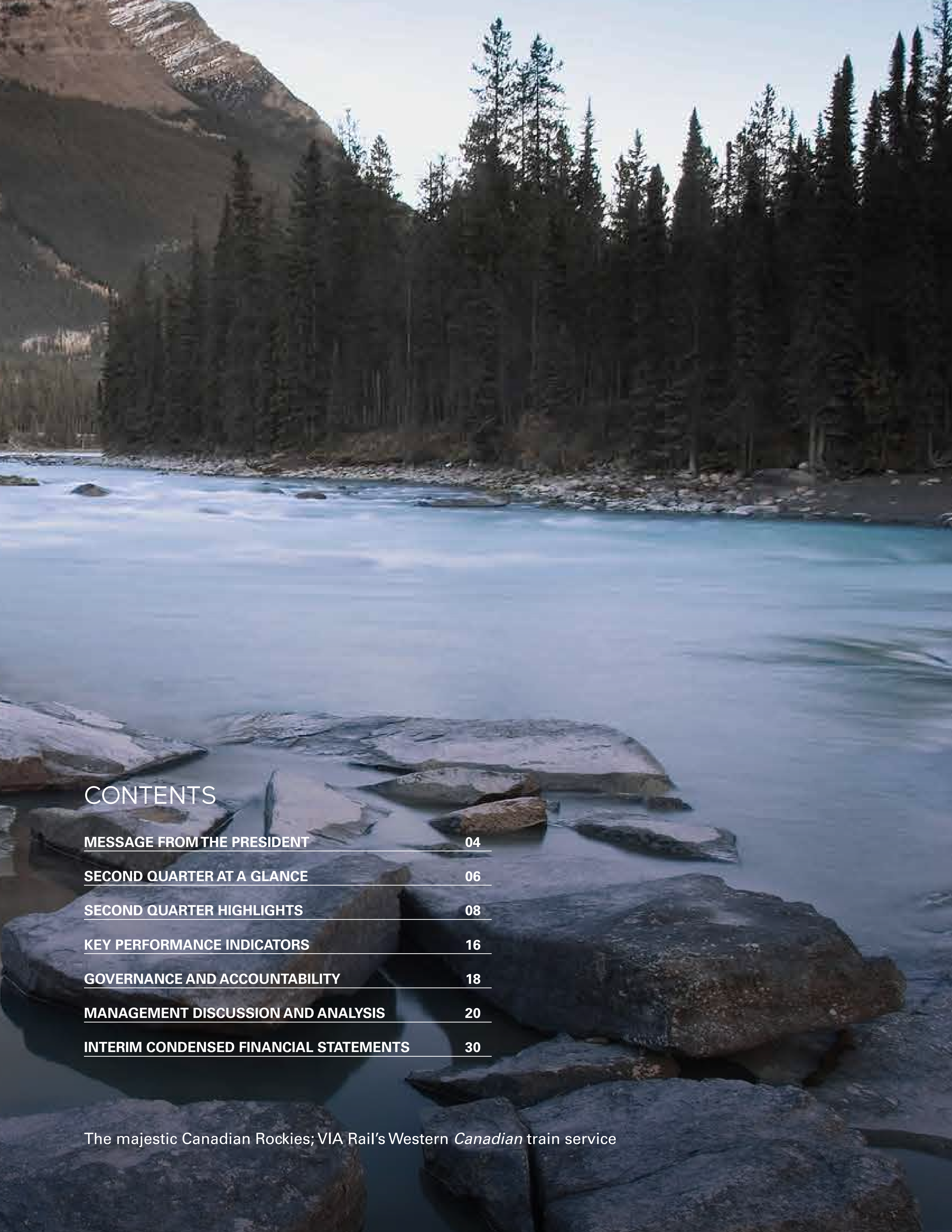
2014 SECOND QUARTER REPORT

VIA Rail Canada



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The majestic Canadian Rockies; VIA Rail's Western *Canadian* train service

MESSAGE FROM THE PRESIDENT

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

My appointment as President and CEO took place at the midpoint of the second quarter of 2014. From the get-go my focus has been clear: continuously improve our safety record, recognize and enhance our employees' strengths, build on passengers' appreciation for our high-quality, customer-oriented services, and ultimately, increase ridership and revenues.

As Canada's national passenger train company, VIA Rail offers a unique service to communities along a 12,500 km rail network, that is 98% owned and operated by its railway partners. For many of these towns, our trains are the only means of transport to larger urban centers other than by car; and therein lies one of the best ways we can serve the Canadian public. Through collaboration with those cities and towns and a joint recognition of the nature and needs of their populations, we can build and grow our customer base. This would be great for communities since frequencies are dependent on market demand, and more passengers could translate into a more robust train schedule with more travel options. For VIA Rail, as an environmentally friendly choice that makes economic sense, carrying more passengers and being less dependent on Government funding are our ultimate goals.

To this end, this quarter saw the launching of many new projects reviewing and re-thinking our business in its entirety. This review has been guided by a focus on our customers' needs and a desire to be of greater service to the public. Discussions were initiated with key partners including Canadian National, Rocky Mountaineer, municipal and federal elected officials along our *Ocean* route, and other travel partners.

As well, I spent this quarter meeting with as many VIA Rail employees and passengers as possible in order to hear their experiences and listen to their suggestions. To date, I have met with close to 1,350 employees (54%) from across the country and with more than 60 passengers on our Québec city-Windsor corridor and *Ocean* trains.

From a commercial standpoint, revenues increased compared to the same period in 2013 and the average fare per passenger also increased.

During the quarter, we welcomed two new members to our Board of Directors: Deborah Robinson and Melissa Sonberg. We also welcomed two new members to our management team; Jean-Francois Legault, who replaced me as Chief Legal Officer and Corporate Secretary, and Martin R. Landry, Chief Commercial Officer. They are both seasoned executives, experienced in their fields. Under Martin's leadership, our Marketing team launched, in record time, two new unlimited summer passes allowing youth to travel on any train in the Corridor or across our whole network. Finally, Mr. Steve Del Bosco has been appointed as Senior Advisor to the President and CEO. We thank Steve for his dedication to service, to the company and to its employees and passengers. As the incoming President and CEO, it is comforting to know that I can rely on his experience and knowledge of the business.

To learn about VIA Rail's vision, a video introduction following my appointment and this year's Annual Public Meeting webcast video have been added to our YouTube channel. Our intention is to keep the public informed about our progress and to continue to be a more transparent corporation. In support of open lines of communication, the @VIARailPrez twitter account was also created to allow for a dialogue with the public.

Following this quarter's results, a lot of work needs to be done in order to create a better future for VIA Rail, its passengers and its employees. Fortunately, the financial and commercial performance improvements that started in the second quarter continued in July and August.

As well, to this end, we are starting strong. We have a team of dedicated and customer-focused employees; our passengers believe in our services and appreciate their value; and the Government of Canada has provided financial support to initiate some of the changes that will benefit everyone. Ultimately, it is that combination of employee, passenger and public support that will help us succeed. It is also what makes me optimistic about the futures of both passenger rail in Canada and VIA Rail.

SECOND QUARTER AT A GLANCE

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

	Q2 - 2014	Q2 - 2013	YTD - 2014	YTD - 2013
KEY FINANCIAL INDICATORS (IN MILLIONS OF DOLLARS)				
Total passenger revenues (1)	63.9	61.2	117.5	115.4
Total revenues (1)	**68.7**	**66.1**	**127.2**	**125.2**
Operating expenses (1)	119.5	117.4	246.8	240.4
Contributions for employee benefits (1)	23.6	28.6	41.9	48.0
Total Operating expenses (1)	**(143.1)**	**(146.0)**	**(288.7)**	**(288.4)**
Operating Income (Deficit)	**(74.4)**	**(79.9)**	**(161.5)**	**(163.2)**
Capital expenditures	(16.7)	(24.5)	(36.3)	(48.1)
Total Funding Required	**(91.1)**	(104.4)	(197.8)	(211.3)
Government Operating Funding	74.4	79.9	161.5	163.2
Government Capital Funding	16.6	24.2	35.8	47.7
Total Government Funding	**91.0**	**104.1**	**197.3**	**210.9**
Asset Renewal Funding	**0.1**	**0.3**	**0.5**	**0.4**
KEY OPERATING STATISTICS (2)				
Total passenger-miles (IN MILLIONS)	**200**	208	379	393
Total seat-miles (IN MILLIONS)	**334**	385	641	737
Operating deficit per passenger-mile (IN CENTS)	**37.2**	38.4	42.7	41.6
Yield (CENTS PER PASSENGER-MILE)	**31.0**	28.8	30.2	28.8
Train-miles operated (IN THOUSANDS)	**1,554**	1,582	3,037	3,093
Car-miles operated (IN THOUSANDS)	**9,760**	10,739	17,066	19,333
Average passenger load factor (%)	**60**	54	59	53
Average number of passenger-miles per train mile	**129**	132	125	127
On-time performance (%)	**79**	86	75	84
Number of full time equivalent employees during the period	**2,554**	2,688	2,501	2,613

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

(2) Key operating statistics are unaudited

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

Train Service	Passenger Revenues* (IN THOUSANDS)	Passengers (IN THOUSANDS)	Passenger-Miles (IN THOUSANDS)	Government Funding (PER PASSENGER MILE)
Corridor	$47,896	851	153,285	$0.26
Longhaul West	$11,554	27	34,389	$0.36
Longhaul East	$1,848	17	8,672	$0.97
Mandatory Services	$803	17	3,812	$3.51
Total	$62,101	912	200,158	$0.37

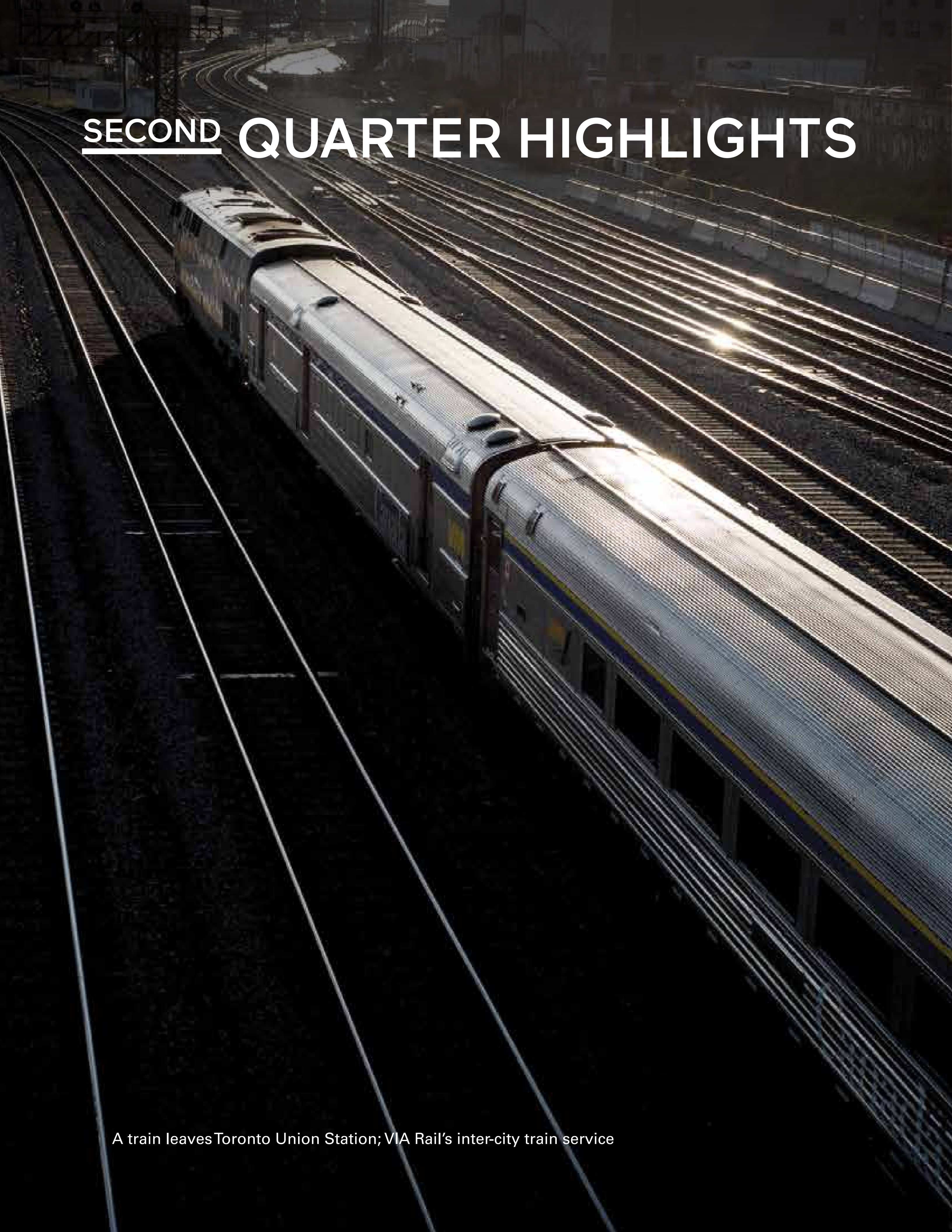
* Before off train and other passenger revenues.

KEY OPERATING STATISTICS BY SERVICE GROUP 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	$45,465	866	155,687	$0.28
Longhaul West	$11,322	29	37,014	$0.37
Longhaul East	$1,890	18	9,227	$0.94
Mandatory Services	$1,342	24	6,170	$2.18
Total	$60,019	937	208,098	$0.38

* Before off train and other passenger revenues.

SECOND QUARTER HIGHLIGHTS



A train leaves Toronto Union Station; VIA Rail's inter-city train service

NEW PRESIDENT AND CEO

On May 9th, the Government of Canada appointed VIA Rail's new President and Chief Executive Officer, Yves Desjardins-Siciliano, for a five year term. Prior to his appointment, Mr. Desjardins-Siciliano held the position of Chief Corporate & Legal Officer and Corporate Secretary at VIA Rail. More information about Mr. Desjardins-Siciliano can be found on VIA Rail's website and a video introducing the new president is available on VIA Rail's YouTube channel. Mr. Desjardins-Siciliano can also be followed on Twitter at @VIARailPrez.

SALES AND MARKETING

FARE INITIATIVES

New summer fares introduced this quarter included a $14 Economy class fare for kids (2-11) and "Summer Saturdays" which offers travel for a flat fee of $25 for Economy class and $55 for Business class on Saturdays.

New lower Business class fares were previously created to meet competition in three major end-to-end markets. Following the success of this initiative, the offer was expanded to other smaller markets, such as Toronto–London this quarter.

Summer Passes

Two new summer passes were created for youth between the ages of 12-25 and to students with a valid student card. The passes offered unlimited travel in Economy class from July 1-August 31, in either the Québec City–Windsor corridor or across the whole network.

New Fare Classes Available for Short Trips

Previously, some new fare classes were only available between larger urban centers, such as Montréal–Toronto and between certain key intermediate points, such as Toronto–Kingston. The new fare class tickets were then opened up to Economy class travellers for shorter segments between smaller communities and towns. By the end of the second quarter, these tickets were also opened up to Business classes, between larger and smaller cities and towns, in order to better serve the communities along our network.

IMPROVED ECONOMY CLASS SERVICE IN THE CORRIDOR

The Québec City–Windsor corridor Economy class service was revisited. Passengers will soon benefit from an enhanced experience through a revised product offer and improved service. This project included the revision of onboard service standards, new food offerings and frontline training on delivering "stellar service".

REPUTATION SURVEY

In the latest Léger Corporate Reputation Survey (2014), VIA Rail ranked 2nd place in the transportation sector. VIA Rail's high ranking shows a strong rapport with consumers, who gave the corporation a good reputation score, in line with that of 2013, and higher than that of 2012.

MARKETING / SPONSORSHIP EVENTS

New Prestige class unveiled at Rendez-Vous Canada

In May, the world's travel trade converged in Vancouver, BC, for Rendez-Vous Canada. Approximately 1,200 participants took the opportunity to visit VIA Rail's heritage Pacific Central Station where several VIA Rail train cars, including the newly unveiled Prestige class car, were set-up for tours.

The Prestige class provides an exciting new level of comfort and service for travellers on the *Canadian*, which runs between Toronto and Vancouver. Highlights of the new Prestige Class include: personalized dedicated service by a Prestige Concierge; a spacious cabin (50% larger than the current cabin for two in Sleeper Plus class); larger windows (60% larger than the windows in the Sleeper Plus cabin for two); a private washroom with shower; a flat-screen TV with video selection and a stocked minibar.

New Prestige class car

Twitter Train

VIA Rail co-hosted a group of travel industry executives with Twitter Canada's Managing Director, Kirstine Stewart, in the Glen Fraser lounge car between Toronto and Cobourg. The "Twitter train" was the perfect backdrop for presentations to representatives from the travel trade. The event was a success both in the train car and on Twitter.

Family Days

In June, VIA Rail was this year's main sponsor and provided prizes for the Department of National Defence's (DND) Family Days in Halifax, NS. Approximately 25,000 people attended the event which was created by the DND to express their appreciation for their employees and the support given by employees' families.

Prize-winners of VIA Rail travel at DND's Family Days.

TECHNOLOGY

TRAIN STATUS COMMUNICATION PROJECT

A new Train Status Communication project will improve the overall delivery of timely, accurate, consistent and useful information on train status to our customers. The project will streamline and improve train status communication onboard the train, in stations, on our website (desktop and mobile versions), and through SMS or E-mail notification for customers who opt-in to receive them. Implementation is expected in the fourth quarter of 2014.

TRAINS PROJECTS

Our Light, Rapid, Comfortable (LRC) cars have been undergoing an overhaul. By the end of the second quarter 2014, there were 19 renovated Economy Class cars and 18 overhauled Business Class cars in service. In 2014, more Economy Class and 8 more Business Class cars will be completed.

MANAGEMENT PROJECTS

Through a new training course offered at VIA Rail, over 2,800 hours of training have been given to 90 employee participants in order to improve their management skills. Training was offered in Montréal, Toronto and Winnipeg.

OPERATIONS

ON-TIME PERFORMANCE

Following a particularly challenging first quarter, our On-Time Performance (OTP) improved in the second quarter of 2014, increasing from 71% in QI to 79.3% in Q2. Information about OTP can be seen in the Key Performance Indicator section of this report, as well as in our Annual Reports, published on viarail.ca. A blog written by the President and CEO of VIA Rail about On Time Performance can be read at **www.viaevolution.ca/2014/06/18/you-asked-we-answered/**.

SAFETY AND SECURITY

OPERATION LIFESAVER

VIA Rail continues to work with Operation Lifesaver (OL), a partnership association of the Railway Association of Canada, with a goal to educate Canadians about safety around rail property and trains. VIA Rail participated in many events this quarter including: Public Rail Safety Week, OL Leadership Conference (Albuquerque, New Mexico), Conference of the Canadian Association of Fire Chiefs (Montréal, QC), Vélo Plaisir (Lasalle, QC) and the OL Authorized Volunteer training program presented during the American Public Transportation Association's annual conference. VIA Rail also participated in Operation Lifesaver's Board meeting and Advisory Committee meeting (Montréal, QC) along with representatives from the Government of Canada, Health and Safety groups and other railway industry partners.

This quarter, VIA Rail hosted the following events: Occupational Health & Safety Conference (Montréal, QC), Conference Board of Canada meeting on Council on Emergency Management, and for the 7th year running the "All Aboard for Safety" event in support of Rail Safety Week (Halifax, NS).

NORTH AMERICAN OCCUPATIONAL SAFETY AND HEALTH (NOASH) WEEK

During NAOSH week, VIA Rail focused its attention on affirming the importance of health and safety. This year's "Make Safety a Habit!" theme challenged us to integrate safety in all our day-to-day activities and was a great time to review our workplace hazard registries; one of the 2014 objectives for the Policy Health and Safety Committee.

OTHER IMPORTANT SAFETY EVENTS

VIA Rail appeared before the House of Commons' Standing Committee on Transport, Infrastructure and Communities in relation to the rail transportation segment of its Review of the Canadian Transportation Safety Regime: Safety Management Systems.

The Corporation also participated in the meeting of the Advisory Council on Railway Safety, chaired by the Honourable Lisa Raitt, Minister of Transport.

ENVIRONMENT

FUEL CONSUMPTION

Through VIA Rail's continued fuel conservation initiatives, which now include personalized Energy Management Score Cards for Locomotive Engineers, we have continued to reduce our fuel consumption. Between January and June 2014, VIA Rail saw a 9.8% reduction of fuel consumed and the fuel expense decreased by $1 million compared to the same period in 2013.

IMPORTANT EVENTS

BARRHAVEN CROSSING SIGNAL ISSUES

Following reports in the first quarter of 2014 of VIA Rail's Automatic Warning Device (AWD) systems at six Barrhaven-area rail crossings going into fail-safe mode with higher frequency and for longer periods of time than usual, VIA Rail retained experts at RailTerm and engineers from Hatch Mott MacDonald and from Siemens to conduct an investigation of its infrastructure and signaling system, and identify the root causes of these occurrences.

This quarter, during a technical briefing to Ottawa City's Council, the consulting firms presented their report, and VIA Rail presented its action plan which detailed the necessary corrections and upgrades required to address the reliability of the AWD systems at these rail crossings. Over 80% of the recommended action items were completed before the end of the second quarter, with the rest slated for completion in the third quarter.

SUSPENSION OF SERVICE BETWEEN GILLAM AND CHURCHILL, MANITOBA

On June 2, 13 freight train cars operated by Hudson Bay Railway derailed near Churchill in Northern Manitoba, forcing VIA Rail to suspend its service between Gillam and Churchill. The Corporation ordered a comprehensive review to determine whether VIA Rail's safety requirements were being met by OmniTRAX, the owners of the railway line in Northern Manitoba, in order to ensure the safety of passengers and employees travelling on this route.

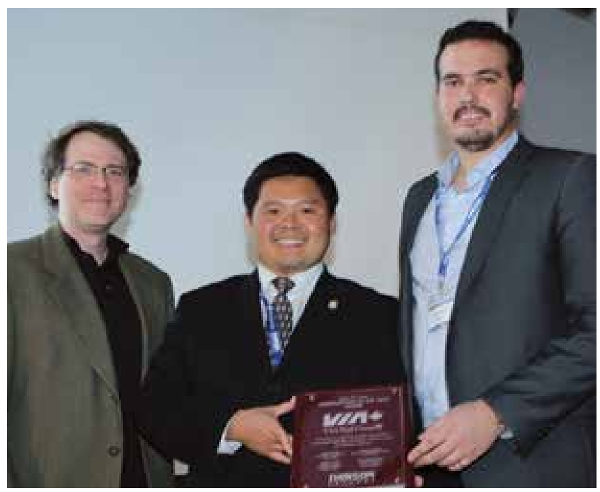
As of July 18, VIA Rail confirmed that its safety conditions were being met and passenger train service was resumed on the Gillam–Churchill line.

AWARDS

In April, VIA Rail was presented with an Ontario Sports Award to honour its support of amateur sports in Ontario.

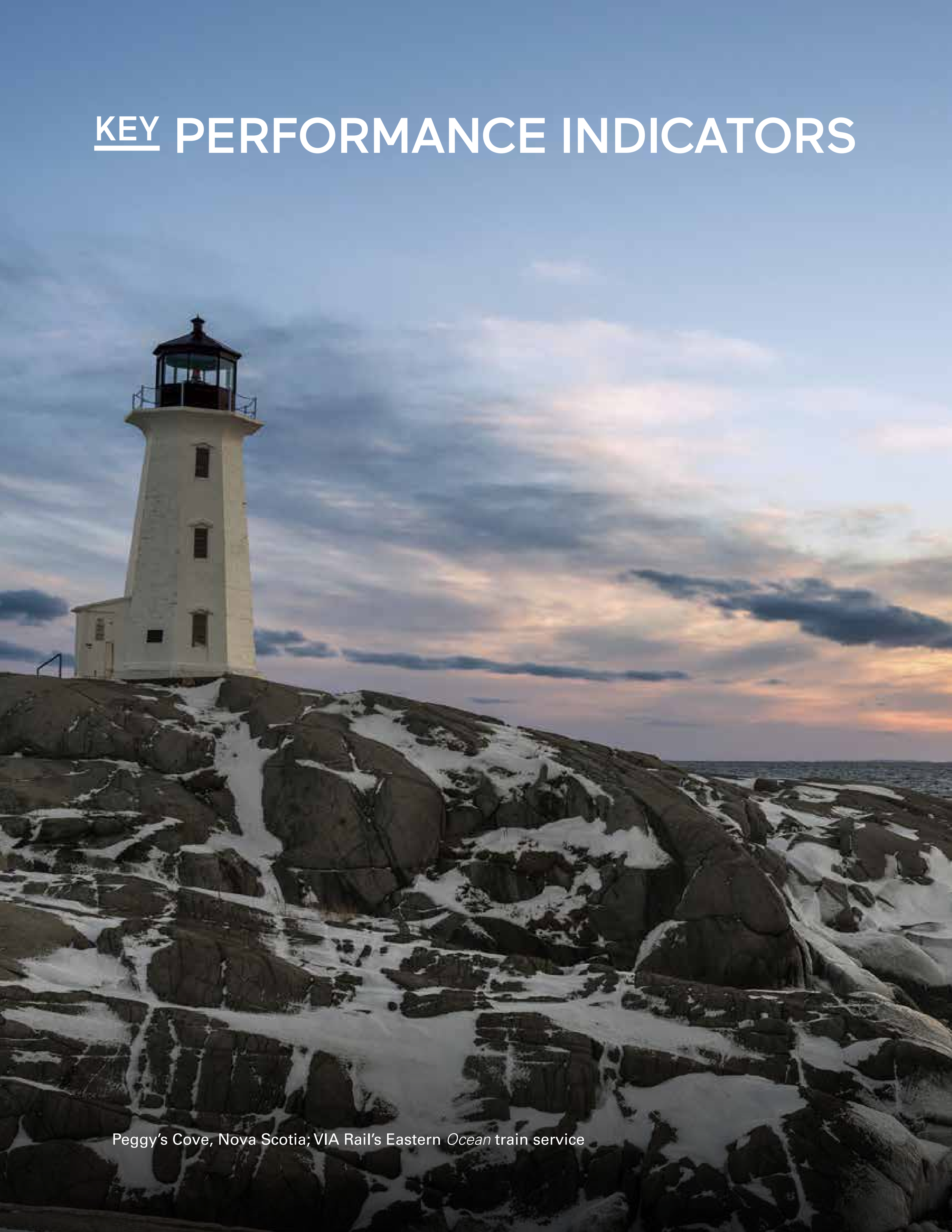
Following its service on the jury of Dawson College's Annual Bilingual Business Administration CASE Competition, VIA Rail was presented the Organisation of the Year Award, honouring its exceptional leadership as well as its exemplary customer service and employee relations.

Pierre Santorini, Senior Director, National Sales, accepted the Ontario Sports Award.



Ryan Lee, Train Revenue Manager, accepts the Organisation of the Year Award.

KEY PERFORMANCE INDICATORS



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

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

	Q2 - 2014	Q2 - 2013
Total Revenue per Employee ($000s) YTD revenues divided by the number of employees (full time equivalent). A measure of productivity.	**107.8**	98.4
Passenger Revenues per Available Seat-Mile (¢) Revenues divided by available seat-miles.	**18.9**	15.8
Direct Costs per Available Seat-Mile (¢) Direct costs divided by available seat-miles.	**23.6**	20.3
On-Time Performance (%) Excludes mandatory services.	**79.3**	86.0
Employee Attendance (%) Total hours worked per month divided by the total possible work hours per month.	**92.3**	92.2
Train Incidents per Million Train-Miles Includes collisions between two (2) trains; derailments with at least one wheel off the track; all cardinal rule violations; excludes crossing accidents and trespassing.	**1.3**	1.3

GOVERNANCE AND ACCOUNTABILITY

Oakville station, Ontario; VIA Rail's inter-city train service

THE BOARD OF DIRECTORS

With the appointment of two new members in the second quarter, Ms. Deborah Robinson and Ms. Melissa Sonberg, the Board of Directors now consists of the Chairperson, the President and Chief Executive Officer and ten directors appointed by the Government of Canada. Of the eleven directors (not including the CEO of VIA Rail), five are women and six are men. The Board is responsible for overseeing the strategic direction and management of the Corporation, and reports on VIA Rail's operations to Parliament through the Honourable Lisa Raitt, Minister of Transport.

PUBLIC MEETINGS AND REPORTS

During the second quarter of 2014, three Board meetings were held. The five different Board committees met a total of six times. Over the second quarter, a decision was made to reduce the number of Board committees from five to four. This change will take effect in the third quarter. The overall average attendance rate of Board members at these meetings was 95%. Cumulative fees paid to Board members during this time period totalled $57,324.

Annual Public Meeting

On May 28th at 2 pm, VIA Rail's second webcast-only Annual Public Meeting took place. Always aiming to connect with as many Canadians as possible and to responsibly manage public funds, VIA Rail opted to use a webcast to broadcast the highlights of its 2013 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 and through Twitter.

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

ACCESS TO INFORMATION AND PRIVACY

VIA Rail believes that openness and transparency are the starting point in building a trusted relationship with customers, its partners and with the public in general. VIA Rail became subject to both the *Access to Information Act* and *the Privacy Act* in 2007. Since then, we have been committed to responding to information requests from the public, the media and all those interested in VIA Rail's operations. During the second quarter of 2014, VIA Rail received 22 new requests, 13 of which were still in progress at the end of the quarter.

PROMOTION OF OFFICIAL LANGUAGES

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

During the second quarter of 2014, VIA Rail promoted Canada's two official languages by participating in events such as *Les Rendez-vous de la Francophonie*. VIA Rail submitted its 2013-2014 Annual Review on Official Languages on May 31st.

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.

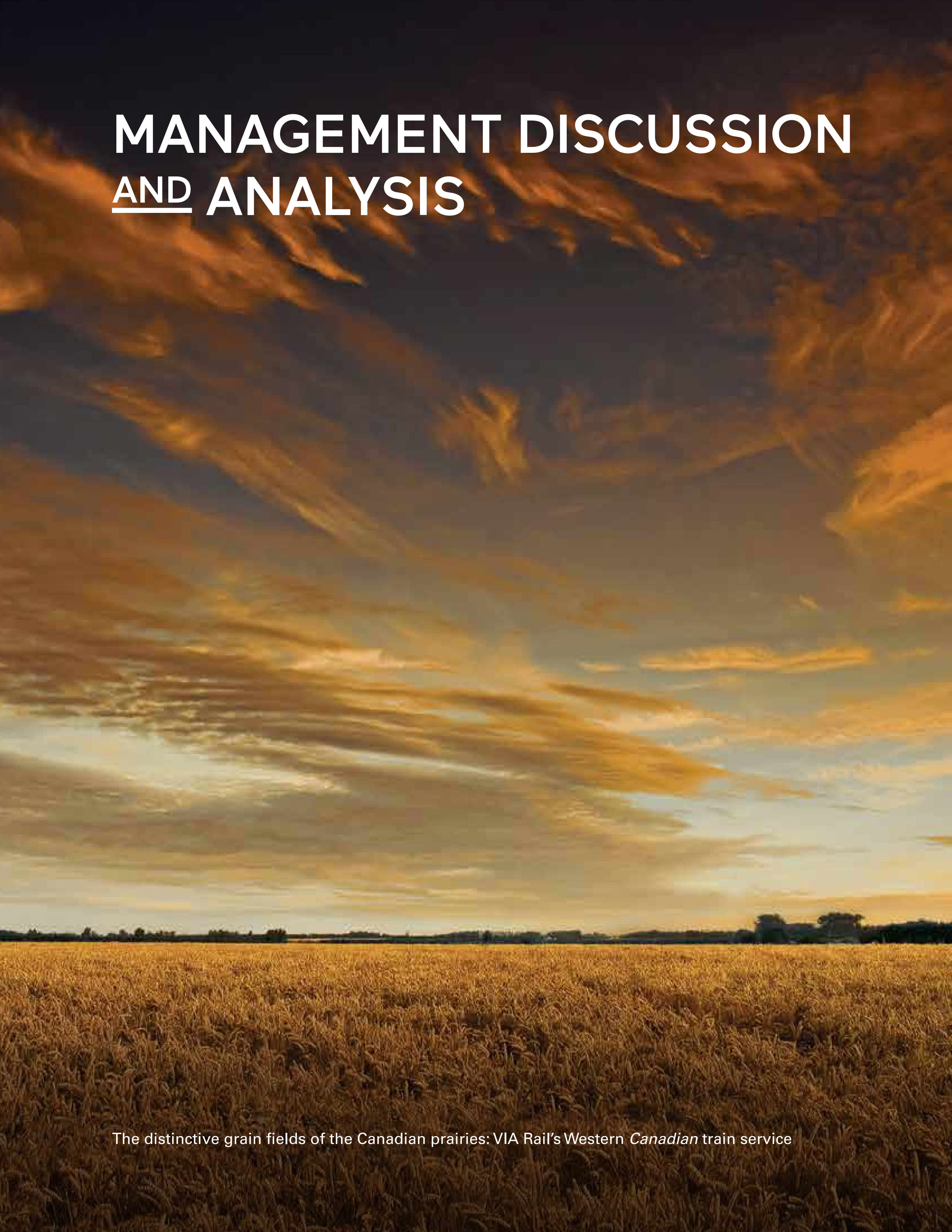
During the second quarter of 2014, VIA Rail supported 46 non-profit and charitable organizations with travel credit donations representing $165,000.

TRAVEL, HOSPITALITY AND CONFERENCE EXPENSES

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

Paul G. Smith, Chairman of the Board	$2,603
Yves Desjardins-Siciliano, President and CEO	$4,691
Executive management committee (8 members)	$17,523
Board of Directors (10 members)	$6,958

MANAGEMENT DISCUSSION AND ANALYSIS



The distinctive grain fields of the Canadian prairies: VIA Rail's Western *Canadian* train service

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

1. FINANCIAL HIGHLIGHTS

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

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

	Quarters ended June 30				Six-month periods ended June 30			
IN MILLION OF CANADIAN DOLLARS	**2014**	2013	Var $	Var %	**2014**	2013	Var $	Var %
Passsenger Revenues *	**63.9**	61.2	2.7	4.4	**117.5**	115.4	2.1	1.8
Total Revenues *	**68.7**	66.1	2.6	3.9	**127.2**	125.2	2.0	1.6
Operating expenses *	**119.5**	117.4	2.1	1.8	**246.8**	240.4	6.4	2.7
Employer contributions for employee benefits *	**23.6**	28.6	(5.0)	(17.5)	**41.9**	48.0	(6.1)	(12.7)
Total Operating expenses *	**143.1**	146.0	(2.9)	(2.0)	**288.7**	288.4	0.3	0.1
Operating Loss	**(74.4)**	(79.9)	(5.5)	(6.9)	**(161.5)**	(163.2)	(1.7)	(1.0)
Operating funding from Government of Canada	**74.4**	79.9	(5.5)	(6.9)	**161.5**	163.2	(1.7)	(1.0)
Non funded elements and other accounting adjustments								
Employee Benefits to be funded in subsequent years	**13.7**	15.8	(2.1)	(13.3)	**23.6**	21.4	2.2	10.3
Depreciation and amortization/ Impairment and loss (gain) on disposal of property, plant and equipment and intangible assets	**(18.5)**	(17.8)	(0.7)	(3.9)	**(37.5)**	(35.3)	(2.2)	(6.2)
Amortization of deferred capital funding	**18.4**	17.5	0.9	5.1	**36.6**	34.7	1.9	5.5
Other	**(6.0)**	(5.9)	(0.1)	(1.7)	**(1.1)**	0.3	(1.4)	n/a
Net income (loss)	**7.6**	9.6	(2.0)	(20.8)	**21.6**	21.1	0.5	2.5
Actuarial gain (loss) on defined benefit plans	**(5.6)**	65.3	(70.9)	(108.6)	**(62.9)**	198.6	(261.5)	(131.7)
Total comprehensive income (Loss)	**2.0**	74.9	(72.9)	(97.3)	**(41.3)**	219.7	(261.0)	(118.8)

* Financial statement amounts were adjusted to reflect funded activities

HIGHLIGHTS OF THE QUARTER

Compared with the quarter ended June 30, 2013:

- Revenues have increased by 3.9 percent and total $68.7 million for the quarter;
- Funded Operating expenses decreased by 2.0 percent and amount to 143.1 million for the quarter;
- Operating loss funded by the Government of Canada decreased by 6.9 percent to $74.4 million for the quarter.
- There is a net income of $7.6 million for the quarter, compared to a net income of $9.6 million for the same quarter of 2013;
- There were actuarial losses on defined benefit plans of $5.6 million for the quarter compared to gains of $65.3 million for the corresponding quarter last year;
- There is a total comprehensive gain of $2.0 million for the quarter, compared to a gain of $74.9 million for the second quarter of 2013.

HIGHLIGHTS OF THE SIX-MONTH PERIOD

Compared with the six-month period ended June 30, 2013:

- Revenues have increased by 1.6 percent and total $127.2 million for the period;
- Funded Operating expenses slightly increased by 0.1 percent and amount to 288.7 million for the period;
- Operating loss funded by the Government of Canada decreased by 1.0 percent to $161.5 million for the period,
- There is a net income of $21.6 million for the period, compared to a net income of $21.1 million for the same period in 2013;
- There were actuarial losses on defined benefit plans of $62.9 million for the period compared to gains of $198.6 million for the corresponding period last year;
- There is a total comprehensive loss of $41.3 million for the period, compared to an income of $219.7 million in 2013.

2. HIGHLIGHTS OF OPERATING RESULTS

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

A) PASSENGER REVENUES

	REVENUES (IN '000 000$)							
	Quarters ended June 30				**Six-month periods ended June 30**			
	2014	2013	Var $	Var %	**2014**	2013	Var $	Var %
Corridor East	**38.6**	36.9	1.7	4.6	**75.7**	74.3	1.4	1.9
SWO	**9.3**	8.6	0.7	8.1	**19.2**	18.0	1.2	6.7
Corridor	**47.9**	45.5	2.4	5.3	**94.9**	92.3	2.6	2.8
Ocean	**1.8**	1.9	(0.1)	(5.3)	**3.3**	3.4	(0.1)	(2.9)
Canadian	**11.6**	11.3	0.3	2.7	**14.7**	15.0	(0.3)	(2.0)
Mandatory Services	**0.8**	1.3	(0.5)	(38.5)	**1.4**	2.4	(1.0)	(41.7)
Non Corridor	**14.2**	14.5	(0.3)	(2.1)	**19.4**	20.8	(1.4)	(6.7)
Other	**1.8**	1.2	0.6	50.0	**3.2**	2.3	0.9	39.1
TOTAL	**63.9**	61.2	2.7	4.4	**117.5**	115.4	2.1	1.8

	PASSENGER MILES (IN '000 000)							
	Quarters ended June 30				**Six-month periods ended June 30**			
	2014	2013	Var #	Var %	**2014**	2013	Var #	Var %
Corridor East	**125.6**	129.8	(4.2)	(3.2)	**250.7**	256.3	(5.6)	(2.2)
SWO	**27.7**	25.9	1.8	6.9	**58.1**	53.9	4.2	7.8
Corridor	**153.3**	155.7	(2.4)	(1.5)	**308.8**	310.2	(1.4)	(0.5)
Ocean	**8.7**	9.2	(0.5)	(5.4)	**15.8**	17.0	(1.2)	(7.1)
Canadian	**34.4**	37.0	(2.6)	(7.0)	**47.2**	54.0	(6.8)	(12.6)
Mandatory Services	**3.8**	6.2	(2.4)	(38.7)	**6.8**	11.3	(4.5)	(39.8)
Non Corridor	**46.9**	52.4	(5.5)	(10.5)	**69.8**	82.3	(12.5)	(15.2)
TOTAL	**200.2**	208.1	(7.9)	(3.8)	**378.6**	392.5	(13.9)	(3.5)

*: Revenue amounts were adjusted to reflect funded activities

Passenger revenues total $63.9 million, an increase of 4.4 percent compared to the corresponding quarter last year. The increase stems from higher revenues generated in the Corridor and the *Canadian*, partly offset by lower revenues on the Ocean and Mandatory services. Revenues on the Ocean were impacted in April and May by the uncertainty concerning the continuity of the service (CN announced it would stop the service unless it received funding to do work on the infrastructure of the New Castle Subdivision). Revenues on Mandatory services declined as a result of the interruption of the Montreal-Gaspe route (the service was interrupted in September 2013 and has not yet resumed).

FOR THE QUARTER:

- Corridor East revenues are 4.6 percent above last year, and due mainly to improved yields (8.1 percent), partly offset by lower volumes (3.2 percent fewer passenger-miles);
- Revenues in SWO have increased by 8.1 percent, as a result of higher volumes (6.9 percent more passenger-miles), combined with improved yields (1.1 percent);
- Revenues on the *Ocean* are 5.3 percent below last year, and the decrease is directly due to lower volumes (5.4 percent less passenger-miles);
- Revenues on the *Canadian* have increased by 2.7 percent over the corresponding quarter last year. The performance is mainly attributable to improved yields (10.4 percent), partly offset by lower volumes (7.0 percent less passenger-miles);
- Revenues on Mandatory services have decreased by 38.5 percent, and the decrease is mainly due to the interruption of the Montreal-Gaspe service which has not operated since September 2013.

FOR THE SIX-MONTH PERIOD:

- Corridor East revenues are 1.9 percent above last year, and due mainly to improved yields (4.2 percent), partly offset by lower volumes (2.2 percent fewer passenger-miles);
- Revenues in SWO have increased by 6.7 percent, as a result of higher volumes (7.8 percent more passenger-miles), partly offset by lower yields (1.3 percent);
- Revenues on the *Ocean* are 2.9 percent below last year, and the decrease is directly due to lower volumes (7.1 percent less passenger-miles), partly offset by improved yields (4.4 percent);
- Revenues on the *Canadian* have decreased by 2.0 percent compared to the first six months 2013. The performance is mainly attributable to lower volumes (12.6 percent less passenger-miles), partly offset by improved yields. The loss in ridership was more significant during the first quarter, and due to the poor on-time performance during the first months of the year which affected passengers in Economy class who are more time sensitive;
- Revenues on Mandatory services have decreased by 41.7 percent, and the decrease is mainly due to the interruption of the Montreal-Gaspe service which has not operated since September 2013.

B) OPERATING EXPENSES

	Quarters ended June 30				Six-month periods ended June 30			
IN MILLIONS OF CANADIAN DOLLARS	**2014**	2013	Var $	Var %	**2014**	2013	Var $	Var %
Compensation & Benefits *	**48.2**	48.7	(0.5)	(1.0)	**103.0**	104.5	(1.5)	(1.4)
Train Operations & Fuel	**31.1**	30.1	1.0	3.3	**62.0**	60.4	1.6	2.6
Realized loss (gain) on derivative financial instruments	**(0.4)**	0.1	(0.5)	(500.0)	**(0.9)**	0.0	(0.9)	n/a
Corporate Tax expense (recovery)	**0.2**	0.0	0.2	n/a	**0.3**	0.0	0.3	n/a
Other operating expenses *	**40.4**	38.5	1.9	4.9	**82.4**	75.5	6.9	9.1
TOTAL OPERATING EXPENSES (BEFORE EMPLOYER CONTRIBUTIONS FOR EMPLOYEE BENEFITS)	**119.5**	117.4	2.1	1.8	**246.8**	240.4	6.4	2.7
Employer Contributions for employee benefits*	**23.6**	28.6	(5.0)	(17.5)	**41.9**	48.0	(6.1)	(12.7)
TOTAL FUNDED OPERATING EXPENSES	**143.1**	146.0	(2.9)	(2.0)	**288.7**	288.4	0.3	0.1

*Financial statement amounts adjusted to reflect funded activities

FOR THE QUARTER:

/ Operating expenses before employer contributions for employee benefits rose by 1.8 percent and totaled $119.5 million for the quarter. The increase is mainly due to higher train operations and fuel costs (including the additional costs incurred following the situation at Barrhaven concerning track signaling), and station and property costs (contractual costs increases and higher costs for utilities in Ontario). These increases were partly offset by lower compensation and benefits costs (vacant/abolished positions), as well as lower marketing and sales expenses (positive timing variance offsetting the increase of the first quarter);

/ Employer contributions for employee benefits decreased by 17.5 percent and total $23.6 million for the quarter, as a result of the sharp solvency improvement experienced in 2013 which improved modestly the regulatory basis of the Corporation's pension plans for funding requirement.

FOR THE SIX-MONTH PERIOD:

- Operating expenses before employer contributions for employee benefits rose by 2.7 percent and totaled $246.8 million for the period. The increase is also due to higher train operations and fuel costs (including the additional costs incurred following the situation at Barrhaven concerning track signaling), and station and property costs (contractual costs increases and higher costs for utilities in Ontario). Maintenance material costs also increased due to more wheel and locomotive repairs (partly due to hash winter conditions). These increases were also partly offset by lower compensation costs (vacant/abolished positions);
- Employer contributions for employee benefits decreased by 12.7 percent and total $41.9 million for the quarter, the decrease also results from the sharp solvency improvement experienced in 2013 which improved modestly the regulatory basis of the Corporation's pension plans for funding requirement.

3. CAPITAL INVESTMENTS

Fixed assets (net of accumulated depreciation) amount to $1,249.6 million, down $1.2 million compared to the balance as at December 31, 2013. Capital investments totaled $16.7 million for the quarter and $36.3 million for the six-month period.

- Investments of $9.5 million were made in Major Equipment projects including $6.3 million for the LRC car fleet revitalization project, and $3.5M for the HEP1 cars modernization program. So far this year, investments in Major Equipment total $17.8 million, of which $11.6 million pertain to the LRC car fleet revitalization, and $6.3 million relate to the HEP1 cars;
- Investments of $1.9 million were made in Major infrastructure projects, mostly for the improvement of the GEXR Guelph Subdivision project. On a cumulative basis, $3.0 million were invested in the GEXR Guelph Subdivision project, and $1.0 million were invested in the CN Kingston subdivision where sections of a third track are added to minimize congestion;
- An amount of $2.1 million was invested in Information Technology projects during the quarter. (including the station automation, and mainframe migration projects), bringing the year to date investments at $5.0 million;
- Investments of $1.3 million were made in station projects during the quarter, and $3.8 million so far this year.

4. CASH FLOW AND FINANCIAL POSITION

The Corporation's cash balance is $21.7 million as at June 30, 2014, which is equal to the balance as at December 31, 2013, but up by $16.5 million compared to the balance at March 31, 2014. The increase in cash for the quarter is due to the change in non-cash working capital items, partly offset by the change in capital funding receivable from the Government of Canada.

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

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

RISK	TREND	CURRENT SITUATION
DETERIORATION OF ON-TIME PERFORMANCE		
On-Time performance has deteriorated since 2013 and had a negative impact on customer satisfaction resulting in additional operational costs.	↑	The Corporation continues to work with the various track owners, including CN which owns most of the infrastructure, to try and resolve the issues causing train delays, and improve on-time performance during the peak summer season.
NEW REQUIREMENTS CONCERNING GRADE CROSSINGS REGULATIONS		
Transport Canada has put out a new regulatory agenda concerning grade crossings regulations which may require that VIA and other infrastructure owners modify their crossing infrastructure and reduce speed of trains near crossings.	↑	Transport Canada is expected to publish the new requirements before the end of 2014. Once these requirements are known, a VIA team comprised of Operations and Safety and Security department representatives will assess the required steps and associated costs to comply with the new regulations.
PASSENGER REVENUES		
Strong competitive and difficult economic environment continue to challenge revenue growth.	→	The initiatives implemented by VIA to mitigate the impact of the competition and difficult economic environment have generated an increase in revenues achieved through improved yields. These results are positive however, passenger volumes have decreased, therefore future initiatives and strategies will aim at improving yields but also generating additional ridership.
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).

↑ INCREASING → STABLE ↓ DECREASING

RISK	TREND	CURRENT SITUATION
OPERATING FUNDING		
VIA continues to face operational funding challenges.	→	The Corporation is continuously pursuing the development and the implementation of a range of initiatives to reduce its deficit by increasing revenues and reducing costs. Furthermore, VIA continues to work with Transport Canada to address the challenge of operating loss and develop sustainable funding solutions. VIA received new envelopes for 2014-2015 fiscal year.
CAPITAL FUNDING		
VIA needs to continue investing in equipment, stations, maintenance systems, facilities and information technology, when the current investment program is completed.	→	The Corporation is working with Transport Canada to address ongoing capital funding requirements, and to ensure that VIA has the capital funding it requires to deliver on its mandate. VIA received new envelopes for ongoing capital for fiscal year 2014-2015.
FUEL COST FLUCTUATIONS		
Fuel is a major cost for passenger rail operations, and fuel costs could vary significantly from VIA's estimates due to the uncertainty and volatility of fuel prices.	↓	Fuel consumption has decreased compared to previous years as a result of the introduction of the refurbished locomotives as well as other initiatives to reduce fuel consumption. VIA's proven hedging strategy adds certainty to future fuel costs and can delay the impact of fuel price fluctuations. Given that contracts used to hedge fuel prices are denominated in U.S. dollars, VIA also hedges against foreign exchange risks.

6. OUTLOOK

Results of the second quarter of 2014 were very positive both in terms of revenues and expenses. The tactical actions taken to ensure yields continue to be maximized generating positive results, even if ridership went down slightly in some train services.

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

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

INTERIM CONDENSED FINANCIAL STATEMENTS

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

MANAGEMENT'S RESPONSIBILITY STATEMENT

QUARTER ENDED JUNE 30, 2014

Management is responsible for the preparation and fair presentation of these quarterly financial statements in accordance with the Treasury Board of Canada Standard on Quarterly Financial Reports for Crown Corporations, and for such internal controls as management determines is necessary to enable the preparation of quarterly financial statements that are free from material misstatement.

Management is also responsible for ensuring all other information in this quarterly financial report is consistent, where appropriate, with the quarterly financial statements.

Based on our knowledge, these unaudited quarterly financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of the corporation, as at the date of and for the periods presented in the quarterly financial statements.

Yves Desjardins-Sicilliano
President and
Chief Executive Officer

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

Montréal, Canada
August 27, 2014

INTERIM CONDENSED FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION

As at (IN THOUSANDS OF CANADIAN DOLLARS)	June 30, 2014 (unaudited)	December 31, 2013 (audited)
CURRENT ASSETS		
Cash	$ **21,742**	21,757
Accounts receivable, trade	**5,224**	5,696
Prepaids, advances on contracts and other receivables	**4,048**	3,808
Receivable from the Government of Canada	**1,371**	-
Derivative financial instruments	**1,742**	1,733
Materials	**23,820**	24,924
Asset Renewal Fund	**10,617**	12,164
	68,564	70,082
NON-CURRENT ASSETS		
Property, plant and equipment (NOTE 8)	**856,840**	854,630
Intangible assets (NOTE 9)	**392,772**	396,165
Asset Renewal Fund	**726**	610
	1,250,338	1,251,405
Total assets	$ **1,318,902**	$ 1,321,487
CURRENT LIABILITIES		
Trade and other payables (NOTE 10)	$ **80,180**	$ 90,223
Provisions (NOTE 11)	**14,944**	13,219
Deferred government funding	**-**	5,595
Derivative financial instruments	**309**	-
Deferred revenues (NOTE 14)	**44,581**	30,770
	140,014	139,807
NON-CURRENT LIABILITIES		
Post-employment and other employee benefits (NOTE 12)	**82,996**	43,699
	82,996	43,699
DEFERRED CAPITAL FUNDING (NOTE 13)	**1,236,606**	1,237,399
SHAREHOLDER'S EQUITY		
Share capital	**9,300**	9,300
Retained earnings	**(150,014)**	(108,718)
	(140,714)	(99,418)
Total liabilities and shareholder's equity	$ **1,318,902**	$ 1,321,487

Commitments (Notes 15)

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

Approved on behalf of the Board,

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

Paul G. Smith
Director and Chairman of the Board

INTERIM CONDENSED FINANCIAL STATEMENTS

STATEMENT OF OPERATIONS AND OTHER COMPREHENSIVE INCOME

Period ended June 30 (IN THOUSANDS OF CANADIAN DOLLARS) (UNAUDITED)	Quarters ended		Six-month periods ended	
	2014	2013	2014	2013
REVENUES				
Passenger	**$ 63,766**	$ 61,119	**$ 116,755**	$ 115,136
Other	**4,946**	5,061	**9,841**	10,028
	68,712	66,180	**126,596**	125,164
EXPENSES				
Compensation and employee benefits	**64,031**	67,101	**121,507**	131,503
Train operations and fuel	**31,101**	30,091	**61,989**	60,352
Stations and property	**8,375**	7,773	**18,454**	17,368
Marketing and sales	**8,172**	8,863	**16,211**	16,118
Maintenance material	**7,058**	6,823	**15,688**	13,733
On-train product costs	**3,913**	3,829	**7,302**	7,257
Operating taxes	**3,057**	3,119	**5,737**	5,666
Professional services	**2,239**	2,583	**4,580**	4,373
Telecommunications	**3,209**	3,124	**7,464**	6,243
Depreciation and amortization (NOTE 8 & 9)	**18,135**	17,597	**36,219**	35,092
Impairment and loss (gain) on disposal of property, plant and equipment and intangible assets	**429**	157	**1,286**	157
Unrealized net loss (net gain) on derivative financial instruments	**24**	570	**300**	(479)
Realized loss (gain) on derivative financial instruments	**(364)**	80	**(931)**	(42)
Other	**4,317**	2,261	**6,995**	4,597
	153,696	153,971	**302,801**	301,938
Operating loss before funding from the Government of Canada and income taxes	**84,984**	87,791	**176,205**	176,774
Operating funding from the Government of Canada (NOTE 7)	**74,378**	79,879	**161,527**	163,161
Amortization of deferred capital funding (NOTE 13)	**18,361**	17,487	**36,563**	34,666
Net income before income taxes	**7,755**	9,575	**21,885**	21,053
Income tax (expense) recovery	**(238)**	-	**(325)**	-
Net income for the period	**7,517**	9,575	**21,560**	21,053
Other comprehensive income (loss)				
Amounts not to be reclassified subsequently to net income:				
Actuarial gain (loss) on defined benefit plans (NOTE 12)	**(5,562)**	65,310	**(62,856)**	198,614
Other comprehensive income (loss) for the period	**(5,562)**	65,310	**(62,856)**	198,614
Total comprehensive income (loss) for the period	**$ 1,955**	$ 74,885	**$ (41,296)**	$ 219,667

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	
	2014	2013	2014	2013
Share Capital	**$ 9,300**	$ 9,300	**$ 9,300**	$ 9,300
Retained Earnings				
Balance, beginning of period	**(151,969)**	(309,383)	**(108,718)**	(454,165)
Net income for the period	**7,517**	9,575	**21,560**	21,053
Other comprehensive income (loss) for the period	**(5,562)**	65,310	**(62,856)**	198,614
Balance, end of period	**(150,014)**	(234,498)	**(150,014)**	(234,498)
Total Shareholder's equity	**$ (140,714)**	$ (225,198)	**$ (140,714)**	$ (225,198)

The notes are an integral part of the interim condensed 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	
	2014	2013	2014	2013
OPERATING ACTIVITIES				
Net income for the period	**$ 7,517**	$ 9,575	**$ 21,560**	$ 21,053
Adjustments to determine net cash (used in) from operating activities:				
Depreciation and amortization (NOTE 8 & 9)	**18,135**	17,597	**36,219**	35,092
Loss (gains) on disposal of property, plant and equipment and intangible assets	**429**	157	**1,286**	157
Amortization of deferred investment tax credits	**-**	(71)	**-**	(141)
Amortization of deferred capital funding (NOTE 13)	**(18,361)**	(17,487)	**(36,563)**	(34,666)
Interest income	**(128)**	(136)	**(231)**	(275)
Change in fair value of financial instruments (Asset Renewal Fund)	**(48)**	(151)	**(116)**	(274)
Unrealized net loss (net gain) on derivative financial instruments	**24**	570	**300**	(479)
Post-employment and other employee benefit expenses (NOTE 12)	**9,957**	12,941	**18,325**	26,836
Employer post-employment and other employee benefit contributions (NOTE 12)	**(23,623)**	(28,764)	**(41,884)**	(48,205)
Net change in non-cash working capital items	**27,684**	20,668	**(25,932)**	9,197
Net cash (used in) provided by operating activities	**21,586**	14,899	**(27,036)**	8,295
INVESTING ACTIVITIES				
Capital funding (NOTE 13)	**16,645**	24,227	**35,770**	47,677
Change in capital funding receivable from the Government of Canada	**(3,990)**	(12,027)	**31,585**	(1,977)
Acquisition of investments in the Asset Renewal Fund	**(6,935)**	(19,073)	**(14,467)**	(27,721)
Proceeds from sale and maturity of investments in the Asset Renewal Fund	**8,482**	19,073	**16,014**	27,721
Change in capital accounts payable and accrued liabilities	**(2,762)**	522	**(5,790)**	(2,457)
Acquisition of property, plant and equipment and intangible assets (NOTE 8 & 9)	**(16,693)**	(24,486)	**(36,304)**	(48,073)
Interest received	**128**	136	**231**	275
Proceeds from disposal of property, plant and equipment and intangible assets	**(6)**	-	**(18)**	-
Net cash (used in) provided by investing activities	**(5,131)**	(11,628)	**27,021**	(4,555)
CASH				
Increase (decrease) during the period	**16,455**	3,271	**(15)**	3,740
Balance, beginning of period	**5,287**	16,326	**21,757**	15,857
BALANCE, END OF PERIOD	**$ 21,742**	$ 19,597	**$ 21,742**	$ 19,597

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

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

AS AT JUNE 30, 2014 (UNAUDITED)

1. AUTHORITY AND OBJECTIVES

VIA Rail Canada Inc. is a Crown corporation named in Part I of Schedule III to the *Financial Administration Act*. The corporation was incorporated in 1977 in Canada, under the *Canada Business Corporations Act*. The corporate headquarters is located at 3 Place Ville-Marie, Montreal (Quebec). The Corporation's vision is to make passenger rail the preferred way to move and connect people in Canada with a mission to offer a safe, attractive and stress-free travel experience, while consistently providing the best value for money. The Corporation uses the roadway infrastructure of other railway companies and relies on them to control train operations.

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

The Corporation has one operating segment, passenger transportation and related services in Canada. The corporation's activities are considered seasonal since passenger traffic increases significantly during the summer and holiday periods resulting in an increase in revenue for these same periods.

These interim condensed financial statements were approved and authorized for issue by the Board of Directors on August 27, 2014.

2. BASIS OF PREPARATION

A) STATEMENT OF COMPLIANCE

Section 83 of the Financial Administration Act requires that most parent Crown Corporations prepare and make public quarterly financial reports for periods beginning on or after April 1, 2011 compliant with the *Standard on Quarterly Financial Reports for Crown Corporations*.

These unaudited interim condensed financial statements have been prepared in accordance with IAS 34 – *Interim financial reporting*. The interim condensed financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2013, which have been prepared in accordance with the IFRS. Certain comparative figures in the financial statements have been reclassified to conform to the December 31, 2013 presentation.

B) FUNCTIONAL AND PRESENTATION CURRENCY

These interim condensed financial statements are presented in Canadian dollars, which is the Corporation's functional currency. All financial information presented in Canadian dollars has been rounded to the nearest thousand in the interim condensed financial statements and rounded to the nearest million in the notes to the interim condensed financial statements.

3. CHANGES IN ACCOUNTING POLICIES

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

5. FUTURE ACCOUNTING CHANGES

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

This standard is applicable retrospectively, with early adoption permitted. The date of application has not yet been determined. The Corporation does not intend to early adopt IFRS 9. The extent of the impact of adoption of IFRS 9 has not yet been determined.

6. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

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

Changes to accounting estimates are recognized in the period in which the estimate is revised. Key sources of estimation uncertainty and assumptions are disclosed in note 5 of the Corporation's annual financial statements for the year ended December 31, 2013.

7. RECONCILIATION OF OPERATING LOSS TO GOVERNMENT FUNDING

The Corporation receives its funding from the Government of Canada based primarily on cash flow requirements. Items recognized in the Statement of Operations and Other Comprehensive Income in one period may be funded by the Government of Canada in different periods. Accordingly, the Corporation has different net results of operations for the period on a government funding basis than on an IFRS basis. These differences are outlined below:

(IN MILLIONS OF DOLLARS)	Quarters ended June 30		Six month periods ended June 30	
	2014	2013	2014	2013
Operating loss before funding from the Government of Canada and income taxes	**85.0**	87.8	**176.2**	176.8
Items requiring (providing) operating funds:				
Income tax expense (recovery)	**0.2**	-	**0.3**	-
Items not requiring (not providing) operating funds:				
Depreciation and amortization	**(18.1)**	(17.6)	**(36.2)**	(35.1)
Impairment and (loss) gain on disposal of property, plant and equipment and intangible assets	**(0.4)**	(0.2)	**(1.3)**	(0.2)
Post-employment and other employee benefits contributions in excess of expenses	**13.7**	15.8	**23.6**	21.3
Unrealized net gain (net loss) on derivative financial instruments	**-**	(0.6)	**(0.3)**	0.4
Increase in investment fair value	**-**	0.2	**0.1**	0.3
Adjustment for accrued compensation	**(5.9)**	(5.6)	**(0.2)**	(0.4)
Other	**(0.1)**	0.1	**(0.7)**	0.1
Operating funding from the Government of Canada	**74.4**	79.9	**161.5**	163.2

8. PROPERTY, PLANT AND EQUIPMENT

(IN MILLIONS OF DOLLARS)	January 1, 2014	Additions	Disposals	Impairment losses	Transfers	June 30, 2014
Cost:						
Land	12.1	-	-	-	-	**12.1**
Rolling stock	871.7	-	(9.8)	-	14.6	**876.5**
Maintenance buildings	138.0	-	-	-	0.4	**138.4**
Stations and facilities	105.9	-	-	-	19.0	**124.9**
Owned infrastructures	181.2	-	-	-	6.0	**187.2**
Leasehold improvements	78.0	-	(0.1)	-	0.4	**78.3**
Machinery and equipment	31.1	-	(0.1)	-	0.1	**31.1**
Computer hardware	29.8	-	(0.1)	-	1.3	**31.0**
Other property, plant and equipment	8.2	-	(0.1)	-	0.8	**8.9**
Projects in progress	84.9	29.4	-	-	(42.6)	**71.7**
Total cost	1,540.9	29.4	(10.2)	-	-	**1,560.1**
Accumulated depreciation:						
Rolling stock	417.6	15.4	(9.0)	-	-	**424.0**
Maintenance buildings	89.1	1.4	-	-	-	**90.5**
Stations and facilities	33.5	2.2	-	-	-	**35.7**
Owned infrastructures	59.0	2.7	(0.1)	-	-	**61.6**
Leasehold improvements	45.2	1.2	(0.1)	-	-	**46.3**
Machinery and equipment	23.3	0.5	(0.1)	-	-	**23.7**
Computer hardware	13.9	2.8	(0.1)	-	-	**16.6**
Other property, plant and equipment	4.7	0.2	-	-	-	**4.9**
Total accumulated depreciation	686.3	26.4	(9.4)	-	-	**703.3**
Total net carrying amount	854.6	3.0	(0.8)	-	-	**856.8**

9. INTANGIBLE ASSETS

(IN MILLIONS OF DOLLARS)	January 1, 2014	Additions	Disposals	Impairment losses	Transfers	June 30, 2014
Cost:						
Software	73.5	-	-	-	1.2	**74.7**
Right of access to rail infrastructure	415.4	-	(0.5)	-	0.2	**415.1**
Other intangible assets	4.1	-	-	-	-	**4.1**
Projects in progress	24.0	6.9	-	-	(1.4)	**29.5**
Total cost	517.0	6.9	(0.5)	-	-	**523.4**
Accumulated amortization:						
Software	59.4	4.3	-	-	-	**63.7**
Right of access to rail infrastructure	60.2	5.4	-	-	-	**65.6**
Other intangible assets	1.2	0.1	-	-	-	**1.3**
Total accumulated amortization	120.8	9.8	-	-	-	**130.6**
Total net carrying amount	396.2	(2.9)	(0.5)	-	-	**392.8**

10. TRADE AND OTHER PAYABLES

The Trade and other payables balance includes the following:

(IN MILLIONS OF DOLLARS)	June 30, 2014	December 31, 2013
Wages payable and accrued	**35.4**	36.7
Capital Payables	**14.1**	19.8
Trade payables	**25.0**	28.0
Capital tax, income tax and other taxes payable	**5.7**	5.5
Other	**-**	0.2
	80.2	90.2

11. PROVISIONS

The provision balance includes:

(IN MILLIONS OF DOLLARS)	January 1, 2014	Charge (used)	Reversal (used)	Reversal (not used)	June 30, 2014
Environmental costs	1.1	-	(0.6)	-	**0.5**
Litigation and equipment repairs (NOTE A)	11.8	3.1	(0.3)	(0.3)	**14.3**
Restructuring costs	0.3	-	(0.2)	-	**0.1**
Total provisions	13.2	3.1	(1.1)	(0.3)	**14.9**

A) LITIGATION AND EQUIPMENT REPAIRS

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

12. 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

The financial and demographic assumptions used to determine the actuarial valuations of the pension plans were the same assumptions as disclosed in the Corporation's annual financial statements for the year ended December 31, 2013, except for the discount rate used to determine the defined benefit obligation that was decreased to 4.20% while the discount rate used to determine the defined benefit cost was increased to 4.80%.

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

Based on these actuarial valuations and projections to June 30, the summary of the principal valuation results, in aggregate, is as follows:

(IN MILLIONS OF DOLLARS)	Pension Plans		Post-employment Benefit Plans	
	June 30, 2014	December 31, 2013	June 30, 2014	December 31, 2013
DEFINED BENEFIT OBLIGATION:				
Balance at beginning of the period	**1,925.3**	2,078.0	**16.3**	19.1
Service cost	**12.3**	30.0	**0.2**	0.5
Interest expense	**41.4**	81.9	**0.4**	0.8
Employee contributions	**5.9**	10.9	**-**	-
Benefits paid	**(50.3)**	(97.1)	**(0.2)**	(0.5)
Effect of change in demographic assumptions	**-**	32.9	**-**	(0.6)
Effect of change in financial assumptions	**167.9**	(248.5)	**-**	(2.4)
Effect of employee transfers	**-**	8.3	**-**	-
Effect of experience adjustments	**-**	28.9	**-**	(0.6)
Balance at end of the period	**2,102.5**	1,925.3	**16.7**	16.3
FAIR VALUE OF PLAN ASSETS:				
Balance at beginning of the period	**1,923.9**	1,735.0	**-**	-
Interest Income	**40.3**	67.7	**-**	-
Return on plan assets (excluding interest income)	**105.1**	113.2	**-**	-
Employer contributions	**37.8**	87.9	**0.2**	0.5
Employee contributions	**5.9**	10.9	**-**	-
Benefits paid	**(50.3)**	(97.1)	**(0.2)**	(0.5)
Effect of employee transfers	**-**	8.3	**-**	-
Administration expenses	**(1.0)**	(2.0)	**-**	-
Balance at end of the period	**2,061.7**	1,923.9	**-**	-
Net Defined benefit liability	**(40.8)**	(1.4)	**(16.7)**	(16.3)

12. EMPLOYEE BENEFITS (CONT'D)

B) LONG-TERM EMPLOYEE BENEFIT PLANS

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

Based on these actuarial valuations and projections to 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, 2014	December 31, 2013
DEFINED BENEFIT OBLIGATION:		
Balance at beginning of the period	**23.8**	22.0
Service cost	**2.4**	5.4
Interest expense	**0.5**	0.8
Benefits paid	**(3.2)**	(5.8)
Effect of change in demographic assumptions	**-**	0.8
Effect of change in financial assumptions	**-**	(0.2)
Effect of experience adjustments	**-**	0.8
Balance at end of the period	**23.5**	23.8
FAIR VALUE OF PLAN ASSETS:		
Balance at beginning of the period	**-**	-
Employer contributions	**3.2**	5.8
Benefits paid	**(3.2)**	(5.8)
Balance at end of the period	**-**	-
Net Defined benefit liability	**(23.5)**	(23.8)

C) OTHER LONG-TERM BENEFIT PLANS

Other long-term employee benefits include job security benefits administered by various union agreements. These benefits are calculated on an event driven basis and represent management's best estimates of the present value of all future projected payments to unionized employees. The change in the other long-term employee benefit obligation is explained as follows:

(IN MILLIONS OF DOLLARS)	June 30, 2014	December 31, 2013
OTHER LONG-TERM EMPLOYEE BENEFIT OBLIGATION:		
Balance at beginning of the period	**2.2**	4.2
Service cost	**0.5**	(0.6)
Benefits paid	**(0.7)**	(1.4)
Balance at end of the period	**2.0**	2.2
FAIR VALUE OF PLAN ASSETS:		
Balance at beginning of the period	**-**	-
Employer contributions	**0.7**	1.4
Benefits paid	**(0.7)**	(1.4)
Balance at end of the period	**-**	-
Net other long-term employee benefit liability	**(2.0)**	(2.2)

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

Total amounts recognized in the Statement of financial position:

(IN MILLIONS OF DOLLARS)	June 30, 2014	December 31, 2013
Liabilities:		
Pension Plans	**(40.8)**	(1.4)
Post-employment benefit plans	**(16.7)**	(16.3)
Long-term employee benefit plans	**(23.5)**	(23.8)
Other long-term employee benefits	**(2.0)**	(2.2)
Total	**(83.0)**	(43.7)

12. EMPLOYEE BENEFITS (CONT'D)

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

(in millions of dollars)	Quarters ended June 30		Six month periods ended June 30	
	2014	2013	2014	2013
Operating expense:				
Pension Plans	**8.0**	10.7	**14.4**	22.5
Post-employment benefit plans	**0.3**	0.3	**0.6**	0.6
Long-term employee benefit plans	**1.5**	1.6	**2.9**	3.1
Other long-term employee benefits	**0.2**	0.3	**0.5**	0.6
Total	**10.0**	12.9	**18.4**	26.8

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

(in millions of dollars)	Quarters ended June 30		Six month periods ended June 30	
	2014	2013	2014	2013
Other comprehensive income (loss):				
Pension Plans	**(5.5)**	65.3	**(62.8)**	198.6
Total	**(5.5)**	65.3	**(62.8)**	198.6

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, 2014	December 31, 2013
Balance, beginning of the period	**1,237.4**	1,229.0
Government funding for property, plant and equipment and intangible assets (including the cost of land)	**35.8**	90.8
Amortization of deferred capital funding	**(36.6)**	(82.4)
Balance, end of the period	**1,236.6**	1,237.4

14. DEFERRED REVENUE

Deferred revenue is comprised of the following:

(IN MILLIONS OF DOLLARS)	June 30, 2014	December 31, 2013
Advanced ticket sales	**23.9**	11.1
Gift cards	**2.7**	2.7
Non-monetary transactions	**2.6**	2.3
VIA Préférence	**14.3**	14.0
Other	**1.1**	0.7
Total deferred revenue	**44.6**	30.8

15. COMMITMENTS

a) The Corporation has operating leases in place mainly for facilities, maintenance of way and computer equipment. The most important leases are for the Montreal and Toronto stations with respective terms of 10 and 49 years without renewal option as well as the lease for the corporate headquarters in Montreal for a term of 12 years with a renewal option. The lease payments are increased to reflect normal inflation.

b) As at June 30, 2014, the Corporation has outstanding major contract commitments amounting to $28.1 million (December 31, 2013: $42.1 million) consisting mainly for the completion of rolling stock refurbishment and infrastructure improvement projects.

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

d) The Corporation has provided letters of credit from a banking institution totalling approximately $31.1 million (December 31, 2013: $28.5 million) to various provincial government workers' compensation boards as security for future payment streams.

16. FINANCIAL INSTRUMENTS

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