

SECOND QUARTER REPORT 2016

A woman with her hair in a bun, wearing a black quilted jacket and sunglasses, is shown in profile, looking out over a city street. The background is blurred, showing a bridge structure and trees. The overall tone is professional and modern.

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MESSAGE FROM THE PRESIDENT



Over the past two years, VIA Rail has made a big shift to become a more customer-focused organization. This change has been a key part of VIA Rail's modernization and is at the heart of our recent successes. It is thanks to the agility and hard work of everyone at VIA Rail that we've started to experience significant changes in our performance indicators — and faster than we anticipated. In the second quarter of 2016, our revenues were up 7 %, and ridership grew by 2.9 % compared to the same quarter last year. More Canadians are choosing a greener, smarter way to travel by making a habit of taking the train.

To maintain this forward momentum, we have been working on both short and longer-term projects.

This quarter, to make train travel even more convenient in the busy summer months, we optimized our cycling and introduced a new summer schedule in the Québec City – Windsor corridor. We increased capacity on routes in high demand as well as the number of departures on key routes to offer our passengers greater flexibility when planning their trips.

This new cycling has optimized how we operate. It has allowed us to reallocate our capacity and adjust trip times that better meet our customers' needs. Though increasing our capacity also means increasing our expenses, we keep a close watch to make sure that the benefits outweigh the cost — always with the intent of minimizing our overall deficit.

As well, these past months saw the renegotiation of our collective agreement with UNIFOR, the union that represents the 1,800 VIA Rail employees working in stations, customer service centres, maintenance centres, and administrative offices. We were pleased to reach an agreement without disruption to our services.

In terms of long-term projects, we've been investing in key initiatives that will have a positive impact on VIA Rail's future. Like many companies in Canada, the demographics of our workforce are changing. As part of our 2020 sustainable mobility strategy we want to attract new and diverse talent while retaining and developing our current employees.

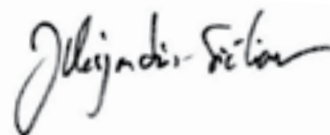


Since his appointment in May 2014, our President has been travelling across Canada to engage Canadians in discussions about the future of passenger rail. This quarter he spoke at 15 events including stops at universities, chambers of commerce, boards of trade, and conferences.

To this end, we spent the better part of 2015 developing the VIA Rail Leadership School, which was launched in February 2016. The program covers various leadership attributes that will enable managers to develop their teams, promote a values-based culture, and strengthen their leadership skills. We also started a three-year Locomotive Engineer Training program, through which select VIA Rail employees will become qualified Locomotive Engineers.

We are also continuing to work on our Dedicated Tracks project which has the potential to change the way Canadians move within the Québec City – Windsor corridor by separating passenger rail from freight. This quarter we completed additional internal analyses of the project and continue to meet monthly with Transport Canada. If implemented, this project will to boost Canada's economic development, relieve road congestion, minimize CO₂ emissions, and create a more reliable service for our passengers.

We look forward to seeing you on board soon,



YVES DESJARDINS-SICILIANO
President and Chief Executive Officer

SECOND QUARTER AT A GLANCE

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

	Q2-2016	Q2-2015	YTD 2016	YTD 2015
KEY FINANCIAL INDICATORS (IN MILLIONS OF DOLLARS)				
Total passenger revenues ⁽¹⁾	71.8	66.9	132.4	121.7
Total revenues ⁽¹⁾	77.3	72.3	143.4	132.2
Operating expenses ⁽¹⁾	(136.5)	(122.5)	(266.8)	(249.4)
Contributions for employee benefits ⁽¹⁾	(9.6)	(15.9)	(25.4)	(35.2)
Total Operating expenses ⁽¹⁾	(146.1)	(138.4)	(292.2)	(284.6)
Operating Income (Deficit)	(68.8)	(66.1)	(148.8)	(152.4)
Capital expenditures	(17.3)	(20.3)	(39.4)	(48.6)
Total Funding Required	(86.1)	(86.4)	(188.2)	(201.0)
Government Operating Funding	68.8	66.1	148.8	152.4
Government Capital Funding	17.3	20.3	39.4	48.6
Total Government Funding	86.1	86.4	188.2	201.0
Asset Renewal Fund	0.0	0.0	0.0	0.0
KEY OPERATING STATISTICS ⁽²⁾				
Total passenger-miles (IN MILLIONS)	207	200	388	377
Total seat-miles (IN MILLIONS)	390	362	746	687
Operating deficit per passenger-mile (IN CENTS)	33.2	33.1	38.4	40.4
Yield (CENTS PER PASSENGER-MILE)	33.8	32.5	33.3	31.4
Train-miles operated (IN THOUSANDS)	1,651	1,592	3,253	3,087
Car-miles operated (IN THOUSANDS)	11,228	10,559	19,985	18,293
Average passenger load factor (%)	53	55	52	55
Average number of passenger-miles per train mile	125	126	119	122
On-time performance (%)	74	70	76	66
<i>Number of full time equivalent employees during the period</i>	2,686	2,625	2,608	2,558

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

(2) Key operating statistics are unaudited

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

Train Service	Passenger Revenues* (IN THOUSANDS)	Passengers (IN THOUSANDS)	Passenger-Miles (IN THOUSANDS)	Government Funding (PER PASSENGER MILE)
Québec City - Windsor corridor	\$51,865	880	164,017	\$0.24
Longhaul West	\$15,167	25	31,253	\$0.32
Longhaul East	\$2,092	17	8,556	\$1.11
Regional Services	\$982	17	3,748	\$2.76
Total	\$70,106	939	207,574	\$0.33

KEY OPERATING STATISTICS BY SERVICE GROUP FOR THE SECOND 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	\$49,694	853	157,104	\$0.23
Longhaul West	\$12,523	25	29,841	\$0.30
Longhaul East	\$2,081	18	9,615	\$0.95
Regional Services	\$890	17	3,794	\$2.98
Total	\$65,188	913	200,354	\$0.33

* Excluding off-train and other passenger revenues.



REVIEW OF OPERATIONS

ATTRACTING PEOPLE TO OUR TRAINS

A BETTER CLASS OF PRESTIGE

To ensure the continued success of the Prestige class moving into its second year on the *Canadian*, several enhancements were made to the departure experience and on-board service, based on feedback from customers and employees. On-board, we improved our service offering and enhanced the dining experience. Changes include the introduction of an exclusive pre-dining appetizer service, as well as reserved seating in Park and Panorama cars. A reserved departure section for Prestige passengers was added in the Toronto Business Lounge, along with a light reception service. Improvements were also made to the check-in, boarding, and baggage registration processes in all major stations.



NEW OPTIONS FOR HUNGRY TRAVELLERS

We are constantly refreshing our service offerings to better meet the needs of our customers. Following the success of the fresh Montréal bagels on our Business class breakfast service out of Montréal, we have introduced a Canadian-made scone to the Business class breakfast service out of Toronto. We have also updated our economy menu offerings in the Québec City – Windsor corridor and now have a new cheese and veggie plate, egg sandwich, lemonade, sparkling water, and white wine available for purchase.

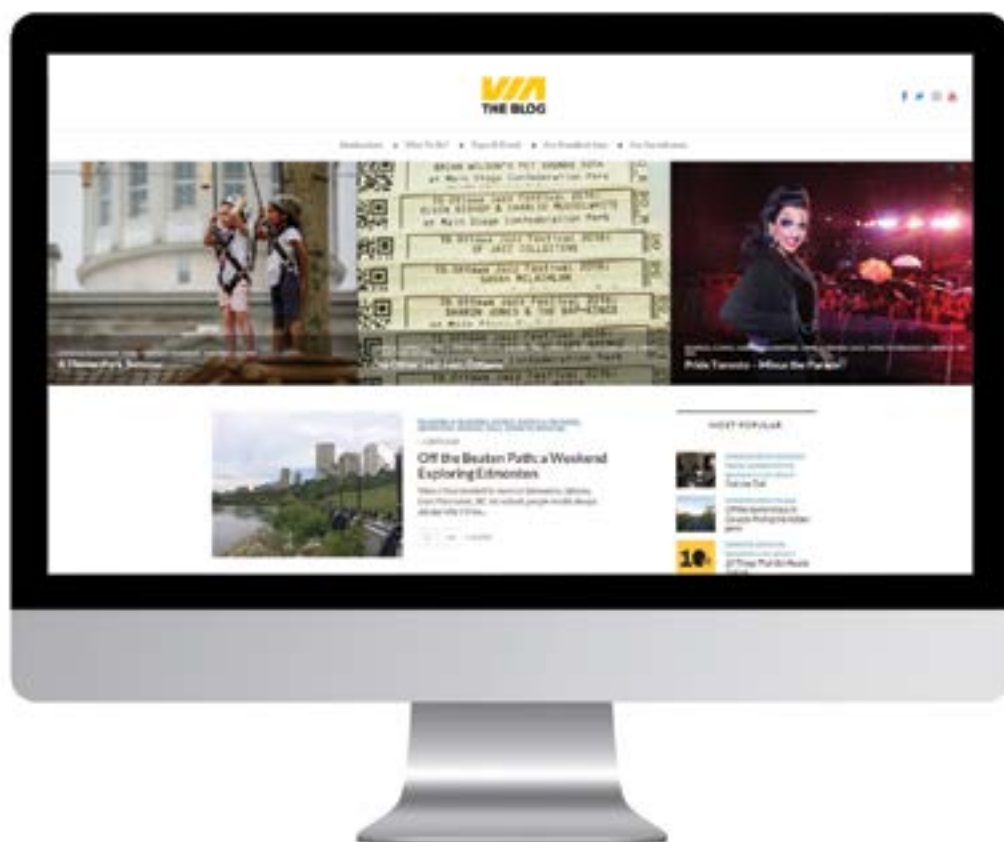
TALK. TEXT. WORK. RELAX.

This quarter we continued to target business travellers with a campaign that communicated the advantages of the train for business travel. We used digital billboards in high traffic business pedestrian areas, animated Facebook videos, and dynamic web banners to promote the train as a way to not only travel efficiently between cities, but also increase productivity during travel time. These ads ran in key markets across the Québec City – Windsor corridor including Montréal, Toronto, Ottawa, Kingston, Québec City, Windsor, and London.

INTRODUCING VIA: THE BLOG

Many Canadians don't realise what VIA Rail is really good at (not coincidentally the reason why VIA Rail was created nearly 40 years ago): serving the smaller cities and towns that many other modes of transport do not. We've learned a thing or two about those smaller cities and towns along the way. They are vibrant with culture, arts, sports, and tons of surprising things to do. Our new and improved blog is designed to explore the smaller cities and towns as well as the "hidden gems" in the larger urban areas. Forget what the regular tourism sites say, and learn what the locals are doing through [VIA: The Blog](#).

Readers can sort entries based on where they want to travel, who they're travelling with, and what sort of activities they're interested in. They can also read content from guest contributors and our President himself.



OPTIMIZING PERFORMANCE AND VALUE CREATION

MAJOR SUMMER SCHEDULE IMPROVEMENTS

Following many months of careful planning, VIA Rail was excited to debut its new summer schedule which took effect on June 1, 2016. Our schedule was optimized to increase capacity and offer greater travel flexibility to our passengers. More trains were added to new and existing routes and more stops were added between destinations. For example:

- / Direct connections between Québec City and Ottawa on weekends to offer more flexibility and faster trip times to passengers travelling between the two capitals
- / An additional stop at Casselman station to help more passengers reach Ottawa by 8 a.m.
- / Increased capacity on trains between Toronto – Ottawa by 4.7 per cent on weekdays, and 13.7 per cent on Sundays

In order to offer this more flexible schedule, we optimized our cycling by introducing Push-Pull consists using our new 50/50 cars. These consists, used primarily on the Toronto – Ottawa cycle, allow us to reallocate our fleet to offer more frequencies without needing additional equipment. Together, the new car configurations and schedule also give VIA Rail more flexibility for future scheduling improvements.

A man in a light blue button-down shirt and dark jeans walks towards the camera through a modern, brightly lit train corridor. He is carrying a black bag in his right hand. The corridor features large windows on the right and a series of wooden slats on the left, creating a rhythmic pattern. The ceiling is high with visible structural elements.

SUBSTAINABLE MOBILITY

SUSTAINABLE MOBILITY REPORT

In April of this year VIA Rail published its first Sustainable Mobility Report. The report outlined our six pillars of sustainable mobility: customer service, socio-economic development, safety, environmental responsibility, being an employer of choice, and transparency and governance. In this quarterly report, and all future reports, we will follow our review of operations with the Sustainable Mobility section, which will include information from the quarter that relates to these priorities.

As part of the communications strategy to promote the launch of the Sustainable Mobility Report, our President wrote an [article for Policy Magazine](#) discussing the importance of modernizing intercity rail, and an [Op-Ed for La Presse](#) about sustainable transportation.



PROVIDE THE BEST CUSTOMER EXPERIENCE

VIACONNECT: ANOTHER STEP IN TRANSFORMING THE CUSTOMER SERVICE EXPERIENCE

VIACONNECT, a new all-in-one multichannel contact center solution, was launched in the VIA Customer Centres (VCCs) in May. After just a few months of use, this improved communications tool has modernized the VCCs and transformed our relationships with customers. Customers are now able to request an automated call back rather than wait on hold, and will soon be able to chat with an agent online for instant answers. Our agents also benefit from a more comprehensive interactive desktop that shows their call history and company directory. VIACONNECT makes it easier for our customers to get the information they need, and for our employees to provide outstanding customer service.



SUPPORT SOCIO-ECONOMIC DEVELOPMENT

COMMUNITY INVOLVEMENT AND SPONSORSHIPS

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 and vouchers are donated to qualifying organizations who submit requests through [VIA Rail's website](#). During the second quarter of 2016 VIA Rail supported 589 non-profit and charitable organizations through travel credit or voucher donations totalling \$507,099 in train tickets.

VIA Rail also has a more in-depth sponsorship program that supports initiatives that correspond to our partnership pillars: Canadian Heritage, Youth, Community and Diversity, as well as commercial partnerships. For example, VIA Rail partnered with the YMCA's Summer Work Student Exchange Program to help over 800 students travel to communities across the country for six weeks of language and cultural immersion, as well as the Luminato Art Festival to bring artists and members of the press to Toronto for this annual arts event. VIA Rail also renewed its partnership with the Canadian Football League's eastern teams by offering fans a special discount to follow their team on the road by train. These larger sponsorships will be reported on in VIA Rail's Annual Reports beginning next year.

REACHING OUT TO FORT MCMURRAY RESIDENTS

In May, VIA Rail offered residents affected by the devastating wildfires in Fort McMurray, Alberta complimentary travel to and from Edmonton. Passengers in need were able to book complimentary travel in Economy class (in or Sleeper Plus class at a 60% discount) on a first-come, first-served basis. 51 passengers took advantage of VIA Rail's offer.

SYRIAN REFUGEES DISCOVER CANADA'S CAPITAL

Six Syrian refugee families who arrived in Kingston a few months ago travelled on board VIA Rail trains for a trip that would warm anyone's heart. As part of a cultural activity organized by the Institute for Canadian Citizenship (ICC), the families were treated to a tour of Ottawa. Arriving in Ottawa by VIA Rail train, they began with a visit to the Museum of Canadian History, which included the First Nation's exhibit and the Children's Museum for the kids, and they ended the day with a stop at our impressive Parliament Hill. For many of the Syrians it was their first time taking the train and they thoroughly enjoyed the experience – as did all VIA Rail employees who took part in the event.

As a partner of the ICC since 2012, VIA Rail invites new citizens to explore Canada's beauty from coast to coast and to discover several of its attractions through the ICC's Cultural Access Pass program. Since the start of this partnership, close to 20,000 trips have been made through VIA Rail's offer.



Rita Toporowski (centre) General Manager, Québec City - Windsor corridor, and the Syrian families.

OPERATE SAFELY AND EFFICIENTLY

VIA RAIL SUPPORTS RAIL SAFETY WEEK

The last week of April was Operation Lifesaver's Rail Safety Week and as always VIA Rail played a major role in this event. As part of our ongoing effort to keep the public safe around railways VIA Rail organized and participated in multiple rail safety activities across the country including:

- / A railway safety blitz at Fallowfield Station with the Transportation Safety Board, Operation Lifesaver, and OC Transpo
- / Outreach with the Children's Breakfast Clubs to educate Toronto school children aged 7-11 about the importance of being safe around rail tracks and railway crossings
- / An information booth at Brampton Station with the CN Police and Transport Canada



Richard DiBiase (CN), Yasmin Sanghera (Transport Canada), and Debbie Hsia-Nembhard, Regional Administrative Assistant (VIA Rail), at the rail safety information booth at Brampton Station.

FIRST INTERNAL AUDIT OF THE SAFETY MANAGEMENT SYSTEM

This quarter we completed the first internal audit of our new Safety Management System (SMS) under the new Railway Safety Management System Regulations. Building this new SMS was a major endeavour over the past two years and it was implemented in October, 2015, as per Transport Canada's required timeline. Although our SMS has been in place less than one year, the audit showed that it is already effective in supporting the policies and objectives of VIA Rail, and that it meets the requirements of the Railway Safety Management System Regulations. Though our system audit was successful, there is always room for improvement. VIA Rail will continue to challenge and upgrade its practices to be even safer.



Jean Laporte (Transportation Safety Board), Marc Beaulieu, Chief Transportation & Safety Officer (VIA Rail), Mike Regimbal (Operation Lifesaver), Gino Paolino (OC Transpo), Gord Robinson (OC Transpo) and Pamela O'Leary, Senior Advisor - Government and Community Relations (VIA Rail) at Fallowfield Station for the railway safety blitz.

BE AN EMPLOYER OF CHOICE

NEW POLICY FOR MILITARY RESERVISTS

VIA Rail is committed to supporting members of the Canadian Armed Forces. A Military Leave for Reservists Policy was developed and launched in May to ensure that active, permanent VIA Rail employees who are members of Canada's Reserve Force are able to take authorized leaves of absence without impacting their careers. The policy allows employees to do their annual military training or be deployed on an operation at home or abroad.



VIA RAIL LEADERSHIP SCHOOL

The second module of the VIA Rail Leadership School, aimed at all employees with management responsibilities, was presented in May and June. Close to 100 management employees participated in the seven sessions that were offered. This quarter's module, "The Inspired and Inspiring Leader", focused on management behaviours that will help VIA Rail make the shift towards a more agile culture. The sessions articulated the role of the leaders in engaging their team to action, and co-development, which allows managers to consult their peers on real-life issues they may be facing. Work has begun on the financial modules of the program which will be presented in the fall.

COLLECTIVE BARGAINING WITH UNIFOR

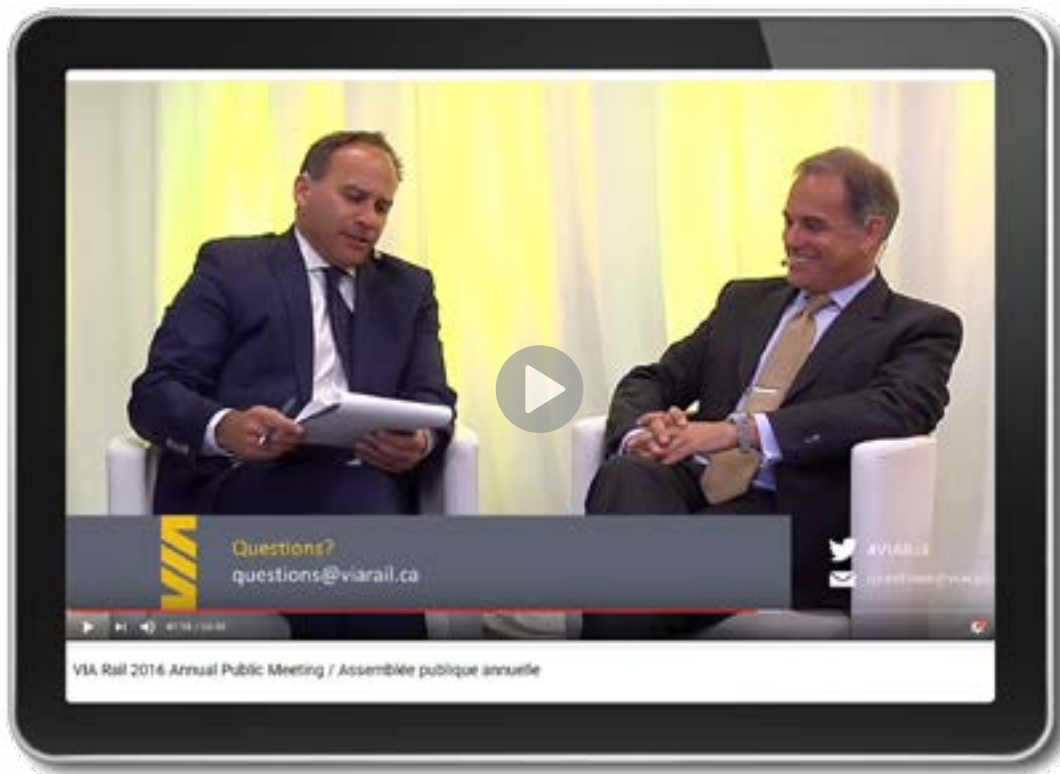
This quarter we reached an agreement with UNIFOR, the union that represents the 1,800 VIA Rail employees working in stations, customer service centres, maintenance centres, and administrative offices. As part of their bargaining strategy UNIFOR issued a 72 hour strike notice, and VIA Rail notified passengers of how their travel plans would be affected in the event that an agreement was not reached.

VIA Rail and UNIFOR were able to reach an agreement in time before the deadline. As a result of the potential strike, we had a loss of \$1 million in revenue and 12,600 passengers this quarter.

MAINTAIN THE **PUBLIC TRUST**

ANNUAL PUBLIC MEETING

On May 31, 2016 at 2 p.m. VIA Rail's Annual Public Meeting took place via webcast. This meeting gave the public the opportunity to hear VIA Rail's 2015 results directly from Jane Mowat, Lead Director of the Board, Yves Desjardins-Siciliano, President and CEO, and Patricia Jasmin, Chief Financial Officer. During the meeting the President also answered questions submitted by the public. Almost 300 people registered to view the webcast and 102 questions were sent to VIA Rail. The entire webcast and the full list of questions submitted along with their answers can be found on VIA Rail's [website](#).



Jean-François Legault, Chief Legal & Risk Officer and Corporate Secretary and Yves Desjardins-Siciliano, President and Chief Executive Officer, answer questions during the Annual Public Meeting.

AWARDS AND RECOGNITIONS



HONOURED BY THE QUÉBEC BUSINESS COMMUNITY

In May, VIA Rail won its first Mercuriade, a prestigious Québec business award given out by the Fédération des chambres de commerce du Québec. VIA Rail won the *Prix Accroissement de la productivité, Grande entreprise*, which recognized an innovative strategy that increased the company's productivity by improving organizational efficiency. VIA Rail won for our successful fuel saving project which was based on optimized train handling methods. This initiative, made possible by the installation of the telemetry system Wi-Tronix on board our locomotives, has allowed us to reduce our fuel usage by more than 3% since 2012.



Yves Dufort, Denis Vallières, Marie-Pier Therrien, Frédéric Paiement, and Philippe Garside receive VIA Rail's Mercuriade.



INNOVATION AND EXCELLENCE AWARD

VIA Rail received the "Innovation and Excellence: Delivering Value through Risk Management" award at the Global Risk Awards ceremony in London organized by the Institute of Risk Management. This award recognizes the value that VIA Rail's Enterprise Risk Management program has added to our activities and operations. This is the fourth time VIA Rail has been recognized for its risk management system. Last autumn, it received the Prize of Excellence in Security from the Railway Association of Canada as well as Honourable Mention in Enterprise Risk Management from the Risk Management Society. Denis Lavoie, Director of Enterprise Risk was also shortlisted as finalist for a 2015 Global Risk Awards in the category of Risk Management Newcomer of the Year.

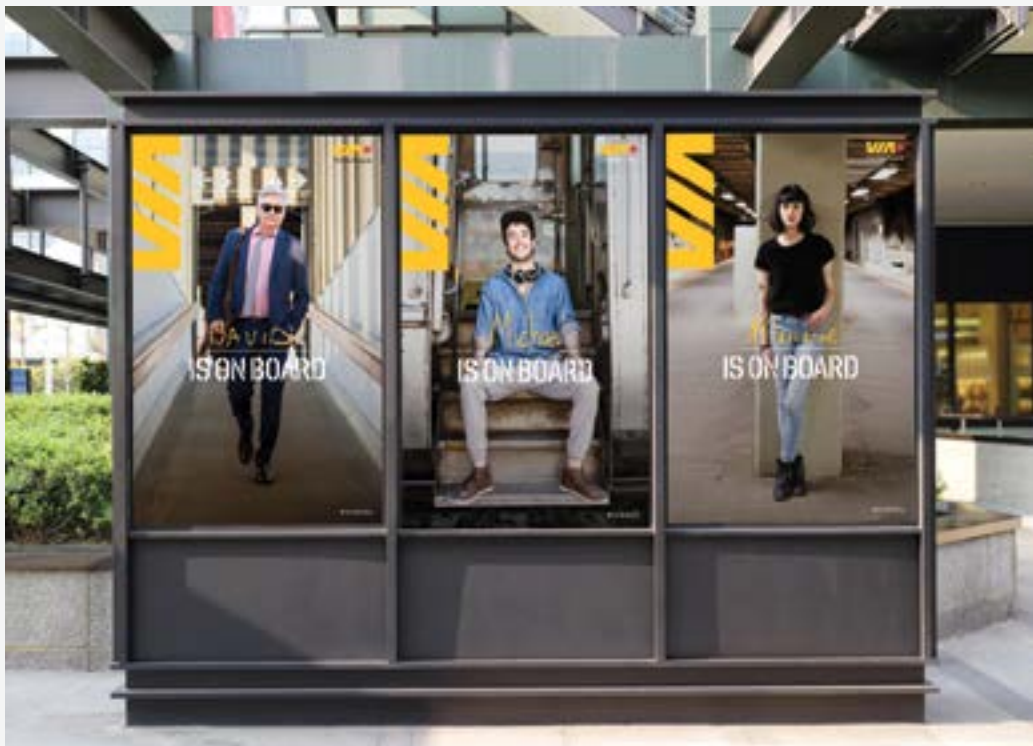


Jean-François Legault, Chief Legal & Risk Officer and Corporate Secretary, with Denis Lavoie, Director, Enterprise Risk at the Global Risk Awards.



MARKETING CAMPAIGN OF THE YEAR NOMINATION

VIA Rail's "Who's on Board" campaign was short listed, along with Flytoget and Airtrain City Link, Brisbane, for Marketing Campaign of the Year by the Global AirRail Alliance. This successful digital and traditional media campaign took a more customer-centric approach to rail travel and showcased real-life train enthusiasts giving genuine, unscripted testimonials — both in station and on board — to show the wide appeal of train. The campaign contributed to an increase in revenues last year, a higher conversion rate and was a source of major growth across social media platforms. The Global AirRail Awards will take place in Helsinki, Finland in November.





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 June 30		
INDICATOR	UNIT	Q2 2016	Q2 2015	Vs 2015
CAPACITY DEPLOYED (IN MILLIONS) Number of available seat-miles (ASM) ⁽¹⁾	ASM	390	362	7.7%
TOTAL REVENUES / ASM (RASM) Total revenues divided by total ASM	cents	19.84	19.94	■
TOTAL COSTS ⁽²⁾ / ASM (CASM) Total operating expenses divided by total ASM	cents	36.76	35.33	■
RASM / CASM Revenues per available seat-mile divided by the costs per available seat-mile	%	54.0	56.4	■
ON-TIME PERFORMANCE On-Time Performance of all VIA trains	%	74	70	■
ON-TIME PERFORMANCE - VIA RAIL INFRASTRUCTURE ⁽³⁾ On-Time performance of all VIA Rail trains on VIA Rail owned infrastructure	%	97	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	#	3	6	■
EMPLOYEE ATTENDANCE Total hours of absences per month divided by the total possible work hours per month	%	95.1	94.7	■

(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 during the full Second Quarter in 2015

- Performance on or above previous year
- Performance slightly below target or last year (less than 10 %)
- Performance below target or last year (10 % or more)



GOVERNANCE AND ACCOUNTABILITY

THE BOARD OF DIRECTORS

The Board of Directors consists of the Lead Director, the President & Chief Executive Officer and eight 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.

PROMOTION OF OFFICIAL LANGUAGES

VIA Rail complies with the *Official Languages Act* and is proud to offer services in both official languages. VIA Rail submitted its 2015-2016 Annual Review on Official Languages on May 31 to the appropriate federal authorities.

Over the quarter VIA Rail contributed to the development of linguistic minority communities in Canada by participating in events such as the annual benefit for *Francofonds* in Manitoba. VIA Rail also contributed to the youth project "LOL - *Mort de rire*" to encourage young Francophones from Ontario to assert their identity through training and comedy contests. VIA Rail also strengthened its ties with the Anglophone community in Québec by partnering with the Morrin Centre's Festival ImagiNation, a writer's festival, for the second consecutive year.

PUBLIC MEETINGS AND REPORTS

During the second quarter of 2016, three Board meetings were held. The four different Board committees met a total of five times. The attendance rate of Board members at these meetings was 91.5%. Cumulative fees paid to Board members during this time period totalled \$46,950.

ACCESS TO INFORMATION AND PRIVACY

VIA Rail believes that openness and transparency are the foundations of a trusting relationship with customers, its partners, and with the general public. VIA Rail became subject to both the *Access to Information Act* and the *Privacy Act* in 2007. Since then, we have been committed to responding to information requests from the public, the media, and all those interested in VIA Rail's operations.

The annual reports on VIA Rail's administration of the *Access to Information Act* and *Privacy Act*, covering activities completed between April 1, 2015 and March 31, 2016, were tabled in Parliament on June 17, 2016. These reports are now available on VIA Rail's [website](#) and offer various information pertaining to the Corporation's access to information and protection of privacy activities.

During the second quarter of 2016, VIA Rail received 13 new requests, and 5 were still in progress at the end of the quarter.

TRAVEL, HOSPITALITY AND CONFERENCE EXPENSES

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

Jane Mowat Lead Director of the Board	\$260
Yves Desjardins-Siciliano President and CEO	\$35,791
Board of Directors (9 members)	\$3,217
Executive management committee (7 members)	\$46,248
Total VIA Rail Management (513 employees including Board, Executives and all Management employees)	\$300,014



MANAGEMENT DISCUSSION AND ANALYSIS

This is a review of VIA Rail Canada's (VIA Rail) operations, performance and financial position for the quarter and six-month period ended June 30, 2016, compared with the quarter and six-month period ended June 30, 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 June 30				Six-month periods ended June 30			
	2016	2015	Var \$	Var %	2016	2015	Var \$	Var %
Passenger Revenues*	71.8	66.9	4.9	7.3%	132.4	121.7	10.7	8.8%
Total Revenues*	77.3	72.3	5.0	6.9%	143.4	132.2	11.2	8.5%
Operating expenses*	136.5	122.5	14.0	11.4%	266.8	249.4	17.4	7.0%
Employer contributions for employee benefits*	9.6	15.9	(6.3)	(39.6%)	<u>25.4</u>	<u>35.2</u>	<u>(9.8)</u>	<u>(27.8%)</u>
Total Operating expenses*	146.1	138.4	7.7	5.6%	292.2	284.6	7.6	2.7%
Operating Loss	(68.8)	(66.1)	2.7	4.1%	(148.8)	(152.4)	(3.6)	(2.4%)
Operating funding from Government of Canada	68.8	66.1	2.7	4.1%	148.8	152.4	(3.6)	(2.4%)
Non funded elements and other accounting adjustments								
Employee Benefits to be funded in subsequent years	(3.8)	9.3	(13.1)	(140.9%)	2.0	22.6	(20.6)	(91.2%)
Depreciation and amortization / Impairment and loss (gain) on disposal of property, plant and equipment and intangible assets	(22.6)	(20.5)	(2.1)	(10.2%)	(42.2)	(41.7)	(0.5)	(1.2%)
Amortization of deferred capital funding	22.3	20.2	2.1	10.4%	41.5	41.0	0.5	1.2%
Other	<u>1.6</u>	<u>(2.7)</u>	<u>4.3</u>	<u>n/a</u>	<u>5.3</u>	<u>(4.3)</u>	<u>9.6</u>	<u>223.3%</u>
Net income (loss) for the quarter	(2.5)	6.3	(8.8)	(139.7%)	6.6	17.6	(11.0)	(62.5%)
Actuarial gain (loss) on defined benefit plans	<u>(53.7)</u>	<u>46.1</u>	<u>(99.8)</u>	<u>n/a</u>	<u>(143.9)</u>	<u>73.6</u>	<u>(217.5)</u>	<u>n/a</u>
Total comprehensive income (loss) for the quarter	(56.2)	52.4	(108.6)	n/a	(137.3)	91.2	(228.5)	n/a

* Financial statements amounts adjusted to reflect funded activities.

Revenues and sources of funding for the quarter

Q2 2016

- 53 % Operating revenues
- 47 % Government operating funding



Q2 2015

- 52 % Operating revenues
- 48 % Government operating funding



Revenues and sources of funding for the six-month period:

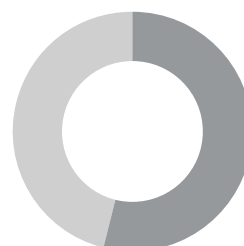
Year to date 2016

- 49 % Operating revenues
- 51 % Government operating funding



Year to date 2015

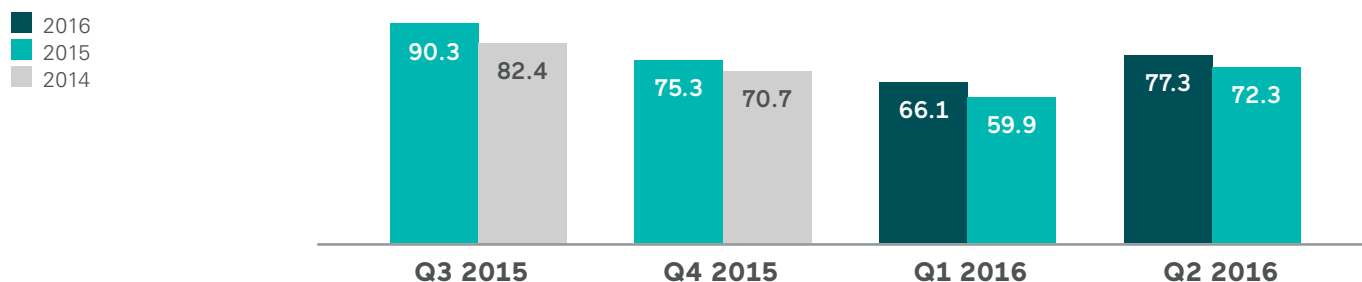
- 46 % Operating revenues
- 54 % Government operating funding



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.

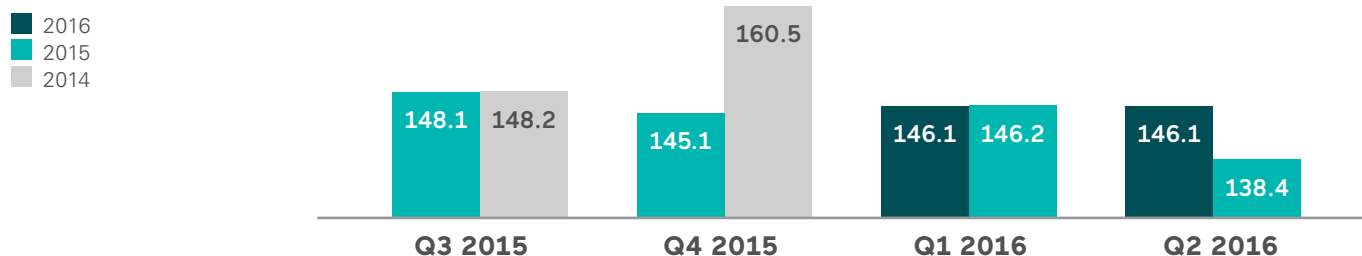
Quarterly revenues

(In Million of Canadian dollars)



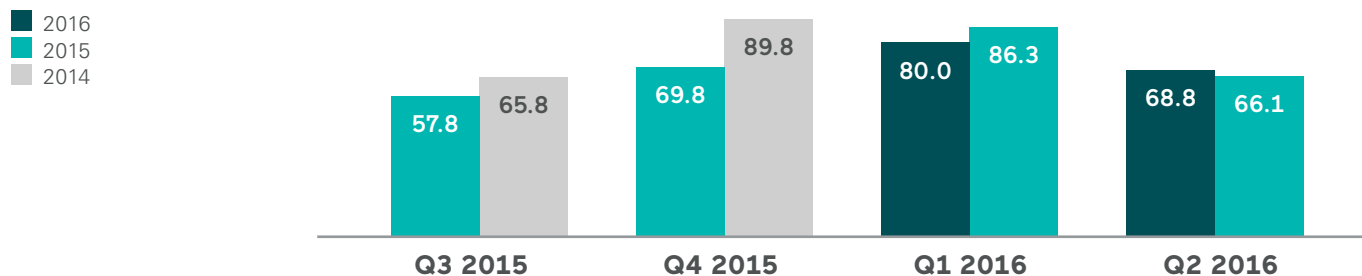
Quarterly operating expenses

(In Million of Canadian dollars)



Quarterly operating deficit

(In Million of Canadian dollars)



The following sections of the document provide comments on the funded activities of the quarter and six-month period ended June 30, 2016 (before non-funded elements and other accounting adjustments), compared to the quarter and six-month period ended June 30, 2015.

2. REVENUES

Operating revenues

	Quarters ended June 30				Six-month periods ended June 30			
IN MILLIONS OF CANADIAN DOLLARS	2016	2015	Var \$	Var %	2016	2015	Var \$	Var %
Passenger Revenues	71.8	66.9	4.9	7.3%	132.4	121.7	10.7	8.8%
Other Revenues	5.5	5.4	0.1	1.9%	11.0	10.5	0.5	4.8%
Total Revenues	77.3	72.3	5.0	6.9%	143.4	132.2	11.2	8.5%

* Financial statements amounts adjusted to reflect funded activities.

For the quarter:

Passenger revenues total \$71.8 million for the quarter, an increase of 7.3 percent compared to the corresponding quarter last year. The increase is mostly from the additional revenues generated on the *Canadian* and associated to the Prestige class, and from the additional frequencies introduced in Corridor East during the second half of 2015.

Other revenues total \$5.5 million for the quarter, an increase of 1.9 percent compared to the corresponding quarter last year. This increase for the quarter is attributable in most part to higher station revenues.

For the six month period:

Passenger revenues total \$132.4 million, an increase of 8.8 percent compared to last year. The increase also stems from the impact of the additional frequencies introduced in Corridor East during the second half of 2015, as well as from improved average fares in all major train services.

Other revenues total \$11.0 million for the period, and are 4.8 percent higher compared to the corresponding period last year. The increase is mainly attributable to higher station revenues.

a) Passenger Revenues

	REVENUES (IN MILLIONS)*							
	Quarters ended June 30				Six-month periods ended June 30			
IN MILLIONS OF CANADIAN DOLLARS	2016	2015	Var \$	Var %	2016	2015	Var \$	Var %
Corridor East	42.3	40.2	2.1	5.2%	84.5	78.6	5.9	7.5%
Southwestern Ontario (SWO)	9.6	9.4	0.2	2.1%	20.0	19.5	0.5	2.6%
Québec City – Windsor corridor	51.9	49.6	2.3	4.6%	104.5	98.1	6.4	6.5%
<i>Ocean</i>	2.0	2.1	(0.1)	(4.8%)	3.6	3.6	0.0	0.0%
<i>Canadian</i>	15.2	12.5	2.7	21.6%	19.4	15.4	4.0	26.0%
Regional Services	0.9	0.9	0.0	0.0%	1.6	1.5	0.1	6.7%
Non Corridor	18.1	15.5	2.6	16.8%	24.6	20.5	4.1	20.0%
Other	1.8	1.8	0.0	0.0%	3.3	3.1	0.2	6.5%
TOTAL	71.8	66.9	4.9	7.3%	132.4	121.7	10.7	8.8%

* Revenue amounts were adjusted to reflect funded activities

	PASSENGERS (IN THOUSANDS)							
	Quarters ended June 30				Six-month periods ended June 30			
IN MILLIONS OF CANADIAN DOLLARS	2016	2015	Var #	Var %	2016	2015	Var #	Var %
Corridor East	660.1	630.7	29.4	4.7%	1,300.7	1,267.1	33.6	2.7%
Southwestern Ontario (SWO)	220.5	222.0	(1.5)	(0.7%)	456.4	462.6	(6.2)	(1.3%)
Québec City – Windsor corridor	880.6	852.7	27.9	3.3%	1,757.1	1,729.7	27.4	1.6%
<i>Ocean</i>	16.8	18.7	(1.9)	(10.2%)	32.5	33.2	(0.7)	(2.1%)
<i>Canadian</i>	25.1	24.8	0.3	1.2%	35.5	33.7	1.8	5.3%
Regional Services	16.9	16.7	0.2	1.2%	29.3	28.4	0.9	3.2%
Non Corridor	58.8	60.2	(1.4)	(2.3%)	97.3	95.3	2.0	2.1%
TOTAL	939.4	912.9	26.5	2.9%	1,854.4	1,825.0	29.4	1.6%

* Revenue amounts were adjusted to reflect funded activities

For the quarter:

- / Corridor East revenues are 5.2 percent above last year, mostly due to higher ridership (4.7 percent);
- / Revenues in SWO increased by 2.1 percent, the increase attributable to higher average revenues which increased by 2.8 percent, partly offset by a slight decline in ridership (0.7 percent);
- / Revenues on the *Ocean* decreased by 4.8 percent as a result of a decline in ridership (10.2 percent), partly offset by improved average revenues (6.0 percent);
- / Revenues on the *Canadian* are 21.6 percent higher than those of the corresponding quarter last year. The performance is attributable to higher average revenues (20.1 percent) associated with the Prestige class. The service was launched in May 2015 and was consequently offered during only a portion of the quarter, whereas it was offered during all three months of the quarter this year. Ridership also increased by 1.2 percent;
- / Revenues on Regional services are stable at \$0.9 million for the quarter. Although ridership increased by 1.2 percent, this increase was totally offset by lower average revenues.

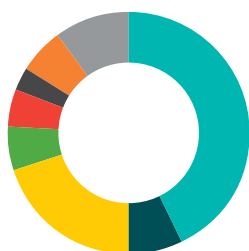
For the six-month period ended June 30:

- / Corridor East revenues are 7.5 percent above last year, and the increase stems from both higher ridership (increase of 2.7 percent) and improved average revenues (4.7 percent);
- / Revenues in SWO increased by 2.6 percent, the increase attributable to higher average revenues which rose by 4.0 percent, partly offset by lower ridership (1.3 percent);
- / Revenues on the *Ocean* have remained stable compared to last year; average revenues are 2.2 percent higher than last year however this increase was totally offset by the decline in ridership;
- / Revenues on the *Canadian* are 26.0 percent higher than those of the corresponding period last year. The performance is attributable to higher average revenue (19.6 percent) associated with the Prestige class which was introduced in May 2015, combined with increased ridership (5.3 percent);
- / Revenues on Regional services have increased by 6.7 percent, as a result of both increased ridership (3.2 percent) and higher average revenues (3.4 percent).

3. FUNDED OPERATING EXPENSES

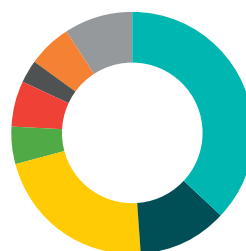
	Quarters ended June 30				Six-month periods ended June 30			
IN MILLIONS OF CANADIAN DOLLARS	2016	2015	Var \$	Var %	2016	2015	Var \$	Var %
Compensation & Benefits*	62.2	51.5	10.7	20.8%	116.3	103.2	13.1	12.7%
Train Operations & Fuel	29.8	31.0	(1.2)	(3.9%)	59.8	61.8	(2.0)	(3.2%)
Realized loss (gain) on derivative financial instruments	1.6	1.4	0.2	14.3%	4.3	3.2	1.1	34.4%
Corporate Tax expense (recovery)	0.2	0.3	(0.1)	(33.3%)	0.4	0.5	(0.1)	(20.0%)
Other operating expenses*	<u>42.7</u>	<u>38.3</u>	<u>4.4</u>	<u>11.5%</u>	<u>86.0</u>	<u>80.7</u>	<u>5.3</u>	<u>6.6%</u>
Total Operating expenses (before employer contributions for employee benefits)	136.5	122.5	14.0	11.4%	266.8	249.4	17.4	7.0%
Employer Contributions for employee benefits*	<u>9.6</u>	<u>15.9</u>	<u>(6.3)</u>	<u>(39.6%)</u>	<u>25.4</u>	<u>35.2</u>	<u>(9.8)</u>	<u>(27.8%)</u>
TOTAL FUNDED OPERATING EXPENSES	146.1	138.4	7.7	5.6%	292.2	284.6	7.6	2.7%

* Financial statement amounts adjusted to reflect funded activities.



Operating costs by category - Q2 2016

43 %	Compensation and employee benefits (\$62.2M)
7 %	Employer contribution for employee benefits (\$9.6M)
20 %	Train operations and fuel (\$29.8M)
6 %	Stations and property (\$9.2M)
5 %	Maintenance material (\$7.6M)
3 %	On-train product costs (\$4.5M)
6 %	Marketing and sales (\$8.1M)
10 %	Other (\$15.1M)



Operating costs by category - Q2 2015

37 %	Compensation and employee benefits (\$51.5M)
12 %	Employer contribution for employee benefits (\$15.9M)
22 %	Train operations and fuel (\$31M)
5 %	Stations and property (\$7.1M)
6 %	Maintenance material (\$8.7M)
3 %	On-train product costs (\$4.1M)
6 %	Marketing and sales (\$7.9M)
9 %	Other (\$12.2M)

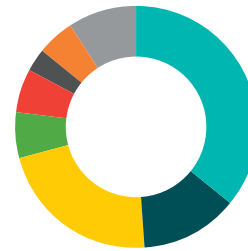
For the quarter:

- / Funded operating expenses before employer contributions for employee benefits increased by 11.4 percent and totaled \$136.5 million for the quarter, the variance stemming from the following major elements:
 - / Higher compensation and benefits with an increase of \$10.7 million, due mainly to the impact of one additional pay period (\$8.5 million), and to the additional capacity deployed during the second half of 2015;
 - / Higher realized loss on derivative financial instruments, which increased by \$0.2 million as a result of the impact of the hedging contracts for fuel (market fuel costs were lower than the contract prices);
 - / Increase in voice and data processing costs (\$1.5 million) and in station and property costs (\$2.1 million), both due to the fact that 2015 expenses were impacted by favorable non recurrent adjustments. (Both expenses are included in the "other operating expenses" category);
 - / Lower train Operations and fuel of \$1.2 million, mostly due to lower fuel prices.
- / Employer contributions for employee benefits decreased by 39.6 percent, mostly due to lower pension contributions for past services, resulting from an improving solvency funding status which serves as basis for determination of the Corporation's pension plans for funding requirement in 2016.



Operating costs by category
Six-month period ended June 30 2016

40 %	Compensation and employee benefits (\$116.3M)
9 %	Employer contribution for employee benefits (\$25.4M)
20 %	Train operations and fuel (\$59.8M)
7 %	Stations and property (\$20M)
6 %	Maintenance material (\$16.7M)
3 %	On-train product costs (\$8.2M)
5 %	Marketing and sales (\$14.9M)
10 %	Other (\$30.9M)



Operating costs by category
Six-month period ended June 30 2015

36 %	Compensation and employee benefits (\$103.2M)
13 %	Employer contribution for employee benefits (\$35.2M)
22 %	Train operations and fuel (\$61.8M)
6 %	Stations and property (\$18M)
6 %	Maintenance material (\$18.1M)
3 %	On-train product costs (\$7.6M)
5 %	Marketing and sales (\$14.8M)
9 %	Other (\$25.9M)

For the six-month period ended June 30:

- / Funded operating expenses before employer contributions for employee benefits increased by 7.0 percent and totaled \$266.8 million for the period, the variance attributable to the following major elements:
 - / Higher compensation and benefits with an increase of \$13.1 million, due mainly to additional capacity deployed during the second half of 2015, the impact of an additional pay period (\$8.5 million), as well as annual salary increases;
 - / Higher realized loss on derivative financial instruments, which increased by \$1.1 million as a result of the impact of the hedging contracts for fuel (market fuel costs were lower than the contract prices);
 - / Increase in station and property costs (\$2.0 million) and in data processing costs (\$1.5 million), both due to the fact that 2015 expenses were impacted by favorable non recurrent adjustments. (Costs are included in the "other operating expenses" category);
 - / Lower train Operations and fuel of \$2.0 million, mostly due to lower fuel prices.
- / Employer contributions for employee benefits decreased by 27.8 percent, mostly due to lower pension contributions for past services, resulting from an improving solvency funding status which serves as basis for determination of the Corporation's pension plans for funding requirement in 2016.

4. GOVERNMENT FUNDING

	Quarters ended June 30				Six-month periods ended June 30			
IN MILLIONS OF CANADIAN DOLLARS	2016	2015	Var \$	Var %	2016	2015	Var \$	Var %
Operating funding from the Government of Canada	68.8	66.1	2.7	4.1%	148.8	152.4	(3.6)	(2.4%)
Capital funding	17.3	20.3	(3.0)	(14.8%)	39.4	48.6	(9.2)	(18.9%)
Total	86.1	86.4	(0.3)	(0.3%)	188.2	201.0	(12.8)	(6.4%)
Detailed funding from Government								
Total funded revenues (section 2)	77.3	72.3	5.0	6.9%	143.4	132.2	11.2	8.5%
Total funded operating expenses (section 3)	146.1	138.4	7.7	5.6%	292.2	284.6	7.6	2.7%
Total funded operating loss	68.8	66.1	2.7	4.1%	148.8	152.4	(3.6)	(2.4%)

For the quarter:

Operating funding increased by \$2.7 million (4.1 percent) compared to the corresponding quarter last year and attributable to the higher operating loss. The operating loss has increased because although revenues have progressed compared to last year, the increase was not enough to offset the increase in operating expenses, as shown in sections 2 and 3 of this document.

Capital funding decreased by \$3.0 million (14.8 percent) and reflects the fact that lower capital investments were made than in the corresponding quarter last year.

For the six-month period:

Operating funding decreased by 2.4 percent and reflects the decrease in operating loss for the period. This decrease is the result of higher revenues, partly offset by higher funded expenses, as shown in sections 2 and 3 of this document.

Capital funding decreased by 18.9 percent and also reflects the fact fewer investments were made compared to last year.

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

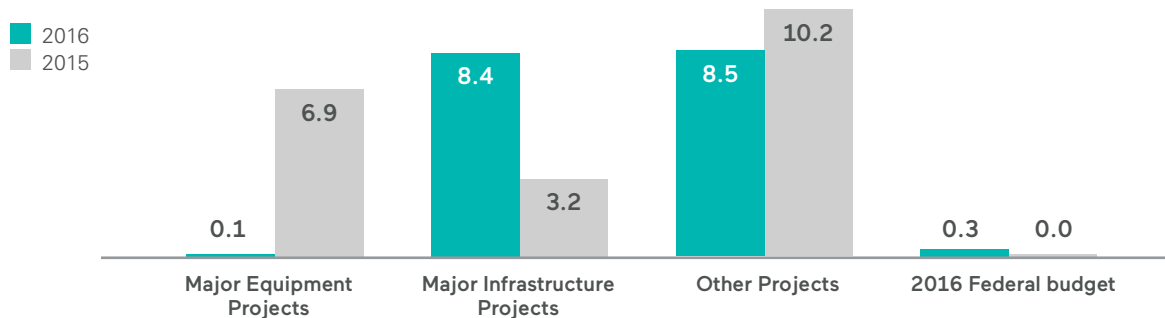
Capital funding is recorded as deferred capital funding in the statement of financial position. It is amortized and recognized as revenue over the same periods as the related property and equipment, and intangible assets are used in VIA Rail's operations.

5. CAPITAL INVESTMENTS

Fixed assets (net of accumulated depreciation) amounted to \$1,271.8 million, a \$2.8 million decrease compared to the balance as at December 31, 2015.

Capital investments for the Quarter

(In Million of Canadian dollars)

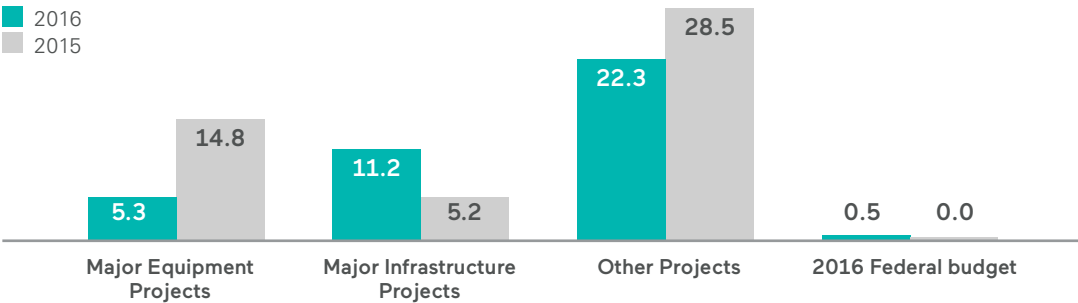


Capital investments totaled \$17.3 million for the quarter, composed mainly of:

- / Investments of \$8.4 million made in projects for infrastructure between Montreal and Ottawa, including upgrade of tracks and bridges, refurbishment of cars, and improved accessibility to stations;
- / An amount of \$6.1 million invested in Information Technology for projects such as the customer relationship management system, automation of on train services system, and reservation system enhancements;
- / Investments of \$1.4 million were also made in Other Equipment projects.

Capital investments for the six-month period ended June 30

(In Million of Canadian dollars)



Capital investments totaled \$39.4 million for the period, composed mainly of:

- / Investments of \$11.2 million made in Major Infrastructure projects including \$9.4 million for the infrastructure between Montreal and Ottawa, including upgrade of tracks and bridges, refurbishment of cars, and improved accessibility to stations;
- / Investments of \$5.3 million in Major Equipment projects, mostly for the LRC rebuild program;
- / Investments of \$11.9 million in Information Technology for projects such as the customer relationship management system, PCI compliance, automation of on train services system, and reservation system enhancements;
- / Investments of \$7.1 million were also made in Other Equipment projects.

6.CASH FLOW AND FINANCIAL POSITION

	Quarters ended June 30				Six-month periods ended June 30			
IN MILLIONS OF CANADIAN DOLLARS	2016	2015	Var \$	Var %	2016	2015	Var \$	Var %
Balance, beginning of the period	23.0	6.1	16.9	277.0%	9.3	13.9	(4.6)	(33.1%)
Net cash (used in) provided by operating activities	(32.5)	5.8	(38.3)	n/a	2.4	7.0	(4.6)	(65.7%)
Net cash (used in) provided by investing activities	27.2	2.0	25.2	n/a	6.0	(7.0)	13.0	(185.7%)
BALANCE, END OF THE PERIOD	17.7	13.9	3.8	27.3%	17.7	13.9	3.8	27.3%

The Corporation's cash balance is \$17.7 million as at June 30, 2016, which is \$3.8 million higher than the balance as at June 30, 2015.



The increase in cash for the quarter is mostly due to a higher amount of capital funding received from the Government of Canada, partly offset by lower operating funding received.

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 pension 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, should there be 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>

COSTS INFLUENCED BY EXTERIOR FACTORS

NATURE OF RISK	TREND AS AT DEC. 31, 2015	NEW TREND	NATURE OF CHANGE SINCE DECEMBER 31, 2015
<p>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.</p>			<p>The decrease in the returns generated on pension plan assets has resulted in a significant actuarial loss for both the quarter and the six-month period. Should the financial markets remain the same or continue to deteriorate, the pension plan deficits could increase and require additional funding from the Corporation.</p>



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 second quarter was again very positive, in terms of both revenues and operating expenses. Ridership continues to grow in most major train services, and on-time performance was, for a second consecutive quarter, better than it was at the same time last year.

The Corporation continues to work to enhance service offerings and customer service, investing in initiatives which will provide benefits in future years, while maximizing efforts to contain costs and improve efficiency in its daily operations. The positive trend initiated in the first quarter continued in the second quarter, and if it sustains in the second half of the year, the Corporation should be able to meet its targets for the year and respect its authorized capital, operating and pension funding envelopes.

Meanwhile, Management is still focusing on the promotion of its dedicated track project and on the technical and pre-procurement activities for the renewal of its fleet, as the challenges which the Corporation faces in terms of its limited potential for real growth on existing rail lines, as well as those related to its aging fleet still remain.

Operating on dedicated tracks with an improved fleet would allow VIA Rail to provide a more reliable service for Canadians and allow more passengers to experience train travel.



INTERIM CONDENSED FINANCIAL STATEMENTS

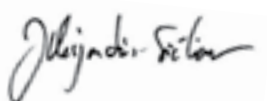
MANAGEMENT'S RESPONSIBILITY STATEMENT

QUARTER ENDED JUNE 30, 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
August 23, 2016

INTERIM CONDENSED FINANCIAL STATEMENTS

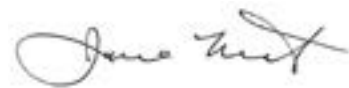
STATEMENT OF FINANCIAL POSITION

(IN THOUSANDS OF CANADIAN DOLLARS)	June 30, 2016	December 31, 2015
CURRENT ASSETS	<i>(unaudited)</i>	<i>(audited)</i>
Cash	\$ 17,703	\$ 9,318
Accounts receivable, trade	8,988	9,913
Prepays, advances on contracts and other receivables	7,221	4,722
Receivable from the Government of Canada	20,572	9,433
Derivative financial instruments (NOTE 17)	1,254	2,668
Materials	24,163	28,241
Asset Renewal Fund	7,780	7,780
	87,681	72,075
NON-CURRENT ASSETS		
Property, plant and equipment (NOTE 7)	879,727	884,806
Intangible assets (NOTE 8)	392,107	389,814
Asset Renewal Fund	873	873
Post-employment and other employee benefits (NOTE 11)	3,273	9,525
	1,275,980	1,285,018
Total Assets	\$ 1,363,661	\$ 1,357,093
CURRENT LIABILITIES		
Trade and other payables (NOTE 9)	\$ 88,106	\$ 90,727
Provisions (NOTE 10)	12,079	10,787
Derivative financial instruments (NOTE 17)	11,987	18,900
Deferred revenues (NOTE 13)	54,015	35,492
	166,187	155,906
NON-CURRENT LIABILITIES		
Post-employment and other employee benefits (NOTE 11)	187,595	51,940
	187,595	51,940
DEFERRED CAPITAL FUNDING (NOTE 12)	1,261,037	1,263,122
SHAREHOLDER'S (DEFICIENCY)		
Share capital	9,300	9,300
Accumulated deficit	(260,458)	(123,175)
Shareholder's (deficiency)	(251,158)	(113,875)
Total liabilities and shareholder's (deficiency)	\$ 1,363,661	\$ 1,357,093

Commitments (NOTES 14)

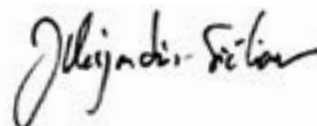
The notes are an integral part of the interim condensed financial statements.

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

(IN THOUSANDS OF CANADIAN DOLLARS) (UNAUDITED)	Quarters ended June 30		Six-month periods ended June 30	
	2016	2015	2016	2015
REVENUES				
Passenger	\$ 71,390	\$ 67,001	\$ 131,599	\$ 122,022
Other	5,519	5,385	10,996	10,473
	76,909	72,386	142,595	132,495
EXPENSES				
Compensation and employee benefits	73,450	64,787	139,111	125,014
Train operations and fuel	29,858	31,085	59,814	61,837
Stations and property	9,114	7,104	19,964	18,046
Marketing and sales	8,095	7,833	14,873	14,779
Maintenance material	7,608	8,675	16,661	18,123
On-train product costs	4,545	4,113	8,237	7,597
Operating taxes	2,560	2,349	5,203	4,679
Professional services	3,718	2,747	6,392	5,224
Telecommunications	3,853	2,365	7,171	5,659
Depreciation and amortization (NOTES 7 AND 8)	22,376	18,504	41,846	37,930
Impairment and loss (gain) on disposal of property, plant and equipment and intangible assets (NOTES 7 AND 8)	288	1,994	385	3,778
Unrealized net loss (net gain) on derivative financial instruments	91	(3,949)	(5,499)	(4,691)
Realized loss (gain) on derivative financial instruments	1,592	1,382	4,339	3,213
Other	3,096	3,178	7,384	6,682
	170,244	152,167	325,881	307,870
OPERATING LOSS BEFORE FUNDING FROM THE GOVERNMENT OF CANADA AND INCOME TAXES	93,335	79,781	183,286	175,375
Operating funding from the Government of Canada (NOTE 6)	68,749	66,161	148,788	152,423
Amortization of deferred capital funding (NOTE 12)	22,375	20,162	41,537	41,004
Net income (loss) before income taxes	(2,211)	6,542	7,039	18,052
Income tax (expense) recovery	(186)	(300)	(400)	(463)
NET INCOME (LOSS) FOR THE PERIOD	(2,397)	6,242	6,639	17,589
OTHER COMPREHENSIVE INCOME (LOSS)				
Amounts not to be reclassified subsequently to net income (net of tax):				
Remeasurements of defined benefit plans (NOTE 11)	(53,731)	46,118	(143,922)	73,582
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD, NET OF TAX	(53,731)	46,118	(143,922)	73,582
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	\$ (56,128)	\$ 52,360	\$ (137,283)	\$ 91,171

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

INTERIM CONDENSED FINANCIAL STATEMENTS

STATEMENT OF CHANGES IN SHAREHOLDER'S (DEFICIENCY)

(IN THOUSANDS OF CANADIAN DOLLARS) (UNAUDITED)	Quarters ended June 30		Six-month periods ended June 30	
	2016	2015	2016	2015
SHARE CAPITAL	\$ 9,300	\$ 9,300	\$ 9,300	\$ 9,300
ACCUMULATED DEFICIT				
Balance, beginning of period	(204,330)	(129,286)	(123,175)	(168,097)
Net income (loss) for the period	(2,397)	6,242	6,639	17,589
Other comprehensive income (loss) for the period	(53,731)	46,118	(143,922)	73,582
Balance, end of period	(260,458)	(76,926)	(260,458)	(76,926)
Total Shareholder's (deficiency)	\$ (251,158)	\$ (67,626)	\$ (251,158)	\$ (67,626)

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

INTERIM CONDENSED FINANCIAL STATEMENTS

STATEMENT OF CASH FLOWS

(IN THOUSANDS OF CANADIAN DOLLARS) (UNAUDITED)	Quarters ended June 30		Six-month periods ended June 30	
	2016	2015	2016	2015
OPERATING ACTIVITIES				
Net income (loss) for the period	\$ (2,397)	\$ 6,242	\$ 6,639	\$ 17,589
Adjustments to determine net cash (used in) provided by operating activities:				
Depreciation and amortization (NOTES 7 AND 8)	22,376	18,504	41,846	37,930
Impairment and loss (gain) on disposal of property, plant and equipment and intangible assets (NOTES 7 AND 8)	288	1,994	385	3,778
Amortization of deferred capital funding (NOTE 12)	(22,375)	(20,162)	(41,537)	(41,004)
Interest income	(82)	(87)	(192)	(193)
Unrealized net loss (net gain) on derivative financial instruments	91	(3,949)	(5,499)	(4,691)
Post-employment and other employee benefit expenses (NOTE 11)	13,317	6,589	23,374	12,601
Employer post-employment and other employee benefit contributions (NOTE 11)	(9,570)	(15,894)	(25,389)	(35,161)
Net change in non-cash working capital items (NOTE 15)	(34,124)	12,644	2,762	16,225
Net cash (used in) provided by operating activities	(32,476)	5,881	2,389	7,074
INVESTING ACTIVITIES				
Capital funding (NOTE 12)	17,324	20,303	39,452	48,581
Change in capital funding receivable from the Government of Canada	25,197	3,185	7,391	(5,793)
Change in capital accounts payable and accrued liabilities	1,898	(1,313)	(1,594)	(1,425)
Acquisition of property, plant and equipment and intangible assets (NOTES 7 AND 8)	(17,324)	(20,303)	(39,452)	(48,581)
Interest received	82	87	192	193
Proceeds from disposal of property, plant and equipment and intangible assets	7	-	7	1
Net cash (used in) provided by investing activities	27,184	1,959	5,996	(7,024)
CASH				
Increase (decrease) during the period	(5,292)	7,840	8,385	50
Balance, beginning of period	22,995	6,082	9,318	13,872
Balance, end of period	\$ 17,703	\$ 13,922	\$ 17,703	\$ 13,922
REPRESENTED BY:				
Cash	\$ 17,703	\$ 13,922	\$ 17,703	\$ 13,922
	\$ 17,703	\$ 13,922	\$ 17,703	\$ 13,922

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

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

FOR THE PERIOD ENDED JUNE 30, 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 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 August 23, 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 application permitted. The Corporation does not intend to early apply IFRS 9. The Corporation is currently assessing the impact of applying this standard on its financial statements.

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 apply IFRS 15. The Corporation is currently assessing the impact of applying this standard on its financial statements.

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 apply IFRS 16. The extent of the impact of applying 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:

(IN THOUSANDS OF CANADIAN DOLLARS)	Quarters ended June 30		Six-month periods ended June 30	
	2016	2015	2016	2015
Operating loss before funding from the Government of Canada and income taxes	93.3	79.8	183.3	175.4
Items requiring (providing) operating funds:				
Income tax expense (recovery)	0.2	0.3	0.4	0.5
Items (not requiring) not providing operating funds:				
Depreciation and amortization	(22.4)	(18.5)	(41.8)	(37.9)
Impairment and (loss) gain on disposal of property, plant and equipment and intangible assets	(0.3)	(2.0)	(0.4)	(3.8)
Post-employment and other employee benefits contributions in excess of expenses	(3.8)	9.3	2.0	22.6
Unrealized net gain (net loss) on derivative financial instruments	(0.1)	3.9	5.5	4.7
Adjustment for accrued compensation	2.1	(6.7)	0.6	(9.2)
Other	(0.2)	-	(0.8)	0.1
Operating funding from the Government of Canada	68.8	66.1	148.8	152.4

7. PROPERTY, PLANT AND EQUIPMENT

(IN MILLIONS OF CANADIAN DOLLARS)	January 1, 2016	Additions	Disposals	Transfers	June 30, 2016
Cost:					
Land	17.0	-	-	-	17.0
Rolling stock	926.9	-	(9.2)	15.4	933.1
Maintenance buildings	166.3	-	(1.0)	0.6	165.9
Stations and facilities	129.0	-	-	0.2	129.2
Owned infrastructures	243.0	-	(0.3)	0.7	243.4
Leasehold improvements	79.6	-	(0.4)	0.5	79.7
Machinery and equipment	25.7	-	-	0.7	26.4
Computer hardware	32.9	-	-	0.3	33.2
Other property, plant and equipment	6.8	-	(0.2)	-	6.6
Projects in progress	27.1	26.2	-	(18.4)	34.9
Total cost	1,654.3	26.2	(11.1)	-	1,669.4
Accumulated depreciation and impairment:					
Rolling stock	448.0	19.8	(8.9)	-	458.9
Maintenance buildings	118.7	0.9	(1.0)	-	118.6
Stations and facilities	40.3	2.4	-	-	42.7
Owned infrastructures	75.7	3.7	-	-	79.4
Leasehold improvements	44.5	1.5	(0.4)	-	45.6
Machinery and equipment	18.5	0.5	(0.1)	-	18.9
Computer hardware	21.2	1.8	-	-	23.0
Other property, plant and equipment	2.6	0.2	(0.2)	-	2.6
Total accumulated depreciation and impairment	769.5	30.8	(10.6)	-	789.7
Total net carrying amount	884.8	(4.6)	(0.5)	-	879.7

8. INTANGIBLE ASSETS

(IN MILLIONS OF CANADIAN DOLLARS)	January 1, 2016	Additions	Disposals	Transfers	June 30, 2016
Cost:					
Software (NOTE 1)	93.1	-	(0.2)	4.1	97.0
Right of access to rail infrastructure	424.9	-	-	0.5	425.4
Other intangible assets	4.4	-	-	-	4.4
Projects in progress	15.4	13.3	-	(4.6)	24.1
Total cost	537.8	13.3	(0.2)	-	550.9
Accumulated amortization and impairment:					
Software	66.4	5.3	(0.2)	-	71.5
Right of access to rail infrastructure	80.0	5.6	-	-	85.6
Other intangible assets	1.6	0.1	-	-	1.7
Total accumulated amortization and impairment	148.0	11.0	(0.2)	-	158.8
Total net carrying amount	389.8	2.3	-	-	392.1

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)	June 30, 2016	December 31, 2015
Wages payable and accrued	38.1	37.6
Accounts payable - Capital assets	12.5	14.1
Accounts payable - Trade	31.7	33.5
Capital tax, income tax and other taxes payable	5.8	5.5
Total trade and other payables	88.1	90.7

10. PROVISIONS

The provision balance includes the following:

(IN MILLIONS OF CANADIAN DOLLARS)	January 1, 2016	Charge (used)	Reversal (used)	Reversal (not used)	June 30, 2016
Environmental costs (NOTE A)	0.3	-	-	-	0.3
Litigation and equipment repairs (NOTE B)	10.5	2.2	(0.8)	(0.1)	11.8
Total provisions	10.8	2.2	(0.8)	(0.1)	12.1

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 benefits (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 an 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 services 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 3.35 per cent (compared to 4.00 per cent as at December 31, 2015). The discount rate used to determine the defined benefit cost of the pension plans remains unchanged.

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 (compared to 4.00 per cent as at December 31, 2015). The discount rate used to determine the defined benefit obligation of the post-employment benefit plans remains unchanged.

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

(IN MILLIONS OF CANADIAN DOLLARS)	Defined benefit component of the Pension plans		Post-employment benefit plans	
	June 30, 2016	December 31, 2015	June 30, 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	16.0	27.9	0.2	0.5
Past service cost	-	4.0	-	-
Interest expense	37.2	87.5	0.4	0.6
Employee contributions	6.6	12.6	-	-
Benefits paid	(62.3)	(111.7)	(0.3)	(0.4)
Effect of change in demographic assumptions	-	25.0	-	-
Effect of change in financial assumptions	167.1	(32.8)	-	(0.2)
Effect of employee transfers	-	6.5	-	-
Effect of experience adjustments	-	22.4	-	(0.2)
Balance at end of the period	2,387.9	2,223.3	20.0	19.7
FAIR VALUE OF PLAN ASSETS:				
Balance at beginning of the period	2,223.6	2,132.5	-	-
Interest Income	36.9	84.3	-	-
Return on plan assets (excluding interest income)	23.2	50.0	-	-
Employer contributions	22.2	52.3	0.3	0.4
Employee contributions	6.6	12.6	-	-
Benefits paid	(62.3)	(111.7)	(0.3)	(0.4)
Effect of employee transfers	-	6.5	-	-
Administration expenses	(3.3)	(2.9)	-	-
Balance at end of the period	2,246.9	2,223.6	-	-
Net Defined benefit asset (liability)	(141.0)	0.3	(20.0)	(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 (compared to 3.40 per cent as at December 31, 2015). The discount rate used to determine the long-term employee benefit obligation remains unchanged.

Based on these actuarial valuations and projections to June 30, 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)	June 30, 2016	December 31, 2015
LONG-TERM EMPLOYEE BENEFIT OBLIGATION:		
Balance at beginning of the period	21.9	22.8
Service cost	2.5	4.8
Interest expense	0.4	0.7
Benefits paid	(2.5)	(4.5)
Effect of experience adjustments	-	(1.9)
Balance at end of the period	22.3	21.9
FAIR VALUE OF PLAN ASSETS:		
Balance at beginning of the period	-	-
Employer contributions	2.5	4.5
Benefits paid	(2.5)	(4.5)
Balance at end of the period	-	-
Net long-term employee benefit liability	(22.3)	(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)	June 30, 2016	December 31, 2015
OTHER LONG-TERM EMPLOYEE BENEFIT OBLIGATION:		
Balance at beginning of the period	1.1	1.5
Service cost	0.3	0.3
Benefits paid	(0.4)	(0.7)
Balance at end of the period	1.0	1.1
FAIR VALUE OF PLAN ASSETS:		
Balance at beginning of the period	-	-
Employer contributions	0.4	0.7
Benefits paid	(0.4)	(0.7)
Balance at end of the period	-	-
Net other long-term employee benefit liability	(1.0)	(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)	June 30, 2016	December 31, 2015
Assets:		
Defined benefit component of the Pension plans	3.3	9.5
Liabilities:		
Defined benefit component of the Pension plans	(144.3)	(9.2)
Post-employment benefit plans	(20.0)	(19.7)
Long-term employee benefit plans	(22.3)	(21.9)
Other long-term employee benefits	(1.0)	(1.1)
Total liabilities	(187.6)	(51.9)

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

	Quarters ended June 30		Six-month periods ended June 30	
(IN MILLIONS OF CANADIAN DOLLARS)	2016	2015	2016	2015
Operating expense:				
Defined benefit component of the Pension plans	11.4	4.8	19.6	8.8
Post-employment benefit plans	0.4	0.2	0.6	0.5
Long-term employee benefit plans	1.4	1.4	2.9	2.8
Other long-term employee benefits	0.1	0.2	0.3	0.5
Total	13.3	6.6	23.4	12.6

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

	Quarters ended June 30		Six-month periods ended June 30	
(IN MILLIONS OF CANADIAN DOLLARS)	2016	2015	2016	2015
Other comprehensive income (loss):				
Defined benefit component of the Pension plans	(53.7)	46.2	(143.9)	73.6
Total	(53.7)	46.2	(143.9)	73.6

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)	June 30, 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)	39.4	97.9
Amortization of deferred capital funding	(41.5)	(82.6)
Balance at end of the period	1,261.0	1,263.1

13. DEFERRED REVENUES

Deferred revenues are comprised of the following:

(IN MILLIONS OF CANADIAN DOLLARS)	June 30, 2016	December 31, 2015
Advance ticket sales	33.0	15.3
Gift cards	1.7	2.0
Non-monetary transactions	2.6	2.3
VIA Préférence	16.4	15.6
Other	0.3	0.3
Total deferred revenues	54.0	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)	June 30, 2016				December 31, 2015
	Total commitments	Less than one year	One to five years	More than five years	Total commitments
COMMITMENTS RELATING TO OPERATIONS:					
Non-cancellable operating leases (NOTE A):					
Lessee	32.8	3.5	11.0	18.3	34.6
Total	32.8	3.5	11.0	18.3	34.6
COMMITMENTS RELATING TO MAJOR CAPITAL INVESTMENTS:					
Rail infrastructure	13.5	12.8	0.7	-	5.4
Rolling stock	2.0	2.0	-	-	1.8
Total	15.5	14.8	0.7	-	7.2
Total commitments	48.3	18.3	11.7	18.3	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 \$8.1 million (June 30, 2015: \$6.1 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 June 30		Six-month periods ended June 30	
(IN MILLIONS OF CANADIAN DOLLARS)	2016	2015	2016	2015
Accounts receivable, trade	0.3	(1.1)	0.9	(2.6)
Prepays, advances on contracts and other receivables	(1.7)	(2.8)	(2.5)	(4.8)
Operating funding receivable from Government of Canada	(36.5)	9.4	(18.5)	4.3
Materials	0.2	(1.2)	4.1	(2.4)
Trade and other payables	(1.2)	6.0	(1.0)	8.2
Provisions	(0.2)	(1.1)	1.3	(0.6)
Deferred revenues	5.0	3.4	18.5	14.1
Total	(34.1)	12.6	2.8	16.2

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	June 30, 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)
Assets	3,528	0.9	-	-
Liabilities	15,624	10.4	21,168	18.8

As at June 30, 2016, the commodity swaps have a fixed price per U.S. gallon in USD between 1.280 and 2.717 (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	June 30, 2016		December 31, 2015	
	Notional Amount (USD) (millions)	Fair Value CAD (millions)	Notional Amount (USD) (millions)	Fair Value CAD (millions)
Assets	16.1	0.4	24.1	2.7
Liabilities	21.2	1.6	18.5	0.1

As at June 30, 2016, the forward contracts rates are between 1.156 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:

	June 30, 2016	December 31, 2015
	Fair Value CAD (millions)	Fair Value CAD (millions)
Total assets	1.3	2.7
Total liabilities	12.0	18.9

