VIA Rail Canada

CANADA 150

SECOND QUARTER REPORT 2017

CONTENTS


CENTRAL

MESSAGE FROM THE PRESIDENT

I am pleased to report that this has been another outstanding quarter. Revenues and ridership continue to grow. Though success has almost become the norm after 13 consecutive quarters of growth, we are not resting on our laurels. We continue to put our passengers first and improve the customer experience to encourage more Canadians to take the train. To that end, some of the projects we worked on this quarter include introducing more Canadian products to our Business class menus, launching a more customer-friendly baggage policy as well as a new kids' club, and making upgrades to our stations. We also made several improvements to our schedule for the summer with more direct connections on our popular Québec City – Montréal – Ottawa route and more options for Montréal commuters.

This summer schedule adjustment increased our capacity by 7% and contributed to the 15.3% increase in revenues this quarter compared to the same quarter of last year. We saw growth over the Easter holiday and our best performance in eight years for the May long weekend. Ridership also continued to grow on almost all major train services this quarter, with 9.5% more people getting on board compared to the same quarter of last year. Though increasing our capacity also contributes to higher expenses as it requires additional staff and increased maintenance, fuel and costs, we project to meet our annual objectives with respect to required operating funding.

As part of our commitment to safety, VIA Rail partnered once again with Operation Lifesaver for Rail Safety Week which we launched at a press conference with the Honourable Marc Garneau, Minister of Transport, and our newly-appointed Chairperson of the Board of Directors, Ms. Françoise Bertrand. Operation Lifesaver and Rail Safety Week are both dedicated to educating the public about the importance of acting with extreme caution around railways. We also participated in North American Occupational Safety and Health week to promote good health and well-being and to foster a strong safety culture amongst our employees. Finally,

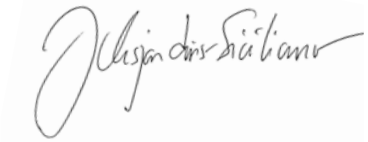
we hosted members of the International Association of Railways in Montréal for UIC International Level Crossing Awareness Day. Unfortunately, in June, VIA Rail had to suspend service indefinitely between Gillam and Churchill, Manitoba due to flooding. The safety and security of our passengers and employees remains our number one priority and is at the heart of everything we do.

VIA Rail's 2017 Annual Public Meeting took place at the end of May. It was an opportunity for us to discuss our 2016 and first quarter of 2017 results in more detail, and to answer questions from our owners— the Canadian public. This year, we received over 650 questions prior to and during the event and we addressed the Top 10 topics during the meeting. Detailed answers on all subjects raised can be found in the "Governance and Reports" section of our website.

Also at the end of June, seven new Board members from across the country were appointed and joined Ms. Bertrand, Ramona Materi and Jane Mowat (who was re-appointed) on our Board of Directors. The new Board maintains its high-caliber, gender-balanced composition and we are thrilled to welcome them on board. I would like to acknowledge and thank the Board members whose terms on the Board of Directors have ended: Deborah Robinson, Melissa Sonberg, David Hoff, William M. Wheatley and Denis Durand. Their dedication, guidance and continued support are largely responsible for the spectacular results we have seen over the last few years.

Thanks is also due to our incredible employees who, quarter after quarter, deliver the remarkable service that is making taking the train the smart choice for more and more Canadians.

Thank you for being on board,



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.

	Q2-2017	Q2-2016	YTD 2017	YTD 2016
KEY FINANCIAL INDICATORS (IN MILLIONS OF DOLLARS)				
Total passenger revenues [1]	**83.1**	71.8	**148.8**	132.4
Total revenues [1]	**89.1**	**77.3**	**160.0**	**143.4**
Operating expenses [1]	**(150.4)**	(136.5)	**(287.9)**	(266.8)
Contributions for employee benefits [1]	**(10.1)**	(9.6)	**(19.4)**	(25.4)
Total Operating expenses [1]	**(160.5)**	**(146.1)**	**(307.3)**	**(292.2)**
Operating Income (Deficit)	**(71.4)**	**(68.8)**	**(147.3)**	**(148.8)**
Capital expenditures	**(16.2)**	(17.3)	**(37.0)**	(39.4)
Total Funding Required	**(87.6)**	**(86.1)**	**(184.3)**	**(188.2)**
Government Operating Funding	**71.4**	68.8	**147.3**	148.8
Government Capital Funding	**16.2**	17.3	**37.0**	39.4
Total Government Funding	**87.6**	**86.1**	**184.3**	**188.2**
Asset Renewal Fund	**0.0**	**0.0**	**0.0**	**0.0**
KEY OPERATING STATISTICS [2]				
Total passenger-miles (IN MILLIONS)	**226**	207	**417**	388
Total seat-miles (IN MILLIONS)	**418**	390	**796**	746
Operating deficit per passenger-mile (IN CENTS)	**31.6**	33.3	**35.4**	38.4
Yield (CENTS PER PASSENGER-MILE)	**35.9**	33.8	**34.8**	33.3
Train-miles operated (IN THOUSANDS)	**1,692**	1,651	**3,319**	3,253
Car-miles operated (IN THOUSANDS)	**11,399**	11,228	**20,403**	19,985
Average passenger load factor (%)	**54**	53	**52**	52
Average number of passenger-miles per train mile	**133**	125	**126**	119
On-time performance (%)	**75**	74	**76**	76
Number of full time equivalent employees during the period	**2,888**	2,686	**2,836**	2,608

(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 2017

Train Services	Passenger Revenues* (in thousands)	Passengers (in thousands)	Passengers-Miles (in thousands)	Government Funding (per passenger-mile)
Quebec City - Windsor Corridor	$60,142	968	180,951	$0.22
Longhaul West	$17,502	26	31,586	$0.31
Longhaul East	$2,325	18	9,350	$1.15
Regional Services	$972	16	3,716	$2.89
Total	**$80,941**	**1,028**	**225,603**	**$0.32**

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

Train Services	Passenger Revenues* (in thousands)	Passengers (in thousands)	Passengers-Miles (in thousands)	Government Funding (per passenger-mile)
Quebec 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**

* Excluding off-train and other passenger revenues.

REVIEW OF OPERATIONS

PUTTING PASSENGERS FIRST

MORE CANADIAN PRODUCTS AVAILABLE ON BOARD

After focusing on improving our Economy class menu last quarter, this quarter our focus was on adding more Canadian products to our Business class menus. Montréal's famous St-Viateur Bagels are now served with breakfast in Business class throughout the Corridor and the response has been overwhelmingly positive. The Business class offering has also been updated with wines from seven Canadian wineries, including the Andrew Peller Winery and Henry of Pelham Winery. We have also added a sparkling wine selection from Pelee Island to the menu to round out the offer.

NEW STOPS, NEW DEPARTURES, PASSENGERS FIRST

VIA Rail made several adjustments to its schedule this quarter to improve our offer to the travelling public. We increased capacity on the trains in highest demand resulting in a 7.1% overall increase in the number of available seat miles compared to 2016. We increased the number of direct connections on our popular Québec City–Montréal – Ottawa route by adding a Sunday afternoon departure in both directions and one more direct train to Québec City during the week. In order to further expand our commuter options to and from Montréal, we've added two stops in Saint-Hyacinthe during rush hour: one in the morning towards Montréal, and one in the evening towards Québec City. The summer schedule went into effect on May 29.

STRENGTHENING OUR ASSETS

INVESTING IN OUR FUTURE

VIA Rail has begun to execute the station and maintenance projects planned for 2017-2019 as announced in the March federal budget. The planned facilities investments total $54.3 million over three years and are divided into two categories: station projects ($47.5 million) and maintenance centre improvements ($6.8 million). The 2017 maintenance projects are underway and so is the planning and development for 2018.

We have also planned infrastructure investments totalling $45 million over three years that are divided into two categories: track and bridge maintenance projects ($30 million) and network improvements ($15 million). VIA Rail has started working with third-party infrastructure owners on projects including the development of a grade crossing upgrade program following the new Transport Canada guidelines and pilot projects have been launched.

UPGRADES TO OUR STATIONS AND MAINTENANCE CENTRES

During the second quarter, we completed 15 capital projects at our maintenance centres and stations, with a total of $6.5 million in funding. Some of the maintenance projects include upgrades to the ventilation system and new LED interior lighting in the Toronto Maintenance Centre, reroofing and replacement of two rooftop HVAC units at the Winnipeg Maintenance Centre, and a new renovated workspace for both the Operations Control Centre and VIA Customer Centre in the Montréal Maintenance Centre. As well, the exterior walls of the Gare du Palais in Québec City were waterproofed and the north and south escalators of Kingston Station were replaced, among other projects.

SUSTAINABLE MOBILITY

Sustainable mobility is an integral part of who we are and how we conduct our business. Since we issued our first Sustainable Mobility Report for the year 2015, we have continued our journey to innovate and transform our business for future growth. For us, sustainable mobility is about contributing to a greener transportation system for Canada, in a way that enables economic prosperity, improves quality of life and provides more environmentally responsible mobility options. The following is a brief overview of our activities this quarter that are aligned with our sustainable mobility pillars. The full 2016 Sustainable Mobility Report, which was issued this quarter, can be found in the "About VIA Rail" section of our website under "Governance and Reports".

PROVIDING THE BEST CUSTOMER EXPERIENCE

CALLING ALL KIDS: WELCOME TO THE CHOO CHOO CLUB!

What's the cure for "Are we there yet"? The Choo Choo Club! Our littlest rail fans now receive a Choo Choo Club goodie bag when they board our trains. These new kits for kids age 2 to 11 include an activity book full of educational games like crosswords, mazes, and lots of other fun surprises that will keep them entertained for the whole trip and create lasting memories. Throughout the activity book's colourful pages, kids will meet four new friends—Benni, Luna, Oscar, and Nanuk—who share what makes each of them clever and curious travellers. This revamped kids program was one of the winning proposals of the 2015 Client Innovation Challenge, a national employee recognition program which invited all VIA Rail employees to submit their ideas on how to further improve the customer experience.

From left to right: Oscar, Luna, Benni and Nanuk.

A NEW LOOK FOR OUR EMPLOYEES

Onboard and station employees proudly donned new VIA Rail uniform accessories this quarter to brighten and update their look. These new shirts, ties, scarves, and polos increase our employees' visibility in stations and on trains and are more in line with VIA Rail's branding. To celebrate VIA Rail's new look with our passengers, launch events were held in Montréal, Ottawa, and Toronto stations.

2017 BAGGAGE POLICY

In response to extensive customer and employee feedback and industry benchmarking, VIA Rail launched a more customer-friendly baggage policy on June 1. This revised baggage policy simplifies the entire baggage process by streamlining the fees attached for excess and overweight baggage, leveraging the baggage space on newly renovated LRC cars, increasing the flexibility of our carry-on allowance for oversized articles, and providing consistency between our long distance and Québec City – Windsor corridor trains. The new policy also improves our inter-modality by aligning our baggage allowance with industry standards, making it easier to connect to an airline or bus.

OPERATE SAFELY AND EFFICIENTLY

LOOK, LISTEN, LIVE

Rail Safety Week got a shot of adrenaline this year thanks to Operation Lifesaver's new "Look, Listen, Live" virtual reality campaign. Once again this year VIA Rail partnered with Operation Lifesaver as part of our ongoing effort to keep the public safe around railways and planned passenger safety blitzes at several of our stations across the country. Passengers got to experience first-hand (through the safety of a virtual reality video on their phones) what it's like to have a close encounter with a train. VIA Rail and Transport Canada employees, along with regional transit representatives were on hand to pass out pamphlets and educate the public about the importance of being safe around railways.

The Honourable Marc Garneau, Minister of Transport speaks at a press conference in Montréal at the start of Rail Safety Week

WORK PLACE HEALTH AND SAFETY

As part of VIA Rail's commitment to creating a work environment that promotes good health and well-being and fostering a strong safety culture, we were proud to participate in the North American Occupational Safety and Health Week this quarter. VIA Rail's 22 Workplace Health and Safety Committees across Canada organized activities in their region to promote and raise awareness of the importance of occupational health and safety. The Health and Safety Committee at our Montréal headquarters planned a whole week of activities including a lunch and learn about ergonomics and a presentation from UNIFOR about mental health

ON-TIME PERFORMANCE

VIA Rail's On-Time Performance (OTP) in the Québec City – Windsor corridor remains fairly low for the second quarter of 2017 at 76%. There are several reasons for this performance, especially in the Corridor East, such as two weeks of single tracking for maintenance between Coteau and Cornwall by the infrastructure owners, several high water train slow orders, and increasing dwell time at stations to board a higher volume of passengers. OTP for the *Ocean* was excellent this quarter at 90%, which continued its positive trend, while OTP for the *Canadian* continues to fall and is at 17% due to a high volume of freight traffic and major work blocks that started in the spring.

SERVICE BETWEEN CHURCHILL AND GILLAM SUSPENDED INDEFINITELY

As of May 23, VIA Rail's service from Gillam to Churchill has been cancelled and on June 9, 2017 was announced that the service woud be suspended indefinitely due to flooding in Northern Manitoba. At this time, passenger train service continues to be offered between Winnipeg and Gillam. VIA Rail will resume its services between Gillam and Churchill once the proper repairs have been made and inspections demonstrate that passenger trains can operate safely to Churchill.

SUPPORTING SOCIO-ECONOMIC DEVELOPMENT

STRONG TIES TO THE CANADIAN ARMED FORCES

This quarter VIA Rail participated in several events organized by groups that support the military and veterans, such as the Black Watch of Canada Foundation, Canada Company, Prince's Operation Entrepreneur, Wounded Warriors and Esprit de corps. VIA Rail also attended the Grand Military Ball for Montreal's 375th and the *Bal du Royal 22e Régiment*.

In April VIA Rail partnered with the Vimy Foundation to help commemorate the 100th anniversary of the Battle of Vimy Ridge. Decals with a special logo to commemorate the event were applied to Business class cars in the Québec City-Windsor corridor for the month, and from April 3 to 9 more than 20,000 Vimy monument pins were distributed to passengers on board our trains.

In order to recognize the men and women who devote themselves to the service of Canada, VIA Rail offers the Canadian military community a discount on their personal travel. Canadian Armed Forces members, Veterans, and their families receive a 25% discount off the best available fare. Since the launch of this offer in November 2010, close to 195,000 trips have been taken. As a special "thank you" for Canada 150, VIA Rail increased the discount rate to 35% for the summer season on our Senneterre, Jonquière, Churchill, White River, and Prince Rupert routes.

VIA Rail's President and honourary Lieutenant-Colonel of the *Régiment de Maisonneuve* speaks at the Grand Military Ball.

REDUCE OUR ENVIRONMENTAL IMPACT

RE-CERTIFYING OUR MAINTENANCE CENTRES

VIA Rail has established an Environmental Management System (EMS) for our maintenance centers to provide them with a framework to track, evaluate and improve their environmental performance. In 2016, three of our maintenance facilities in Montréal, Vancouver, and Winnipeg maintained their EMS certification to the ISO 14001 international standard, and in the first quarter of 2017 our Vancouver and Winnipeg Maintenance Centres were successful in renewing the certification following a re-registration audit. This quarter the Montréal Maintenance Centre was audited and successfully renewed its certification.

BE AN ATTRACTIVE EMPLOYER

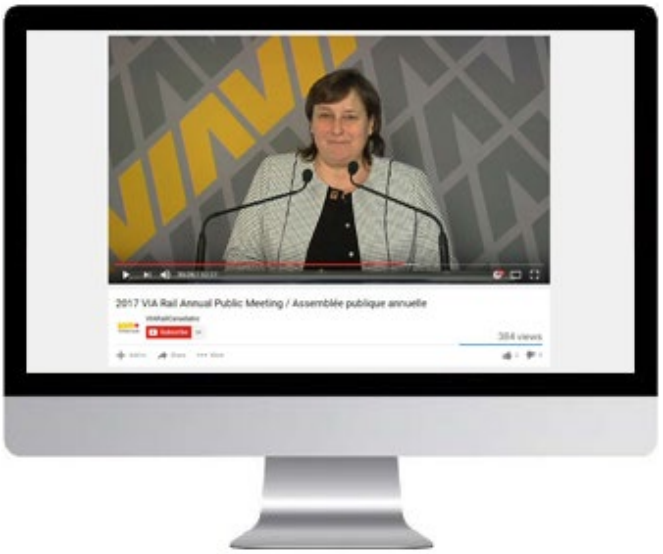
ENGAGING WOMEN IN MANAGEMENT POSITIONS

VIA Rail is committed to increasing gender diversity in management positions as part of our 2020 sustainable mobility strategy. To increase women's engagement in management roles, Linda Bergeron, Chief Human Resources Officer, led workshops with female management employees in Montreal, Halifax, and Toronto. These workshops were a forum for women to discuss the challenges associated with taking on a management role as a woman and to determine how best to improve their engagement. Human Resources is analyzing the results of the workshops to create an action plan by the end of August.

MAINTAIN THE PUBLIC TRUST

VIA RAIL HOLDS ITS 2017 ANNUAL PUBLIC MEETING

VIA Rail's 2017 Annual Public Meeting took place on May 30 at 2pm via webcast. The meeting was a chance for VIA Rail's shareholders, the Canadian public, to hear our 2016 and First Quarter 2017 results from the President and CFO. It was also an opportunity to introduce the new Chairperson of the Board of Directors, Françoise Bertrand, who spoke about her plans for the coming five years. Canadians were invited to submit questions to VIA Rail ahead of time, and during the meeting our President gave updates on the top 10 question topics we received. The Annual Public Meeting can be watched online on VIA Rail's YouTube channel in French, English, or the original bilingual version. The answers to all the questions we received were published on VIA Rail's website in August.



Patricia Jasmin, VIA Rail's Chief Financial Officer, speaks during the Annual Public Meeting

AWARDS

MOST SUPPORTIVE EMPLOYER IN CANADA

After receiving the award as the best employer in Québec by the Canadian Forces Liaison Council in March, VIA Rail was honoured to be named the *Most Supportive Employer in Canada* by the Canadian Forces Liaison Council in May. VIA Rail is the first Crown corporation to win this award. Over the past few years, VIA Rail increased its efforts to support Canada's Reserve Forces and to hire more reservists and veterans through partnerships with Commissionaire's MISSION EMPLOI and Canada Company Military Employment Transition Program.

Mr. Jean Fournier, Mr. Scott Shepherd, Mr. Yves Desjardins-Siciliano, Lt Sébastien Langlais-Freeman, CWO Charles O'Donnell, MGen Paul Bury receive VIA Rail's award.

A HAT TRICK FOR VIA RAIL'S COMMUNICATIONS TEAM

VIA Rail won three prizes at the *Prix Média d'Infopresse* which highlights creativity and innovation of media strategy in Québec. Our "Winter Way to Travel" campaign won both *Best Use of Digital Media* and *Best Use of Data and Research*, while the "Why Don't You Take the Train" campaign won in the *Best Use of Billboards* prize. The "Winter Way to Travel" campaign was also recognized internationally at the Festival of Global Media in Rome where it won silver in the *Best Use of Geo-Location* category.

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 section.

KEY PERFORMANCE INDICATORS		Quarters ended June 30			Six month periods ended June 30		
INDICATOR	UNIT	Q2-2017	Q2-2016	Vs 2016	YTD 2017	YTD 2016	Vs 2016
CAPACITY DEPLOYED (IN MILLIONS) Number of available seat-miles (ASM) [1]	ASM	418	390	7.1%	796	746	6.7%
TOTAL REVENUES / ASM (RASM) Total revenues divided by total ASM	cents	21.32	9.84	■	20.11	19.23	■
TOTAL COSTS [2] / ASM (CASM) Total operating expenses divided by total ASM	cents	37.53	36.76	■	37.66	37.37	■
RASM / CASM Revenues per available seat-mile divided by the costs per available seat-mile	%	56.8%	54.0%	■	53.4%	51.4%	■
ON-TIME PERFORMANCE On-Time Performance of all VIA Rail trains	%	75%	74%	■	76%	76%	■
ON-TIME PERFORMANCE - VIA RAIL INFRASTRUCTURE On-Time performance of all VIA Rail trains on VIA Rail owned infrastructure	%	94.0%	97.0%	■	94.7%	96.7%	■
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	#	0	3	■	2	5	■
EMPLOYEE ATTENDANCE Total hours worked per month divided by the total possible work hours per month	%	94.3%	95.1%	■	94.0%	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 past service pension costs

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

GOVERNANCE AND ACCOUNTABILITY

CELEBRATING OUR OFFICIAL LANGUAGES

VIA Rail complies with the *Official Languages Act* and is proud to offer services in both English and French. VIA Rail submitted its 2016-2017 Annual Review on Official Languages on May 31 to the appropriate federal authorities.

Over the second quarter, VIA Rail worked with several organizations committed to promoting the interests of linguistic minority communities across Canada. In May, the *Fondation Paul Gérin-Lajoie* announced the winners of their national dictation contest with a series of improv shows celebrating the Francophone community from the *Ligue Nationale d'Improvisation*. VIA Rail hosted improv matches in its Vancouver, Halifax, and Winnipeg stations and transported the players to the matches on the *Canadian* and *Ocean* trains.

VIA Rail continues to partner with the *Alliance française de Toronto* and the *Franco-fond* to contribute to the development of French in the Greater Toronto Area and Winnipeg. This quarter VIA Rail transported Francophone artists from Canada and other Francophone countries to perform in Toronto as part of the *Alliance française's* rich cultural programming.

PUBLIC MEETINGS AND REPORTS

During the second quarter of 2017, one Board meeting was held. The four different Board committees met a total of four times. The attendance rate of Board members at these meetings was 100%. Cumulative fees paid to Board members during this time period totalled $52,888.

THE BOARD OF DIRECTORS

As of June 30, 2017, the Board of Directors consists of the Chairperson, the President & Chief Executive Officer and nine directors appointed by the Government of Canada. Of the ten directors (not including the CEO of VIA Rail), five are women and five 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 customers, its partners and with the public in general. VIA Rail became subject to both the Access to Information Act and the Privacy Act in 2007. Since then, we have been committed to responding to information requests from the public, the media and all those interested in VIA Rail's operations.

The annual reports on the administration by VIA Rail of the Access to Information Act and Privacy Act, covering activities completed between April 1st, 2016 and March 31st, 2017, were also tabled to the Parliament on July 19, 2017. Such reports are now available on VIA Rail's website and offer various information, including statistics pertaining to the Corporation's activities related to access to information and protection of privacy.

During the second quarter of 2017, VIA Rail received 15 new requests.

TRAVEL, HOSPITALITY AND CONFERENCE EXPENSES

THE FOLLOWING TRAVEL, HOSPITALITY AND CONFERENCE EXPENSES WERE SUBMITTED DURING THE SECOND QUARTER OF 2017	
Françoise Bertrand Chairperson of the Board of Directors	$732
Yves Desjardins-Siciliano President and CEO	$14,387
Executive management committee members (8 members)	$25,126
Board of Directors (9 members)	$8,499
Total VIA Rail (including above expenses)	**$255,000**

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, 2017, compared with the quarter and six month period ended June 30, 2016. It should be read in conjunction with the interim condensed financial statements and notes.

1. FINANCIAL HIGHLIGHTS – STATEMENT OF COMPREHENSIVE INCOME

The following table shows the highlights of the Statement of comprehensive income of the Corporation for the quarters and six month periods ended June 30, 2017 and June 30, 2016, as per IFRS (International Financial Reporting standards).

	Quarters ended June 30				Six month periods ended June 30			
IN MILLIONS OF CANADIAN DOLLARS	**2017**	2016	Var $	Var %	**2017**	2016	Var $	Var %
Passenger Revenues	**82.6**	71.4	11.2	15.7%	**147.9**	131.6	16.3	12.4%
Other Revenues	**6.0**	5.5	0.5	9.1%	**11.2**	11.0	0.2	1.8%
Total Revenues	**88.6**	**76.9**	**11.7**	**15.2%**	**159.1**	**142.6**	**16.5**	**11.6%**
Total Operating expenses	**184.0**	**170.2**	**13.8**	**8.1%**	**357.5**	**325.9**	**31.6**	**9.7%**
Operating Loss	**95.4**	**93.3**	**2.1**	**2.3%**	**198.4**	**183.3**	**15.1**	**8.2%**
Operating funding from the Government of Canada	**71.4**	68.8	2.6	3.8%	**147.3**	148.8	(1.5)	(1.0%)
Amortization of deferred capital funding	**21.9**	22.3	(0.4)	(1.8%)	**44.9**	41.5	3.4	8.2%
Net income (loss) before income taxes	**(2.1)**	**(2.2)**	**(0.1)**	**(4.5%)**	**(6.2)**	**7.0**	**13.2**	**188.6%**
Income tax recovery (expense)	**0.0**	(0.2)	0.2	100.0%	**(0.1)**	(0.4)	0.3	75.0%
Net income (loss) for the period	**(2.1)**	**(2.4)**	**0.3**	**12.5%**	**(6.3)**	**6.6**	**(12.9)**	**(195.5%)**
Remeasurements of defined benefit plans	**(32.6)**	(53.7)	21.1	39.3%	**(49.2)**	(143.9)	94.7	65.8%
Total comprehensive income (loss) for the period	**(34.7)**	**(56.1)**	**21.4**	**38.1%**	**(55.5)**	**(137.3)**	**81.8**	**59.6%**

The operating loss for the quarter increased by $2.1M compared to last year. This increase is mainly due to the funded deficit which increased by $2.6M compared to the corresponding quarter last year, resulting from the fact that the increase in funded operating expenses exceeded the increase in funded revenues.

The cumulative operating loss increased by $15.1M. This increase is attributable to higher non-funded expenses ($16.6M), partly offset by the decrease of $1.5M in the funded deficit.

2. COMPARISON OF IFRS AND FUNDED OPERATING LOSSES

The following table provides information on the non-funded elements which are not included in funded results.

	Quarters ended June 30				Six month periods ended June 30			
IN MILLIONS OF CANADIAN DOLLARS	**2017**	2016	Var $	Var %	**2017**	2016	Var $	Var %
IFRS - RESULTS								
Operating Loss	**95.4**	**93.3**	**2.1**	**2.3%**	**198.4**	**183.3**	**15.1**	**8.2%**
NON FUNDED ELEMENTS INCLUDED IN IFRS RESULTS								
Revenues - adjustment for VIA *Préférence* points	**(0.4)**	(0.4)	0.0	0.0%	**(0.9)**	(0.7)	(0.2)	(28.6%)
EXPENSES								
Depreciation and amortization/Impairment and loss (gain) on disposal of property, plant and equipment and intangible assets	**(22.1)**	(22.7)	0.6	2.6%	**(45.5)**	(42.2)	(3.3)	(7.8%)
Unrealized net gain (net loss) on derivative financial instruments	**(1.4)**	(0.1)	(1.3)	(1300.0%)	**(4.2)**	5.5	(9.7)	(176.4%)
Other	**(0.1)**	(1.3)	1.2	92.3%	**(0.5)**	2.9	(3.4)	(117.2%)
TOTAL NON FUNDED ELEMENTS	**(24.0)**	(24.5)	0.5	2.0%	**(51.1)**	(34.5)	(16.6)	(48.1%)
Funded results								
Funded operating loss	**71.4**	**68.8**	**2.6**	**3.8%**	**147.3**	**148.8**	**(1.5)**	**(1.0%)**

For the quarter, non-funded elements decreased by $0.5M compared to last year. The decrease is due to lower depreciation and amortization expense, and other non-funded elements (composed mainly of the non-cash portion of employee benefits), partly offset by the higher unrealized loss on derivative instruments.

For the six month period, non-funded elements increased by $16.6M, the increase due mainly to a higher unrealized loss on derivative financial instruments, and higher other non-funded elements (non-cash portion of employee benefits).

The increase in unrealized loss on derivative financial instruments for both the quarter and the six month period reflects the more significant variance between the contract prices and market value of the hedging contracts which expire after the end of the quarter and period.

3. FINANCIAL HIGHLIGHTS – FUNDED ACTIVITIES

The following table shows the financial results of the Corporation, illustrating the activities which were funded during the quarter.

	Quarters ended June 30				Six month periods ended June 30			
IN MILLIONS OF CANADIAN DOLLARS	**2017**	2016	Var $	Var %	**2017**	2016	Var $	Var %
Passenger Revenues*	**83.1**	71.8	11.3	15.7%	**148.8**	132.4	16.4	12.4%
Total Revenues*	**89.1**	**77.3**	**11.8**	**15.3%**	**160.0**	**143.4**	**16.6**	**11.6%**
Operating expenses*	**150.4**	136.5	13.9	10.2%	**287.9**	266.8	21.1	7.9%
Employer contributions for employee benefits*	**10.1**	9.6	0.5	5.2%	**19.4**	25.4	(6.0)	(23.6%)
Total Operating expenses*	**160.5**	**146.1**	**14.4**	**9.9%**	**307.3**	**292.2**	**15.1**	**5.2%**
Operating Loss	**(71.4)**	**(68.8)**	**2.6**	**3.8%**	**(147.3)**	**(148.8)**	**(1.5)**	**(1.0%)**
Operating funding from Government of Canada	**71.4**	**68.8**	**2.6**	**3.8%**	**147.3**	**148.8**	**(1.5)**	**(1.0%)**

*Financial statements amounts adjusted to reflect funded activities.

Revenues and sources of funding for the quarter:

Q2 2017

56% Operating revenues
44% Government operating funding

Q2 2016

53% Operating revenues
47% Government operating funding

Revenues and sources of funding for the six month period:

Year to date 2017

52% Operating revenues
48% Government operating funding

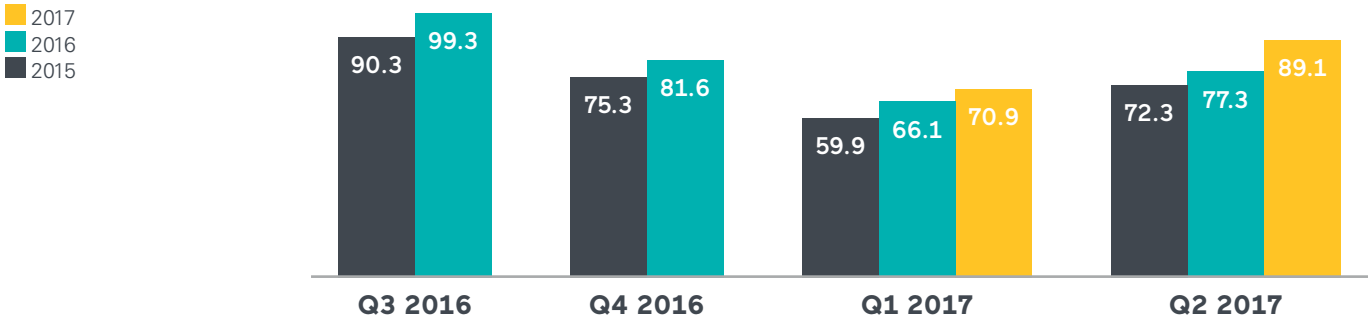
Year to date 2016

49% Operating revenues
51% Government operating funding

The following tables show financial data for the ten 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.

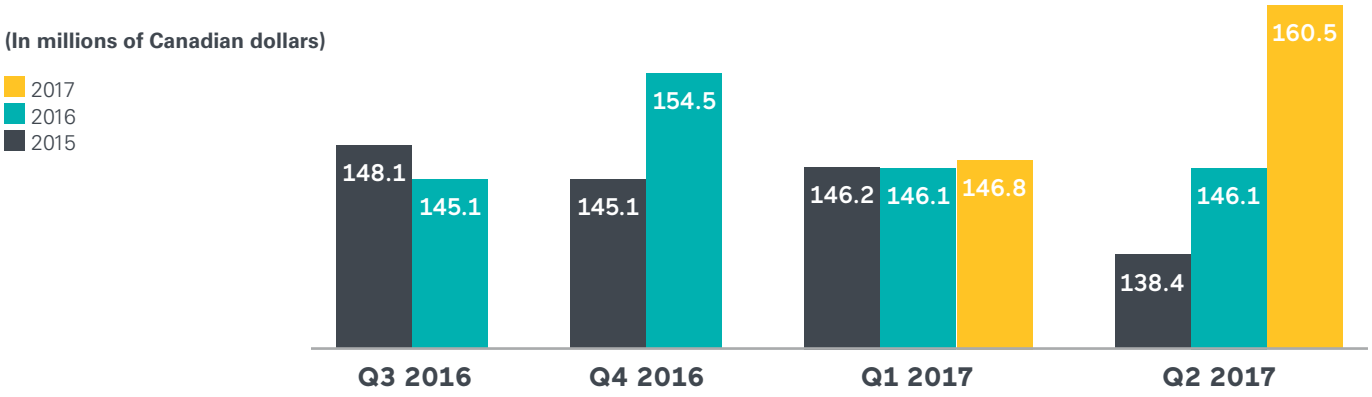
Quarterly revenues

(In millions of Canadian dollars)



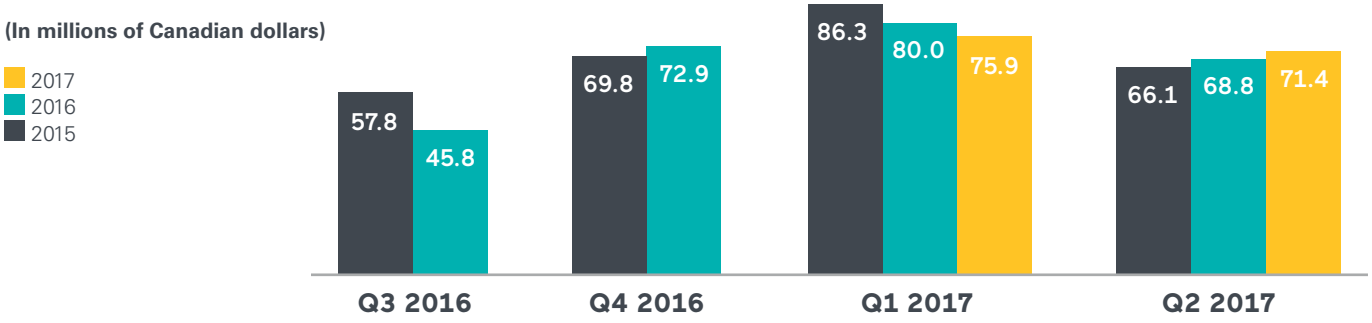
Quarterly operating expenses

(In millions of Canadian dollars)



Quarterly operating deficit

(In millions 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, 2017 (before non-funded elements and other accounting adjustments), compared to the quarter and six month period ended June 30, 2016.

4. REVENUES

Operating revenues:

	Quarters ended June 30				Six month periods ended June 30			
IN MILLIONS OF CANADIAN DOLLARS	**2017**	2016	Var $	Var %	**2017**	2016	Var $	Var %
Passenger Revenues*	**83,1**	71,8	11,3	15,7%	**148,8**	132,4	16,4	12,4%
Other Revenues*	**6,0**	5,5	0,5	9,1%	**11,2**	11,0	0,2	1,8%
Total Revenues*	**89,1**	**77,3**	**11,8**	**15,3%**	**160,0**	**143,4**	**16,6**	**11,6%**

*Financial statements amounts adjusted to reflect funded activities.

For the quarter:

Passenger revenues total $83.1 million, an increase of 15.7 percent compared to the corresponding quarter last year. The increase results from the additional revenues generated from the increased capacity offered in Corridor East and on the *Canadian*, combined with improved average fares in all major train services, and the impact of Easter (in 2016, Easter was celebrated during the first quarter).

Other revenues total $6.0 million, an increase of 9.1 percent compared to the corresponding quarter last year. This increase for the quarter is attributable to higher station and third party revenues.

For the six month period:

Passenger revenues total $148.8 million, an increase of 12.4 percent compared to last year. The increase also stems from the additional capacity deployed in Corridor East and on the *Canadian*, as well as improved average fares in all major train services.

Other revenues total $11.2 million for the period, and are 1.8 percent higher compared to the corresponding period last year.

a) Passenger Revenues

* Revenue amounts were adjusted to reflect funded activities.

	REVENUES (IN MILLIONS)							
	Quarters ended June 30				Six month periods ended June 30			
IN MILLIONS OF CANADIAN DOLLARS	2017	2016	Var $	Var %	2017	2016	Var $	Var %
Corridor East	**49.6**	42.3	7.3	17.3%	**96.5**	84.5	12.0	14.2%
Southwestern Ontario (SWO)	**10.6**	9.6	1.0	10.4%	**21.1**	20.0	1.1	5.5%
Quebec-City Windsor Corridor	**60.2**	**51.9**	**8.3**	**16.0%**	**117.6**	**104.5**	**13.1**	**12.5%**
Ocean	**2.3**	2.1	0.2	9.5%	**3.8**	3.7	0.1	2.7%
Canadian	**17.5**	15.2	2.3	15.1%	**22.0**	19.4	2.6	13.4%
Regional Services	**1.0**	1.0	0.0	0.0%	**1.7**	1.6	0.1	6.2%
Non Corridor	**20.8**	**18.3**	**2.5**	**13.7%**	**27.5**	**24.7**	**2.8**	**11.3%**
Other	**2.1**	1.6	0.5	31.3%	**3.7**	3.2	0.5	15.6%
TOTAL	**83.1**	**71.8**	**11.3**	**15.7%**	**148.8**	**132.4**	**16.4**	**12.4%**

	PASSENGERS (IN THOUSANDS)							
	Quarters ended June 30				Six month periods ended June 30			
	2017	2016	Var #	Var %	2017	2016	Var #	Var %
Corridor East	**732.4**	660.1	72.3	11.0%	**1,429.3**	1,300.7	128.6	9.9%
SWO	**235.8**	220.5	15.3	6.9%	**471.7**	456.4	15.3	3.4%
Eastern	**18.0**	16.8	1.2	7.1%	**32.4**	32.5	(0.1)	(0.3%)
Canadian	**26.0**	25.1	0.9	3.6%	**36.2**	35.5	0.7	2.0%
Regional Services	**16.5**	16.9	(0.4)	(2.4%)	**28.3**	29.3	(1.0)	(3.4%)
TOTAL	**1,028.7**	**939.4**	**89.3**	**9.5%**	**1,997.9**	**1,854.4**	**143.5**	**7.7%**

For the quarter:

- Corridor East revenues are 17.3 percent above last year, mostly due to higher ridership (11.0 percent), combined with improved average revenues (5.7 percent);
- Revenues in SWO increased by 10.4 percent, the increase is attributable to higher passenger volumes (6.9 percent) and improved average revenues which increased by 3.3 percent;
- Revenues on the *Ocean* increased by 9.5 percent as a result of higher ridership (7.1 percent) and improved average revenues (2.2 percent);
- Revenues on the *Canadian* are 15.1 percent higher than those of the corresponding quarter last year. The performance is attributable to higher average revenues (11.1 percent) associated mainly with the Prestige class, and higher passenger volumes (3.6 percent);
- Revenues on Regional services have remained stable. Ridership decreased by 2.4 percent however this decrease was totally offset by the improvement in average revenues.

For the six month period ended June 30:

- Corridor East revenues are 14.2 percent above last year, and the increase stems from both higher ridership (increase of 9.9 percent) associated with the additional capacity deployed, and improved average revenues (3.9 percent);
- Revenues in SWO increased by 5.5 percent, the increase attributable to additional passenger volumes (3.4 percent) and improved average revenues (increase of 2.1 percent);
- Revenues on the *Ocean* increased by 2.7 percent, average revenues are 3.0 percent higher than last year, while ridership has decreased by 0.3 percent;
- Revenues on the *Canadian* are 13.4 percent higher than those of the corresponding period last year. The performance is attributable to higher average revenue (11.2 percent) associated with the Prestige class, as well as to higher ridership (2.0 percent);
- Revenues on Regional services have increased by 6.2 percent, as a result of improved average revenues (10.0 percent), partly offset by lower passenger volumes (decrease of 3.4 percent).

5. FUNDED OPERATING EXPENSES

	Quarters ended June 30				Six month periods ended June 30			
IN MILLIONS OF CANADIAN DOLLARS	**2017**	2016	Var $	Var %	**2017**	2016	Var $	Var %
Compensation & Benefits*	**68.3**	62.2	6.1	9.8%	**125.8**	116.3	9.5	8.2%
Train Operations & Fuel	**32.3**	29.8	2.5	8.4%	**63.7**	59.8	3.9	6.5%
Realized loss (gain) on derivative financial instruments	**1.4**	1.6	(0.2)	(12.5%)	**2.5**	4.3	(1.8)	(41.9%)
Corporate Tax expense (recovery)	**0.1**	0.2	(0.1)	(50.0%)	**0.2**	0.4	(0.2)	(50.0%)
Other operating expenses*	**48.3**	42.7	5.6	13.1%	**95.7**	86.0	9.7	11.3%
Total Operating expenses (before employer contributions for employee benefits)	**150.4**	**136.5**	**13.9**	**10.2%**	**287.9**	**266.8**	**21.1**	**7.9%**
Employer Contributions for employee benefits*	**10.1**	9.6	0.5	5.2%	**19.4**	25.4	(6.0)	(23.6%)
TOTAL FUNDED OPERATING EXPENSES	**160.5**	**146.1**	**14.4**	**9.9%**	**307.3**	**292.2**	**15.1**	**5.2%**

*Financial statement amounts adjusted to reflect funded activities

Operating costs by category

Q2 2017

- **43 %** Compensation and employee benefits ($68.3M)
- **6 %** Employer contribution for employee benefits ($ 10.1M)
- **20 %** Train operations and fuel ($32.3M)
- **6 %** Stations and property ($ 9.7M)
- **6 %** Maintenance material ($ 9.6M)
- **3 %** On-train product costs ($ 5.2M)
- **5 %** Marketing and sales ($7.2M)
- **3 %** Data and voice telecommunications ($5.0M)
- **8 %** Other ($ 13.1M)

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)

For the quarter:

- Funded operating expenses before employer contributions for employee benefits increased by 10.2 percent and totaled $150.4 million, the variance stemming from the following major elements:
  - Higher costs for compensation ($6.1 million) due in part to the additional capacity deployed, as well as from annual salary increases;
  - Higher train operations and fuel costs ($2.5 million) also resulting in part from the additional capacity deployed which resulted in higher expenses such as fuel and infrastructure access fees, as well as higher fuel costs (additional taxes and fees);
  - Higher costs for professional services and data and voice telecommunication costs, resulting mainly from cloud based IT projects which cannot be capitalized (these cost items are included in the other operating expenses line).
- Employer contributions for employee benefits increased by 5.2 percent, mostly due higher pension contributions for past services (impact of a timing effect in the second quarter of 2016).

Operating costs by category

Six month period ended June 30, 2017

- **41%** Compensation and employee benefits ($125.8M)
- **6%** Employer contribution for employee benefits ($19.4M)
- **21%** Train operations and fuel ($63.7M)
- **7%** Stations and property ($21.3M)
- **5%** Marketing and sales ($15.5M)
- **6%** Maintenance material ($18.8M)
- **3%** On-train product costs ($9.3M)
- **3%** Professional services ($7.9M)
- **3%** Data and voice telecommunications ($9.5M)
- **5%** Other ($16.1M)

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 ($20.0M)
- **5%** Marketing and sales ($14.9M)
- **6%** Maintenance material ($16.7M)
- **3%** On-train product costs ($8.2M)
- **2%** Professional services ($6.4M)
- **2%** Data and voice telecommunications ($7.2M)
- **6%** Other ($17.3M)

For the six month period ended June 30:

- Funded operating expenses before employer contributions for employee benefits increased by 7.9 percent and totaled $287.9 million for the period, the variance attributable to the following major elements:
  - Higher compensation and benefits with an increase of $9.5 million, mainly associated with the additional capacity deployed and the annual salary increases;
  - Increase in other expenses of $9.7 million including $2.3 million for voice and data telecommunication costs and $1.5 million for professional services (mainly associated to the cloud based projects which cannot be capitalized), and $2.1 million for equipment maintenance;
  - Increase of $3.9 million for train operations and fuel, due in part to the additional capacity deployed generating additional fuel costs and train access fees, and the additional taxes and fees on fuel introduced in 2017.
- Employer contributions for employee benefits decreased by 23.6 percent, mostly due to lower pension contributions for past services, resulting from an improving solvency funding status which serves as the basis for determination of the Corporation's pension plans for funding requirement in 2017.

6. GOVERNMENT FUNDING

	Quarters ended June 30				Six month periods ended June 30			
IN MILLIONS OF CANADIAN DOLLARS	**2017**	2016	Var $	Var %	**2017**	2016	Var $	Var %
Operating funding	**71.4**	68.8	2.6	3.8%	**147.3**	148.8	(1.5)	(1.0 %)
Capital funding	**16.2**	17.3	(1.1)	(6.4%)	**37.0**	39.4	(2.4)	(6.1 %)
Total funding from the Government of Canada	**87.6**	**86.1**	**1.5**	**1.7%**	**184.3**	**188.2**	**(3.9)**	**(2.1 %)**
Detail funding from government								
Total funded revenues (section 2)	**89.1**	77.3	11.8	15.3%	**160.0**	143.4	16.6	11.6%
Total funded operating expenses (section 3)	**160.5**	146.1	14.4	9.9%	**307.3**	292.2	15.1	5.2%
Total funded operating loss	**71.4**	**68.8**	**2.6**	**3.8%**	**147.3**	**148.8**	**(1.5)**	**(1.0%)**

For the quarter:

Operating funding increased by $1.5 million (1.7 percent) compared to the corresponding quarter last year and is attributable to the higher operating loss, partly offset by lower funding required for capital (fewer capital investments than last year). The increase in the operating loss results from the increase in operating expenses, partly offset by the increase in revenues, as shown in sections 2 and 3 of this document.

Capital funding decreased by $1.1 million (6.4 percent) and reflects the fact that lower capital investments were made than during the corresponding quarter last year.

For the six month period:

Operating funding decreased by 1.0 percent and reflects the decrease in operating loss for the period. This decrease is the result of higher revenues partly offset by higher funded operating expenses, as shown in sections 2 and 3 of this document.

Capital funding decreased by 6.1 percent and also reflects the fact fewer investments were made compared to last year, as many projects were completed last year, and new capital funding envelopes for future projects were not confirmed before the March 2017 federal budget.

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.

7. TOTAL COMPREHENSIVE INCOME (LOSS)

	Quarters ended June 30				Six month periods ended June 30			
IN MILLIONS OF CANADIAN DOLLARS	**2017**	2016	Var $	Var %	**2017**	2016	Var $	Var %
Net income (loss)	**(2.1)**	(2.4)	0.3	12.5%	**(6.3)**	6.6	(12.9)	(195.5%)
Other comprehensive income (loss)								
Remeasurements of defined benefit plans	**(32.6)**	(53.7)	21.1	39.3%	**(49.2)**	(143.9)	94.7	65.8%
Total comprehensive income (loss)	**(34.7)**	**(56.1)**	**21.4**	**38.1%**	**(55.5)**	**(137.3)**	**81.8**	**59.6%**

In addition to net results, the Corporation recorded an expense of $32.6 million for the quarter, and $49.9 million for the six-month period, both associated with the re measurements of defined benefit plans. This expense resulted from the fact that the returns generated on the plans assets for the quarter and six month period are below the charge associated with the change in actuarial valuation of the plan.

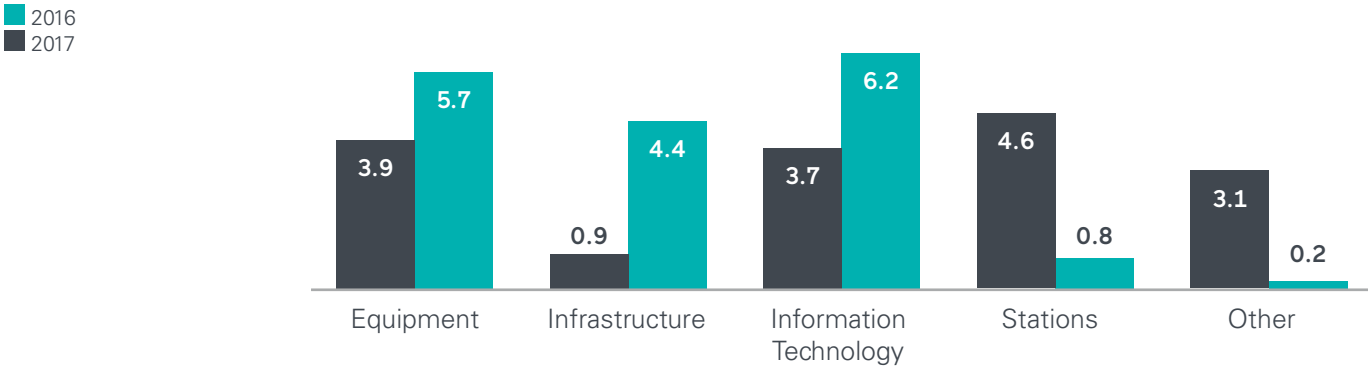
Further information on pension plan is provided in note 13 of our financial statements.

8. CAPITAL INVESTMENTS

Fixed assets (net of accumulated depreciation) amounted to $1,253.7 million, a $8.4 million decrease compared to the balance as at December 31, 2016.

Capital investments for the quarter ended June 30, 2017

(In millions of Canadian dollars)

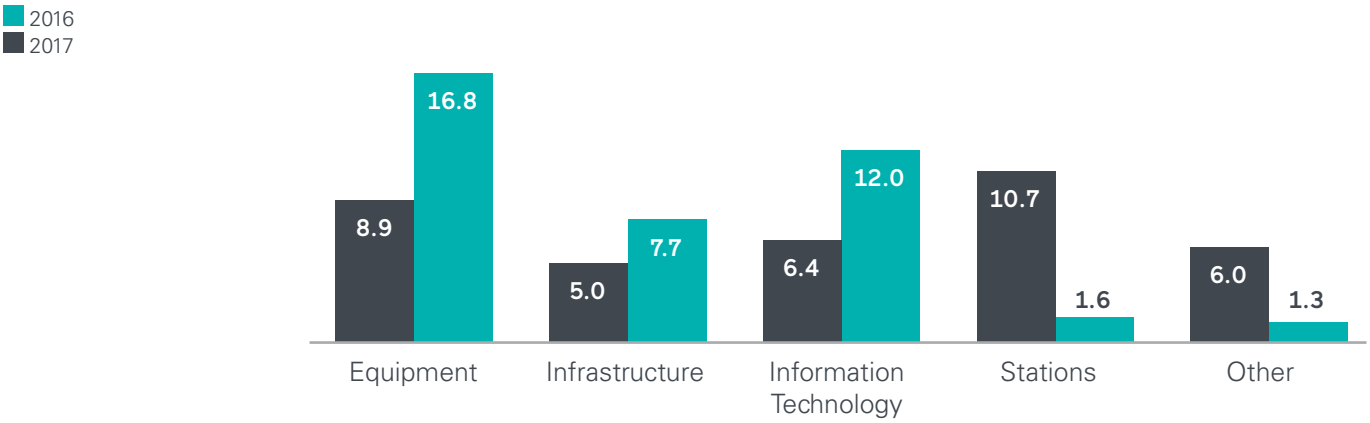


Capital investments totaled $16.2 million for the quarter, composed mainly of:

- Investments of $4.6 million made in Stations, including work made in Ottawa, Quebec and Kingston stations;
- Investments of $3.9 million made in equipment projects mostly for the LRC rebuild program;
- Investments of $3.7 million in information technology projects such as the identity access and card access management projects.

Capital investments for the six month period ended June 30, 2017

(In millions of Canadian dollars)



Capital investments totaled $37.0 million for the period, composed mainly of:

- Investments of $10.7 million made in Station projects, such as the elevated platform and electrical room in Ottawa station, and the elevator replacement in Kingston station;
- Investments of $8.9 million made in equipment project, mainly for the LRC rebuild program;
- Investments of $6.4 million made in Information Technology projects, including the network planning system, locomotive engineer training program and identity access management;
- Investments of $5.0 million in Infrastructure including work made to bridges and track upgrades.

9. CASH FLOW AND FINANCIAL POSITION

	Quarters ended June 30				Six month periods ended June 30			
IN MILLIONS OF CANADIAN DOLLARS	**2017**	2016	Var $	Var %	**2017**	2016	Var $	Var %
Balance, beginning of the period	**12.2**	23.0	(10.8)	(47.0%)	**10.9**	9.3	1.6	17.2%
Net cash (used in) provided by operating activities	**21.4**	(32.5)	53.9	(165.8%)	**26.1**	2.4	23.7	987.5%
Net cash (used in) provided by investing activities	**3.5**	27.2	(23.7)	(87.1%)	**0.1**	6.0	(5.9)	(98.3%)
BALANCE, END OF THE PERIOD	**37.1**	**17.7**	**19.4**	**109.6%**	**37.1**	**17.7**	**19.4**	**109.6%**

The Corporation's cash balance is $37.1 million as at June 30, 2017, which is $19.4 million higher than the balance as at June 30, 2016.

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

10. RISK ANALYSIS (COMPARED TO DECEMBER 31, 2016)

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 new information is available or for which the trend or status has changed compared to the status as at December 31, 2016.

This section must be read in conjunction with the risk section of the Management Discussion and Analysis as at December 31, 2016, included in the 2016 annual report.

Key risks for which new information is available or for which trend varied since December 31, 2016:

SAFETY OF PASSENGERS, EMPLOYEES AND THE PUBLIC			
NATURE OF RISK	**TREND AS AT DEC. 31, 2016**	**NEW TREND**	**NATURE OF CHANGE SINCE DECEMBER 31, 2016**
Events such as collisions, derailments and pedestrian accidents may negatively impact revenues. Such events and new regulations on grade crossings may also result in significant non-budgeted costs for the Corporation.	→	→	VIA Rail received, as part of the March 2017 federal budget, a funding envelope over the next three years, to improve grade crossings, as required by the new regulation which will be effective in November 2021.
GOVERNMENT AND STRATEGY			
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.	→	→	VIA Rail has received, as part of the March 2017 federal budget, confirmed capital, operating and pension funding envelopes for the next three government fiscal years (until March 2020).

↑ INCREASING → STABLE ↓ DECREASING

COSTS INFLUENCED BY EXTERNAL FACTORS

NATURE OF RISK	TREND AS AT DEC. 31, 2016	NEW TREND	NATURE OF CHANGE SINCE DECEMBER 31, 2016
Elements exist outside of the Corporations'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.	→	→	Declining discount rates have resulted, on an accounting basis, in significant expenses for the re measurements of pension and employee plan benefits for the quarter and six month period ended June 30, 2017. If this decline in discount rate is confirmed, on an actuarial basis, at the end of the year, it could have an impact on future funding requirements of the Corporation.

INFRASTRUCTURE AVAILABILITY, RELIABILITY AND QUALITY

The services provided by host railways have been deteriorating, resulting in declining on-time performance, lower customer satisfaction and passenger revenues, as well as increased operating costs.	→	↑	On-Time performance has declined during the first half of 2017, and the decrease has been very significant on the *Canadian* where OTP for the quarter only reached 17 percent. VIA continues to work with host railways to resolve the issues causing delays and improve on-time performance before the peak summer period.

↑ INCREASING → STABLE ↓ DECREASING

Key risks which remained unchanged since December 31, 2016

RISK	STATUS
Employee contribution	↓
Revenue generation	→
Equipment quality, availability and reliability	→
Information technology	↓

↑ INCREASING → STABLE ↓ DECREASING

11. OUTLOOK

The performance of this second quarter was very positive, especially in terms of revenues. This performance was achieved through the combination of increased capacity and schedule adjustments which resulted in additional ridership and improved average revenues, demonstrating the results of VIA's continued efforts to maximize the revenue potential of the Corporation.

The Corporation however is facing challenges such as deteriorating on time performance and an aging fleet which generate increasing costs and could, at one point, adversely affect ridership.

The new funding envelope received in March 2017 will allow for the implementation of various initiatives aimed at improving customer offerings, maintaining the current fleet in a state of good repairs, and upgrading information technology systems and all of which should minimize the negative impacts generated by poor on-time performance and aging equipment.

INTERIM CONDENSED FINANCIAL STATEMENTS

MANAGEMENT'S RESPONSIBILITY STATEMENT

QUARTER ENDED JUNE 30, 2017

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 20, 2017

INTERIM CONDENSED FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION

(IN THOUSANDS OF CANADIAN DOLLARS)	June 30, 2017	December 31, 2016
CURRENT ASSETS	*(unaudited)*	*(audited)*
Cash	**$ 37,057**	$ 10,861
Trade and other receivables	**12,454**	11,428
Receivable from the Government of Canada	**1,349**	22,593
Other current assets	**4,205**	2,927
Derivative financial instruments (NOTE 7)	**383**	2,507
Materials	**24,459**	24,112
Asset Renewal Fund	**7,780**	7,780
	87,687	82,208
NON-CURRENT ASSETS		
Property, plant and equipment (NOTE 8)	**871,673**	879,060
Intangible assets (NOTE 9)	**381,975**	383,075
Asset Renewal Fund	**873**	873
Post-employment and other employee benefits (NOTE 13)	**4,061**	4,151
	1,258,582	1,267,159
Total Assets	**$ 1,346,269**	$ 1,349,367
CURRENT LIABILITIES		
Trade and other payables (NOTE 10)	**$ 87,754**	$ 102,409
Provisions (NOTE 11)	**13,042**	13,507
Derivative financial instruments (NOTE 7)	**9,005**	6,962
Deferred revenues (NOTE 12)	**62,663**	39,483
	172,464	162,361
NON-CURRENT LIABILITIES		
Post-employment and other employee benefits (NOTE 13)	**126,054**	75,877
	126,054	75,877
Deferred capital funding (NOTE 14)	**1,239,267**	1,247,163
SHAREHOLDER'S DEFICIENCY		
Share capital	**9,300**	9,300
Accumulated deficit	**(200,816)**	(145,334)
	(191,516)	(136,034)
Total Liabilities and Shareholder's deficiency	**$ 1,346,269**	$ 1,349,367

Commitments (Note 17)

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

INTERIM CONDENSED FINANCIAL STATEMENTS

STATEMENT OF COMPREHENSIVE INCOME

(IN THOUSANDS OF CANADIAN DOLLARS) (UNAUDITED)	Quarters ended June 30		Six-month periods ended June 30	
	2017	2016	**2017**	2016
REVENUES				
Passenger	**$ 82,686**	$ 71,390	**$ 147,953**	$ 131,599
Other	**5,941**	5,519	**11,160**	10,996
	88,627	76,909	**159,113**	142,595
EXPENSES				
Compensation and employee benefits	**78,453**	73,450	**145,918**	139,111
Train operations and fuel	**32,309**	29,858	**63,740**	59,814
Stations and property	**9,689**	9,114	**21,293**	19,964
Marketing and sales	**7,230**	8,095	**15,541**	14,873
Maintenance material	**9,567**	7,608	**18,795**	16,661
On-train product costs	**5,208**	4,545	**9,317**	8,237
Operating taxes	**3,085**	2,560	**5,554**	5,203
Professional services	**3,851**	3,718	**7,909**	6,392
Telecommunications	**5,001**	3,853	**9,526**	7,171
Depreciation and amortization (NOTES 8 AND 9)	**22,004**	22,376	**44,926**	41,846
Impairment and loss (gain) on disposal of property, plant and equipment and intangible assets (NOTES 8 AND 9)	**137**	288	**588**	385
Unrealized net loss (net gain) on derivative financial instruments	**1,421**	91	**4,167**	(5,499)
Realized net loss (net gain) on derivative financial instruments	**1,398**	1,592	**2,543**	4,339
Other	**4,645**	3,096	**7,694**	7,384
	183,998	170,244	**357,511**	325,881
OPERATING LOSS BEFORE FUNDING FROM THE GOVERNMENT OF CANADA AND INCOME TAXES	**95,371**	93,335	**198,398**	183,286
Operating funding from the Government of Canada (NOTE 6)	**71,467**	68,749	**147,317**	148,788
Amortization of deferred capital funding (NOTE 14)	**21,844**	22,375	**44,923**	41,537
Net income (loss) before income taxes	**(2,060)**	(2,211)	**(6,158)**	7,039
Income tax (expense) recovery	**(78)**	(186)	**(146)**	(400)
NET INCOME (LOSS) FOR THE PERIOD	**(2,138)**	(2,397)	**(6,304)**	6,639
Other comprehensive income (loss)				
Amounts not to be reclassified subsequently to net income (net of tax):				
Remeasurements of defined benefit plans (NOTE 13)	**(32,554)**	(53,731)	**(49,178)**	(143,922)
	(32,554)	(53,731)	**(49,178)**	(143,922)
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	**$ (34,692)**	$ (56,128)	**$ (55,482)**	$ (137,283)

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	
	2017	2016	**2017**	2016
SHARE CAPITAL	**$ 9,300**	$ 9,300	**$ 9,300**	$ 9,300
Accumulated deficit				
Balance, beginning of period	**(166,124)**	(204,330)	**(145,334)**	(123,175)
Net income (loss) for the period	**(2,138)**	(2,397)	**(6,304)**	6,639
Other comprehensive income (loss) for the period	**(32,554)**	(53,731)	**(49,178)**	(143,922)
Balance, end of period	**(200,816)**	(260,458)	**(200,816)**	(260,458)
Total Shareholder's deficiency	**$ (191,516)**	$ (251,158)	**$ (191,516)**	$ (251,158)

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	
	2017	2016	**2017**	2016
OPERATING ACTIVITIES				
Net income (loss) for the period	**$ (2,138)**	$ (2,397)	**$ (6,304)**	$ 6,639
Adjustments to determine net cash (used in) provided by operating activities:				
Depreciation and amortization (NOTES 8 AND 9)	**22,004**	22,376	**44,926**	41,846
Impairment and loss (gain) on disposal of property, plant and equipment and intangible assets (NOTES 8 AND 9)	**137**	288	**588**	385
Amortization of deferred capital funding (NOTE 14)	**(21,844)**	(22,375)	**(44,923)**	(41,537)
Interest income	**(90)**	(82)	**(175)**	(192)
Unrealized net loss (net gain) on derivative financial instruments	**1,421**	91	**4,167**	(5,499)
Post-employment and other employee benefit expenses (NOTE 13)	**11,505**	13,317	**20,501**	23,374
Employer post-employment and other employee benefit contributions (NOTE 13)	**(10,141)**	(9,570)	**(19,412)**	(25,389)
Net change in non-cash working capital items (NOTE 15)	**20,491**	(34,124)	**26,685**	2,762
Net cash (used in) provided by operating activities	**21,345**	(32,476)	**26,053**	2,389
INVESTING ACTIVITIES				
Capital funding (NOTE 14)	**16,183**	17,324	**37,027**	39,452
Change in capital funding receivable from the Government of Canada	**6,881**	25,197	**7,537**	7,391
Change in capital accounts payable and accrued liabilities	**(3,455)**	1,898	**(7,569)**	(1,594)
Acquisition of property, plant and equipment and intangible assets (NOTES 8 AND 9)	**(16,183)**	(17,324)	**(37,027)**	(39,452)
Interest received	**90**	82	**175**	192
Proceeds from disposal of property, plant and equipment and intangible assets	**-**	7	**-**	7
Net cash (used in) provided by investing activities	**3,516**	27,184	**143**	5,996
CASH				
Increase (decrease) during the period	**24,861**	(5,292)	**26,196**	8,385
Balance, beginning of period	**12,196**	22,995	**10,861**	9,318
Balance, end of period	**$ 37,057**	$ 17,703	**$ 37,057**	$ 17,703
REPRESENTED BY:				
Cash	**$ 37,057**	$ 17,703	**$ 37,057**	$ 17,703
	$ 37,057	$ 17,703	**$ 37,057**	$ 17,703

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, 2017 (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 corporations and relies on them to control train operations.

The Corporation is subject to a directive (P.C. 2013-1354) that was issued on December 9, 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 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 20, 2017.

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, 2016, 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, 2016.

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, 2016.

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 will be applied retrospectively for periods beginning on January 1, 2018. The Corporation is in the process of analysing the impact of applying IFRS 9 on the Corporation's financial statements. The impact is not expected to be signifcant.

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 will be applied retrospectively, either fully or based on a modified retrospective approach, for periods beginning on January 1, 2018. The Corporation has not yet determined the monetary impact of this potential change and is continuing to assess the impact of the new standard and will provide further updates during the course of the year ending December 31, 2017.

5. FUTURE ACCOUNTING CHANGES (CONT'D)

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 corporations. 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 corporations that also apply IFRS 15 – *Revenue from Contracts with Customers*. The Corporation does not intend to early apply IFRS 16. The Corporation is currently assessing the impact of applying this standard on its financial statements.

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 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 June 30		Six-month periods ended June 30	
(IN MILLIONS OF CANADIAN DOLLARS)	**2017**	2016	**2017**	2016
Operating loss before funding from the Government of Canada and income taxes	**95.4**	93.3	**198.4**	183.3
Items requiring (providing) operating funds:				
Income tax expense (recovery)	**-**	0.2	**0.1**	0.4
Items (not requiring) not providing operating funds:				
Depreciation and amortization	**(22.0)**	(22.4)	**(44.9)**	(41.8)
Impairment and (loss) gain on disposal of property, plant and equipment and intangible assets	**(0.1)**	(0.3)	**(0.6)**	(0.4)
Post-employment and other employee benefits contributions in excess of expenses	**(1.4)**	(3.8)	**(1.1)**	2.0
Unrealized net gain (net loss) on derivative financial instruments	**(1.5)**	(0.1)	**(4.2)**	5.5
Adjustment for accrued compensation	**1.3**	2.1	**0.4**	0.6
Other	**(0.3)**	(0.2)	**(0.8)**	(0.8)
Operating funding from the Government of Canada	**71.4**	68.8	**147.3**	148.8

7. 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 SWAPS	**June 30, 2017**		December 31, 2016	
	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	**3,024**	**0.2**	8,064	2.0
Liabilities	**12,600**	**8.1**	10,080	6.4

As at June 30, 2017, the commodity swaps in USD have a fixed price per U.S. gallon between 1.770 and 2.705 USD and the commodity swaps in CAD have a fixed price per U.S. gallon between 1.890 and 2.283 CAD (December 31, 2016: between 1.770 and 2.705 USD and between 1.890 and 2.283 CAD). The maturity dates range respectively between 2017 to 2019 and 2017 to 2019 (December 31, 2016: 2017 to 2019). These financial instruments have a monthly settlement schedule.

FORWARD FOREIGN EXCHANGE CONTRACTS	**June 30, 2017**		December 31, 2016	
	Notional Amount (USD) (millions)	**Fair Value CAD (millions)**	Notional Amount (USD) (millions)	Fair Value CAD (millions)
Assets	**1.8**	**0.2**	7.3	0.5
Liabilities	**14.1**	**0.9**	15.0	0.6

As at June 30, 2017, the forward contracts rates are between 1.156 and 1.382 in US dollars (December 31, 2016: between 1.156 and 1.389) and the maturity dates are 2017 to 2019 (December 31, 2016: 2017 to 2019). These financial instruments have a monthly settlement schedule.

Amounts recognized in the statement of financial position:

	June 30, 2017	December 31, 2016
	Fair Value CAD (millions)	Fair Value CAD (millions)
Total assets	**0.4**	2.5
Total liabilities	**9.0**	7.0

8. PROPERTY, PLANT AND EQUIPMENT

(IN MILLIONS OF CANADIAN DOLLARS)	January 1, 2017	Additions	Disposals	Transfers	June 30, 2017
Cost:					
Land	17.0	-	-	-	**17.0**
Rolling stock	935.2	-	(5.4)	6.7	**936.5**
Maintenance buildings	166.1	-	-	0.2	**166.3**
Stations and facilities	126.8	-	-	0.2	**127.0**
Owned infrastructures	255.8	-	-	0.3	**256.1**
Leasehold improvements	84.4	-	-	0.1	**84.5**
Machinery and equipment	25.1	-	-	0.3	**25.4**
Computer hardware	35.4	-	-	0.7	**36.1**
Other property, plant and equipment	6.6	-	-	0.1	**6.7**
Projects in progress	30.9	25.5	-	(7.8)	**48.6**
Total cost	1,683.3	25.5	(5.4)	0.8	**1,704.2**
Accumulated depreciation and impairment:					
Rolling stock	469.6	21.3	(4.8)	-	**486.1**
Maintenance buildings	119.3	0.9	-	-	**120.2**
Stations and facilities	42.5	2.4	-	-	**44.9**
Owned infrastructures	82.0	4.0	-	-	**86.0**
Leasehold improvements	46.6	1.7	-	-	**48.3**
Machinery and equipment	18.0	0.6	-	-	**18.6**
Computer hardware	23.9	2.0	-	-	**25.9**
Other property, plant and equipment	2.3	0.2	-	-	**2.5**
Total accumulated depreciation and impairment	804.2	33.1	(4.8)	-	**832.5**
Net book value	879.1	(7.6)	(0.6)	0.8	**871.7**

9. INTANGIBLE ASSETS

(IN MILLIONS OF CANADIAN DOLLARS)	January 1, 2017	Additions	Disposals	Transfers	June 30, 2017
Cost:					
Software (NOTE 1)	102.6	-	-	0.2	**102.8**
Right of access to rail infrastructure	426.5	-	-	0.9	**427.4**
Other intangible assets	4.4	-	-	-	**4.4**
Projects in progress	13.4	11.5	-	(1.9)	**23.0**
Total cost	546.9	11.5	-	(0.8)	**557.6**
Accumulated amortization and impairment:					
Software	71.1	6.0	-	-	**77.1**
Right of access to rail infrastructure	90.9	5.7	-	-	**96.6**
Other intangible assets	1.8	0.1	-	-	**1.9**
Total accumulated amortization and impairment	163.8	11.8	-	-	**175.6**
Net book value	383.1	(0.3)	-	(0.8)	**382.0**

Note 1 - Includes mostly software developed in-house.

10. TRADE AND OTHER PAYABLES

The Trade and other payables balance includes the following:

(IN MILLIONS OF CANADIAN DOLLARS)	June 30, 2017	December 31, 2016
Wages payable and accrued	**34.2**	39.4
Payables and accruals - Capital assets	**13.8**	21.4
Payables and accruals - Trade and other	**29.7**	33.7
Trade and other payables classified as Other Financial Liabilities	**77.7**	94.5
Capital tax, income tax and other taxes payable	**6.1**	4.8
Deductions at sources	**4.0**	3.1
Total trade and other payables	**87.8**	102.4

11. PROVISIONS

The provision balance includes the following:

(IN MILLIONS OF CANADIAN DOLLARS)	January 1, 2017	Charge (used)	Reversal (used)	Reversal (not used)	June 30, 2017
Environmental costs (NOTE A)	0.3	-	-	-	**0.3**
Litigation and equipment repairs (NOTE B)	13.2	2.1	(2.4)	(0.2)	**12.7**
Total provisions	13.5	2.1	(2.4)	(0.2)	**13.0**

a) Environmental costs

The Corporation has made a provision of $0.3 million for environmental costs related to fuel spills (December 31, 2016: $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.

12. DEFERRED REVENUES

Deferred revenues are comprised of the following:

(IN MILLIONS OF CANADIAN DOLLARS)	June 30, 2017	December 31, 2016
Advance ticket sales	**40.1**	18.3
Gift cards	**1.5**	1.7
Non-monetary transactions	**2.8**	2.0
VIA Préférence (NOTE 1)	**17.9**	17.0
Other	**0.4**	0.5
Total deferred revenues	**62.7**	39.5

Note 1: The deferred revenue related to the loyalty program points is measured at fair value on a recurring basis and is evaluated based on train ticket price (level 2 of fair value hierarchy i.e. on significant input other that quoted prices (unadjusted) included in active markets that are observable for asset or liability, either directly or indirectly).

13. 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

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.

13. POST-EMPLOYMENT AND OTHER EMPLOYEE BENEFITS (CONT'D)

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, 2016, except for the discount rate used to determine the defined benefit obligation that was decreased to 3.30 per cent (December 31, 2016: 3.80 per cent) and the discount rate used to determine the defined benefit cost that was decreased to 3.80 per cent (December 31, 2016: 4.00 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, 2016, except for the discount rate used to determine the defined benefit cost that was decreased to 3.90 per cent (December 31, 2016: 4.10 per cent). 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:

	Defined benefit component of the pension plans		Post-employment benefit plans	
(IN MILLIONS OF CANADIAN DOLLARS)	**June 30, 2017**	December 31, 2016	**June 30, 2017**	December 31, 2016
DEFINED BENEFIT OBLIGATION:				
Balance at beginning of the period	**2,298.1**	2,223.3	**21.7**	19.7
Service cost	**15.5**	26.1	**0.2**	0.4
Past service cost	**-**	4.7	**-**	-
Interest expense	**37.7**	88.3	**0.4**	0.8
Employee contributions	**7.2**	13.4	**-**	-
Benefits paid	**(69.8)**	(120.5)	**(0.3)**	(0.6)
Effect of change in demographic assumptions	**-**	-	**-**	(0.1)
Effect of change in financial assumptions	**128.2**	58.6	**-**	0.7
Effect of experience adjustments	**-**	4.2	**-**	0.8
Balance at end of the period	**2,416.9**	2,298.1	**22.0**	21.7
FAIR VALUE OF PLAN ASSETS:				
Balance at beginning of the period	**2,267.2**	2,223.6	**-**	-
Interest Income	**37.0**	87.4	**-**	-
Return on plan assets (excluding interest income)	**79.0**	33.7	**-**	-
Employer contributions	**16.6**	31.9	**0.3**	0.6
Employee contributions	**7.2**	13.4	**-**	-
Benefits paid	**(69.8)**	(120.5)	**(0.3)**	(0.6)
Administration expenses	**(1.5)**	(2.3)	**-**	-
Balance at end of the period	**2,335.7**	2,267.2	**-**	-
Net defined benefit asset (liability)	**(81.2)**	(30.9)	**(22.0)**	(21.7)

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, 2016 except for the discount rate used to determine the benefit cost that was increased to 3.40 per cent (December 31, 2016: 3.30 per cent). 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, 2017**	December 31, 2016
LONG-TERM EMPLOYEE BENEFIT OBLIGATION:		
Balance at beginning of the period	**18.5**	21.9
Service cost	**1.6**	4.8
Interest expense	**0.3**	0.8
Benefits paid	**(2.2)**	(4.4)
Effect of change in demographic assumptions	**-**	(1.1)
Effect of experience adjustments	**-**	(3.5)
Balance at end of the period	**18.2**	18.5
FAIR VALUE OF PLAN ASSETS:		
Balance at beginning of the period	**-**	-
Employer contributions	**2.2**	4.4
Benefits paid	**(2.2)**	(4.4)
Balance at end of the period	**-**	-
Net long-term employee benefit liability	**(18.2)**	(18.5)

13. POST-EMPLOYMENT AND OTHER EMPLOYEE BENEFITS (CONT'D)

c) Other long-term employee benefit plans

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

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

(IN MILLIONS OF CANADIAN DOLLARS)	June 30, 2017	December 31, 2016
OTHER LONG-TERM EMPLOYEE BENEFIT OBLIGATION:		
Balance at beginning of the period	**0.6**	1.1
Service cost	**0.3**	0.1
Benefits paid	**(0.3)**	(0.6)
Balance at end of the period	**0.6**	0.6
FAIR VALUE OF PLAN ASSETS:		
Balance at beginning of the period	**-**	-
Employer contributions	**0.3**	0.6
Benefits paid	**(0.3)**	(0.6)
Balance at end of the period	**-**	-
Net other long-term employee benefit liability	**(0.6)**	(0.6)

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, 2017	December 31, 2016
Assets:		
Defined benefit component of the pension plans	**4.1**	4.2
Liabilities:		
Defined benefit component of the pension plans	**(85.3)**	(35.1)
Post-employment benefit plans	**(22.0)**	(21.7)
Long-term employee benefit plans	**(18.2)**	(18.5)
Other long-term employee benefits	**(0.6)**	(0.6)
Total liabilities	**(126.1)**	(75.9)

Total amounts recognized in the statement of comprehensive income:

	Quarters ended June 30		Six-month periods ended June 30	
(IN MILLIONS OF CANADIAN DOLLARS)	**2017**	2016	**2017**	2016
Operating expenses:				
Defined benefit component of the pension plans	**10.1**	11.4	**17.7**	19.6
Post-employment benefit plans	**0.3**	0.4	**0.6**	0.6
Long-term employee benefit plans	**1.0**	1.4	**1.9**	2.9
Other long-term employee benefits	**0.1**	0.1	**0.3**	0.3
Total	**11.5**	13.3	**20.5**	23.4

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

	Quarters ended June 30		Six-month periods ended June 30	
(IN MILLIONS OF CANADIAN DOLLARS)	**2017**	2016	**2017**	2016
Other comprehensive income (loss):				
Defined benefit component of the pension plans	**(32.6)**	(53.7)	**(49.2)**	(143.9)
Total	**(32.6)**	(53.7)	**(49.2)**	(143.9)

14. DEFERRED CAPITAL FUNDING

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

(IN MILLIONS OF CANADIAN DOLLARS)	June 30, 2017	December 31, 2016
Balance at beginning of the period	**1,247.2**	1,263.1
Government funding for property, plant and equipment and intangible assets (including the cost of land)	**37.0**	86.4
Amortization of deferred capital funding	**(44.9)**	(102.3)
Balance at end of the period	**1,239.3**	1,247.2

15. NET CHANGE IN NON-CASH WORKING CAPITAL ITEMS

	Quarters ended June 30		Six-month periods ended June 30	
(IN MILLIONS OF CANADIAN DOLLARS)	2017	2016	2017	2016
Trade and other receivables	**1.5**	0.2	**(1.0)**	1.5
Operating funding receivable from Government of Canada	**20.8**	(36.5)	**13.7**	(18.5)
Other current assets	**(0.2)**	(1.6)	**(1.3)**	(3.1)
Materials	**(0.8)**	0.2	**(0.3)**	4.1
Trade and other payables	**(5.9)**	(1.2)	**(7.1)**	(1.0)
Provisions	**(0.3)**	(0.2)	**(0.5)**	1.3
Deferred revenues	**5.4**	5.0	**23.2**	18.5
Total	**20.5**	(34.1)	**26.7**	2.8

16. FINANCIAL RISKS

The Corporation financial instruments are exposed to the same risk as disclosed in its annual financial statements for the year ended December 31, 2016.

17. 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, 2017				December 31, 2016
	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	**29.3**	3.6	15.0	10.7	31.1
Total	**29.3**	3.6	15.0	10.7	31.1
COMMITMENTS RELATING TO MAJOR CAPITAL INVESTMENTS:					
Rolling stock	**-**	-	-	-	1.8
Maintenance buildings	**0.9**	0.9	-	-	-
Stations and facilities	**3.1**	3.1	-	-	-
Owned infrastructures	**4.4**	4.4	-	-	1.0
Computer hardware	**2.0**	2.0	-	-	-
Others	**0.4**	0.4	-	-	8.3
Total	**10.8**	10.8	-	-	11.1
Total commitments	**40.1**	14.4	15.0	10.7	42.2

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 2017, an amount of $8.2 million (June 30, 2016: $8.1 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 $23.0 million (December 31, 2016: $26.5 million) to various provincial government workers' compensation boards as security for future payment streams.

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