2011 THIRD QUARTER REPORT

CONNECTION

TRANSFORMATION

EVOLUTION

A GREEN CHOICE

VIA Rail Canada

CONTENT

MESSAGE FROM THE PRESIDENT

Summer 2011 was a popular time to see Canada by train, judging by VIA's positive third quarter results. On both our long distance services as well as within the Windsor-Quebec City corridor, the peak travel season saw an increasing number of Canadians and international travellers boarding VIA to explore this country by rail.

Revenues for the quarter were up 5.2% compared to the same quarter in 2010, and year-to-date revenues have grown by 5.3% compared to last year. In particular the *Canadian*, VIA's flagship train in the West, performed incredibly well, exceeding not only the service's strong performance during the summer of 2010, but our own expectations as well. VIA's Eastern long-distance service, the *Ocean*, and trains in the Windsor-Quebec City corridor also enjoyed strong summer results.

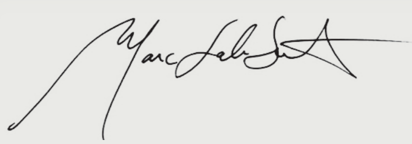
Operating expenses for the quarter rose by 4.6%, mainly due to timing differences compared to the same quarter in 2010. On a cumulative basis, operating expenses rose by 1.9%. After nine months completed this year, VIA improved its operating loss before corporate taxes by more than $2M, as a result of continued management focus on cost control and increased efficiency. Pension costs are one of the main factors which caused the increase in operating expenses.

On the operational side, performance, reliability and punctuality remained a primary focus of a number of Lean projects and initiatives during the third quarter. Not coincidentally, on-time performance was up to 83% during this period, meaning that more travellers were making it to their summer travel destinations as scheduled, on time.

Of course, travel isn't just about arriving at the destination – it's about the entire experience. On board our trains, we significantly increased the capacity of our Wi-Fi service, underscoring VIA's leadership in this area. During the third quarter of 2011, passenger Wi-Fi sessions increased by 20%. In fact, at the Nomad User Conference, attended by railway operators from around the world, VIA was recognized as a world leader in high performance Wi-Fi and monitoring systems. In Q3 we also continued to seek out new ways to communicate with our customers through social media channels. Since June, VIA's Facebook fans grew 17% while our Twitter followers increased by 29%. VIA's participation at Social Media Week in Vancouver in September reached over 125,000 people thanks to our blogging initiative and panel discussion.

We believe that communication will be critically important as we begin to implement new travel experiences through our capital investment program. As VIA transforms, Canadians will now be able to follow the progress we're making online at our new Capital Investment Projects website. Launched this quarter, the site offers the latest on the train, track and station work currently underway. Both the site and VIA, will continue to evolve together over the coming months.

As we look ahead, we are hopeful that this quarter will act as a precursor to a solid finish to 2011, and an exciting year ahead. With new offerings and new schedules on the horizon, we're looking forward to 2012.



Marc Laliberté
President and Chief Executive Officer

OUR BUSINESS

VIA Rail operates Canada's national passenger rail service on behalf of the Government of Canada. An independent Crown corporation established in 1977, VIA's mandate is to provide a safe, environmentally responsible and cost-effective service in both official languages from coast to coast. VIA operates up to 500 trains weekly on 12,500 kilometres of track, connecting over 450 Canadian communities. With approximately 2,900 employees, VIA carried more than 4.1 million passengers in 2010.

2011: THE QUARTER AT A GLANCE

(IN MILLIONS OF DOLLARS)	Q3-2011	Q3-2010	YTD 2011	YTD 2010
KEY FINANCIAL INDICATORS				
Total passenger revenue	**79.6**	75.7	**201.2**	191.8
Total revenue	**83.7**	79.6	**214.5**	203.7
Operating expenses	**143.0**	137.8	**414.8**	410.4
Employee future benefits	**6.2**	4.9	**18.1**	14.2
Total operating expenses	**149.2**	142.7	**432.9**	424.6
Government funding	**61.7**	56.5	**199.1**	192.6
Amortization of deferred capital funding	**12.0**	15.4	**33.1**	38.1
Corporate tax expense	**0.6**	(0.6)	**(3.1)**	(0.3)
Net gain (loss) for the quarter	**7.6**	9.4	**16.9**	10.1
Capital expenditures	**61.6**	51.7	**171.9**	157.4
KEY OPERATING STATISTICS				
Total passenger-miles (IN MILLIONS)	**258**	254	**648**	638
Total seat-miles (IN MILLIONS)	**425**	420	**1,161**	1,123
Government operating funding (cash operating deficit) per passenger-mile (IN CENTS)	**25.4**	24.9	**33.7**	34.6
Yield (CENTS PER PASSENGER-MILE)	**30.5**	29.6	**30.8**	29.8
Train-miles operated (IN THOUSANDS)	**1,662**	1,688	**4,930**	5,006
Car-miles operated (IN THOUSANDS)	**13,355**	12,729	**34,207**	33,473
Average passenger load factor (%)	**60.8**	60.4	**55.8**	56.8
Average number of passenger-miles per train-mile	**155**	150	**131**	127
On-time performance (%)	**83**	77	**82**	81
Number of full time employees at end of period	**2,912**	2,930	**2,912**	2,930

KEY OPERATING STATISTICS BY SERVICE GROUP, THIRD QUARTER, 2011

Train Service	Passenger Miles (in thousands)	Passenger Revenues (in thousands)	Passengers (in thousands)	Funding per Passenger Mile
Windsor-Quebec City Corridor	169,451	$51,424	993	$0.21
Long-distance and Tourism				
The *Canadian*	53,467	$19,347	44	$0.13
The *Ocean*	23,630	$5,301	46	$0.33
Mandatory Services	11,817	$2,898	37	$0.93

KEY OPERATING STATISTICS BY SERVICE GROUP, YEAR-TO-DATE TO SEPTEMBER 30, 2011

Train Service	Passenger Miles (in thousands)	Passenger Revenues (in thousands)	Passengers (in thousands)	Funding per Passenger Mile
Windsor-Quebec City Corridor	469,489	$148,702	2,817	$0.22
Long-distance and Tourism				
The *Canadian*	103,960	$34,520	87	$0.32
The *Ocean*	49,582	$10,843	103	$0.54
Mandatory Services	24,583	$5,719	87	$1.40

CAPITAL INVESTMENT

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

With this $923 million investment, VIA is transforming its network by expanding track capacity, building better traffic control systems, modernizing passenger facilities and stations, and renewing equipment. Once all projects are complete, VIA will be in a position to operate more trains, deliver faster trip times, offer more frequent departures, and provide a better quality of service to Canadians.

To communicate the transformation of passenger rail as it progresses, VIA launched a new website, viarail.ca/transformingVIA, dedicated to its Capital Investment Projects. The website features up-to-date information on many of the train, track and station work currently underway across our network. Image galleries and additional project details will be added to the site over the coming months to create a comprehensive online reference point for all projects.

As of September 30, 2011 VIA has completed the following Capital Investment Projects:

- Installation of Centralized Traffic Control systems to eliminate unnecessary delays, construction of new sidings to ease traffic flow and installation of fencing and crossing protection systems to enhance public safety on VIA's Smiths Falls Subdivision in Eastern Ontario;
- Construction of a new fully accessible station at Smiths Falls, Ontario, and an island platform at Fallowfield Station in Barrhaven, Ontario;
- Installation of a new section of third track near Gananoque, Ontario on CN's Kingston Subdivision, to eliminate many of the delays caused by rail congestion;
- Rebuilding of 34 F-40 locomotives (out of a total of 53) to improve reliability, efficiency and environmental performance, and extend the life of the locomotives by 15-20 years;
- Rebuilding of five (5) LRC (Light,Rapid, Comfortable) passenger cars (out of a total of 98) to improve reliability, accessibility, passenger comfort and environmental performance, and to extend the life of the cars by 15-20 years;
- Rebuilding of six (6) Renaissance cars (from a total of 59 cars) with improved accessibility features for travellers with reduced mobility or other special needs.

VIA's Wi-Fi offering experienced significant growth in the third quarter. In fact, during the Nomad User Conference, attended by over 150 railway operators from around the world, VIA was recognized as a worldwide leader in on board Wi-Fi performance and quality of service. Since launching our continuous monitoring system four months ago, passenger Wi-Fi sessions and data transfer volumes have increased by 20% and 19% respectively. System capacity grew three times to accommodate increased traffic, while overall system availability improved to 99%.

KEY PERFORMANCE INDICATORS

VIA has adopted a Lean management approach to improving operational efficiency. The approach is monitored by six key performance indicators which are discussed below.

SAFETY:

TRAIN INCIDENTS PER MILLION TRAIN-MILES

This measure reflects VIA's efforts to achieve continuous improvements in operational safety. Train incidents include events such as train-to-train collisions, derailments, and rule violations. Incidents were down 54%, with four (4) incidents this quarter compared to nine (9) in Q3-2010. Despite this improvement, VIA's goal is always to achieve zero incidents.

Additionally, highway-rail crossing accidents and trespasser incidents, which are beyond VIA's control, are not included in this measurement. Unfortunately there were seven (7) highway-rail crossing and trespassing accidents resulting in serious injury or death to 12 people. VIA continues to work with industry partners and organizations such as Operation Lifesaver to prevent accidents such as these.

VIA also worked closely with police services and security in Q3 to ensure that all VIA trains operated safely leading up to and during the tenth anniversary of September 11. Additional security presence on trains and in stations throughout the network ensured that all VIA passengers reached their final destinations safely and securely.

CUSTOMER SATISFACTION:
ON-TIME PERFORMANCE

On-time performance is a key driver of customer satisfaction, and improving performance reliability is a top priority for VIA. In Q3, on-time performance increased to 83% from 77% during the same period in 2010. Significant improvements to on-time performance in Southwestern Ontario as well as the implementation of Lean projects addressing on-time departures and en-route reliability were contributing factors.

In Toronto, a Lean project focussing on servicing trains that short turn at Union Station was developed to reduce equipment-related delays and increase overall performance reliability. In Southwestern Ontario, a streamlined boarding and detraining approach was implemented to eliminate en-route delays to VIA's 70 series of trains between Toronto and Windsor. Other Lean projects underway include a facilitated baggage handling process, on-time performance control and monitoring, a reduction in turnaround time for run-through trains at Montreal Central station and a program to streamline the train preparation procedures in the thirty minutes prior to a train's departure.

REVENUES:
PASSENGER REVENUES PER AVAILABLE SEAT-MILE

This is a measure of financial performance, obtained by dividing total passenger revenues by total available seat-miles. (Seat-miles are the number of seats available for sale multiplied by the number of miles travelled.) VIA recorded an increase in revenues per available seat mile by 0.58 cents over the same quarter in 2010. While we increased our capacity (more seat-miles), we were still able to maximize our revenues to achieve better results than last year. The peak summer travel season contributed to the increase in passenger revenues, while popular network-wide marketing campaigns, such as VIA's 50% and 60% fare discount promotions also had a positive effect.

COSTS:
DIRECT COSTS PER AVAILABLE SEAT-MILE

This measure indicates direct operating costs divided by total available seat-miles. In Q3-2011, direct costs per available seat-mile remained stable, despite an increase in passengers over the same period last year.

PRODUCTIVITY:
TOTAL REVENUES PER EMPLOYEE

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

Revenues per employee were six (6)% higher than last year, with August and July representing the best two months to date respectively for this measure. As with the indicator for passenger revenues per available seat mile, these results are directly attributable to higher overall revenues for the quarter.

EMPLOYEE ENGAGEMENT:
ATTENDANCE

This measure indicates total hours of employee absences per month divided by the total possible work hours per month. While some absences are unavoidable, attendance is a good indicator of employees' engagement with their jobs and the goals of the Corporation.

Employee attendance continues its steady improvement. Third quarter results were up almost one (1)% over the same quarter in 2010, and have been improving month-over-month as VIA continues to focus on increasing employee engagement with the Corporation as well as overall attendance.

COMMUNITY RELATIONS AND ACCOUNTABILITY

THE BOARD OF DIRECTORS

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

During the third quarter of 2011, three (3) Board Meetings and seven (7) Board Committee meetings were held. The overall average attendance rate of Board members at these meetings was 96%. Cumulative fees for Board members during this time period totalled $64,000.

OFFICIAL LANGUAGES

During the third quarter of 2011 VIA amended its Official Languages Policy to more effectively reflect VIA's commitment toward linguistic duality within the company. The revised policy includes new sections relating to language training, skills and staffing to better support the goals of the Official Languages Act.

VIA received four (4) Official Languages complaints from July to September, 2011, an increase over the one (1) complaint received during the same quarter in 2010. VIA is committed to investigating each complaint thoroughly in order to find a suitable resolution and ensure that all of VIA's Official Languages requirements are met on a consistent and regular basis. Investigation into all complaints was in progress at the end of the quarter.

As part of our commitment to the Official Languages Act, VIA regularly supports Official Languages organizations and initiatives. On September 8, 2011, we supported Linguistic Duality Day for the second consecutive year. Recognizing the importance of Canada's two official languages, VIA communicated its commitment to linguistic duality through a number of channels including on-board customer announcements and interactive social media postings on Twitter and Facebook.

SOCIAL MEDIA

During Q3 2011, VIA expanded its Social Media strategy and presence. New features were added to VIA's Facebook page, contributing to a 17% increase in fans since June when VIA's Social Media strategy was officially implemented. On Twitter, over 9,000 messages between VIA and its customers were sent, while followers on VIA's Twitter account increased by 29% since june, with an average of 23 new followers per day.

In September, VIA participated in Social Media Week in Vancouver. Taking place in cities across the world, this international conference afforded businesses and individuals the opportunity to organize and host various social media events. VIA set up a cross-Canada train blogging initiative and hosted a live panel discussion on brands, agencies and influencers, with both activities reaching a combined total of over 125,000 people and generating almost 1.7 million impressions. The panel discussion alone achieved the highest registration of any event at Social Media Week in Vancouver.

COMMUNITY RELATIONS

VIA recognizes that passenger rail operations have an impact on the communities it serves. As a result, VIA regularly meets with community representatives to address issues relating to local service.

As a result of VIA's issuance of new electronic ticketing for commuter rail passes, VIA held community meetings with local stakeholders and passenger groups in Cobourg and Brantford to discuss the optimal way to implement and use this new feature in the coming year.

Additionally, during the third quarter of 2011 VIA met with local stakeholders in Cobourg to further discussions on the design for the new Cobourg station. Discussions have been ongoing throughout 2011, as part of our commitment to ensuring that the final station architecture meets the needs of both VIA passengers and the community at large.

ENVIRONMENT

During the third quarter of 2011, VIA's Winnipeg Union Station was awarded the BESt level 2 certification for energy efficiency by the Building Owners and Managers Association of Manitoba (BOMA). A $3 million station renovation project, including major repairs to the station roof and train shed, funded through the Government of Canada's $923 million investment in VIA for improvements to its facilities, equipment and infrastructure, resulted in this environmental recognition for the 100-year-old station.

ACCESS TO INFORMATION AND PRIVACY

VIA is committed to responding promptly to information requests under the Access to Information Act and the Privacy Act. During the third quarter of 2011 VIA received 10 such requests, which were in progress at the end of the quarter.

COMMUNITY INVOLVEMENT

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

During the third quarter of 2011, VIA supported 226 non-profit and charitable organizations with travel credit donation representing $341,000.

TRAVEL, HOSPITALITY AND CONFERENCE EXPENSES

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

Paul G. Smith, Chairman of the Board	$ 4,100
Marc Laliberté, President and CEO	$ 5,800
Executive management committee members	$ 27,000
Board of Directors members	$ 25,000

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

MANAGEMENT DISCUSSION & ANALYSIS

MANAGEMENT DISCUSSION AND ANALYSIS

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

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS). Figures for the first quarter of 2010 have been adjusted and converted to International Financial Reporting Standards (IFRS), as the annual report for 2010 presented financial statements under Canadian Generally Accepted Accounting Principles (Canadian GAAP).

1. FINANCIAL HIGHLIGHTS

	Quarter ended September 30				Nine months ended September 30			
In Millions of Canadian dollars	2011	2010	Var $	Var %	2011	2010	Var $	Var %
Passenger revenues	79.6	75.7	3.9	5.2%	201.2	191.8	9.4	4.9%
Total revenues	83.7	79.6	4.1	5.2%	214.5	203.7	10.8	5.3%
Operating expenses	149.2	142.7	6.5	4.6%	432.9	424.6	8.3	1.9%
Operating deficit before funding from Government of Canada and corporate taxes	(65.5)	(63.1)	2.4	3.8%	(218.4)	(220.9)	(2.5)	-1.1%
Operating funding from Government of Canada	61.7	56.5	5.2	9.2%	199.1	192.6	6.5	3.4%
Amortization of deferred capital funding	12.0	15.4	(3.4)	-22.1%	33.1	38.1	(5.0)	-13.1%
Corporate tax expense (Recovery)	0.6	(0.6)	(1.2)	n/a	(3.1)	0.3	2.8	n/a
Net income and comprehensive income for the quarter	7.6	9.4	(1.8)	-19.1%	16.9	10.1	6.8	67.3%

After nine months completed in 2011, revenues have increased by 5.3% compared to last year; passenger-miles have grown by 1.5% combined with higher fares achieved through the Corporation's revenue management program, especially in the Quebec City-Windsor Corridor and on Longhaul routes.

Operating expenses rose by $8.3M, the increase strictly due to higher pension costs and timing in the payment of employee benefits.

As a result, the Operating deficit before funding from the Government of Canada, amortization of deferred capital funding and Corporate taxes improved by $2.5M (1.1%).

HIGHLIGHTS OF THE QUARTER

Compared with the quarter ended September 30, 2010:

- Revenues have grown by 5.2% and total $83.7M for the quarter;
- Operating expenses before corporate taxes and amortization of deferred capital funding have increased by 4.6% and amount to $149.2M for the quarter;
- Funding from Government of Canada increased by 9.2% to $61.7M for the quarter;
- There is a net profit of $7.6M for the quarter, compared to a profit of $9.4M for the same quarter in 2010.

HIGHLIGHTS OF THE NINE MONTHS ENDED SEPTEMBER 30, 2011

Compared with the corresponding period ended September 30, 2010:

- Revenues have grown by 5.3% and total $214.5M for the period;
- Operating expenses before corporate taxes and amortization of deferred capital funding have increased by 1.9% and amount to $432.9M for the period;
- Funding from Government of Canada increased by 3.4% to $199.1M for the period;
- There is a net profit of $16.9M for the period, compared to a profit of $10.1M for the corresponding period in 2010.

2. HIGHLIGHTS OF OPERATING RESULTS

a) Passenger Revenues

	Revenues (in '000 000$)							
	Quarter ended September 30				Nine months ended September 30			
	2011	2010	Var $	Var %	2011	2010	Var $	Var %
Corridor East	$40.5	$39.0	$1.5	3.8%	$115.4	$110.5	$4.9	4.4%
Southwestern Ontario (SWO)	$10.9	$10.6	$0.3	2.8%	$33.3	$31.6	$1.7	5.4%
Ocean	$5.3	$4.7	$0.6	12.8%	$10.8	$10.1	$0.7	6.9%
Canadian	$19.3	$18.1	$1.2	6.6%	$34.5	$32.4	$2.1	6.5%
Mandatory Services	$2.9	$3.1	($0.2)	-6.5%	$5.7	$6.1	($0.4)	-6.6%
Other	$0.7	$0.2	$0.5	250.0%	$1.5	$1.1	$0.4	36.0%
Total	$79.6	$75.7	$3.9	5.2%	$201.2	$191.8	$9.4	4.9%

	Passenger miles (in '000 000)							
	Quarter ended September 30				Nine months ended September 30			
	2011	2010	Var	Var %	2011	2010	Var	Var %
Corridor East	137.6	133.5	4.1	3.1%	375.1	366.4	8.7	2.4%
Southwestern Ontario (SWO)	31.9	31.6	0.3	0.9%	94.5	93.0	1.5	1.6%
Ocean	23.6	21.7	1.9	8.8%	49.5	48.4	1.1	2.3%
Canadian	53.5	53.7	(0.2)	-0.4%	104.0	103.3	0.7	0.7%
Mandatory Services	11.8	13.2	(1.4)	-10.6%	24.5	27.0	(2.5)	-9.3%
Other	-	-	-	-	-	-	-	-
Total	258.4	253.7	(4.7)	1.9%	647.6	638.1	9.5	1.5%

Passenger revenues have increased by 5.2% and total $79.6M for the quarter. On a cumulative basis, they have grown by 4.9% and amount to $201.2M. The performance of the quarter is explained by the increase in yields (revenues per passenger-mile), combined with the growth in ridership (passengers and passenger-miles).

The performance of the nine month period stems from higher yields and a slight growth in ridership. Passenger-miles have grown more than ridership, reflecting the longer average trip lengths made by passengers.

Leisure markets performed strongly during the peak summer season, while sustained competition from airlines and busing companies continues to impact ridership in the Corridor.

For the quarter:

- Corridor East revenues are 3.8% higher than those of the previous year, and result mainly from increased ridership (passenger-miles have grown by 3.1%), combined with higher yields (+0.8% versus last year);
- Revenues in SWO have increased by 2.8% as a result of higher yields (+1.9%). Passenger levels have increased by 1.8%, but passenger-miles have only increased by 0.9%, reflecting shorter trip lengths;
- Revenues on the *Ocean* have increased significantly compared to last year (12.8%), the increase resulting mainly from increased ridership (8.8% more passenger-miles). Yields were 3.7% higher than last year;
- Revenues on the *Canadian* have grown by 6.6% over the previous year. The performance stems from higher yields (+7.0%). Ridership slightly increased (+0.7%), but passengers travelled on shorter distances, as reflected in the passenger-miles which have decreased by 0.4% compared to the corresponding quarter last year;
- Mandatory Services have generated lower revenues, and the situation is directly attributable to the interruption of the Victoria-Courtenay service earlier this year.

For the nine months ended September 30:

- Corridor East revenues have grown by 4.4%, as a result of higher yields (+2.0%), combined with growth in ridership (2.4% more passenger-miles). Passenger levels increased by 0.8%, so the higher growth in passenger-miles reflects the fact that the growth in passengers has been achieved in end-to-end markets;
- Revenues in SWO have increased by 5.4% also as a result of higher yields (+3.7%) and passenger levels (+2.3% passenger-miles);
- Revenues on the *Ocean* have grown by 6.9% due to increased yields (+4.6%), combined with higher passenger levels;
- Revenues on the *Canadian* are 6.5% above last year's levels, due in most part to higher yields (+5.8%);
- There was a decrease in revenues generated from Mandatory Services, a direct impact of the interruption of the Victoria-Courtenay service since April 2011 (bus service offered until August 7, 2011).

2. HIGHLIGHTS OF OPERATING RESULTS
b) Operating Expenses

	Quarter ended September 30				Nine months ended September 30			
In Millions of Canadian dollars	2011	2010	Var $	Var %	2011	2010	Var $	Var %
Compensation & Benefits	62.2	59.3	2.9	4.9%	174.1	167.8	6.3	3.8%
Train Operations & Fuel	32.5	29.2	3.3	11.3%	93.1	86.6	6.5	7.5%
Other operating expenses	47.1	51.3	(4.2)	-8.2%	149.6	154.7	(5.1)	-3.3%
Unrealized loss (gain) on derivative financial instruments	2.7	(3.8)	6.5	-171.1%	2.4	(3.9)	6.3	161.5%
Realized loss (gain) on derivative financial instruments	(1.5)	1.8	(3.3)	-183.3%	(4.4)	5.2	(9.6)	-184.6%
Total Operating expenses before Employee future benefits, amortization of deferred capital funding & Corporate Tax expense	143.0	137.8	5.2	3.8%	414.8	410.4	4.4	1.1%
Employee Future Benefits	6.2	4.9	1.3	26.5%	18.1	14.2	3.9	27.5%
Total Operating expenses before amortization of deferred capital funding & Corporate Tax expense	149.2	142.7	6.5	4.6%	432.9	424.6	8.3	1.9%
Corporate Taxes (Recovery)	0.6	(0.6)	1.2	-212.7%	(3.1)	(0.3)	(2.8)	n/a
Total Operating expenses before amortization of deferred capital funding	149.8	142.1	7.7	5.4%	429.8	424.3	5.5	1.3%

For the quarter:

- Operating expenses before employee future benefits, amortization of deferred capital funding & Corporate tax expense increased by $5.2M and total $143.0M for the quarter, mainly due to timing in the payments of employee benefits, an unrealized loss on derivative financial instruments, and higher train operations and fuel expenses. These increases were partly offset by lower maintenance material costs lower Marketing and Sales expenses as well as a gain realized on derivative financial instruments;

- Expenses related to train operations increased compared to last year and are due to higher incentives paid to CN as a result of improved on-time performance;

- Fuel prices increased versus the previous year but the increase was offset by the gains realized on derivative financial instruments purchased through the Corporation's hedging policy. The Corporation realized a gain on derivative financial instruments of $1.5M for the quarter, compared to a loss of $1.8M for the same period last year;

For the nine months ended September 30:

- Operating expenses before employee future benefits, amortization of deferred capital funding & Corporate tax expense increased by $4.4M and amount to $414.8M. The increase results primarily from the increase in compensation costs (mostly for training of new locomotive engineers), timing in the payments of employee benefits, higher train operations and fuel expenses and an unrealized loss on derivative financial instruments. They are partly offset by a gain realized on derivative financial instruments as well as lower maintenance and material costs;

- Fuel prices increased versus the previous year but the increase was offset by the gains realized on derivative financial instruments purchased through the Corporation's hedging policy. Gains of $4.4M on derivative financial instruments were realized during the period, compared to a loss of $5.2M incurred in the same period last year;

- The Corporation generated a credit of $3.1M in Corporate taxes, as compared to a credit of $0.3M for the corresponding period in 2010. The credit stems mainly from a tax refund received for prior years' taxes.

3. CAPITAL INVESTMENTS

Fixed assets (net of accumulated depreciation) amount to $1,100.5M, up $135.2M compared to the balance as at December 31, 2010. Capital investments for the quarter totaled $61.6M and $171.9M for the nine months ended September 30, 2011.

- Investments of $31.4M were made in major infrastructure projects, mostly CN Kingston subdivision of the Montreal-Toronto line. On a year to date basis, investments total $90.9M. Work is done to add portions of a third track between Montreal and Toronto to minimize congestion.

- A total of $17.5M was invested in major equipment projects, including $7.5M for the F40 locomotive fleet rebuild project and $4.5M for the LRC car fleet rebuild project. On a cumulative basis, a total of $54.7M has been invested in major equipment projects.

- An amount of $7.0M was invested in station projects during the quarter, of which $2.8M was for the revitalization of Toronto's Union Station. On a year to date basis, stations have benefited from investments of $9.5M.

- Investments of $3.4M were also made in Information Technology projects during the quarter, bringing the cumulative investments to $9.4M for the nine months ended September 30, 2011.

4. CASH FLOW AND FINANCIAL POSITION

The Corporation's cash balance is $46.9M at the end of September, up $29.3M from June 30, but down $29.9 compared to December 31, 2010.

The increase in cash position during the quarter results from capital funding received ($58.7M) and net cash generated from operating activities ($40.3M), partly offset by investments made in property plant, and equipment ($61.6M).

The reduction in cash position since December 31, 2010 stems from the investments made in property, plant and equipment ($171.9M) and cash used for operating activities ($8.3M), partly offset by the funding received. The Corporation received $169.0M of capital funding from the Government of Canada during the nine months ended September 30, 2011.

Pension plan contributions amounted to $13.9M for the quarter, compared to $6.2M in 2010. On a cumulative basis, contributions total $35.6M compared to $18.3M for the corresponding period last year.

5. RISK ANALYSIS

A) OPERATING FUNDING

VIA continues to face operational funding challenges. The Corporation is pursuing the development and the implementation of a range of initiatives to reduce its deficit by reducing costs and increasing revenues. Furthermore, VIA continues to work with Transport Canada to address the challenge of operating loss and develop sustainable funding solutions.

Furthermore, the economic dowtown accentuates the pressure on the Corporation's financing needs for the funding of pension plans. As a matter of fact, contributions made since the beginning of the year have increased by $17.3M compared to last year.

B) CAPITAL FUNDING

VIA will need to continue investing in equipment, stations, maintenance systems, facilities and information technology after 2011, when the current investment program is completed. The Corporation is working with Transport Canada to address ongoing capital funding requirements, and to ensure that VIA has the capital funding it requires to deliver on its mandate.

C) PASSENGER REVENUES

Following a sharp decline in travel markets in 2008, growth in ridership and revenues slowed compared to previous years. VIA continues to implement initiatives to mitigate the impact of slow growth in passenger revenues. These include optimizing train services between Montreal, Ottawa and Toronto, and generating additional revenues from real estate projects and through information technology improvements that support revenue management initiatives.

D) CROSSING INCIDENTS

VIA's trains operate through many protected and unprotected level road crossings where vehicles can cross and where incidents/accidents could occur. VIA has developed a crossing improvement (protection, fences) and closure program. They work actively with communities and owners of the land where there are crossings. The objectives of the program are to close crossings where possible and to increase public awareness about the potential dangers they represent.

E) RETIREMENT OF LOCOMOTIVE ENGINEERS

VIA is dependant on the specialized set of skills of the engineers who operate its locomotives. More than half of VIA's locomotive engineers could retire by the end of the year 2015, and if VIA were to experience a substantial turnover in its locomotive engineer group, its business could be adversely affected. The Corporation therefore launched, in December 2010, a training program for new locomotive engineers, with the first class scheduled to graduate in 2012. An additional class has started in October 2011 and two (2) additional classes will start in 2012, all of which graduate at the end of 2012.

F) FUEL COST FLUCTUATIONS

Fuel is a major cost for passenger rail operations, and fuel costs could vary significantly from VIA's estimates due to the uncertainty and volatility of fuel prices. VIA's proven hedging strategy adds certainty to future fuel costs and can delay the impact of fuel price fluctuations. Given that contracts used to hedge fuel prices are denominated in U.S. dollars, VIA also hedges against foreign exchange risks.

G) CAPITAL INVESTMENT PROJECTS

Major delays in infrastructure or equipment projects, or an increase in project costs would adversely affect VIA's financial performance. VIA's managers monitor the progress of all projects closely in order to mitigate this risk, adjusting production timelines as needed to keep projects on track.

6. OUTLOOK

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

The fear of another economic downturn could however adversely affect passenger revenues. Furthermore, such market conditions could have an impact on the financial position of the Corporation's pension plans. Both of these factors could limit VIA's capacity to archieve all the goals and objectives it has set for 2012 and beyond.

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

INTERIM FINANCIAL STATEMENTS

MANAGEMENT'S RESPONSIBILITY STATEMENT

QUARTER ENDED AT SEPTEMBER 30, 2011

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

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

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

Marc Laliberté
President and Chief Executive Officer

Robert St-Jean, CA
Chief Financial and Administration Officer

Montréal, Québec, Canada
November 22, 2011

FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION

As at September 30, 2011 (in thousands of Canadian dollars)	Sept. 30/11 (unaudited)	Dec. 31/10 (unaudited)	Jan. 01/10 (unaudited)
CURRENT ASSETS			
Cash and cash equivalents	$ 46,897	$ 76,829	$ 4,596
Accounts receivable, trade	11,972	7,988	7,581
Prepaids, advances on contracts and other receivables	9,848	14,414	10,467
Receivable from the Government of Canada	12,327	15,702	5,182
Derivative financial instruments (NOTE 20)	3,487	3,769	1,497
Materials (NOTE 8)	21,174	21,302	24,592
Asset Renewal Fund (NOTE 11)	15,295	15,295	25,295
	121,000	155,299	79,210
NON-CURRENT ASSETS			
Property, plant and equipment (NOTE 9)	790,809	729,932	673,433
Intangible assets (NOTE 10)	309,712	235,371	74,068
Asset Renewal Fund (NOTE 11)	18,137	25,645	23,120
Accrued benefit asset (NOTE 14)	180,140	159,081	152,655
Derivative financial instruments (NOTE 20)	787	880	1,578
	1,299,585	1,150,909	924,854
TOTAL ASSETS	$ 1,420,585	$ 1,306,208	$ 1,004,064
CURRENT LIABILITIES			
Accounts payable and accrued liabilities (NOTE 12)	$ 92,673	$ 135,952	$ 116,529
Provisions (NOTE 13)	19,721	17,138	14,554
Deferred government funding	46,000	51,000	-
Derivative financial instruments (NOTE 20)	-	996	6,699
Deferred revenues	29,309	25,546	24,129
	187,703	230,632	161,911
NON-CURRENT LIABILITIES			
Accrued benefit liability (NOTE 14)	33,253	32,259	31,094
Deferred corporate tax liabilities (NOTE 15)	1,226	404	-
Derivative financial instruments (NOTE 20)	3,208	205	354
Deferred investment tax credits	612	909	1,302
Other non-current liabilities	557	623	899
	38,856	34,400	33,649
DEFERRED CAPITAL FUNDING (NOTE 16)	1,090,271	954,317	736,746
SHAREHOLDER'S EQUITY			
Share capital (NOTE 17)	9,300	9,300	9,300
Retained earnings	94,455	77,559	62,458
	103,755	86,859	71,758
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	$ 1,420,585	$ 1,306,208	$ 1,004,064

Commitments and Contingencies (Notes 18 and 23, respectively)

The notes are an integral part of the 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

FINANCIAL STATEMENTS

STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME

Period ended September 30	Quarter ended		Nine months ended	
(in thousands of Canadian dollars)	Sept. 30/11	Sept. 30/10	Sept. 30/11	Sept. 30/10
REVENUES	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Passenger	$ **79,571**	$ 75,742	$ **201,185**	$ 191,838
Other	**4,162**	3,911	**13,338**	11,869
	83,733	79,653	**214,523**	203,707
EXPENSES				
Compensation and benefits	**62,190**	59,273	**174,119**	167,841
Train operations and fuel	**32,474**	29,196	**93,136**	86,597
Stations and property	**8,073**	7,347	**25,773**	24,328
Marketing and sales	**6,608**	7,401	**21,748**	21,632
Maintenance material	**6,608**	7,874	**23,358**	26,611
On-train product costs	**4,493**	4,284	**11,316**	10,931
Operating taxes	**1,364**	1,532	**7,716**	8,076
Professional services	**1,551**	1,429	**5,012**	3,614
Employee future benefits (NOTE 14)	**6,172**	4,901	**18,141**	14,160
Amortization and losses on disposal of property, plant and equipment and intangible assets (NOTES 9 AND 10)	**12,310**	14,394	**36,145**	38,123
Unrealized loss (gain) on derivative financial instruments	**2,668**	(3,830)	**2,382**	(3,941)
Realized loss (gain) on derivative financial instruments	**(1,545)**	1,777	**(4,382)**	5,243
Other	**6,186**	7,140	**18,419**	21,447
	149,152	142,718	**432,883**	424,662
OPERATING LOSS BEFORE FUNDING FROM THE GOVERNMENT OF CANADA AND CORPORATE TAXES	**65,419**	63,065	**218,360**	220,955
Operating funding from the Government of Canada	**61,662**	56,500	**199,119**	192,550
Amortization of deferred capital funding (NOTE 16)	**12,055**	15,365	**33,052**	38,146
Income before corporate taxes	**8,298**	8,800	**13,811**	9,741
Corporate tax expense (recovery) (NOTE 15)	**649**	(576)	**(3,085)**	(357)
NET INCOME AND COMPREHENSIVE INCOME FOR THE PERIOD	$ **7,649**	$ 9,376	$ **16,896**	$ 10,098

The notes are an integral part of the consolidated financial statements.

STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

Period ended September 30	Quarter ended		Nine months ended	
(in thousands of Canadian dollars)	Sept. 30/11	Sept. 30/10	Sept. 30/11	Sept. 30/10
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
BALANCE, BEGINNING OF PERIOD	$ **96,106**	$ 72,480	$ **86,859**	$ 71,758
Net income and comprehensive income for the period	**7,649**	9,376	**16,896**	10,098
Funding from the Government of Canada for the acquisition of non-depreciable capital assets	**-**	4,488	**-**	4,488
BALANCE, END OF PERIOD	$ **103,755**	$ 86,344	$ **103,755**	$ 86,344

The notes are an integral part of the financial statements.

FINANCIAL STATEMENTS

STATEMENT OF CASH FLOWS

Period ended September 30	Quarter ended		Nine months ended	
(in thousands of Canadian dollars)	Sept. 30/11	Sept. 30/10	Sept. 30/11	Sept. 30/10
OPERATING ACTIVITIES	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Net income and comprehensive income for the period	$ 7,649	$ 9,376	$ 16,896	$ 10,098
Adjustments to determine net cash from (used in) operating activities:				
Amortization of property, plant and equipment and intangible assets	12,403	12,039	35,596	33,620
Losses on disposal of property, plant and equipment	6	2 454	846	4 797
Amortization of investment tax credits	(99)	(99)	(297)	(294)
Amortization of deferred capital funding	(12,055)	(15,365)	(33,052)	(38,146)
Deferred corporate taxes	574	-	822	-
Change in fair value of financial instruments (Asset Renewal Fund)	537	(27)	(106)	(85)
Unrealized net loss (gain) on derivative financial instruments	2,668	(3,830)	2,382	(3,941)
Net change in non-cash working capital items	35,897	1,494	(11,268)	(2,768)
Change in accrued benefit asset	(7,578)	(3,511)	(21,059)	(9,397)
Change in accrued benefit liability	344	312	994	557
Change in other non current liabilities	-	-	(66)	-
Net cash (used in) provided by operating activities	40,346	2,843	(8,312)	(5,559)
FINANCING ACTIVITIES				
Capital funding	58,713	39,510	169,006	176,071
Change in capital funding receivable from the Government of Canada	(8,713)	(3,510)	7,494	(5,208)
Net cash used in financing activities	50,000	36,000	176,500	170,863
INVESTING ACTIVITIES				
Acquisition of investments in the Asset Renewal Fund	(186,232)	(50,709)	(249,656)	(152,541)
Proceeds from sale and maturity of investments in the Asset Renewal Fund	190,063	49,241	257,270	160,920
Change in Capital accounts payable and accrued liabilities	(3,481)	(763)	(34,074)	(13,006)
Acquisition of property, plant and equipment and intangible assets	(61,560)	(51,727)	(171,853)	(157,404)
Proceeds from disposal of property, plant and equipment and intangible assets	127	1,383	193	1,419
Net cash used in investing activities	(61,083)	(52,575)	(198,120)	(160,612)
CASH AND CASH EQUIVALENTS				
Increase (decrease) during the period	29,263	(13,732)	(29,932)	4,692
Balance, beginning of period	17,634	23,020	76,829	4,596
BALANCE, END OF PERIOD	$ 46,897	$ 9,288	$ 46,897	$ 9,288
REPRESENTED BY:				
Cash	$ 4,427	$ 370	$ 4,427	$ 370
Short-term investments	42,470	8,918	42,470	8,918
	$ 46,897	$ 9,288	$ 46,897	$ 9,288

The notes are an integral part of the financial statements.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

AS AT SEPTEMBER 30, 2011 (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 be the Canadian leader in service excellence in passenger transportation with a mission to work together to provide travel experiences that anticipate the needs and exceed the expectations of our customers. 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 passengers traffic increases significantly during the summer and holiday periods resulting in an increase in revenue for these same periods.

These financial statements were approved and authorized for issue by the Board of Directors on November 22, 2011.

2. BASIS OF PREPARATION

A) STATEMENT OF COMPLIANCE

The Corporation adopted International Financial Reporting Standards (IFRS) in accordance IFRS 1 – *First-time Adoption of International Financial Reporting Standards*. The first date at which IFRS were applied was January 1, 2010. In accordance with IFRS, the Corporation has:

- provided comparative financial information;
- applied the same accounting policies throughout all periods presented;
- retrospectively applied all effective IFRS standards as of December 31, 2009, as required
- applied certain optional exemptions and certain mandatory exceptions as applicable for first time IFRS adopters.

The Corporation's financial statements were previously prepared in accordance with accounting principles generally accepted in Canada (Canadian GAAP). Canadian GAAP differs in some areas from IFRS. Note 3 contains reconciliations and descriptions of the effect of the transition from Canadian GAAP to IFRS on equity, earnings and comprehensive income along with line-by-line reconciliations of the statement of financial position as at December 31, 2010 and January 1, 2010, and the statement of operations and comprehensive income for the year ended December 31, 2010.

B) FUNCTIONAL AND PRESENTATION CURRENCY

These 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 Corporate financial statements and rounded to the nearest million in the Notes to the financial statements.

3. IMPACT OF FIRST-TIME ADOPTION OF IFRS

As required by IFRS 1 "*First-time adoption of International Financial Reporting Standards*", the IFRS are applied retrospectively at the transition date with all adjustments to assets and liabilities as stated under GAAP recorded in retained earnings unless certain exemptions are applied. This note sets out the principles adopted by the Corporation in the preparation of its IFRS opening statement of financial position as at 1 January 2010. It also presents divergences with Canadian GAAP previously adopted by the Corporation and their quantified impact on the 2010 opening statement of financial position, 2010 net result and the 2010 closing statement of financial position.

In preparing its opening balance sheet, the Corporation elected to apply the following exemptions offered by IFRS 1:

I) **Employee Benefits (IAS19)**
The Corporation has applied this exemption and has recognized all cumulative actuarial gains and losses as well as the transition asset at the date of transition in the opening retained earning for all employee benefit plans. The corporation will however continue to use the corridor approach for actuarial gains and losses occurring after the transition. The Corporation will disclose the amounts required by the IFRS as the amounts are determined for each accounting period prospectively from the date of transition to IFRS.

II) **Business combinations (IFRS 3)**
The Corporation has elected not to restate business combinations performed prior to 1 January, 2010 and applies IFRS 3 as from this date.

III) **Designation of previously recognized financial instruments (IAS 39)**
The Corporation has reclassified some financial instruments as available for sale at the date of transition.

The adoption of the IFRS has resulted in significant changes to the statement of financial position of the Corporation as described below and the financial statements of the Keewatin Railway Company (KRC) are no longer consolidated into the Corporation's financial statements with IFRS (see Note 3A – Consolidation of KRC below).

The Corporation has prepared the following reconciliations:
Reconciliation of the opening statement of financial position as at January 1, 2010

(in millions of dollars)	DEC. 31, 2009 CANADIAN GAAP	KRC NOTE A	IFRS ADJUST-MENTS	RECLASSIFI-CATIONS	JAN. 1, 2010 IFRS	NOTE
Cash and cash equivalents	4.8	(0.2)	-	-	4.6	
Accounts Receivable, trade	7.7	(0.1)	-	-	7.6	
Prepaids and other receivables	10.6	(0.2)	-	-	10.4	
Receivable from the Government of Canada	6.8	(1.6)	-	-	5.2	
Derivative financial instruments	1.5	-	-	-	1.5	
Materials	24.6	-	-	-	24.6	
Asset Renewal Fund	25.3	-	-	-	25.3	
Total Current Assets	**81.3**	**(2.1)**	**-**	**-**	**79.2**	
Property, plant and equipment	523.9	(8.7)	219.8	(61.6)	673.4	B
Intangible assets	9.5	-	3.0	61.6	74.1	C
Asset Renewal Fund	23.1	-	-	-	23.1	
Accrued benefit asset	354.8	-	(202.1)	-	152.7	D
Derivative financial instruments	1.6	-	-	-	1.6	
Deferred corporate tax asset	2.8	-	(2.8)	-	-	H
Total Non-current Assets	**915.7**	**(8.7)**	**17.9**	**-**	**924.9**	
Total Assets	**997.0**	**(10.8)**	**17.9**	**-**	**1,004.1**	

(in millions of dollars)	DEC. 31, 2009 CANADIAN GAAP	KRC NOTE A	IFRS ADJUST-MENTS	RECLASSIFI-CATIONS	JAN. 1, 2010 IFRS	NOTE
Accounts Payable and accrued liabilities	132.3	(2.0)	(0.6)	(13.2)	116.5	E
Provisions	-	-	1.0	13.6	14.6	E
Derivative financial instruments	6.7	-	-	-	6.7	
Deferred revenues	12.0	-	12.1	-	24.1	F
Total Current Liabilities	**151.0**	**(2.0)**	**12.5**	**0.4**	**161.9**	
Accrued benefit liability	27.2	-	4.3	(0.4)	31.1	D
Deferred corporate tax liabilities	40.5	-	(40.5)	-	-	H
Derivative financial instruments	0.4	-	-	-	0.4	
Deferred investment tax credits	1.3	-	-	-	1.3	
Other non-current liabilities	1.5	(0.6)	-	-	0.9	
Total Non-current Liabilities	**70.9**	**(0.6)**	**(36.2)**	**(0.4)**	**33.7**	
Deferred capital funding	**541.1**	**(8.0)**	**203.6**	**-**	**736.7**	**G**
Share Capital	9.3	-	-		9.3	
Contributed Surplus	6.0	-	-	(6.0)	-	
Retained earnings	218.7	(0.2)	(162.0)	6.0	62.5	
Total Shareholder's equity	**234.0**	**(0.2)**	**(162.0)**	**-**	**71.8**	
Total Liabilities and Equity	**997.0**	**(10.8)**	**17.9**	**-**	**1004.1**	

Reconciliation of equity as at January 1, 2010

(in millions of dollars)	
Equity – Canadian GAAP as of January 1, 2010	**234.0**
A) Consolidation -KRC	(0.2)
B) Property, plant and equipment	219.8
C) Intangible assets	3.0
D) Pension and other benefit	(206.4)
E) Provision	(0.4)
F) Deferred revenue	(12.1)
G) Deferred capital funding	(203.6)
H) Deferred corporate tax	37.7
Equity – IFRS as of January 1, 2010	**71.8**

Reconciliation of the statement of financial position as at December 31, 2010

(in millions of dollars)	DEC. 31, 2010 CANADIAN GAAP	KRC NOTE A	IFRS ADJUST-MENTS	RECLASSIFI-CATIONS	DEC. 31, 2010 IFRS	NOTE
Cash and cash equivalents	77.1	(0.3)	-	-	76.8	
Accounts Receivable, trade	8.1	(0.1)	-	-	8.0	
Prepaids and other receivables	14.5	(0.1)	-	-	14.4	
Receivable from the Government of Canada	17.1	(1.4)	-	-	15.7	
Derivative financial instruments	3.8	-	-	-	3.8	
Materials	21.3	-	-	-	21.3	
Asset Renewal Fund	15.3	-	-	-	15.3	
Total Current Assets	**157.2**	**(1.9)**	**-**	**-**	**155.3**	
Property, plant and equipment	725.6	(9.5)	224.2	(210.4)	729.9	B
Intangible assets	17.4	-	7.6	210.4	235.4	C
Asset Renewal Fund	25.6	-	-	-	25.6	
Accrued benefit asset	374.9	-	(215.8)	-	159.1	D
Derivative financial instruments	0.9	-	-	-	0.9	
Deferred corporate tax asset	12.2	-	(12.2)	-	-	H
Total Non-current Assets	**1,156.6**	**(9.5)**	**3.8**	**-**	**1,150.9**	
Total Assets	**1,313.8**	**(11.4)**	**3.8**	**-**	**1,306.2**	

(in millions of dollars)	DEC. 31, 2010 CANADIAN GAAP	KRC NOTE A	IFRS ADJUST-MENTS	RECLASSIFI-CATIONS	DEC. 31, 2010 IFRS	NOTE
Accounts Payable and accrued liabilities	154.7	(1.8)	(0.6)	(16.3)	136.0	E
Provisions	-	-	0.4	16.7	17.1	E
Deferred government funding	51.0	-	-	-	51.0	
Derivative financial instruments	1.0	-	-	-	1.0	
Deferred revenues	12.9	-	12.6	-	25.5	F
Total Current Liabilities	**219.6**	**(1.8)**	**12.4**	**0.4**	**230.6**	
Accrued benefit liability	27.3	-	5.4	(0.4)	32.3	D
Deferred corporate tax liabilities	55.0	-	(54.6)	-	0.4	H
Derivative financial instruments	0.2	-	-	-	0.2	
Deferred investment tax credits	0.9	-	-	-	0.9	
Other non-current liabilities	1.1	(0.5)	-	-	0.6	
Total Non-current Liabilities	**84.5**	**(0.5)**	**(49.2)**	**(0.4)**	**34.4**	
Deferred capital funding	**751.9**	**(9.0)**	**211.4**	**-**	**954.3**	G
Share Capital	9.3	-	-	-	9.3	
Retained earnings	248.5	(0.1)	(170.8)	-	77.6	
Total Shareholder's equity	**257.8**	**(0.1)**	**(170.8)**	**-**	**86.9**	
Total Liabilities and Equity	**1,313.8**	**(11.4)**	**3.8**	**-**	**1,306.2**	

Reconciliation of equity as of December 31, 2010

(in millions of dollars)	
Equity – Canadian GAAP as of December 31, 2010	**257.8**
A) Consolidation -KRC	(0.1)
B) Property, plant and equipment	224.2
C) Intangible assets	7.6
D) Pension and other benefit	(221.2)
E) Provision	0.2
F) Deferred revenue	(12.6)
G) Deferred capital funding	(211.4)
H) Deferred corporate tax	42.4
Equity – IFRS as of December 31, 2010	**86.9**

Reconciliation of statement of operations and comprehensive income for the year ended December 31, 2010

(in millions of dollars)	DEC. 31, 2010 CANADIAN GAAP	KRC NOTE A	IFRS ADJUSTMENTS	DEC. 31, 2010 IFRS	NOTE
REVENUES					
Passenger	258.3	(0.1)	(0.5)	257.7	
Investment income	1.3	-	-	1.3	
Other	18.3	(2.6)	-	15.7	
	277.9	(2.7)	(0.5)	274.7	
EXPENSES					
Compensation and benefits	224.2	(1.1)	-	223.1	
Train operations and fuel	118.5	(0.4)	-	118.1	
Stations and property	34.3	(0.4)	-	33.9	
Marketing and sales	29.3	-	-	29.3	
Maintenance material	39.1	(0.1)	-	39.0	
On-train product costs	14.7	-	-	14.7	
Operating taxes	8.9	(0.1)	-	8.8	
Professional Services	6.3	-	-	6.3	
Employee benefits	11.5	-	14.7	26.2	D
Amortization and losses on write-down and disposal of property, plant and equipment and intangible assets	58.3	(0.3)	(9.0)	49.0	B/C
Unrealized gain on derivative financial instruments	(7.4)	-	-	(7.4)	
Realized loss on derivative financial instruments	6.2	-	-	6.2	
Other	26.0	(0.7)	(0.4)	24.9	
	569.9	(3.1)	5.3	572.1	
OPERATING LOSS BEFORE FUNDING FROM THE GOVERNMENT OF CANADA AND CORPORATE TAXES	292.0	(0.4)	5.8	297.4	
Operating funding from the Government of Canada	261.5	-	-	261.5	
Amortization of deferred capital funding	57.1	(0.3)	(7.8)	49.0	G
Income (loss) before corporate taxes	26.6	0.1	(13.6)	13.1	
Corporate tax expense	4.8	-	(4.8)	-	H
NET INCOME AND COMPREHENSIVE INCOME FOR THE YEAR	**21.8**	**0.1**	**(8.8)**	**13.1**	

A) CONSOLIDATION OF KRC

Under Canadian GAAP the Keewatin Railway Company (KRC) was designated as a variable interest entity (VIE) and therefore the financial statements of the KRC were consolidated into the Corporation's financial statements. Under IFRS, the KRC financial statements will no longer be consolidated in the Corporation's financial statements since the IFRS standards are based on control criteria rather than the concept of a VIE. The corporation has concluded under IFRS that it does not control the operations of the KRC therefore should not consolidate their financial statements under IFRS.

B) PROPERTY, PLANT AND EQUIPMENT

Under IFRS the amortization of property plant and equipment is required to be calculated separately for significant components of property, plant and equipment items if these components have significantly different useful lives. This requirement led to the restatement of the property, plant and equipment in the opening IFRS statement of financial position as at 1 January 2010. The result of this restatement is a significant increase in the net carrying amount of rolling stock, building and rail infrastructure. The accumulated amortization of assets in the rolling stock, maintenance buildings, stations and facilities as well as rail infrastructure categories was reduced as a result of the recognition of various asset components and the related adjustments of their useful lives.

In the process of reclassifying its asset into components, the Corporation also reclassified certain assets to other more appropriate categories based on the nature of these assets. An example of this would be the reclassification of rail infrastructure used by the maintenance centers from the maintenance center category to the rail infrastructure category.

Reconciliation of Property Plant and equipment at transition date:

(in millions of dollars)	January 1, 2010
Property, plant and equipment CND GAAP	**523.9**
KRC	(8.7)
Reclassification to intangible	(61.6)
Net change in original cost from capitalization and decapitalization of certain assets	10.5
Reduction of accumulated amortization	209.3
Property, plant and equipment - IFRS	**673.4**

Reconciliation of Property Plant and equipment as at December 31, 2010:

(in millions of dollars)	December 31, 2010
Property, plant and equipment CND GAAP	**725.6**
KRC	(9.5)
Reclassification to intangible	(210.4)
Net change in original cost from capitalization and decapitalization of certain assets	12.8
Reduction of accumulated amortization	211.4
Property, plant and equipment - IFRS	**729.9**

C) INTANGIBLE ASSETS

The corporation has also established that investments in rail infrastructure that are owned by other operating railways would be more appropriately classified as intangible assets since these investments result in enhanced passenger train operations but cannot be considered as a physical assets for the Corporation since the ownership remains with the other operating railways.

These intangible assets are being amortized over their estimated useful lives of approximately 38 years instead of the term of the train service agreements with the other operating railways which are significantly shorter.

Reconciliation of Intangible Assets at transition date:

(in millions of dollars)	January 1, 2010
Intangible Assets - CND GAAP	9.5
Reclassification from property, plant and equipment	61.6
Reduction of accumulated amortization	3.0
Intangible Assets - IFRS	74.1

Reconciliation of Intangible Assets as at December 31, 2010:

(in millions of dollars)	December 31, 2010
Intangible Assets - CND GAAP	17.4
Reclassification from property, plant and equipment	210.4
Reduction of accumulated amortization	7.6
Intangible Assets - IFRS	235.4

D) EMPLOYEE BENEFITS

i) Accrued benefit Assets (Pension Plans)

The Corporation has applied the employee benefit exemption and has recognized at the transition date the unrecognized actuarial gains and losses as at December 31, 2009 under Canadian GAAP of $321.5 million despite the fact that VIA will continue to apply the corridor method on a prospective basis under IFRS. The transition asset as at December 31, 2009 of $120.9 million was also recorded in the opening retained earnings.

ii) Accrued benefit liability

As a result of the application of the exemption, the Corporation has increased its liability by $4.3 million upon recognition of the transition liability of $2.6 million, a past service cost of $0.2 million and an actuarial gain of $1.5 million at the date of transition.

E) PROVISIONS

IFRS requires that provisions be presented separately on the face of the statement of financial position. As such, at January 1, 2010, $13.2 million (December 31, 2010 - $16.3 million) relating to provisions for environmental and third party litigation have been reclassified from Account payable and accrued liabilities to Provisions on the statement of financial position. The network restructuring provision $0.4 million at January 1, 2010 (December 31, 2010 - $0.4 million) has been reclassified from Accrued benefit liability to Provisions on the statement of financial position. The corporation has also recorded provisions for ticket refunds and late train credits of $1.0 million at January 1, 2010 (December 31, 2010 $.04 million) as Provisions on the statement of financial position.

F) DEFERRED REVENUE – VIA PRÉFÉRENCE

"IFRIC 13 Costumer Loyalty Programs" provides guidance on the accounting treatment for reward programs such as the VIA Préférence Program which allows customers to accumulate points that can be exchanged against train tickets. Under Canadian GAAP, the Corporation had recorded the incremental costs related to train tickets issued to customers using their award points.

Under IFRS the fair value of points accumulated on the train travel is recognized as deferred revenue. The fair value of each point has been determined as the value for which the point could be sold separately based on the average yield, class of travel and region of travel. A provision of $0.6 million under Canadian GAAP was reversed and deferred revenue of $12.1 million has been recorded at transition date.

G) DEFERRED CAPITAL FUNDING

The deferred capital funding is adjusted for an amount equal to the adjustment made to the amortization of Property, plant and equipment and intangible assets (note 3B) that were financed by capital funding from the Government of Canada.

H) DEFERRED CORPORATE TAX

The accounting treatment of deferred corporate tax using the IFRS is similar to the treatment under Canadian GAAP. The decrease in the deferred corporate tax amount is mainly caused by the reduction of the Accrued benefit asset.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed by the Corporation are summarized as follows:

A) FUNDING FROM THE GOVERNMENT OF CANADA

Operating funding, which pertains to services, activities and other undertakings of the Corporation for the management and operation of railway passenger services in Canada, is recorded as a reduction of the operating loss (See Note 7 for reconciliation). The funding is determined on the basis of operating expenses less commercial revenues excluding unrealized gains and losses on financial instruments, employee future benefits and non-cash transactions relating to property, plant and equipment, intangible assets and deferred corporate taxes, and is based on the operating budget approved by the Government of Canada for each year.

Funding for depreciable property, plant and equipment and intangible assets is recorded as deferred capital funding on the statement of financial position and is amortized from the acquisition date on the same basis and over the same periods as the related property, plant and equipment and intangible assets. Upon disposal of the funded depreciable property, plant and equipment and intangible assets, the Corporation recognizes into income all remaining deferred capital funding related to the relevant assets. Funding for non-depreciable property, plant and equipment is recorded as retained earnings.

B) CASH EQUIVALENTS

Cash equivalents investments include bankers' discount notes and bankers' acceptances which may be liquidated promptly and have original maturities of three months or less.

C) ASSET RENEWAL FUND

Asset Renewal Fund investments include Provincial treasury bills and/or promissory notes and bankers' acceptances which may be liquidated promptly and have original maturities of three months or less. It also includes Master Asset Vehicle (MAV) notes which may not be liquidated in the near future and have legal maturities from 2013 to 2056. Changes in fair value are recorded in other revenues.

D) REVENUE RECOGNITION

The consideration, received from the sale of tickets is allocated between the points attributed under the loyalty programs (VIA Préférence) and the passenger transportation service based on their relative fair values. The deferred revenue related to the loyalty program points are recorded as revenue based on the number of points that have been redeemed in exchange for train tickets, relative to the total number of points that are expected to be redeemed in exchange for train tickets. The revenue is recorded as deferred revenue until the transportation has been provided or in the case of the points when these are redeemed for train tickets and the service has been provided. Deferred revenue is also recorded as revenue when it is no longer considered probable that the related loyalty program points will be redeemed. Other revenues that include third party revenues and investment income are recorded as they are earned. The change in fair value of the financial instruments held for trading other than a derivative financial instrument is recorded in other revenues.

E) FOREIGN CURRENCY TRANSLATION

Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates in effect at the end of the reporting period. Gains and losses resulting from the changes in exchange rates are reflected in the Statement of Operations and Comprehensive Income.

Non-monetary statement of financial position items as well as foreign currency revenues and expenses are translated at the exchange rate in effect on the dates of the related transactions.

F) MATERIALS

Materials, consisting primarily of items used for the maintenance of rolling stock, are valued at the lower of weighted average cost and net realizable value.

G) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recorded at the acquisition or manufacturing cost, less accumulated amortization and any accumulated impairment losses. When major components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment and are amortized over their respective useful lives.

Maintenance and repair costs are recognized as follows:

i) Rolling stock:

Maintenance expenses incurred during the useful life of equipment (regular maintenance activities to maintain the asset in a good condition) are recorded as operating expenses.

The cost of periodic major overhaul programs are capitalized as a separate component and amortized over their useful lives.

ii) Fixed installations:
Maintenance and repair expenses (technical inspections, maintenance contracts, etc.) are recorded as operating expenses;

The costs of periodic major building repair programmes are capitalized as a separate component amortized over its expected useful life.

Retired property, plant and equipment are written down to their estimated recoverable amount.

Amortization of property, plant and equipment is calculated on a straight-line basis, from the date they are available for use, at rates sufficient to amortize the cost of property, plant and equipment, less their residual value, over their estimated useful lives except for leases of buildings and stations where the amortization period is the shorter of the lease term or its estimated useful life. The estimated useful lives are as follows:

Rolling stock	10 to 50 years
Maintenance buildings	15 to 50 years
Stations and facilities	10 to 50 years
Owned Infrastructure	10 to 50 years
Leasehold improvements	10 to 40 years
Machinery and equipment	5 to 15 years
Computer hardware	3 years
Other property, plant and equipment	15 years

The estimated useful life, amortization method and residual value are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. No amortization is provided for projects in progress and retired property, plant and equipment.

H) INTANGIBLE ASSETS

Intangible assets acquired separately are reported at cost less accumulated amortization and accumulated impairment losses. Amortization is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

For internally-generated intangible assets, the expenditure on research activities is recognized as an expense in the period in which it is incurred and the development expense from the development phase of an internal project is recognized if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognized for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognized, development expenditure is charged to income in the period in which it is incurred.

The Corporation's intangible assets have a finite useful life and are amortized over their useful life according to the straight-line method over the following periods:

Internally generated software	3 years
Rights of access to rail infrastructure	38 years
Other Intangible assets	20 to 25 years

I) IMPAIRMENT

In accordance with IAS 36, "Impairment of Assets", the Corporation reviews at each statement of financial position date whether there is any indication (obsolescence, physical deterioration, significant changes in the method of utilisation, performances falling short of forecasts, decline in revenues, other external indicators) of impairment of tangible and intangible assets. If such an indication exists, the recoverable value of the asset is estimated in order to determine the amount, if any, of the impairment. The recoverable value is the higher of the following values: the fair value reduced by selling costs and value in use. The value in use is determined using discounted cash flow assumptions established by management.

When it is not possible to estimate the recoverable value for an individual asset, this asset is grouped together with other assets which form cash generating unit (CGU) and the Corporation measures the recoverable amount of the CGU.

When the recoverable value of an asset is lower than its carrying value, an impairment charge is recognized.

J) PROVISIONS

Provisions including provisions for environmental issues, legal litigation, travel credit, ticket refunds and restructuring are recognized when the Corporation has a present obligation (legal or constructive) as a result of a past event, it is probable that the Corporation will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the statement of financial position date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

A restructuring provision is recognized when the Corporation has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures, mainly severance costs, arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity. Restructuring costs presented in the Statement of Operations and Comprehensive Income primarily consist of employee departure costs.

The environmental provision includes estimated costs to meet Government standards and regulations when such costs can be reasonably estimated. Estimates of the anticipated future costs for remediation work are based on the Corporation's prior experience.

K) CORPORATE TAXES

The Corporation utilizes the asset and liability method of accounting for corporate taxes under which deferred corporate tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amount and the tax basis of assets and liabilities. Deferred corporate tax assets and liabilities are measured using enacted or substantively enacted tax rates that are expected to apply for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred corporate tax assets and liabilities of a change in tax rates is recognized in earnings in the period that includes the enactment date. Deferred corporate tax assets are recognized to the extent that realization is considered probable.

L) INVESTMENT TAX CREDITS

Investment tax credits are recognized when qualifying expenditures have been made, provided there is reasonable assurance that the credits will be realized. They are amortized over the estimated useful lives of the related property, plant and equipment. The amortization of deferred investment tax credits is recorded as a reduction of the amortization of property, plant and equipment.

M) EMPLOYEE FUTURE BENEFITS

The Corporation accrues obligations under its employee future benefit plans.

The cost of pension and other employee future benefits earned by employees is actuarially determined using the projected unit credit method and management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected health care costs.

The cost of plan amendments resulting in past service cost is expensed in the period of the amendment.

For the pension plans, the excess of the accumulated net actuarial gain or loss over 10 per cent of the greater of the accumulated benefit obligation and the fair value of plan assets is amortized on a straight-line basis over the average remaining service lives of the active employee groups which is, in most cases, estimated to be 12 years.

The Corporation's obligations for worker's compensation benefits are based on known awarded disability and survivor pensions and other potential future awards with respect to accidents that occurred up to the fiscal year-end. The Corporation is self-insured. The actuarial determination of these accrued benefit obligations uses the projected unit credit method. This method incorporates management's best estimate of cost escalation as well as demographic and other financial assumptions. Management's best estimate also takes into account the experience and assumptions of provincial workers' compensation boards. Any actuarial gains and losses are recognized in income in the period in which they arise.

The Corporation's obligations for the post-employment and post-retirement benefit plans are calculated using the projected unit credit method. This method incorporates management's best estimate of cost escalation as well as demographic and other financial assumptions.

N) FINANCIAL INSTRUMENTS

Financial assets and financial liabilities, including derivative financial instruments, are initially measured at fair value at the date they are originated. Subsequent to initial recognition, financial assets and financial liabilities are measured based on their classification: fair value through profit and loss, loans and receivables, available for sale or other financial liabilities. The Corporation derecognized a financial asset or liability when the contractual rights or obligation to the cash flows from the asset or liability expire.

i) Financial assets and liabilities at fair value through profit and loss (FVTPL)
Financial instruments are classified as FVTPL when they are principally acquired or incurred for the purpose of selling and repurchasing in the short-term, part of a portfolio of identified financial instruments that are managed together and for which there is evidence of short-term profit taking or derivatives not designated for hedge accounting. A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition.

The Corporation has classified cash, bank balances and derivative financial instruments as FVTPL. Instruments in MAV notes that include embedded derivatives have been designated as FVTPL.

Financial assets and financial liabilities recorded at FVTPL are measured at fair value with changes in those fair values recognized in income. Transaction costs are expensed as incurred. Regular-way purchases or sales of financial assets are accounted for at settlement-date.

ii) Loans and receivables (L&R)
The L&R classification includes trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market. Assets are measured initially at fair value and then at amortized cost, using the effective interest rate method, less any impairment. The fair values of loans and receivables are estimated on the basis of the present value of the expected cash flows. Where the time value of money is not material due to their short-term nature, accounts receivable are carried at the original invoice amount less allowance for doubtful receivables.

iii) Available-for-sale (AFS)
Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the statement of financial position date. Short term investments and investments in the Asset Renewal Fund not designated at FVTPL have been classified as available for sale. AFS financial assets are recognized at fair value in subsequent periods to the extent that this can be reliably measured. Fluctuations in fair value between statement of financial position dates are recognized in other comprehensive income.

iv) Other financial liabilities
Other financial liabilities represent liabilities that are not classified as FVTPL. They are initially measured at fair value, net of transaction costs and subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis. Where the time value of money is not material due to their short-term nature, accounts payable are carried at the original invoice amount.

v) Impairment of financial assets
Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

An impairment loss is recognized in profit and loss and calculated as the difference between its carrying amount and the present value of the estimated future cash flows.

When a subsequent event such as a change in the estimates used to determine the recoverable amount, causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit and loss.

However, any subsequent recovery in the fair value of an impaired available-for-sale investment is recognized in other comprehensive income.

O) DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments such as swaps and certain forward foreign exchange contracts are utilized by the Corporation in the management of its exposure to changes in fuel prices and the value of the U.S. dollar of at least 50 per cent and up to 80 per cent of its consumption of fuel. The Corporation does not enter into derivative financial instruments for trading or speculative purposes. The Corporation does not currently apply hedge accounting on these derivative financial instruments.

Forward foreign exchange contracts are also utilized by the Corporation in the management of its exposure to the changes in value of the U.S dollar related to the purchase of materials from the U.S. as part of a major capital project to refurbish some of its locomotive fleet.

The Corporation's derivative financial instruments are classified as FVTPL. Changes in the fair value of derivative financial instruments are recorded in unrealized loss (gain) on derivative financial instruments.

Derivative financial instruments with a positive fair value are reported as derivative financial instrument assets and derivatives with a negative fair value are reported as derivative financial instruments liabilities.

P) NON-MONETARY TRANSACTIONS

Non-monetary transactions are recorded at the estimated fair value of the goods or services received or the estimated fair value of the services given, whichever is more reliably determinable. Revenues from non-monetary transactions are recognized when the related services are rendered. Expenses resulting from non-monetary transactions are recognized during the period when goods or services are provided by third parties.

5. SIGNIFICANT ACCOUNTING JUDGEMENT, ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements requires management to make judgments, 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 periods. These estimates and judgments 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.

A) USEFUL LIVES OF DEPRECIABLE ASSETS

Management reviews the useful lives of depreciable assets annually. As at September 30, 2011 management assesses that the useful lives represent the expected utility of the assets to the Corporation.

B) VIA PRÉFÉRENCE PROGRAM

The "*VIA Préférence*" program allows members to acquire "award points" as they travel on the train. These award points entitle members to free travel on our trains. In determining the fair value of the award points, the Corporation takes into consideration the probability of the awards being converted into tickets. The estimated probabilities are based on historical information on point redemption and may not reflect the actual redemption rate in the future. As such, the amount allocated between the transportation service and the award points may have been significantly different if different probability estimates had been used.

C) FAIR VALUE OF FINANCIAL INSTRUMENTS

The Corporation uses valuation techniques in measuring the fair value of its Master Asset Vehicle (MAV), where active market quotes are not available. Details of the assumptions used are given in the notes regarding the Asset Renewal fund (see Note 11). In applying the valuation techniques, management makes maximum use of market inputs, and uses estimates and assumptions that are consistent with observable data that market participants would use in pricing the instrument. Where applicable data is not observable, management uses its best estimate about the assumptions that market participants would make. These estimates may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

D) DEFINED BENEFIT LIABILITY

Measurement of pension obligation is based on the projected unit credit method prescribed by IAS 19 for defined benefit pension plans. The measurement of pension provisions within the statement of financial position is based on a number of assumptions.

They include, in particular, assumptions about long-term salary and average life expectancy. The assumptions on salary reflect expected long-term growth in earnings whereas assumptions on average life expectancy are based on recognized mortality tables.

The interest rate used for discounting future payment obligations is the market rate for high quality corporate bonds with a comparable time to maturity. The expected long-term rate of return on existing plan assets is also determined based on the fund structure, taking expected return and volatility of each asset class into account.

Changes in estimates and assumptions from year to year and deviations from actual annual effects are reflected in actuarial gains/losses and are, if their cumulative amount exceeds 10 per cent of the higher of obligation and plan assets, amortized pro rata via the income statement over the average remaining period of service of active members.

The 10 per cent corridor rule help to prevents large short term fluctuations in the statement of financial position and the income statement from year to year.

E) CORPORATE TAXES

Management uses judgment and estimates in determining the appropriate rates and amounts in recording deferred income taxes, giving consideration to timing and probability of realization. Actual taxes could significantly vary from these estimates as a result of a variety of factors including future events, changes in income tax law or the outcome of reviews by tax authorities and related appeals. The resolution of these uncertainties and the associated final taxes may result in adjustments to the Corporation's deferred and current tax assets and liabilities.

6. FUTURE ACCOUNTING CHANGES

IFRS 9 - *Financial Instruments* deals with classification and measurement standards for financial assets and liabilities. The effects of IFRS 9, which is applicable from 1 January 2013, on the net assets, financial and earnings position and the presentation in the financial statements are currently under review.

IAS 12 - *Income taxes* - was amended in December 2010 to provide an exception to the general principle in IAS 12 that the measurement of deferred tax assets and liabilities should reflect the tax consequences that would follow from the manner in which the entity expects to recover the carrying amount of the asset. The amendments to IAS 12 are effective for annual reporting periods beginning on or after January 1, 2012.

IAS 19 - *Employee benefits* - was amended in June 2011 to eliminate the option to defer the recognition of gains and losses, to amend the presentation of changes in the defined benefit obligation and plan assets on the Statement of Comprehensive Income, to require the net interest to be calculated by using a high quality corporate bond yield as well as to improve disclosure about the risks arising from defined benefit plans. These amendments are effective for annual periods beginning on or after January 1, 2013.

7. RECONCILIATION OF NET RESULTS OF OPERATIONS 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 year may be funded by the Government of Canada in different years. Accordingly, the Corporation has different net results of operations for the year on a government funding basis than on an IFRS basis. These differences are outlined below:

(in millions of dollars)	Three months ended on September, 30		Nine months ended on September, 30	
	2011	2010	2011	2010
Net income and comprehensive income for the period	7.6	9.4	16.9	10.0
Items not requiring (not providing) operating funds:				
Amortization and losses on disposal of property, plant and equipment and intangible assets	12.4	14.5	36.4	38.4
Amortization of deferred capital funding	(12.1)	(15.4)	(33.0)	(38.1)
Employee future benefits to be funded in subsequent years	(7.2)	(3.2)	(20.1)	(8.8)
Deferred corporate taxes expense	0.6	-	0.8	-
Unrealized losses (gain) on derivative financial instruments	2.7	(3.8)	2.4	(3.9)
Adjustment for accrued compensation	(4.7)	(4.1)	(3.8)	(4.7)
Increase in investment fair value	0.5	-	(0.1)	(0.1)
Other	0.2	(0.1)	0.5	(0.1)
Operating funding surplus (deficit) for the period	-	(2.7)	-	(7.3)

8. MATERIALS

The cost of its materials recorded as an expense during the period of nine months ended on September 30, 2011 amounted to $22.6 million (nine months ended on September 30, 2010: $23.2 million). As at September 30, 2011 the Corporation has no significant expense related to write-down of the value of its materials for 2011 and 2010.

9. PROPERTY, PLANT AND EQUIPMENT

(in millions of dollars)	JAN. 1, 2011	ADDITIONS	RETIREMENT AND DISPOSALS	RECLASSIFICA-TIONS	SEPTEMBER 30, 2011
Cost:					
Land	8.5	0.2	(0.1)	-	8.6
Rolling stock	803.6	28.0	(15.6)	-	816.0
Maintenance buildings	134.4	2.4	-	-	136.8
Stations and facilities	55.9	2.8	-	(0.4)	58.3
Owned infrastructures	133.2	25.6	-	-	158.8
Leasehold improvements	71.5	0.9	-	0.4	72.8
Machinery and equipment	35.9	0.1	-	-	36.0
Computer hardware	11.1	0.4	-	-	11.5
Other property, plant and equipment	22.2	0.3	-	-	22.5
Total cost	1,276.3	60.7	(15.7)	-	1,321.3
Accumulated amortization and impairments:					
Rolling stock	382.9	19.4	(14.7)	-	387.6
Maintenance buildings	79.7	2.9	-	-	82.6
Stations and facilities	27.3	1.6	-	-	28.9
Owned Infrastructures	47.6	2.6	-	-	50.2
Leasehold improvements	46.5	2.0	-	-	48.5
Machinery and equipment	25.8	1.0	-	-	26.8
Computer hardware	8.5	0.9	-	-	9.4
Other property, plant and equipment	19.2	0.3	-	-	19.5
Total accumulated amortization and impairments	637.5	30.7	(14.7)	-	653.5
Project in progress	91.0	31.9	-	-	122.9
Retired assets	0.1	-	-	-	0.1
Total net carrying amount	729.9	61.9	(1.0)	-	790.8

9. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

(in millions of dollars)	JAN. 1, 2010	ADDITIONS	RETIREMENT AND DISPOSALS	RECLASSIFICATIONS	DEC. 31, 2010
Cost:					
Land	6.0	2.5	-	-	8.5
Rolling stock	782.7	43.3	(22.4)	-	803.6
Maintenance buildings	131.5	2.9	-	-	134.4
Stations and facilities	47.6	8.3	-	-	55.9
Owned infrastructures	115.0	18.2	-	-	133.2
Leasehold improvements	65.8	5.7	-	-	71.5
Machinery and equipment	31.9	4.2	(0.2)	-	35.9
Computer hardware	8.8	2.3	-	-	11.1
Other property, plant and equipment	21.4	0.8	-	-	22.2
Total cost	1,210.7	88.2	(22.6)	-	1,276.3
Accumulated amortization and impairments:					
Rolling stock	375.7	28.4	(21.2)	-	382.9
Maintenance buildings	76.1	3.6	-	-	79.7
Stations and facilities	25.2	2.1	-	-	27.3
Owned Infrastructures	43.6	4.0	-	-	47.6
Leasehold improvements	44.0	2.5	-	-	46.5
Machinery and equipment	24.1	1.8	(0.1)	-	25.8
Computer hardware	7.7	0.8	-	-	8.5
Other property, plant and equipment	18.9	0.3	-	-	19.2
Total accumulated amortization and impairments	615.3	43.5	(21.3)	-	637.5
Project in progress	77.7	13.3	-	-	91.0
Retired assets	0.3	-	(0.2)	-	0.1
Total net carrying amount	673.4	58.0	(1.5)	-	729.9

Projects in progress primarily consist of rolling stock, improvements to infrastructure and stations.

The amortization expense of property, plant and equipment was $ 30.9 million for the nine months ended September 30, 2011 (nine months ended September 30, 2010: $ 29.3 million).

10. INTANGIBLE ASSETS

(in millions of dollars)	JAN. 1, 2011	ADDITIONS	RETIREMENT AND DISPOSALS	RECLASSIFICATIONS	SEPTEMBER 30, 2011
Cost:					
Internally generated software	51.2	2.6	-	-	53.8
Right of access to rail infrastructure	75.5	76.7	-	-	152.2
Other intangible	3.5	-	-	-	3.5
Total cost	130.2	79.3	-	-	209.5
Accumulated amortization and impairments:					
Internally generated software	43.3	3.1	-	-	46.4
Right of access to rail infrastructure	41.7	1.6	-	-	43.3
Other intangible	0.7	0.1	-	-	0.8
Total accumulated amortization and impairments	85.7	4.8	-	-	90.5
Project in progress	190.8	(0.1)	-	-	190.7
Total net carrying amount	235.3	74.4	-	-	309.7

(in millions of dollars)	JAN. 1, 2010	ADDITIONS	RETIREMENT AND DISPOSALS	RECLASSIFICATIONS	DEC. 31, 2010
Cost:					
Internally generated software	44.6	6.6	-	-	51.2
Right of access to rail infrastructure	74.8	0.7	-	-	75.5
Other intangible	3.5	-	-	-	3.5
Total cost	122.9	7.3	-	-	130.2
Accumulated amortization and impairments:					
Internally generated software	39.6	3.7	-	-	43.3
Right of access to rail infrastructure	39.7	2.0	-	-	41.7
Other intangible	0.5	0.2	-	-	0.7
Total accumulated amortization and impairments	79.8	5.9	-	-	85.7
Project in progress	31.0	159.8	-	-	190.8
Total net carrying amount	74.1	161.2	-	-	235.3

The amortization expense of intangible assets for the period of nine months ended on September 30 was $4.7 million (nine months ended September 30, 2010: $4.3 million).

11. ASSET RENEWAL FUND

A) ASSET RENEWAL FUND

The Corporation has been authorized by the Treasury Board of Canada Secretariat to set aside funds in a manner which ensures that these funds are retained for future capital projects. However, the Treasury Board of Canada Secretariat could approve the use of the Asset Renewal Fund to finance operating deficits.

The investments in the Asset Renewal Fund include the following:

(in millions of dollars)	SEPT. 30, 2011	DEC. 31, 2010	JAN. 1, 2010
	CARRYING VALUE AND FAIR VALUE	CARRYING VALUE AND FAIR VALUE	CARRYING VALUE AND FAIR VALUE
Bankers' acceptances	20.5	28.2	20.3
Provincial Treasury bills and /or promissory notes	8.0	7.8	23.6
Master Asset Vehicle (MAV) notes	4.9	4.9	4.5
Balance at end of period	**33.4**	**40.9**	**48.4**
Less: Current portion	15.3	15.3	25.3
Non-current portion	18.1	25.6	23.1

The Treasury Board of Canada Secretariat has authorized the Corporation to use up to $15.3 million (December 31, 2010: $15.3 million) of the Asset Renewal Fund to meet future working capital requirements. This amount is presented in the current portion of the Asset Renewal Fund.

The weighted average effective rate of return on short-term investments excluding MAV notes as at September 30, 2011 was 1.16 per cent (December 31, 2010: 1.09 per cent). The weighted average term to maturity excluding MAV notes as at September 30, 2011 is six months (December 31, 2010: two months).

The fair value of short-term investments is based on the current bid price at the statement of financial position date, except for the MAV notes as described in Note 11C).

Apart from the MAV notes, the Asset Renewal Fund is invested in 24 short-term instruments (December 31, 2010: 14) that have a rating of "R-1 low" or higher. Diversification in the short-term instruments is achieved by limiting to 10 per cent or less the percentage of the market value of the Asset Renewal Fund assets invested in instruments of a single issuer.

The Corporation is subject to credit risk from its holdings in the Asset Renewal Fund. The Corporation minimizes its credit risk by adhering to the *Minister of Finance of Canada Financial Risk Management Guidelines for Crown Corporations* and to the Corporation's Asset Renewal Fund Investment Policy, which requires that funds be invested in high quality financial instruments.

B) 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)	SEPT. 30, 2011	DEC. 31, 2010
Balance at beginning of period	40.9	48.4
Proceeds from sale or lease of surplus assets	0.4	1.5
Investment income	0.3	0.2
Change in fair value	0.1	0.8
Less: Cash drawdown during the period	(8.3)	(10.0)
Balance at end of period	33.4	40.9

C) MASTER ASSET VEHICLE (MAV) NOTES

On March 17, 2008, the Pan-Canadian Investors Committee (the "Committee") for Asset Backed Commercial Paper (ABCP) filed proceedings for a plan of compromise and arrangement (the "Plan") under the *Companies' Creditors Arrangement Act* (Canada) ("CCAA") with the Ontario Superior Court. At the meeting of ABCP note holders on April 25, 2008, note holders approved the Plan by the required majorities. On June 5, 2008, the Court issued a sanction order and reasons for the decision approving the Plan as amended. On August 18, 2008, that decision was upheld by the Ontario Court of Appeal and, on September 19, 2008, the Supreme Court of Canada denied leave to the appeal. On December 24, 2008, the Committee announced that an agreement had been reached with all key stakeholders, including the governments of Canada, Quebec, Ontario and Alberta to provide additional margin facilities to support the Plan and finalized certain enhancements to the Plan.

On January 12, 2009, the Ontario Superior Court issued the final implementation order in the ABCP restructuring process. The restructuring closed on January 21, 2009. On this date, the Corporation received $8.6 million in face value of restructured long-term amortizing floating rate notes in exchange for $8.7 million face value of original ABCP held previously that had been illiquid since the market disruptions of August 2007.

The new notes, now referred to as Master Asset Vehicle (MAV) notes, have legal maturities ranging from 2013 to 2056 and have remained somewhat illiquid since issued. In the absence of a truly liquid secondary market, management has developed a discounted cash flow valuation model to estimate the fair value of the MAV notes. The valuation model incorporates assumptions for interest rate, required market yields and effective maturities, some of which are derived from observable market indicators. In the third quarter of 2011, $0.1 million of capital was received ($1.0 million since the restructuring), since restructuring a $0.3 million notional loss, leaving an outstanding face value as at September 30, 2011 of $7.4 million. The estimated fair value of the outstanding notes is $4.9 million as at September 30, 2011 (December 31, 2010: $4.9 million) representing 67 per cent of their face value.

The Corporation's estimated fair value for its MAV notes is subject to significant risks and uncertainties, including the timing and amount of future cash flows, the potential for deterioration in the credit quality of the underlying assets and financial instruments as well as changes in interest rates and credit spreads. Accordingly, the Corporation's assessment of the fair value of its MAV notes holdings could change significantly in the future.

12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The Accounts payable and accrued liabilities balance includes the following:

(in millions of dollars)	SEPT. 30, 2011	DEC. 31, 2010
Accrued liabilities	1.2	1.5
Wages payable and accrued	34.9	36.9
Capital payables	19.4	53.0
Trade payables	28.2	36.0
Capital tax, income tax and other taxes payable	9.0	8.6
	92.7	136.0

13. PROVISIONS

The provision balance includes:

(in millions of dollars)	Jan 1, 2011	Charge (used)	Reversa l (used)	Reversa (not used)	Other movements	Sept 30, 2011
Environmental costs (Note A)	0.8	-	-	-	-	0.8
Litigation and contractual disputes (Note B)	15.2	2.4	-	-	-	17.6
Other	1.1	0.2	-	-	-	1.3
Total provisions	17.1	2.6	-	-	-	19.7

(in millions of dollars)	Jan 1, 2010	Charge (used)	Reversa l (used)	Reversa (not used)	Other movements	Dec 31, 2010
Environmental costs (Note A)	0.8	-	-	-	-	0.8
Litigation and contractual disputes (Note B)	12.0	3.2	-	-	-	15.2
Other	1.8	-	(0.7)	-	-	1.1
Total provisions	14.6	3.2	(0.7)	-	-	17.1

A) ENVIRONMENTAL COSTS

A new environmental law came into force in June 2008 for Petroleum Storage Equipment that requires registration of existing and new tank systems. The Corporation has assessed the impact and a preliminary action plan has been prepared to ensure compliance with the law by 2012. The Corporation has made a provision of $0.8 million for environmental costs, which is recorded in Provisions.

B) LITIGATION AND CONTRACTUAL DISPUTES

The Corporation began a restructuring of its labour force in 1997 which resulted in the elimination of a number of positions. The changes became subject to various Canadian Industrial Relations Board (CIRB) decisions, mediations and arbitrations.

In May 2003, the CIRB rendered a decision directing the Corporation to pay back wages under certain circumstances to former conductors. The Supreme Court of Canada decided not to grant the Corporation leave to appeal a Federal Court of Appeal ruling supporting the decision of the CIRB.

The Corporation is waiting for the final ruling from the arbitrator. The Corporation has made a provision in its Financial Statements.

The Corporation is also 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.

14. EMPLOYEE FUTURE BENEFITS

The Corporation provides a number of funded defined benefit pension plans as well as unfunded post retirement and post-employment benefits that include life insurance, health coverage self insured workers' compensation benefits and to all its permanent employees. The actuarial valuations for employee future benefits are carried out by external actuaries who are members of the Canadian Institute of Actuaries.

DEFINED BENEFIT PENSION PLANS

The defined benefit pension plans are based on years of service and final average salary of the employee's best five consecutive calendar years up to retirement.

Pension benefits increase annually by 50 per cent of the increase in the Consumer Price Index in the 12 months ending in December subject to a maximum increase of 3 per cent in any year.

The latest actuarial valuations of the pension plans were carried out as at December 31, 2010. The next actuarial valuation will be carried out subsequent to year-end with a measurement date as at December 31, 2011.

The actuarial valuation of the Supplemental Executive Retirement Plan is carried out annually. The latest actuarial valuation was carried out as at December 31, 2010.

The actuarial valuation of the Supplemental Retirement Plan for management employees (SRP), with respect to retired members, is carried out annually. The latest actuarial valuation was carried out as at December 31, 2010. The latest actuarial valuation for active members, of the SRP was carried out as at December 31, 2010, and the next actuarial valuation will be carried out subsequent to year-end with a measurement date as at December 31, 2011.

OTHER BENEFIT PLANS

The latest actuarial valuation for the post-retirement unfunded plan was carried out as at May 1, 2010. The next actuarial valuation will be carried out subsequent to year-end with a measurement date as at May 1, 2013.

The latest actuarial valuation for the post-employment unfunded plan was carried out as at December 31, 2010.

The latest actuarial valuation for the self-insured workers' compensation was carried out as at December 31, 2010. The next actuarial valuation will be carried out subsequent to year-end with a measurement date as at December 31, 2011.

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

(in millions of dollars)	PENSION PLANS		OTHER BENEFIT PLANS	
	SEPTEMBER 30, 2011	DECEMBER 31, 2010	SEPTEMBER 30, 2011	DECEMBER 31, 2010
ACCRUED BENEFIT OBLIGATION:				
Balance at beginning of the period	1,593.5	1,328.3	34.5	31.2
Current service cost	19.2	18.0	4.1	5.2
Interest cost	64.9	87.6	1.4	1.8
Plan amendment	-	-	0.5	0.8
Employee contributions	8.0	10.1	-	-
Benefits paid	(76.6)	(89.9)	(4.8)	(7.6)
Actuarial losses	-	233.6	-	3.1
Plan curtailment	-	5.8	-	-
Balance at end of the period	1,609.0	1,593.5	35.7	34.5
FAIR VALUE OF PLAN ASSETS:	-	-	-	
Balance at beginning of the period	1,588.1	1,481.0	-	-
Expected return on plan assets	72.6	93.9	-	-
Actuarial gain	-	69.2	-	-
Employer contributions	33.4	23.8	4.8	7.6
Employee contributions	8.0	10.1	-	-
Benefits paid	(76.6)	(89.9)	(4.8)	(7.6)
Balance at end of the period	1,625.6	1,588.1	-	-

The percentage of the fair value of the total pension plan assets by major category as follows:

Asset categories:	SEPT. 30, 2011	DEC. 31, 2010	JAN. 1, 2010
Equity securities (public market)	48.7%	51.2%	50.7%
Fixed income securities (public market)	45.1%	42.1%	43.3%
Private equity, infrastructure and other	6.2%	6.7%	6.0%
	100.0%	100.0%	100.0%

(in millions of dollars)	THREE MONTHS ENDING ON		NINE MONTHS ENDING ON	
	SEPT. 30, 2011	SEPT. 30, 2010	SEPT. 30, 2011	SEPT. 30, 2010
COMPONENTS OF PENSION COST				
Current service cost	6.4	4.5	19.1	13.6
Interest cost	21.6	21.8	64.9	65.4
Expected return on plan assets	(24.2)	(23.4)	(72.6)	(70.1)
Actuarial loss recognized in the period	0.3	-	0.9	-
Total pension costs	4.1	2.9	12.3	8.9

(in millions of dollars)	THREE MONTHS ENDING ON		NINE MONTHS ENDING ON	
	SEPT. 30, 2011	SEPT. 30, 2010	SEPT. 30, 2011	SEPT. 30, 2010
COMPONENTS OF OTHER BENEFIT PLANS COSTS				
Current service cost	1.3	1.3	4.1	3.8
Interest cost	0.5	0.5	1.4	1.4
Vested Past service cost	0.1	0.1	0.3	0.1
Total other benefit plans costs	1.9	1.9	5.8	5.3
Total pension and other benefits costs	6.0	4.8	18.1	14.2

(in millions of dollars)	PENSIONS PLANS			OTHER BENEFIT PLANS		
	SEPT. 30, 2011	DEC. 31, 2010	JAN 1, 2010	SEPT. 30, 2011	DEC. 31, 2010	JAN. 1, 2010
AMOUNTS RECOGNIZED IN THE STATEMENT OF FINANCIAL POSITION						
Benefit obligation	1,609.0	1,593.5	1,328.3	(35.7)	(34.5)	(31.1)
Fair value of plan assets	1,625.5	1,588.1	1,481.0	-	-	-
Surplus (deficit)	16.5	(5.4)	152.7	(35.7)	(34.5)	(31.1)
Unamortized past service costs	-	-	-	0.8	0.5	-
Unamortized net actuarial loss	163.6	164.5	-	1.7	1.7	-
Net asset (liability)	180.1	159.1	152.7	(33.2)	(32.3)	(31.1)

(in millions of dollars)	PENSION PLANS		OTHER BENEFIT PLANS	
	SEPT. 30, 2011	DEC. 31, 2010	SEPT. 30, 2011	DEC. 31, 2010
Expected employer contribution for the next year	55.0	24.1	6.6	6.5

(in millions of dollars)	PENSION PLANS		OTHER BENEFIT PLANS	
	SEPT. 30, 2011	DEC. 31, 2010	SEPT. 30, 2011	DEC. 31, 2010
WEIGHTED-AVERAGE OF SIGNIFICANT ASSUMPTIONS:				
Accrued benefit obligation:				
Discount rate	**5.50%**	5.50%	**5.50%**	4.75%
Rate of compensation increase	**3.00%**	3.00%	**3.00%**	3.00%
Rate of pension increase	**1.25%**	1.25%	**-**	-
Expenses:				
Discount rate	**5.50%**	6.50%	**4.75%**	5.25%
Expected long-term rate of return on plan assets	**6.25%**	6.50%	**-**	-
Rate of compensation increase	**3.00%**	3.00%	**3.00%**	3.00%
Rate of pension increase	**1.25%**	1.25%	**-**	-
Actual return on plan assets	**-**	11.30%	**-**	-
Assumed health care cost trend rates as at The end of the period:				
Initial health care cost trend rate	**-**	-	**7.47%**	7.43%
Cost trend rate declines to	**-**	-	**4.50%**	4.37%
Year ultimate rate is reached	**-**	-	**2025**	2025

SENSITIVITY ANALYSIS

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects for 2011:

(in thousands of dollars)	INCREASE	DECREASE
Total service and interest cost	8	(7)
Accrued benefit obligation	221	(192)

15. CORPORATE TAXES

The corporate tax (recovery) expense of the Corporation consists of the following:

(in millions of dollars)	THREE MONTHS ENDING ON		NINE MONTHS ENDING ON	
	SEPT. 30, 2011	SEPT. 30, 2010	SEPT. 30, 2011	SEPT. 30, 2010
Current corporate tax (recovery) expense	0.1	(0.6)	(3.9)	(0.4)
Deferred corporate tax expense	0.6	-	0.8	-
Corporate tax (recovery) expense	0.7	(0.6)	(3.1)	(0.4)

The overall corporate tax recovery for the period differs from the amount that would be computed by applying the combined Federal and provincial statutory income tax rates of 26.12% per cent (September 30 2010: 28.35% per cent) to income before corporate taxes. The reasons for the differences are as follows;

For the nine months ended on September 30, (in millions of dollars)	2011	2010
Income before corporate taxes	13.8	9.7
Computed corporate tax expense (recovery) - statutory rates	3.6	2.7
Large Corporation tax	-	(0.4)
Non-taxable portion of capital and accounting gains and other	0.7	0.1
Change in valuation allowance	(3.3)	(3.0)
Effect of statutory tax rate substantively enacted during the year	0.1	0.9
Effect of tax rate changes on deferred corporate taxes	(0.1)	(0.5)
Other	(4.1)	(0.2)
Corporate tax recovery	(3.1)	(0.4)

Deferred corporate tax reflects the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Significant components of the deferred corporate tax (assets) and liabilities of the Corporation are as follows:

A) DEFERRED TAX BALANCES – SEPTEMBER 30 2011

(in millions of dollars)	OPENING BALANCE	RECOGNIZED IN PROFIT AND LOSS	ACQUISITION/ DISPOSALS	OTHER	CLOSING BALANCE
Deferred corporate tax assets:					
Government assistance	**10.9**	(1.1)	-	-	9.8
Property, plant and equipment	**13.4**	6.8	(0.7)	0.7	20.2
Contingencies, other liabilities and net amounts	**2.2**	1.7	-	-	3.9
Accrued benefit liability	**6.8**	0.2	-	-	7.0
Unrealized loss on derivative financial instruments	**(0.9)**	0.5	-	-	(0.4)
Accrued Benefit Asset	**(37.6)**	(5.0)	-	-	(42.6)
	(5.2)	3.1	(0.7)	0.7	(2.1)
Loss carry-forward	**4.8**	(3.9)	-	-	0.9
Deferred corporate tax liabilities:	**(0.4)**	**(0.8)**	**(0.7)**	**0.7**	**(1.2)**

B) DEFERRED TAX BALANCES – DECEMBER 31, 2010

(in millions of dollars)	OPENING BALANCE	RECOGNIZED IN PROFIT AND LOSS	ACQUISITION/ DISPOSALS	OTHER	CLOSING BALANCE
Deferred corporate tax liabilities:					
Government assistance	**-**	10.9	-	-	10.9
Property, plant and equipment	**13.3**	0.1	-	-	13.4
Contingencies, other liabilities and net amounts	**0.4**	1.8	-	-	2.2
Accrued benefit liability	**6.5**	0.3	-	-	6.8
Unrealized loss on derivative financial instruments	**(0.3)**	(0.6)	-	-	(0.9)
Accrued Benefit Asset	**(36.0)**	(1.6)	-	-	(37.6)
	(16.1)	10.9	-	-	(5.2)
Loss carry-forward	**16.1**	(11.3)	-	-	4.8
Deferred corporate tax liabilities:	**-**	**(0.4)**	**-**	**-**	**(0.4)**

The Corporation has $3.3 million (December 31, 2010: $22.2 million) of unused federal non-capital tax losses carried forward and expiring in 2029.

Unrecognized deductible temporary differences, unused tax losses and unused tax credits for which no deferred tax assets have been recognized are attributed to the following:

(in millions of dollars)	SEPTEMBER 30, 2011	DECEMBER 31, 2010
FEDERAL:		
Contingencies, other liabilities and net amounts	11.6	11.6
QUEBEC:		
Government assistance	46.0	51.0
Property, plant and equipment	315.2	324.8
Contingencies, other liabilities and net amounts	17.4	17.9
Unrealized loss on derivative financial instruments	2.5	-
	381.1	393.7

16. DEFERRED CAPITAL FUNDING

Deferred capital funding represents the unamortized portion of the funding used to purchase depreciable property, plant and equipment and intangible assets.

(in millions of dollars)	SEPTEMBER 30, 2011	DECEMBER 31, 2010
Balance, beginning of the period/year	954.3	736.7
Government funding for property, plant and equipment and intangible assets (excluding the cost of land)	169.0	266.6
Amortization of deferred capital funding	(33.1)	(49.0)
Balance, end of the period/year	1,090.2	954.3

17. CAPITAL

The authorized share capital of the Corporation is comprised of an unlimited number of common shares with no par value. For all periods presented, 93,000 shares at $100 per share are issued and fully paid.

The Corporation defines its capital as share capital and retained earnings and is regulated by the *Financial Administration Act*. The Corporation is not allowed to modify its capital structure without Government approval. The Corporation must obtain Government approval to issue debt instruments. Accordingly, the Corporation does not have access to external financing and does not have a flexible capital structure.

The Corporation manages its equity by prudently managing revenues, expenses, assets, liabilities, investments and general financial dealings to ensure that the Corporation effectively achieves its objectives and purpose while remaining a going concern. The Corporation did not change the way it manages its equity compared to last year.

18. 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.

For the period of nine months ended September 30, 2011 an amount of $10.2 million (2010: nine months ended September 30, 2010: $10.2 million) was recognized as an expense in profit or loss in respect of operating leases.

The future minimum payments relating to operating leases with a cancellation option are as follows:

(in millions of dollars)	SEPTEMBER 30, 2011	DECEMBER 31, 2010
Less than one year	11.4	11.2
Between one and five years	38.8	40.1
More than five years	163.9	170.6
	214.1	221.9

B) As at September 30, 2011, the Corporation has outstanding major contract commitments amounting to $213.8 million (December 31, 2010: $378.1 million) consisting mainly of advertising and maintenance and completion of rolling stock refurbishment projects. In 2009, the corporation initiated important investments related to the Federal Government's economic stimulus package and reliability program. The Corporation expects to make payments under these commitments over the next 4 years.

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 issued letters of credit totalling approximately $ 29.1 million (December 31, 2010: $26.3 million) to various provincial government workers' compensation boards as security for future payment streams.

19. FINANCIAL INSTRUMENTS

A) CLASSIFICATION OF FINANCIAL INSTRUMENTS

The financial instruments held by the Corporation are classified as follows:

	SEPTEMBER 30, 2011 CARRYING VALUE			DECEMBER 31, 2010 CARRYING VALUE			JANUARY 1, 2010 CARRYING VALUE		
(in millions of dollars)	FVTPL	AFS	L&R	FVTPL	AFS	L&R	FVTPL	AFS	L&R
Financial Assets:									
Cash and cash equivalents	4.4	42.5(3)	-	3.5	73.4(3)	-	-	4.9(3)	-
Accounts receivables and others receivables	-	-	11.5(1)	-	-	8.3(1)	-	-	7.2(1)
Derivative financial instruments	4.3(2)	-	-	4.6(2)	-	-	3.1(2)	-	-
Asset Renewal Fund – MAV notes	4.9	-	-	4.9	-	-	4.5	-	-
Asset Renewal Fund – Other investments	-	33.4(3)	-	-	36.0(3)	-	-	43.9(3)	-
		FVTPL	Other liability		FVTPL	Other liability		FVTPL	Other liability
Financial Liabilities:									
Accounts payable and accrued liabilities		-	80.2(4)		-	124.6(4)		-	103.5(4)
Derivative financial instruments		3.2(2)	-		1.2(2)	-		7.1(2)	-

FVTPL – Fair Value through profit and losses
AFS – Available for sale
L&R – Loans and receivables
(1) Comprised of trade receivables.
(2) Comprised of derivative financial instruments not designated in a hedge relationship.
(3) Comprised of short-term investments.
(4) Comprised of trade accounts payable, accrued liabilities and accrued wages.

B) FAIR VALUE

The estimated fair value of the recognized financial instruments other than financial instruments measured at FVTPL approximates their carrying value due to their current nature. FVTPL financial instruments and derivatives are carried at fair value.

The Corporation estimates the fair value of its MAV notes by discounting expected future cash flows. The valuation model incorporates assumptions for interest rates, required market yields and effective maturities, some of which are derived from observable market indicators. There is a significant amount of uncertainty in estimating the amount and timing of cash flows associated with the MAV notes.

The assumptions used in the valuation model include:

	ASSUMPTIONS	
CRITERIA	SEPTEMBER 30, 2011	DECEMBER 31, 2010
Expected term to maturity	4.8 years	5.5 years
Discount Rates	8.0% to 61%	8.6% to 43.6%
Coupon rates	CDOR swap - 50bps to CDOR swap + 30bps	CDOR swap - 50bps to CDOR swap + 30bps

If these assumptions were to change, the fair value of the MAV notes could change significantly. A 1.0% increase (decrease) in the discount rate would decrease (increase) the fair value of the MAV notes by approximately $0.2 million (December 31, 2010: $0.2 million).

All financial instruments measured at fair value are classified in fair value hierarchy levels, which are as follows:

Level 1 –
Financial instruments are considered Level 1 when valuation can be based on quoted prices in active markets for identical assets or liabilities.

Level 2 –
Level 2 financial instruments are valued using quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or models using inputs that are observable.

Level 3 –
Financial instruments are considered Level 3 when their values are determined using pricing models, discounted cash flow methodologies or similar techniques and at least one significant model assumption or input is unobservable.

The following table summarizes the fair value hierarchy applicable to the fair value measurement of financial assets and financial liabilities held by the Corporation (Note 1):

(in millions of dollars)	SEPT. 30, 2011	LEVEL 1	LEVEL 2	LEVEL 3
Assets:				
Asset Renewal Fund – MAV notes	4.9	-	-	4.9
Asset Renewal Fund – Other investments	33.4	33.4	-	-
Derivative financial instruments	4.3	-	4.3	-
Liabilities:				
Derivative financial instruments	3.2	-	3.2	-

Note 1 – There have been no significant transfers between Level 1 and Level 2 during the period.

(in millions of dollars)	DEC. 31, 2010	LEVEL 1	LEVEL 2	LEVEL 3
Assets:				
Asset Renewal Fund – MAV notes	4.9	-	-	4.9
Asset Renewal Fund – Other investments	36.0	36.0	-	-
Derivative financial instruments	4.6	-	4.6	-
Liabilities:				
Derivative financial instruments	1.2	-	1.2	-

Note 1 – There have been no significant transfers between Level 1 and Level 2 during the period.

The table below presents a reconciliation of all financial assets measured at fair value on a recurring basis using signifiant unobservable inputs (Level 3):

(in millions of dollars)	SEPTEMBER 30, 2011	DECEMBER 31, 2010
Asset Renewal Fund – MAV notes:		
Opening balance	4.9	4.5
Total gains in net income (1)	0.1	0.8
Sales	(0.1)	(0.4)
Closing balance	4.9	4.9

(1) A gain of $ 0.1 M is included in this amount and attributable to assets still held at the end of the period.

C) RISK MANAGEMENT

As part of its operations, the Corporation enters into transactions with financial risks exposure such as credit, liquidity and market risks. Exposure to such risks is significantly reduced through close monitoring and strategies that include the use of derivative financial instruments.

D) FOREIGN EXCHANGE RISK

The Corporation is exposed to foreign exchange risks on the following balances that are denominated in U.S. dollars (USD):

(in millions of dollars)	SEPTEMBER 30, 2011	DECEMBER 31, 2010
Assets:		
Cash and cash equivalents	0.5	-
Derivative financial instruments	4.3	4.6
Liabilities:		
Accounts payables and accrued liabilities	1.6	1.2
Derivative financial instruments	3.2	1.2

The Corporation's risk management objective is to reduce cash flow risk related to foreign denominated cash flows. To help manage this risk, the Corporation has entered into foreign exchange forward contracts related to fuel swaps and the purchase of materials from the U.S. to refurbish some of its locomotives fleet.

A variance of 5% in the exchange rate of USD would not have a significant impact on the Corporation's net income.

E) CREDIT RISK

Credit risk is the risk that one party to a financial instrument might not meet its obligations under the terms and conditions of the agreement. The carrying amount of financial assets is $101.0 million (December 31, 2010: 130.7 million) and represents the Corporation's maximum exposure to credit risk. The Corporation does not use credit derivatives or similar instruments to mitigate this risk and, as such, the maximum exposure is the full carrying value or face value of its financial assets. The Corporation minimizes credit risk on cash and cash equivalents, investments, Asset Renewal Fund and derivative financial instruments by dealing only with reputable and high quality financial institutions. The Corporation's exposure to credit risks on trade accounts receivable is reduced by applying a credit policy that establishes limits on the concentration of risk, requires assessing and monitoring of counterparty credit risk and sets credit limits. Only Canadian Government departments and agencies, Crown corporations issuing government travel warrants and travel agents who are members of the International Air Transport Association (Billing and Settlement Plan /Airline Reporting Corporation) are exempt from the Corporation's credit approval process.

As at September 30, 2011, approximately 23.1 per cent (December 31, 2010: 19.8 per cent) of trade accounts receivable were over 90 days past due, while approximately 57.9 per cent (December 31, 2010: 69.9 per cent) of trade accounts receivable were current (under 30 days).

As at September 30, 2011, the allowance for bad debt was $ 0.6 million (December 31, 2010: $0.8 million). The allowance for bad debt is based on an account by account analysis that considers the aging of the account and the current credit-worthiness of the customer.

F) FUEL PRICE RISK

In order to manage its exposure to changes in fuel and heating oil prices and minimize volatility in operating cash flows, the Corporation enters into derivative contracts with financial intermediaries. A fluctuation of 10% in the USD price of heating oil or fuel would not have a significant impact on the financial statements.

G) LIQUIDITY RISK

The Corporation manages its liquidity risk by preparing and monitoring detailed forecasts of cash flows from operations and anticipated investing and funding activities. The liquidity risk is low since the Corporation does not have debt instruments to service and receives regular funding from the Government of Canada.

The reported financial liabilities in item a) above totaling $ 83.4 million (December 31, 2010: 125.8 million) represent the maximum liquidity risk exposure for the Corporation.

The following table summarizes the contractual maturities for the derivative and non-derivative financial liabilities as at September 30, 2011:

(in millions of dollars)	LESS THAN 3 MONTHS	3 TO 6 MONTHS	6 MONTHS TO 1 YEAR	1 TO 2 YEARS	OVER 2 YEARS	TOTAL
Accounts payable and accrued liabilities	75.5	0.1	-	2.3	2.3	80.2
Derivative financial liabilities	0.6	1.3	1.2	0.1	-	3.2

H) INTEREST RATE RISK

Interest rate risk is defined as the Corporation's exposure to a loss of earnings or a loss in the value of its financial instruments as a result of fluctuations in interest rates. The Corporation is exposed to interest rate risk associated with cash equivalents and the Asset Renewal Fund for a total of $85.2 million (December 2010: $117.8 million). A variation of 100bps in the interest rates would affect the investment income but would not have a significant impact on the Financial Statements.

20. 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) or a market index. 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 and a future capital project.

At the end of the period, the Corporation had the following derivative financial instruments with positive fair values:

Description	PERIOD	FIXED PRICE PER U.S. GALLON (USD)	NOTIONAL QUANTITY (000'S OF U.S. GALLONS)	FAIR VALUE CAD (000'S)	
	(1)	SEPT. 30, 2011	SEPT. 30, 2011	SEPT. 30, 2011	DEC. 31, 2010
Crude swap	2011	1.670 to 2.414	7,812	1,842	3,769
Crude swap	2012	1.957 to 3.149	1,008	509	880
Sub total				**2,351**	**4,649**

(1) – These financial instruments have a monthly settlement schedule.

Description	PERIOD	FORWARD RATE CAD / USD	NOTIONAL AMOUNT (USD) (000'S)	FAIR VALUE CAD (000'S)	
	(1)	SEPT. 30, 2011	SEPT. 30, 2011	SEPT. 30, 2011	DEC. 31, 2010
Foreign Exchange Forward	2011	1.005 to 1.037	11,429	77	-
Foreign Exchange Forward	2012	0.954 to 1.037	24,387	1,531	-
Foreign Exchange Forward	2013	0.992 to 0.997	2,588	315	-
Sub total				1,923	-
Derivative financial instruments with positive fair values:				4,274	4,649

(1) – These financial instruments have a monthly settlement schedule.

At the end of the period (year), the Corporation had the following derivative financial instruments with negative fair values:

Description	PERIOD	FORWARD RATE CAD / USD	NOTIONAL AMOUNT (USD) (000'S)	FAIR VALUE CAD (000'S)	
	(1)	SEPT. 30, 2011	SEPT. 30, 2011	SEPT. 30, 2011	DEC. 31, 2010
Foreign Exchange Forward	2011	-	-	-	(996)
Foreign Exchange Forward	2012	-	-	-	(205)
Sub total					(1,201)

(1) – These financial instruments have a monthly settlement schedule.

Description	PERIOD	FIXED PRICE PER U.S. GALLON (USD)	NOTIONAL QUANTITY (000'S OF U.S. GALLONS)	FAIR VALUE CAD (000'S)	
	(1)	SEPT. 30, 2011	SEPT. 30, 2011	SEPT. 30, 2011	DEC. 31, 2010
Crude swap	2012	1.957 to 3.149	9,072	(2,427)	-
Crude swap	2013	2.309 to 2.929	2,268	(781)	-
Sub total				(3,208)	-
Derivative financial instruments with negative fair values:				(3,208)	(1,201)

(1) – These financial instruments have a monthly settlement schedule.

The fair values of the derivative financial instruments are estimated as the discounted unrealized gain or loss calculated based on the market price at the end of the period, which generally reflects the estimated amount that the Corporation would receive or pay to terminate the contracts at the Balance Sheet date. The fair values of the derivative financial instruments are provided to the Corporation by the chartered banks that are the counterparties to the transactions. The credit risk related to these banks is considered very low since the Corporation deals only with reputable and high quality financial institutions.

The fair values are determined using well-established proprietary valuation models, such as the modified Black-Scholes model, and incorporate prevailing market rates and prices on the underlying instruments. The Corporation has performed additional review procedures on the fair value amounts to satisfy itself that they are reasonable.

The discounting of the fair value of transactions is based on the boot-strapping method incorporating a set of bond yields over the term of the instruments in order to provide appropriate discount factors.

21. RELATED PARTY TRANSACTIONS

The Corporation is related in terms of common ownership to all Government of Canada created departments, agencies and Crown corporations. The Corporation enters into transactions with these entities in the normal course of business on trade terms similar to those applied to other individuals and enterprises and these transactions are recorded at the exchange value. Other than disclosed elsewhere in these Financial Statements, related party transactions are not significant.

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

22. NON-MONETARY TRANSACTIONS

The Corporation recorded revenue from non-monetary transactions of approximately $1.0 million for the period ended September 30, 2011 (as at December 2010: $1.4 million) under "Passenger revenue" in the Statement of Operations and Comprehensive Income. The Corporation also recorded expenses from non-monetary transactions of approximately $1.2 million (as at December 31, 2010: $1.4 million) mainly under "Marketing and sales" and "Other expenses" in the Statement of Operations and Comprehensive Income. The nature of non-monetary transactions is mainly related to advertising activities.

23. CONTINGENCIES

The Corporation's operations are subject to numerous federal, provincial, and municipal environmental laws and regulations concerning among other things, the management of air emissions, wastewater, hazardous materials, wastes and soil contamination as well as the management and decommissioning of underground and aboveground storage tanks. A risk of environmental liability is inherent in railroad and related transportation operations, real estate ownership and other activities of the Corporation with respect to both current and past operations.

The Corporation has performed a review of all of its operations and of all of its sites and facilities at risk in order to determine the potential environmental risks. The sites and the facilities for which environmental risks were identified were or will be the subject of thorough studies and corrective actions were or will be taken if necessary in order to eliminate or to mitigate these risks. The continuous risk management process that is in place allows the Corporation to monitor its activities and properties under normal operating conditions as well as monitor accidents that occur. The properties likely to be contaminated or the activities or property, plant and equipment likely to cause a contamination are addressed, at the moment of their observation, by the development of an action plan according to the nature and the importance of the impact and the applicable requirements.

When remediation costs can be reasonably estimated, a provision is recorded based on the anticipated future costs.

However, the Corporation's ongoing efforts to identify potential environmental concerns that may be associated with its properties may lead to future environmental investigations, which may result in the identification of additional environmental costs and liabilities. The magnitude of such additional liabilities and the costs of complying with environmental laws and containing or remediating contamination cannot be reasonably estimated due to:

- (I) the lack of specific technical information available with respect to many sites;
- (II) the absence of any third-party claims with respect to particular sites;
- (III) the uncertainty regarding the ability to recover costs from any third parties with respect to particular sites;
- (IV) the fact that the environmental responsibility has not been clearly attributed.

There can thus be no assurance that material liabilities or costs related to environmental matters will not be incurred in the future, or will not have a material adverse effect on the Corporation's financial position.

24. ASSET RETIREMENT OBLIGATION

The Corporation has entered into certain operating leases where the lessor has the option of requesting that the land/structures or the other assets be returned in the same condition as they were originally leased, or of retaking control of these assets without any compensation to the Corporation for any additions or modifications made to the initial assets. Given the nature of the assets under contract and the options available to the lessor, the asset retirement obligation cannot be reasonably estimated. No liability has been recognized in the Financial Statements.