CANADA 150

VIA Rail Canada

FIRST QUARTER REPORT 2017

CONTENTS

MESSAGE FROM THE PRESIDENT

In 2017 we will celebrate many seminal moments in Canada's nation-building history: Canada's 150th anniversary, Montréal's 375th anniversary, and the 40th anniversary of VIA Rail's creation. As Canada's national passenger rail carrier, we are proud to be continuing the great rail tradition that brought our country together. From coast to coast, we connect Canadians to their loved ones, colleagues, and friends. Throughout the year, VIA Rail is participating in several initiatives across the country that will strengthen our pride and sense of belonging by bringing Canadians together, promoting our culture, and fostering diversity. These initiatives include sporting events, musical tours, and outreach programs, and together our support of these projects represents a significant investment in train tickets. We will also encourage young Canadians to discover the country through Canada's best window: on board a VIA Rail train.

If this first quarter is any indication, 2017 will be a great year. I'm pleased to say that the positive trend of the last three years has continued into 2017 with a strong first quarter. Once again, VIA Rail's revenues and ridership have grown. In the first quarter of 2017, our passenger revenues increased by 8.4 % compared to the same quarter of last year. This is now our 12th consecutive quarter of revenue growth. Ridership increased by 5.9 % compared to last year's first quarter. We have been setting ambitious goals, and thanks to our customer-focused strategy and the hard work and dedication of all our employees, we have been consistently meeting and exceeding these targets.

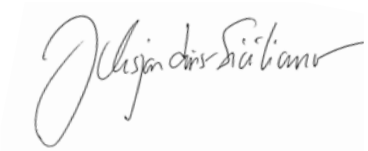
The 2017 federal budget was tabled in March and the Government of Canada allocated $867.3 million to finance VIA Rail's operations and capital requirements for the next three years. Combined with additional funding

that has already been confirmed, this represents a $1.3 billion investment in our company. We are encouraged by the Government's commitment to invest in public transportation to create strong communities, and VIA Rail is dedicated to being part of Canada's sustainable transportation system. By implementing concrete, affordable, and accessible solutions, we can encourage more Canadians to leave their cars at home and make VIA Rail their preferred choice for inter-city travel.

On a more personal note, at the beginning of 2017 I assumed an honorary role with the Canadian Armed Forces. It is with great pride that I will serve as an honorary Lieutenant-Colonel of the *Régiment de Maisonneuve*, the official regiment of the city of Montréal. In this role, I will continue the work of my predecessors in strengthening the relationship between Montréal's civilian and military communities. VIA Rail has a long and proud history of supporting the military community through partnerships with military organizations, veteran hiring initiatives, policies to encourage employee participation in the Canadian Armed Forces Reserves, and special ticket fares for active and veteran members of the Canadian Forces and their families.

Thank you to our passengers who contributed to another fantastic quarter by taking the train, and to our employees who always go above and beyond. We look forward to celebrating with you throughout this special year.

All aboard for the celebrations!



YVES DESJARDINS-SICILIANO
President and Chief Executive Officer

FIRST QUARTER AT A GLANCE

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

	Q1 2017	Q1 2016
KEY FINANCIAL INDICATORS (IN MILLIONS OF DOLLARS)		
Total passenger revenues [1]	**65.7**	60.6
Total revenues [1]	**70.9**	**66.1**
Operating expenses [1]	**(137.5)**	(130.3)
Contributions for employee benefits [1]	**(9.3)**	(15.8)
Total Operating expenses [1]	**(146.8)**	**(146.1)**
Operating Income (Deficit)	**(75.9)**	**(80.0)**
Capital expenditures	**(20.8)**	(22.1)
Total Funding Required	**(96.7)**	**(102.1)**
Government Operating Funding	**75.9**	80.0
Government Capital Funding	**20.8**	22.1
Total Government Funding	**96.7**	**102.1**
Asset Renewal Fund	**0.0**	**0.0**
KEY OPERATING STATISTICS [2]		
Total passenger-miles (IN MILLIONS)	**191**	181
Total seat-miles (IN MILLIONS)	**378**	356
Operating deficit per passenger-mile (IN CENTS)	**39.7**	44.3
Yield (CENTS PER PASSENGER-MILE)	**33.3**	32.7
Train-miles operated (IN THOUSANDS)	**1,627**	1,602
Car-miles operated (IN THOUSANDS)	**9,004**	8,757
Average passenger load factor (%)	**51**	51
Average number of passenger-miles per train mile	**117**	113
On-time performance (%)	**77**	79
Number of full time equivalent employees during the quarter	**2,721**	2,549

(1) Financial statement amounts were adjusted to reflect funded activities
(2) Key operating statistics are unaudited

KEY OPERATING STATISTICS BY SERVICE GROUP FOR THE FIRST QUARTER OF 2017

Train Services	Passenger Revenues* (in thousands)	Passengers (in thousands)	Passengers-Miles (in thousands)	Government Funding (per passenger-mile)
Quebec City - Windsor Corridor	$57,427	933	169,541	$0.24
Longhaul West	$4,481	10	11,445	$1.20
Longhaul East	$1,507	14	6,923	$1.52
Regional Services	$748	12	3,079	$3.45
Total	**$64,163**	**969**	**190,988**	**$0.40**

KEY OPERATING STATISTICS BY SERVICE GROUP FOR THE FIRST 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	$52,647	877	158,398	$0.27
Longhaul West	$4,206	10	11,871	$1.16
Longhaul East	$1,558	16	7,368	$1.49
Regional Services	$667	12	2,932	$4.07
Total	**$59,078**	**915**	**180,569**	**$0.44**

* Excluding off-train and other passenger revenues.

REVIEW OF OPERATIONS

CELEBRATING CANADA 150

This year, we come together to celebrate the 150th anniversary of Canadian Confederation. The railway united our country, both physically and figuratively, and the promise of a coast-to-coast connection was a catalyst for uniting the provinces 150 years ago. Today, VIA Rail continues the tradition of connecting people across Canada by train.

As Canada's national passenger rail carrier, VIA Rail will participate in a number of major initiatives throughout the year, organized by several partners across Canada, that will strengthen the pride and sense of belonging felt across our country. These projects and events were selected based on their ability to bring Canadians together, promote our culture, and foster diversity. Altogether, VIA Rail's support of these projects represent an investment of over $2 million in train tickets.

In February, we announced the details of our participation in the Canada 150 celebrations at a press conference in Ottawa Station. The Honourable Marc Garneau, Minister of Transport, Karen McCrimmon, Member of Parliament for Kanata-Carleton and Parliamentary Secretary to the Minister of Transport, David McGuinty, Member of Parliament for Ottawa South, Jim Watson, Mayor of Ottawa, and Yves Desjardins-Siciliano, President and Chief Executive Officer of VIA Rail Canada, were at the station for the announcement.

David McGuinty, Member of Parliament for Ottawa South; The Honourable Marc Garneau, Minister of Transport; Jim Watson, Mayor of Ottawa; Karen McCrimmon, Member of Parliament for Kanata-Carleton and Parliamentary Secretary to the Minister of Transport; and Yves Desjardins-Siciliano, President and Chief Executive Officer of VIA Rail Canada at the press conference launching Canada 150.

VIA RAIL'S CARS AND LOCOMOTIVES GET A CANADA 150 MAKEOVER

To celebrate our country's 150th birthday, VIA Rail has wrapped a portion of its fleet in the Canada 150 colours. 22 locomotives, 18 passenger cars and the Glen Fraser lounge car have been decorated with the names of some of the cities that VIA Rail serves. We also hung posters and banners in our stations, inviting travellers to join in the festivities. This campaign leveraged VIA Rail's own equipment and infrastructure to promote Canada 150 and encourage people to discover the beauty of Canada.

ALL ABOARD FOR THE CELEBRATIONS!

VIA Rail is participating in several Canada 150 events organized across the country, including 10 Heritage Canada signature events. As part of our partnership with Ottawa 2017, VIA Rail organized a special train to bring media, athletes, spectators and contest winners to Red Bull Crashed Ice, a fast-paced ice cross competition in downtown Ottawa. We also had a booth on-site where spectators could meet Scott Croxall, our VIA Rail sponsored athlete, and take picture of themselves dressed as a Red Bull Crashed Ice athlete.

In celebration of the Canadian music industry, VIA Rail joined forces with Ottawa 2017 and the Canadian Academy of Recording Arts and Sciences for the JUNO Awards weekend to bring over 450 nominees, musicians, media, music fans, sponsors, contest winners, and executives to Ottawa on board the JUNO Express. On board performances from JUNO nominees like Scott Helman, the Dirty Nil, and the Lytics helped make #JunoExpress the number three trending topic on Twitter in Canada on the day of the train. These special charter trains, one from Toronto and one from Montréal, arrived at Ottawa Station to a red carpet welcome from Jim Watson, the city's mayor.

Throughout the year, we are also publishing special Canada 150 content for VIA: The Blog, including the best places to visit each month to join in the celebrations, and interviews with notable Canadians (like musician Sam Roberts and comedian Pierre-Luc Funk) about their favourite places in Canada.

JUNO nominee Scott Helman performing on the JUNO Express.

PROMOTING GENDER EQUALITY AND FEMALE LEADERSHIP

VIA Rail is committed to promoting inclusivity and equality in our corporation and in Canadian society. We were proud to partner with Equal Voice Canada in support of the provincial and national Daughters of the Vote Conference. In February, VIA Rail transported more than 50 young women to the National Assembly of Québec to mark the 100th anniversary of women's suffrage and reflect on how far women have come in government, and what still remains to be done. In February and March, 300 young women travelled on board our trains to Ottawa to spend the day in the House of Commons discussing the status of women.

Sonia Corriveau, VIA Rail's Business Transformation Officer was on a panel with Harjit Singh Sajjan, Minister of National Defence, about how women can make a difference in male dominated sectors.

HELPING A NEW GENERATION DISCOVER CANADA

VIA Rail created the Canada 150 Youth Pass, a $150 pass offering youth aged 12-25 (and full-time students with a valid ISIC card) unlimited travel across Canada for the month of July. The interest in this offer was unprecedented, and more than 4,000 passes were sold in less than 36 hours. As soon as the pass was posted on VIA Rail's website on March 27, youth quickly spread the word on social media. We can trust that this summer, more than before, many young Canadians will get together to discover new places, create lasting memories, and share our national pride.

PUTTING PASSENGERS FIRST

UPDATING OUR MENUS

In the first quarter we made several changes to our menus in both Economy and Business class. Based on customer and employee feedback, in Economy class we streamlined the number of light meals available and introduced five new meal options, including a breakfast box and assorted vegetable plate. In Business class, we improved our croissant recipe and made tweaks to several menus on trains in Southwestern Ontario, which have been very positively received.

Some of the new sandwiches that were added to the Economy class menu. From left to right: the smoked meat sandwich, ham and cheese croissant, turkey and swiss cheese, pineapple and ham, and chef's vegetable pasta salad.

GROWING OUR COMMUNITY

WHY DON'T YOU TAKE THE TRAIN?

This winter our "Why don't you take the train?" marketing campaign continued with two new 15-second videos, as well as some shorter videos for social media, encouraging Canadians to change their winter habits. We ran customized messages and increased our online presence around predicted winter storm days to promote the train as the winter way to travel. To target adult non-business travellers, we created a print campaign which, like the videos, poked fun at people's reluctance to change their habits. The campaign also ran in online newspapers and magazines.

VIA + CAA

To encourage drivers to leave their cars at home and take the train during winter storms, VIA Rail and CAA Québec created an unscripted ad with Québecois comedian Pierre-Yves Lord. In the video, the Québec star joins a CAA agent sent to rescue people whose cars have broken down or gotten stuck in a snowbank. This is juxtaposed with clips of Pierre-Yves Lord relaxing in comfort on the train. The video promotes the train as the smart choice for winter travel, especially when combined with the 10 % discount CAA members receive on their train ticket. The video was hugely popular on Facebook with over 115,000 views.

SUSTAINABLE MOBILITY

Sustainable mobility is an integral part of who we are and how we have always conducted our business. In the year since we issued our first Sustainable Mobility Report detailing our activities for 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. For more information, the full 2016 Sustainable Mobility Report can be found in the "About VIA Rail" section of our website under "Governance and Reports".

SUPPORT SOCIO-ECONOMIC DEVELOPMENT

WELCOMING NEW CITIZENS

On March 14, 49 people from 19 countries became Canadian citizens at VIA Rail's Winnipeg Station. The citizenship ceremony was organized by Immigration, Refugees and Citizenship Canada, the Institute for Canadian Citizenship, and VIA Rail. VIA Rail has been proud to host citizenship ceremonies in its stations since 2015 as part of a long standing relationship with the ICC and its Cultural Access Pass program. Through this collaboration, VIA Rail offers new citizens and their families who are members of the program a trip at 50 % off the lowest available fare, in any class (except for Prestige class on the *Canadian*) in their first year of citizenship. Since the launch of this partnership in July 2012, almost 24,000 trips have been taken, including more than 500 in the first quarter of 2017.

CELEBRATING OUR OFFICIAL LANGUAGES

VIA Rail complies with the *Official Languages Act* and is proud to offer services in both English and French. Over the quarter, VIA Rail helped promote linguistic minority communities by participating in events promoting both official languages in this landmark year.

VIA Rail strengthened its collaboration with the Anglophone community in Québec by renewing its partnership with the Young Quebecers Leading the Way conference. This three year project was launched by the Quebec Community Groups Network (QCGN) to include Québec youth in the sesquicentennial festivities. The participants discussed Canadian identity, social, environmental, and economical questions, and the role of Canada in the world. VIA Rail transported the participants, who travelled from various points across Québec to Ottawa for the conference.

VIA Rail continued its 20 year partnership with the *Théâtre Français de Toronto*, which is celebrating its 50th anniversary in 2017. The *Théâtre Français de Toronto's* season showcases Francophone culture and features Francophone performers from Ontario and Québec.

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 January 2017 our Vancouver and Winnipeg Maintenance Centres were successful in renewing the certification following a re-registration audit. The Montréal Maintenance centre will be audited in May 2017.

BE AN ATTRACTIVE EMPLOYER

CELEBRATING EMPLOYEE EXCELLENCE

January saw the return of the Distinction Awards, our employee recognition program with a regional and national component. The regional Distinction Awards are awarded to peer-nominated employees in the categories of Five-Star Service, Excellence in Maintenance, Success Story, and Team Spirit. In addition to recognizing employees who have gone above and beyond, these awards also inspire others to follow their example. At our employee recognition events in January 2017, we handed out Distinction Awards to 16 outstanding employees.

The national portion of the Distinction awards, the Client Innovation Challenge, invited all VIA Rail employees to submit their ideas to further improve our customer experience. Many of our employees are customer-facing, and therefore have an insider's perspective on how to best meet their needs. Justin Sutherland, a Chef on board the *Canadian*, was this year's winner for his idea to improve the onboard kitchen.

Yves Desjardins-Siciliano, President and CEO, and Martin R. Landry, Chief Commercial Officer, with Zachary Wells (centre), Senior Service Attendant, winner of the Five-Star Service Award for Central Canada.

MENTAL HEALTH FIRST AID TRAINING

VIA Rail is committed to supporting psychological health and safety in the work place. This quarter we started to offer Mental Health First Aid training from the Mental Health Commission of Canada to members of our Health & Safety Committees, Managers, Service Managers, Service Attendants and Station In-Charges. The curriculum covers topics including substance use disorders, depression, anxiety disorders and psychosis, as well as crisis first aid. The participants were trained in identifying signs of mental health problems in themselves, co-workers, friends, family, and the travelling public, supporting and seeking the appropriate treatment for individuals struggling with mental health problems, and techniques to reduce the stigma of mental illness.

A group of Montréal employees who completed their Mental Health First Aid training.

AWARDS

"WINTER WAY TO TRAVEL CAMPAIGN" IS A WINNER

Our "Winter Way to Travel" campaign won silver at the Internationalist Awards for Innovative Media and was shortlisted in the international Festival of Media contest in two categories: "Best Use of Media to Support E-commerce" and "Best use of Geo-Location". Our "Why Don't You Take the Train?" campaign also stood out and was a finalist in the Créa awards recognizing the best advertising in Québec.

VIA RAIL'S PRESIDENT BECOMES HONORARY LIEUTENANT-COLONEL OF THE RÉGIMENT DE MAISONNEUVE

Yves Desjardins-Siciliano was appointed the honorary Lieutenant-Colonel of the Régiment de Maisonneuve and accepted a mandate to reinforce the link between the military and Montréal's civilian community and promote esprit de corps. This appointment reflects Mr. Desjardins-Siciliano's leadership in recognizing the value military members can add to the Canadian workforce.

VIA RAIL RECOGNIZED FOR ITS COMMITMENT TO THE MILITARY

VIA Rail was honoured as the best employer in Québec by the Canadian Forces Liaison Council. This award recognizes our support for members of Canada's Reserve Forces and our efforts to encourage them to join and stay at our company. Over the past few years, we have worked with our reservist employees to implement a new leave policy allowing them to continue their military training or participate in temporary missions during military operations in Canada and abroad. We have also entered into several partnerships with programs like the Canada Company Military Employment Transition Program and Commissionaire's MISSION EMPLOI to encourage more veterans as well as reservists to join our company.

Left to right: VIA Rail's President with VIA Rail employees who are veterans and members of Canada's Reserve Forces. From left to right: Sebastien Langlais (Maintenance), Janine Caron (Legal), Jean-Samuel Plante (Customer Relationship Management), Yves Desjardins-Siciliano, Denis Durand (Board of Directors), Jacques Fauteux (Government and Community Relations), Lucie Tremblay (Corporate Security), and Michel Binette (IT).

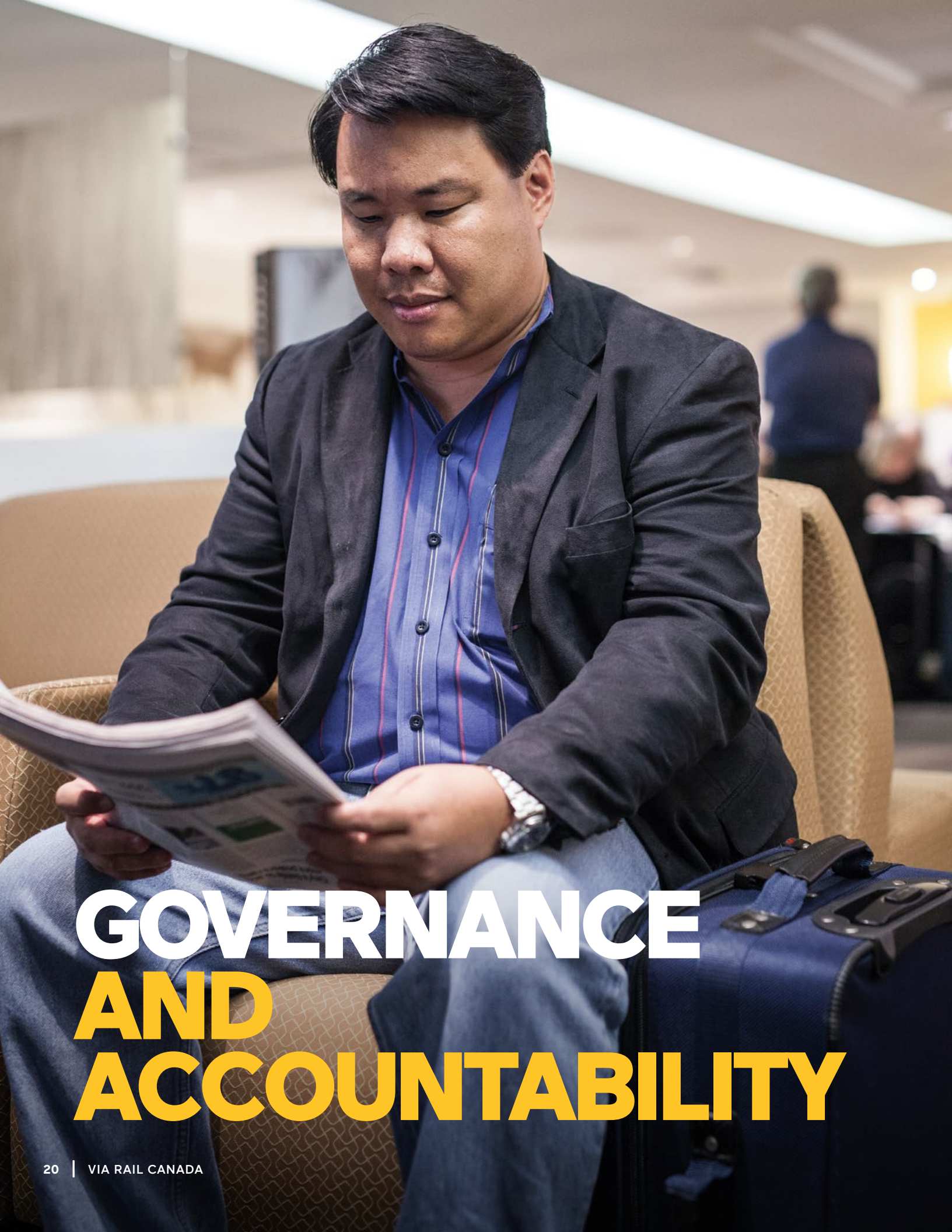
KEY PERFORMANCE INDICATORS

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 March 31		
INDICATOR	UNIT	Q1 2017	Q1 2016	Vs 2016
CAPACITY DEPLOYED (IN MILLIONS) Number of available seat-miles (ASM) [1]	ASM	378	356	6.2 %
TOTAL REVENUES / ASM (RASM) Total revenues divided by total ASM	cents	18.77	18.54	■
TOTAL COSTS [2] / ASM (CASM) Total operating expenses divided by total ASM	cents	37.81	38.03	■
RASM / CASM Revenues per available seat-mile divided by the costs per available seat-mile	%	49.6 %	48.7 %	■
ON-TIME PERFORMANCE On-Time Performance of all VIA Rail trains	%	77 %	79 %	■
ON-TIME PERFORMANCE - VIA RAIL INFRASTRUCTURE On-Time performance of all VIA Rail trains on VIA Rail owned infrastructure	%	93.6 %	95.7 %	■
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	#	2	2	■
EMPLOYEE ATTENDANCE Total hours worked per month divided by the total possible work hours per month	%	94.6 %	94.8 %	■

(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

THE BOARD OF DIRECTORS

As of March 31, 2017, the Board of Directors consists of the Lead Director, the President and Chief Executive Officer and seven directors appointed by the Government of Canada. Of the eight directors (not including the CEO of VIA Rail), four 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.

PUBLIC MEETINGS AND REPORTS

During the first quarter of 2017, three Board meetings were held. The four different Board committees met a total of six times. The attendance rate of Board members at these meetings was 100 %. Cumulative fees paid to Board members during this time period totalled $28,400.

ACCESS TO INFORMATION AND PRIVACY

VIA Rail believes that openness and transparency are essential to 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. During the first quarter of 2017, VIA Rail received 17 new requests, and 9 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 FIRST QUARTER OF 2017	
Jane Mowat Lead Director of the Board	-
Yves Desjardins-Siciliano President and CEO	$23,000
Executive management committee members (8 members)	$44,500
Board of Directors (9 members)	$7,500
Total VIA Rail (including above expenses)	**$285,000**

MANAGEMENT DISCUSSION AND ANALYSIS

This is a review of VIA Rail Canada's (VIA Rail) operations, performance and financial position for the quarter ended March 31, 2017, compared with the quarter ended March 31, 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 ended as at March 31 2017 and 2016, as per IFRS (International Financial Reporting standards).

	Quarters ended March 31			
IN MILLIONS OF CANADIAN DOLLARS	**2017**	2016	Var $	Var %
Passenger Revenues	**65.3**	60.2	5.1	8.5 %
Other Revenues	**5.2**	5.5	(0.3)	(5.5 %)
Total Revenues	**70.5**	**65.7**	**4.8**	**7.3 %**
Total Operating expenses	**173.5**	**155.6**	**17.9**	**11.5 %**
Operating Loss	**103.0**	**89.9**	**(13.1)**	**(14.6 %)**
Operating funding from Government of Canada	**75.9**	80.0	(4.1)	(5.1 %)
Amortization of deferred capital funding	**23.0**	19.1	3.9	20.4 %
Net income (loss) before income taxes	**(4.1)**	**9.2**	**(13.3)**	**(144.6 %)**
Income tax recovery (expense)	**(0.1)**	(0.2)	0.1	(50.0 %)
Net income (loss) for the quarter	**(4.2)**	**9.0**	**(13.2)**	**(146.7 %)**
Remeasurements of defined benefit plans	**(16.6)**	(90.2)	73.6	81.6 %
Total comprehensive income (loss) for the quarter	**(20.8)**	**(81.2)**	**60.4**	**74.4%**

The operating loss increased by $ 13.1M compared to last year. This increase is due to the decrease of the funded deficit ($ 4.1M) and the increase of the non-funded elements ($ 17.2M).

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 March 31			
IN MILLIONS OF CANADIAN DOLLARS	**2017**	2016	Var $	Var %
IFRS - RESULTS				
Operating Loss	**103.0**	**89.9**	**13.1**	**14.6%**
NON FUNDED ELEMENTS INCLUDED IN IFRS RESULTS				
Revenues - adjustment for VIA preference points	**(0.4)**	(0.4)	0.0	0.0 %
EXPENSES				
Depreciation and amortization/Impairment and loss (gain) on disposal of property, plant and equipment and intangible assets	**(23.4)**	(19.6)	(3.8)	(19.4 %)
Unrealized net gain (loss) on derivative financial instruments	**(2.7)**	5.6	(8.3)	(148.2 %)
Other	**(0.6)**	4.5	(5.1)	(113.3 %)
TOTAL NON FUNDED ELEMENTS	**(27.1)**	(9.9)	(17.2)	173.7 %
Funded results				
Funded operating loss	**75.9**	**80.0**	**(4.1)**	**(5.1%)**

The increase in depreciation and amortization expenses results stem in part from the fact that new assets were put in service, and to the adjustment of the useful lives of specific equipment components. The increase in unrealized net loss on derivative financial instruments reflects the higher variance between the contract prices and market value of the hedging contracts which expire after the end of the quarter. The increase in the other non funded elements is mainly due to the increase in the non cash portion of employee benefits.

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 March 31			
IN MILLIONS OF CANADIAN DOLLARS	**2017**	2016	Var $	Var %
Passenger Revenues	**65.7**	60.6	5.1	8.4 %
Total Revenues	**70.9**	**66.1**	**4.8**	**7.3 %**
Operating expenses	**137.5**	130.3	7.2	5.5 %
Employer contributions for employee benefits	**9.3**	15.8	(6.5)	(41.1 %)
Total Operating expenses	**146.8**	**146.1**	**0.7**	**0.5 %**
Operating Loss	**(75.9)**	**(80.0)**	**(4.1)**	**(5.1 %)**
Operating funding from Government of Canada	**75.9**	**80.0**	**(4.1)**	**(5.1%)**

Revenues and sources of funding for the quarter:

Q1 2017

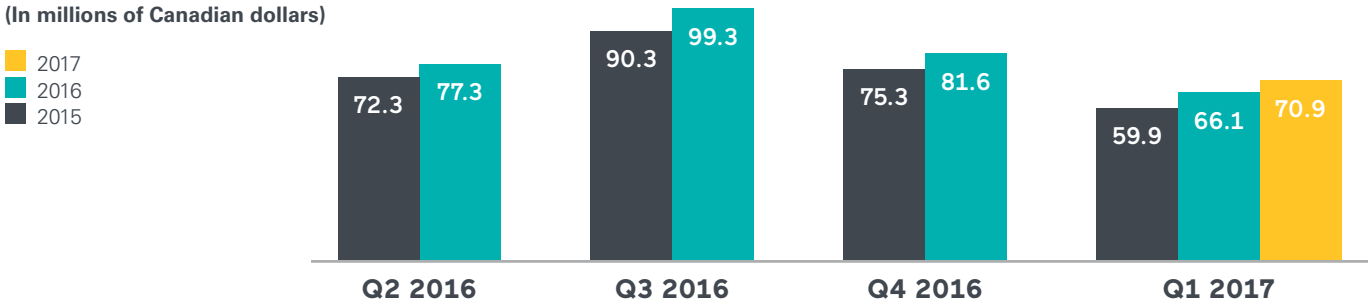
48 % Operating revenues
52 % Government operating funding

Q1 2016

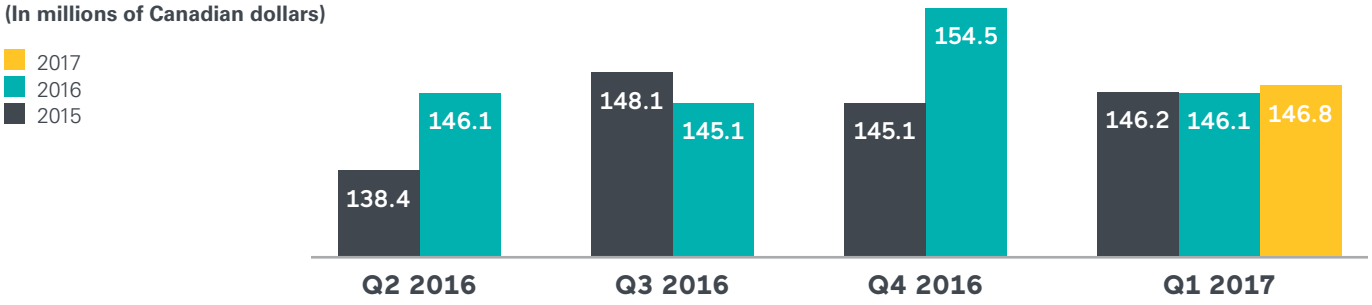
45 % Operating revenues
55 % Government operating funding

The following tables show 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.

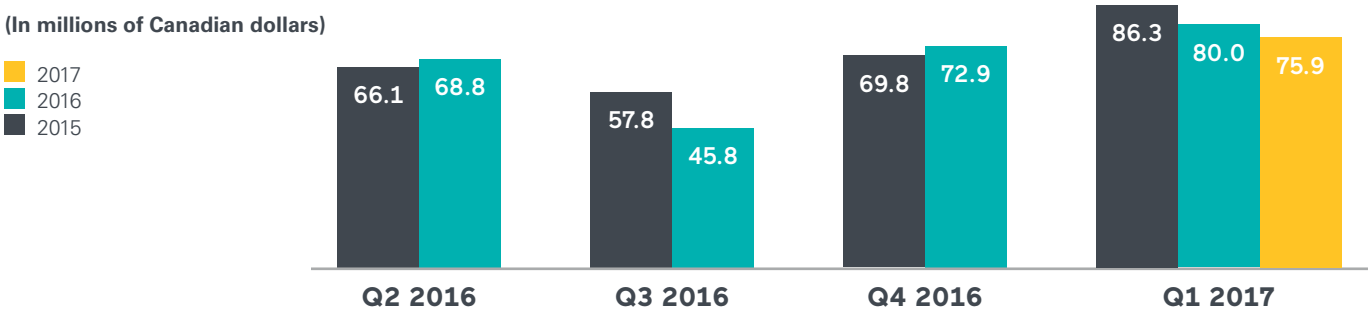
Quarterly revenues



Quarterly operating expenses



Quarterly operating deficit



The following sections of the document provide comments on the funded activities of the quarter ended March 31, 2017 (before non-funded elements and other accounting adjustments), compared to the quarter ended March 31, 2016.

4. REVENUES

Operating revenues:

	Quarters ended March 31			
IN MILLIONS OF CANADIAN DOLLARS	**2017**	2016	Var $	Var %
Passenger Revenues	**65.7**	60.6	5.1	8.4 %
Other Revenues	**5.2**	5.5	(0.3)	(5.5 %)
Total Revenues	**70.9**	**66.1**	**4.8**	**7.3 %**

Passenger revenues total $65.7 million for the quarter, an increase of 8.4 percent compared to the corresponding quarter last year. The increase is mostly associated with additional revenues stemming in part from the additional capacity and cycling changes introduced in Corridor East in the second half of 2016, as well as from higher average revenues in all major train services.

Other revenues total $5.2 million for the quarter, a decrease of 5.5 percent compared to the corresponding quarter last year. This decrease for the quarter is attributable in most part to lower third-party revenues.

a) Passenger Revenues

	REVENUES				PASSENGERS (IN THOUSANDS)			
	Quarters ended March 31				Quarters ended March 31			
IN MILLIONS OF CANADIAN DOLLARS	2017	2016	Var $	Var %	2017	2016	Var #	Var %
Corridor East	**46.9**	42.2	4.7	11.1 %	**696.9**	640.6	56.3	8.8 %
Southwestern Ontario (SWO)	**10.5**	10.4	0.1	1.0 %	**235.9**	235.9	0.0	0.0 %
Quebec-City Windsor Corridor	**57.4**	**52.6**	**4.8**	**9.1%**	**932.8**	**876.5**	**56.3**	**6.4%**
Ocean	**1.5**	1.6	(0.1)	(6.3 %)	**14.4**	15.7	(1.3)	(8.3 %)
Canadian	**4.5**	4.2	0.3	7.1 %	**10.2**	10.4	(0.2)	(1.9 %)
Regional Services	**0.7**	0.7	0.0	0.0 %	**11.8**	12.4	(0.6)	(4.8 %)
Non Corridor	**6.7**	**6.5**	**0.2**	**3.1%**	**36.4**	**38.5**	**(2.1)**	**(5.5%)**
Other	**1.6**	1.5	0.1	6.7 %	**-**	-	-	-
TOTAL	**65.7**	**60.6**	**5.1**	**8.4%**	**969.2**	**915.0**	**54.2**	**5.9%**

For the quarter:

- Corridor East revenues are 11.1 percent above last year, mostly due to a higher passenger volumes (8.8 percent);
- Revenues in SWO increased by 1.0 percent, the increase attributable to higher average revenues, while ridership remained stable;
- Revenues on the *Ocean* decreased by 6.3 percent compared to last year, the decrease is explained by lower passenger volumes (8.3 percent), partly offset by improved average revenues (2.2 percent);
- Revenues on the *Canadian* are 7.1 percent higher than those of the corresponding quarter last year. The performance is attributable to higher average revenue (9.2 percent), partly offset by a decrease in ridership (1.9 percent);
- Revenues on Regional services have remained stable, the decrease in passenger levels of 4.8 percent was totally offset by improved average revenues.

5. FUNDED OPERATING EXPENSES

	Quarters ended March 31			
IN MILLIONS OF CANADIAN DOLLARS	**2017**	2016	Var $	Var %
Compensation & Benefits	**57.5**	54.1	3.4	6.3 %
Train Operations & Fuel	**31.4**	30.0	1.4	4.7 %
Realized loss (gain) on derivative financial instruments	**1.1**	2.7	(1.6)	(59.3 %)
Corporate Tax expense (recovery)	**0.1**	0.2	(0.1)	(50.0 %)
Other operating expenses	**47.4**	43.3	4.1	9.5 %
Total Operating expenses (before employer contributions for employee benefits)	**137.5**	**130.3**	**7.2**	**5.5 %**
Employer Contributions for employee benefits	**9.3**	15.8	(6.5)	(41.1 %)
TOTAL FUNDED OPERATING EXPENSES	**146.8**	**146.1**	**0.7**	**0.5 %**

Q1 2017

- **39 %** Compensation and employee benefits ($ 57.5M)
- **6 %** Employer contribution for employee benefits ($ 9.3M)
- **21 %** Train operations and fuel ($ 31.4M)
- **8 %** Stations and property ($ 11.6M)
- **6 %** Marketing and sales ($ 8.3M)
- **6 %** Maintenance material ($ 9.2M)
- **3 %** On-train product costs ($ 4.1M)
- **11 %** Other ($ 15.4M)

Q1 2016

- **37 %** Compensation and employee benefits ($ 54.1M)
- **11 %** Employer contribution for employee benefits ($ 15.8M)
- **21 %** Train operations and fuel ($ 30.0M)
- **7 %** Stations and property ($ 10.8M)
- **6 %** Maintenance material ($ 9.1M)
- **2 %** On-train product costs ($ 3.7M)
- **5 %** Marketing and sales ($ 6.8M)
- **11 %** Other ($ 15.8M)

For the quarter:

- Funded operating expenses before employer contributions for employee benefits increased by 5.5 percent and totaled $137.5 million for the quarter, the variance stemming from the following major elements:
  - Higher compensation and benefits with an increase of $3.4 million, due mainly to additional capacity deployed, and annual salary increases;
  - Higher train operations and fuel costs, resulting from the increase in capacity and annual contractual increases for track access fees;
  - Higher professional services and data telecommunications costs, due in part to cloud information technology projects. Professional services and data telecommunication costs are included in other operating expenses:
  - Lower realized loss on derivative financial instruments, which decreased by $1.6 million. The losses on derivative instruments result from the fact that market fuel costs are lower than contract prices. The decrease in the loss compared to the first quarter of 2016 is explained by the fact that the losses on the contracts exercised in 2016 were more significant than those associated with contracts exercised during this most recent quarter.
- Employer contributions for employee benefits decreased by 41.1 percent, mostly due to lower pension contributions for past services, resulting from the improving solvency status of the pension funds.

6. GOVERNMENT FUNDING

	Quarters ended March 31			
IN MILLIONS OF CANADIAN DOLLARS	**2017**	2016	Var $	Var %
Operating funding	**75.9**	80.0	(4.1)	(5.1 %)
Capital funding	**20.8**	22.1	(1.3)	(5.9 %)
Total funding from the Government of Canada	**96.7**	**102.1**	**(5.4)**	**(5.3 %)**

Operating funding decreased by $4.1 million (5.1 percent) compared to the corresponding quarter last year. The decrease is mainly due to the increase in revenues and a decrease in the employer contributions for employee benefits, partly offset by higher operating expenses, as shown in sections 2 and 3.

Operating government funding is recognized in the income statement and represents 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. The decrease in Capital funding results from lower capital investments made this quarter compared to last year.

7. TOTAL COMPREHENSIVE INCOME (LOSS)

	Quarters ended March 31			
IN MILLIONS OF CANADIAN DOLLARS	**2017**	2016	Var $	Var %
Net income (loss)	**(4.1)**	9.1	(13.2)	(145.1 %)
Other comprehensive income (loss)				
Remeasurements of defined benefit plans	**(16.6)**	(90.2)	73.6	(81.6 %)
Total comprehensive income (loss)	**(20.7)**	**(81.1)**	**60.4**	**(74.5 %)**

In addition to net results of the quarter, the Corporation recorded an expense of $16.6 million associated with the remeasurements of the pension and employee benefit plans. This expense resulted from the fact that the returns generated on the plans assets are below the charge associated to the change in actuarial valuation of the plan.

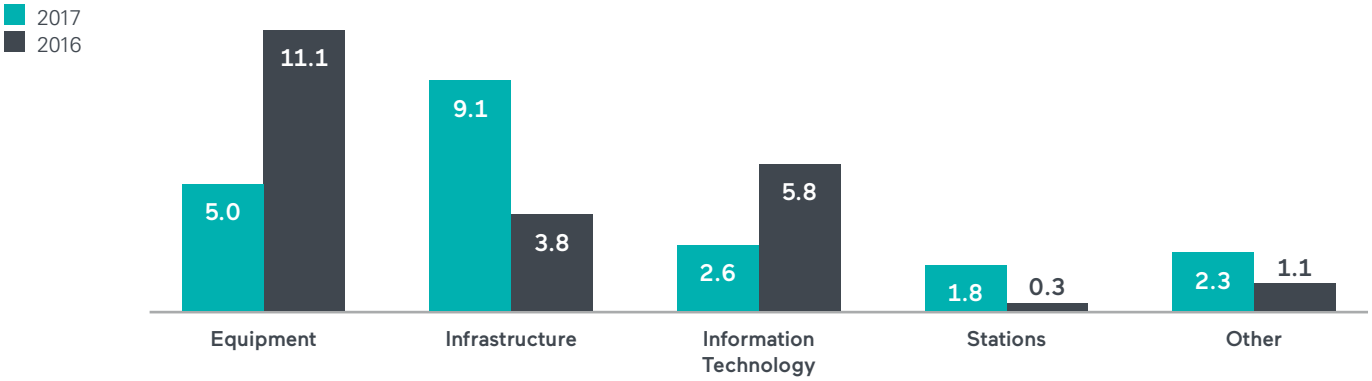
Further information on pension plan is provided in note 13 of our financial statements.

8. CAPITAL INVESTMENTS

Fixed assets (net of accumulated depreciation) amounted to $1,259.6 million, as at March 31, 2017, a $2.5 million decrease compared to the balance as at December 31, 2016.

Capital investments for the Quarter

(In millions of Canadian dollars)



Capital investments totaled $20.8 million for the quarter, composed mainly of:

- Investments of $11.7 million made in infrastructure between Montreal and Ottawa as part of the 2014 Infrastructure program;
- Investments of $3.8 million made in major equipment projects, more specifically in the LRC fleet rebuild program;
- Investments of $3.5 million made in station and maintenance center equipment and infrastructure, as part of the 2016 Federal budget program;
- An amount of $2.5 million invested in Information Technology during the quarter for projects such as the reservation system enhancements, identity access management project, and locomotive engineer training program.

9. CASH FLOW AND FINANCIAL POSITION

	Quarters ended March 31			
IN MILLIONS OF CANADIAN DOLLARS	**2017**	2016	Var $	Var %
Balance, beginning of the period	**10.9**	9.3	1.6	17.2 %
Net cash (used in) provided by operating activities	**4.7**	34.9	(30.2)	(86.5 %)
Net cash (used in) provided by investing activities	**(3.4)**	(21.2)	17.8	84.0 %
BALANCE, END OF THE PERIOD	**12.2**	**23.0**	**(10.8)**	**(47.0 %)**

The Corporation's cash balance is $ 12.2 million as at March 31, 2017, which is $ 10.8 million lower than the balance as at March 31, 2016. The decrease is due to the net change in non-cash working capital items, more specifically the change in operating funding receivable from the government.

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

This section highlights VIA Rail's key risks which may have potential impact on the Corporation's financial results, and provides information on risks 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 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.

↑ INCREASING → STABLE ↓ DECREASING

GOVERNMENT AND STRATEGY			
NATURE OF RISK	**TREND AS AT DEC. 31, 2016**	**NEW TREND**	**NATURE OF CHANGE SINCE DECEMBER 31, 2016**
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).
INFRASTRUCTURE AVAILABILITY, RELIABILITY AND QUALITY			
The services provided by host railways have been deteriorating, resulting in declining on-time performance, lower customer satisfaction and increased operating costs.	→	↑	On-Time performance has declined during the first quarter of 2017, and the decrease has been very significant on the *Canadian* where OTP for the quarter only reached 6 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	→
Costs influenced by external factors	→
Equipment quality, availability and reliability	→
Information technology	↓

↑ INCREASING → STABLE ↓ DECREASING

11. OUTLOOK

The performance of the first quarter was again very positive in terms of revenues achieved through the combination of increased ridership an improved average fares. This growth in revenues has been consistent, as revenues have increased for twelve consecutive quarters. Efforts are deployed to maximize the revenue potential and increase revenues by optimizing capacity through improved train cycling and optimization of the availability of our fleet.

While no announcement has been made by the Government concerning the fleet renewal and dedicated track projects for which VIA presented business cases in December 2016, VIA has received confirmed operating, capital and pension funding envelopes for the next three government fiscal years (up to March 2020).

This funding will allow VIA Rail to pursue the various ongoing initiatives aimed to improve customer offerings, maintain the current fleet in state of good repairs, upgrade information technology systems, and continue to focus on cost containment and optimizing efficiency.

INTERIM CONDENSED FINANCIAL STATEMENTS

MANAGEMENT'S RESPONSIBILITY STATEMENT

QUARTER ENDED MARCH 31, 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
May 30, 2017

INTERIM CONDENSED FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION

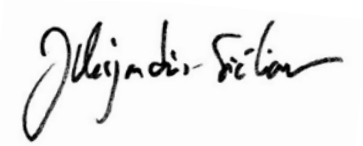
(IN THOUSANDS OF CANADIAN DOLLARS)	March 31, 2017	December 31, 2016
CURRENT ASSETS	*(unaudited)*	*(audited)*
Cash	**$ 12,196**	$ 10,861
Trade and other receivables	**13,899**	11,428
Receivable from the Government of Canada	**28,987**	22,593
Other current assets	**3,998**	2,927
Derivative financial instruments (NOTE 7)	**758**	2,507
Materials	**23,619**	24,112
Asset Renewal Fund	**7,780**	7,780
	91,237	82,208
NON-CURRENT ASSETS		
Property, plant and equipment (NOTE 8)	**877,378**	879,060
Intangible assets (NOTE 9)	**382,228**	383,075
Asset Renewal Fund	**873**	873
Post-employment and other employee benefits (NOTE 13)	**4,959**	4,151
	1,265,438	1,267,159
Total Assets	**$ 1,356,675**	$ 1,349,367
CURRENT LIABILITIES		
Trade and other payables (NOTE 10)	**$ 96,944**	$ 102,409
Provisions (NOTE 11)	**13,343**	13,507
Derivative financial instruments (NOTE 7)	**7,959**	6,962
Deferred revenues (NOTE 12)	**57,291**	39,483
	175,537	162,361
NON-CURRENT LIABILITIES		
Post-employment and other employee benefits (NOTE 13)	**93,034**	75,877
	93,034	75,877
Deferred capital funding (NOTE 14)	**1,244,928**	1,247,163
SHAREHOLDER'S DEFICIENCY		
Share capital	**9,300**	9,300
Accumulated deficit	**(166,124)**	(145,334)
	(156,824)	(136,034)
Total Liabilities and Shareholder's deficiency	**$ 1,356,675**	$ 1,349,367

Commitments (Note 17)

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 COMPREHENSIVE INCOME

Quarters ended March 31 (IN THOUSANDS OF CANADIAN DOLLARS) (UNAUDITED)	**2017**	2016
REVENUES		
Passenger	**$ 65,267**	$ 60,209
Other	**5,219**	5,477
	70,486	65,686
EXPENSES		
Compensation and employee benefits	**67,465**	65,661
Train operations and fuel	**31,431**	29,956
Stations and property	**11,604**	10,850
Marketing and sales	**8,311**	6,778
Maintenance material	**9,228**	9,053
On-train product costs	**4,109**	3,692
Operating taxes	**2,469**	2,643
Professional services	**4,058**	2,674
Telecommunications	**4,525**	3,318
Depreciation and amortization (NOTES 8 AND 9)	**22,922**	19,470
Impairment and loss (gain) on disposal of property, plant and equipment and intangible assets (NOTES 8 AND 9)	**451**	97
Unrealized net loss (net gain) on derivative financial instruments	**2,746**	(5,590)
Realized net loss (net gain) on derivative financial instruments	**1,145**	2,747
Other	**3,049**	4,288
	173,513	155,637
OPERATING LOSS BEFORE FUNDING FROM THE GOVERNMENT OF CANADA AND INCOME TAXES	**103,027**	89,951
Operating funding from the Government of Canada (NOTE 6)	**75,850**	80,039
Amortization of deferred capital funding (NOTE 14)	**23,079**	19,162
Net income (loss) before income taxes	**(4,098)**	9,250
Income tax (expense) recovery	**(68)**	(214)
NET INCOME (LOSS) FOR THE PERIOD	**(4,166)**	9,036
Other comprehensive income (loss)		
Amounts not to be reclassified subsequently to net income (net of tax):		
Remeasurements of defined benefit plans (NOTE 13)	**(16,624)**	(90,191)
	(16,624)	(90,191)
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	**$ (20,790)**	$ (81,155)

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

INTERIM CONDENSED FINANCIAL STATEMENTS

STATEMENT OF CHANGES IN SHAREHOLDER'S DEFICIENCY

Quarters ended March 31 (IN THOUSANDS OF CANADIAN DOLLARS) (UNAUDITED)	**2017**	2016
SHARE CAPITAL	**$ 9,300**	$ 9,300
Accumulated deficit		
Balance, beginning of period	**(145,334)**	(123,175)
Net income (loss) for the period	**(4,166)**	9,036
Other comprehensive income (loss) for the period	**(16,624)**	(90,191)
Balance, end of period	**(166,124)**	(204,330)
Total Shareholder's deficiency	**$ (156,824)**	$ (195,030)

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

INTERIM CONDENSED FINANCIAL STATEMENTS

STATEMENT OF CASH FLOWS

Quaters ended March 31 (IN THOUSANDS OF CANADIAN DOLLARS) UNAUDITED	**2017**	2016
OPERATING ACTIVITIES		
Net income (loss) for the period	**$ (4,166)**	$ 9,036
Adjustments to determine net cash (used in) provided by operating activities:		
Depreciation and amortization (NOTES 8 AND 9)	**22,922**	19,470
Impairment and loss (gain) on disposal of property, plant and equipment and intangible assets (NOTES 8 AND 9)	**451**	97
Amortization of deferred capital funding (NOTE 14)	**(23,079)**	(19,162)
Interest income	**(85)**	(110)
Unrealized net loss (net gain) on derivative financial instruments	**2,746**	(5,590)
Post-employment and other employee benefit expenses (NOTE 13)	**8,996**	10,057
Employer post-employment and other employee benefit contributions (NOTE 13)	**(9,271)**	(15,819)
Net change in non-cash working capital items (NOTE 15)	**6,194**	36,886
Net cash (used in) provided by operating activities	**4,708**	34,865
INVESTING ACTIVITIES		
Capital funding (NOTE 14)	**20,844**	22,128
Change in capital funding receivable from the Government of Canada	**656**	(17,806)
Change in capital accounts payable and accrued liabilities	**(4,114)**	(3,492)
Acquisition of property, plant and equipment and intangible assets (NOTES 8 AND 9)	**(20,844)**	(22,128)
Interest received	**85**	110
Net cash (used in) provided by investing activities	**(3,373)**	(21,188)
CASH		
Increase (decrease) during the period	**1,335**	13,677
Balance, beginning of period	**10,861**	9,318
Balance, end of period	**$ 12,196**	$ 22,995
REPRESENTED BY:		
Cash	**$ 12,196**	$ 22,995
	$ 12,196	$ 22,995

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

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

FOR THE PERIOD ENDED MARCH 31, 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 strives 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 (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 its 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 financial statements were approved and authorized for issue by the Board of Directors on May 30, 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 and in any future period affected. 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 is applicable retrospectively for periods beginning on or after January 1, 2018, with early application permitted. 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 is currently assessing the impact of applying this standard on its financial statements.

5. FUTURE ACCOUNTING CHANGES (CONT'D)

IFRS 16 - *Leases* - 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 extent of the impact of application 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 comprehensive income in one period may be funded by the Government of Canada in different periods. Accordingly, the Corporation has different net results of operations for the period on a government funding basis than on an IFRS basis. These differences are outlined below:

	Quarters ended March 31	
(IN MILLIONS OF CANADIAN DOLLARS)	**2017**	2016
Operating loss before funding from the Government of Canada and income taxes	**103.0**	90.0
Items requiring (providing) operating funds:		
Income tax expense (recovery)	**0.1**	0.2
Items (not requiring) not providing operating funds:		
Depreciation and amortization	**(22.9)**	(19.5)
Impairment and (loss) gain on disposal of property, plant and equipment and intangible assets	**(0.5)**	(0.1)
Post-employment and other employee benefits contributions in excess of expenses	**0.3**	5.8
Unrealized net gain (net loss) on derivative financial instruments	**(2.7)**	5.6
Adjustment for accrued compensation	**(0.9)**	(1.5)
Other	**(0.5)**	(0.5)
Operating funding from the Government of Canada	**75.9**	80.0

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:

	March 31, 2017		December 31, 2016	
COMMODITY SWAPS	**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	**4,032**	**0.6**	8,064	2.0
Liabilities	**11,928**	**7.6**	10,080	6.4

As at March 31, 2017, the commodity swaps in USD have a fixed price per U.S. gallon between 1.770 and 2.705 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.

	March 31, 2017		December 31, 2016	
FORWARD FOREIGN EXCHANGE CONTRACTS	**Notional Amount (USD) (millions)**	**Fair Value CAD (millions)**	Notional Amount (USD) (millions)	Fair Value CAD (millions)
Assets	**2.9**	**0.2**	7.3	0.5
Liabilities	**6.5**	**0.4**	15.0	0.6

As at March 31, 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:

	March 31, 2017	December 31, 2016
	Fair Value CAD (millions)	Fair Value CAD (millions)
Total assets	**0.8**	2.5
Total liabilities	**8.0**	7.0

8. PROPERTY, PLANT AND EQUIPMENT

(IN MILLIONS OF CANADIAN DOLLARS)	January 1, 2017	Additions	Disposals	Transfers	March 31, 2017
Cost:					
Land	17.0	-	-	-	**17.0**
Rolling stock	935.2	-	(2.4)	2.1	**934.9**
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	-	-	0.1	**25.2**
Computer hardware	35.4	-	-	0.1	**35.5**
Other property, plant and equipment	6.6	-	-	0.1	**6.7**
Projects in progress	30.9	14.9	-	(3.2)	**42.6**
Total cost	1,683.3	14.9	(2.4)	-	**1,695.8**
Accumulated depreciation and impairment:					
Rolling stock	469.6	10.2	(1.9)	-	**477.9**
Maintenance buildings	119.3	0.5	-	-	**119.8**
Stations and facilities	42.5	1.2	-	-	**43.7**
Owned infrastructures	82.0	2.0	-	-	**84.0**
Leasehold improvements	46.6	0.8	-	-	**47.4**
Machinery and equipment	18.0	0.3	-	-	**18.3**
Computer hardware	23.9	1.0	-	-	**24.9**
Other property, plant and equipment	2.3	0.1	-	-	**2.4**
Total accumulated depreciation and impairment	804.2	16.1	(1.9)	-	**818.4**
Total net carrying amount	879.1	(1.2)	(0.5)	-	**877.4**

9. INTANGIBLE ASSETS

(IN MILLIONS OF CANADIAN DOLLARS)	January 1, 2017	Additions	Disposals	Transfers	March 31, 2017
Cost:					
Software (NOTE 1)	102.6	-	-	2.4	**105.0**
Right of access to rail infrastructure	426.5	-	-	-	**426.5**
Other intangible assets	4.4	-	-	-	**4.4**
Projects in progress	13.4	5.9	-	(2.4)	**16.9**
Total cost	546.9	5.9	-	-	**552.8**
Accumulated amortization and impairment:					
Software	71.1	3.9	-	-	**75.0**
Right of access to rail infrastructure	90.9	2.8	-	-	**93.7**
Other intangible assets	1.8	0.1	-	-	**1.9**
Total accumulated amortization and impairment	163.8	6.8	-	-	**170.6**
Total net carrying amount	383.1	(0.9)	-	-	**382.2**

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)	March 31, 2017	December 31, 2016
Wages payable and accrued	**38.5**	39.4
Accounts payable and accruals - Capital assets	**17.2**	21.4
Accounts payable and accruals - Trade	**33.6**	33.7
Trade and other payables classified as Other Financial Liabilities	**89.3**	94.5
Capital tax, income tax and other taxes payable	**5.1**	4.8
Deductions at sources	**2.5**	3.1
Total trade and other payables	**96.9**	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)	March 31, 2017
Environmental costs (NOTE A)	0.3	-	-	-	**0.3**
Litigation and equipment repairs (NOTE B)	13.2	1.1	(1.1)	(0.2)	**13.0**
Total provisions	13.5	1.1	(1.1)	(0.2)	**13.3**

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)	March 31, 2017	December 31, 2016
Advance ticket sales	**34.9**	18.3
Gift cards	**1.5**	1.7
Non-monetary transactions	**2.9**	2.0
VIA Préférence (NOTE 1)	**17.5**	17.0
Other	**0.5**	0.5
Total	**57.3**	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 than 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 benefit (funded) and defined contributions components. The Corporation also provides unfunded other post-employment benefits, including post-retirement medical and life insurance benefits, and long-term employee benefits such as unfunded self-insured workers' compensation benefits, long-term employee disability benefits and continuation of benefit coverage for employees on long-term disability.

Pension Plans

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

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

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

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

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

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

Certain unionized employees hired on or after January 1, 2014

i) Defined Benefit Component

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

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

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

ii) Defined Contribution Component

Participants' contributions to the defined contribution component are mandatory and represent 4 per cent of their salary. Optional contributions to the defined contribution component can be made by the participants to a maximum of 3 per cent of their salary. The Corporation's contribution is equal to 50 per cent of participant's optional contributions but cannot exceed the calculated maximum which is 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 3.60 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 March 31, 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)	**March 31, 2017**	December 31, 2016	**March 31, 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	**6.6**	26.1	**0.1**	0.4
Past service cost	**-**	4.7	**-**	-
Interest expense	**20.6**	88.3	**0.2**	0.8
Employee contributions	**3.3**	13.4	**-**	-
Benefits paid	**(32.4)**	(120.5)	**(0.1)**	(0.6)
Effect of change in demographic assumptions	**-**	-	**-**	(0.1)
Effect of change in financial assumptions	**59.2**	58.6	**-**	0.7
Effect of experience adjustments	**-**	4.2	**-**	0.8
Balance at end of the period	**2,355.4**	2,298.1	**21.9**	21.7
FAIR VALUE OF PLAN ASSETS:				
Balance at beginning of the period	**2,267.2**	2,223.6	**-**	-
Interest Income	**20.3**	87.4	**-**	-
Return on plan assets (excluding interest income)	**42.6**	33.7	**-**	-
Employer contributions	**8.0**	31.9	**0.1**	0.6
Employee contributions	**3.3**	13.4	**-**	-
Benefits paid	**(32.4)**	(120.5)	**(0.1)**	(0.6)
Administration expenses	**(0.7)**	(2.3)	**-**	-
Balance at end of the period	**2,308.3**	2,267.2	**-**	-
Net Defined benefit asset (liability)	**(47.1)**	(30.9)	**(21.9)**	(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 March 31, the summary of the principal valuation results for the long-term employee benefits, including self-insured workers' compensation benefits is as follows:

(IN MILLIONS OF CANADIAN DOLLARS)	March 31, 2017	December 31,2016
LONG-TERM EMPLOYEE BENEFIT OBLIGATION:		
Balance at beginning of the period	**18.5**	21.9
Service cost	**0.8**	4.8
Interest expense	**0.1**	0.8
Benefits paid	**(1.0)**	(4.4)
Effect of change in demographic assumptions	**-**	(1.1)
Effect of experience adjustments	**-**	(3.5)
Balance at end of the period	**18.4**	18.5
FAIR VALUE OF PLAN ASSETS:		
Balance at beginning of the period	**-**	-
Employer contributions	**1.0**	4.4
Benefits paid	**(1.0)**	(4.4)
Balance at end of the period	**-**	-
Net long-term employee benefit liability	**(18.4)**	(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)	March 31, 2017	December 31, 2016
OTHER LONG-TERM EMPLOYEE BENEFIT OBLIGATION:		
Balance at beginning of the period	**0.6**	1.1
Service cost	**0.2**	0.1
Benefits paid	**(0.2)**	(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	**0.2**	0.6
Benefits paid	**(0.2)**	(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 financial statements

Total amounts recognized in the statement of financial position:

(IN MILLIONS OF CANADIAN DOLLARS)	March 31, 2017	December 31, 2016
Assets:		
Defined Benefit Component of the Pension Plans	**5.0**	4.2
Liabilities:		
Defined Benefit Component of the Pension Plans	**(52.1)**	(35.1)
Post-employment benefit plans	**(21.9)**	(21.7)
Long-term employee benefit plans	**(18.4)**	(18.5)
Other long-term employee benefits	**(0.6)**	(0.6)
Total liabilities	**(93.0)**	(75.9)

Total amounts recognized in the statement of comprehensive income:

	Quarters ended March 31	
(IN MILLIONS OF CANADIAN DOLLARS)	**2017**	2016
Operating expenses:		
Defined Benefit Component of the Pension Plans	**7.6**	8.2
Post-employment benefit plans	**0.3**	0.2
Long-term employee benefit plans	**0.9**	1.5
Other long-term employee benefits	**0.2**	0.2
Total	**9.0**	10.1

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

	Quarters ended March 31	
(IN MILLIONS OF CANADIAN DOLLARS)	**2017**	2016
Other comprehensive income (loss):		
Defined Benefit Component of the Pension Plans	**(16.6)**	(90.2)
Total	**(16.6)**	(90.2)

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)	March 31, 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)	**20.8**	86.4
Amortization of deferred capital funding	**(23.1)**	(102.3)
Balance at end of the period	**1,244.9**	1,247.2

15. NET CHANGE IN NON-CASH WORKING CAPITAL ITEMS

	Quarter ended March 31	
(IN MILLIONS OF CANADIAN DOLLARS)	2017	2016
Trade and other receivables	**(2.5)**	0.6
Operating funding receivable from Government of Canada	**(7.1)**	18.0
Other current assets	**(1.1)**	(0.8)
Materials	**0.5**	3.9
Trade and other payables	**(1.2)**	0.2
Provisions	**(0.2)**	1.5
Deferred revenues	**17.8**	13.5
Total	**6.2**	36.9

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)	March 31, 2017				December 31, 2016
	Total commitment	**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	**30.2**	3.6	14.9	11.7	31.1
Total	**30.2**	3.6	14.9	11.7	31.1
COMMITMENTS RELATING TO MAJOR CAPITAL INVESTMENTS:					
Maintenance buildings	**1.3**	1.3	-	-	1.0
Stations and facilities	**4.1**	4.1	-	-	1.8
Owned infrastructures	**2.7**	2.7	-	-	-
Computer hardware	**2.1**	2.1	-	-	-
Others	**0.4**	0.4	-	-	8.3
Total	**10.6**	10.6	-	-	11.1
Total commitments	**40.8**	14.2	14.9	11.7	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 terms of 10 years with a renewal option. The lease payments are increased to reflect normal inflation.

In 2017, an amount of $4.1 million (March 31, 2016: $4.0 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 $25.9 million (December 31, 2016: $27.2 million) to various provincial government workers' compensation boards as security for future payment streams.

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