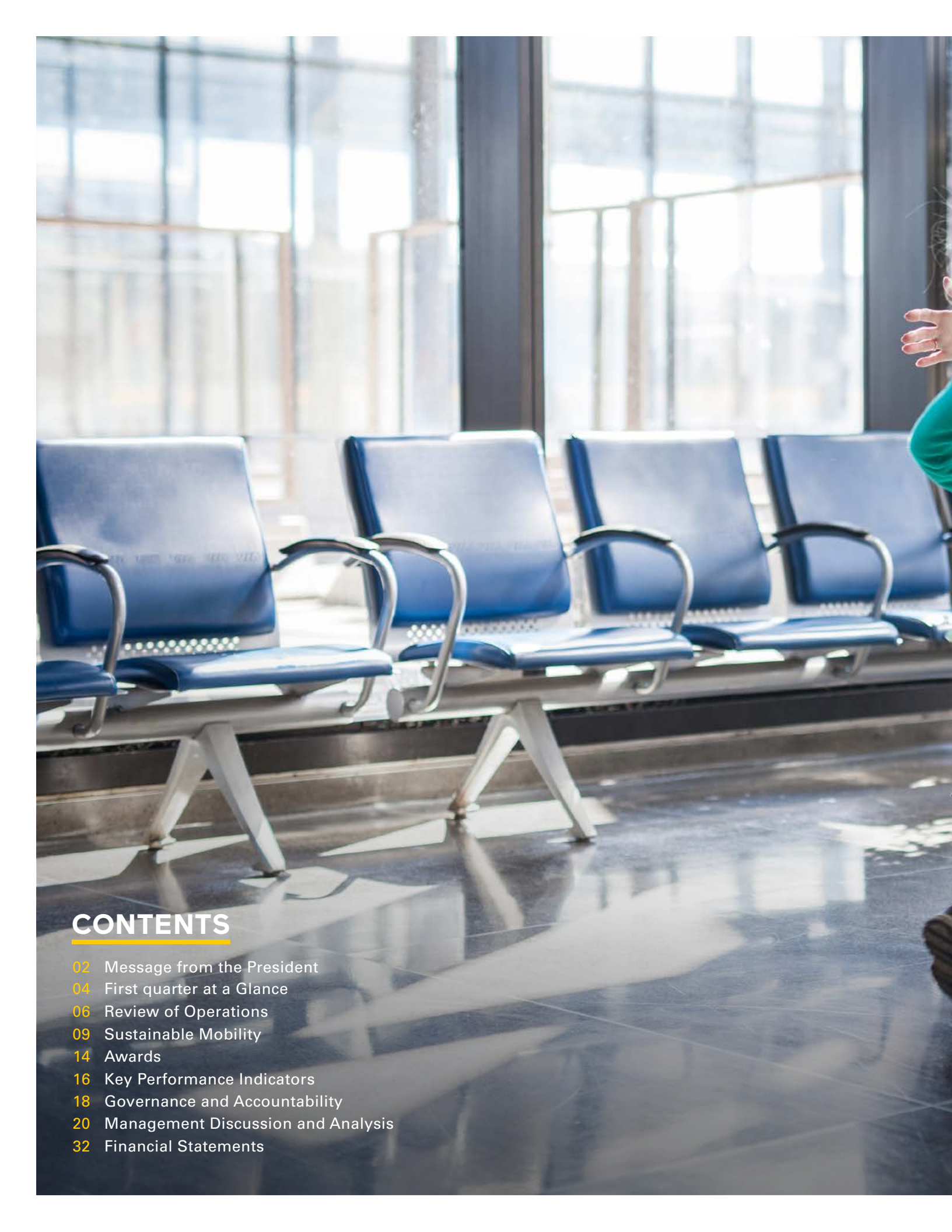




FIRST QUARTER REPORT 2016

A photograph of a modern airport lounge. In the foreground, there are several blue leather airport-style chairs with silver metal frames. The chairs are arranged in a row, and their reflection is visible on the highly polished, dark floor. In the background, large floor-to-ceiling windows offer a view of a city skyline. The lighting is bright and natural, coming from the windows. On the far right edge, a portion of a person wearing a green top is visible, with their hand slightly raised.

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MESSAGE FROM THE PRESIDENT



It is with great pride that we share the results of the first quarter of 2016. We are continuing the pattern of growth that began in 2015, and once again we are reporting increases in revenues and ridership. As a matter of fact, this is the eighth consecutive quarter of increased revenues. These results signal that our customer-centric strategy and passengers-first mission have been effective in drawing more people to our trains. People are starting to recognize that VIA Rail is a smarter way to travel.

Indeed, more customers chose to travel with us over the Easter long weekend than last year; our results for revenues and ridership were the best since 2011. As well, our long-distance train in the west, the *Canadian*, performed well throughout winter with revenue and ridership increases in all classes (including the successful Prestige class). In the Québec City–Windsor corridor we continued to see the positive results of increased frequencies within the Toronto, Ottawa, Montréal triangle that were added last June. Ridership increased throughout the Corridor, with the exception of Southwestern Ontario, where we still struggle to attract customers after frequencies were reduced in 2012. We are in discussion with the track owner to try to increase the number of trains running in the area.

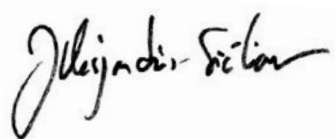
There have been improvements in our On-Time Performance across our entire network this quarter, but these improvements are bittersweet. The Canadian economic downturn has caused a noticeable reduction in freight traffic on the shared rails, especially in western Canada, which in turn meant fewer delays for VIA Rail trains. This supports the proposition of our Dedicated Tracks project: with our own dedicated passenger rails, free of freight trains, VIA Rail would be able to provide a more reliable service for our customers and increase our ridership.

This year's winter was milder compared to last, but it was not without its storms. Snow and freezing rain made travel challenging, but VIA Rail helped our passengers "outsmart winter" by encouraging them to leave their cars at home and take the train during winter storms. Our customers trusted us to get them safely to their destinations and we pulled out all the stops to ensure that their journey was comfortable and relaxing. We were able to demonstrate VIA Rail's reliability during adverse conditions to both our frequent customers and people who wouldn't normally take the train. Our top-notch service kept smart travellers choosing the train throughout the winter season.

The federal budget announcement was an exciting event this quarter and we were delighted that the new government's first budget addressed our two strategic imperatives. VIA Rail was allocated funds for technical studies and pre-procurement activities related to the renewal of our Québec City – Windsor corridor train fleet. The feasibility of our dedicated tracks project was acknowledged as a promising policy opportunity to be further investigated in order to meet the growing demand for safe, efficient, cost-effective, and environmentally sustainable transportation. The renewal of our train fleet and the construction and operation of our own dedicated passenger rail tracks are key parts of our strategy to modernize VIA Rail. Our dedicated tracks project is now a prominent issue in the public space, and we hope to see it become a reality over the coming years.

Internally, we celebrated some of our outstanding VIA Rail employees. During the quarter, 14 employees from across the country who were nominated by their peers were honoured with regional distinction awards for going above and beyond in the fields of customer service, maintenance, innovation, and team building. Our employees, whether in maintenance centres or in stations, on trains or in offices, have been an instrumental part of our success over the past year. They always put our passengers first, ensuring we can provide a safe, cost-effective, and environmentally responsible rail service.

We look forward to seeing you on-board soon.

A handwritten signature in black ink, reading "Yves Desjardins-Siciliano". The signature is fluid and cursive, with the first name "Yves" being the most prominent part.

YVES DESJARDINS-SICILIANO
President and Chief Executive Officer

FIRST QUARTER AT A GLANCE

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

	Q1-2016	Q1-2015
KEY FINANCIAL INDICATORS (IN MILLIONS OF DOLLARS)		
Total passenger revenues ⁽¹⁾	60.6	54.8
Total revenues ⁽¹⁾	66.1	59.9
Operating expenses ⁽¹⁾	(130.3)	(126.9)
Contributions for employee benefits ⁽¹⁾	(15.8)	(19.3)
Total Operating expenses ⁽¹⁾	(146.1)	(146.2)
Operating Income (Deficit)	(80.0)	(86.3)
Capital expenditures	(22.1)	(28.3)
Total Funding Required	(102.1)	(114.6)
Government Operating Funding	80.0	86.3
Government Capital Funding	22.1	28.3
Total Government Funding	102.1	114.6
Asset Renewal Fund	0.0	0.0
KEY OPERATING STATISTICS ⁽²⁾		
Total passenger-miles (IN MILLIONS)	181	177
Total seat-miles (IN MILLIONS)	356	325
Operating deficit per passenger-mile (IN CENTS)	44.3	48.8
Yield (CENTS PER PASSENGER-MILE)	32.7	30.2
Train-miles operated (IN THOUSANDS)	1,602	1,494
Car-miles operated (IN THOUSANDS)	8,757	7,734
Average passenger load factor (%)	51	54
Average number of passenger-miles per train mile	113	118
On-time performance (%)	79	63
<i>Number of full time equivalent employees during the period</i>	2,549	2,490

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

(2) Key operating statistics are unaudited

KEY OPERATING STATISTICS BY SERVICE GROUP FOR THE FIRST QUARTER OF 2016

Train Service	Passenger Revenues* (IN THOUSANDS)	Passengers (IN THOUSANDS)	Passenger-Miles (IN THOUSANDS)	Government Funding (PER PASSENGER MILE)
Québec City - Windsor corridor	\$52,647	877	158,398	\$0.27
Longhaul West	\$4,206	10	11,871	\$1.16
Longhaul East	\$1,558	16	7,368	\$1.49
Regional Services	\$667	12	2,932	\$4.07
Total	\$59,079	915	180,568	\$0.44

KEY OPERATING STATISTICS BY SERVICE GROUP FOR THE FIRST QUARTER OF 2015

Train Service	Passenger Revenues* (IN THOUSANDS)	Passengers (IN THOUSANDS)	Passenger-Miles (IN THOUSANDS)	Government Funding (PER PASSENGER MILE)
Québec City - Windsor corridor	\$48,464	877	157,549	\$0.30
Longhaul West	\$2,925	9	9,765	\$1.59
Longhaul East	\$1,479	14	7,003	\$1.51
Regional Services	\$574	12	2,762	\$4.50
Total	\$53,442	912	177,079	\$0.49

* Excluding off-train and other passenger revenues.



REVIEW OF OPERATIONS

ATTRACTING PEOPLE TO OUR TRAINS

HELPING CANADIANS “OUTSMART WINTER”

VIA Rail helped our passengers “outsmart winter” this quarter by encouraging them to leave their cars at home and take the train to overcome unpredictable weather. This successful campaign, which promoted the train as the “winter way to travel”, ran throughout the winter (with an emphasis on days preceding forecasted storms) and communications included innovative dynamic advertising and social media posts. To generate word of mouth, we also assigned special greeting and directional duties to employees in our Toronto, Montréal, and Ottawa stations on storm days. These efforts were well received on social media and contributed to positive trends in revenues and ridership in the Québec City – Windsor corridor.

IMPROVING OUR ON-BOARD SERVICE

VIA Rail continues to refresh and improve its on-board service offerings, coast to coast. On the *Canadian*, the *Ocean*, and the Winnipeg – Churchill route, Sleeper Plus was redesigned and streamlined and now all meals are included in the fare. Certain on-board enhancements were made to the Canadian’s Prestige class for implementation at the start of peak season in May 2016, including an enhanced dining experience. Other developments to this service, including an exclusive lounge experience in Toronto and a priority call service, will be implemented in June.

Improvements in the Québec City – Windsor corridor include the design of new special menus which will accommodate the dietary needs of more customers. As well, VIA Rail prioritizes Canadian products on-board our trains and starting this quarter a selection of Sloane Teas, blended and packaged here in Canada, are available on-board.



OPTIMIZING PERFORMANCE AND VALUE CREATION

FLEET RENEWAL UPDATE

The 2016 Federal budget has provided \$3 million to support “technical studies and other pre-procurement activities” related to the renewal of VIA Rail’s fleet. Project planning is now underway for the fleet renewal. Via Rail is working with an expert firm to develop the Request For Proposal and manage the acquisition program.

ON-TIME PERFORMANCE

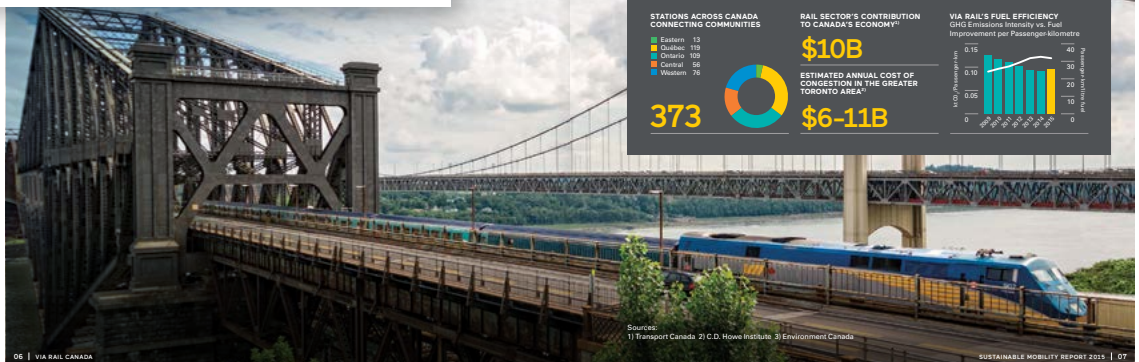
Mild winter conditions contributed to an improvement in On-Time Performance (OTP) compared to last year and throughout the industry there were reduced operational and mechanical problems. Despite these improved conditions, along with the reduction of freight trains in the Québec City – Windsor corridor, OTP is still low at 79 per cent.

EASTER AND SPRING BREAK OPTIMIZATION

To prepare for large crowds during Easter and March Break, VIA Rail optimized capacity and schedules. These plans were successful and VIA Rail saw a 7 per cent increase in ridership and a 16 per cent increase in revenues on the network compared to 2015. The increases were even more impressive on our long-distance services. The eastern and western services saw an increase of 24 per cent in ridership and 78 per cent in revenues, largely due to the introduction of the well-received Prestige class on the *Canadian*. Over the Easter weekend, several trains showed an occupancy rate of over 85 per cent and 98.5 per cent of trains arrived on-time or with only minor delays.

SUBSTAINABLE MOBILITY

In April, VIA Rail published its first [Sustainable Mobility Report](#). The major topics covered in the report include: customer service, socio-economic development, safety, environmental responsibility, being an employer of choice, and transparency and governance. In this first quarter report's Sustainable Mobility section, we will include information that relates to these priorities.



OPERATE SAFELY AND EFFICIENTLY

Safety remains VIA Rail's number one priority and we are continuously making improvements in order to ensure that our passengers arrive safely at their destinations, that our employees work in a safe environment, and that the public is informed about safety around railways.

GPS Train Safety System

VIA Rail made upgrades to its GPS Safety system, a project designed to assist Locomotive Engineers through notifications that alert them to critical information including signals, speed restrictions, or important milestones. This quarter, the braking curve

model, a key safety feature which determines safe braking distances and speeds, was incorporated into the system. This in-house project is the first of its kind in Canada and will be a great asset to VIA Rail's safety system.



BE AN EMPLOYER OF CHOICE



Presidential Webcast

In February, VIA Rail's President and CEO, known for his strong focus on communication, held his first national webcast which was broadcast from our Montréal headquarters to all our employees across the country simultaneously. The webcast provided an update on VIA Rail's plans for 2016 and allowed employees to submit live questions, some of which were answered during the broadcast. Over 30 per cent of our employees watched the webcast live and many more watched the video which was posted on VIA Rail's intranet.

VIA360

The rollout of VIA360, a new crew management system, began in Halifax this quarter. This system includes an employee portal which allows On-Train Service employees and locomotive engineers to view their schedules, bid for assignments, manage their time sheets, and more. This reflects a substantial improvement in the crewing tools VIA Rail uses and will provide employees with a self-service portal which will enable them to better manage their work life. The employee portal can be accessed anywhere at any time through any internet connected device. The gradual integration of the system will continue throughout 2016. Once fully implemented, this system will allow VIA Rail to scale crewing procedures to support strategic initiatives and key objectives, such as dedicated tracks.



SUPPORT SOCIO-ECONOMIC DEVELOPMENT

Recognition and Support of the Defence Community

VIA Rail was one of the first Crown Corporations to recognize the exceptional work accomplished by our armed forces. In order to contribute to their well-being, we partnered in events coordinated by the Conference of Defence Associations Institute, Women in Defence and Security Canada, and Canada Company this quarter.

All Veterans, active military members, and their families continue to receive a 25 per cent discount on personal travel. Close to 9,000 Canadian Armed Forces members took advantage of the offer this quarter. Already this represents a growth of 15 per cent compared to the same quarter last year. Overall more than 148,000 trips have been made since the program started in November 2010. VIA Rail will also provide complimentary train travel to ill and injured Canadian Armed Forces members, Veterans, and their families who are attending mental health programs and services in partnership with Wounded Warriors Canada.

Community Involvement in Southwestern Ontario

VIA Rail continues to meet regularly with community groups in Southwestern Ontario to engage in discussions about improvements to service offerings and stations. This quarter, VIA Rail representatives met with Rail Advocacy in Lambton and Southwestern Ontario Transportation Alliance. In January, repairs of Sarnia Station's masonry and roof were completed as a result of community feedback received earlier in 2015.

National Partnerships

This quarter, VIA Rail became the Official Rail Partner of the National Arts Center (NAC), one of the largest performing arts facilities in Canada. The NAC works with artists from across Canada and around the world in the fields of classical music, English and French theatre, dance, variety, and community programming. We are proud to help nurture and support Canadian talent. Part of VIA Rail's three-year agreement with the NAC includes support for the Governor General's Performing Arts Awards. In addition to advertising and promotional exposure, VIA Rail will partner with the NAC to promote travel to destinations where NAC artists are performing, including their home in Ottawa.



Members of the VIA Rail Management Committee and Wounded Warriors Canada executives celebrate their new partnership

Welcoming New Citizens

VIA Rail continues its partnership with the Institute of Canadian Citizenship (ICC) and participation in the Cultural Access Pass, which offers new Canadians the chance to discover their country by train at a discounted rate. This quarter, 1,400 new citizens took advantage of the offer, joining the almost 18,000 since the start of the partnership. VIA Rail has also partnered with the ICC on the new cultural pass to help Syrian refugees integrate into Canadian life.

At the end of March, in collaboration with the ICC and the Ministry of Immigration, Refugees, and Citizenship Canada, VIA Rail organized a citizenship ceremony for 40 new citizens from 18 different countries in its Halifax Station. This is the second citizenship ceremony hosted in a VIA Rail station and future ceremonies are being discussed.



Photo: Michelle Doucette

New Canadians and their families at the citizenship ceremony in Halifax Station

AWARDS AND RECOGNITIONS



EMPLOYEE DISTINCTION AWARDS AND THE CLIENT INNOVATION CHALLENGE

Last fall VIA Rail introduced two new employee recognition programs. The Distinction Awards, presented regionally, are awarded to peer-nominated employees who excel in the fields of customer service, maintenance, innovation, and team building. In addition to recognizing employees who have gone above and beyond, we hope these awards inspire others to follow their example.

The national Client Innovation Challenge invited all VIA Rail employees to submit their ideas on how we could further improve our customer experience. Many of our employees are customer-facing, and therefore have an insider's perspective on how to best meet their needs. The Client Innovation Challenge was a concrete way to recognize the value of their ideas and experiences.

At our January employee recognition events we handed out Distinction Awards to 14 outstanding employees in the categories of Five-Star Service, Maintenance Excellence, Success Story, and Team Spirit. We also celebrated the three winning teams of the Client Innovation Challenge. All three projects are being evaluated and will go into development in 2016.



VIA Rail management presents the Client Innovation Challenge award to Debbie Hsia-Nembhard, Elizabeth Brown, and Pravita Luximon



Yves Desjardins-Siciliano, VIA Rail President and CEO, presents the Client Innovation Challenge award to Richard Haaparanta and Sean Schofield



VIA RAIL RECOGNIZED AS ONE OF CANADA'S BEST EMPLOYERS

Forbes unveiled its 2016 edition of Canada's 250 Best Employers at the start of the year and VIA Rail ranked #47. We are pleased to be acknowledged one of Canada's best employers, especially given today's competitive employee-retention practices. This recognition is a strong reflection of the importance we place on our employees' well-being. It also reflects the pride VIA Rail employees share in their organization and their dedication to moving people — in both senses of the word.





KEY PERFORMANCE INDICATORS

VIA Rail 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.

KEY PERFORMANCE INDICATORS		Quarters ending March 31		
INDICATOR	UNIT	Q1 2016	Q1 2015	Vs 2015
CAPACITY DEPLOYED (IN MILLIONS) Number of available seat-miles (ASM) ⁽¹⁾	ASM	356.4	324.7	■
TOTAL REVENUES / ASM (RASM) Total revenues divided by total ASM	cents	18.54	18.44	■
TOTAL COSTS ⁽²⁾ / ASM (CASM) Total operating expenses divided by total ASM	cents	38.03	40.86	■
RASM / CASM Revenues per available seat-mile divided by the costs per available seat-mile	%	48.7	45.1	■
ON-TIME PERFORMANCE On-Time Performance of all VIA trains	%	79.2	63.3	■
ON-TIME PERFORMANCE - VIA RAIL INFRASTRUCTURE ⁽³⁾ On-Time performance of all VIA Rail trains on VIA Rail owned infrastructure	%	95.7	N/A	N/A
TRAIN INCIDENTS Includes mainline derailments, cardinal rule violations, critical speed violations, or critical rule violations which result in injury to passengers and/or employees, or damage to the rolling stock or infrastructure for a value of \$25,000 or more	#	2	1	■
EMPLOYEE ATTENDANCE Total hours of absences per month divided by the total possible work hours per month	%	94.8	94.1	■

(1) Seat-miles are the number of seats available for sale, multiplied by the number of miles travelled

(2) Total costs include pension costs for current services but exclude cost for past services

(3) This indicator was not tracked in Q1-2015

■ Performance on or above previous year

■ Performance slightly below target (less than 10 % below previous year)

■ Performance below target (10 % and more below previous year)

A woman with reddish-brown hair is looking out of a train window. Her reflection is visible in the glass. She is wearing a dark blue jacket. The train is moving, as indicated by the blurred background of tracks and foliage. The text "GOVERNANCE AND ACCOUNTABILITY" is overlaid on the bottom left of the image.

GOVERNANCE AND ACCOUNTABILITY

THE BOARD OF DIRECTORS

As of March 31st, 2016, the Board of Directors consisted of the Lead Director, the President and Chief Executive Officer and eight other directors appointed by the Government of Canada. Of the nine directors (not including the CEO of VIA Rail), five are women and four are men. The Board is responsible for overseeing the strategic direction and management of the Corporation, and reports on VIA Rail's operations to parliament through the Honourable Marc Garneau, Minister of Transport.

ACCESS TO INFORMATION AND PRIVACY

VIA Rail believes that openness and transparency are the starting point in building a trusted relationship with its customers, its partners and with the general public. In 2007 VIA Rail became subject to both the *Access to Information Act* and the *Privacy Act*. Since then, we have been committed to responding to information requests from the public, the media, and all those interested in VIA Rail's operations. During the first quarter of 2016, VIA Rail received four new requests, and one was still in progress at the end of the quarter.

PUBLIC MEETINGS AND REPORTS

During the first quarter of 2016, three Board meetings were held. The four different Board committees met a total of six times. The attendance rate of Board members at these meetings was 84 per cent. Cumulative fees paid to Board members during this time period totalled \$31,394.

PROMOTION OF OFFICIAL LANGUAGES

VIA Rail complies with the *Official Languages Act* and is proud to offer services in both official languages. In the first quarter of 2016 VIA Rail helped promote linguistic minority communities by participating events such as the *Festival du Voyageur* in Winnipeg, and the *Concours LOL-Mort de rire*. In collaboration with the *Association canadienne-française de l'Ontario* and the group Just for Laughs, *Concours LOL-Mort de rire* encourages young Ontario Francophones to pursue comedy careers in French. VIA Rail, also partnered, for the second consecutive year, with the "Young Québécois Leading the Way" forum in collaboration with the Québec Community Groups Network.

Over this period two complaints were filed against VIA Rail with the Commissioner of Official Languages.

TRAVEL, HOSPITALITY AND CONFERENCE EXPENSES

THE FOLLOWING TRAVEL, HOSPITALITY AND CONFERENCE EXPENSES WERE SUBMITTED DURING THE FIRST QUARTER OF 2016:

Eric Stefanson Interim Chairman of the Board	Nil
Yves Desjardins-Siciliano President and CEO	\$19,574
Board of Directors (9 members)	\$6,330
Executive management committee (7 members)	\$37,061
Total VIA Rail Management (including Board, Executives and all Management employees)	\$309,983



MANAGEMENT DISCUSSION AND ANALYSIS

This is a review of VIA Rail Canada's (VIA Rail) operations, performance and financial position for the quarter ended March 31, 2016, compared with the quarter ended March 31, 2015. It should be read in conjunction with the interim condensed financial statements and notes.

1. FINANCIAL HIGHLIGHTS

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

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

IN MILLIONS OF CANADIAN DOLLARS	Quarters ended March 31			
	2016	2015	Var \$	Var %
Passenger Revenues*	60.6	54.8	5.8	10.6 %
Total Revenues*	66.1	59.9	6.2	10.4 %
Operating expenses*	130.3	126.9	3.4	2.7 %
Employer contributions for employee benefits*	15.8	19.3	(3.5)	(18.1 %)
Total Operating expenses*	146.1	146.2	(0.1)	(0.1 %)
Operating Loss	(80.0)	(86.3)	(6.3)	(7.3 %)
Operating funding from Government of Canada	80.0	86.3	(6.3)	(7.3 %)
Non funded elements and other accounting adjustments				
Employee Benefits to be funded in subsequent years	5.8	13.3	(7.5)	(56.4 %)
Depreciation and amortization / Impairment and loss (gain) on disposal of property, plant and equipment and intangible assets	(19.6)	(21.2)	1.6	7.5 %
Amortization of deferred capital funding	19.2	20.8	(1.6)	(7.7 %)
Other	3.7	(1.6)	5.3	n/a
Net income (loss) for the quarter	9.1	11.3	(2.2)	(19.5 %)
Actuarial gain (loss) on defined benefit plans	(90.2)	27.5	(117.7)	n/a
Total comprehensive income (loss) for the quarter	(81.1)	38.8	(119.9)	n/a

* Financial statements amounts adjusted to reflect funded activities.

Revenues and sources of funding for the quarter

Q1 2016

- 45 % Operating revenues
- 55 % Government operating funding



Q1 2015

- 41 % Operating revenues
- 59 % Government operating funding

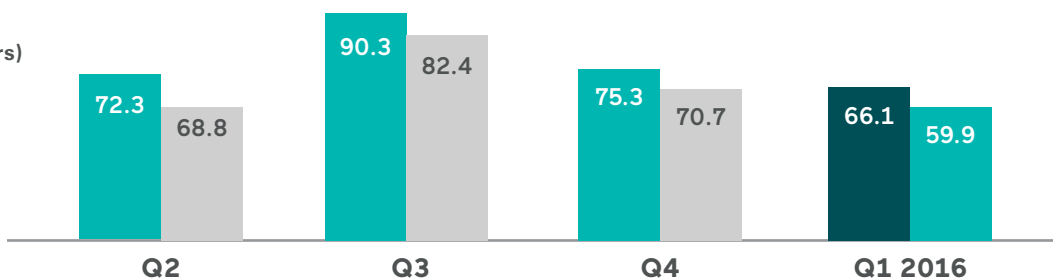


The following table shows financial data for the eight most recent quarters. This quarterly information is based on funded activities. Revenues vary throughout the year, reflecting the seasonality of activities, with the highest demand for services occurring during summer in the third quarter.

Quarterly revenues

(In Million of Canadian dollars)

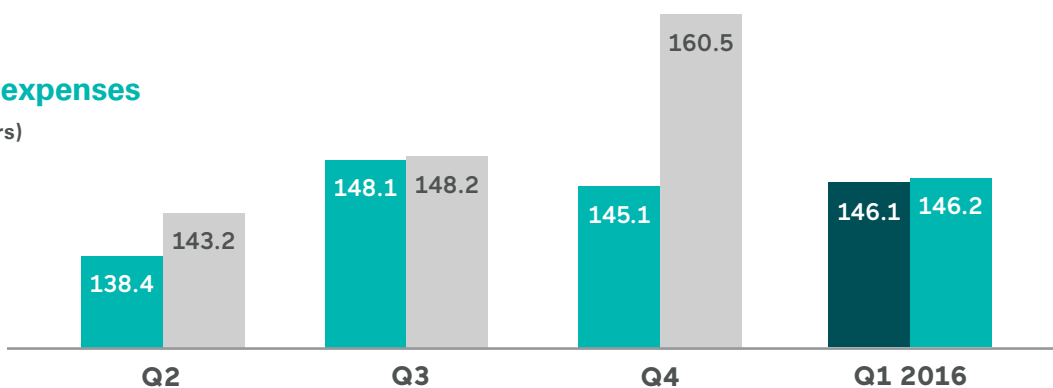
- 2016
- 2015
- 2014



Quarterly operating expenses

(In Million of Canadian dollars)

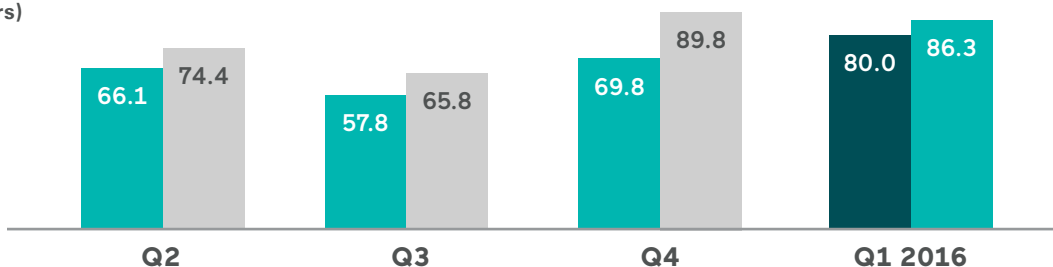
- 2016
- 2015
- 2014



Quarterly operating deficit

(In Million of Canadian dollars)

- 2016
- 2015
- 2014



The following sections of the document provide comments on the funded activities of the quarter ended March 31, 2016 (before non-funded elements and other accounting adjustments), compared to the quarter ended March 31, 2015.

2. REVENUES

Operating revenues

IN MILLIONS OF CANADIAN DOLLARS	Quarters ended March 31			
	2016	2015	Var \$	Var %
Passenger Revenues	60.6	54.8	5.8	10.6 %
Other Revenues	5.5	5.1	0.4	7.8 %
Total Revenues	66.1	59.9	6.2	10.4 %

* Financial statements amounts adjusted to reflect funded activities.

Passenger revenues total \$60.6 million for the quarter, an increase of 10.6 per cent compared to the corresponding quarter last year. The increase is mostly associated with additional revenues stemming in part from the additional frequencies introduced in Corridor East during the second semester of 2015, as well as revenue increases in most major train services. Another element contributing to the increase is the timing of Easter, it was in March this year, but was in April (during the second quarter) in 2015.

Other revenues total \$5.5 million for the quarter, an increase of 7.8 per cent compared to the corresponding quarter last year. This increase for the quarter is attributable in most part to higher station revenues.

a) Passenger Revenues

IN MILLIONS OF CANADIAN DOLLARS	REVENUES (IN MILLIONS)*			
	Quarters ended March 31			
	2016	2015	Var \$	Var %
Corridor East	42.2	38.4	3.8	9.9 %
Southwestern Ontario (SWO)	10.4	10.1	0.3	3.0 %
Québec City – Windsor corridor	52.6	48.5	4.1	8.5 %
<i>Ocean</i>	1.6	1.5	0.1	6.7 %
<i>Canadian</i>	4.2	2.9	1.3	44.8 %
Regional Services	0.7	0.6	0.1	16.7 %
Non Corridor	6.5	5.0	1.5	30.0 %
Other	1.5	1.3	0.2	15.4 %
TOTAL	60.6	54.8	5.8	10.6 %

* Revenue amounts were adjusted to reflect funded activities

IN MILLIONS OF CANADIAN DOLLARS	PASSENGERS (IN THOUSANDS)			
	Quarters ended March 31			
	2016	2015	Var #	Var %
Corridor East	640.6	636.4	4.2	0.7 %
Southwestern Ontario (SWO)	235.9	240.6	(4.7)	(2.0 %)
Québec City – Windsor corridor	876.5	877.0	(0.5)	(0.1%)
<i>Ocean</i>	15.7	14.5	1.2	8.3 %
<i>Canadian</i>	10.4	8.9	1.5	16.9 %
Regional Services	12.4	11.7	0.7	6.0 %
Non Corridor	38.5	35.1	3.4	9.7%
Total	915.0	912.1	2.9	0.3%

For the quarter

- / Corridor East revenues are 9.9 per cent above last year, mostly due to a higher average revenue (9.2 per cent);
- / Revenues in SWO increased by 3.0 per cent, although average revenues increased by 5.0 per cent, the increase was partly offset by the decline in ridership (2.0 per cent);
- / Revenues on the *Ocean* increased by 6.7 per cent compared to last year, due to the increase in ridership (8.3 per cent), partly offset by a decrease in average revenue (1.5 per cent);
- / Revenues on the *Canadian* are 44.8 per cent higher than those of the corresponding quarter last year. The performance is attributable to higher average revenue (23.9 per cent) in Sleeper and Prestige classes. Ridership also increased (16.9 per cent), due in part to the impact of the cancellation of the service between Toronto – Winnipeg for numerous days in March 2015;
- / Revenues on Regional services have also increased by 16.7 per cent, and the increase is due to both higher average revenue (10.1 per cent), and higher ridership (6.0 per cent).

3. FUNDED OPERATING EXPENSES

IN MILLIONS OF CANADIAN DOLLARS	Quarters ended March 31			
	2016	2015	Var \$	Var %
Compensation & benefits*	54.1	51.7	2.4	4.6 %
Train Operations & Fuel	30.0	30.8	(0.8)	(2.6 %)
Realized loss (gain) on derivative financial instruments	2.7	1.8	0.9	50.0 %
Corporate Tax expense (recovery)	0.2	0.2	0.0	0.0 %
Other operating expenses*	43.3	42.4	0.9	2.1 %
Total Operating expenses (before employer contributions for employee benefits)	130.3	126.9	3.4	2.7%
Employer Contributions for employee benefits*	15.8	19.3	(3.5)	(18.1 %)
TOTAL FUNDED OPERATING EXPENSES	146.1	146.2	(0.1)	(0.1%)

* Financial statement amounts adjusted to reflect funded activities.



Q1 2016

37 %	Compensation and employee benefits (\$54.1M)
11 %	Employer contribution for employee benefits (\$15.8M)
21 %	Train operations and fuel (\$30M)
7 %	Stations and property (\$10.8M)
6 %	Maintenance material (\$9.1M)
2 %	On-train product costs (\$3.7M)
5 %	Marketing and sales (\$6.8M)
11 %	Other (\$15.8M)



Q1 2015

35 %	Compensation and employee benefits (\$51.7M)
13 %	Employer contribution for employee benefits (\$19.3M)
21 %	Train operations and fuel (\$30.8M)
8 %	Stations and property (\$10.9M)
7 %	Maintenance material (\$9.4M)
2 %	On-train product costs (\$3.5M)
5 %	Marketing and sales (\$6.9M)
9 %	Other (\$13.7M)

For the quarter:

/ Funded operating expenses before employer contributions for employee benefits increased by 2.7 per cent and totaled \$130.3 million for the quarter, the variance stemming from the following major elements:

- / Higher compensation and benefits with an increase of \$2.4 million, due mainly to additional capacity deployed during the second semester of 2015 and annual salary increases;
- / Higher realized loss on derivative financial instruments, which increased by \$0.9 million as a result of the impact of the hedging contracts for fuel (market fuel costs were lower than the contract prices);
- / Increase of \$0.7 million in provision for losses associated with outstanding litigation (cost included in the "other operating expenses" category);
- / Lower train operations and fuel of \$0.8 million, mostly due to lower fuel costs and improved consumption.

/ Employer contributions for employee benefits decreased by 18.1 per cent, mostly due to lower pension contributions for past services, resulting from the solvency improvement experienced in 2014, which improved the regulatory basis of the Corporation's pension plans for funding requirement in 2016, as well as the lower contributions to the supplemental executive retirement plan (funding requirements are reevaluated yearly in June).

4. GOVERNMENT FUNDING

IN MILLIONS OF CANADIAN DOLLARS	Quarters ended March 31			
	2016	2015	Var \$	Var %
Operating funding from the Government of Canada	80.0	86.3	(6.3)	(7.3 %)
Capital funding	22.1	28.3	(6.2)	(21.9 %)
Total	102.1	114.6	(12.5)	(10.9 %)
Detailed funding from Government				
Total funded revenues (section 2)	66.1	59.9	6.2	10.4 %
Total funded operating expenses (section 3)	146.1	146.2	(0.1)	(0.1 %)
Total funded operating loss	80.0	86.3	(6.3)	(7.3 %)

Operating funding decreased by \$6.3 million (7.3 per cent) compared to the corresponding quarter last year. The decrease is the result of higher revenue and lower funded expenses as shown in sections 2 and 3.

Operating government funding is recognized in the income statement and based the shortfall of revenues as compared to expenses.

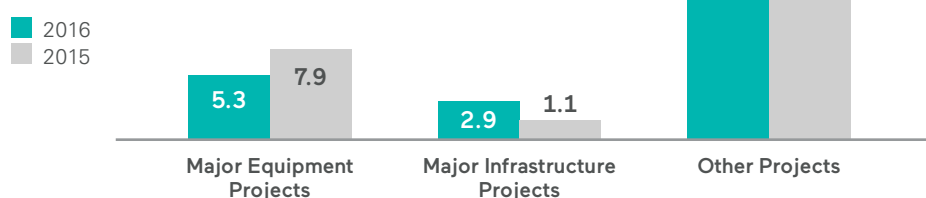
Capital funding is recorded as deferred capital funding in the statement of financial position. It is amortized and recognized as revenue over the same periods as the related property and equipment, and intangible assets are used in VIA Rail's operations.

5. CAPITAL INVESTMENTS

Fixed assets (net of accumulated depreciation) amounted to \$1,277.2 million, a \$2.6 million increase compared to the balance as at December 31, 2015.

Capital investments for the Quarter

(In Million of Canadian dollars)



Capital investments totaled \$22.1 million for the quarter, composed mainly of:

- / Investments of \$5.3 million made in Major Equipment projects for the LRC car fleet revitalization project;
- / Investments of \$2.9 million made in Major Infrastructure projects including \$1.4 million for the Newcastle infrastructure, \$0.5 million for the Guelph GEXR subdivision project, and \$1.0 million for infrastructure between Montréal and Ottawa;
- / An amount of \$5.8 million invested in Information Technology during the quarter for projects such as the customer relationship management system, automation of on train services system, PCI compliance, and seat selection projects;
- / Investments of \$5.8 million were also made in Other Equipment projects during the quarter.

6. CASH FLOW AND FINANCIAL POSITION

IN MILLIONS OF CANADIAN DOLLARS	Quarters ended March 31			
	2016	2015	Var \$	Var %
Balance, beginning of the period	9.3	13.9	(4.6)	(33.1 %)
Net cash (used in) provided by operating activities	34.9	1.2	33.7	n/a
Net cash (used in) provided by investing activities	(21.2)	(9.0)	(12.2)	(135.6 %)
BALANCE, END OF THE PERIOD	23.0	6.1	16.9	277.0 %

The Corporation's cash balance is \$23.0 million as at March 31, 2016, which is \$16.9 million higher than the balance as at March 31, 2015.



The increase in cash for the quarter is mostly due to a higher amount of operating and capital funding received from the Government of Canada.

7. RISKS ANALYSIS (COMPARED TO DECEMBER 31, 2015)

This section highlights VIA Rail's key risks which may have potential impact on the Company's financial results, and provides information on risks for which the trend or status has changed compared to the status as at December 31, 2015.

This section must be read in conjunction with the risk section of the Management Discussion and Analysis as at December 31, 2015, included in the 2015 Annual Report.

Key risks for which trend varied since December 31, 2015

GOVERNMENT AND STRATEGY			
NATURE OF RISK	TREND AS AT DEC. 31, 2015	NEW TREND	NATURE OF CHANGE SINCE DECEMBER 31, 2015
VIA Rail has limited powers as a non-agent Crown Corporation and is dependent on annual Government budgetary allocations to fund its operations, capital and pension obligations. Insufficient funding constitutes a risk in the efficient delivery of its services, as well as in the planning and execution of its medium-to-long-term strategies.			<p>VIA Rail has not yet received confirmed capital, operating and pension funding envelopes for years beyond the 2016-2017 government fiscal year.</p> <p>The current confirmed funding envelopes expire in March 2017, there is therefore a risk that additional capital, operating and capital funding for the following years may not be obtained, or be only obtained in March 2017 or after. Insufficient funding levels will impact efficient operations and the continuity of projects.</p>



INCREASING





STABLE



DECREASING

EQUIPMENT QUALITY, AVAILABILITY AND RELIABILITY

NATURE OF RISK	TREND AS AT DEC. 31, 2015	NEW TREND	NATURE OF CHANGE SINCE DECEMBER 31, 2015
<p>VIA Rail is investing in the existing fleet through ongoing capital injections to maintain it in a state of good repair, improve reliability and minimize increased maintenance costs associated with an aging fleet.</p> <p>In the near term, if there is a need for additional equipment, the Corporation has identified potential suppliers who could rent equipment to VIA Rail on a short-term basis.</p>			<p>Although the situation pertaining to the current fleet has not changed, VIA Rail received, through the March 2016 Federal budget, an additional funding envelope of \$3 million to complete technical analysis and pre procurement activities for the renewal of its fleet, which is the first stage towards the acquisition of a new fleet.</p>



INCREASING





STABLE



DECREASING

COSTS INFLUENCED BY EXTERIOR FACTORS

NATURE OF RISK	TREND AS AT DEC. 31, 2015	NEW TREND	NATURE OF CHANGE SINCE DECEMBER 31, 2015
Elements exist outside of the Corporation's control such as harsh weather and financial and commodity market conditions that can have an adverse impact on costs such as fuel, equipment maintenance, and pension costs. Failure to meet our budgeted costs can cause funding to be insufficient and lead to service reductions.			The decrease in the returns generated on pension plan assets has resulted in a significant actuarial loss for the quarter. Should the financial markets remain the same or continue to deteriorate, the pension plan deficits could increase and require additional funding from the Corporation.



INCREASING








STABLE



DECREASING

KEY RISKS WHICH REMAINED UNCHANGED SINCE DECEMBER 31, 2015

RISK	STATUS
Safety of passengers, employees and the public	
Employee contribution	
Revenue generation	
Infrastructure availability, reliability and quality	
Information technology	

8. OUTLOOK

The performance of the first quarter was very positive, in terms of both revenues and operating expenses. On-time performance, which had been an issue in 2015, also improved significantly during the quarter.

Initiatives to enhance service offerings and customer service, as well as the efforts to contain costs and maximize efficiency will remain major priorities for the Corporation, and if the positive trend of the first quarter continues, the Corporation should be able to meet its targets for the year and respect its authorized capital, operation and pension funding envelopes.

Although 2016 could be a very positive year, the challenges which the Corporation faces in terms of its limited potential for real growth due to limited capacity on the existing rail lines owned by the freight carriers, as well as those related to its aging fleets and increased maintenance costs, remain unchanged.

This is why Management will focus on the technical and pre-procurement activities for the renewal of its fleet, and will continue to promote the dedicated track project, as with its own dedicated passenger rails, VIA Rail would be able to increase ridership and provide a more reliable service for Canadians.

A man with short brown hair, wearing a light blue button-down shirt under a dark navy blazer, is walking towards the camera. He has a black strap over his right shoulder. In the background, a grey and yellow VIA Rail train is visible, slightly out of focus. Another man in a light-colored shirt is walking behind him to the left. The scene is outdoors, likely at a train station.

INTERIM CONDENSED FINANCIAL STATEMENTS

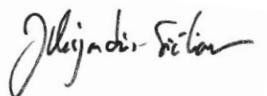
MANAGEMENT'S RESPONSIBILITY STATEMENT

QUARTER ENDED MARCH 31, 2016

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 are necessary to enable the presentation of quarterly financial statements that are free from material misstatement.

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

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



Yves Desjardins-Siciliano
President and Chief Executive Officer



Patricia Jasmin, CPA, CA
Chief Financial Officer

Montréal, Canada
May 31, 2016

INTERIM CONDENSED FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION

(IN THOUSANDS OF CANADIAN DOLLARS)	March 31, 2016	December 31, 2015
CURRENT ASSETS	<i>(unaudited)</i>	<i>(audited)</i>
Cash	\$ 22,995	\$ 9,318
Accounts receivable, trade	9,274	9,913
Prepays, advances on contracts and other receivables	5,533	4,722
Receivable from the Government of Canada	9,223	9,433
Derivative financial instruments (NOTE 17)	583	2,668
Materials	24,343	28,241
Asset Renewal Fund	7,780	7,780
	79,731	72,075
NON-CURRENT ASSETS		
Property, plant and equipment (NOTE 7)	885,313	884,806
Intangible assets (NOTE 8)	391,868	389,814
Asset Renewal Fund	873	873
Post-employment and other employee benefits (NOTE 11)	3,722	9,525
	1,281,776	1,285,018
Total Assets	\$ 1,361,507	\$ 1,357,093
CURRENT LIABILITIES		
Trade and other payables (NOTE 9)	\$ 87,374	\$ 90,727
Provisions (NOTE 10)	12,269	10,787
Derivative financial instruments (NOTE 17)	11,225	18,900
Deferred revenues (NOTE 13)	49,015	35,492
	159,883	155,906
NON-CURRENT LIABILITIES		
Post-employment and other employee benefits (NOTE 11)	130,566	51,940
	130,566	51,940
Deferred capital funding (NOTE 12)	1,266,088	1,263,122
Shareholder's (deficiency)		
Share capital	9,300	9,300
Accumulated deficit	(204,330)	(123,175)
Shareholder's (deficiency)	(195,030)	(113,875)
Total liabilities and shareholder's (deficiency)	\$ 1,361,507	\$ 1,357,093

Commitments (NOTES 14)

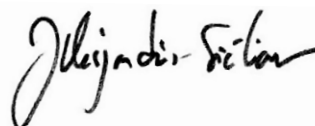
The notes are an integral part of the interim condensed financial statements.

Approved on behalf of the Board,



Jane Mowat, CPA, CA

Lead Director and Chair of the Audit
and Finance Committee



Yves Desjardins-Siciliano

President and Chief
Executive Officer

INTERIM CONDENSED FINANCIAL STATEMENTS

STATEMENT OF OPERATIONS AND OTHER COMPREHENSIVE INCOME

Quarters ended March 31 (IN THOUSANDS OF CANADIAN DOLLARS) (UNAUDITED)	2016	2015
REVENUES		
Passenger	\$ 60,209	\$ 55,021
Other	5,477	5,088
	65,686	60,109
EXPENSES		
Compensation and employee benefits	65,661	60,227
Train operations and fuel	29,956	30,752
Stations and property	10,850	10,942
Marketing and sales	6,778	6,946
Maintenance material	9,053	9,448
On-train product costs	3,692	3,484
Operating taxes	2,643	2,330
Professional services	2,674	2,477
Telecommunications	3,318	3,294
Depreciation and amortization (NOTES 7 AND 8)	19,470	19,426
Impairment and loss (gain) on disposal of property, plant and equipment and intangible assets (NOTES 7 AND 8)	97	1,784
Unrealized net loss (net gain) on derivative financial instruments	(5,590)	(742)
Realized loss (gain) on derivative financial instruments	2,747	1,831
Other	4,288	3,504
	155,637	155,703
OPERATING LOSS BEFORE FUNDING FROM THE GOVERNMENT OF CANADA AND INCOME TAXES	89,951	95,594
Operating funding from the Government of Canada (NOTE 6)	80,039	86,262
Amortization of deferred capital funding (NOTE 12)	19,162	20,842
Net income before income taxes	9,250	11,510
Income tax (expense) recovery	(214)	(163)
NET INCOME FOR THE PERIOD	9,036	11,347
Other comprehensive income (loss)		
Amounts not to be reclassified subsequently to net income (net of tax):		
Remeasurements of defined benefit plans (NOTE 11)	(90,191)	27,464
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD, NET OF TAX	(90,191)	27,464
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	\$ (81,155)	\$ 38,811

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

INTERIM CONDENSED FINANCIAL STATEMENTS

STATEMENT OF CHANGES IN SHAREHOLDER'S (DEFICIENCY)

Quarters ended March 31 (IN THOUSANDS OF CANADIAN DOLLARS) (UNAUDITED)	2016	2015
SHARE CAPITAL	\$ 9,300	\$ 9,300
Accumulated deficit		
Balance, beginning of period	(123,175)	(168,097)
Net income for the period	9,036	11,347
Other comprehensive income (loss) for the period	(90,191)	27,464
Balance, end of period	(204,330)	(129,286)
Total Shareholder's (deficiency)	\$ (195,030)	\$ (119,986)

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

INTERIM CONDENSED FINANCIAL STATEMENTS

STATEMENT OF CASH FLOWS

Quarters ended March 31 (IN THOUSANDS OF CANADIAN DOLLARS) (UNAUDITED)	2016	2015
OPERATING ACTIVITIES		
Net income for the period	\$ 9,036	\$ 11,347
Adjustments to determine net cash (used in) provided by operating activities:		
Depreciation and amortization (NOTES 7 AND 8)	19,470	19,426
Impairment and loss (gain) on disposal of property, plant and equipment and intangible assets (NOTES 7 AND 8)	97	1,784
Amortization of deferred capital funding (NOTE 12)	(19,162)	(20,842)
Interest income	(110)	(106)
Unrealized net loss (net gain) on derivative financial instruments	(5,590)	(742)
Post-employment and other employee benefit expenses (NOTE 11)	10,057	6,012
Employer post-employment and other employee benefit contributions (NOTE 11)	(15,819)	(19,267)
Net change in non-cash working capital items (NOTE 15)	36,886	3,581
Net cash (used in) provided by operating activities	34,865	1,193
INVESTING ACTIVITIES		
Capital funding (NOTE 12)	22,128	28,278
Change in capital funding receivable from the Government of Canada	(17,806)	(8,978)
Change in capital accounts payable and accrued liabilities	(3,492)	(112)
Acquisition of property, plant and equipment and intangible assets (NOTES 7 AND 8)	(22,128)	(28,278)
Interest received	110	106
Proceeds from disposal of property, plant and equipment and intangible assets	-	1
Net cash (used in) provided by investing activities	(21,188)	(8,983)
CASH		
Increase (decrease) during the period	13,677	(7,790)
Balance, beginning of period	9,318	13,872
Balance, end of period	\$ 22,995	\$ 6,082
REPRESENTED BY:		
Cash	\$ 22,995	\$ 6,082
	\$ 22,995	\$ 6,082

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

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

FOR THE PERIOD ENDED MARCH 31, 2016 (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, Montréal (Québec). The Corporation's vision is to be a smarter way to move people with a mission to place passengers at the core of everything we do and strive to offer a safe, smart and valued travel experience across Canada. The Corporation uses the roadway infrastructure of other railway companies and relies on them to control train operations.

The Corporation is subject to a directive that was issued in December 2013 pursuant to sections 89.8 and 89.9 of the *Financial Administration Act*. As per this directive, the Corporation must obtain Treasury Board approval on its negotiating mandates with respect to collective agreements as well as the terms and conditions of employment of its non-unionized employees who are not appointed by Governor in Council. The Corporation confirms that the requirements of the instructions have been met.

In July 2015, the Corporation was issued a directive (P.C. 2015-1114) pursuant to section 89.1 of the *Financial Administration Act* to align its travel, hospitality, conference and event expenditure policies, guidelines and practices with Treasury Board policies, directives and related instruments on travel, hospitality, conference and event expenditures in a manner that is consistent with their legal obligations, and to report on the implementation of this directive in the Corporation's next corporate plan. The Corporation has compared and revised its policy on travel expenses with the Treasury Board directives and related instruments on travel, hospitality, conference and event expenditures. As a result of this exercise, the Corporation confirms that the requirements of the instruction have been met.

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 May 31, 2016.

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, 2015, 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 3 of the Corporation's annual financial statements for the year ended December 31, 2015.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY AND CRITICAL JUDGMENTS

In the application of the Corporation's accounting policies, management is required to make certain judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent liabilities, at the reporting date.

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

They are reviewed on an ongoing basis. Changes to accounting estimates are recognized in the period in which the estimate is revised. However, uncertainties relating to judgments, assumptions and estimates could result in outcomes that would require a material adjustment to the carrying amount of the asset or liability affected in future years. Key sources of estimation uncertainty and assumptions are disclosed in Note 4 of the Corporation's annual financial statements for the year ended December 31, 2015.

5. FUTURE ACCOUNTING CHANGES

IFRS 9 - *Financial Instruments* - In July 2014, the IASB published the final version of IFRS 9 which replaces IAS 39 - *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

This standard is applicable retrospectively for periods beginning on or after January 1, 2018, with early adoption permitted. 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.

IFRS 15 - *Revenue from Contracts with Customers* - The standard specifies how and when revenue should be recognized and requires entities to provide more informative and relevant disclosures to users. The standard, which supersedes IAS 18 - *Revenue*, IAS 11 - *Construction Contracts* and a number of revenue-related interpretations applies to nearly all contracts with customers, unless the contracts are within the scope of other IFRS such as IAS 17 - *Leases*.

This standard is applicable retrospectively, either fully or based on a modified retrospective approach, for periods beginning on or after January 1, 2018 with early application permitted. The Corporation does not intend to early adopt IFRS 15. The extent of the impact of adoption of IFRS 15 has not yet been determined.

IFRS 16 - *Leases* - In January 2016, the IASB published a new standard to replace the previous standard IAS 17 - *Leases*. The new standard requires leases to be reported on a lessee's balance sheet as assets and liabilities, provides more transparency and improves comparability between companies. Lessor accounting remains similar to current practice - i.e. lessors continue to classify leases as finance and operating leases.

This standard is effective for periods beginning on or after January 1, 2019, with early application permitted for companies that also apply IFRS 15 – *Revenue from Contracts with Customers*. The Corporation does not intend to early adopt IFRS 16. The extent of the impact of adoption of IFRS 16 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 other comprehensive income in one period may be funded by the Government of Canada in different periods. Accordingly, the Corporation has different net results of operations for the period on a government funding basis than on an IFRS basis. These differences are outlined below:

	Quarters ended March 31	
(IN THOUSANDS OF CANADIAN DOLLARS)	2016	2015
Operating loss before funding from the Government of Canada and income taxes	90.0	95.6
Items requiring (providing) operating funds:		
Income tax expense (recovery)	0.2	0.2
Items not requiring (not providing) operating funds:		
Depreciation and amortization	(19.5)	(19.4)
Impairment and (loss) gain on disposal of property, plant and equipment and intangible assets	(0.1)	(1.8)
Post-employment and other employee benefits contributions in excess of expenses	5.8	13.3
Unrealized net gain (net loss) on derivative financial instruments	5.6	0.8
Adjustment for accrued compensation	(1.5)	(2.5)
Other	(0.5)	0.1
Operating funding from the Government of Canada	80.0	86.3

7. PROPERTY, PLANT AND EQUIPMENT

(IN MILLIONS OF CANADIAN DOLLARS)	January 1, 2016	Additions	Disposals	Transfers	March 31, 2016
Cost:					
Land	17.0	-	-	-	17.0
Rolling stock	926.9	-	(4.3)	7.6	930.2
Maintenance buildings	166.3	-	(0.2)	0.3	166.4
Stations and facilities	129.0	-	-	0.1	129.1
Owned infrastructures	243.0	-	-	0.2	243.2
Leasehold improvements	79.6	-	-	-	79.6
Machinery and equipment	25.7	-	-	0.1	25.8
Computer hardware	32.9	-	-	-	32.9
Other property, plant and equipment	6.8	-	(0.1)	-	6.7
Projects in progress	27.1	14.8	-	(8.3)	33.6
Total cost	1,654.3	14.8	(4.6)	-	1,664.5
Accumulated depreciation and impairment:					
Rolling stock	448.0	8.7	(4.3)	-	452.4
Maintenance buildings	118.7	0.4	(0.2)	-	118.9
Stations and facilities	40.3	1.2	-	-	41.5
Owned infrastructures	75.7	1.9	-	-	77.6
Leasehold improvements	44.5	0.8	-	-	45.3
Machinery and equipment	18.5	0.3	-	-	18.8
Computer hardware	21.2	0.9	-	-	22.1
Other property, plant and equipment	2.6	0.1	(0.1)	-	2.6
Total accumulated depreciation and impairment	769.5	14.3	(4.6)	-	779.2
Total net carrying amount	884.8	0.5	-	-	885.3

8. INTANGIBLE ASSETS

(IN MILLIONS OF CANADIAN DOLLARS)	January 1, 2016	Additions	Disposals	Transfers	March 31, 2016
Cost:					
Software (NOTE 1)	93.1	-	(0.2)	1.7	94.6
Right of access to rail infrastructure	424.9	-	-	-	424.9
Other intangible assets	4.4	-	-	-	4.4
Projects in progress	15.4	7.3	-	(1.7)	21.0
Total cost	537.8	7.3	(0.2)	-	544.9
Accumulated amortization and impairment:					
Software	66.4	2.4	(0.2)	-	68.6
Right of access to rail infrastructure	80.0	2.8	-	-	82.8
Other intangible assets	1.6	-	-	-	1.6
Total accumulated amortization and impairment	148.0	5.2	(0.2)	-	153.0
Total net carrying amount	389.8	2.1	-	-	391.9

Note 1 - Includes mostly software developed in-house.

9. TRADE AND OTHER PAYABLES

The Trade and other payables balance includes the following:

(IN MILLIONS OF CANADIAN DOLLARS)	March 31, 2016	December 31, 2015
Wages payable and accrued	36.2	37.6
Accounts payable - Capital assets	10.6	14.1
Accounts payable - Trade	35.0	33.5
Capital tax, income tax and other taxes payable	5.6	5.5
Total trade and other payables	87.4	90.7

10. PROVISIONS

The provision balance includes the following:

(IN MILLIONS OF CANADIAN DOLLARS)	January 1, 2016	Charge (used)	Reversal (used)	March 31, 2016
Environmental costs (NOTE A)	0.3	-	-	0.3
Litigation and equipment repairs (NOTE B)	10.5	1.8	(0.3)	12.0
Total provisions	10.8	1.8	(0.3)	12.3

a) Environmental costs

The Corporation has made a provision of \$0.3 million for environmental costs related to fuel spills (December 31, 2015: \$0.3 million).

b) Litigation and equipment repairs

The Corporation is subject to claims and legal proceedings brought against it in the normal course of business. The timing of settlement of these claims is to a large extent dependent on the pace of negotiation with the various counterparties and legal authorities. The Corporation cannot reliably estimate the timing of settlement of these claims.

Also, the Corporation incurs equipment repair costs as a result of crossing accidents and other incidents causing damages to the rolling stock. These equipment repair claims are mostly settled between 3 and 18 months from the date of initiation, depending on the settlement procedures used.

Such matters are subject to many uncertainties. Management believes that adequate provisions for litigation and equipment repairs have been made where required. The ultimate resolution of those matters is not expected to have a significant adverse effect on the financial position of the Corporation.

11. POST-EMPLOYMENT AND OTHER EMPLOYEE BENEFITS

The Corporation provides a number of pension plans with defined benefit (funded) and defined contributions components. The Corporation also provides unfunded other post-employment benefits, including post-retirement medical and life insurance benefits, and long-term employee benefits such as unfunded self-insured workers' compensation benefits, long-term employee disability benefits and continuation of benefit coverage for employees on long-term disability.

Pension plans

The Corporation Pension plans are governed according to applicable federal legislation such as the *Pension Benefits Standards Act* and the *Income Tax Act*. The Pension plans are under the jurisdiction of the Office of the Superintendent of Financial Institutions Canada.

All participants to the Pension plans are entitled to defined benefits pensions. Pension dispositions vary for a group of unionized employees hired on or after January 1, 2014.

Employees, other than certain unionized employees hired on or after January 1, 2014

Pension benefits are based on years of service and average salary of the employee's best five consecutive calendar years up to retirement.

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.

Participants contribute a fixed percentage of their earnings to the Pension plan while the Corporation contributes the amount needed to maintain adequate funding as dictated by the prevailing regulation. The Pension plans may be required to take measures to offset any funding and solvency deficit by changing the Corporation's and participants' contribution rate. Moreover, additional contributions by the Corporation may be required if these rules are not complied with. The investment committee of the board is responsible for the investment policy with regard to the assets of the fund.

Certain unionized employees hired on or after January 1, 2014

A group of unionized employees hired on or after January 1, 2014 ceased accruing benefits under the current defined benefit plan as of June 18, 2015. Effective June 19, 2015, this group of unionized employees were prospectively provided pension benefits in part from a reduced formula of the defined benefit component of the pension plan, and in part from a defined contribution component.

i) Defined benefit component

Pension benefits under the reduced formula are based on years of service and average salary of the employee's best five consecutive calendar years up to retirement. On each April 1, following the third anniversary of the retirement date, the participant's pension benefits will be indexed by 50 per cent of the increase in the Consumer Price Index subject to a maximum increase of 3 per cent, but only if the plan is in a surplus situation.

The contributions required to fund the defined benefit component of the plan are entirely paid for by the Corporation. The Corporation's contributions vary according to the financial situation of the plan, as determined by the plan's actuary and in accordance with regulatory requirements for pension plan funding.

The investment committee of the board is responsible for the investment policy with regard to the assets of the fund.

ii) Defined contribution component

Participants' contributions to the defined contribution component are mandatory and represent 4 per cent of their salary. Optional contributions to the defined contribution component can be made by the participants to a maximum of 3 per cent of their salary. The Corporation's contribution is equal to 50 per cent of participant's optional contributions and cannot exceed the calculated maximums based on the sum of the participant's age and years of service.

The retirement income is based on the accumulation of funds in the individual retirement savings account of the defined contribution component of the plan.

Participants have control over the investment decisions and bear the investment risk.

a) Defined benefit component of the Pension plans and Post-employment benefits plans

The financial and demographic assumptions used to determine the actuarial valuations of the pension plans were the same assumptions as disclosed in the Corporation's annual financial statements for the year ended December 31, 2015, except for the discount rate used to determine the defined benefit obligation that was decreased to 3.80 per cent.

The financial and demographic assumptions used to determine the actuarial valuations of the post-employment benefits were the same assumptions as disclosed in the Corporation's annual financial statements for the year ended December 31, 2015, except for the discount rate used to determine the defined benefit cost that was increased to 4.10 per cent.

Based on these actuarial valuations and projections to March 31, the summary of the principal valuation results, in aggregate, is as follows:

(IN MILLIONS OF CANADIAN DOLLARS)	Defined benefit component of the Pension plans		Post-employment benefit plans	
	March 31, 2016	December 31, 2015	March 31, 2016	December 31, 2015
DEFINED BENEFIT OBLIGATION:				
Balance at beginning of the period	2,223.3	2,181.9	19.7	19.4
Service cost	6.8	27.9	-	0.5
Past service cost	-	4.0	-	-
Interest expense	21.1	87.5	0.2	0.6
Employee contributions	3.0	12.6	-	-
Benefits paid	(32.1)	(111.7)	(0.1)	(0.4)
Effect of change in demographic assumptions	-	25.0	-	-
Effect of change in financial assumptions	56.5	(32.8)	-	(0.2)
Effect of employee transfers	-	6.5	-	-
Effect of experience adjustments	-	22.4	-	(0.2)
Balance at end of the period	2,278.6	2,223.3	19.8	19.7
FAIR VALUE OF PLAN ASSETS:				
Balance at beginning of the period	2,223.6	2,132.5	-	-
Interest Income	21.0	84.3	-	-
Return on plan assets (excluding interest income)	(33.7)	50.0	-	-
Employer contributions	14.3	52.3	0.1	0.4
Employee contributions	3.0	12.6	-	-
Benefits paid	(32.1)	(111.7)	(0.1)	(0.4)
Effect of employee transfers	-	6.5	-	-
Administration expenses	(1.3)	(2.9)	-	-
Balance at end of the period	2,194.8	2,223.6	-	-
Net Defined benefit asset (liability)	(83.8)	0.3	(19.8)	(19.7)

b) Long-term employee benefit plans

The financial and demographic assumptions used to determine the actuarial valuations of the long-term employee benefit plans were the same assumptions as disclosed in the Corporation's annual financial statements for the year ended December 31, 2015 except for the discount rate used to determine the benefit cost that was decreased to 3.30 per cent.

Based on these actuarial valuations and projections to March 31, the summary of the principal valuation results for the long-term employee benefits, including self-insured workers' compensation benefits is as follows:

(IN MILLIONS OF CANADIAN DOLLARS)	March 31, 2016	December 31, 2015
LONG-TERM EMPLOYEE BENEFIT OBLIGATION:		
Balance at beginning of the period	21.9	22.8
Service cost	1.3	4.8
Interest expense	0.2	0.7
Benefits paid	(1.2)	(4.5)
Effect of experience adjustments	-	(1.9)
Balance at end of the period	22.2	21.9
FAIR VALUE OF PLAN ASSETS:		
Balance at beginning of the period	-	-
Employer contributions	1.2	4.5
Benefits paid	(1.2)	(4.5)
Balance at end of the period	-	-
Net long-term employee benefit liability	(22.2)	(21.9)

c) Other long-term employee benefits

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

The change in the other long-term employee benefit obligation is explained as follows:

(IN MILLIONS OF CANADIAN DOLLARS)	March 31, 2016	December 31, 2015
OTHER LONG-TERM EMPLOYEE BENEFIT OBLIGATION:		
Balance at beginning of the period	1.1	1.5
Service cost	0.2	0.3
Benefits paid	(0.2)	(0.7)
Balance at end of the period	1.1	1.1
FAIR VALUE OF PLAN ASSETS:		
Balance at beginning of the period	-	-
Employer contributions	0.2	0.7
Benefits paid	(0.2)	(0.7)
Balance at end of the period	-	-
Net other long-term employee benefit liability	(1.1)	(1.1)

d) Summary of Pension 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 CANADIAN DOLLARS)	March 31, 2016	December 31, 2015
Assets:		
Defined benefit component of the Pension plans	3.7	9.5
Liabilities:		
Defined benefit component of the Pension plans	(87.5)	(9.2)
Post-employment benefit plans	(19.8)	(19.7)
Long-term employee benefit plans	(22.2)	(21.9)
Other long-term employee benefits	(1.1)	(1.1)
Total liabilities	(130.6)	(51.9)

**Total amounts recognized in the statement of operations
and other comprehensive income:**

	Quarters ended March 31	
(IN MILLIONS OF CANADIAN DOLLARS)	2016	2015
Operating expense:		
Defined benefit component of the Pension plans	8.2	4.0
Post-employment benefit plans	0.2	0.3
Long-term employee benefit plans	1.5	1.4
Other long-term employee benefits	0.2	0.3
Total	10.1	6.0

These operating expenses are included in the Compensation and employee benefits line item of the statement of operations and other comprehensive income.

	Quarters ended March 31	
(IN MILLIONS OF CANADIAN DOLLARS)	2016	2015
Other comprehensive income (loss):		
Defined benefit component of the Pension plans	(90.2)	27.4
Total	(90.2)	27.4

12. 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 CANADIAN DOLLARS)	March 31, 2016	December 31, 2015
Balance at beginning of the period	1,263.1	1,247.8
Government funding for property, plant and equipment and intangible assets (including the cost of land)	22.1	97.9
Amortization of deferred capital funding	(19.1)	(82.6)
Balance at end of the period	1,266.1	1,263.1

13. DEFERRED REVENUES

Deferred revenues are comprised of the following:

(IN MILLIONS OF CANADIAN DOLLARS)	March 31, 2016	December 31, 2015
Advance ticket sales	28.7	15.3
Gift cards	1.8	2.0
Non-monetary transactions	2.2	2.3
VIA Préférence	16.0	15.6
Other	0.3	0.3
Total deferred revenues	49.0	35.5

14. COMMITMENTS

The following table presents the contractual commitments of the Corporation that are not included in the statement of financial position:

(IN MILLIONS OF CANADIAN DOLLARS)	March 31, 2016				December 31, 2015
	Total commitments	Less than one year	From one to five years	More than five years	Total commitments
COMMITMENTS RELATING TO OPERATIONS:					
Non-cancellable operating leases (NOTE A):					
Lessee	33.7	3.5	10.9	19.3	34.6
Total	33.7	3.5	10.9	19.3	34.6
COMMITMENTS RELATING TO MAJOR CAPITAL INVESTMENTS:					
Rail infrastructure	4.0	0.8	3.2	-	5.4
Rolling stock	2.5	2.5	-	-	1.8
Total	6.5	3.3	3.2	-	7.2
Total commitments	40.2	6.8	14.1	19.3	41.8

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

In 2016, an amount of \$4.0 million (March 31, 2015: \$3.6 million) was recognized as an expense related to facilities operating leases.

- b) 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. No amounts are included in the table above regarding those contracts since the amount of the commitments is dependent on the annual usage of the tracks.
- c) The Corporation has provided letters of credit from a banking institution totalling approximately \$27.2 million (December 31, 2015: \$27.2 million) to various provincial government workers' compensation boards as security for future payment streams.

15. NET CHANGE IN NON-CASH WORKING CAPITAL ITEMS

	Quarters ended March 31	
(IN MILLIONS OF CANADIAN DOLLARS)	2016	2015
Accounts receivable, trade	0.6	(1.5)
Prepays, advances on contracts and other receivables	(0.8)	(2.0)
Operating funding receivable from Government of Canada (deferred government funding)	18.0	(5.1)
Materials	3.9	(1.2)
Trade and other payables	0.2	2.2
Provisions	1.5	0.5
Deferred revenues	13.5	10.7
Total	36.9	3.6

16. FINANCIAL INSTRUMENTS

The Corporation financial instruments are exposed to the same risk as disclosed in its annual financial statements for the year ended December 31, 2015.

17. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

COMMODITY SWAP	March 31, 2016		December 31, 2015	
	Notional Quantity (000's of U.S. Gallons)	Fair Value CAD (millions)	Notional Quantity (000's of U.S. Gallons)	Fair Value CAD (millions)
Liabilities	12,852	9.7	21,168	18.8

As at March 31, 2016, the commodity swaps have a fixed price per U.S. gallon in USD between 1.280 and 2.705 (December 31, 2015: between 1.280 and 2.745) and the maturity dates are 2016 to 2019 (December 31, 2015: 2016 to 2019). These financial instruments have a monthly settlement schedule.

FORWARD FOREIGN EXCHANGE CONTRACTS	March 31, 2016		December 31, 2015	
	Notional Amount (USD) (millions)	Fair Value CAD (millions)	Notional Amount (USD) (millions)	Fair Value CAD (millions)
Assets	16.1	0.6	24.1	2.7
Liabilities	21.2	1.5	18.5	0.1

As at March 31, 2016, the forward contracts rates are between 1.148 and 1.389 (December 31, 2015: between 1.148 and 1.389) in US dollars and the maturity dates are 2016 to 2019 (December 31, 2015: 2016 to 2019). These financial instruments have a monthly settlement schedule.

Amounts recognized in the statement of financial position:

	March 31, 2016	December 31, 2015
	Fair Value CAD (millions)	Fair Value CAD (millions)
Total assets	0.6	2.7
Total liabilities	11.2	18.9

