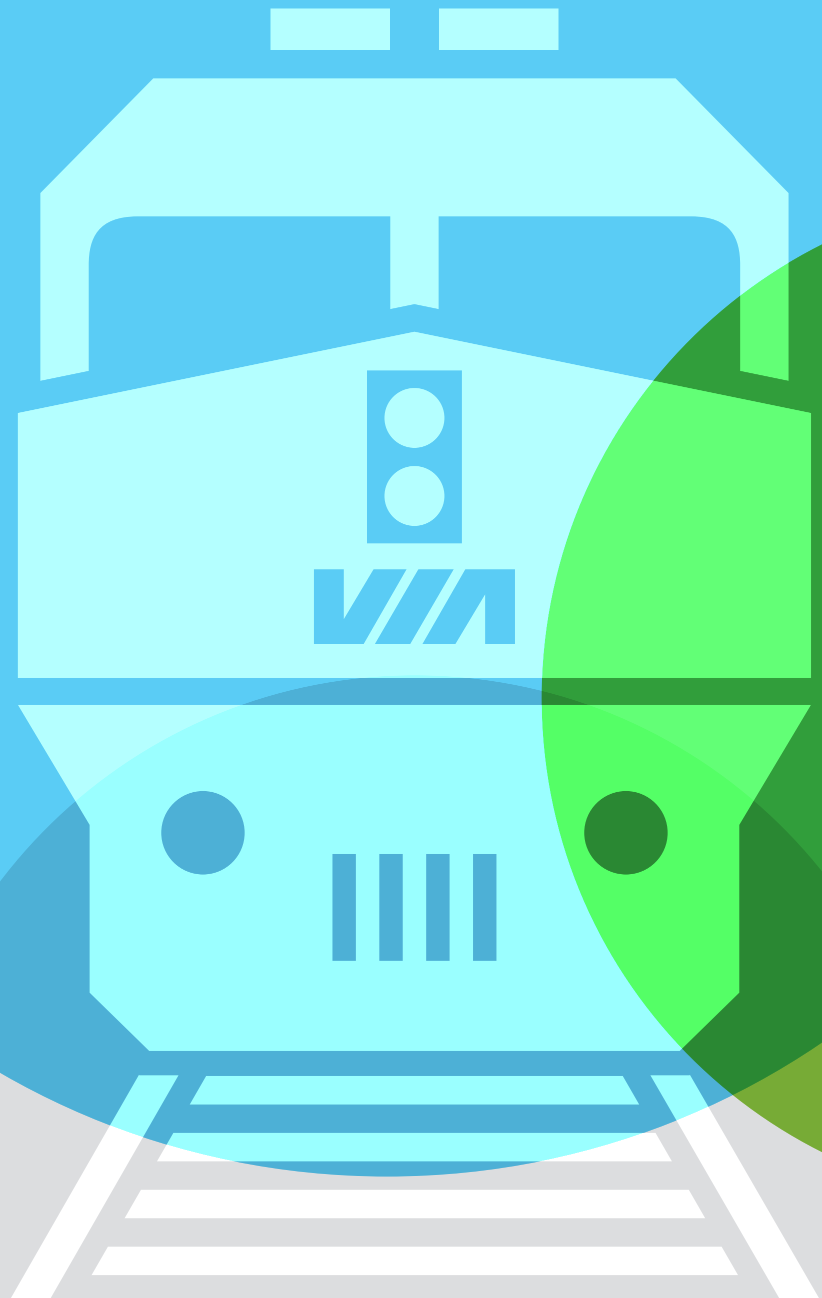


VIA Rail Canada

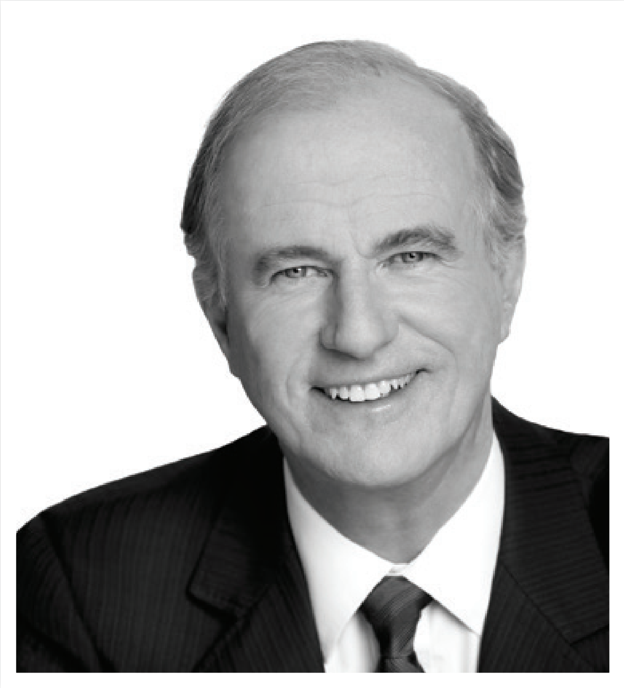
2013 THIRD QUARTER REPORT

A GREEN CHOICE

VIA Rail Canada

CONTENT

MESSAGE FROM THE PRESIDENT



Over the third quarter of 2013, VIA Rail transported over 900,000 travellers in the Québec City – Windsor corridor. On average, these passengers travelled over longer distances than during the same quarter last year. This represents a 6% increase in passenger-miles compared to the third quarter of 2012. We would like to believe that these positive results are an early indication that a "train culture" is emerging in the corridor. This means that more people may be starting to consider the train as their first travel option, for longer journeys, over their car.

It may also be a sign that our inter-modality strategy is working. By partnering with many other Canadian travel providers, from global carrier Air Transat to southwest Ontario's Robert Q Airbus service, VIA Rail is placing itself at the hub of our national passenger transportation eco-system. Our inter-modal strategy is helping travellers book and make seamless travel connections across Canada.

Also, over the past year, we have introduced new price points for our train tickets with our "Escape" fare and we have simplified our pricing structure. As a result, we have been seeing an increase in overall ridership in the Québec City – Windsor corridor.

There may be many reasons contributing to the emergence of this train culture, but the increase in traffic over longer distances is dampened by a continued drop in revenues in the corridor for this quarter compared to the same quarter last year. However, our operating expenses (before pension costs) were less than expected and revenues from our long-haul and remote services were in line with expectations. So, although much work is left to be done, we remain optimistic that the trend will confirm our positive outlook.

OC Transpo Collision

It is with heavy hearts that we learned of the six fatalities which occured following the collision of an OC Transpo bus with VIA Rail train #51, near Ottawa, on September 18. From all of us at VIA Rail, I would like to take this opportunity to once again offer our condolences to the people affected by this tragedy. We must also take a moment to recognize the dedication and courage of the first responders, including VIA Rail's own employees, who intervened so quickly and efficiently, under extremely difficult circumstances.

Safety and security are at the core of everything we do at VIA Rail. Yet tragically, events such as this collision still do happen. That is why at VIA Rail, all employees are committed to continuously improving the safety and security of our operations for our passengers, our employees and the general public. Highlights of some of our safety and security activities are contained in this report.

Marc Laliberté
President and Chief Executive Officer
VIA Rail Canada

THIRD QUARTER AT A GLANCE

	Q3 - 2013	Q3 - 2012	YTD - 2013	YTD - 2012
KEY FINANCIAL INDICATORS (IN MILLIONS OF DOLLARS)				
Total passenger revenues	**72.2**	77.2	**187.3**	196.2
Total revenues	**77.3**	82.3	**202.5**	211.1
Operating expenses before employee benefits	**141.7**	136.0	**416.8**	409.7
Employee benefits	**14.2**	13.2	**41.0**	33.4
Operating expenses	**155.9**	149.2	**457.8**	443.1
Operating funding from the Government of Canada	**74.9**	65.1	**238.1**	216.6
Amortization of deferred capital funding	**18.0**	14.3	**52.6**	43.7
Corporate tax recovery	**0.0**	0.1	**0.0**	0.1
Net income (loss)	**14.3**	12.6	**35.4**	28.4
Actuarial gains (losses) on defined benefit plans	**68.3**	(43.0)	**266.9**	(96.1)
Total comprehensive income (loss)	**82.6**	(30.4)	**302.3**	(67.7)
Capital expenditures	**17.0**	32.0	**65.1**	116.0
KEY OPERATING STATISTICS (1)				
Total passenger-miles (IN MILLIONS)	**236**	245	**629**	621
Total seat-miles (IN MILLIONS)	**392**	423	**1,129**	1,175
Operating funding per passenger-mile (IN CENTS) (2)	**31.7**	26.5	**37.9**	34.9
Yield (CENTS PER PASSENGER-MILE)	**30.1**	30.8	**29.3**	30.9
Train-miles operated (IN THOUSANDS)	**1,617**	1,656	**4,711**	4,932
Car-miles operated (IN THOUSANDS)	**11,455**	13,393	**30,788**	34,667
Average passenger load factor (%)	**60**	58	**56**	53
Average number of passenger-miles per train mile	**146**	148	**133**	126
On-time performance (%)	**83**	83	**84**	84
Average number of full time employees during the period	**2,825**	3,017	**2,684**	2,812

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

PASSENGER REVENUES AND RIDERSHIP FOR THE THIRD QUARTER OF 2013

Train Service	Passenger Revenues* (IN THOUSANDS)	Passengers (IN THOUSANDS)	Passenger-Miles (IN THOUSANDS)	Government Funding (PER PASSENGER MILE)
Corridor	$47,921	912	168,177	$0.26
Longhaul West	$18,179	38	44,607	$0.24
Longhaul East	$3,243	24	13,949	$0.56
Mandatory Services	$2,332	32	9,567	$1.30
Total	**$71,675**	**1,006**	**236,300**	**$0.32**

* Before off-train and other passenger revenues.

THIRD QUARTER HIGHLIGHTS

SAFETY AND SECURITY

Safety and Security are on-going top priorities for VIA Rail, and the third quarter of 2013 was no exception. Below is a sampling of activities that took place between July and September, 2013.

- Participated in a National Transportation Safety Board forum, where both academic and practical perspectives on safety were discussed. The one-day forum, "Safety Culture : Enhancing Transportation Safety" was also attended by representatives from around the world
- Participated in the 19th Annual Operation Lifesaver Conference in Aylmer, Québec, along with representatives from the government, health and safety groups, and the railway industry
- 2nd Annual Safety Summit for the central region held at VIA Rail's Toronto Maintenance Center with workplace committee member participation from both union members and management
- VIA Rail Police Officer sworn in before a Québec Superior Court judge
- Security meetings held with Police Services regarding police presence at VIA Rail stations

Revision of VIA Rail's Safety Rules

Following the tragic events at Lac Mégantic, VIA Rail followed up internally with a comprehensive risk analysis, after which safety revisions were made. Enhancements included modifications to the infrastructure and revisions to VIA Rail's Train Securement Policy.

Collision Between OC Transpo Bus and VIA Rail Train

At approximately 8:50AM on September 18, an OC Transpo bus collided with VIA Rail train #51 at a level crossing located east of Fallowfield Station, near Ottawa. There were more than 100 passengers on board the VIA Rail train, no injuries were reported to any of them. Tragically, there were six fatalities among the passengers of the OC Transpo bus. The cause of the collision is still unknown. VIA Rail has been and will continue to collaborate fully with its partners at OC Transpo and the authorities involved in the investigation of this tragedy.

SERVICE ADJUSTMENTS

Suspension of Service Between Matapédia and New Carlisle

Due to problems associated with the *Société du chemin de fer de la Gaspésie (SCFG)'s* rail infrastructure, service between Matapédia and New Carlisle was suspended until the SCFG is able to complete the necessary upgrades in order to ensure the safety of passengers. The temporary bus service being run by VIA Rail in this area was also cancelled.

Creation of Station Attendant Positions

As part of VIA Rail's goal to respond to passenger needs and travel industry trends, some station duties were re-organized; with some roles being eliminated and others added. Porter duties were reviewed in Toronto and Montréal (the only two stations where porters remained). It was decided that at these two stations, assistance to people with disabilities as well as luggage handling would be provided by agents with a multifunctional role, as is already the case in other full service stations. This is a more efficient distribution of tasks with the same level of service. By the end of the year, VIA Rail intends to create 14 new permanent Station Attendant positions in Toronto, whose focus will be on serving customers with special service requests. In Montréal, five such permanent Station Attendant positions will be created.

SALES AND MARKETING

New Business Class Marketing Campaign

In preparation for the introduction of VIA Rail's new Business Class service as well as the new Business Class Cars, an advertising campaign was launched in September.

Media was created and targeted to drivers, encouraging them to leave their cars at home and travel by train though billboards, radio and web banners. The key messages included the benefits of travelling in Business Class:

- More comfortable and more spacious seating to ensure you can work in peace and privacy
- Wi-Fi on board and in stations, for productive use of business time
- Priority ticket-purchase line and priority boarding
- Exclusive, comfortable, quiet and fully equipped Business lounges
- Gourmet meals and full complimentary bar service
- Reach your destination rested and in control of your business agenda

New Uniforms

As of mid-September, all front line employees began wearing new uniforms. In addition to the new style and colour theme for the key components of the uniform, colourful accessories including scarves, ties and name tags were updated to reflect VIA Rail's new brand image. The uniforms were created by designers and manufactured by VF Imagewear, a leader in the specialized clothing industry. Because of the new style, which was designed using "off the rack" models, an annual cost savings of $300,000 is expected.

VIA RAIL: WORLD'S MOST ACTIVE TRANSPORTATION AND LOGISTICS COMPANY

During this third quarter, 637 VIA employees strapped on their pedometers and participated in the Global Corporate Challenge. 97 teams of seven competed from VIA Rail and covered a virtual 558,098 km with 872,027,451 steps, the equivalent of walking around the globe 14 times!

As a result, VIA Rail won the **World's Most Active Company** in the transportation and logistics industry, in which 35 other companies were entered.

TECHNOLOGY

TSI+: Trip Analysis and Speed Monitoring

The Train Status Information (TSI+) phase 3 release delivered an automated way of conducting train trip analysis to rapidly measure our on-time performance on any route segment in the Québec city – Windsor corridor. This tool will be a great help in identifying segments with recurring congestion and schedules that can be optimized. In addition to this latest release, automated alerts and notifications to VIA Rail intermodal partners (such as taxis) will inform them, in real time, of train arrival times. This will allow them to dispatch more efficiently and rapidly, and offer a better service to our passengers.

On Train Entertainment

As of August, the On Train Entertainment system was deployed across VIA Rail's entire Québec city – Windsor corridor fleet to enhance passenger experience. The new system leverages the existing Wi-Fi and allows viewing of video across all WiFi-enabled devices, from laptops to smartphones. The On Train Entertainment server can hold over 100 hours of video, including TV shows, documentaries, and daily news which is updated several times a day. The all-Canadian content is provided by the CBC, the National Film Board and Historica-Dominion. VIA Rail is one of a handful of railway operators in the world to offer this service.

Telemetry Fuel Savings Initiative

Over the third quarter of 2013, VIA Rail has been installing and working with a remote telemetry system in its locomotives. This system allows for the precise capture of train fuel consumption in real time. The information, shared with Locomotive Engineers, will help them improve their train handling processes, which will in turn reduce fuel consumption.

Through this initiative, VIA Rail estimates a fuel consumption savings of 3%-5% annually.

Self-Serve Station Transformation Project

Select stations are being automated through the deployment of remotely controlled devices including cameras, doors, public announcement systems, trains status displays and Kiosks. Self-serve stations will allow customers to access the waiting area of the station, which will be equipped with an LED screen showing train status information. The installation of self-serve kiosks, which has been underway, will enable customers to consult, book and pay for new trips as well as print boarding passes.

Data Hosting Project

VIA Rail has relocated all production applications from its aging data center to a Montreal hosting site with a disaster recovery program located in another city. The new data centers provide IT services that meet industry standards of reliability and compliance, have the capacity to handle the evolution and growth of the services in the coming years, and support the full recovery of critical business applications in the event of disaster.

KEY PERFORMANCE INDICATORS

VIA uses the following performance indicators as an integral part of its Lean Management process. For detailed information on financial and operating performance during the quarter consult the Management Discussion and Analysis.

	Q3 - 2013	Q3 - 2012
Total Revenue per Employee ($000s) Revenues divided by the number of employees (full time employees). A measure of productivity.	**109**	109
Passenger Revenues per Available Seat-Mile (¢) Revenues divided by available seat-miles.	**18**	18
Direct Costs per Available Seat-Mile (¢) Direct costs divided by available seat-miles.	**23**	22
On-Time Performance (%) Excludes mandatory services	**83**	83
Employee Attendance (%) Total hours of absences per month divided by the total possible work hours per month.	**92.4**	92.1
Train Incidents per Million Train-Miles Includes collisions between two (2) trains; derailments with at least one wheel off the track; all cardinal rule violations; excludes crossing accidents and trespassing.	**0.6**	1.2

COMMUNITY AND GOVERNANCE

THE BOARD OF DIRECTORS

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

During the third quarter of 2013, one Board Meeting, five Board Committee meetings and three Sub-Committee meetings were held. The overall average attendance rate of Board members at these meetings was 99%. Cumulative fees for Board members during this time period totaled $63,034

On Sept 29, Ms. Jane Mowat C.A. of Toronto joined the Board in replacement of Ms. Angela Ferrante whose term ended. Ms. Ferrante was first appointed in 2005 and over the course of her mandate, she served as chairperson of several committees, including the Human Resource Committee and Corporate Governance Committee.

GOVERNMENT RELATIONS

VIA Rail representatives participated in several regional meetings during the third quarter, in order to discuss various issues including accessibility and the automation of several stations. Discussions with elected officials and representatives of various regions took place in northern British Columbia, the Niagara Peninsula, Mauricie, the Gaspé region, Bas St-Laurent and Brockville.

PROMOTION OF OFFICIAL LANGUAGES

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

During the third quarter of 2013, VIA Rail promoted Canada's two official languages by participating in bilingual events such as those organized by the Théâtre du Cercle de Molière de St-Boniface and the Québec Community Groups Network. As part of Linguistic Duality Day, VIA Rail published a blog encouraging its employees and all Canadians to participate in "The Commissioner's dictation", held by the Council of the Network of Official Languages Champions.

ACCESS TO INFORMATION AND PRIVACY

VIA Rail is committed to responding promptly to information requests under the Access to Information Act and the Privacy Act. During the third quarter of 2013, VIA Rail received 12 new requests, 5 of which were still in progress at the end of the quarter.

COMMUNITY INVOLVEMENT

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

During the third quarter of 2013, VIA Rail supported 334 non-profit and charitable organizations with travel credit donations representing $288,914.

TRAVEL, HOSPITALITY AND CONFERENCE EXPENSES

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

Paul G. Smith, Chairman of the Board	$3,793
Marc Laliberté, President and CEO	$ 9,843
Executive management committee members	$28,831
Board of Directors members	$7,595

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

MANAGEMENT DISCUSSION AND ANALYSIS

This is a review of VIA Rail Canada's operations, performance and financial position for the quarter and nine month period ended September 30, 2013, compared with the quarter and nine month period ended September 30, 2012. It should be read in conjunction with the unaudited condensed financial statements and notes.

1. FINANCIAL HIGHLIGHTS

	Quarters ended September 30				Nine month periods ended September 30			
IN MILLION OF CANADIAN DOLLARS	2013	2012	Var $	Var %	2013	2012	Var $	Var %
Passenger Revenues	**72.2**	77.2	(5.0)	(6.5)	**187.3**	196.2	(8.9)	(4.5)
Total Revenues	**77.3**	82.3	(5.0)	(6.1)	**202.5**	211.1	(8.6)	(4.1)
Operating expenses	**155.9**	149.2	6.7	4.5	**457.8**	443.1	14.7	3.3
Operating deficit before funding from Government of Canada and corporate taxes	**(78.6)**	(66.9)	11.7	17.5	**(255.3)**	(232.0)	23.3	10.0
Operating funding from Government of Canada	**74.9**	65.1	9.8	15.1	**238.1**	216.6	21.5	9.9
Amortization of deferred capital funding	**18.0**	14.3	3.7	25.8	**52.6**	43.7	8.9	20.4
Corporate taxes (recovery)	**0.0**	(0.1)	(0.1)	100.0	**0.0**	(0.1)	(0.1)	100.0
Net income (loss)	**14.3**	12.6	1.7	13.5	**35.4**	28.4	7.0	24.5
Actuarial gains (losses) on defined benefit plans	**68.3**	(43.0)	111.3	n/a	**266.9**	(96.1)	363.0	n/a
Total Comprehensive income (loss)	**82.6**	(30.4)	113.0	n/a	**302.3**	(67.7)	370.0	n/a

1. FINANCIAL HIGHLIGHTS (CONT'D)

After nine months completed in 2013 revenues have decreased by 4.1 percent compared to last year; passenger-miles have increased by 1.2 percent and yields have decreased by 5.2 percent.

Operating expenses rose by $14.7M, the increase mainly due to higher amortization of property, plant and equipment and intangible assets.

As a result, the Operating deficit before funding from the Government of Canada, amortization of deferred capital funding and corporate taxes has increased by $23.3M (10.0 percent).

Highlights of the quarter

Compared with the quarter ended September 30, 2012:

/ Revenues have decreased by 6.1 percent and total $77.3M for the quarter;

/ Operating expenses before corporate taxes and amortization of deferred capital funding have increased by 4.5 percent and amount to $155.9M for the quarter;

/ Operating funding from Government of Canada increased by 15.1 percent to $74.9M for the quarter;

/ There is a net income of $14.3M for the quarter, compared to a net income of $12.6M for the same quarter of 2012;

/ There were actuarial gains on defined benefit plans of $68.3M for the quarter compared to losses of $43.0M for the corresponding quarter last year;

/ There is a total comprehensive income of $82.6M for the quarter, compared to a loss of $30.4M for the third quarter of 2012.

Highlights of the nine month period ended September 30, 2013

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

/ Revenues have decreased by 4.1 percent and total $202.5M for the period;

/ Operating expenses before corporate taxes and amortization of deferred capital funding have increased by 3.3 percent and amount to $457.8M for the period;

/ Operating funding from Government of Canada increased by 9.9 percent to $238.1M for the period;

/ There is a net income of $35.4M for the period compared to $28.4M in 2012;

/ There were actuarial gains on defined benefit plans of $266.9M for the period, compared to losses of $96.1M for the same period in 2012;

/ There is a total comprehensive income of $302.3M in 2013, compared to a loss of $67.7M in 2012.

2. HIGHLIGHTS OF OPERATING RESULTS

a) Passenger Revenues

	REVENUES (IN '000 000$)							
	Quarters ended September 30				Nine month periods ended September 30			
	2013	2012	Var $	Var %	2013	2012	Var $	Var %
Corridor East	**38.9**	39.9	(1.0)	(2.5)	**114.0**	112.7	1.3	1.2
Southwestern Ontario (SWO)	**9.1**	10.3	(1.2)	(11.7)	**27.3**	31.0	(3.7)	(11.9)
Ocean	**3.2**	4.8	(1.6)	(33.3)	**6.7**	11.0	(4.3)	(39.1)
Canadian	**18.1**	18.7	(0.6)	(3.2)	**33.3**	34.4	(1.1)	(3.2)
Mandatory Services	**2.4**	2.5	(0.1)	(4.0)	**4.8**	4.4	0.4	9.1
Other	**0.5**	1.0	(0.5)	(50.0)	**1.2**	2.7	(1.5)	(55.6)
TOTAL	**72.2**	77.2	(5.0)	(6.5)	**187.3**	196.2	(8.9)	(4.5)

	PASSENGER MILES (IN '000 000)							
	Quarters ended September 30				Nine month periods ended September 30			
	2013	2012	Var #	Var %	2013	2012	Var #	Var %
Corridor East	**139.3**	129.9	9.4	7.2	**395.6**	355.0	40.6	11.4
Southwestern Ontario (SWO)	**28.9**	28.7	0.2	0.7	**82.8**	85.8	(3.0)	(3.5)
Ocean	**14.0**	21.0	(7.0)	(33.3)	**31.0**	49.4	(18.4)	(37.2)
Canadian	**44.6**	55.4	(10.8)	(19.5)	**98.6**	111.2	(12.6)	(11.3)
Mandatory Services	**9.5**	10.4	(0.9)	(8.7)	**20.8**	19.8	1.0	5.1
Other	**-**	-	-	-	**-**	-	-	-
TOTAL	**236.3**	245.4	(9.1)	(3.7)	**628.8**	621.2	7.6	1.2

Passenger revenues total $72.2M for the quarter, a decrease of 6.5 percent compared to the corresponding quarter last year. The decrease stems mostly from the impact of the frequency adjustments in Southwestern Ontario and on the *Ocean*. The frequency adjustments, announced in 2012, took effect at the end of October 2012 for the *Ocean*; in Southwestern Ontario, some frequencies were reduced in July 2012, others at the end of October 2012 also. Revenues also slightly decreased in the Eastern Corridor.

For the nine month period ended September 30, 2013, passenger revenues totaled $187.3M and have decreased by 4.5 percent compared to the previous year. The decrease is also attributable to the frequency adjustments made in 2012 on the Southwestern Ontario routes, as well as on the *Ocean* and the *Canadian* in the off peak season. Revenues have increased on Mandatory services (not impacted by frequency adjustments) and on the Corridor East (where an additional frequencies between Ottawa and Toronto as well as Montreal and Quebec were added in December 2012).

2. HIGHLIGHTS OF OPERATING RESULTS (CONT'D)

For the quarter:

- Corridor East revenues are 2.5 percent below last year, and result mainly from lower yields (decrease of 9.1 percent), partly offset by higher passenger volumes (increase of 7.2 percent in passenger miles);

- Revenues in SWO have decreased by 11.7 percent also as a result of lower yields (decrease of 12.3 percent), ridership remained comparable to last year (slight increase of 0.7 percent in passenger miles);

- Revenues on the *Ocean* have decreased by 33.3 percent, strictly due to lower ridership (33.3 percent less passenger-miles) resulting directly from the frequency adjustments (from 6 to 3 frequencies per week), yields were comparable to last year;

- Revenues on the *Canadian* have decreased by 3.2 percent over the previous year. The performance stems from lower volumes (19.5 percent less passenger-miles), partly offset by improved yields (increase of 20.2% especially in Sleeper class);

- Mandatory services have generated lower revenues (4.0 percent), the decrease resulting mainly from lower passenger volumes (8.7 percent less passenger miles), partly offset by improved yields (increase of 5.1 percent)

For the nine month period ended September 30:

- Corridor East revenues have increased by 1.2 percent, due to an increase in ridership (11.4 percent more passenger-miles), partly offset by lower yields (9.2 percent);

- Revenues in SWO have decreased by 11.9 percent and also result from lower ridership (3.5 percent les passenger-miles) attributable in part to the frequency adjustments, combined with lower yields (8.7 percent);

- Revenues on the *Ocean* have decreased by 39.1 percent due to lower ridership (37.2 percent less passenger-miles) resulting from the impact of the frequency adjustments, yields have also slightly decreased (2.9 percent);

- Revenues on the *Canadian* are 3.2% below last year's levels, the decrease mainly due to lower ridership (11.3 percent less passenger miles), partly offset by improved yields (9.2 percent). This performance is very positive given the fact that, during the first four months of the year, there were two frequencies per week compared to three in 2012.

- Mandatory services have generated higher revenues (9.1 percent), the increase attributable to higher volumes (5.1 percent more passenger-miles), combined with improved yields (3.8 percent).

b) Operating Expenses

	Quarters ended September 30				Nine month periods ended September 30			
IN MILLIONS OF CANADIAN DOLLARS	2013	2012	Var $	Var %	2013	2012	Var $	Var %
Compensation & Benefits	**55.3**	58.2	(2.9)	(5.0)	**160.0**	165.9	(5.9)	(3.6)
Employee benefits	**14.2**	13.2	1.0	7.6	**41.0**	33.4	7.6	22.8
Train Operations & Fuel	**31.4**	31.7	(0.3)	(0.9)	**91.8**	94.0	(2.2)	(2.3)
Other operating expenses	**55.5**	48.6	6.9	14.2	**166.0**	150.2	15.8	10.5
Unrealized loss (gain) on derivative financial instruments	**(0.1)**	(2.3)	2.2	(95.7)	**(0.6)**	0.8	(1.4)	(175.0)
Realized loss (gain) on derivative financial instruments	**(0.4)**	(0.2)	(0.2)	(100.0)	**(0.4)**	(1.2)	0.8	66.7
Total Operating expenses before Amortization of deferred capital funding & Corporate Tax expense	**155.9**	149.2	6.7	4.5	**457.8**	443.1	14.7	3.3
Corporate Taxes	**0.0**	(0.1)	0.1	100.0	**0.0**	(0.1)	0.1	100.0
TOTAL OPERATING EXPENSES BEFORE AMORTIZATION OF DEFERRED CAPITAL FUNDING	**155.9**	149.1	6.8	4.5	**457.8**	443.0	14.8	3.3

For the quarter:

/ Operating expenses before amortization of deferred capital funding & corporate taxes have increased by 6.7 million and total 155.9 million for the quarter, mainly due to higher amortization of property, plant and equipment and intangible assets (included in other operating expenses), as well as higher employee benefit costs.

For the nine month period ended September 30:

/ Operating expenses before amortization of deferred capital funding & corporate taxes rose by $14.7M and amount to $457.8M. The increase results also primarily from higher amortization of property, plant and equipment and intangible assets (included in other operating expenses), as well as higher employee benefit costs.

3. CAPITAL INVESTMENTS

Fixed assets (net of accumulated depreciation) amount to $1,250.2 million, up $11.6 million compared to the balance as at December 31, 2012. Capital investments for the quarter totaled $17.0 million, and $65.1 million for the period.

- Investments of $5.1 million were made in major equipment projects, including $3.9 million for the LRC fleet rebuild project, and $0.7 million for the HEP1 modernization project. The investments made so far this year in major equipment projects total $16.1 million of which $12.5 million is for the LRC fleet rebuild project;
- A total of $4.8 million was invested in major infrastructure projects. A portion of the investments ($1.7 million) were made in the Kingston Subdivision where work is done to add sections of a third track between Montreal and Toronto to minimize congestion. Also, investments of $2.3 million were made for the improvement of the GEXR Guelph subdivision infrastructure. Total investments in major infrastructure projects amount to $15.1 million for the period;
- An amount of $4.7 million was invested in Information Technology projects (including the reservation system modernization, telemetry and station automation projects). Investments in Information Technology projects totaled $17.2 million for the period.
- So far this year, investments of $6.5 million were made in other infrastructure projects, as well as 4.2 million in station projects.

4. CASH FLOW AND FINANCIAL POSITION

The Corporation's cash balance is $17.4M as at September 30, 2013, down $2.2 million compared to June 30, 2013, but up $1.6M compared to December 31, 2012. The increase in cash for the nine month period is due to net cash provided by operating activities, partly offset by cash used for investing activities including the acquisition of property, plant and equipment and intangible assets.

5. RISK ANALYSIS

RISK	TREND	CURRENT SITUATION
PENSION COSTS		
Pension costs may vary significantly given the sensitivity to discount rates and demographics.		A sharp increase in long term rates in the recent quarter improved pension funds solvency position. This improvement was reduced by the impact of a recently revised guidance from Canadian Institute of Actuaries (CIA) in prescribed annuity rates. New mortality table is also expected to be adopted by CIA to result in a potential increase in current service costs.
CAPITAL INVESTMENT PROJECTS		
Major delays in equipment projects, or an increase in project costs would adversely affect VIA's financial performance.		Only 3 major equipment projects remain representing now less than 10% of the original capital envelope ($903M).
PASSENGER REVENUES		
Strong competitive and difficult economic environment continues to challenge growth.		The initiatives implemented by VIA to mitigate the impact of declining passenger revenues have generated additional ridership, but the maximization of yields remains a challenge given the strong competitive and difficult economic environments.
OPERATING FUNDING		
VIA continues to face operational funding challenges.		The fact that passenger revenues are below expectations increases the Corporation's financial pressure and as a consequence, the budgeted operational funding for the year may be insufficient. The Corporation is pursuing the development and the implementation of a range of initiatives to reduce its deficit by increasing revenues and reducing costs. Furthermore, VIA continues to work with Transport Canada to address the challenge of operating loss and develop sustainable funding solutions.

INCREASING STABLE DECREASING

5. RISK ANALYSIS (CONT'D)

RISK	TREND	CURRENT SITUATION
CAPITAL FUNDING		
VIA needs to continue investing in equipment, stations, maintenance systems, facilities and information technology, when the current investment program is completed.	Stable	The Corporation is working with Transport Canada to address ongoing capital funding requirements, and to ensure that VIA has the capital funding it requires to deliver on its mandate. VIA received a new envelope for ongoing capital for the 2013-2014 year.
FUEL COST FLUCTUATIONS		
Fuel is a major cost for passenger rail operations, and fuel costs could vary significantly from VIA's estimates due to the uncertainty and volatility of fuel prices.	Stable	Fuel consumption has decreased compared to previous years as a result of the introduction of the refurbished locomotives as well as other initiatives to reduce fuel consumption. VIA's proven hedging strategy adds certainty to future fuel costs and can delay the impact of fuel price fluctuations. Given that contracts used to hedge fuel prices are denominated in U.S. dollars, VIA also hedges against foreign exchange risks.
SAFETY AND SECURITY		
Rail passenger business operates in a strict regulatory environment but exposed to accidents and terrorism.	Stable	VIA started an internal audit of its operational processes against the industry safety standards. While the Corporation already complies with the industry and government standards, and in some cases even exceeds these requirements, VIA is firmly resolved to surpassing them in the coming years.

INCREASING STABLE DECREASING

6. OUTLOOK

Achieving growth in ridership and overall passenger revenues, while maintaining yields to reduce the government subsidy per passenger remains challenging. The Corporation is continuing its efforts to monitor booking patterns to optimize yields without creating adverse impacts on ridership.

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

INTERIM CONDENSED

FINANCIAL STATEMENTS

MANAGEMENT'S RESPONSIBILITY STATEMENT

QUARTER ENDED SEPTEMBER 30, 2013

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

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

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

Marc Laliberté
President and
Chief Executive Officer

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

Montréal, Canada
November 20, 2013

INTERIM CONDENSED FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION

As at (IN THOUSANDS OF CANADIAN DOLLARS)	September 30, 2013 (unaudited)	December 31, 2012 (audited)
CURRENT ASSETS		
Cash and cash equivalents	$ **17,431**	$ 15,857
Accounts receivable, trade	**6,731**	6,823
Prepaids, advances on contracts and other receivables	**4,332**	5,951
Receivable from the Government of Canada	**6,053**	10,408
Derivative financial instruments (NOTE 18)	**650**	771
Materials	**24,424**	22,646
Asset Renewal Fund (NOTE 9)	**13,248**	13,248
	72,869	75,704
NON-CURRENT ASSETS		
Property, plant and equipment (NOTE 7)	**854,195**	840,287
Intangible assets (NOTE 8)	**396,005**	398,338
Asset Renewal Fund (NOTE 9)	**2,823**	2,485
	1,253,023	1,241,110
Total assets	$ **1,325,892**	$ 1,316,814
CURRENT LIABILITIES		
Trade and other payables (NOTE 10)	$ **90,767**	$ 102,983
Provisions (NOTE 11)	**15,073**	12,551
Derivative financial instruments (NOTE 18)	**467**	1,157
Deferred revenues (NOTE 15)	**31,307**	27,361
	137,614	144,052
NON-CURRENT LIABILITIES		
Pension, post-employment and long-term employee benefit liabilities (NOTE 12)	**89,865**	388,345
Deferred investment tax credits	**70**	281
	89,935	388,626
DEFERRED CAPITAL FUNDING (NOTE 14)	**1,240,870**	1,229,001
SHAREHOLDER'S EQUITY		
Share capital	**9,300**	9,300
Retained earnings	**(151,827)**	(454,165)
	(142,527)	(444,865)
Total liabilities and shareholder's equity	$ **1,325,892**	$ 1,316,814

Commitments (Notes 16)

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

Approved on behalf of the Board,

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

Paul G. Smith
Director and Chairman of the Board

INTERIM CONDENSED FINANCIAL STATEMENTS

STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME

Period ended September 30 (IN THOUSANDS OF CANADIAN DOLLARS) (UNAUDITED)	Quarters ended		Nine-month periods ended	
	2013	2012	2013	2012
REVENUES		Restated		Restated
Passenger	**$ 72,186**	$ 77,228	**$ 187,322**	$ 196,205
Other	**5,108**	5,032	**15,136**	14,855
	77,294	82,260	**202,458**	211,060
EXPENSES				
Compensation and benefits	**69,574**	71,427	**201,077**	199,346
Train operations and fuel	**31,427**	31,654	**91,779**	94,000
Stations and property	**7,989**	7,706	**25,357**	24,657
Marketing and sales	**6,441**	7,285	**22,559**	22,668
Maintenance material	**6,615**	6,341	**20,348**	20,997
On-train product costs	**4,337**	4,604	**11,594**	11,540
Operating taxes	**2,365**	2,439	**8,031**	7,870
Professional services	**1,837**	2,506	**6,210**	6,890
Amortization and losses on write-down and disposal of property, plant and equipment and intangible assets	**18,198**	11,902	**53,306**	37,026
Unrealized net loss (net gain) on derivative financial instruments	**(90)**	(2,305)	**(569)**	786
Realized loss (gain) on derivative financial instruments	**(387)**	(288)	**(429)**	(1,244)
Other	**7,514**	5,933	**18,495**	18,563
	155,820	149,204	**457,758**	443,099
OPERATING LOSS BEFORE FUNDING FROM THE GOVERNMENT OF CANADA AND CORPORATE TAXES	**78,526**	66,944	**255,300**	232,039
Operating funding from the Government of Canada	**74,918**	65,186	**238,079**	216,675
Amortization of deferred capital funding (NOTE 14)	**17,989**	14,275	**52,655**	43,665
Income before corporate taxes	**14,381**	12,517	**35,434**	28,301
Corporate tax recovery (NOTE 13)	**-**	72	**-**	72
NET INCOME FOR THE PERIOD	**14,381**	12,589	**35,434**	28,373
Other comprehensive income (loss)				
Amounts not to be reclassified subsequently to net income:				
Actuarial gains (losses) on defined benefit plans	**68,290**	(42,934)	**266,904**	(96,055)
Other comprehensive income (loss) for the period	**68,290**	(42,934)	**266,904**	(96,055)
Total comprehensive income (loss) for the period	**$ 82,671**	$ (30,345)	**$ 302,338**	$ (67,682)

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

INTERIM CONDENSED FINANCIAL STATEMENTS

STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

Period ended September 30 (IN THOUSANDS OF CANADIAN DOLLARS) (UNAUDITED)	Quarters ended		Nine-month periods ended	
	2013	2012	2013	2012
		Restated		Restated
SHARE CAPITAL	**$ 9,300**	$ 9,300	**$ 9,300**	$ 9,300
Retained Earnings				
Balance, beginning of period	**(234,498)**	(416,721)	**(454,165)**	(379,384)
Net income for the period	**14,381**	12,589	**35,434**	28,373
Other comprehensive income (loss) for the period	**68,290**	(42,934)	**266,904**	(96,055)
Balance, end of period	**(151,827)**	(447,066)	**(151,827)**	(447,066)
Total Shareholder's equity	**$ (142,527)**	$ (437,766)	**$ (142,527)**	$ (437,766)

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

INTERIM CONDENSED FINANCIAL STATEMENTS

STATEMENT OF CASH FLOWS

Period ended September 30 (IN THOUSANDS OF CANADIAN DOLLARS) (UNAUDITED)	Quarters ended		Nine-month periods ended	
	2013	2012	2013	2012
OPERATING ACTIVITIES		Restated		Restated
Net income for the period	**$ 14,381**	$ 12,589	**$ 35,434**	$ 28,373
Adjustments to determine net cash (used in) from operating activities:				
Amortization of property, plant and equipment and intangible assets (NOTE 7 AND 8)	**18,268**	14,605	**53,360**	42,144
Gains (losses) on write-down and disposal of property, plant and equipment and intangible assets	**-**	(2,631)	**157**	(4,904)
Receipt of letters of credit	**-**	2,625	**-**	6,875
Amortization of deferred investment tax credits	**(70)**	(72)	**(211)**	(214)
Amortization of deferred capital funding (NOTE 14)	**(17,989)**	(14,275)	**(52,655)**	(43,665)
Interest income	**(171)**	(164)	**(446)**	(576)
Change in fair value of financial instruments (Asset Renewal Fund) (NOTE 9)	**(87)**	(346)	**(361)**	(747)
Unrealized gain (loss) on derivative financial instruments	**(90)**	(2,305)	**(569)**	786
Pension, post-employment and other long-term benefit expense (NOTE 12)	**14,125**	13,195	**40,961**	33,435
Pension, post-employment and other long-term benefit contributions (NOTE 12)	**(24,332)**	(20,073)	**(72,537)**	(58,642)
Net change in non-cash working capital items	**(828)**	(10,405)	**1,682**	(14,171)
Net cash (used in) provided by operating activities	**3,207**	(7,257)	**4,815**	(11,306)
INVESTING ACTIVITIES				
Capital funding (NOTE 14)	**16,847**	31,989	**64,524**	114,538
Change in capital funding receivable from the Government of Canada	**7,453**	17,011	**5,476**	16,447
Acquisition of investments in the Asset Renewal Fund	**(10,974)**	(14,495)	**(38,695)**	(61,166)
Proceeds from sale and maturity of investments in the Asset Renewal Fund	**10,997**	19,109	**38,718**	73,233
Change in capital accounts payable and accrued liabilities	**(12,848)**	(3,151)	**(8,618)**	(11,663)
Acquisition of property, plant and equipment and intangible assets (NOTE 7 AND 8)	**(17,033)**	(31,989)	**(65,106)**	(116,033)
Interest received	**171**	164	**446**	576
Proceeds from disposal of property, plant and equipment and intangible assets	**14**	5	**14**	1,034
Net cash (used in) provided by investing activities	**(5,373)**	18,643	**(3,241)**	16,966
CASH AND CASH EQUIVALENTS				
Increase (decrease) during the period	**(2,166)**	11,386	**1,574**	5,660
Balance, beginning of period	**19,597**	7,527	**15,857**	13,253
BALANCE, END OF PERIOD	**$ 17,431**	$ 18,913	**$ 17,431**	$ 18,913
REPRESENTED BY:				
Cash	**$ 17,431**	$ (1,205)	**$ 17,431**	$ (1,205)
Short-term investments	**-**	20,118	**-**	20,118
	$ 17,431	$ 18,913	**$ 17,431**	$ 18,913

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

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

AS AT SEPTEMBER 30, 2013 (UNAUDITED)

1. AUTHORITY AND OBJECTIVES

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

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

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

These interim condensed financial statements were approved and authorized for issue by the Board of Directors on November 20, 2013.

2. BASIS OF PREPARATION

A) STATEMENT OF COMPLIANCE

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

These unaudited interim condensed financial statements have been prepared in accordance with IAS 34 "Interim financial reporting". The interim condensed financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2012, which have been prepared in accordance with the IFRS.

B) FUNCTIONAL AND PRESENTATION CURRENCY

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in these unaudited interim condensed financial statements are disclosed in note 4 of the Corporation's annual financial statements for the year ended December 31, 2012 except for the adoption of the accounting standard IFRS 13 – *Fair value measurement* with a date of application of January 1, 2013. The revised standard did not have a significant impact on the presentation of the Interim Condensed Financial Statements or the note disclosure. The accounting policies have been applied consistently to all periods presented.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

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

Changes to accounting estimates are recognized in the period in which the estimate is revised. Key sources of estimation uncertainty and assumptions are disclosed in note 5 of the Corporation's annual financial statements for the year ended December 31, 2012.

5. FUTURE ACCOUNTING CHANGES

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

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

6. RECONCILIATION OF OPERATING LOSS TO GOVERNMENT FUNDING

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

(IN MILLIONS OF DOLLARS)	Quarters ended September 30		Nine month periods ended September 30	
	2013	2012	**2013**	2012
Operating loss before funding from the Government of Canada for the period	**78.5**	66.9	**255.3**	232.0
Items requiring (providing) operating funds:				
Corporate tax recovery	**-**	-	**-**	(0.1)
Items not requiring (not providing) operating funds:				
Amortization of property, plant and equipment and intangible assets	**(18.3)**	(14.6)	**(53.4)**	(42.1)
Losses on write-down and disposal of property, plant and equipment and intangible assets	**-**	-	**(0.2)**	(2.0)
Pension, post-employment and other long-term contributions in excess of expenses	**10.2**	6.9	**31.6**	25.2
Unrealized net gain (net loss) on derivative financial instruments	**0.1**	2.3	**0.6**	(0.8)
Adjustment for accrued compensation	**4.2**	3.7	**3.9**	3.9
Increase in investment's fair value	**0.1**	0.3	**0.4**	0.7
Other	**0.1**	(0.3)	**(0.1)**	(0.1)
Operating funding deficit for the period	**74.9**	65.2	**238.1**	216.7

7. PROPERTY, PLANT AND EQUIPMENT

(IN MILLIONS OF DOLLARS)	December 31, 2012	Additions	Retirements and Disposals	September 30, 2013
Cost:				
Land	12.3	-	-	**12.3**
Rolling stock	849.1	14.3	(3.2)	**860.2**
Maintenance buildings	137.8	1.5	-	**139.3**
Stations and facilities	102.8	2.2	-	**105.0**
Owned infrastructures	176.8	3.6	(0.3)	**180.1**
Leasehold improvements	77.3	1.1	-	**78.4**
Machinery and equipment	33.9	0.3	-	**34.2**
Computer hardware	19.1	6.9	(0.1)	**25.9**
Other property, plant and equipment	20.9	-	-	**20.9**
Total cost	1,430.0	29.9	(3.6)	**1,456.3**
Accumulated amortization and impairments:				
Rolling stock	394.6	22.2	(3.5)	**413.3**
Maintenance buildings	86.9	2.5	-	**89.4**
Stations and facilities	30.9	2.9	-	**33.8**
Owned infrastructures	54.2	4.1	(0.2)	**58.1**
Leasehold improvements	47.7	1.9	-	**49.6**
Machinery and equipment	25.4	0.9	-	**26.3**
Computer hardware	12.3	3.4	(0.1)	**15.6**
Other property, plant and equipment	18.5	0.3	-	**18.8**
Total accumulated amortization and impairments	670.5	38.2	(3.8)	**704.9**
Project in progress	80.8	22.0	-	**102.8**
Total net carrying amount	840.3	13.7	0.2	**854.2**

8. INTANGIBLE ASSETS

(IN MILLIONS OF DOLLARS)	December 31, 2012	Additions	Retirements and Disposals	September 30, 2013
Cost:				
Internally generated software	66.8	8.6	(0.4)	**75.0**
Right of access to rail infrastructure	409.4	1.6	-	**411.0**
Other intangible	3.8	1.1	-	**4.9**
Total cost	480.0	11.3	(0.4)	**490.9**
Accumulated amortization and impairments:				
Internally generated software	52.2	7.1	-	**59.3**
Right of access to rail infrastructure	49.3	8.1	-	**57.4**
Other intangible	1.6	-	-	**1.6**
Total accumulated amortization and impairments	103.1	15.2	-	**118.3**
Project in progress	21.5	1.9	-	**23.4**
Total net carrying amount	398.4	(2.0)	(0.4)	**396.0**

9. ASSET RENEWAL FUND

CHANGES IN THE ASSET RENEWAL FUND

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

(IN MILLIONS OF DOLLARS)	September 30, 2013	December 31, 2012
Balance at beginning of the period	**15.7**	33.9
Proceeds from sale or lease of surplus assets	**-**	1.2
Investment Income	**0.1**	0.4
Change in fair value	**0.4**	1.0
Less: Cash drawdown during the period	**(0.1)**	(20.8)
Balance at end of the period	**16.1**	15.7

10. TRADE AND OTHER PAYABLES

The Trade and other payables balance includes the following:

(IN MILLIONS OF DOLLARS)	September 30, 2013	December 31, 2012
Wages payable and accrued	**32.0**	34.6
Capital Payables	**17.9**	33.2
Trade payables	**34.8**	27.1
Capital tax, income tax and other taxes payable	**6.0**	7.4
Other	**0.1**	0.7
	90.8	103.0

11. PROVISIONS

The provision balance includes:

(IN MILLIONS OF DOLLARS)	December 31, 2012	Charge (used)	Reversal (used)	Reversal (not used)	September 30, 2013
Environmental costs (NOTE A)	1.1	-	(0.3)	-	**0.8**
Litigation and contractual disputes (NOTE B)	9.5	5.4	(1.3)	-	**13.6**
Restructuring costs (NOTE C)	1.1	-	(0.9)	-	**0.2**
Other	0.8	-	-	(0.3)	**0.5**
Total provisions	12.5	5.4	(2.5)	(0.3)	**15.1**

A) ENVIRONMENTAL COSTS

The Corporation has made a provision of $ 0.8 million for environmental costs related to fuel spills that occurred in 2012 (December 31, 2012: $1.1 million), which is recorded in Provisions.

B) LITIGATION AND CONTRACTUAL DISPUTES

The Corporation is subject to claims and legal proceedings brought against it in the normal course of business. Such matters are subject to many uncertainties. Management believes that adequate provisions have been made in the accounts where required and the ultimate resolution of such contingencies is not expected to have a material adverse effect on the financial position of the Corporation.

C) RESTRUCTURING COSTS

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

12. PENSION, POST-EMPLOYMENT AND LONG-TERM EMPLOYEE BENEFIT PLANS

The Corporation provides a number of funded defined benefit pension plans as well as unfunded other post-employment benefits including post-retirement medical, dental and life insurance benefits. The Corporation also provides long-term employee benefits such as an unfunded self-insured workers' compensation benefits, long-term employee disability benefits and continuation of benefit coverage for employees on long-term disability. The actuarial valuations for employee benefits are carried out by external actuaries who are members of the Canadian Institute of Actuaries.

A) PENSION PLANS AND POST-EMPLOYMENT BENEFIT PLANS

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

	Pension Plans		Post-employment Benefit Plans	
(IN MILLIONS OF DOLLARS)	September 30, 2013	December 31, 2012	September 30, 2013	December 31, 2012
DEFINED BENEFIT OBLIGATION:				
Balance at beginning of the period	**2,078.0**	1,860.6	**19.1**	16.9
Service cost	**23.2**	23.4	**0.4**	0.4
Interest expense	**60.5**	84.1	**0.6**	0.8
Employee contributions	**8.3**	10.1	**-**	-
Benefits paid	**(72.0)**	(97.0)	**(0.4)**	(0.5)
Effect of change in financial assumptions	**(226.8)**	170.4	**-**	1.6
Effect of employee transfers	**-**	26.4	**-**	-
Effect of experience adjustments	**-**	-	**-**	(0.1)
Balance at end of the period	**1,871.2**	2,078.0	**19.7**	19.1
FAIR VALUE OF PLAN ASSETS:				
Balance at beginning of the period	**1,735.0**	1,586.1	**-**	-
Interest Income	**50.7**	70.6	**-**	-
Return on plan assets (excluding interest income)	**40.1**	70.7	**-**	-
Employer contributions	**66.2**	70.2	**0.4**	0.5
Employee contributions	**8.3**	10.1	**-**	-
Benefits paid	**(72.0)**	(97.0)	**(0.4)**	(0.5)
Effect of employee transfers	**-**	26.4	**-**	-
Administration expenses	**(1.6)**	(2.1)	**-**	-
Balance at end of the period	**1,826.7**	1,735.0	**-**	-
Net Defined benefit liability	**(44.5)**	(343.0)	**(19.7)**	(19.1)

12. PENSION, POST-EMPLOYMENT AND LONG-TERM EMPLOYEE BENEFIT PLANS (CONT'D)

The significant financial assumptions are the same as at December 31, 2012 except for the discount rate used in the pension plan evaluations that has increased from 3.9% to 4.7% to determine the benefit obligations and from 4.5% to 4.6% to determine the defined benefit cost.

B) LONG-TERM EMPLOYEE BENEFIT PLANS

Based on these actuarial valuations and projections to September 30, the summary of the principal valuation results for the self-insured workers' compensation benefits and other long-term employee benefits is as follows:

(IN MILLIONS OF DOLLARS)	September 30, 2013	December 31, 2012
LONG-TERM EMPLOYEE BENEFIT:		
Balance at beginning of the period	**22.0**	22.2
Service cost	**4.0**	5.3
Interest expense	**0.6**	0.9
Benefits paid	**(4.6)**	(6.2)
Effect of change in demographic assumptions	**-**	(0.6)
Effect of change in financial assumptions	**-**	0.4
Balance at end of the period	**22.0**	22.0
FAIR VALUE OF PLAN ASSETS:		
Balance at beginning of the period	**-**	-
Employer contributions	**4.6**	6.2
Benefits paid	**(4.6)**	(6.2)
Balance at end of the period	**-**	-
Net long-term employee benefit liability	**(22.0)**	(22.0)

12. PENSION, POST-EMPLOYMENT AND LONG-TERM EMPLOYEE BENEFIT PLANS (CONT'D)

The significant financial assumptions are the same as at December 31, 2012 .

C) OTHER LONG-TERM EMPLOYEE BENEFIT PLANS

Other long-term benefit plans include job security benefits administered by various union agreements. These benefits are calculated on an event driven basis and represents managements best estimates of the present value of all future projected payments to unionized employees.

(IN MILLIONS OF DOLLARS)	September 30, 2013	December 31, 2012
OTHER LONG-TERM EMPLOYEE BENEFIT OBLIGATION:		
Balance at beginning of the period	**4.2**	0.7
Service cost	**1.3**	4.9
Benefits paid	**(1.3)**	(0.8)
Effect of change in financial assumptions	**(0.5)**	(0.6)
Balance at end of the period	**3.7**	4.2
FAIR VALUE OF PLAN ASSETS:		
Balance at beginning of the period	**-**	-
Employer contributions	**1.3**	0.8
Benefits paid	**(1.3)**	(0.8)
Balance at end of the period	**-**	-
Net other long-term employee benefit liability	**(3.7)**	(4.2)

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

Total amounts recognized in the Statement of financial position:

(IN MILLIONS OF DOLLARS)	September 30, 2013	December 31, 2012
Liabilities:		
Pension Plans	**(44.5)**	(343.0)
Post-employment benefit plans	**(19.7)**	(19.1)
Long-term employee benefit plans	**(22.0)**	(22.0)
Other long term employee benefit plans	**(3.7)**	(4.2)
Total	**(89.9)**	(388.3)

12. PENSION, POST-EMPLOYMENT AND LONG-TERM EMPLOYEE BENEFIT PLANS (CONT'D)

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

(IN MILLIONS OF DOLLARS)	Quarters ended September 30		Nine month periods ended September 30	
	2013	2012	2013	2012
Operating expense:				
Pension Plans	**12.1**	11.4	**34.6**	28.1
Post-employment benefit plans	**0.4**	0.3	**1.0**	0.5
Long-term employee benefit plans	**1.5**	1.5	**4.6**	4.5
Other long term employee benefit plans	**0.2**	-	**0.8**	0.3
Total	**14.2**	13.2	**41.0**	33.4

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

(IN MILLIONS OF DOLLARS)	Quarters ended September 30		Nine month periods ended September 30	
	2013	2012	2013	2012
Other comprehensive income (loss):				
Pension Plans	**(68.3)**	42.9	**(266.9)**	95.4
Post-employment benefit plans	**-**	-	**-**	0.6
Total	**(68.3)**	42.9	**(266.9)**	96.0

13. CORPORATE TAXES

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

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

The overall corporate tax expense for the period differs from the amount that would be computed by applying the combined Federal and provincial statutory income tax rates of 24.41% (September 30, 2012: 24.37%) to income before corporate taxes. The reasons for the differences are as follows;

(IN MILLIONS OF DOLLARS)	September 30, 2013	September 30, 2012
Income before corporate taxes	**35.4**	21.6
Computed corporate tax expense - statutory rates	**8.6**	5.3
Non-taxable portion of capital and accounting gains and other	**-**	(0.1)
Effect of decrease in unrecognized tax attributes	**(8.5)**	(2.1)
Effect of tax rate changes on deferred corporate taxes	**(0.1)**	(3.2)
Corporate tax recovery	**-**	(0.1)

The Corporation has $52.1 million (December 31: 2012: $55.9 million) of unused Quebec and $49.6 million (December 31: 2012, $53.5 million) of unused Federal non-capital tax losses carried forward and expiring between 2029 and 2032.

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

(IN MILLIONS OF DOLLARS)	September 30, 2013	December 31, 2012
Federal:		
Property, plant and equipment	**81.7**	81.4
Contingencies, other liabilities and net amounts	**20.2**	21.0
Net defined benefit liability	**86.2**	384.2
Unused losses carry forward	**49.5**	53.5
	237.6	540.1
Quebec:		
Property, plant and equipment	**463.3**	463.0
Contingencies, other liabilities and net amounts	**20.2**	21.0
Net defined benefit liability	**86.2**	384.2
Unused losses carry forward	**51.9**	55.9
	621.6	924.1

14. DEFERRED CAPITAL FUNDING

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

(IN MILLIONS OF DOLLARS)	September 30, 2013	December 31, 2012
Balance, beginning of the period	**1,229.0**	1,143.8
Government funding for property, plant and equipment and intangible assets (including the cost of land)	**64.6**	167.2
Amortization of deferred capital funding	**(52.7)**	(82.0)
Balance, end of the period	**1,240.9**	1,229.0

15. DEFERRED REVENUE

Deferred revenue is comprised of the following:

(IN MILLIONS OF DOLLARS)	September 30, 2013	December 31, 2012
Advanced ticket sales	**12.8**	9.4
Gift cards	**2.4**	2.5
Non-monetary transactions	**2.1**	1.6
VIA Préférence	**13.9**	13.6
Other	**0.1**	0.3
Total deferred revenue	**31.3**	27.4

16. COMMITMENTS

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

b) As at September 30, 2013, the Corporation has outstanding major contract commitments amounting to $34.1 million (December 31, 2012: $45.5 million) consisting mainly for the completion of rolling stock refurbishment and infrastructure improvement projects.

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

d) The Corporation has provided letters of credit from a banking institution totalling approximately $28.3 million (December 31, 2012: $28.4 million) to various provincial government workers' compensation boards as security for future payment streams.

17. FINANCIAL INSTRUMENTS

The Corporation financial instruments are exposed to the same risk as disclose in its annual financial statements for the year ended December 31, 2012.

18. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

Crude swap	September 30, 2013		December 31, 2012	
	Notional Quantity (000's of U.S. Gallons)	Fair Value CAD (000's)	Notional Quantity (000's of U.S. Gallons)	Fair Value CAD (000's)
Assets	**4,788**	**357**	5,796	495
Liabilities	**6,216**	**352**	6,048	563

As at September 30, 2013, the fuel swaps have a fixed price per U.S. gallon in USD between 2.309 and 3.125 (December 31, 2012: between 2.309 and 3.124) and the maturity dates are 2013 to 2015 (December 31, 2012: 2013 to 2014). These financial instruments have a monthly settlement schedule.

Foreign Exchange contracts	September 30, 2013		December 31, 2012	
	Notional Amount (USD) (000's)	Fair Value CAD (000's)	Notional Amount (USD) (000's)	Fair Value CAD (000's)
Assets	**16,297**	**293**	11,132	276
Liabilities	**12,578**	**115**	16,081	594

As at September 30, 2013, the forward contracts rates are between 0.994 and 1.062 (December 31, 2012: between 0.980 and1.041) in US dollars and the maturity dates are 2013 to 2015 (December 31, 2012: 2013 to 2014). These financial instruments have a monthly settlement schedule.

Amounts recognized in the Statement of financial position:

	September 30, 2013	December 31, 2012
	Fair Value CAD (000's)	Fair Value CAD (000's)
Total assets	**650**	771
Total liabilities	**467**	1,157