VIA Rail Canada

ANNUAL REPORT 2013

THE HONOURABLE LISA RAITT
Minister of Transport, Ottawa

Dear Minister,

In accordance with the provisions of the *Financial Administration Act*, I am pleased to submit VIA Rail Canada Inc.'s Annual Report for the year ending December 31, 2013.

Paul G. Smith
Chairman of the Board

viarail.ca

CORPORATE OVERVIEW

VIA Rail operates Canada's national passenger rail service on behalf of the Government of Canada. An independent Crown corporation established in 1977, VIA Rail provides a safe, cost-effective and environmentally responsible service from coast to coast in both official languages. The corporation operates over 500 trains weekly on 12,500 kilometres of track, connecting over 450 Canadian communities. With approximately 2550 active employees, VIA Rail carried 3.9 million passengers in 2013.

VIA RAIL'S SERVICES

Inter-city Travel

In the densely populated Corridor between Ontario and Québec, VIA Rail trains provide fast, convenient, downtown-to-downtown travel between major urban and suburban centres and communities.

Long-distance Travel and Tourism

In Western and Eastern Canada, VIA Rail's trains attract travellers from around the world and support Canada's tourism industry. The *Canadian*, VIA Rail's Western transcontinental train, provides service between Vancouver and Toronto. In Eastern Canada, The *Ocean* runs between Montréal and Halifax.

Mandatory services

VIA Rail provides passenger service in several rural and remote regions of Canada. Mandated by the Government of Canada to meet essential transportation needs, these trains serve many communities where alternative, year-round transportation is limited or unavailable.

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MESSAGE FROM THE CHAIRMAN

A YEAR OF ADJUSTMENTS

2013 was a productive year at VIA Rail Canada, during which our employees and partners completed important projects that will bring great things for you, our customers. Over the past four years, we have seen some major changes at our corporation. From our trains and stations to the technology we use, VIA Rail has been transforming and modernizing from top to bottom. It was in 2013 that many of these projects came to fruition, both internally and for our customers, making it a year of adjustments.

At the helm of this transformation was VIA Rail's former President and CEO, Marc Laliberté, who began his retirement at the beginning of 2014. I would like to acknowledge and salute the accomplishments he achieved over his four years with the corporation.

During his tenure, Marc Laliberté spearheaded an amazing number of improvement projects. New accessible stations were built, and existing stations renovated; every locomotive VIA Rail owns was overhauled with the benefits of producing less greenhouse gas emissions and consuming less fuel; infrastructure was improved to reduce trip times; technology projects at VIA Rail now include mobile booking, an On Train Entertainment System, world-class on-board Wi-Fi in the Corridor and on the Eastern *Ocean* trains, and a Train Status Information System with GPS train tracking. As you read these lines, refurbished LRC Economy and Business class cars are resuming service in the Corridor.

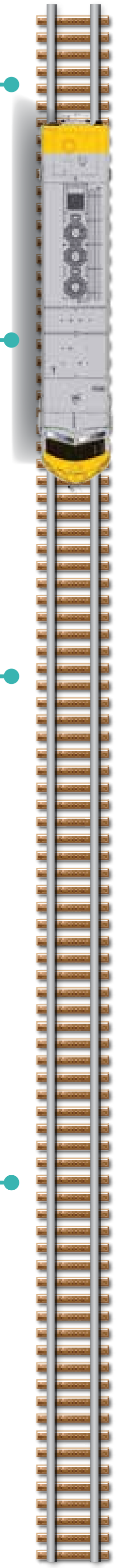
2013 also saw the benefits of many new programs such as LEAN management (which increases value for our customers through the continuous improvement of our processes), On-Time Departure and new train routing, which have transformed VIA Rail into a more operationally efficient corporation.

Finally, I would be remiss not to mention our employees' absolute dedication to safety. Some of the safety improvements that VIA Rail has implemented over the past four years, such as the closing of over 70 private crossings, were unprecedented in the industry. In 2013, VIA Rail became an advocate and an active participant in the improvement of railroad safety and security in Canada. An impressive sampling of safety projects can be seen in the Highlights section of this Annual Report.

In closing, if 2013 was a year of adjustments, I am confident that 2014 will mark a new beginning for VIA Rail Canada. It is my hope that in 2014, VIA Rail will continue to demonstrate how a Crown corporation can effectively and efficiently provide a valuable service to Canadians while minimizing its dependency on taxpayer dollars.

Paul G. Smith
Chairman of the Board

2013 TIMELINE



FEBRUARY

Viarail.ca website makeover

APRIL

- Unveiling of the design of the new $10 bill featuring the *Canadian*
- Rail Safety Week

MAY

- North American Occupational Safety and Health (NOASH) Week
- Second annual Global Corporate Challenge begins

JUNE

- Launch of new simplified pricing structure
- Launch of Wi-Fi on the *Ocean*
- Transportation Safety Board releases final report on Train 92 accident
- First refurbished LRC Business class car goes into service

JULY

- VIA Rail wins AirRail Concept of the Year
- VIA Rail wins Agents' Choice Award
- Ratification of new Collective Agreement between VIA Rail and the CAW (now Unifor)

AUGUST

- VIAPreference.com gets a new look

SEPTEMBER

- Launch of new uniforms
- Launch of On Train Entertainment System
- Gaspé service is suspended pending repairs to rail infrastructure
- City bus collision with Train 51 at Fallowfield

OCTOBER

- International Rail Safety Conference (Vancouver)
- Self-Serve Station Launch

NOVEMBER

- Launch of revamped Business Class
- New $10 bill goes into circulation
- National Charitable Campaign

THE YEAR 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.

	2013	2012	2011	2010
KEY FINANCIAL INDICATORS (IN MILLIONS OF DOLLARS)				
Total passenger revenues (1)	**249.6**	257.4	265.4	258.2
Total revenues (1)	**270.4**	**276.9**	**282.8**	**274.4**
Operating expenses (1)	**(482.4)**	(478.2)	(492.4)	(504.5)
Contributions for employee benefits (1)	**(95.6)**	(77.8)	(51.3)	(31.4)
Total Operating expenses (1)	**(578.0)**	**(556.0)**	**(543.7)**	**(535.9)**
Operating Income (Deficit)	**(307.6)**	**(279.1)**	**(260.9)**	**(261.5)**
Capital expenditures	**(96.2)**	(170.3)	(237.0)	(268.6)
Total Funding Required	**(403.8)**	**(449.4)**	**(497.9)**	**(530.1)**
Government Operating Funding	**307.6**	279.1	260.9	261.5
Government Capital Funding	**90.8**	167.2	224.8	268.6
Total Government Funding	**398.4**	**446.3**	**485.7**	**530.1**
Asset Renewal Fund	**5.4**	**3.1**	**12.2**	**-**
KEY OPERATING STATISTICS (2)				
Total passenger-miles (IN MILLIONS)	**832**	834	851	846
Total seat-miles (IN MILLIONS)	**1,482**	1,541	1,541	1,495
Operating deficit per passenger-mile (IN CENTS)	**37.0**	33.5	30.7	30.9
Yield (CENTS PER PASSENGER-MILE)	**29.4**	30.3	30.8	30.2
Train-miles operated (IN THOUSANDS)	**6,244**	6,441	6,580	6,668
Car-miles operated (IN THOUSANDS)	**39,699**	44,379	44,988	43,651
Average passenger load factor (%)	**56**	54	55	57
Average number of passenger-miles per train mile	**133**	129	129	127
On-time performance (%)	**82**	83	84	82
Number of active employees at end of period	**2,596**	2,610	2,843	2,875
Number of full time equivalent employees during the year	**2,662**	2,800	2,899	2,937

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

KEY OPERATING STATISTICS BY SERVICE GROUP

Train Service Summary - For the year ended December 31, 2013
(Revenues and costs by train service are unaudited)

Train Service	Revenues (in thousands)	Costs (in thousands)	Shortfall (in thousands)	Subsidy per passenger	Subsidy per passenger-mile	Passengers per week	Passengers per year
Montréal-Ottawa-Toronto	$139,041	$228,203	$89,162	$42.06	$0.19	41,327	2,149,001
Québec-Montréal-Ottawa	$27,302	$48,671	$21,369	$44.63	$0.29	9,207	478,774
Corridor East	**$166,343**	**$276,874**	**$110,531**	**$42.06**	**$0.21**	**50,534**	**2,627,775**
Toronto-London-Sarnia-Windsor	$39,417	$87,515	$48,098	$50.68	$0.43	18,253	949,151
Toronto-Niagara	$1,480	$10,806	$9,326	$194.32	$2.54	923	47,991
Southwestern Ontario	**$40,897**	**$98,321**	**$57,424**	**$57.59**	**$0.50**	**19,176**	**997,142**
Corridor	**$207,240**	**$375,195**	**$167,955**	**$46.33**	**$0.26**	**69,710**	**3,624,917**
Montréal-Halifax	$10,563	$43,930	$33,367	$437.10	$0.84	1,468	76,337
Toronto-Vancouver	$45,252	$99,807	$54,555	$550.11	$0.46	1,907	99,171
Long Distance Travel	**$55,815**	**$143,737**	**$87,922**	**$500.96**	**$0.56**	**3,375**	**175,508**
Montréal-Gaspé	$1,608	$6,985	$5,377	$338.01	$0.79	306	15,907
Montréal-Jonquière	$501	$5,474	$4,973	$408.35	$2.41	234	12,179
Montréal-Senneterre	$455	$5,162	$4,707	$424.94	$2.17	213	11,078
Sudbury-White River	$181	$3,462	$3,281	$631.19	$4.60	100	5,199
Winnipeg-Churchill	$3,194	$24,188	$20,994	$772.75	$2.94	522	27,168
Jasper-Prince Rupert	$1,383	$11,232	$9,849	$528.61	$1.55	358	18,631
Mandatory Services	**$7,322**	**$56,503**	**$49,181**	**$545.47**	**$1.95**	**1,733**	**90,162**
The Pas-Pukatawagan[1]	n/a	$2,559	$2,559	n/a	n/a	n/a	n/a
Total	**$270,377**	**$577,994**	**$307,617**	**$78.41**	**$0.37**	**74 818**	**3,890,587**

[1] Service operated by Keewatin Railway Company between The Pas and Pukatawagan

A YEAR OF ADJUSTMENTS: ANNUAL HIGHLIGHTS

SAFETY AND SECURITY

Safety and Security are on-going top priorities for VIA Rail and 2013 was no exception. Throughout the year we worked to improve the safety and security of our operations and to inform the Canadian public about safety around railroads.

Below is a sampling of activities that took place in 2013:

- Participation in International Cross-Border, Joint Rail Sector Security exercises
- Participated in a National Transportation Safety Board forum where both academic and practical perspectives on safety were discussed. The one-day forum, "Safety Culture : Enhancing Transportation Safety" was also attended by representatives from around the world
- Safety Summits held in Toronto, Vancouver and Montréal to discuss health and safety topics
- Co-funded a Critical Incident Response Protocol at the Université du Québec à Montréal with Transport Canada, for research and counter measures to reduce incidents on railways, as well as the impact of incidents on railway workers
- Launch of National Public Rail Safety Week with Minister Fletcher at VIA Rail's Ottawa Station
- Participated in International Level Crossing Awareness Day
- NAOSH (North American Occupational Safety and Health) Week activities included partnering in the Drive Safe Campaign, which focussed on railway crossing safety as well as internal surveys and presentations to improve health and safety
- Participation in events across Canada that focussed on public safety at railway crossings and on rail property as well as employee safety in the workplace
- Events in Vancouver and Halifax involved safety themed game shows and a community Safety Day
- Continued to participate in policy committee meetings with the Teamsters Canada Rail Conference and Unifor unions (four meetings held in 2013)

Operation Lifesaver

Operation Lifesaver (OL) is an organization dedicated to educating Canadians about the hazards surrounding rail property and trains. VIA Rail has worked closely with OL on various safety events and activities over the years. In 2013, we collaborated with OL on safety and prevention presentations in schools and at other event locations during Operation Lifesaver Public Rail Safety Week. VIA Rail also made Operation Lifesaver's *Public Rail Safety Guide* available in VIA Rail stations and on trains.

VIA Rail's information booth at IRSC 2013

23rd International Railway Safety Conference

VIA Rail was well represented at the 23rd International Railway Safety Conference (IRSC 2013) which took place in Vancouver in October. This conference, which is devoted to rail safety issues, provided an opportunity for VIA Rail to exchange experiences and knowledge about improving rail safety with stakeholders from across the globe. Marc Laliberté, President and CEO of VIA Rail (2010-2014) along with other senior members of the VIA Rail team presented at the event and shared best practices with colleagues and peers in rail safety management. The Honourable Lisa Raitt, Minister of Transport, also attended and spoke at the conference.

Review of VIA Rail's Safety Rules

Following the tragic events at Lac Mégantic, VIA Rail followed up internally with a comprehensive risk analysis of its operations and specifically its Train Securement Policy. Any necessary adjustments were made.

Critical Care Program

Internally, VIA Rail's Critical Care Program, which includes peer support groups and an expansive Employee Assistance Program has seen a significant decrease in time lost related to traumatic incidents. Two peer support sessions were held in 2013.

Ongoing Safety and Security Projects

Over the past few years, VIA Rail has worked to close many private crossings in favour of safer public crossings. We are committed to continue addressing high risk areas and in this vein have an ongoing partnership with law enforcement and the communities we serve. In 2013, more fencing was installed to eliminate or reduce the risk of trespassing and increase safety for all.

VIA RAIL: A "TREASURED" COMPANY

In 2013, the Bank of Canada issued a new $10 banknote, which features VIA Rail's own long-haul train the *Canadian*, running from Toronto to Vancouver. We are thrilled to be found on the new polymer currency, alongside other major icons of national historic significance, such as the Canadarm ($5 banknote) and the Vimy Memorial ($20 banknote). All Canadians now have an opportunity to carry a reminder of VIA Rail's role in Canadian history, in the palm of their hand.

ENTERPRISE RISK MANAGEMENT

VIA Rail's Enterprise Risk Management began in 2006 with an annual assessment of key business risks and controls. Since then, VIA Rail sought external opinions from its internal auditors and from corporate governance and ERM experts. The conclusions were that VIA Rail's ERM program was well positioned compared to its industry and that it should evolve into leading practices in appropriate areas. To this end, an Enterprise Risk Management (ERM) program was developed in 2013 to provide new direction to VIA Rail's Enterprise Risk Management and to bring insurance and claims professionals together.

During the year, a work plan for continued implementation during 2013-2014 was developed, along with an ERM Policy and a risk appetite and tolerance approach and template.

In 2014, risk appetite and tolerance statements will be developed, the ERM process formalized, a mechanism developed to address rail industry events and emerging risks, and tailor-made ERM training will be developed and delivered to the Board, management and the top managers at VIA Rail.

This innovative program will revamp VIA Rail's approach to risk management. It is part of its ongoing efforts to continuously enhance the safety, preparedness and efficiency of its operations.

TRAINS PROJECTS

Conceptual design work and detailed designs for several systems of our Head End Power (HEP-1) cars (used on the *Canadian* travelling between Toronto and Vancouver) was completed in early 2013. The work, which will be done to eight Sleeper cars and four Park cars, progressed well. The bulk of the renovation to the first Park car was done in 2013, and was completed in early 2014. The remaining HEP-1 car renovations will be completed over 2014 and 2015.

Our Light, Rapid, Comfortable (LRC) cars have been undergoing an overhaul and work progressed well throughout the year. By the end of 2013, there were 16 renovated Economy Class cars and five overhauled LRC Business Class cars in service. In 2014, more LRC Economy Class cars and 21 LRC Business Class cars will be completed.

The overhaul to VIA Rail's Rail Diesel Cars (RDC) was completed in 2013. Three of the RDCs are currently in service.

New LRC Economy Class Car

New Park Car

New LRC Business Class Car

STATIONS PROJECTS

Several stations' interiors including Dorval as well as all Business Lounges in the Québec City – Windsor corridor were renovated with new flooring, furniture, light fixtures and other design upgrades. Interior signage and baggage counters were also updated and improved.

Over the past couple of years, Cobourg Station (100km east of Toronto) has been undergoing some major renovations: the addition of an accessible overhead footbridge, new island platform and elevators for improved accessibility, safety and security and a better travel experience for passengers. The new overhead walkway and island platform at Cobourg station were completed in late December 2013 and went into service in early 2014.

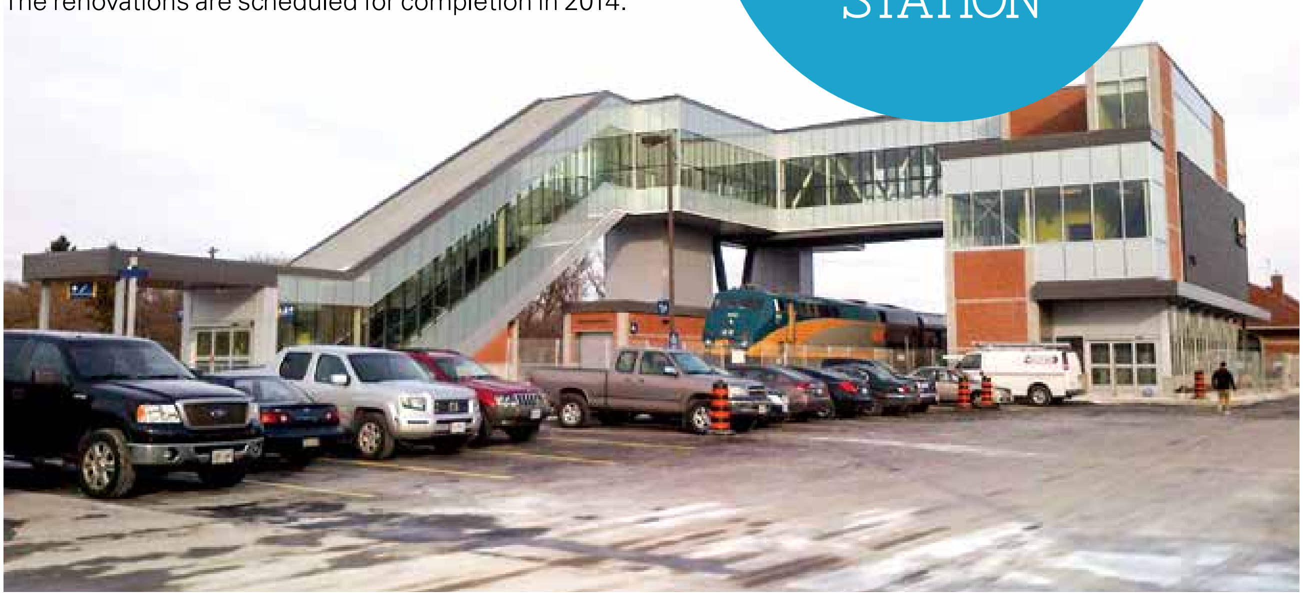
Renovation work at VIA Rail's Winnipeg Union Station began. Improvements to the Heritage building will include an upgraded passenger waiting area, a new accessible passenger elevator from the waiting room to the platform level, new fully accessible washrooms, East entrance renovation, a Rotunda cleaning, repairing and re-painting "refresh" along with various security and accessibility enhancements. The renovations are scheduled for completion in 2014.

INFRASTRUCTURE PROJECTS

The Guelph Subdivision begins at Silver, about half a mile west of Georgetown, and extends a distance of approximately 145 kilometers to London. Work to improve the safety, reliability and flexibility of operations on this Subdivision through the introduction of Centralized Traffic Control (Wayside Signals), upgraded or new crossing warning systems and security fencing continued throughout 2013. The project is scheduled for completion in 2014.

As well, a contract was awarded and work began to upgrade the Centralized Traffic Control signaling system at the Ottawa terminal. The project is scheduled for completion in 2014.

New accessible overhead footbridge at COBOURG STATION



TECHNOLOGY PROJECTS

All-Canadian On Train Entertainment System

In 2013, VIA Rail proudly launched its all-Canadian On Train Entertainment (OTE) system, built on the foundation of our Wi-Fi system, a best-in-class service introduced in 2011. The OTE system, which was installed on trains in August, is an interactive digital platform that provides passengers on trains within the Québec City - Windsor corridor free access to Canadian programming, including current news from CBC/Radio-Canada (refreshed up to 12 times a day). The system also offers television programs and series from CBC/Radio-Canada, documentaries and animation from the National Film Board of Canada, and "Heritage Minute" vignettes produced by Historica Canada. With up to 100 hours of English and French content, accessible through any type of laptop, tablet or handheld device, passengers will never find themselves bored on-board our trains.

Since its launch, over 30,000 passengers have enjoyed the OTE system with 650,000 minutes of cumulative video content streamed!

TSI+: Trip Analysis and Speed Monitoring

The Train Status Information (TSI+) system delivered an automated way of conducting train trip analysis to rapidly measure our on-time performance on any route segment in the Québec city – Windsor corridor. This tool is being used to identify segments with recurring congestion in order to optimize train schedules and improve on-time performance. Through the TSI+, automated alerts and notifications are sent through SMS and email to VIA Rail staff, in real time, of train arrival times. VIA Rail staff is more informed and travel partners are able to dispatch more efficiently and rapidly, offering a better service to our passengers.

Over
30,000
passengers have enjoyed the On Train Entertainment system

Wi-Fi on the *Ocean*

VIA Rail's long-haul train the *Ocean* was equipped with the same free Wi-Fi system already available on trains in the Québec City – Windsor corridor. With service across more than 98% of the route between Montréal and Halifax, the Wi-Fi system allows passengers to remain connected throughout their trip. In the first three weeks of availability, nearly 20% of travellers aboard the *Ocean* connected to the Wi-Fi system. Passengers transferred 58 gigabytes of data – the equivalent of 100,000 web pages or 58,000 emails!

Telemetry: Fuel Saving Tool

Through the Wi-Fi system, VIA Rail was able to introduce telemetry systems to 57 of its 73 locomotives, with completion on all locomotives expected in 2014.

Telemetry will allow VIA Rail to remotely gather operational data of locomotives in order to optimize performance. This information will enable VIA Rail to monitor and improve safe operation of its trains, fuel consumption (which will be based on information gathered about driving and downtime when the engine is idling) and fuel management. Fuel optimized train handling training across the Québec City – Windsor corridor is well underway, with completion scheduled for mid-2014.

Expected annual fuel savings as a result of the implementation of the telemetry system is estimated at $1.5 million.

Over time, the telemetry system will also allow for remote access to main locomotive systems.

Website Makeover

VIA Rail's website, viarail.ca was revamped with a new look and feel. The new site contains more information and is easier to navigate. The upgraded site allows greater accessibility for persons with disabilities to obtain information.

Internal Upgrades

Many internal upgrades were made to VIA Rail software to improve efficiency, reduce costs and integrate future updates more easily. The finance system was upgraded to increase the productivity of users. An upgrade of VIA Rail's employee email platforms to a single system with a more modern interface, better security, larger mailbox and a full integration with the Office tools was launched and completed this year. As well, a new, modern, fully supported internal e-learning system for employee training and education was deployed.

Data Hosting Project

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

MARKETING PROJECTS

Social Media: Becoming More Connected

In October, VIA Rail reached a very significant social media milestone: 100,000 Facebook fans. Over the past three years, we have worked to build our social media engagement and to have a receptive, responsive and informative online presence. This milestone proved that we are definitely on the right track.

Our most widely used social media accounts (Facebook and Twitter) allowed us to hold fun contests, announce sales and host bloggers on-board. More importantly, though, they have been very helpful in the distribution of important information to our passengers, whether they be our followers or fans. When trains are delayed, for example, or when there are unforeseen incidents, social media sites provided us the ability to keep people informed throughout the day and night, and to communicate important information instantaneously to the public.

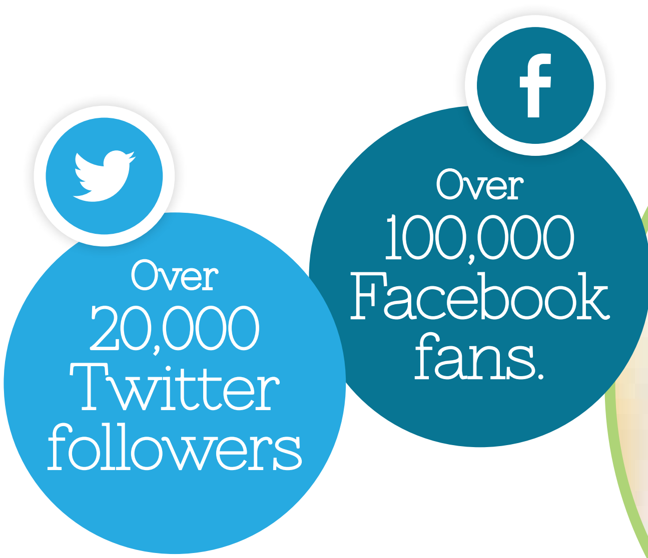
2013 also saw a steady increase on VIA Rail's Twitter account, ending the year with over 20,000 followers.

E-ticketing, Online Reservation Changes and Automated Outbound Calling

In 2012, VIA Rail launched its mobile reservation service allowing passengers to book their tickets using a mobile device and also began issuing electronic boarding passes. In 2013, 73% of all ticket purchases were made online or through a mobile device. This process improved the travel experience while saving time and paper.

In 2013, we continued to improve passenger experience by adding a new feature to our online booking engine that allows customers travelling in the Québec City – Windsor corridor to make changes to their own reservations online.

As well, once a traveller has booked their VIA Rail ticket, in the unlikely event of a schedule change or train cancellation, a new automated outbound calling tool has been implemented to notify VIA Rail customers and keep them informed about their reservation.



New Simplified Pricing Structure

A new simplified pricing structure which combines flexibility with an enhanced shopping experience was launched. This new system allows preferential ticket rates to be available for purchase right up to the day of departure. The respective features of Economy Class vs. Business Class are presented, facilitating the choice between the five rate classes: ESCAPE, ECONOMY, ECONOMY PLUS, BUSINESS, and BUSINESS PLUS. Fares offered for each class vary based on the exchange and refund conditions, the privileges offered pre-boarding and the services offered on-board, including meal and beverage services, access to Business Class lounges, access to priority boarding and a priority ticketing line. The new pricing structure is in line with VIA Rail's strategy to stimulate train travel by offering a range of fare and service options to suit any budget.

New Business Class Cars and Service

As part of the Government of Canada's $1 Billion investment in VIA Rail, the refurbishment of part of its LRC (Light, Rapid, Comfortable) Business Class fleet was completed and put into service by the end of 2013. In addition to mechanical and electrical system upgrades, the renovated cars offer passengers more space and additional leg-room, thanks to the new seating arrangement which has one less seat per row.

The new LRC Business cars offer reclining and adjustable seats with an extra table to hold a drink or other items, leaving the drop down table free for a meal, documents or a computer. Complete upgrades to the car interiors also include renewed washrooms, carpets, lighting and window frames. The refurbishment is being done internally, at VIA Rail's Montréal Maintenance Center. Work on the balance of the LRC Business Class cars is underway and the entire fleet refurbishment is expected to be completed in 2014.

As the new Business Class cars started appearing on the rails, VIA Rail also revamped the Business Class service. The new service is all about productivity and "me" time. Improvements were designed following customer input, and include: meal selection priority for VIA Préférence members, full-sized coffee mugs, re-designed meals with more "take-away" items, and quick tray removal for optimal personal productivity.

New Uniforms

As of mid-September, all front line employees began wearing new uniforms. In addition to the new style and colour theme for the key components of the uniform, colourful accessories including scarves, ties and name tags were updated to reflect VIA Rail's new brand image. Because of the new style, which was designed using "off the rack" models, annual cost savings of $300,000 are expected.

New Baggage Policy

As of June 1st, a new checked baggage policy was implemented. This was part of a larger new baggage policy, launched in October 2012, designed to make the travel experience on-board the train safer and more enjoyable for all. The new policy's objectives include reducing employee and passenger injuries as well as reducing departure and en-route delays due to baggage handling. Previously, baggage handling was a leading contributor to on-board injuries. Following the implementation of the new policy, employee injury days lost due to baggage handling was reduced by 76% when comparing the period from October 31, 2012 – June 15, 2013 to the same timeframe in the previous year. Guidelines can be read in full by visiting viarail.ca/en/travel-info/baggage.

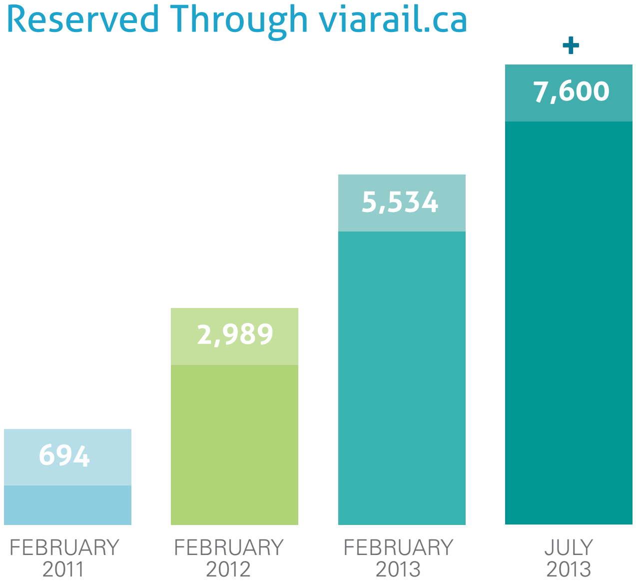
INTER-MODALITY: BUILDING A MORE CONNECTED NETWORK

VIA Rail connected its services with those of three new intermodal partners in 2013, bringing the total number of partners including motor coach lines, airlines, shuttle and commuter services to 22 across Canada. As well, in 2013, we signed a Memorandum of Agreement with UP Express regarding the upcoming Union Station - Pearson Airport rail link.

These partnerships allow us to harmonize our schedules and, in some cases, sell combined tickets in a single transaction. By offering customers a simple, one-stop solution for door-to-door travel, we have greatly increased their travel options – and made travel on our connected network more attractive.

An intermodal partnership makes both environmental and economic sense. For example, ridership on Robert Q motor coaches increased by 135% since they became a VIA Rail intermodal partner.

Intermodal Connections Reserved Through viarail.ca



OPERATIONAL AND SERVICE ADJUSTMENTS

Self-Serve Station Transformation Project

Select stations have been automated through the deployment of remotely controlled devices including cameras, doors, public announcement systems, trains status displays and kiosks. Self-serve stations allow customers to access the waiting area of the station, which is equipped with an LED screen showing train status information. The installation of self-serve kiosks enables customers to book and pay for new trips as well as print boarding passes and travel itineraries. Kiosks also show train schedules, include a scale to weigh luggage and have a built-in phone that is directly connected to VIA Rail's Sales office.

The new screens installed in self-serve stations display real time schedules of trains arriving and departing from the station, thanks to GPS positioning of trains (through TSI+). As well, audio (vocal) messages announce arrival of trains to passengers in the station.

Remote monitoring (from VIA Rail control centers) of self-serve stations includes surveillance cameras and automatic opening and closing of doors in accordance with station operation hours.

Suspension of Service between Matapédia and New Carlisle

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

Creation of Station Attendant Positions

As part of VIA Rail's goal to respond to passenger needs and travel industry trends, some station duties were re-organized, with some roles being eliminated and others added. Porter duties were reviewed in Toronto and Montréal (the only two stations where porters remained). It was decided that at these two stations, assistance to people with disabilities or customers requiring physical assistance such as luggage handling would be provided by agents with a multifunctional role, as is already the case in other full service stations. This is a more efficient distribution of tasks with the same level of service. In 2013, VIA Rail created 14 new permanent Station Attendant positions in Toronto whose focus is on serving customers with special service requests. In Montréal, five such permanent Station Attendant positions have been created.

IMPORTANT EVENTS

Collision Between OC Transpo Bus and VIA Rail Train

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

Transport Safety Board Report: Train 92

In June, the Transport Safety Board of Canada (TSB) released their report about the derailment of VIA Rail train #92, which occurred on February 26, 2012, in Aldershot, Ontario. The report demonstrated a thorough review of the circumstances surrounding this tragic accident. Among its recommendations, the TSB suggested that although the presence of audio and video recording devices on-board the train may not have prevented the tragedy, it may have provided useful information. In line with that recommendation, in 2013, VIA Rail completed the installation of outward facing cameras on all its locomotives. As well, VIA Rail management, with the support of the leaders of its locomotive engineers' union (Teamsters Canada) started to work towards the introduction of voice recording devices inside its locomotives, to be completed by year-end 2014. These two initiatives underline VIA Rail's ongoing commitment to keep improving the safety and security of our employees, our passengers and the general public.

Canadian Auto Workers Union: Agreement Renewal

In July, VIA Rail concluded its first "paperless" Collective Agreement with CAW (now Unifor). The agreement and all other documentation were produced electronically.

The deal was ratified with a positive vote of 86% from some 2,200 service, sales office and maintenance personnel. During the process there was no disruption to VIA Rail's schedule.

During the second quarter, VIA Rail had put in place a contingency plan to offer basic service in case of a labour disruption. It involved the training and certification of a number of management employees to ensure that train travel continued to be an option for travellers in Canada. For employees involved, it provided an opportunity to better understand our operations and the work our frontline colleagues do on a daily basis.

Terrorism Threat

On April 22, the RCMP charged two individuals with an alleged plot to commit terrorism in Canada by derailing a VIA Rail train. VIA Rail works closely with law enforcement partners to gather and distribute intelligence information to ensure threats are identified and potential risks are eliminated. As a follow up to this event, a working group was tasked to review security risk mitigation measures in order to further enhance security on-board our trains and in our stations.

AWARDS

AGENT'S CHOICE AWARD

Reliable service and on-board Wi-Fi access helped VIA Rail win the 2013 Baxter Travel Media's Agent's Choice Award for the 7th year in a row. In choosing VIA Rail, travel agents also praised VIA Rail for developing a new online training course for travel agents, and for continuously improving passenger services. We have won this award 12 times in the last 13 years.

LEISURE GROUP TRAVEL GOLD LEVEL AWARD

Every year Leisure Group Travel magazine readers are invited to cast their vote in the publication's annual Reader's Choice Awards. The poll rewards excellence in service in the group travel industry and is the only official award certification in the marketplace. In 2013, VIA Rail was honoured with the Gold Level Reader's Choice award for "Favorite Train Excursion".

ECCLESIASTICAL INSURANCE CORNERSTONE AWARD

VIA Rail's Pacific Central Station in Vancouver was one of the first honourees of a new Ecclesiastical Insurance Cornerstone Award presented by Heritage Canada Foundation. The Ecclesiastical Insurance Cornerstone Awards for Building Heritage were created to recognize excellence in the regeneration of Canadian heritage buildings and sites.

AIRRAIL CONCEPT OF THE YEAR

VIA Rail's vision for intermodality, "Making VIA the Hub", positions VIA Rail as an enabler for greater cooperation between air-rail (as well as with other modes of travel) in order to provide seamless door-to-door travel experiences. As a result of implementing many intermodal partnerships, www.viarail.ca is morphing into a travel search and booking facility for anyone (from anywhere in the world), planning a trip in Canada.

This initiative was honoured with the "AirRail Concept of the Year" Award at the 2013 Global AirRail Awards (GARA) Ceremony in Frankfurt, Germany.

GCC: THE WORLD'S MOST ACTIVE TRANSPORTATION AND LOGISTICS COMPANY

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

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

CORPORATE SOCIAL RESPONSIBILITY

ENVIRONMENT

A GREEN CHOICE

VIA Rail: A Green Choice

Passenger rail is widely recognized as the "green choice" for travel, generating far lower greenhouse gas (GHG) emissions than travel by air or private automobile. We are committed to making our travel by train the most environmentally sustainable option for Canadians.

Every year since 2008, VIA Rail has reduced its diesel fuel consumption and put fewer greenhouse gas emissions into the air, all while ensuring regulatory compliance and managing our waste efficiently. These fuel savings are largely due to the refurbishment of our locomotives, more strategic deployment of locomotives, and more efficient equipment cycling. In 2013, VIA Rail also began implementation of a Telemetry system (see Technology section for more information), which will enable us to monitor train fuel consumption and fuel management. The expected annual fuel savings as a result of the implementation of the telemetry system is $1.5 million.

In 2013, VIA Rail used approximately 3.6 million fewer litres of fuel compared to 2012, a reduction of 7.9% and savings of approximately $3.5 million. By the end of 2013, we also reduced greenhouse gas emissions by 6.8% compared to 2012.

Overall, since 2009, greenhouse gases measured per passenger-km have been decreasing by an average of 7% every year and fuel consumption has decreased by 26.8%.

Environmental Management System

The following is a report of significant activities on federal lands, in reference to section 71 of the Canadian Environmental Assessment Act:

VIA Rail has defined processes within its Environmental Management System to evaluate the environmental impact of its projects and activities; and to determine if the environmental impacts, if any, are likely to cause significant adverse environmental effects.

In 2013, all new projects, new initiatives and activities were assessed using VIA Rail's Hazard Assessment and Risk Control Strategies (HARCS) process. This process is implemented by the project manager at the planning phase to identify and assess environmental risks and to identify appropriate controls to mitigate the risks, as required. In addition to the HARCS process, VIA Rail's Environmental Evaluation Checklist and process were used for projects and initiatives larger in scope. As a second step, an evaluation of the environmental impacts of projects is performed, when required, to identify the environmental impact, determine if any had significant effect on the environment and implement appropriate mitigation measures.

In 2013, VIA Rail did not carry any project or activities that generated significant adverse environmental effects. Projects for 2013 consisted of regular maintenance and repair activities of facilities, infrastructure and rolling stock. In all cases, VIA Rail processes were followed, environmental evaluations were completed, identification and implementation of appropriate mitigation measures were performed as per project plan and assessment report, and appropriate permits received.

ACCESSIBILITY: TRAVEL FOR ALL CANADIANS

We are committed to keeping passenger rail the most accessible mode of inter-city transport for Canadians challenged by a physical disability.

Work continues to make our passenger equipment more accessible. Four Park Cars used on the *Canadian* will be modified to include a fully accessible deluxe sleeping cabin. Two Rail Diesel Cars have been modified to remove accessibility barriers, one of which is currently being used on the Sudbury-White river route.

Many stations have been renovated to increase accessibility, including Cobourg station, which now has a new accessible footbridge similar to the ones previously built in Oshawa and Belleville. Work beginning in Winnipeg's Union Station is designed to improve accessibility as well. For more information, see the Stations Projects section of this Annual Report.

VIA Rail's website, viarail.ca, was upgraded and allows greater accessibility for persons with disabilities to obtain information.

Trains vs Cars

One train can replace 180 cars when comparing GHG emissions per capacity

COMMUNITY ENGAGEMENT

National Charitable Campaign

VIA Rail employees, retirees and board members participated in our fall National Charitable Campaign across the country. Under the theme "Round-trip Giving" the campaign raised almost a quarter of a million dollars in donations for United Way (Centraide) and Healthpartners. The funds are used to help youths, families, people with reduced mobility, immigrants and people with mental health problems and to support research to combat disease.

Public Meetings and Reports

In 2013, VIA Rail's first webcast-only Annual Public Meeting took place. Always aiming to connect to as many Canadians as possible and to responsibly manage public funds, VIA Rail opted to use a free tool to broadcast the highlights of its 2012 financial results. This meeting gave the public the opportunity to hear directly from the Chairman of the Board, the President and CEO and senior management of VIA Rail. Executives also responded to questions from the public sent by email. The webcast can be watched and a full list of questions and answers can be downloaded in the Annual Public Meeting section of viarail.ca at http://www.viarail.ca/en/about-via-rail/our-company/annual-public-meeting.

During the year, VIA Rail published three Quarterly Reports, which detailed its financial and operating performance by trimester. Quarterly Reports can be found on VIA Rail's website at http://www.viarail.ca/en/about-via-rail/our-company/quarterly-reports.

VIA Rail took the opportunity to host public events at the time of the Board meetings held in Toronto, Ottawa and Saskatoon. These public events gave us the opportunity to familiarize our local stakeholders, business partners and elected officials at all government levels with VIA Rail's operations and economic impact in their respective regions.

VIA Rail took part in numerous meetings with federal, provincial and municipal representatives in several regions of the country in order to keep them adequately and regularly informed about our activities and operations. These meetings allowed us to discuss business decisions and give the government representatives a valuable perspective into VIA Rail's business development strategies.

BEING CANADIAN

2013 was an opportunity for VIA Rail to show how it connects Canada's communities and its people. For many Canadian families, the train is where their Canadian experience began.

2017 Starts Now

From April through June, VIA Rail partnered with the Canadian Broadcasting Corporation/Radio-Canada and the Community Foundations of Canada (CFC) on the CANADA 150/2017 STARTS NOW conference series. The 12 one-day events, which took place across the country from Vancouver to Halifax, were designed to spark the national conversation about Canada's upcoming 150th anniversary of Confederation, and how we should celebrate the historic event. From musician Paul Shaffer to Canadian Paralympic athlete Chantal Petitclerc, the inspiring speakers were comprised of proud Canadians from all walks of life. All of the conferences can be viewed at 2017startsnow.ca.

This was the first step toward determining the projects and programs VIA Rail will undertake to celebrate both the 150th Anniversary of Canada and VIA Rail's own 40th anniversary, which will both take place in 2017.

Sir John A Macdonald, Back by Popular Demand

In May and September, VIA Rail's Eastern long-haul train, the *Ocean*, hosted two actors from the Sir John A Macdonald Bicentennial Commission. These costumed performers played the roles of Sir John A Macdonald and Calvin Hobbes, regaling the passengers with stories and songs. The entertainment was both educational and very well received. In 2014, the Bicentennial Commission will re-embark on VIA Rail trains to continue their mission to teach enthusiastic passengers about Canadian history. Welcome back, Sir John A!

BEING CANADIAN (CONTINUED)

VIA Rail Welcomes Over 3,000 New Citizens to Canada

In July 2012, VIA Rail announced a new initiative with the Institute for Canadian Citizenship (ICC) that allowed new citizens to discover their adopted country by train. Members of the ICC's Cultural Access Pass program – a program exclusive to new citizens – are given a one-time offer of 50 per cent off the lowest available fare, in any class, one way or round trip, with no blackout periods, for them and up to four of their children under the age of 18, in their first year of citizenship.

In 2013, many new citizens took advantage of this amazing opportunity and since the program's inception in 2012, over 3,000 Cultural Access Pass members travelled on our trains to discover their new country. 10% of them have already repeated their on-board experience. It's our way of saying, "Welcome home!"

The Canadian Military

VIA Rail supports the Canadian Military and their families through its participation in several non-profit events. In addition, VIA Rail offers unlimited travel, year round, at discounted fares for military members, veterans and their families. Since the launch of this special program in 2010, more than 76,000 members of the military and their families have travelled within Canada on VIA Rail trains.

In addition, VIA Rail was proud to have sponsored the Canadian Armed Forces 45th annual photo contest and participated in the awards ceremony, which took place in November at the War Museum in Ottawa.

EMPLOYEE ENGAGEMENT: CREATING A BETTER WORKPLACE

Talent Development

In 2012, VIA Rail developed a new talent and succession development framework which allowed us to identify talent at all levels of the organization and accelerate the development of potential successors. 2013 saw a continuation of the implementation of this framework with a focus on establishing development plans for employees with promising talent at all levels of the organization. This also included identifying trends in development needs which were used to develop learning programs for all levels of management, and will lead to the implementation of a development program specifically aimed at potential successors in 2014.

A new knowledge transfer framework was developed to document and retain the knowledge that is essential to VIA Rail's success in years to come. This involves the identification of critical positions and employees with critical knowledge.

Employee Recognition

Development of a recognition training program for managers focused on how to effectively provide recognition to employees, in order to improve employee engagement and retention. This program, which will be implemented in 2014, is directly tied to VIA Rail's business strategy and corporate competencies.

GOVERNANCE AND ACCOUNTABILITY

BOARD OF DIRECTORS

The Board of Directors consists of the Chairperson, the President and Chief Executive Officer and nine other directors appointed by the Government of Canada. The Board is responsible for overseeing the strategic direction and management of the Corporation, and reports on VIA Rail's operations to Parliament through the Honourable Lisa Raitt, Minister of Transport.

During 2013, five Board meetings were held. The five different Board committees met a total of 27 times over the year. The overall average attendance rate of Board members at these meetings was 97%. Cumulative fees paid to Board members during this time period totaled $229,091.

VIA Rail has been innovative in its approach to the ever-evolving business environment, in which new governance challenges and needs must be addressed. To this end, and to support VIA Rail's efforts to meet these new challenges, a new Risk Management sub-committee was set up by the Board in 2013, responsible for reviewing and supervising the activities of management risks. The members of this subcommittee held three meetings in 2013.

As demonstrated over the past few years, the Corporation's Board of Directors and Management are always seeking ways to provide Canadians with greater insights into the management of its affairs. VIA Rail will be publishing new corporate information including Board of Directors' Governance Policies, Executive Compensation and a Train Service Summary. This information will be available either in the printed or online Annual Report or in the corporate section of our website (viarail.ca) and will be updated annually.

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* (ATIP) 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 promptly.

As of December 31, 2013, and since April 1, 2013 VIA Rail received 36 new requests and 2 new complaints under the *Access to Information Act* and the *Privacy Act*, in comparison to a total of 31 requests and 3 complaints during the same period from April 2012 – December 2012. Over the year, VIA Rail greatly improved the application process time for these requests.

VIA Rail's 2013 Annual Report on ATIP was submitted to the *Access to Information* Commissioner and to the Minister of State (Transport). Under the *Privacy Act*, VIA Rail also submitted its Annual Report on requests related to personal information to the Privacy Commissioner.

In June of 2012, VIA Rail began posting a brief summary of all completed requests that were answered by VIA Rail under the *Access to Information Act* on its website at viarail.ca.

OFFICIAL LANGUAGES

VIA Rail is committed to the principles of the *Official Languages Act*. VIA Rail employees actively demonstrate a willingness to provide service in either English or French. Our Official Languages policies apply to all communications, whether on the telephone, in a station, or on-board our trains. We maintain a work environment in which our employees can speak the language of their choice, in regions that are designated bilingual. All internal and external communications are written in French and in English, and VIA Rail uses both languages in its business practices.

The number of complaints VIA Rail receives under the Act has declined steadily since 2007. In 2013, VIA Rail received eight (8) such complaints through the Commissioner of Official Languages. These cases were all settled before the end of 2013, and VIA Rail began the new year with no active complaints.

In 2013, VIA Rail was honoured to participate in several events promoting Canada's linguistic minorities including: the 100th anniversary of the newspaper *La Liberté*, the annual gala of the oldest French-language theater in Canada, *Cercle de Molière*, and the Québec Community Groups Network's Goldbloom Award.

VIA Rail recognizes that it can play a valuable role in promoting linguistic duality in Canada. VIA Rail supported Linguistic Duality Day for the fourth consecutive year as well as National Acadian Day by communicating its commitment to linguistic duality through corporate messages, through social media and through other communications activities.

In the second quarter of 2013, VIA Rail submitted its 2012-2013 Official Languages Report to the Commissioner of Official Languages. The report contains VIA Rail's continuous efforts to promote both official languages across Canada. This report was shared with numerous Canadian linguistic minority groups.

TRAVEL, HOSPITALITY AND CONFERENCE EXPENSES

The following travel, hospitality and conference expenses were submitted during 2013:

Paul G. Smith, Chairman of the Board – $13,453

Marc Laliberté, President and CEO – $38,574

Executive management committee members – $116,687

Board of Directors members – $43,287

2013 EXECUTIVE(1) COMPENSATION RANGE DISCLOSURE

Cash Compensation(2)	President and CEO	Officers
Base salary range	$255,200 - $300,200	$180,783 - $299,622
Incentive program range	19.5% - 26%	30% - 40%
TOTAL COMPENSATION RANGE PER CALENDAR YEAR	**$304,965 - $378,250**	**$235,020 - $419,470**

Perquisites Program		
Car allowance Social, Sport Club Memberships Health Care Spending Account Comprehensive Medical Exams Financial Planning Services	**$38,700**	**$26,000**

(1) Executives are; President and Chief Executive Officer, Chief Customer Experience & Operations Officer, Chief Commercial Planning Officer, Chief Corporate and Legal Officer, and Corporate secretary, Chief Financial and Administration Officer, Chief Information Officer, Chief Human Resources Officer, Chief Marketing and Sales Officer

(2) The Cash Compensation does not report the actual salary and incentives paid to Executives but merely the range for their respective positions

MANAGEMENT DISCUSSION AND ANALYSIS

This is a review of VIA Rail Canada's operations, performance and financial position for the quarter and year ended December 31, 2013, compared with the quarter and year ended December 31, 2012. It should be read in conjunction with the audited financial statements and notes.

1. FINANCIAL HIGHLIGHTS

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

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

	Quarters ended December 31				Years ended December 31			
IN MILLION OF CANADIAN DOLLARS	**2013**	2012	Var $	Var %	**2013**	2012	Var $	Var %
Passenger Revenues*	**62.0**	61.2	0.8	1.3%	**249.6**	257.4	(7.8)	(3.0%)
Total Revenues*	**68.0**	66.6	1.4	2.1%	**270.4**	276.9	(6.5)	(2.3%)
Operating expenses*	**113.4**	111.7	1.7	1.5%	**482.4**	478.2	4.2	0.9%
Employer contributions for employee benefits*	**24.1**	17.4	6.7	38.5%	**95.6**	77.8	17.8	22.9%
Total Operating expenses*	**137.5**	129.1	8.4	6.5%	**578.0**	556.0	22.0	4.0%
Operating Loss	**(69.5)**	**(62.5)**	**7.0**	**11.2%**	**(307.6)**	**(279.1)**	**28.5**	**10.2%**
Operating funding from Government of Canada	**69.5**	62.5	7.0	11.2%	**307.6**	279.1	28.5	10.2%
Non funded elements and other accounting adjustments								
Employee Benefits to be funded in subsequent years	**9.5**	2.0	7.5	375.0%	**41.1**	27.2	13.9	51.1%
Depreciation and amortization/ Impairment and loss (gain) on disposal of property, plant and equipment and intangible assets	**(29.9)**	(38.6)	8.7	22.5%	**(83.4)**	(82.7)	(0.7)	(0.8%)
Amortization of deferred capital funding	**29.7**	38.3	(8.6)	(22.5%)	**82.4**	82.0	0.4	0.5%
Other	**(2.9)**	(3.6)	0.7	19.4%	**1.7**	(0.1)	1.8	n/a
Net income for the period	**6.4**	**(1.9)**	**8.3**	**n/a**	**41.8**	**26.4**	**15.4**	**58.3%**
Actuarial gain (loss) on defined benefit plans	**36.7**	(5.2)	41.9	n/a	**303.6**	(101.2)	404.8	n/a
Total comprehensive income (Loss) for the period	**43.1**	**(7.1)**	**50.2**	**n/a**	**345.4**	**(74.8)**	**420.2**	**n/a**

* Financial statement amounts were adjusted to reflect funded activities.

Highlights of the quarter

Compared with the quarter ended December 31, 2012:

- Revenues have increased by 2.1 percent and total $68.0 million for the quarter;
- Funded Operating expenses increased by 6.5 percent and amount to 137.5 million for the quarter;
- Operating loss funded by the Governnment of Canada increased by 11.2 percent to $69.5 million for the quarter. The increase is mainly due to employer contributions to the pension plans;
- There is a net income of $6.4 million for the quarter, compared to a net loss of $1.9 million for the same quarter of 2012;
- There were actuarial gains on defined benefit plans of $36.7 million for the quarter compared to losses of $5.2 million for the corresponding quarter last year;
- There is a total comprehensive income of $43.1 million for the quarter, compared to a loss of $7.1 million for the fourth quarter of 2012.

Highlights of the year ended December 31, 2013

Compared with the results of the previous year:

- Revenues have decreased by 2.3 percent and total $270.4 million for the period;
- Operating expenses funded during the year have increased by 4.0 percent and total $578.0 million for the year;
- Operating loss funded by the Government of Canada increased by 10.2 percent to $307.6 million for the period. The increase is mainly due to employer contributions to the pension plans;
- There is a net income of $41.8 million for the year compared to $26.4 million in 2012;
- There were actuarial gains on defined benefit plans of $303.6 million for the period, compared to losses of $101.2 million last year;
- The total comprehensive income in 2013 is $345.4 million; compared to a loss of $74.8 million in 2012.

2. HIGHLIGHTS OF OPERATING RESULTS

This section of the document provides comments on the funded activities of the quarter and year ended December 31, 2013 (before non-funded elements and other accounting adjustments).

a) Passenger Revenues

	REVENUES*							
	Quarters ended December 31				Years ended December 31			
IN MILLIONS OF CANADIAN DOLLARS	**2013**	2012	Var $	Var %	**2013**	2012	Var $	Var %
Corridor East	**41.4**	40.4	1.0	2.5%	**154.2**	153.5	0.7	0.5%
Southwestern Ontario (SWO)	**10.2**	9.7	0.5	5.2%	**37.2**	40.8	(3.6)	(8.8%)
Ocean	**1.9**	2.3	(0.4)	(17.4%)	**8.6**	13.3	(4.7)	(35.3%)
Canadian	**5.8**	6.3	(0.5)	(7.9%)	**38.9**	40.7	(1.8)	(4.4%)
Mandatory Services	**1.0**	1.5	(0.5)	(33.3%)	**5.7**	5.9	(0.2)	(3.4%)
Other	**1.7**	1.0	0.7	70.0%	**5.0**	3.2	1.8	56.3%
TOTAL	**62.0**	**61.2**	**0.8**	**1.3%**	**249.6**	**257.4**	**(7.8)**	**(3.0%)**

* Revenue amounts were adjusted to reflect funded activities.

	PASSENGER MILES							
	Quarters ended December 31				Years ended December 31			
IN MILLIONS	**2013**	2012	Var #	Var %	**2013**	2012	Var #	Var %
Corridor East	**139.5**	143.1	(3.6)	(2.5%)	**535.1**	498.1	37.0	7.4%
Southwestern Ontario (SWO)	**31.5**	29.4	2.1	7.1%	**114.3**	115.2	(0.9)	(0.8%)
Ocean	**8.7**	10.4	(1.7)	(16.3%)	**39.6**	59.8	(20.2)	(33.8%)
Canadian	**19.5**	23.3	(3.8)	(16.3%)	**118.1**	134.5	(16.4)	(12.2%)
Mandatory Services	**4.3**	6.3	(2.0)	(31.7%)	**25.2**	26.2	(1.0)	(3.8%)
Other	**-**	-	-	-	**-**	-	-	-
TOTAL	**203.5**	**212.5**	**(9.0)**	**(4.2%)**	**832.3**	**833.8**	**(1.5)**	**(0.2%)**

Passenger revenues total $62.0 million for the quarter, an increase of 1.3 percent compared to the corresponding quarter last year. This is the first quarter during which revenues are higher than the previous year. The increase stems from higher revenues in the Corridor (Corridor East and Southwestern Ontario), partly offset by lower revenues on the *Ocean* and the *Canadian* (impact of the frequency adjustments made at the end of October 2012), as well as lower revenues in Mandatory routes.

Passenger revenues total $249.6 million for the year, a decrease of $7.8 million (3.0 percent) compared to the previous year. The decrease in mainly attributable to the frequency adjustments made in 2012 on the Southwestern Ontario routes, as well as on the *Ocean* and the *Canadian* in the off peak season. Revenues have increased in Corridor East where an additional frequency between Ottawa and Toronto as well as Montréal and Québec were added in December 2012.

For the quarter:

- Corridor East revenues are 2.5 percent above last year, and due mainly from improved yields (increase of 5.1 percent), partly offset by lower volumes (2.5 percent fewer passenger-miles);
- Revenues in SWO have increased by 5.2 percent, as a result of higher volumes (7.1 percent more passenger-miles), partly offset by lower yields (1.9 percent);
- Revenues on the *Ocean* have decreased by 17.4 percent, strictly due to lower ridership (16.3 percent less passenger-miles) resulting from the frequency adjustments (from 6 to 3 frequencies per week) made at the end of October 2012. Yields were slightly below last year (decrease of 1.2 percent);
- Revenues on the *Canadian* have decreased by 7.9 percent over the previous year. The performance is also attributable to the frequency adjustments made at the end of October 2012 (16.3 percent less passenger-miles), partly offset by improved yields (10.0 percent);
- Mandatory services have generated lower revenues (33.3 percent), the decrease resulting from lower passenger volumes (31.7 percent less passenger miles) due to the fact that the Montréal-Gaspe did not operate due to poor track conditions. The service has not yet resumed.

For the year ended December 31, 2013:

- Corridor East revenues have increased by 0.5 percent, due to higher volumes (7.4 percent more passenger-miles), partly offset by lower yields (6.5 percent);
- Revenues in SWO have decreased by 8.8 percent, as a result of lower yields (8.1 percent) combined with slightly lower volumes (0.8 percent less passenger-miles). This performance is positive in terms of ridership considering the fact that some frequencies were reduced in 2012, passenger volumes and load factors have therefore improved on the remaining frequencies;
- Revenues on the *Ocean* have decreased by 35.3 percent mainly due to lower ridership (33.8 percent less passenger-miles) resulting from the impact of the frequency adjustments, yields have also slightly decreased (2.4 percent);
- Revenues on the *Canadian* are 4.4 percent below last year's levels, the decrease mainly due to lower ridership (12.2 percent less passenger miles), partly offset by improved yields (8.8 percent). The reduction in volumes stems directly from the impact of the frequency adjustments made at the end of October 2012, where frequencies were reduced from 3 to 2 times per week in the off peak season (November to April);
- Mandatory services have generated lower revenues (3.4 percent), the decrease attributable to lower volumes (3.8 percent more passenger-miles) directly associated with the interruption, in September 2013, of the Montréal-Gaspe service due to poor track conditions.

b) Operating Expenses

IN MILLIONS OF CANADIAN DOLLARS	Quarters ended December 31				Years ended December 31			
	2013	2012	Var $	Var %	**2013**	2012	Var $	Var %
Compensation & Benefits*	**46.7**	47.7	(1.0)	(2.1%)	**211.8**	217.9	(6.1)	(2.8%)
Train Operations & Fuel	**31.1**	29.9	1.2	4.0%	**122.9**	123.9	(1.0)	(0.8%)
Realized loss (gain) on derivative financial instruments	**(0.2)**	(0.3)	0.1	(33.3%)	**(0.7)**	(1.6)	0.9	56.3%
Corporate Tax expense (recovery)	**0.4**	0.0	0.4	n/a	**0.4**	0.0	0.4	n/a
Other operating expenses*	**35.4**	34.4	1.0	2.9%	**148.0**	138.0	10.0	7.2%
Total Operating expenses (before employer contributions for employee benefits)	**113.4**	**111.7**	**1.7**	**1.5%**	**482.4**	**478.2**	**4.2**	**0.9%**
Employer Contributions for employee benefits*	**24.1**	17.4	6.7	38.5%	**95.6**	77.8	17.8	22.9%
TOTAL FUNDED OPERATING EXPENSES	**137.5**	**129.1**	**8.4**	**6.5%**	**578.0**	**556.0**	**22.0**	**4.0%**

* Financial statement amounts were adjusted to reflect funded activities.

For the quarter:

- Operating expenses before employer contributions for employee benefits rose by 1.5 percent and totaled $113.4 million for the quarter. The increase is mainly due to higher train operation and fuel costs (contractual increases in fees paid to use tracks not owned by VIA) and higher support costs for new Information technology systems (included in other operating expenses), partly offset by lower compensation costs (reduced headcount associated with frequency adjustments and other productivity initiatives);

- Employer contributions for employee benefits increased by 38.5 percent and totaled $24.1 million for the quarter, the increase due to higher contributions made to the employees' pension plans to fund the pension plan deficits.

For the year completed December 31:

- Operating expenses before employer contributions for employee benefits totaled $482.4 million for the year, an increase of 0.9 percent compared to 2012. The increase is due to the fact that the 2012 expenses include a credit of $10.5 million (resulting from the exercise of letters of credit from a contractor who did not meet its contractual obligations), there is no such credit in 2013. Compensation and train operations and fuel expenses decreased, this is directly attributable to the frequency adjustments, combined with other productivity initiatives affecting headcount and compensation costs;

- Employer contributions for employee benefits increased by $17.8 million (22.9 percent), the increase also resulting from higher contributions made to the employees' pension plans to fund the deficits.

3. CAPITAL INVESTMENTS

Fixed assets (net of accumulated depreciation) amount to $1,250.8 million, up $12.2 million compared to the balance as at December 31, 2012. Capital investments totaled $31.2 million for the quarter and $96.2 million for the year.

- Investments of $7.7 million were made in major equipment projects, including $5.5 million for the LRC fleet rebuild project, and $1.8 million for the HEP1 modernization project. The investments made this year in major equipment projects totaled $23.8 million of which $18.0 million is for the LRC fleet rebuild project, and $3.4 million for the HEP1 modernization project;
- A total of $6.3 million was invested in major infrastructure projects during the quarter. A portion of the investments ($3.2 million) were made for the improvement of the GEXR Guelph subdivision infrastructure, and $2.9 million was invested in the Kingston Subdivision where work is done to add sections of a third track between Montréal and Toronto to minimize congestion. Total investments in major infrastructure projects amounted to $21.4 million for the year, of which $10.8 million was invested in the Kingston Subdivision, and $9.7 million for the GEXR Guelph subdivision.
- An amount of $5.5 million was invested in Information Technology projects (including the station automation, reservation system modernization, and telemetry projects). Investments in Information Technology projects totaled $22.6 million for the year.
- And for the year, $11.9 million was invested for Other Infrastructure projects, as well as $8.1 million in station projects (including $2.6 million for Union station).

4. CASH FLOW AND FINANCIAL POSITION

The Corporation's cash balance is $21.8 million as at December 31, 2013, up $4.4 million compared to September 30, 2013, and up $5.9 million compared to December 31, 2012. The increase in cash for the year period is due to net cash provided by operating activities, partly offset by cash used for investing activities including the acquisition of property, plant and equipment and intangible assets.

5. RISK ANALYSIS (compared to December 2012)

RISK	TREND	CURRENT SITUATION
SAFETY AND SECURITY		
Rail passenger business operates in a strict regulatory environment but exposed to accidents and terrorism.		VIA started an internal audit of its operational processes against the industry safety standards. While the Corporation already complies with the industry and government standards, and in some cases even exceeds these requirements, VIA is firmly resolved to surpassing them in the coming years.
CAPITAL INVESTMENT PROJECTS		
Major delays in equipment projects, or an increase in project costs would adversely affect VIA's financial performance.		Only 3 major equipment projects remain representing now less than 10% of the original capital envelope ($903M).
PASSENGER REVENUES		
Strong competitive and difficult economic environment continue to challenge revenue growth.		The initiatives implemented by VIA to mitigate the impact of declining passenger revenues have generated additional ridership, but the maximization of yields remains a challenge especially given the strong competitive and difficult economic environments. VIA has finalized its commercial strategy for 2014 and the focus will be to maximize yields in popular markets and trains, while adjusting capacity by market to align with demand.

INCREASING STABLE DECREASING

RISK	TREND	CURRENT SITUATION
OPERATING FUNDING		
VIA continues to face operational funding challenges.		The Corporation is continuously pursuing the development and the implementation of a range of initiatives to reduce its deficit by increasing revenues and reducing costs. Furthermore, VIA continues to work with Transport Canada to address the challenge of operating loss and develop sustainable funding solutions. VIA received new envelopes for 2014-2015 fiscal year.
CAPITAL FUNDING		
VIA needs to continue investing in equipment, stations, maintenance systems, facilities and information technology, when the current investment program is completed.		The Corporation is working with Transport Canada to address ongoing capital funding requirements, and to ensure that VIA has the capital funding it requires to deliver on its mandate. VIA received new envelopes for ongoing capital for the fiscal year 2014-2015.
FUEL COST FLUCTUATIONS		
Fuel is a major cost for passenger rail operations, and fuel costs could vary significantly from VIA's estimates due to the uncertainty and volatility of fuel prices.		Fuel consumption has decreased compared to previous years as a result of the introduction of the refurbished locomotives as well as other initiatives to reduce fuel consumption. VIA's proven hedging strategy adds certainty to future fuel costs and can delay the impact of fuel price fluctuations. Given that contracts used to hedge fuel prices are denominated in U.S. dollars, VIA also hedges against foreign exchange risks.

INCREASING STABLE DECREASING

6. OUTLOOK

Results of the fourth quarter of 2013 were encouraging in terms of ridership and passenger revenues, and the Corporation is already working on achieving its 2014 commercial strategy which is to maximize yields in strong markets while adjusting capacity in the various markets to better align with demand.

In 2013 the introduction of new technology has allowed us to continue to reduce fuel consumption in our locomotives and help modernizing our stations Efforts continue to identify and implement additional cost reduction initiatives and other automation projects which will improve efficiency while maintaining high customer service levels and satisfaction.

FINANCIAL STATEMENTS

MANAGEMENT'S RESPONSIBILITY STATEMENT

YEAR ENDED DECEMBER 31, 2013

Management of the Corporation is responsible for the preparation and fair presentation of the financial statements contained in the Annual Report. These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and necessarily include certain amounts that are based on management's best estimates and judgement. Financial information contained throughout the Annual Report is consistent with that in the financial statements. Management considers that the financial statements present fairly the financial position of the Corporation and its financial performance and its cash flows.

To fulfill its responsibility, the Corporation maintains systems of internal controls, policies and procedures to ensure the reliability of financial information and the safeguarding of assets. The internal control systems are subject to periodic reviews by PricewaterhouseCoopers, LLP, as internal auditors. The external auditor, the Auditor General of Canada, has audited the Corporation's financial statements for the year ended December 31, 2013 and his report indicates the scope of his audit and his opinion on the financial statements.

The Audit, Risk and Finance Committee of the Board of Directors, consisting of independent Directors, meets periodically with the internal and external auditors and with management, to review the scope of their audits and to assess reports on audit work performed. The financial statements have been reviewed and approved by the Board of Directors on the recommendation of the Audit, Risk and Finance Committee.

Steve Del Bosco
Interim President
and Chief Executive Officer

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

Montréal, Canada
March 13, 2014

Auditor General of Canada
Vérificateur général du Canada

INDEPENDENT AUDITOR'S REPORT

To the Minister of Transport

Report on the Financial Statements

I have audited the accompanying financial statements of VIA Rail Canada Inc., which comprise the statement of financial position as at 31 December 2013, and the statement of operations and other comprehensive income, statement of changes in shareholder's equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of VIA Rail Canada Inc. as at 31 December 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

As required by the *Financial Administration Act*, I report that, in my opinion, the accounting principles in International Financial Reporting Standards have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of VIA Rail Canada Inc. that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canada Business Corporations Act* and regulations, the articles and by-laws of VIA Rail Canada Inc. and the directive issued pursuant to section 89 of the *Financial Administration Act* as described in Note 1 to the financial statements.

Maurice Laplante

Maurice Laplante, CPA auditor, CA
Assistant Auditor General
for the Auditor General of Canada

13 March 2014
Montréal, Canada

FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION

As at (IN THOUSANDS OF CANADIAN DOLLARS)	December 31, 2013	December 31, 2012
CURRENT ASSETS		
Cash and cash equivalents	**$ 21,757**	$ 15,857
Accounts receivable, trade	**5,696**	6,823
Prepaids, advances on contracts and other receivables	**3,808**	5,951
Receivable from the Government of Canada	**-**	10,408
Derivative financial instruments (NOTE 21)	**1,733**	771
Materials (NOTE 8)	**24,924**	22,646
Asset Renewal Fund (NOTE 11)	**12,164**	13,248
	70,082	75,704
NON-CURRENT ASSETS		
Property, plant and equipment (NOTE 9)	**854,630**	840,287
Intangible assets (NOTE 10)	**396,165**	398,338
Asset Renewal Fund (NOTE 11)	**610**	2,485
	1,251,405	1,241,110
Total assets	**$ 1,321,487**	$ 1,316,814
CURRENT LIABILITIES		
Trade and other payables (NOTE 12)	**$ 90,223**	$ 102,983
Provisions (NOTE 13)	**13,219**	12,551
Deferred government funding	**5,595**	-
Derivative financial instruments (NOTE 21)	**-**	1,157
Deferred revenues (NOTE 17)	**30,770**	27,361
	139,807	144,052
NON-CURRENT LIABILITIES		
Post-employment and other employee benefits (NOTE 14)	**43,699**	388,345
Deferred investment tax credits	**-**	281
	43,699	388,626
DEFERRED CAPITAL FUNDING (NOTE 16)	**1,237,399**	1,229,001
SHAREHOLDER'S EQUITY		
Share capital (NOTE 18)	**9,300**	9,300
Retained earnings	**(108,718)**	(454,165)
	(99,418)	(444,865)
Total liabilities and shareholder's equity	**$ 1,321,487**	$ 1,316,814

Commitments and Contingencies (Notes 19 and 24, respectively)

The notes are an integral part of the financial statements.

Approved on behalf of the Board,

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

Paul G. Smith
Director and Chairman of the Board

FINANCIAL STATEMENTS

STATEMENT OF OPERATIONS AND OTHER COMPREHENSIVE INCOME

Year ended December 31 (IN THOUSANDS OF CANADIAN DOLLARS)	2013	2012
REVENUES		
Passenger	$ **249,064**	$ 257,027
Other	**21,312**	20,564
	270,376	277,591
EXPENSES		
Compensation and employee benefits	**266,890**	267,806
Train operations and fuel	**122,894**	123,850
Stations and property	**35,047**	33,990
Marketing and sales	**29,749**	29,154
Maintenance material	**26,991**	29,320
On-train product costs	**15,491**	15,455
Operating taxes	**9,342**	9,628
Professional services	**9,227**	9,641
Telecommunications	**11,712**	10,149
Depreciation and amortization (NOTES 9 AND 10)	**72,522**	58,929
Impairment and loss (gain) on disposal of property, plant and equipment and intangible assets	**10,877**	13,280
Unrealized net loss (gain) on derivative financial instruments	**(2,119)**	1,438
Realized loss (gain) on derivative financial instruments	**(679)**	(1,562)
Other	**10,170**	11,267
	618,114	612,345
OPERATING LOSS BEFORE FUNDING FROM THE GOVERNMENT OF CANADA AND INCOME TAXES	**347,738**	334,754
Operating funding from the Government of Canada (NOTE 7)	**307,617**	279,133
Amortization of deferred capital funding (NOTE 16)	**82,424**	82,017
Net income before income taxes	**42,303**	26,396
Income tax (expense) recovery (NOTE 15)	**(450)**	46
NET INCOME FOR THE YEAR	**41,853**	26,442
Other comprehensive income (loss)		
Amounts not to be reclassified subsequently to net income:		
Actuarial gain (loss) on defined benefit plans (NOTE 14)	**303,594**	(101,223)
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR	**303,594**	(101,223)
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR	$ **345,447**	$ (74,781)

The notes are an integral part of the financial statements.

STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

Year ended December 31 (IN THOUSANDS OF CANADIAN DOLLARS)	2013	2012
SHARE CAPITAL	$ **9,300**	$ 9,300
Retained Earnings		
Balance, beginning of year	**(454,165)**	(379,384)
Net income for the year	**41,853**	26,442
Other comprehensive income (loss) for the year	**303,594**	(101,223)
Balance, end of year	**(108,718)**	(454,165)
Total Shareholder's equity	$ **(99,418)**	$ (444,865)

The notes are an integral part of the financial statements.

FINANCIAL STATEMENTS

STATEMENT OF CASH FLOWS

Year ended December 31 (IN THOUSANDS OF CANADIAN DOLLARS)	2013	2012
OPERATING ACTIVITIES		
Net income for the year	**$ 41,853**	$ 26,442
Adjustments to determine net cash (used in) from operating activities:		
Depreciation and amortization (NOTES 9 AND 10)	**72,522**	58,929
Impairment of property, plant and equipment and intangible assets (NOTES 9 AND 10)	**5,908**	20,649
Loss (gain) on disposal of property, plant and equipment and intangible assets	**4,969**	(7,369)
Receipt of letters of credit (NOTE 9)	**-**	10,500
Amortization of deferred investment tax credits	**(281)**	(285)
Amortization of deferred capital funding (NOTE 16)	**(82,424)**	(82,017)
Interest income	**(598)**	(725)
Change in fair value of financial instruments (Asset Renewal Fund) (NOTE 11)	**(525)**	(1,052)
Unrealized net loss (gain) on derivative financial instruments	**(2,119)**	1,438
Post-employment and other employee benefit expenses (NOTE 14)	**54,516**	50,561
Employer post-employment and other employee benefit contributions (NOTE 14)	**(95,568)**	(77,791)
Net change in non-cash working capital items	**42,484**	(25,829)
Net cash (used in) provided by operating activities	**40,737**	(26,549)
INVESTING ACTIVITIES		
Capital funding (NOTE 16)	**90,822**	167,218
Change in capital funding receivable from the Government of Canada	**(20,822)**	4,577
Acquisition of investments in the Asset Renewal Fund	**(54,154)**	(79,156)
Proceeds from sale and maturity of investments in the Asset Renewal Fund	**57,638**	98,378
Change in capital accounts payable and accrued liabilities	**(13,350)**	6,687
Acquisition of property, plant and equipment and intangible assets (NOTES 9 AND 10)	**(96,220)**	(170,312)
Interest received	**598**	725
Proceeds from disposal of property, plant and equipment and intangible assets	**651**	1,036
Net cash (used in) provided by investing activities	**(34,837)**	29,153
CASH AND CASH EQUIVALENTS		
Increase (Decrease) during the year	**5,900**	2,604
Balance, beginning of year	**15,857**	13,253
Balance, end of year	**$ 21,757**	15,857
REPRESENTED BY:		
Cash	**$ 21,757**	10,236
Short-term investments	**-**	5,621
	$ 21,757	15,857

The notes are an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

AS AT DECEMEBER 31

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 make passenger rail the preferred way to move and connect people in Canada with a mission to offer a safe, attractive and stress-free travel experience, while consistently providing the best value for money. The Corporation uses the roadway infrastructure of other railway companies and relies on them to control train operations.

In December 2013, a directive was issued pursuant to sections 89.8 and 89.9 of the *Financial Administration Act* whereby the Corporation must obtain Treasury Board approval on its negotiating mandates with respect to collective agreements that expire in 2014 or later as well as the terms and conditions of employment of its non-unionized employees who are not appointed by Governor in Council.

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 March 13, 2014.

2. BASIS OF PREPARATION

A) STATEMENT OF COMPLIANCE

The Corporation's financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

B) BASIS OF MEASUREMENT

The financial statements have been prepared on the historical cost basis except when specific IFRS standard required fair values measurement as explained in the accounting policies below.

C) FUNCTIONAL AND PRESENTATION CURRENCY

These 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 corporate financial statements and rounded to the nearest million in the notes to the financial statements.

3. CHANGES IN ACCOUNTING POLICIES

The Corporation has applied IFRS 13 - Fair Value Measurement- prospectively for the first time in the current year. IFRS 13 establishes a single source of guidance for fair value measurement and disclosures about fair value measurements which were dispersed among various standards under previous IFRS.

The adoption of IFRS 13 did not require any adjustments to the valuation techniques used by the Corporation to measure fair value and did not result in any measurement adjustments. Only additional disclosure was necessary.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed by the Corporation are summarized as follows:

A) FUNDING FROM THE GOVERNMENT OF CANADA

Operating funding, which pertains to services, activities and other undertakings of the Corporation for the management and operation of railway passenger services in Canada, is recorded as a reduction of the operating loss (See Note 7 for reconciliation). The funding is determined on the basis of operating expenses less commercial revenues excluding unrealized gains and losses on financial instruments, non-cash employee benefits, non-cash transactions relating to property, plant and equipment, intangible assets and deferred taxes, and is based on the operating budget approved by the Government of Canada for each year.

Funding for depreciable property, plant and equipment and intangible assets is recorded as deferred capital funding on the statement of financial position and is amortized from the acquisition date on the same basis and over the same periods as the funded depreciable property, plant and equipment and intangible assets. Upon disposal of the funded depreciable property, plant and equipment and intangible assets, the Corporation recognizes into net income all remaining deferred capital funding related to the relevant assets.

Funding for non-depreciable property, plant and equipment is recorded as deferred capital funding on the statement of financial position and is amortized from the acquisition date on the same basis and over the same periods as the related depreciable property, plant and equipment.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT`D)

B) REVENUE RECOGNITION

The consideration received from the sale of tickets is allocated between the points attributed under the loyalty program (VIA Préférence) and the passenger transportation service based on their relative fair values. The revenue is recorded as deferred revenue until the transportation has been provided or in the case of the points until they are redeemed for train tickets. The deferred revenue related to the loyalty program points are recorded as revenue based on the number of points that have been redeemed in exchange for train tickets, relative to the total number of points that are expected to be redeemed in exchange for train tickets. Deferred revenue is also recorded as revenue when it is no longer considered probable that the related loyalty program points will be redeemed. Other revenues that include revenues from third parties and investment income are recorded as they are earned. The change in fair value of the financial instruments held for trading other than a derivative financial instrument is recorded in other revenues.

C) FOREIGN CURRENCY TRANSLATION

Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates in effect at the end of the reporting period. Gains and losses resulting from the changes in exchange rates are reflected in the Statement of Operations and Other Comprehensive Income.

Non-monetary statement of financial position items as well as foreign currency revenues and expenses are translated at the exchange rate in effect on the dates of the related transactions.

D) MATERIALS

Materials, consisting primarily of items used for the maintenance of rolling stock, are valued at the lower of weighted average cost and net realizable value.

E) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recorded at the acquisition or manufacturing cost, less accumulated depreciation and any accumulated impairment losses. When major components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment and are depreciated over their respective useful lives.

Maintenance and repair costs are recognized as follows:

i) Rolling stock:

Maintenance expenses incurred during the useful life of equipment (regular maintenance activities to maintain the asset in a good condition) are recorded as operating expenses.

The cost of periodic major overhaul programs are capitalized as a separate component and depreciated over their useful lives

ii) Fixed installations:

Maintenance and repair expenses (technical inspections, maintenance contracts, etc.) are recorded as operating expenses.

The costs of periodic major building repair programs are capitalized as a separate component and depreciated over its expected useful life.

Retired property, plant and equipment are written down to their estimated recoverable amount.

Depreciation of property, plant and equipment is calculated on a straight-line basis, from the date they are available for use, at rates sufficient to depreciate the cost of property, plant and equipment, less their residual value, over their estimated useful lives except for leasehold improvements related to the lease of buildings and stations where the depreciation period is the shorter of the lease term or its estimated useful life. The estimated useful lives are as follows:

	Years
Rolling stock	**10 to 50**
Maintenance buildings	**15 to 50**
Stations and facilities	**10 to 50**
Owned infrastructure	**10 to 50**
Leasehold improvements	**10 to 40**
Machinery and equipment	**5 to 15**
Computer hardware	**3 to 7**
Other property, plant and equipment	**15**

The estimated useful life, depreciation method and residual value are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. No depreciation is provided for projects in progress and retired property, plant and equipment.

F) INTANGIBLE ASSETS

Intangible assets acquired separately are reported at cost less accumulated amortization and accumulated impairment losses. Amortization is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

For internally-generated intangible assets, the expenditure on research activities is recognized as an expense in the year in which it is incurred and the development expense from the development phase of an internal project is recognized if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT`D)

The amount initially recognized for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognized, development expenditure is charged to net income in the year in which it is incurred.

The Corporation's intangible assets have a finite useful life and are amortized over their useful life according to the straight-line method over the following years:

	Years
Software	**3 to 5**
Rights of access to rail infrastructure	**38**
Other Intangible assets	**20 to 25**

G) IMPAIRMENT

The Corporation reviews at each statement of financial position date whether there is any indication (obsolescence, physical deterioration, significant changes in the method of utilisation, performances falling short of forecasts, decline in revenues, other external indicators) of impairment of tangible and intangible assets. If such an indication exists, the asset value is adjusted accordingly.

H) PROVISIONS

Provisions including provisions for environmental issues, legal litigation and restructuring are recognized when the Corporation has a present obligation (legal or constructive) as a result of a past event, it is probable that the Corporation will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the statement of financial position date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

A restructuring provision is recognized when the Corporation has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures, mainly severance costs, arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity. Restructuring costs presented in the Statement of Operations and Other Comprehensive Income primarily consist of employee departure costs.

The environmental provision includes estimated costs to meet Government standards and regulations when such costs can be reasonably estimated. Estimates of the anticipated future costs for remediation work are based on the Corporation's prior experience.

I) INCOME TAXES

The Corporation utilizes the asset and liability method of accounting for taxes under which deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amount and the tax basis of assets and liabilities. Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates that are expected to apply for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in earnings in the year that includes the enactment date. Deferred tax assets are recognized to the extent that realization is considered probable.

J) EMPLOYEE BENEFITS

i) Post-employment benefits

The Corporation accrues obligations under its post-employment benefit plans.

Post-employment benefits include post-retirement medical, dental and life insurance benefits as well as defined benefit pension plans.

The Corporation's obligations for the defined benefit pension plans is actuarially determined using the projected unit credit method and management's best estimate of the amount of future benefits earned in return for their service in the current and prior years. The present value of the defined benefit obligations are calculated using discount rates determined by reference to market yields at the end of the reporting period on high quality Canadian corporate bonds that have terms to maturity approximating the terms of the related defined benefit obligation.

The Corporation determines the net interest expense on the net defined benefit liability for the year by applying the discount rate used to measure the defined obligation at the beginning of the year to the net defined benefit liability.

The current service costs, the net interest cost on the net defined benefit liability, the gains and losses on curtailment or settlement and plan amendments are recognized in net results in the year they are incurred.

Remeasurement arising from defined benefit plans comprised of changes in demographic assumptions, changes in financial assumptions, the return on plan assets excluding amounts included in net interest on the net defined benefit liability are recognized in other comprehensive income in the year they are incurred.

The Corporation's obligations for the post-employment benefit plans, other than pension plans, are actuarially determined using the projected unit credit method. This method incorporates management's best estimate of cost escalation as well as demographic and other financial assumptions.

ii) Employment benefits other than post-employment benefits

The Corporation provides employment benefits other than post-employment benefits as follows:

- Compensation and short-term employee benefits include the annual salary, performance bonuses, paid vacations not included in the annual salary, short-term sick leave, health, dental and life insurance benefits. These benefits are measured on an undiscounted basis and are expensed as the related service is provided.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

- Long-term employee benefits include workers' compensation benefits as well as long-term disability benefits and continuation of benefit coverage for employees on long-term disability.

  The actuarial obligation for workers' compensation benefits is calculated on an event driven basis. The method involves dividing the obligation into two distinct components: awarded pensions and future awards. The actuarial obligation for awarded pensions is the actuarial present value of all future projected payments for the award determined as at the valuation date. The actuarial obligation for future awards is the discounted value of expected cash flow for awards yet to be made. The Corporation is self-insured for its workers' compensation benefits.

  The actuarial obligation for other long-term disability benefits and continuation of benefit coverage for employees on long-term disability is calculated on an event driven basis. This method incorporates management's best estimate of cost escalation as well as demographic and other financial assumptions. Any actuarial gains and losses and other changes in the Corporation's obligations are recognized in net income in the year in which they arise.

- Termination benefits include benefits that are payable when an employment contract is terminated before the normal retirement date. They are recognized as a liability and expense for termination benefits at the earlier of the following dates:

  a) when the entity can no longer withdraw the offer of those benefits; and

  b) when the entity recognizes costs for a restructuring (provision) and involves the payment of termination benefits.

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

K) FINANCIAL INSTRUMENTS

Financial assets and financial liabilities, including derivative financial instruments, are initially measured at fair value at the date they are originated. Subsequent to initial recognition, financial assets and financial liabilities are measured based on their classification: fair value through profit and loss, loans and receivables, available for sale or other financial liabilities. The Corporation derecognized a financial asset or liability when the contractual rights or obligation to the cash flows from the asset or liability expires.

i) Financial assets and liabilities at fair value through profit and loss (FVTPL)

Financial instruments are classified as FVTPL when they are principally acquired or incurred for the purpose of selling and repurchasing in the short-term, part of a portfolio of identified financial instruments that are managed together and for which there is evidence of short-term profit taking or derivatives not designated for hedge accounting. A financial instrument is classified at FVTPL if it is classified as held for trading or is designated as such upon initial recognition.

The Corporation has classified derivative financial instruments as FVTPL. Instruments in MAV notes that include embedded derivatives have been designated as FVTPL.

Financial assets and financial liabilities recorded at FVTPL are measured at fair value with changes in those fair values recognized in net income under "Other revenue", except for derivative financial instruments for which fair value changes are recorded under "Unrealized net loss (gain) on derivative financial instruments". Transaction costs are expensed as incurred. Regular-way purchases or sales of financial assets are accounted for at settlement-date.

ii) Loans and receivables (L&R)

The L&R classification includes trade receivables and other receivables that have fixed or determinable payments that are not quoted in an active market. Assets are measured initially at fair value and then at amortized cost, using the effective interest rate method, less any impairment. The fair values of loans and receivables are estimated on the basis of the present value of the expected cash flows. Where the time value of money is not material due to their short-term nature, accounts receivable are carried at the original invoice amount less allowance for doubtful receivables.

iii) Available-for-sale (AFS)

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the statement of financial position date. Short term investments and investments in the Asset Renewal Fund not designated as FVTPL have been classified as available for sale. AFS financial assets are recognized at fair value in subsequent years. Fluctuations in fair value between statements of financial position dates are recognized in other comprehensive income.

iv) Other financial liabilities

Other financial liabilities represent liabilities that are not classified as FVTPL. They are initially measured at fair value, net of transaction costs and subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis. Where the time value of money is not material due to their short-term nature, they are carried at the original invoice amount.

v) Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the assets have been affected.

An impairment loss is recognized in net income and calculated as the difference between its carrying amount and the present value of the estimated future cash flows.

When a subsequent event such as a change in the estimates used to determine the recoverable amount, causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through net income.

However, any subsequent recovery in the fair value of an impaired available-for-sale investment is recognized in other comprehensive income.

L) NON-MONETARY TRANSACTIONS

Non-monetary transactions are recorded at the estimated fair value of the goods or services received. When the fair value of the goods and services received cannot be measured reliably, the transactions are recorded at the estimated fair value of the goods or services given. Revenues from non-monetary transactions are recognized when the related services are rendered. Expenses resulting from non-monetary transactions are recognized during the year when goods or services are provided by third parties.

5. KEYS SOURCES OF ESTIMATION UNCERTAINTY AND CRITICAL JUDGMENTS

In the application of the Corporation accounting policies, management is required to make certain judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, 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 estimates are 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.

A) USEFUL LIVES OF DEPRECIABLE ASSETS

Management reviews the useful lives of depreciable assets annually. As at December 31, 2013 management assessed that the useful lives represent the expected utility of the assets to the Corporation. The Corporation's management also uses judgment in the determination of the components related to the Corporation's property, plant and equipment and intangibles assets.

B) *VIA PRÉFÉRENCE* PROGRAM

The "*Via Préférence*" program allows members to acquire "award points" as they travel on the train. These award points entitle members to free travel on our trains. In determining the fair value of the award points, the Corporation takes into consideration the probability of the awards being converted into tickets. The estimated probabilities are based on historical information on point redemption and may not reflect the actual redemption rate in the future. As such, the amount allocated between the transportation service and the award points may have been significantly different if different probability estimates had been used.

C) DEFINED BENEFIT LIABILITY

Measurement of pension obligation is based on the projected unit credit method for defined benefit pension plans. The measurement of pension provisions within the statement of financial position is based on a number of assumptions.

They include, in particular, assumptions about long-term salary and average life expectancy. The assumptions on salary reflect expected long-term growth in earnings whereas assumptions on average life expectancy are based on recognized mortality tables.

The interest rate used for discounting future payment obligations is the market rate for high quality corporate bonds with a comparable time to maturity.

D) INCOME TAXES

Management uses judgment and estimates in determining the appropriate rates and amounts in recording deferred income taxes, giving consideration to timing and probability of realization. Actual taxes could significantly vary from these estimates as a result of a variety of factors including future events, changes in income tax law or the outcome of reviews by tax authorities and related appeals. The corporation has not recognized any deferred tax assets on its deductible temporary differences and unused tax losses as it has determined that it is not probable that taxable profit will be available against which the deductible temporary differences and unused tax losses can be utilized. The resolution of these uncertainties and the associated final taxes may result in adjustments to the Corporation's deferred and current tax assets and liabilities.

E) MASTER ASSET VEHICLE (MAV) NOTES

In the absence of a truly liquid secondary market for MAV notes, management has developed a discounted cash flow valuation model to estimate their fair value. The valuation model incorporates assumptions for interest rates, required market yields and effective maturities, some of which are derived from observable market indicators. Management's judgment takes into account inputs such as credit risk exposures attributable to the underlying assets, prevailing interest rates in the relevant markets and the amounts receivable. There is an amount of uncertainty in estimating the amount and timing of cash flows associated with the MAV notes.

6. FUTURE ACCOUNTING CHANGES

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

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

IAS 36 – *Impairment of asset* – The standard was amended in May 2013 to provide additional disclosure on the measurement of the recoverable amount of impaired assets, particularly if that amount is based on the fair value less costs of disposal. These amendments are effective for annual reporting periods beginning on or after January 1, 2014 and should be applied retrospectively. Management is currently evaluating the impact of the amendments.

IAS 19 – *Employee Benefits (2011)* – On November 21, 2013, the IASB issued amendments to IAS 19, Employee Benefits, entitled "Amendments to IAS 19, Defined Benefit Plans: Employee Contributions". The amendments apply to contributions from employees or third parties to defined benefit plans. The objective of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. The date of application is July 1, 2014 with earlier application permitted. Management is currently evaluating the impact of the amendments.

7. RECONCILIATION OF OPERATING LOSS TO GOVERNMENT FUNDING

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

(IN MILLIONS OF DOLLARS)	2013	2012
Operating loss before funding from the Government of Canada and income taxes	**347.7**	334.8
Items requiring (providing) operating funds:		
Income tax expense (recovery)	**0.5**	-
Items not requiring (not providing) operating funds:		
Depreciation and amortization	**(72.5)**	(58.9)
Impairment and (loss) gain on disposal of property, plant and equipment and intangible assets	**(10.9)**	(23.8)
Post-employment and other employee benefits contributions in excess of expenses	**41.1**	27.2
Unrealized net gain (net loss) on derivative financial instruments	**2.1**	(1.4)
Adjustment for accrued compensation	**(0.6)**	0.7
Increase in investment's fair value	**0.5**	1.1
Other	**(0.3)**	(0.6)
Operating funding from the Government of Canada	**307.6**	279.1

8. MATERIALS

The cost of materials recorded as an expense during the year amounted to $25.4 million (December 2012: $25.8 million). The Corporation has no significant expense related to write-down of the value of its materials for 2013 and 2012.

9. PROPERTY, PLANT AND EQUIPMENT

(IN MILLIONS OF DOLLARS)	January 1, 2013	Additions	Disposals	Impairment losses	Transfers	December 31, 2013
Cost:						
Land	12.3	-	(0.2)	-	-	**12.1**
Rolling stock	849.1	-	(6.7)	(5.6)	34.9	**871.7**
Maintenance buildings	137.8	-	(1.8)	-	2.0	**138.0**
Stations and facilities	102.8	-	(1.4)	-	4.5	**105.9**
Owned infrastructures	176.8	-	(1.1)	-	5.5	**181.2**
Leasehold improvements	77.3	-	(9.1)	-	9.8	**78.0**
Machinery and equipment	33.9	-	(3.4)	-	0.6	**31.1**
Computer hardware	19.1	-	(3.2)	(0.1)	14.0	**29.8**
Other property, plant and equipment	20.9	-	(14.3)	-	1.6	**8.2**
Project in progress	80.8	77.0	-	-	(72.9)	**84.9**
Total cost	1,510.8	77.0	(41.2)	(5.7)	-	**1,540.9**
Accumulated depreciation:						
Rolling stock	394.6	29.8	(6.8)	-	-	**417.6**
Maintenance buildings	86.9	3.3	(1.1)	-	-	**89.1**
Stations and facilities	30.9	3.9	(1.3)	-	-	**33.5**
Owned infrastructures	54.2	5.5	(0.7)	-	-	**59.0**
Leasehold improvements	47.7	2.7	(5.2)	-	-	**45.2**
Machinery and equipment	25.4	1.2	(3.3)	-	-	**23.3**
Computer hardware	12.3	4.8	(3.2)	-	-	**13.9**
Other property, plant and equipment	18.5	0.3	(14.1)	-	-	**4.7**
Total accumulated depreciation	670.5	51.5	(35.7)	-	-	**686.3**
Total net carrying amount	840.3	25.5	(5.5)	(5.7)	-	**854.6**

9. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

(IN MILLIONS OF DOLLARS)	January 1, 2012	Additions	Disposals	Impairment losses	Transfers	December 31, 2012
Cost:						
Land	9.6	-	-	-	2.7	12.3
Rolling stock	823.4	-	(23.2)	(18.3)	67.2	849.1
Maintenance buildings	138.4	-	(0.6)	-	-	137.8
Stations and facilities	64.2	-	(1.8)	-	40.4	102.8
Owned infrastructures	164.6	-	(0.5)	(1.6)	14.3	176.8
Leasehold improvements	73.6	-	(4.3)	-	8.0	77.3
Machinery and equipment	36.2	-	(2.9)	-	0.6	33.9
Computer hardware	12.7	-	(0.9)	-	7.3	19.1
Other property, plant and equipment	22.5	-	(1.6)	-	-	20.9
Project in progress	126.3	95.0	-	-	(140.5)	80.8
Total cost	1,471.5	95.0	(35.8)	(19.9)	-	1,510.8
Accumulated depreciation:						
Rolling stock	386.5	28.3	(20.2)	-	-	394.6
Maintenance buildings	83.6	3.6	(0.3)	-	-	86.9
Stations and facilities	29.5	3.1	(1.7)	-	-	30.9
Owned infrastructures	51.4	4.9	(2.1)	-	-	54.2
Leasehold improvements	49.2	2.6	(4.1)	-	-	47.7
Machinery and equipment	27.1	1.3	(3.0)	-	-	25.4
Computer hardware	9.8	2.5	-	-	-	12.3
Other property, plant and equipment	19.6	0.3	(1.4)	-	-	18.5
Total accumulated depreciation	656.7	46.6	(32.8)	-	-	670.5
Retired assets	0.1	-	(0.1)	-	-	-
Total net carrying amount	814.9	48.4	(3.1)	(19.9)	-	840.3

Projects in progress primarily consist of rolling stock, improvements to infrastructure and stations. The projects in progress amount includes $16.7 million (December 31, 2012: $19.3 million) of materials used in the refurbishing of rail cars.

In April 2012, one of the Corporation's suppliers was placed in receivership by the Province of New-Brunswick. On October 1, 2012 the Court of Queen's Bench of New Brunswick issued an order that was favorable to the Corporation and settles all outstanding matters with respect to the completion of the remaining railcars in Moncton, New Brunswick as well as all on-going litigations related to the railcar refurbishment contracts. The Corporation has recorded an impairment of $5.6 million (December 31, 2012: $18.3 millions) in the Statement of Operations and Other Comprehensive Income under "Impairment and loss (gain) on disposal of property, plant and equipment and intangible assets". This amount consists of capital expenditures incurred that have no future benefits for the Corporation.

Also in relation with the above situation, the Corporation accounted for letters of credit in the amount of $10.5 million in 2012. This amount was recorded against the impairment described above.

10. INTANGIBLE ASSETS

(IN MILLIONS OF DOLLARS)	January 1, 2013	Additions	Disposals	Impairment losses	Transfers	December 31, 2013
Cost:						
Software	66.8	-	(3.5)	(0.2)	10.4	**73.5**
Right of access to rail infrastructure	409.4	-	-	-	6.0	**415.4**
Other intangible assets	3.8	-	-	-	0.3	**4.1**
Project in progress	21.5	19.2	-	-	(16.7)	**24.0**
Total cost	501.5	19.2	(3.5)	(0.2)	-	**517.0**
Accumulated amortization:						
Software	52.2	10.1	(2.9)	-	-	**59.4**
Right of access to rail infrastructure	49.3	10.9	-	-	-	**60.2**
Other intangible assets	1.6	-	(0.4)	-	-	**1.2**
Total accumulated amortization	103.1	21.0	(3.3)	-	-	**120.8**
Total net carrying amount	398.4	(1.8)	(0.2)	(0.2)	-	**396.2**

(IN MILLIONS OF DOLLARS)	January 1, 2012	Additions	Disposals	Impairment losses	Transfers	December 31, 2012
Cost:						
Software	54.3	-	(0.4)	(0.7)	13.6	66.8
Right of access to rail infrastructure	173.4	-	(2.3)	-	238.3	409.4
Other intangible assets	3.5	-	-	-	0.3	3.8
Project in progress	198.3	75.4	-	-	(252.2)	21.5
Total cost	429.5	75.4	(2.7)	(0.7)	-	501.5
Accumulated amortization:						
Software	46.9	6.4	(1.1)	-	-	52.2
Right of access to rail infrastructure	43.9	5.7	(0.3)	-	-	49.3
Other intangible assets	1.5	0.1	-	-	-	1.6
Total accumulated amortization	92.3	12.2	(1.4)	-	-	103.1
Total net carrying amount	337.2	63.2	(1.3)	(0.7)	-	398.4

11. ASSET RENEWAL FUND

A) ASSET RENEWAL FUND

The Corporation has been authorized by the Treasury Board of Canada Secretariat to set aside funds in a manner which ensures that these funds are retained for future capital projects. However, the Treasury Board of Canada Secretariat could approve the use of the Asset Renewal Fund to finance operating deficits.

The Treasury Board of Canada Secretariat has authorized the Corporation to use up to $12.2 million (December 31, 2012: $13.2 million) of the Asset Renewal Fund to meet future working capital requirements. This amount is presented in the current portion of the Asset Renewal Fund.

The investments in the Asset Renewal Fund include the following:

	2013	2012
(IN MILLIONS OF DOLLARS)	Carrying Value and Fair Value	Carrying Value and Fair Value
Bankers' acceptances	**6.2**	7.8
Provincial Treasury bills and /or promissory notes	**0.4**	2.2
Master Asset Vehicle (MAV) notes	**6.2**	5.7
Balance at end of year	**12.8**	15.7
Less: Current portion	**12.2**	13.2
Non-current portion	**0.6**	2.5

The weighted average effective rate of return on short-term investments excluding MAV notes as at December 31, 2013 was 1.1 per cent (December 31, 2012: 1.13 per cent). The weighted average term to maturity excluding MAV notes as at December 31, 2013 is two months (December 31, 2012: three months).

The fair value of short-term investments is based on the current closing price at the statement of financial position date, except for the MAV notes as described in Note 11 C).

Apart from the MAV notes, the Asset Renewal Fund is invested in 8 short-term instruments (December 31, 2012: 13) that have a rating of "R-1 low" or higher. Diversification in the short-term instruments is achieved by limiting to 10 per cent or less the percentage of the market value of the Asset Renewal Fund assets invested in instruments of a single issuer.

The Corporation is subject to credit risk from its holdings in the Asset Renewal Fund. The Corporation minimizes its credit risk by adhering to the *Minister of Finance of Canada Financial Risk Management Guidelines for Crown Corporations* and to the Corporation's Asset Renewal Fund Investment Policy, which requires that funds be invested in high quality financial instruments.

B) CHANGES IN THE ASSET RENEWAL FUND

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

(IN MILLIONS OF DOLLARS)	2013	2012
Balance at beginning of the year	**15.7**	33.9
Proceeds from sale or lease of surplus assets	**-**	1.2
Investment Income	**0.2**	0.4
Change in fair value	**0.5**	1.0
Less: Cash drawdown during the year [1]	**(3.6)**	(20.8)
Balance at end of the year	**12.8**	15.7

(1) Authorized cash drawdowns were used to fund capital projects and previous years' operating deficits.

C) MASTER ASSET VEHICLE (MAV) NOTES

On January 12, 2009, the Ontario Superior Court issued the final implementation order in the Asset Backed Commercial Paper (ABCP) restructuring process. The restructuring closed on January 21, 2009. On this date, the Corporation received $8.6 million in face value of restructured long-term amortizing floating rate notes in exchange for $8.7 million face value of original ABCP held previously that had been illiquid since the market disruptions of August 2007.

The new notes, now referred to as Master Asset Vehicle (MAV) notes, have legal maturities of 2056, while their expected maturities are 2016/2017, and have remained somewhat illiquid since issued. Since the restructuring, $1.5 million of capital was received and a $0.3 million notional loss was recognized, leaving an outstanding face value as at December 31, 2013 of $6.8 million (December 31, 2012: $6.8 million). The estimated fair value of the outstanding notes is $6.2 million as at December 31, 2013 (December 31, 2012: $5.7 million) representing 91 per cent of their face value.

12. TRADE AND OTHER PAYABLES

The Accounts payable and accrued liabilities balance includes the following:

(IN MILLIONS OF DOLLARS)	2013	2012
Wages payable and accrued	**36.7**	34.6
Capital Payables	**19.8**	33.2
Trade payables	**28.0**	27.1
Capital tax, income tax and other taxes payable	**5.5**	7.4
Other	**0.2**	0.7
	90.2	103.0

13. PROVISIONS

The provision balance includes:

(IN MILLIONS OF DOLLARS)	January 1, 2013	Charge (used)	Reversal (used)	Reversal (not used)	Other movements	December 31, 2013
Environmental costs (NOTE A)	**1.1**	0.3	(0.3)	-	-	**1.1**
Litigation and equipment repairs (NOTE B)	**9.5**	4.2	(0.8)	(1.1)	-	**11.8**
Restructuring costs	**1.1**	-	(0.8)	-	-	**0.3**
Other	**0.8**	-	-	-	(0.8)	**-**
Total provisions	**12.5**	4.5	(1.9)	(1.1)	(0.8)	**13.2**

(IN MILLIONS OF DOLLARS)	January 1, 2012	Charge (used)	Reversal (used)	Reversal (not used)	Other movements	December 31, 2012
Environmental costs (NOTE A)	**0.2**	1.1	-	(0.2)	-	**1.1**
Litigation and equipment repairs (NOTE B)	**14.5**	5.6	(5.3)	(5.3)	-	**9.5**
Restructuring costs	**3.0**	-	(1.2)	(0.7)	-	**1.1**
Other	**0.4**	0.4	-	-	-	**0.8**
Total provisions	**18.1**	7.1	(6.5)	(6.2)	-	**12.5**

A) ENVIRONMENTAL COSTS

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

B) LITIGATION AND EQUIPMENT REPAIRS

The Corporation is subject to claims and legal proceedings brought against it in the normal course of business. Also, the Corporation incurs equipment repair costs as a result of crossing accidents and other incidents causing damages to rolling stock. Such matters are subject to many uncertainties. Management believes that adequate provisions for litigation and equipment repairs have been made in the accounts where required and the ultimate resolution of those matters is not expected to have a material adverse effect on the financial position of the Corporation.

14. POST-EMPLOYMENT AND OTHER EMPLOYEE BENEFITS

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

Defined Benefit 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. Participants contribute a fixed percentage of their earnings to the Pension Plan while the sponsor 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.

The defined benefit pension plans are based on years of service and average salary of the employee's best five consecutive calendar years up to retirement.

Pension 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.

The actuarial valuations of the various employee benefit plans are as follows:

	Actuarial Valuation	
EMPLOYEE BENEFIT PLANS	Latest valuation	Next valuation
Pension Plans	December 31, 2012	**December 31, 2013**
Supplemental Executive Retirement Plan	December 31, 2013	**December 31, 2014**
Supplemental Retirement Plan for management employees (SRP), with respect to active members	December 31, 2012	**December 31, 2013**
Supplemental Retirement Plan for management employees (SRP), with respect to retired members	December 31, 2013	**December 31, 2014**
Post-employment unfunded plan	May 1, 2013	**May 1, 2016**
Self-insured Workers' Compensation	December 31, 2012	**December 31, 2015**
Long-term employee benefits plans, other than "Self-insured Workers' Compensation"	December 31, 2012	**December 31, 2014**

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

A) PENSION PLANS AND POST-EMPLOYMENT BENEFITS PLANS

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

(IN MILLIONS OF DOLLARS)	Pension Plans 2013	Pension Plans 2012	Post-employment Benefit Plans 2013	Post-employment Benefit Plans 2012
DEFINED BENEFIT OBLIGATION:				
Balance at beginning of the year	**2,078.0**	1,860.6	**19.1**	16.9
Service cost	**30.0**	23.4	**0.5**	0.4
Interest expense	**81.9**	84.1	**0.8**	0.8
Employee contributions	**10.9**	10.1	**-**	-
Benefits paid	**(97.1)**	(97.0)	**(0.5)**	(0.5)
Effect of change in demographic assumptions	**32.9**	-	**(0.6)**	-
Effect of change in financial assumptions	**(248.5)**	170.4	**(2.4)**	1.6
Effect of employee transfers	**8.3**	26.4	**-**	-
Effect of experience adjustments	**28.9**	-	**(0.6)**	(0.1)
Balance at end of the year	**1,925.3**	2,078.0	**16.3**	19.1
FAIR VALUE OF PLAN ASSETS:				
Balance at beginning of the year	**1,735.0**	1,586.1	**-**	-
Interest Income	**67.7**	70.6	**-**	-
Return on plan assets (excluding interest income)	**113.2**	70.7	**-**	-
Employer contributions	**87.9**	70.2	**0.5**	0.5
Employee contributions	**10.9**	10.1	**-**	-
Benefits paid	**(97.1)**	(97.0)	**(0.5)**	(0.5)
Effect of employee transfers	**8.3**	26.4	**-**	-
Administration expenses	**(2.0)**	(2.1)	**-**	-
Balance at end of the year	**1,923.9**	1,735.0	**-**	-
Net Defined benefit liability	**(1.4)**	(343.0)	**(16.3)**	(19.1)

The percentages of the fair value of the total pension plan assets by major category are as follows:

ASSET CATEGORIES	2013 Quoted market price in an active market	2013 Not quoted market price in an active market	2012 Quoted market price in an active market	2012 Not quoted market price in an active market
Cash and short-term notes	**0.1%**	0.2%	**0.3%**	0.2%
Equity securities	**29.3%**	-	**27.9%**	0.2%
Fixed income securities	**-**	26.7%*	**-**	29.5%*
Mutual fund units	**7.0%**	36.7%*	**2.4 %**	39.5%*
	36.4%	63.6%	**30.6%**	69.4%

*The fair value of the majority of the above fixed income and mutual fund instruments is determined based on quoted market prices in active markets.

Expected employer contribution for the next year:

(IN MILLIONS OF DOLLARS)	Pension Plans 2014	Post-employment Benefit Plans 2014
Expected employer contribution for the next year:	**100.0**	**0.6**

The weighted average duration of the defined benefit obligation is 14.2 years (December 31, 2012: 15.1 years).

	Pension Plans		Post-employment Benefit Plans	
	2013	2012	2013	2012
WEIGHTED-AVERAGE OF SIGNIFICANT FINANCIAL ASSUMPTIONS:				
Defined benefit obligation:				
Discount rate	**4.80%**	3.90%	**4.90%**	4.00%
Rate of salary increase	**3.00% - 3.25%**	3.00% - 3.25%	**3.25%**	3.25%
Initial weighted average health care trend rate	**-**	-	**6.09%**	7.01%
Ultimate weighted average health care trend rate	**-**	-	**4.26%**	4.32%
Year ultimate rate reached	**-**	-	**2029**	2025
Rate of price inflation	**2.25%**	2.25%	**-**	-
Rate of pension increase	**1.13%**	1.13%	**-**	-
Defined benefit cost:				
Discount rate	**3.90%**	4.50%	**4.00%**	4.50%
Rate of price inflation	**2.25%**	2.25%	**-**	-
Rate of salary increase	**3.00% - 3.25%**	3.00% - 3.25%	**3.25%***	3.25%*
Rate of pension increase	**1.13%**	1.13%	**-**	-
Initial weighted average health care trend rate	**-**	-	**7.01%**	7.31%
Ultimate weighted average health care trend rate	**-**	-	**4.32%**	4.33%
Year ultimate rate reached	**-**	-	**2025**	2025
SIGNIFICANT DEMOGRAPHIC ASSUMPTIONS:				
Defined benefit Obligation:				
Post retirement mortality tables	**100% of UP94 generational for unionized plan and 90% of UP94 generational for non-unionized plans. 150% of AA scale for all plans.**	UP94 generational scale AA	**100% of UP94 generational for unionized plan and 90% of UP94 generational for non-unionized plans. 150% of AA scale for all plans.**	UP94 generational
Defined benefit cost:				
Post retirement mortality tables	**UP94 generational scale AA**	UP94 generational scale AA	**UP94 generational**	UP94 generational

*Applicable to executive employees only.

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

Risk associated with defined benefit plans

The major risk associated with the pension plans is the funding risk, which is the risk that the investment asset growth and the contributions to the pension plans will not be sufficient to cover the pension obligations, resulting in unfunded liabilities.

The funding risk is linked to the following risks: investment risk, interest rate risk, longevity risk, salary risk and inflation risk.

Investment risk: The present value of the defined benefit plan liability is calculated using a discount rate determined by reference to high quality corporate bond yields; if the return on plan asset is below this rate, it will create a plan deficit. Consequently, the corporation has adopted a conservative investment policy which is overseen by the investment committee of the board.

Interest rate risk: A decrease in the bond interest rate will increase the plan liability; however, due to a liability alignment investment policy, this will be partially offset by an increase in value on the plan's debt investments.

Longevity risk: The present value of the defined plan liability is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the plan's liability.

Salary risk: The present value of the defined benefit plan liability is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the plan's liability.

Inflation risk: A significant proportion of the defined benefit liability is linked to inflation. An increase in the inflation rate will increase the Corporation's liability. A portion of the plan assets are in real returns bonds which will mitigate some of the effects of inflation.

Sensitivity analysis

The Corporation has reviewed the assumptions used in the actuarial calculations and has identified the following assumptions as those that could result in a significant impact on the defined benefit obligation:

(IN MILLIONS OF DOLLARS)	Defined Benefit Obligation Increase / (decrease) 2013	2012
Pension Plans:		
Inflation Rates		
Increase of 25 basis points	**33.2**	38.5
Decrease of 25 basis points	**(31.8)**	(37.4)
Discount Rates		
Increase of 25 basis points	**(63.2)**	(74.3)
Decrease of 25 basis points	**67.2**	78.6
Salary increase Rates		
Increase of 25 basis points	**7.0**	9.0
Decrease of 25 basis points	**(6.8)**	(8.8)
Mortality tables		
1 year younger	**44.1**	57.4
1 year older	**(44.3)**	(57.7)
Post-employment benefits Plans:		
Discount Rates	**-**	-
Increase of 25 basis points	**(0.6)**	(0.8)
Decrease of 25 basis points	**0.6**	0.8

In the sensitivity analysis presented above, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same method as the one applied in calculating the defined benefit obligation recognised in the statement of financial position.

There was no change in the methods and assumptions used in preparing the sensitivity analysis from prior years.

Asset-liability matching strategies

The Corporation reassesses the Pension Plans investment policy and asset mix positioning annually to take into account changes in plan demographics, the investment environment, the financial circumstances of the Plans and of the sponsor as well as changes in risk tolerance. Every few years or when significant changes in circumstances warrant it, the Corporation will conduct a more complete Asset Liability modelling exercise to determine an optimal investment policy asset mix.

The most recent investment policy reviews have led to the progressive implementation of liability matching asset mix shifts that seek to increase the plans assets sensitivity to interest rates as yields on long term bonds increase and secondly to decrease the plans exposure to equity market volatility via a greater allocation to more income based alternative investments such as real estate and infrastructure that exhibit some degree of interest rate sensitivity akin to pension liabilities. The resulting benefit of these measures is expected to achieve a lower volatility of required funding while preserving ongoing funding costs at an acceptable level.

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

B) LONG-TERM EMPLOYEE BENEFIT PLANS

Based on these actuarial valuations and projections to December 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 DOLLARS)	2013	2012
LONG-TERM EMPLOYEE BENEFIT OBLIGATION:		
Balance at beginning of the year	**22.0**	22.2
Service cost	**5.4**	5.3
Interest expense	**0.8**	0.9
Benefits paid	**(5.8)**	(6.2)
Effect of change in demographic assumptions	**0.8**	(0.6)
Effect of change in financial assumptions	**(0.2)**	0.4
Effect of experience adjustments	**0.8**	-
Balance at end of the year	**23.8**	22.0
FAIR VALUE OF PLAN ASSETS:		
Balance at beginning of the year	**-**	-
Employer contributions	**5.8**	6.2
Benefits paid	**(5.8)**	(6.2)
Balance at end of the year	**-**	-
Net long-term employee benefit liability	**(23.8)**	(22.0)

Expected employer contribution for the next year:

(IN MILLIONS OF DOLLARS)	2014
Expected employer contribution for the next year	**6.4**

Weighted-average of significant assumptions:

	2013	2012
LONG-TERM EMPLOYEE BENEFIT OBLIGATION:		
Discount rate	**3.90%**	3.20%
Rate of salary increase	**3.00% - 3.25%**	3.00% - 3.25%
Initial weighted average health care trend rate	**5.40%**	5.85%
Ultimate weighted average health care trend rate	**3.78%**	3.93%
Rate of price inflation	**2.25%**	2.25%
Mortality tables	**90% of WC 1996-2000 mortality table projected to 2010 for workers' compensation and 2009 CIA study for Other employment benefits**	WC 1996-2000 mortality table projected to 2009 for workers' compensation and 2009 CIA study for Other employment benefits
LONG-TERM EMPLOYEE BENEFIT COST:		
Discount rate	**3.20%**	3.75%
Rate of salary increase	**3.00% - 3.25%**	3.00% - 3.25%
Initial weighted average health care trend rate	**5.85%**	5.95%
Ultimate weighted average health care trend rate	**3.93%**	3.93%
Rate of price inflation	**2.25%**	2.25%
Mortality tables	**WC 1996-2000 mortality table projected to 2009 for workers' compensation and 2009 CIA study for Other employment benefits**	WC 1996-2000 mortality table projected to 2009 for workers' compensation and 2009 CIA study for Other employment benefits

Sensitivity analysis

The Corporation has reviewed the assumptions used in the actuarial calculations and has identified the following assumption that could result in a significant impact on the long-term employee benefit obligation:

	Long-term employee benefit obligation Increase / (decrease)	
(IN MILLIONS OF DOLLARS)	2013	2012
Discount Rates		
Increase of 25 basis points	**(0.4)**	(0.3)
Decrease of 25 basis points	**0.4**	0.4

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

C) OTHER LONG-TERM EMPLOYEE BENEFITS

Other long-term employee benefits include job security benefits administered by various union agreements. These benefits are calculated on an event driven basis and represent management's best estimates of the present value of all future projected payments to unionized employees. The change in the other long-term employee benefit obligation is explained as follows:

(IN MILLIONS OF DOLLARS)	2013	2012
OTHER LONG-TERM EMPLOYEE BENEFIT OBLIGATION:		
Balance at beginning of the year	**4.2**	0.7
Service cost	**(0.6)**	4.4
Benefits paid	**(1.4)**	(0.9)
Balance at end of the year	**2.2**	4.2
FAIR VALUE OF PLAN ASSETS:		
Balance at beginning of the year	**-**	-
Employer contributions	**1.4**	0.9
Benefits paid	**(1.4)**	(0.9)
Balance at end of the year	**-**	-
Net long-term employee benefit liability	**(2.2)**	(4.2)

D) SUMMARY OF PENSIONS 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 DOLLARS)	2013	2012
Liabilities:		
Pension Plans	**(1.4)**	(343.0)
Post-employment benefit plans	**(16.3)**	(19.1)
Long-term employee benefit plans	**(23.8)**	(22.0)
Other long-term employee benefits	**(2.2)**	(4.2)
Total	**(43.7)**	(388.3)

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

(IN MILLIONS OF DOLLARS)	2013	2012
Operating expense:		
Pension Plans	**46.2**	39.0
Post-employment benefit plans	**1.3**	1.2
Long-term employee benefit plans	**7.6**	6.0
Other long-term employee benefits	**(0.6)**	4.4
Total	**54.5**	50.6

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

(IN MILLIONS OF DOLLARS)	2013	2012
Other comprehensive income (loss):		
Pension Plans	**299.9**	(99.7)
Post-employment benefit plans	**3.6**	(1.5)
Total	**303.5**	(101.2)

15. INCOME TAXES

The income tax expense (recovery) of the Corporation consists of the following:

(IN MILLIONS OF DOLLARS)	2013	2012
Current income tax expense (recovery)	**0.5**	-
Deferred income tax expense (recovery)	**-**	-
Income tax expense (recovery)	**0.5**	-

The overall income tax expense (recovery) for the year differs from the amount that would be computed by applying the combined Federal and provincial statutory income tax rates of 24.36% (December 2012: 24.37%) to income before taxes. The reasons for the differences are as follows:

(IN MILLIONS OF DOLLARS)	2013	2012
Net Income before income taxes	**42.3**	26.4
Computed income tax expense (recovery) - statutory rates	**10.3**	6.4
Large corporation tax and corporate minimum tax	**0.4**	-
Non-taxable portion of capital and accounting gains and other	**-**	(0.4)
Effect of (decrease) increase in unrecognized tax attributes	**(10.1)**	(2.8)
Effect of tax rate changes on deferred income taxes	**(0.1)**	(3.2)
Income tax expense (recovery)	**0.5**	-

15. INCOME TAXES (CONT'D)

Deferred income tax reflects the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Significant components of the deferred income tax assets and (liabilities) of the Corporation are as follows:

Deferred income tax balances – December 31, 2013

(IN MILLIONS OF DOLLARS)	Opening Balance	Recognized in net income	Closing Balance
Deferred income tax assets (liabilities):			
Unrealized loss on derivative financial instruments	-	(0.4)	**(0.4)**
Loss carry-forward	-	0.4	**0.4**
Deferred income tax assets (liabilities)	-	-	**-**

Deferred income tax balances – December 31, 2012

(IN MILLIONS OF DOLLARS)	Opening Balance	Recognized in net income	Closing Balance
Deferred income tax assets (liabilities):			
Unrealized loss on derivative financial instruments	(0.3)	0.3	-
Loss carry-forward	0.3	(0.3)	-
Deferred income tax assets (liabilities)	-	-	-

The Corporation has $57.1 million (December 31, 2012: $55.9 million) of unused Québec and $54.7 million (December 31, 2012: $53.5 million) of unused Federal non-capital tax losses carried forward and expiring between 2029 and 2033.

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

(IN MILLIONS OF DOLLARS)	2013	2012
Federal:		
Property, plant and equipment	**83.0**	81.4
Contingencies, other liabilities and net amounts	**17.0**	21.0
Defined benefit liability	**48.7**	384.2
Losses carry forward	**52.9**	53.5
	201.6	540.1
Québec:		
Property, plant and equipment	**464.6**	463.0
Contingencies, other liabilities and net amounts	**16.4**	21.0
Defined benefit liability	**48.7**	384.2
Losses carry forward	**55.4**	55.9
	585.1	924.1

16. DEFERRED CAPITAL FUNDING

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

(IN MILLIONS OF DOLLARS)	2013	2012
Balance, beginning of the year	**1,229.0**	1,143.8
Government funding for property, plant and equipment and intangible assets (including the cost of land)	**90.8**	167.2
Amortization of deferred capital funding	**(82.4)**	(82.0)
Balance, end of the year	**1,237.4**	1,229.0

17. DEFERRED REVENUE

Deferred revenue is comprised of the following:

(IN MILLIONS OF DOLLARS)	2013	2012
Advanced ticket sales	**11.1**	9.4
Gift cards	**2.7**	2.5
Non-monetary transactions	**2.3**	1.6
VIA Préférence (1)	**14.0**	13.6
Other	**0.7**	0.3
Total deferred revenue	**30.8**	27.4

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

18. CAPITAL

The authorized share capital of the Corporation is comprised of an unlimited number of common shares with no par value. For all years presented, 93,000 shares at $100 per share are issued and fully paid.

The Corporation defines its capital as share capital and retained earnings and is regulated by the Financial Administration Act. The Corporation is not allowed to modify its capital structure without Government approval. The Corporation must obtain Government approval to issue debt instruments. Accordingly, the Corporation does not have access to external financing and does not have a flexible capital structure.

The Corporation manages its equity by prudently managing revenues, expenses, assets, liabilities, investments and general financial dealings to ensure that the Corporation effectively achieves its objectives and purpose while remaining a going concern. The Corporation did not change the way it manages its equity compared to last year.

19. COMMITMENTS

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

In 2013, an amount of $13.9 million (December 31, 2012: $13.6 million) was recognized as an expense related to facilities operating leases. All operating leases have a cancellation option.

b) As at December 31, 2013, the Corporation has outstanding major contract commitments amounting to $42.1 million (December 31, 2012: $45.5 million) consisting mainly for the completion of rolling stock refurbishment and infrastructure improvement projects.

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

d) The Corporation has provided letters of credit from a banking institution totalling approximately $28.5 million (December 31, 2012: $28.4 million) to various provincial government workers' compensation boards as security for future payment streams.

20. FINANCIAL INSTRUMENTS

A) CLASSIFICATION OF FINANCIAL INSTRUMENTS

The financial instruments held by the Corporation are classified as follows:

	2013 Carrying Value			2012 Carrying Value		
(IN MILLIONS OF DOLLARS)	FVTPL	AFS	L&R	FVTPL	AFS	L&R
Financial Assets:						
Cash equivalents	**-**	**-**	**-**	-	5.6[3]	-
Accounts receivables and other receivables	**-**	**-**	**5.5**[1]	-	-	6.4[1]
Derivative financial instruments	**1.7**[2]	**-**	**-**	0.8[2]	-	-
Asset Renewal Fund – MAV notes	**6.2**	**-**	**-**	5.7	-	-
Asset Renewal Fund – Other investments	**-**	**6.6**[3]	**-**	-	10.0[3]	-
		FVTPL	Other liability		FVTPL	Other liability
Financial Liabilities:						
Trade and other payables		**-**	**83.9**[4]		-	94.3[4]
Derivative financial instruments		**-**	**-**		1.2[2]	-

FVTPL – Fair Value through profit and losses
AFS – Available for sale
L&R – Loans and receivables
(1) Comprised of trade receivables.
(2) Comprised of derivative financial instruments not designated in a hedge relationship.
(3) Comprised of short-term investments.
(4) Comprised of trade accounts payable, accrued liabilities and accrued wages.

B) FAIR VALUE

Financial assets and financial liabilities measured at fair value in the statement of financial position are grouped into three Levels of a fair value hierarchy. The three levels are defined based on the observability of significant inputs to the measurement as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for asset or liability, either directly or indirectly.

Level 3 – Unobservable inputs for the asset or liability.

The following table summarizes the financial asset and financial liabilities held by the Corporation measured at fair value at the end of each reporting period. The table also discloses information about how the fair value of these financial assets and financial liabilities are determined and their fair value hierarchy:

Financial assets/financial liabilities	Fair value hierarchy	Valuation technique(s)	Significant unobservable inputs	Relationship unobservable inputs to fair value
Cash equivalents	Level 1	Quoted bid prices in an active market	N/A	N/A
Asset Renewal Fund – MAV notes	Level 3	Discounted cash flow	Expected term to maturity based on management's experience and knowledge of the market of 2.8 years (2012: 3.8 years.) (1)	The longer the term is, the lower the fair value
Asset Renewal Fund – Other investments	Level 1	Quoted bid prices in an active market	N/A	N/A
Derivative financial instruments – forward foreign exchange contracts	Level 2	Discounted cash flow. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rate at the end of the reporting period) and forward contract rates, discounted at a market rate that reflects the credit risk of various counterparties	N/A	N/A
Derivative financial instruments – commodity swaps	Level 2	Discounted cash flow. Future cash flows are estimated based on commodity swap price (from observable commodity market price at the end of the reporting period) and contract commodity swap price, discounted at a market rate that reflects the credit risk of various counterparties.	N/A	N/A

(1) A change in this assumption would not have a significant impact on the fair value of the MAV notes.

There have been no significant transfers between Level 1 and Level 2 during the year.

There has been no change in the valuation techniques from the prior year.

20. FINANCIAL INSTRUMENTS (CONT'D)

The following table summarizes the financial asset and financial liabilities held by the Corporation that are not measured at fair value on a recurring basis and their fair value hierarchy:

	2013	2012
Assets:		
Account receivables and other receivables	**Level 2**	Level 2
Liabilities:		
Trade and other payables	**Level 2**	Level 2

The fair values of the financial assets and financial liabilities included in the level 2 category above have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflect the credit risk counterparties. However, where the time value of money is not material due to their short-term nature, they are carried at the original invoiced amount less required adjustment.

The table below presents a reconciliation of all financial assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

(IN MILLIONS OF DOLLARS)	2013	2012
Asset Renewal Fund – MAV notes:		
Opening balance	**5.7**	5.0
Total gains in "Other revenues"(1)	**0.5**	1.1
Sales	**-**	(0.4)
Closing balance	**6.2**	5.7

(1) The total gains for the year include an unrealized gain of $0.5 million relating to MAV notes still held at the end of the reporting period (December 31, 2012: $1.0 million). The unrealized gain is recorded in "Other revenues".

C) RISK MANAGEMENT

As part of its operations, the Corporation enters into transactions with financial risks exposure such as credit, liquidity and market risks. Exposure to such risks is significantly reduced through close monitoring and strategies that include the use of derivative financial instruments.

Derivative financial instruments such as swaps and certain forward foreign exchange contracts are utilized by the Corporation in the management of its exposure to changes in fuel prices and the value of the U.S. dollar. Commodity swaps are used to manage its exposure to fuel prices on at least 50 per cent and up to 80 per cent of its fuel consumption.

The Corporation does not enter into derivative financial instruments for trading or speculative purposes. The Corporation does not currently apply hedge accounting on these derivative financial instruments.

D) FOREIGN EXCHANGE RISK

The Corporation is exposed to foreign exchange risks on the following balances that are denominated in U.S. dollars (USD):

(IN MILLIONS OF DOLLARS)	2013	2012
Assets:		
Derivative financial instruments	**1.7**	0.8
Liabilities:		
Trade and other payables	-	0.8
Derivative financial instruments	-	1.2

The Corporation's risk management objective is to reduce cash flow risk related to foreign denominated cash flows. To help manage this risk, the Corporation has entered into forward foreign exchange contracts related to commodity swaps.

A variance of 5% in the exchange rate of USD would not have a significant impact on the Corporation's net income.

E) CREDIT RISK

Credit risk is the risk that one party to a financial instrument might not meet its obligations under the terms and conditions of the agreement. The carrying amount of financial assets is $41.7 million (December 31, 2012: $38.8 million) and represents the Corporation's maximum exposure to credit risk. The Corporation does not use credit derivatives or similar instruments to mitigate this risk and, as such, the maximum exposure is the full carrying value or face value of its financial assets. The Corporation minimizes credit risk on cash and cash equivalents, investments, Asset Renewal Fund and derivative financial instruments by dealing only with reputable and high quality financial institutions. The Corporation's exposure to credit risks on trade accounts receivable is reduced by applying a credit policy that establishes limits on the concentration of risk, requires assessing and monitoring of counterparty credit risk and sets credit limits. Only Canadian Government departments and agencies, Crown corporations issuing government travel warrants and travel agents who are members of the International Air Transport Association (Billing and Settlement Plan /Airline Reporting Corporation) are exempt from the Corporation's credit approval process.

As at December 31, 2013, approximately 16.0% (December 31, 2012: 18.7%) of trade accounts receivable were over 90 days past due, while approximately 76.0% (December 31, 2012: 70.3%) of trade accounts receivable were current (under 30 days).

As at December 31, 2013, the allowance for bad debt was $ 0.8 million (December 31, 2012: $2.0 million). The allowance for bad debt is based on an account by account analysis that considers the aging of the account and the current credit-worthiness of the customer.

F) FUEL PRICE RISK

In order to manage its exposure to changes in fuel prices and minimize volatility in operating cash flows, the Corporation enters into derivative contracts with financial intermediaries based on the price of a commodity (i.e. heating oil) or a market index. A fluctuation of 10% in the USD price of heating oil or fuel would not have a significant impact on the financial statements.

20. FINANCIAL INSTRUMENTS (CONT'D)

G) LIQUIDITY RISK

The Corporation manages its liquidity risk by preparing and monitoring detailed forecasts of cash flows from operations and anticipated investing and funding activities. The liquidity risk is low since the Corporation does not have debt instruments to service and receives regular funding from the Government of Canada.

The reported financial liabilities in item a) above totaling $83.9 million (December 31, 2012: $95.5 million) represent the maximum liquidity risk exposure for the Corporation.

The following table summarizes the contractual maturities for the derivative and non-derivative financial liabilities as at December 31, 2013:

(IN MILLIONS OF DOLLARS)	Less than 3 months	3 to 6 months	6 months to 1 year	1 to 2 years	Over 2 years	Total
Trade and other payables	75.7	0.3	5.6	0.2	2.1	**83.9**

The following table summarizes the contractual maturities for the derivative and non-derivative financial liabilities as at December 31, 2012:

(IN MILLIONS OF DOLLARS)	Less than 3 months	3 to 6 months	6 months to 1 year	1 to 2 years	Over 2 years	Total
Trade and other payables	92.3	2.0	-	-	-	94.3
Derivative financial liabilities	0.2	0.2	0.5	0.2	0.1	1.2

H) INTEREST RATE RISK

Interest rate risk is defined as the Corporation's exposure to a loss of earnings or a loss in the value of its financial instruments as a result of fluctuations in interest rates. The Corporation is exposed to interest rate risk associated with cash equivalents and the Asset Renewal Fund for a total of $12.8 million (December 31, 2012: $21.3 million). A variation of 100bps in the interest rates would affect the investment income but would not have a significant impact on the financial statements.

21. 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 year, the fair value of the derivative financial instruments is as follows:

	2013		2012	
COMMODITY SWAP	Notional Quantity (000's of U.S. Gallons)	Fair Value CAD (000's)	Notional Quantity (000's of U.S. Gallons)	Fair Value CAD (000's)
Assets	**9,072**	913	**5,796**	495
Liabilities	**-**	-	**6,048**	563

As at December 31, 2013, the commodity swaps have a fixed price per U.S. gallon in USD between 2.825 and 2.990 (December 31, 2012: between 2.309 and 3.124) and the maturity dates are 2014 to 2015 (December 31, 2012: 2013 to 2014). These financial instruments have a monthly settlement schedule.

FORWARD FOREIGN EXCHANGE CONTRACTS	2013		2012	
	Notional Amount (USD) (000's)	Fair Value CAD (000's)	Notional Amount (USD) (000's)	Fair Value CAD (000's)
Assets	**26,227**	820	11,132	276
Liabilities	**-**	-	16,081	594

As at December 31, 2013, the forward contracts rates are between 1.001 and 1.062 (December 31, 2012: between 0.980 and 1.041) in US dollars and the maturity dates are 2014 to 2015 (December 31, 2012: 2013 to 2014). These financial instruments have a monthly settlement schedule.

Amounts recognized in the Statement of financial position:

	2013	2012
	Fair Value CAD (000's)	Fair Value CAD (000's)
Total assets	**1,733**	771
Total liabilities	**-**	1,157

22. RELATED PARTY TRANSACTIONS

The Corporation is related in terms of common ownership to all Government of Canada created departments, agencies and Crown corporations. The Corporation enters into transactions with these entities in the normal course of business on trade terms similar to those applied to other individuals and enterprises and these transactions are recorded at fair value. Other than disclosed elsewhere in these Financial Statements, related party transactions are not significant.

The remuneration of key executives is determined by the Human Resources Committee having regard to the performance of individuals and market trends. The Human Resources Committee recommendation is then presented and approved by the Board of Directors.

The Corporation's key executives have been defined as the executive staff members that are members of the Corporate Management Committee.

The compensation of the key executives of the Corporation is as follows:

(IN MILLIONS OF DOLLARS)	2013	2012
Compensation and short-term employee benefits	**2.4**	2.4
Post-employment benefits	**0.8**	0.9

23. NON-MONETARY TRANSACTIONS

The Corporation recorded revenue from non-monetary transactions of approximately $1.6 million for the year ended December 31, 2013 (December 31, 2012: $1.5 million) under "Passenger revenue" in the Statement of Operations and Other Comprehensive Income. The Corporation also recorded expenses from non-monetary transactions of approximately $2.1 million (December 31, 2012: $1.4 million) mainly under "Marketing and sales" and "Other expenses" in the Statement of Operations and Other Comprehensive Income. The nature of non-monetary transactions is mainly related to advertising activities.

24. CONTINGENCIES

A) ENVIRONMENT

The Corporation's operations are subject to numerous federal, provincial, and municipal environmental laws and regulations concerning among other things, the management of air emissions, wastewater, hazardous materials, wastes and soil contamination as well as the management and decommissioning of underground and aboveground storage tanks. A risk of environmental liability is inherent in railroad and related transportation operations, real estate ownership and other activities of the Corporation with respect to both current and past operations.

The Corporation has performed a review of all of its operations and of all of its sites and facilities at risk in order to determine the potential environmental risks. The sites and the facilities for which environmental risks were identified were or will be the subject of thorough studies and corrective actions were or will be taken if necessary in order to eliminate or to mitigate these risks. The continuous risk management process that is in place allows the Corporation to monitor its activities and properties under normal operating conditions as well as monitor accidents that occur. The properties likely to be contaminated or the activities or property, plant and equipment likely to cause a contamination are addressed, at the moment of their observation, by the development of an action plan according to the nature and the importance of the impact and the applicable requirements.

When remediation costs can be reasonably estimated, a provision is recorded based on the anticipated future costs.

However, the Corporation's ongoing efforts to identify potential environmental concerns that may be associated with its properties may lead to future environmental investigations, which may result in the identification of additional environmental costs and liabilities. The magnitude of such additional liabilities and the costs of complying with environmental laws and containing or remediating contamination cannot be reasonably estimated due to:

(i) the lack of specific technical information available with respect to many sites;

(ii) the absence of any third-party claims with respect to particular sites;

(iii) the uncertainty regarding the ability to recover costs from any third parties with respect to particular sites;

(iv) the fact that the environmental responsibility has not been clearly attributed.

There can thus be no assurance that material liabilities or costs related to environmental matters will not be incurred in the future, or will not have a material adverse effect on the Corporation's financial position.

B) ASSET RETIREMENT

The Corporation has entered into certain operating leases where the lessor has the option of requesting that the land/structures or the other assets be returned in the same condition as they were originally leased, or of retaking control of these assets without any compensation to the Corporation for any additions or modifications made to the initial assets. Given the nature of the assets under contract and the options available to the lessor, the asset retirement obligation cannot be reasonably estimated. No liability has been recognized in the financial statements.

25. RECLASSIFICATION

The Corporation has reclassified and relabelled the amounts relating to "Post-employment and other employee benefits" in the statement of cash flows in order to better reflect their nature. The reclassification had no impact on the net cash used in operating activities.

Also, certain comparative figures in the financial statements have been reclassified to conform to the 2013 presentation. The reclassifications had no impact on the information presented in the statement of financial position at the beginning of the preceding period.

CORPORATE DIRECTORY

BOARD OF DIRECTORS

Paul G. Smith
Chairman of the Board
Toronto, Ontario

Jeffrey R. Clarke
Ottawa, Ontario

Denis Durand
Montréal, Québec

David Hoff
Vancouver, British Columbia

Stephen Mallory
Toronto, Ontario

Ramona Materi
Vancouver,
British Colombia

Hind Sergieh
Montréal, Québec

Eric Stefanson
Winnipeg, Manitoba

Jane Mowat
Toronto, Ontario
(from September 2013)

William M. Wheatley
Regina, Saskatchewan

COMMITTEES OF THE BOARD

AUDIT, RISK & FINANCE
Eric Stefanson, Chair
Jeffrey Clarke
Jane Mowat
Stephen Mallory

CORPORATE GOVERNANCE
Eric Stefanson, Chair
Hind Sergieh
David Hoff

HUMAN RESOURCES
David Hoff, Chair
Denis Durand
Hind Sergieh
Ramona Materi

INVESTMENT
Denis Durand, Chair
William Wheatley
Stephen Mallory
Jane Mowat

REAL ESTATE, ENVIRONMENT AND MAJOR CAPITAL PROGRAM
Jeffrey Clarke, Chair
William Wheatley
Ramona Materi

OFFICERS

Paul G. Smith
Chairman of the Board

Steve Del Bosco
President and Chief Executive Officer (interim)

Yves Bourbonnais
Chief Information Officer

Laurent Caron
Chief Human Resources Officer

Sylvie Bourget
Chief Marketing and Sales Officer

Yves Desjardins-Siciliano
Chief Legal and Corporate Affairs Officer, Corporate Secretary

Denis Pinsonneault
Chief Customer Experience and Operating Officer

Robert St-Jean
Chief Financial and Administration Officer

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