read in full by visiting viarail.ca/en/travel-info/baggage.

TECHNOLOGY

Wi-Fi on the *Ocean*

As of June 15, VIA Rail's long-haul train the *Ocean* was equipped with the same free Wi-Fi system already available on trains in the Québec City - Windsor corridor. With service across more than 98% of the route between Montréal and Halifax, the Wi-Fi allows passengers to remain connected throughout their trip.

In the first three weeks of availability, nearly 20% of travellers aboard the *Ocean* connected to the Wi-Fi system. Passengers transferred 58 gigabytes of data – the equivalent of 100,000 web pages or 58,000 e-mails!

Internal Upgrades

Many internal upgrades were made to VIA Rail software to improve efficiency, reduce costs and integrate future updates more easily. The finance system was upgraded to increase the productivity of users, increase flexibility, and reduce future integration costs. A program to increase efficiency by upgrading VIA Rail employee email platforms to a system with a more modern interface, better security, larger mailbox and a full integration with the Office tools was launched and almost completed this quarter, with plans to finish by September 2013.

CANADIAN AUTO WORKERS UNION: AGREEMENT RENEWAL

During the second quarter, VIA Rail put in place a contingency plan to offer basic service in case of a labour disruption. It involved the training and certification of a number of management employees in order to ensure that rail continue to be an option for travellers in Canada. For employees involved, it provided an opportunity to better understand our operations and the work our frontline colleagues do on a daily basis.

In June, VIA Rail Canada reached a tentative agreement with the Canadian Auto Workers (CAW) union, which represents some 2,200 service, sales office and maintenance personnel, thus averting a potential strike. During this time there was no disruption to its schedule. As of July 2013 (third quarter), the deal was ratified, with a positive vote of 86%.

This year marks the first "paperless" Collective Agreement. The agreement and all other documentation are being produced electronically.

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.

	Q2 - 2013	Q2 - 2012
Total Revenue per Employee ($000s) YTD revenues divided by the number of employees (full time employees). A measure of productivity.	**98**	97
Passenger Revenues per Available Seat-Mile (¢) Revenues divided by available seat-miles.	**16**	16
Direct Costs per Available Seat-Mile (¢) Direct costs divided by available seat-miles.	**20**	20
On-Time Performance (%) Excludes mandatory services	**86**	82
Employee Attendance (%) Total hours of absences per month divided by the total possible work hours per month.	**92**	92
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.	**2**	4

COMMUNITY AND GOVERNANCE

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 Rail's operations to Parliament through the Minister of Transport.

During the second quarter of 2013, one Board meeting and nine Board Committee meetings were held. The overall average attendance rate of Board members at these meetings was 99%. Cumulative fees for Board members during this time period totaled $71,654.

ANNUAL PUBLIC MEETING

On May 28th at 2 pm, VIA Rail's first webcast-only Annual Public Meeting took place. Always aiming to connect to as many Canadians as possible and to responsibly manage public funds, VIA Rail opted to use a free tool to broadcast the highlights of its 2012 financial results. This meeting gave the public the opportunity to hear directly from the Chairman of the Board, the President and CEO and senior management of VIA Rail. Executives also responded to questions from the public sent by email.

The webcast can be watched and a full list of questions and answers can be downloaded in the Annual Public Meeting section of viarail.ca at http://www.viarail.ca/en/about-via-rail/our-company/annual-public-meeting.

PROMOTION OF OFFICIAL LANGUAGES

VIA Rail complies with the Official Languages Act and is proud to offer its services in both official languages.

In the second quarter of 2013, VIA Rail submitted its 2012-2013 Official Languages Report to the Commissioner of Official Languages. The report contains VIA Rail's continuous efforts to promote both official languages across Canada. This report was shared with numerous Canadian linguistic minority groups.

ACCESS TO INFORMATION AND PRIVACY

VIA Rail's 2012 Annual Report on ATIP was submitted to the Access to Information Commissioner. Under the Privacy Act, VIA Rail also submitted its Annual Report on requests related to personal information to the Privacy Commissioner.

VIA Rail is committed to responding promptly to information requests under the Access to Information Act and the Privacy Act. During the second quarter of 2013, VIA Rail received 7 new requests, only 3 of which were still in progress at the end of the quarter.

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 second quarter of 2013, VIA Rail supported 46 non-profit and charitable organizations with travel credit donations representing $165,000.

TRAVEL, HOSPITALITY AND CONFERENCE EXPENSES

The following travel, hospitality and conference expenses were submitted during the second quarter of 2013:

Paul G. Smith, Chairman of the Board	$3,934
Marc Laliberté, President and CEO	$3,936
Executive management committee members	$27,824
Board of Directors members	$9,475

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 and semester ended June 30, 2013, compared with the quarter and semester ended June 30, 2012. It should be read in conjunction with the unaudited condensed financial statements and notes.

1. FINANCIAL HIGHLIGHTS

	Quarters ended June 30				Six month periods ended June 30			
IN MILLION OF CANADIAN DOLLARS	**2013**	2012	Var $	Var %	**2013**	2012	Var $	Var %
Passenger Revenues	**61.1**	63.5	(2.4)	(3.8)	**115.1**	119.0	(3.9)	(3.3)
Total Revenues	**66.2**	68.1	(1.9)	(2.8)	**125.2**	128.8	(3.6)	(2.8)
Operating expenses	**154.0**	141.8	12.2	8.6	**301.9**	293.9	8.0	2.7
Operating loss before funding from Government of Canada and corporate taxes	**(87.8)**	(73.7)	14.1	19.1	**(176.7)**	(165.1)	11.6	7.0
Operating funding from Government of Canada	**79.9**	72.0	7.9	11.0	**163.2**	151.5	11.7	7.7
Amortization of deferred capital funding	**17.5**	13.5	4.0	29.6	**34.6**	29.4	5.2	17.7
Corporate taxes (recovery)	**0.0**	(0.1)	(0.1)	(100.0)	**0.0**	0.0	0.0	n/a
Net income for the period	**9.6**	11.9	(2.3)	(19.3)	**21.1**	15.8	5.3	33.5
Actuarial gains (losses) on defined benefit plans	**65.3**	(37.0)	102.3	n/a	**198.6**	(53.1)	251.7	n/a
Total Comprehensive income (loss) for the period	**74.9**	(25.1)	100.0	n/a	**219.7**	(37.3)	257.0	n/a

1. FINANCIAL HIGHLIGHTS (CONT'D)

After six months completed in 2013 revenues have decreased by 2.8 percent compared to last year; passenger-miles have increased by 4.4 percent and yields have decreased by 7.4 percent.

Operating expenses rose by $8.0M, the increase mainly due to higher amortization of property, plant and equipment and intangible assets.

As a result, the Operating deficit before funding from the Government of Canada, amortization of deferred capital funding and corporate taxes has increased by $11.6M (7.0 percent).

Highlights of the quarter

Compared with the quarter ended June 30, 2012:

- Revenues have decreased by 2.8 percent and total $66.2M for the quarter;
- Operating expenses before corporate taxes and amortization of deferred capital funding have increased by 8.6 percent and amount to $154.0M for the quarter;
- Operating funding from Government of Canada increased by 11.0 percent to $79.9M for the quarter;
- There is a net income of $9.6M for the quarter, compared to a net income of $11.9M for the same quarter of 2012;
- There were actuarial gains on defined benefit plans of $65.3M for the quarter compared to losses of $37.0M for the corresponding quarter last year;
- There is a total comprehensive loss of $74.9M for the quarter, compared to a loss of $25.1M for the second quarter of 2012.

Highlights of the six month period ended June 30, 2013

Compared with the results of the corresponding period ended June 30, 2012:

- Revenues have decreased by 2.8 percent and total $125.2M for the period;
- Operating expenses before corporate taxes and amortization of deferred capital funding have increased by 2.7 percent and amount to $301.9M for the period;
- Operating funding from Government of Canada increased by 7.7 percent to $163.2M for the period;
- There is a net income of $21.1M for the period compared to $15.8M in 2012;
- There were actuarial gains on defined benefit plans of $198.6M for the period, compared to losses of $53.1M for the same period in 2012;
- There is a total comprehensive income of $219.7M in 2013, compared to a loss of $37.3M in 2012.

2. HIGHLIGHTS OF OPERATING RESULTS

a) Passenger Revenues

	REVENUES (IN '000 000$)							
	Quarters ended June 30				Six month periods ended June 30			
	2013	2012	Var $	Var %	**2013**	2012	Var $	Var %
Corridor East	**37.3**	36.0	1.3	3.6	**75.1**	72.8	2.3	3.2
Southwestern Ontario (SWO)	**8.7**	9.9	(1.2)	(12.1)	**18.2**	20.7	(2.5)	(12.1)
Ocean	**1.9**	3.2	(1.3)	(40.6)	**3.5**	6.2	(2.7)	(43.5)
Canadian	**11.5**	12.0	(0.5)	(4.2)	**15.2**	15.7	(0.5)	(3.2)
Remotes	**1.3**	1.1	0.2	18.2	**2.4**	1.9	0.5	26.3
Other	**0.4**	1.3	(0.9)	(69.2)	**0.7**	1.7	(1.0)	(58.8)
TOTAL	**61.1**	63.5	(2.4)	(3.8)	**115.1**	119.0	(3.9)	(3.3)

	PASSENGER MILES (IN '000 000)							
	Quarters ended June 30				Six month periods ended June 30			
	2013	2012	Var $	Var %	**2013**	2012	Var $	Var %
Corridor East	**129.8**	112.6	17.2	15.3	**256.3**	225.1	31.2	13.9
Southwestern Ontario (SWO)	**25.9**	27.6	(1.7)	(6.2)	**53.9**	57.1	(3.2)	(5.6)
Ocean	**9.2**	14.7	(5.5)	(37.4)	**17.0**	28.4	(11.4)	(40.1)
Canadian	**37.0**	39.7	(2.7)	(6.8)	**54.0**	55.8	(1.8)	(3.2)
Remotes	**6.2**	5.4	0.8	14.8	**11.3**	9.4	1.9	20.2
Other	**-**	-	-	-	**-**	-	-	-
TOTAL	**208.1**	200.0	8.1	4.1	**392.5**	375.8	16.7	4.4

Passenger revenues total $61.1M for the quarter, a decrease of 3.8 percent compared to the corresponding quarter last year. The decrease stems mostly from the impact of the frequency adjustments in Southwestern Ontario, as well as on the *Ocean* and the *Canadian*. The frequency adjustments, announced in 2012, took effect at the end of October 2012 for the *Ocean* and the *Canadian*. In Southwestern Ontario, some frequencies were reduced in July 2012, others at the end of October 2012 also.

For the six month period ended June 30, 2013, passenger revenues totaled $115.1M and have decreased by 3.3 percent compared to the previous year. The decrease is also attributable to the frequency adjustments made in 2012 on the Southwestern Ontario routes, as well as on the *Ocean* and the *Canadian*. Revenues have increased on services Mandatory routes (not impacted by frequency adjustments) and on the Corridor East (where an additional frequency between Ottawa and Toronto was added in December 2012).

2. HIGHLIGHTS OF OPERATING RESULTS (CONT'D)

For the quarter:

- Corridor East revenues are 3.6 percent above last year, and result mainly from higher ridership (15.3 percent more passenger miles), partly offset by lower yields (decrease of 10.1 percent). The increase in passenger-miles during the quarter was more significant than the increase in passengers, reflecting the fact that the growth in ridership on end to end markets;
- Revenues in SWO have decreased by 12.1 percent as a result of lower ridership (6.2 percent less passenger-miles), due mainly to the impact of the frequency adjustments, combined with lower yields (6.4 percent);
- Revenues on the *Ocean* have decreased by 40.6 percent, due to lower ridership (37.4 percent less passenger-miles) resulting directly from the frequency adjustments (from 6 to 3 frequencies per week), combined with lower yields (5.1 percent):
- Revenues on the *Canadian* have decreased by 4.2 percent over the previous year. The performance stems from lower volumes (6.8 percent less passenger-miles) attributable to the frequency adjustments in April (from 3 to 2 frequencies per week); in May 2013, a third weekly frequency was added until October. Yields improved during the quarter (increase of 2.8 percent compared to last year);
- Mandatory services have generated higher revenues (18.2 percent), the increase resulting from higher revenues on the Montreal-Gaspe service (where last year, the service was interrupted for a portion of the quarter due to poor track conditions). This year, the service stops at New Carlisle and passengers are taken by bus to Gaspé.

For the six-month period ended June 30:

- Corridor East revenues have increased by 3.2 percent, due to an increase in ridership (13.9 percent more passenger-miles), partly offset by lower yields (9.4 percent);
- Revenues in SWO have decreased by 12.1 percent and also result from lower ridership (5.6 percent less passenger-miles) attributable in part to the frequency adjustments, combined with lower yields (6.9 percent);
- Revenues on the *Ocean* have decreased by 43.5 percent due to lower ridership (40.1 percent less passenger-miles) resulting from the impact of the frequency adjustments, combined with lower (5.7 percent);
- Revenues on the *Canadian* are 3.2% below last year's levels, the decrease mainly due to lower ridership (3.2 percent less passenger miles), while yields remained stable. This performance is very positive given the fact that, for the first four months of the year, there were two frequencies per week compared to three in 2012.
- Mandatory services have generated higher revenues (26.3 percent), the increase directly attributable to the situation which affected the Montreal-Gaspe service. In 2012, the service was interrupted during a portion of the quarter due to poor track conditions. The service resumed in May and the train stopped at Campbellton where passengers were transported by bus to Gaspe. This year, the service is offered up to New Carlisle and passengers are taken by bus to Gaspe.

b) Operating Expenses

IN MILLIONS OF CANADIAN DOLLARS	Quarters ended June 30				Six month periods ended June 30			
	2013	2012	Var $	Var %	**2013**	2012	Var $	Var %
Compensation & Benefits	**54.5**	50.2	4.3	8.5	**105.8**	108.0	(2.2)	(2.0)
Employee benefits	**12.6**	7.4	5.2	71.2	**25.7**	19.9	5.8	29.1
Train Operations & Fuel	**30.1**	29.9	0.2	0.7	**60.4**	62.3	(1.9)	(3.0)
Other operating expenses	**56.2**	49.0	7.2	14.7	**110.5**	101.6	8.9	8.8
Unrealized loss (gain) on derivative financial instruments	**0.5**	5.5	(5.0)	(90.9)	**(0.5)**	3.1	(3.6)	(116.1)
Realized loss (gain) on derivative financial instruments	**0.1**	(0.2)	0.3	150.0	**0.0**	(1.0)	1.0	100.0
Total Operating expenses before Amortization of deferred capital funding & Corporate Tax expense	**154.0**	141.8	12.2	8.6	**301.9**	293.9	8.0	2.7
Corporate Taxes	**0.0**	(0.1)	0.1	100.0	**0.0**	0.0	0.0	n/a
TOTAL OPERATING EXPENSES BEFORE AMORTIZATION OF DEFERRED CAPITAL FUNDING	**154.0**	141.7	12.3	8.7	**301.9**	293.9	8.0	2.7

For the quarter:

/ Operating expenses before amortization of deferred capital funding & corporate taxes have increased by 12.2 million and total 154.0 million for the quarter, mainly due to higher amortization and losses on write-down and disposal of property, plant and equipment and intangible assets (included in other operating expenses), as well as higher employee benefit costs.

For the six month period ended June 30:

/ Operating expenses before amortization of deferred capital funding & corporate taxes rose by $8.0M and amount to $301.9M. The increase results primarily from higher amortization and losses on write-down and disposal of property, plant and equipment and intangible assets (included in other operating expenses), as well as higher employee benefit costs.

3. CAPITAL INVESTMENTS

Fixed assets (net of accumulated depreciation) amount to $1,251.4M, up $12.8M compared to the balance as at December 31, 2012. Capital investments for the quarter totaled $24.5M, and $48.1M for the semester.

- Investments of $6.1M were made in major equipment projects, including $5.0M for the LRC fleet rebuild project, and $0.5M for the HEP1 modernization project. The investments made so far this year in major equipment projects total $11.1M of which $8.6 million is for the LRC fleet rebuild project.
- A total of $5.9M was invested in major infrastructure projects. The majority of investments were made in the Kingston Subdivision where work is done to add sections of a third track between Montreal and Toronto to minimize congestion. The total investment made in major infrastructure projects was $10.3M for the semester.
- An amount of $6.0M was invested in Information Technology projects (including the reservation system, IT infrastructure and telemetry projects). Investments in Information Technology projects totaled $12.5M for the semester.
- Investments of $2.3M were also made in Other Infrastructure projects during the quarter, bringing the total investments to $6.0M for the six month period ended June 30.

4. CASH FLOW AND FINANCIAL POSITION

The Corporation's cash balance is $19.6M as at June 30, 2013, up $3.3M compared to March 31, 2013, and up $3.7M compared to December 31, 2012. The increase in cash for the six month period is due to the increase in capital funding, partly offset by acquisition of property, plant and equipment.

5. RISK ANALYSIS

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 quarter 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. New mortality table is also expected to be adopted by CIA to result in a potential increase in current service costs.
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).
PASSENGER REVENUES		
Recent frequency adjustments and difficult economic environment continue to challenge revenue growth.		The initiatives implemented by VIA to mitigate the impact of declining passenger revenues have generated additional ridership, and the Corporation is now focusing on maximizing its revenue management strategy.
OPERATING FUNDING		
VIA continues to face operational funding challenges.		The fact that passenger revenues are below expectations increases the Corporation's financial pressure and as a consequence, the budgeted operational funding for the year may be insufficient. The Corporation is 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.

INCREASING STABLE DECREASING

5. RISK ANALYSIS (CONT'D)

RISK	TREND	CURRENT SITUATION
CAPITAL FUNDING		
VIA needs to continue investing in equipment, stations, maintenance systems, facilities and information technology, when the current investment program is completed.	Stable	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 new envelope for ongoing capital for the 2013-2014 year.
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.	Stable	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.
SAFETY AND SECURITY		
Rail passenger business operates in a strict regulatory environment but exposed to accidents and terrorism.	Stable	VIA started an internal audit of its operational processes against the industry safety standards. While the Corporation already complies with the industry and government standards, and in some cases even exceeds these requirements, VIA is firmly resolved to surpassing them in the coming years.

INCREASING STABLE DECREASING

6. OUTLOOK

Achieving growth in ridership and overall passenger revenues, while maintaining yields to reduce the government subsidy per passenger remains challenging. The Corporation continues to monitor booking patterns in the various train services and, through its revenue management system, adjusts its yield strategy.

New cost savings initiatives have also been implemented in 2013 to minimize operating costs and improve the Corporation's financial performance. The introduction of new technology will allow us to continue to reduce fuel consumption in our locomotives and help modernizing our stations which is aiming to enhance customer experience without compromise on passenger security.

INTERIM CONDENSED

FINANCIAL STATEMENTS

MANAGEMENT'S RESPONSIBILITY STATEMENT

QUARTER ENDED JUNE 30, 2013

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, CPA, CA
Chief Financial
and Administration Officer

Montréal, Canada
August 28, 2013

INTERIM CONDENSED FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION

As at (IN THOUSANDS OF CANADIAN DOLLARS)	June 30, 2013 (unaudited)	December 31, 2012 (audited)
CURRENT ASSETS		
Cash and cash equivalents	**$ 19,597**	$ 15,857
Accounts receivable, trade	**7,456**	6,823
Prepaids, advances on contracts and other receivables	**4,454**	5,951
Receivable from the Government of Canada	**18,788**	10,408
Derivative financial instruments (NOTE 17)	**1,032**	771
Materials	**23,735**	22,646
Asset Renewal Fund (NOTE 8)	**13,248**	13,248
	88,310	75,704
NON-CURRENT ASSETS		
Property, plant and equipment (NOTE 6)	**854,530**	840,287
Intangible assets (NOTE 7)	**396,919**	398,338
Asset Renewal Fund (NOTE 8)	**2,759**	2,485
	1,254,208	1,241,110
Total assets	**$ 1,342,518**	$ 1,316,814
CURRENT LIABILITIES		
Trade and other payables (NOTE 9)	**$ 104,233**	$ 102,983
Provisions (NOTE 10)	**12,202**	12,551
Derivative financial instruments (NOTE 17)	**939**	1,157
Deferred revenues (NOTE 14)	**39,828**	27,361
	157,202	144,052
NON-CURRENT LIABILITIES		
Net defined benefit liability (NOTE 11)	**168,362**	388,345
Deferred investment tax credits	**140**	281
	168,502	388,626
DEFERRED CAPITAL FUNDING (NOTE 13)	**1,242,012**	1,229,001
SHAREHOLDER'S EQUITY		
Share capital	**9,300**	9,300
Retained earnings	**(234,498)**	(454,165)
	(225,198)	(444,865)
Total liabilities and shareholder's equity	**$ 1,342,518**	$ 1,316,814

Commitments (Notes 15)

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

Period ended June 30 (IN THOUSANDS OF CANADIAN DOLLARS) (UNAUDITED)	Quarters ended		Six-month periods ended	
	2013	2012	2013	2012
REVENUES		Restated		Restated
Passenger	**$ 61,119**	$ 63,500	**$ 115,136**	$ 118,977
Other	**5,061**	4,611	**10,028**	9,823
	66,180	68,111	**125,164**	128,800
EXPENSES				
Compensation and benefits	**67,101**	57,617	**131,503**	127,919
Train operations and fuel	**30,091**	29,958	**60,352**	62,346
Stations and property	**7,773**	7,544	**17,368**	16,951
Marketing and sales	**8,863**	7,679	**16,118**	15,383
Maintenance material	**6,823**	6,483	**13,733**	14,656
On-train product costs	**3,829**	3,670	**7,257**	6,936
Operating taxes	**3,119**	2,944	**5,666**	5,431
Professional services	**2,583**	2,404	**4,373**	4,384
Amortization and losses on write-down and disposal of property, plant and equipment and intangible assets (NOTES 6 AND 7)	**17,683**	12,012	**35,108**	25,124
Unrealized net loss (net gain) on derivative financial instruments	**570**	5,525	**(479)**	3,091
Realized loss (gain) on derivative financial instruments	**80**	(154)	**(42)**	(956)
Other	**5,456**	6,144	**10,981**	12,630
	153,971	141,826	**301,938**	293,895
OPERATING LOSS BEFORE FUNDING FROM THE GOVERNMENT OF CANADA AND CORPORATE TAXES	**87,791**	73,715	**176,774**	165,095
Operating funding from the Government of Canada	**79,879**	71,994	**163,161**	151,489
Amortization of deferred capital funding (NOTE 13)	**17,487**	13,538	**34,666**	29,390
Income before corporate taxes	**9,575**	11,817	**21,053**	15,784
Corporate tax recovery (NOTE 12)	**-**	75	**-**	-
NET INCOME FOR THE PERIOD	**9,575**	11,892	**21,053**	15,784
Other comprehensive income (loss)				
Amounts not to be reclassified subsequently to net income:				
Actuarial gains (losses) on defined benefit plans	**65,310**	(36,993)	**198,614**	(53,121)
Other comprehensive income (loss) for the period	**65,310**	(36,993)	**198,614**	(53,121)
Total comprehensive income (loss) for the period	**$ 74,885**	$ (25,101)	**$ 219,667**	$ (37,337)

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 June 30 (IN THOUSANDS OF CANADIAN DOLLARS) (UNAUDITED)	Quarters ended		Six-month periods ended	
	2013	2012	2013	2012
		Restated		Restated
SHARE CAPITAL	**$ 9,300**	$ 9,300	**$ 9,300**	$ 9,300
Retained Earnings				
Balance, beginning of period	**(309,383)**	(391,620)	**(454,165)**	(379,384)
Net income for the period	**9,575**	11,892	**21,053**	15,784
Other comprehensive income (loss) for the period	**65,310**	(36,993)	**198,614**	(53,121)
Balance, end of period	**(234,498)**	(416,721)	**(234,498)**	(416,721)
Total Shareholder's equity	**$ (225,198)**	$ (407,421)	**$ (225,198)**	$ (407,421)

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

INTERIM CONDENSED FINANCIAL STATEMENTS

STATEMENT OF CASH FLOWS

Period ended June 30 (IN THOUSANDS OF CANADIAN DOLLARS) (UNAUDITED)	Quarters ended				Six-month periods ended			
	2013		2012		2013		2012	
OPERATING ACTIVITIES				Restated				Restated
Net income for the period	**$**	**9,575**	$	11,892	**$**	**21,053**	$	15,784
Adjustments to determine net cash (used in) from operating activities:								
Amortization of property, plant and equipment and intangible assets		**17,597**		13,810		**35,092**		27,539
Losses on write-down and disposal of property, plant and equipment and intangible assets		**157**		(1,727)		**157**		(2,273)
Receipt of letters of credit		**-**		1,750		**-**		4,250
Amortization of deferred investment tax credits		**(71)**		(71)		**(141)**		(142)
Amortization of deferred capital funding		**(17,487)**		(13,538)		**(34,666)**		(29,390)
Interest income		**(136)**		(183)		**(275)**		(412)
Change in fair value of financial instruments (Asset Renewal Fund)		**(151)**		(27)		**(274)**		(401)
Unrealized gain (loss) on derivative financial instruments		**570**		5,525		**(479)**		3,091
Post employment benefits funding in excess of amounts expensed		**65,310**		(36,993)		**198,614**		(53,121)
Change in defined benefit liability		**(81,133)**		18,962		**(219,983)**		34,792
Net change in non-cash working capital items		**20,668**		3,693		**2,510**		(3,766)
Net cash (used in) provided by operating activities		**14,899**		3,093		**1,608**		(4,049)
INVESTING ACTIVITIES								
Capital funding		**24,227**		39,273		**47,677**		82,549
Change in capital funding receivable from the Government of Canada		**(12,027)**		(5,088)		**(1,977)**		(564)
Acquisition of investments in the Asset Renewal Fund		**(19,073)**		(22,087)		**(27,721)**		(46,671)
Proceeds from sale and maturity of investments in the Asset Renewal Fund		**19,073**		23,235		**27,721**		54,124
Change in capital accounts payable and accrued liabilities		**522**		(5,279)		**4,230**		(8,512)
Acquisition of property, plant and equipment and intangible assets		**(24,486)**		(40,774)		**(48,073)**		(84,044)
Interest received		**136**		183		**275**		412
Proceeds from disposal of property, plant and equipment and intangible assets		**-**		6		**-**		1,029
Net cash (used in) provided by investing activities		**(11,628)**		(10,531)		**2,132**		(1,677)
CASH AND CASH EQUIVALENTS								
Increase (decrease) during the period		**3,271**		(7,438)		**3,740**		(5,726)
Balance, beginning of period		**16,326**		14,965		**15,857**		13,253
BALANCE, END OF PERIOD	**$**	**19,597**	$	7,527	**$**	**19,597**	$	7,527
REPRESENTED BY:								
Cash	**$**	**19,597**	$	6,303	**$**	**19,597**	$	6,303
Short-term investments		**-**		1,224		**-**		1,224
	$	**19,597**	$	7,527	**$**	**19,597**	$	7,527

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

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

AS AT JUNE 30, 2013 (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 August 28, 2013.

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, 2012, 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 statements for the year ended December 31, 2012 except for the adoption of the accounting standard IFRS 13 – *Fair value measurement* with a date of application of January 1, 2013. The revised standard did not have a significant impact on the presentation of the Interim Condensed Financial Statements or the note disclosure. 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.

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, 2012.

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 an IFRS basis. These differences are outlined below:

	Quarters ended June 30		Six month periods ended June 30	
(IN MILLIONS OF DOLLARS)	2013	2012	2013	2012
Total comprehensive income (loss) for the period	**74.9**	(25.1)	**219.7**	(37.3)
Items not requiring (not providing) operating funds:				
Amortization of property, plant and equipment and intangible assets	**17.6**	13.8	**35.1**	27.5
Losses on write-down and disposal of property, plant and equipment and intangible assets	**0.2**	-	**0.2**	1.9
Amortization of deferred capital funding	**(17.5)**	(13.5)	**(34.7)**	(29.4)
Employee benefits to be funded in subsequent years	**(81.1)**	19.0	**(219.8)**	34.8
Unrealized net gain (net loss) on derivative financial instruments	**0.6**	5.5	**(0.5)**	3.1
Adjustment for accrued compensation	**5.5**	5.7	**0.3**	(0.2)
Increase in investment's fair value	**(0.2)**	-	**(0.3)**	(0.4)
Other	**-**	(0.1)	**-**	-
Operating funding deficit for the period	**-**	(5.3)	**-**	-

6. PROPERTY, PLANT AND EQUIPMENT

(IN MILLIONS OF DOLLARS)	December 31, 2012	Additions	Retirements and Disposals	Reclassifications	June 30, 2013
Cost:					
Land	12.3	-	-	-	**12.3**
Rolling stock	849.1	11.3	(1.7)	-	**858.7**
Maintenance buildings	137.8	1.1	-	-	**138.9**
Stations and facilities	102.8	0.8	-	-	**103.6**
Owned infrastructures	176.8	2.6	(0.3)	-	**179.1**
Leasehold improvements	77.3	0.4	-	-	**77.7**
Machinery and equipment	33.9	0.2	-	-	**34.1**
Computer hardware	19.1	4.8	-	-	**23.9**
Other property, plant and equipment	20.9	-	-	-	**20.9**
Total cost	1,430.0	21.2	(2.0)	-	**1,449.2**
Accumulated amortization and impairments:					
Rolling stock	394.6	14.7	(1.7)	-	**407.6**
Maintenance buildings	86.9	1.6	-	-	**88.5**
Stations and facilities	30.9	2.0	-	-	**32.9**
Owned infrastructures	54.2	2.8	(0.2)	-	**56.8**
Leasehold improvements	47.7	1.3	-	-	**49.0**
Machinery and equipment	25.4	0.6	-	-	**26.0**
Computer hardware	12.3	2.1	-	-	**14.4**
Other property, plant and equipment	18.5	0.1	-	-	**18.6**
Total accumulated amortization and impairments	670.5	25.2	(1.9)	-	**693.8**
Project in progress	80.8	18.3	-	-	**99.1**
Retired assets	-	-	-	-	**-**
Total net carrying amount	840.3	14.3	(0.1)	-	**854.5**

7. INTANGIBLE ASSETS

(IN MILLIONS OF DOLLARS)	December 31, 2012	Additions	Retirements and Disposals	Reclassifications	June 30, 2013
Cost:					
Internally generated software	66.8	6.0	(0.4)	-	**72.4**
Right of access to rail infrastructure	409.4	(0.7)	-	-	**408.7**
Other intangible	3.8	-	-	-	**3.8**
Total cost	480.0	5.3	(0.4)	-	**484.9**
Accumulated amortization and impairments:					
Internally generated software	52.2	4.7	(0.2)	-	**56.7**
Right of access to rail infrastructure	49.3	5.2	-	-	**54.5**
Other intangible	1.6	-	-	-	**1.6**
Total accumulated amortization and impairments	103.1	9.9	(0.2)	-	**112.8**
Project in progress	21.5	3.3	-	-	**24.8**
Total net carrying amount	398.4	(1.3)	(0.2)	-	**396.9**

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)	June 30, 2013	December 31, 2012
Balance at beginning of the period	**15.7**	33.9
Proceeds from sale or lease of surplus assets	**-**	1.2
Investment Income	**-**	0.4
Change in fair value	**0.3**	1.0
Less: Cash drawdown during the period	**-**	(20.8)
Balance at end of the period	**16.0**	15.7

9. TRADE AND OTHER PAYABLES

The Trade and other payables balance includes the following:

(IN MILLIONS OF DOLLARS)	June 30, 2013	December 31, 2012
Wages payable and accrued	**35.9**	34.6
Capital Payables	**30.8**	33.2
Trade payables	**30.9**	27.1
Capital tax, income tax and other taxes payable	**6.5**	7.4
Other	**0.1**	0.7
	104.2	103.0

10. PROVISIONS

The provision balance includes:

(IN MILLIONS OF DOLLARS)	December 31, 2012	Charge (used)	Reversal (used)	Reversal (not used)	June 30, 2013
Environmental costs (NOTE A)	1.1	(0.2)	-	-	**0.9**
Litigation and contractual disputes (NOTE B)	9.5	1.0	-	-	**10.5**
Restructuring costs (NOTE C)	1.1	-	(0.9)	-	**0.2**
Other	0.8	(0.2)	-	-	**0.6**
Total provisions	12.5	0.6	(0.9)	-	**12.2**

A) ENVIRONMENTAL COSTS

The Corporation has made a provision of $0.9 million for environmental costs related to fuel spills that occurred in 2012 (December 31, 2012: $1.1 million), which is recorded in Provisions.

B) 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.

C) RESTRUCTURING COSTS

The Corporation has announced some cost saving measures by implementing a new regionally-based organizational structure. These changes were announced in December 2011 and will be completed in 2013.

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 June 30, the summary of the principal valuation results, in aggregate, is as follows:

	Pension Plans		Post-employment Benefit Plans	
(IN MILLIONS OF DOLLARS)	June 30, 2013	December 31, 2012	June 30, 2013	December 31, 2012
DEFINED BENEFIT OBLIGATION:				
Balance at beginning of the period	**2,078.0**	1,860.6	**19.1**	16.9
Service cost	**14.7**	23.4	**0.2**	0.4
Interest expense	**40.4**	84.1	**0.4**	0.8
Employee contributions	**5.2**	10.1	**-**	-
Benefits paid	**(48.0)**	(97.0)	**(0.2)**	(0.5)
Effect of change in financial assumptions	**(203.8)**	170.4	**-**	1.6
Effect of employee transfers	**-**	26.4	**-**	-
Effect of experience adjustments	**-**	-	**-**	(0.1)
Balance at end of the period	**1,886.5**	2,078.0	**19.5**	19.1
FAIR VALUE OF PLAN ASSETS:				
Balance at beginning of the period	**1,735.0**	1,586.1	**-**	-
Interest Income	**33.8**	70.6	**-**	-
Return on plan assets (excluding interest income)	**(5.2)**	70.7	**-**	-
Employer contributions	**43.7**	70.2	**0.2**	0.5
Employee contributions	**5.2**	10.1	**-**	-
Benefits paid	**(48.0)**	(97.0)	**(0.2)**	(0.5)
Effect of employee transfers	**-**	26.4	**-**	-
Administration expenses	**(1.2)**	(2.1)	**-**	-
Balance at end of the period	**1,763.3**	1,735.0	**-**	-
Net Defined benefit liability	**(123.2)**	(343.0)	**(19.5)**	(19.1)

11. EMPLOYEE BENEFITS (CONT'D)

	Pension Plans		Post-employment Benefit Plans	
	June 30, 2013	December 31, 2012	June 30, 2013	December 31, 2012
WEIGHTED-AVERAGE OF SIGNIFICANT FINANCIAL ASSUMPTIONS:				
Defined benefit obligation:				
Discount rate	**4.60%**	3.90%	**4.00%**	4.00%
Rate of salary increase	**3.00% - 3.25%**	3.00% - 3.25%	**3.25%**	3.25%
Initial weighted average health care trend rate	**-**	-	**7.01%**	7.01%
Ultimate weighted average health care trend rate	**-**	-	**4.32%**	4.32%
Year ultimate rate reached	**-**	-	**2025**	2025
Rate of price inflation	**2.25%**	2.25%	**-**	-
Rate of pension increase	**1.13%**	1.13%	**-**	-
Defined benefit cost:				
Discount rate	**3.90%**	4.50%	**4.00%**	4.50%
Rate of price inflation	**2.25%**	2.25%	**-**	-
Rate of salary increase	**3.00% - 3.25%**	3.00% - 3.25%	**3.25%***	3.25%*
Rate of pension increase	**1.13%**	1.13%	**-**	-
Initial weighted average health care trend rate	**-**	-	**7.01%**	7.31%
Ultimate weighted average health care trend rate	**-**	-	**4.32%**	4.33%
Year ultimate rate reached	**-**	-	**2025**	2025
SIGNIFICANT DEMOGRAPHIC ASSUMPTIONS:				
Defined benefit cost:				
Post retirement mortality tables	**UP94 generational scale AA**	UP94 generational scale AA	**UP94 generational**	UP94 generational

*Applicable to executive employees only.

B) LONG-TERM EMPLOYEE BENEFIT PLANS

Based on these actuarial valuations and projections to June 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)	June 30, 2013	December 31, 2012
DEFINED BENEFIT OBLIGATION:		
Balance at beginning of the period	**22.0**	22.2
Service cost	**2.7**	5.3
Interest expense	**0.4**	0.9
Plan amendment	**-**	-
Employee contributions	**-**	-
Benefits paid	**(3.1)**	(6.2)
Effect of change in demographic assumptions	**-**	(0.6)
Effect of change in financial assumptions	**-**	0.4
Effect of experience adjustments	**-**	-
Balance at end of the period	**22.0**	22.0
FAIR VALUE OF PLAN ASSETS:		
Balance at beginning of the period	**-**	-
Interest Income	**-**	-
Return on plan assets	**-**	-
Employer contributions	**3.1**	6.2
Employee contributions	**-**	-
Benefits paid	**(3.1)**	(6.2)
Administration expenses	**-**	-
Balance at end of the period	**-**	-
Net Defined benefit liability	**(22.0)**	(22.0)

11. EMPLOYEE BENEFITS (CONT'D)

Weighted-average of significant assumptions:

	June 30, 2013	December 31, 2012
Defined benefit obligation:		
Discount rate	**3.20%**	3.20%
Rate of salary increase	**3.00% - 3.25%**	3.00% - 3.25%
Initial weighted average health care trend rate	**5.85%**	5.85%
Ultimate weighted average health care trend rate	**3.93%**	3.93%
Rate of price inflation	**2.25%**	2.25%
Defined benefit cost:		
Discount rate	**3.20%**	3.75%
Rate of salary increase	**3.00% - 3.25%**	3.00% - 3.25%
Initial weighted average health care trend rate	**5.85%**	5.95%
Ultimate weighted average health care trend rate	**3.93%**	3.93%
Rate of price inflation	**2.25%**	2.25%
Post-retirement mortality tables	**WC 1996-2000 mortality table projected to 2009 for workers' compensation and 2009 CIA study for Other employment benefits**	WC 1996-2000 mortality table projected to 2009 for workers' compensation and 2009 CIA study for Other employment benefits

C) OTHER LONG-TERM BENEFIT PLANS

Other long-term employee benefit obligation for the maintenance of earnings is as follows:

(IN MILLIONS OF DOLLARS)	June 30, 2013	December 31, 2012
Network restructuring obligation	**(3.7)**	(4.2)

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)	June 30, 2013	December 31, 2012
Liabilities:		
Pension Plans	**(123.2)**	(343.0)
Post-employment benefit plans	**(19.5)**	(19.1)
Long-term employee benefit plans	**(22.0)**	(22.0)
Network Restructuring obligation	**(3.7)**	(4.2)
Total	**(168.4)**	(388.3)

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

(IN MILLIONS OF DOLLARS)	Quarters ended June 30		Six month periods ended June 30	
	2013	2012	2013	2012
Operating expense:				
Pension Plans	**10.7**	5.9	**22.5**	16.7
Post-employment benefit plans	**0.3**	-	**0.6**	0.2
Long-term employee benefit plans	**1.6**	1.5	**3.1**	3.0
Network Restructuring obligation	**-**	-	**(0.5)**	-
Total	**12.6**	7.4	**25.7**	19.9

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

(IN MILLIONS OF DOLLARS)	Quarters ended June 30		Six month periods ended June 30	
	2013	2012	2013	2012
Other comprehensive income (loss):				
Pension Plans	**(65.3)**	36.4	**(198.6)**	52.5
Post-employment benefit plans	**-**	0.6	**-**	0.6
Total	**(65.3)**	37.0	**(198.6)**	53.1

12. CORPORATE TAXES

The corporate tax recovery of the Corporation consists of the following:

	Quarters ended June 30		Six month periods ended June 30	
(IN MILLIONS OF DOLLARS)	2013	2012	2013	2012
Current corporate tax recovery	**-**	(0.1)	**-**	-
Deferred corporate tax expense	**-**	-	**-**	-
Corporate tax expense	**-**	(0.1)	**-**	-

The overall corporate tax expense for the period differs from the amount that would be computed by applying the combined Federal and provincial statutory income tax rates of 24.37% (June 30, 2012: 24.39%) to income before corporate taxes. The reasons for the differences are as follows;

(IN MILLIONS OF DOLLARS)	June 30, 2013	June 30, 2012
Income before corporate taxes	**21.1**	15.8
Computed corporate tax expense - statutory rates	**5.1**	3.8
Effect of decrease in unrecognized tax attributes	**(5.1)**	(3.9)
Non-taxable portion of capital and accounting gains and other	**-**	0.1
Corporate tax expense	**-**	-

The Corporation has $58.8 million (December 31: 2012: $55.9 million) of unused Quebec and $56.4 million (December 31: 2012, $53.5 million) of unused Federal non-capital tax losses carried forward and expiring between 2029 and 2032.

The corporation has not recognized any deferred tax assets on its deductible temporary differences and unused tax losses as it has determined that it is not probable that taxable profit will be available against which the deductible temporary differences and unused tax losses can be utilized. Unrecognized deductible temporary differences and unused tax losses for which no deferred tax assets have been recognized are attributed to the following:

(IN MILLIONS OF DOLLARS)	June 30, 2013	December 31, 2012
Federal:		
Property, plant and equipment	**81.5**	81.4
Contingencies, other liabilities and net amounts	**17.5**	21.0
Net defined benefit liability	**164.7**	384.2
Unused losses carry forward	**56.5**	53.5
	320.2	540.1
Quebec:		
Property, plant and equipment	**463.2**	463.0
Contingencies, other liabilities and net amounts	**17.5**	21.0
Net defined benefit liability	**164.7**	384.2
Unused losses carry forward	**59.0**	55.9
	704.4	924.1

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)	June 30, 2013	December 31, 2012
Balance, beginning of the period	**1,229.0**	1,143.8
Government funding for property, plant and equipment and intangible assets (including the cost of land)	**47.7**	167.2
Amortization of deferred capital funding	**(34.7)**	(82.0)
Balance, end of the period	**1,242.0**	1,229.0

14. DEFERRED REVENUE

Deferred revenue is comprised of the following:

(IN MILLIONS OF DOLLARS)	June 30, 2013	December 31, 2012
Advanced ticket sales	**21.2**	9.4
Gift cards	**2.5**	2.5
Non-monetary transactions	**2.1**	1.6
VIA Préférence	**13.9**	13.6
Other	**0.1**	0.3
Total deferred revenue	**39.8**	27.4

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 12 years with a renewal option. The lease payments are increased to reflect normal inflation.

b) As at June 30, 2013, the Corporation has outstanding major contract commitments amounting to $33.8 million (December 31, 2012: $45.5 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 $28.3 million (December 31, 2012: $28.4 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 disclose in its annual financial statements for the year ended December 31, 2012.

17. DERIVATIVE FINANCIAL INSTRUMENTS

The Corporation uses commodity or price swaps where it exchanges cash payments based on changes in the price of a commodity (i.e. heating oil) compared to the agreed bench-mark. The Corporation also enters into foreign exchange forward contracts to either buy or sell USD at a specified price and date in the future. These contracts are related to fuel swaps.

At the end of the period, the fair value of the derivative financial instruments is as follows:

Crude swap	June 30, 2013		December 31, 2012	
	Notional Quantity (000's of U.S. Gallons)	Fair Value CAD (000's)	Notional Quantity (000's of U.S. Gallons)	Fair Value CAD (000's)
Assets	**504**	**88**	5,796	495
Liabilities	**9,576**	**937**	6,048	563

As at June 30, 2013, the fuel swaps have a fixed price per U.S. gallon in USD between 2.309 and 3.124 (December 31, 2012: between 2.309 and 3.124) and the maturity dates are 2013 to 2015 (December 31, 2012: 2013 to 2014). These financial instruments have a monthly settlement schedule.

Foreign Exchange contracts	June 30, 2013		December 31, 2012	
	Notional Amount (USD) (000's)	Fair Value CAD (000's)	Notional Amount (USD) (000's)	Fair Value CAD (000's)
Assets	**21,537**	**944**	11,132	276
Liabilities	**2,865**	**2**	16,081	594

As at June 30, 2013, the forward contracts rates are between 0.994 and 1.062 (December 31, 2012: between 0.980 and1.041) in US dollars and the maturity dates are 2013 to 2014 (December 31, 2012: 2013 to 2014). These financial instruments have a monthly settlement schedule.

Amounts recognized in the Statement of financial position:

	June 30, 2013	December 31, 2012
	Fair Value CAD (000's)	Fair Value CAD (000's)
Total assets	**1,032**	771
Total liabilities	**939**	1,157