

AUDITORS' REPORT ON ANNUAL COST STUDY CONTRIBUTION ANALYSIS

To the Board of Directors

Canada Post Corporation

We have audited the Annual Cost Study Contribution Analysis of Canada Post Corporation for the year ended December 31, 2007, prepared in accordance with the Cost Methodology described in the notes to the Annual Cost Study Contribution Analysis. This financial information is the responsibility of the Corporation's management and has been prepared using Canada Post Corporation segment revenues and expenses contained in note 22 to the audited consolidated financial statements for the year ended December 31, 2007, and other unaudited operational data extracted from Canada Post Corporation's systems. Our responsibility is limited to expressing an opinion, based on our audit, on the financial information resulting from the application of the Cost Methodology.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial information is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial information. An audit also includes assessing the application of the methodology used and significant estimates made by management, as well as evaluating the overall presentation of the financial information.

We did not perform any audit work on the validity of the methodology nor on Canada Post's operational systems and special studies that yield operational data used to allocate costs to products.

In our opinion:

- (a) the Annual Cost Study Contribution Analysis presents fairly, in all material respects, the contribution of services by lines of business and the contribution by exclusive privilege, competitive and concessionary services for the year ended December 31, 2007, in accordance with the Cost Methodology described in the notes to the Annual Cost Study Contribution Analysis, and using Canada Post Corporation segment revenues and expenses contained in note 22 to the audited consolidated financial statements for the year ended December 31, 2007, and other unaudited operational data extracted from Canada Post Corporation's systems; and
- (b) using the Cost Methodology described in the notes, Canada Post Corporation did not cross-subsidize its competitive services group by, using revenues protected by exclusive privilege for the year ended December 31, 2007.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants
Ottawa, Canada
March 27, 2008

ANNUAL COST STUDY CONTRIBUTION ANALYSIS

Canada Post Corporation

As a multi-service firm, Canada Post Corporation employs a common infrastructure to provide its various services in each of the three lines of business in which it operates. Canada Post Corporation has developed over many years, in conjunction with expert accountants and economists, an activity-based, incremental costing methodology that allocates costs among its services. Canada Post Corporation applies this methodology each year in its Annual Cost Study. The Annual Cost Study provides costing data that serves as the basis for ensuring that Canada Post Corporation is not competing unfairly by cross-subsidizing its competitive services with revenues from exclusive privilege services.

The methodology, which is summarized in the notes to the Annual Cost Study Contribution Analysis below, recognizes that some costs are caused by the provision of individual services or groups of services while others are common costs of Canada Post Corporation's infrastructure. Approximately 64% of the total non-consolidated costs of Canada Post Corporation are allocated to the competitive grouping of services in the Annual Cost Study.

As the Annual Cost Study Contribution Analysis indicates, for the year ended December 31, 2007, the competitive grouping of services generated positive long-run incremental contribution. Under the methodology in the Annual Cost Study, a positive long-run incremental contribution for the competitive grouping of services establishes that this grouping of services has not been cross-subsidized using revenues from exclusive privilege services.

Annual Cost Study Contribution Analysis

Year ended December 31, 2007

(in millions of dollars)

I – Long-Run Incremental Contribution by line of business:

	Transaction Mail	Parcels	Direct Marketing	Other	Total
Revenue from operations	\$ 3,214	\$ 1,226	\$ 1,404	\$ 111	\$ 5,955
Long-run incremental costs	(1,645)	(1,081)	(854)	(105)	(3,685)
Long-run incremental contribution to the fixed costs	\$ 1,569	\$ 145	\$ 550	\$ 6	\$ 2,270
	49%	12%	39%	5%	38%
Unallocated fixed costs					(2,243)
Contribution before the under noted items					\$ 27
Investment and other income					57
Interest and other expense					(6)
Income from the Canada Post segment before income taxes					\$ 78

II – Long-Run Incremental Contribution of exclusive privilege, competitive, and concessionary services:

	Exclusive Privilege	Competitive	Concessionary	Other	Total
Revenue from operations	\$ 3,808	\$ 1,742	\$ 188	\$ 217	\$ 5,955
Long-run incremental costs	(2,047)	(1,394)	(182)	(173)	(3,796)
Long-run incremental contribution to the fixed costs	\$ 1,761	\$ 348	\$ 6	\$ 44	\$ 2,159
	46%	20%	3%	20%	36%
Unallocated fixed costs					(2,132)
Contribution before the under noted items					\$ 27
Investment and other income					57
Interest and other expense					(6)
Income from the Canada Post segment before income taxes					\$ 78

The accompanying notes are an integral part of the Annual Cost Study Contribution Analysis.

NOTES TO ANNUAL COST STUDY CONTRIBUTION ANALYSIS

Year ended December 31, 2007

1. General

The Annual Cost Study calculates the long-run incremental contribution from exclusive privilege services, competitive services and concessionary services. The long-run incremental contribution is defined as the revenues from such services, less their long-run incremental cost.

2. Cost methodology

- a) **Long-run incremental cost** • The cost methodology employed by Canada Post Corporation measures the long-run incremental cost of individual services and groups of services according to the current operating plan. Long-run incremental cost is the total annual cost caused by the provision of a service.
- b) **Activity base** • Services provided by Canada Post Corporation are analyzed to determine the various activities performed to deliver the services. Each activity is then analyzed to determine the causal relationship between the costs of the activity and the services that require the performance of that particular activity. Service volumes or other data are used to attribute those activity costs to services.
- c) **Attribution principles** • The causal relationships between the cost of resources and the activities performed and between the activities performed and the services delivered are identified. Those activity costs, which are incurred because of the provision of a service, are attributed to that service. Costs, which cannot be attributed to the provision of a service, are business sustaining or common fixed costs to more than one service. Where a business sustaining or common fixed cost is specific to a group of services, those activity costs are attributed at that higher level of aggregation. The remaining business sustaining or common fixed costs are "unallocated fixed costs".
- d) **Source data** • The source of financial data used in the costing methodology is the Canada Post Corporation general ledger revenues and costs. All Canada Post Corporation costs are categorized either into service attributable, specific fixed or non-attributable activity costs.

Operational time, volume and weight/cubage data are used to attribute general ledger costs to activities and activity costs to services. Operational volume data is used to determine revenue by services. Where operational data is not available, an appropriate proxy is used to make the attribution.

- e) **Reconciliation to financial records** • Total revenues and costs considered in the Annual Cost Study are agreed to the total revenues and expenses forming the Canada Post Corporation segment of the audited consolidated financial statements, which have been reported on by another firm of chartered accountants.
- f) **Cross-subsidization test** • Under the Cost Methodology in the Annual Cost Study a positive long-run incremental contribution (revenue exceeds long-run incremental cost) for a line of business, and competitive grouping of services establishes that the grouping of services has not been cross-subsidized using revenues from other services or groups of services.