

CANADA POST CORPORATION

2016 **Second Quarter** Financial Report

For the period ended July 2, 2016

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Management's Discussion and Analysis

This Management's Discussion and Analysis (MD&A) provides a narrative discussion outlining the financial results and operational changes for the second quarter ended July 2, 2016, and for the first two quarters of 2016 for Canada Post Corporation (Corporation or Canada Post) and its subsidiaries – Purolator Holdings Ltd. (Purolator), SCI Group Inc. (SCI) and Innovapost Inc. (Innovapost). These companies are collectively referred to as the Canada Post Group of Companies or the Group of Companies. Each of the Corporation's quarters contains 13 weeks, and this MD&A covers the 13 and 26 weeks ended July 2, 2016. This discussion should be read with the unaudited interim condensed consolidated financial statements for the 13 and 26 weeks ended July 2, 2016, which were prepared in accordance with the Treasury Board of Canada "Standard on Quarterly Financial Reports for Crown Corporations" and International Accounting Standard 34, "Interim Financial Reporting" (IAS 34), and are presented in Canadian dollars. We also recommend that this information be read in conjunction with the Corporation's annual consolidated financial statements and MD&A for the year ended December 31, 2015. Financial results reported in the MD&A are rounded to the nearest million, while related percentages are based on numbers rounded to the nearest thousand. The information in this MD&A is current to August 25, 2016, unless otherwise noted.

Management is responsible for the information presented in the unaudited interim condensed consolidated financial statements and the MD&A. All references to "our" or "we" are references to management of Canada Post. The Board of Directors, on the recommendation of its Audit Committee, approved the content of this MD&A and the unaudited interim condensed consolidated financial statements.

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Materiality

In assessing what information is to be provided in the MD&A, management applies the materiality principle as guidance for disclosure. Management considers information material if it is considered probable that its omission or misstatement would influence decisions that users make on the basis of the financial information.

Forward-looking statements

The unaudited interim condensed consolidated financial statements and the MD&A contain forward-looking statements that reflect management's expectations regarding the Group of Companies' objectives, plans, strategies, future growth, results of operations, performance, and business prospects and opportunities. Forward-looking statements are typically identified by words or phrases such as "plans," "anticipates," "expects," "believes," "estimates," "intends," and other similar expressions. These forward-looking statements are not facts, but only estimates regarding future results. These estimates are based on certain factors or assumptions regarding expected growth, results of operations, performance, business prospects and opportunities (assumptions). While management considers these assumptions to be reasonable based on available information, they may prove to be incorrect. These estimates of future results are subject to a number of risks, uncertainties and other factors that could cause actual results to differ materially from what the Group of Companies expects. These risks, uncertainties and other factors include, but are not limited to, those risks and uncertainties set forth in Section 5 – Risks and Risk Management on page 8 of this MD&A (risks).

To the extent the Group of Companies provides future-oriented financial information or a financial outlook, such as future growth and financial performance, the Group of Companies is providing this information for the purpose of describing its future expectations. Therefore, readers are cautioned that this information may not be appropriate for any other purpose. Furthermore, future-oriented financial information and financial outlooks, as with forward-looking information generally, are based on the assumptions and subject to the risks.

Readers are urged to consider these factors carefully when evaluating these forward-looking statements. In light of these assumptions and risks, the events predicted in these forward-looking statements may not occur. The Group of Companies cannot assure that projected results or events will be achieved. Accordingly, readers are cautioned not to place undue reliance on the forward-looking statements.

The forward-looking statements included in the unaudited interim condensed consolidated financial statements and MD&A are made only as of August 25, 2016, and the Corporation does not undertake to publicly update these statements to reflect new information, future events or changes in circumstances or for any other reason after this date.

1 Executive Summary

An overview of the Canada Post Group of Companies and a summary of financial performance

The Canada Post Group of Companies consists of Canada Post and its subsidiaries – Purolator Holdings Ltd., SCI Group Inc. and Innovapost Inc. The Group of Companies is one of Canada's largest employers providing jobs to close to 64,000 people. During 2015, employees delivered almost nine billion pieces of mail, parcels and messages to 15.8 million addresses across Canada. The Canada Post segment operates the largest retail network in Canada with over 6,200 retail post offices in the country. A Crown corporation since 1981, Canada Post reports to Parliament through the Minister of Public Services and Procurement and has a single shareholder, the Government of Canada.

Pursuant to the *Canada Post Corporation Act*, Canada Post has a mandate to provide a standard of postal service that meets the needs of Canadians. The Corporation provides quality postal services to all Canadians – rural and urban, individuals and businesses – in a secure and financially self-sustaining manner.

The unaudited interim condensed consolidated financial statements of Canada Post Corporation include the accounts for the Group of Companies. Canada Post is the largest segment with revenue of \$3.2 billion for the first two quarters of 2016 (79.4% of total revenue) and \$6.3 billion for the full year ended December 31, 2015 (78.5% of total revenue). There are three reportable operating segments: Canada Post, Purolator and Logistics.

Significant changes and business developments

Canada Post is facing a pivotal period in its history. With Canadian households and businesses turning more and more to online communication, Lettermail volumes have dropped significantly. In 2015, we delivered 3.4 billion pieces of Domestic Lettermail, 1.6 billion (or 32%) less than we did in the peak year of 2006. While our largest line of business (Transaction Mail) is not expected to rebound, we have been able to capitalize on the opportunity that the internet has created for us – to deliver more packages as Canadians are buying more and more items online. Though both parcels and direct marketing represent opportunity for Canada Post, their growth will not be enough to offset the decline in the core Lettermail business and pay the pension obligations, or allow the Corporation to invest in its network and customer service. Therefore, this growth will not be enough to ensure Canada Post's long-term financial self-sustainability.

In the Canada Post segment, negotiations continued during the second quarter with the Canadian Union of Postal Workers to obtain two new collective agreements, one for Urban Postal Operations (CUPW-UPO), and one for Rural and Suburban Mail Carriers (CUPW-RSMC). These collective agreements cover approximately 40,000 employees. Negotiations began in January 2016, and frequent meetings took place between Canada Post and the union between April and late June, involving some 60 days of conciliation and almost 30 more days with federal mediators. During the recent discussions, Canada Post made it clear that wages and pension were to be protected for current regular employees and that the goal was to negotiate collective agreements that are fair for the employees, while reflecting the changing nature of its business and the needs of its customers. Despite last-minute offers proposed by both parties in early July, those efforts were unsuccessful and the parties remained apart on key issues. On July 10, 2016, at the request of the Minister of Employment, Workforce Development and Labour, the Corporation agreed to continue meeting and focus its efforts on negotiations. These discussions are ongoing and the Corporation is committed to reaching settlements that are both affordable and reasonable.

Although the uncertainty caused by the prolonged negotiations had a minimal impact on Canada Post revenue in the second quarter, the risk of a work disruption remains and many customers have made alternative arrangements to secure their mail and parcel deliveries. Regaining the momentum we had achieved in the e-commerce business will be a challenge and the lingering uncertainty has the potential for significant long-term harm to the Corporation.

We are continuously assessing the impacts of these negotiations and a potential work disruption on the business and our customers. The outcome of these negotiations will play a significant role in our ability to achieve financial self-sustainability in the long term.

In addition, the first phase of the independent review of Canada Post announced by the Government of Canada began in May. The Government of Canada is undertaking this review to ensure Canadians receive quality postal services at a reasonable price. The review is being carried out in two phases. In the first phase, a four-person task force will collect information, conduct analysis and deliver a discussion paper to the Minister of Public Services and Procurement by September 2016. The paper will present viable options, costs and associated implications for postal services in Canada. This will form the basis for the second phase, an informed public dialogue led by a parliamentary committee, which will allow members of Parliament to engage with Canadians about the choices before them. Between September and November 2016, the parliamentary committee will consult with Canadians on the options and is expected to submit its recommendations to the Government by the end of 2016. The Government will then announce a decision in the spring of 2017 about the future of postal services based on input from Canadians. Canada Post will work with the Government of Canada to determine the best path forward given the ongoing challenges faced by the Canadian postal system.

Financial highlights

For the second quarter ended July 2, 2016, the Canada Post Group of Companies reported a profit before tax of \$9 million, compared to a loss before tax of \$4 million in the same period in 2015. For the first two quarters of 2016, the Group of Companies recorded a profit before tax of \$44 million, compared to a profit before tax of \$18 million in the first two quarters of 2015. The increase in the Group of Companies' second quarter results and the first two quarters of 2016 were primarily driven by the results in the Canada Post segment.

The Canada Post segment reported a profit before tax of \$1 million for the second quarter of 2016, compared to a loss before tax of \$31 million for the second quarter of 2015. For the first two quarters of 2016, Canada Post reported a profit before tax of \$45 million, compared to a loss before tax of \$7 million for the same period in 2015. The increase in second quarter results and the results of the first two quarters were primarily driven by Parcels growth, additional mail generated by the 2016 Census, lower employee benefit expenses and lower program expenses due to the suspension of the Five-point Action Plan, partially offset by higher labour costs. The results for the first two quarters of 2016 were also partially offset by one less business day and one less paid day in the first two quarters of 2016, compared to the same period in 2015; this timing difference will be eliminated by the end of 2016. Revenue and volume variance percentages for the lines of business (shown below) were adjusted for the impact of having one less day.

The potential work disruption with CUPW had a minimal impact on the Canada Post segment revenues in the second quarter of 2016; however, many customers started to make alternate arrangements to secure their mail and parcel deliveries later in the quarter. Canada Post generated revenue of \$1,559 million in the second quarter of 2016, an increase of \$41 million or 2.8% compared to the same period in 2015. The increase in revenue was primarily due to strong growth in Parcels from the continued strength of the business-to-consumer e-commerce delivery market. The 2016 Census also had a positive impact on Transaction Mail revenue in the second quarter. For the first two quarters of 2016, Canada Post generated revenue of \$3,185 million, an increase of \$30 million or 1.8%¹ compared to the same period in 2015. The revenue increase was mainly driven by growth in Parcels (\$75 million) from the continued strength of the business-to-consumer e-commerce delivery market, partially offset by Lettermail erosion (\$35 million), a decrease in Direct Marketing (\$19 million) due to lower volumes, an increase in other revenue (\$9 million) and one less business day in the first two quarters of 2016 compared to the same period in 2015.

Transaction Mail volumes continued to decline – by 28 million pieces or 3.0% in the second quarter of 2016 and by 111 million pieces or 5.0%¹ for the first two quarters compared to the same periods in 2015. Volumes in 2016 continued to be adversely affected by mail erosion driven by electronic substitution. However, erosion in the second quarter of 2016 was lower than prior quarters due to additional mail (almost 27 million pieces) generated by the 2016 Census. Excluding these mailings, Transaction Mail volumes would have decreased by approximately 6% in the second quarter of 2016 and 7% in the first two quarters of 2016 compared to the same periods in 2015, which is consistent with the erosion experienced in prior periods.

Parcel volumes increased by four million pieces or 8.5% in the second quarter of 2016 and by nine million pieces or 11.4%¹ in the first two quarters of 2016 compared to the same periods in 2015. Strong results for Parcels were driven by continuous growth in e-commerce and our efforts to deliver competitive offerings.

Direct Marketing volumes decreased by 35 million pieces or 2.8% in the second quarter of 2016 compared to the same period in 2015. For the first two quarters of 2016, Direct Marketing volumes decreased by 85 million pieces or 2.7%¹ compared to the first two quarters of 2015.

Canada Post, as pension plan sponsor, is responsible for making current service contributions to its pension plans as well as special payments to cover any funding shortfalls. These pension commitments and other post-employment benefit obligations are substantial; they continue to significantly affect our financial performance and, if it weren't for temporary pension relief on special payments, they would put pressure on our cash resources. In February 2014, the Government of Canada provided relief to Canada Post from the requirement to make special payments to the Canada Post Corporation Registered Pension Plan (RPP) from 2014 to 2017.

Fluctuations in discount rates, investment returns and other actuarial assumptions create volatility from one period to the next, resulting in sizeable financial and long-term liquidity risks to the Corporation. During the second quarter of 2016, this volatility negatively affected the Group of Companies' defined benefit plans, causing remeasurement losses of \$777 million, net of tax, recorded in other comprehensive income (loss) and worsening the Group of Companies' equity balance to negative \$2,891 million as at July 2, 2016. These remeasurement losses in the second quarter of 2016 were mostly the result of a decrease in discount rates in 2016. Volatility also affects the funded status of the Canada Post Registered Pension Plan (RPP); the solvency deficit of the RPP (using market value of plan assets) increased from \$6.1 billion at December 31, 2015, to an estimated \$8.1 billion at the end of the second quarter of 2016 due to a significant drop in the discount rate in 2016.

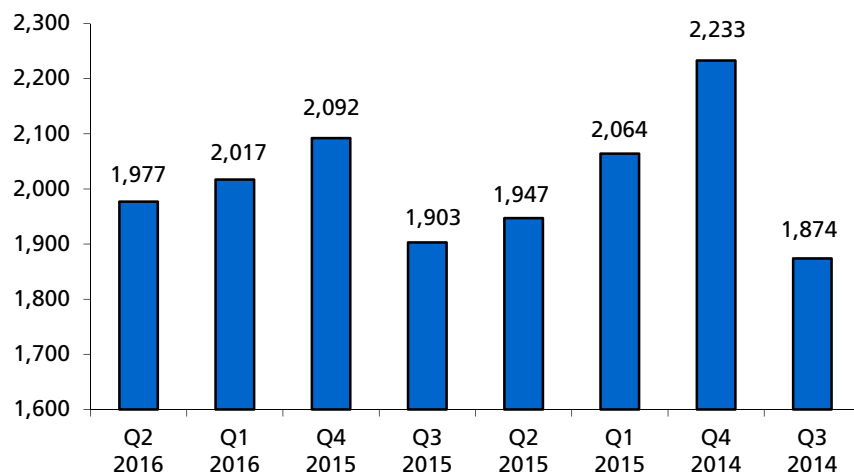
1. Adjusted for trading days or paid days, where applicable.

The prior year's discount rates and other actuarial assumptions, as well as pension asset balances, are used to calculate the current year's employee benefit expense, and thereby affect the Corporation's operating results. An increase in the discount rates as at December 31, 2015, as well as positive pension asset returns in 2015, led to a decrease in the employee benefit expense of \$7 million or 1.9% in the second quarter of 2016 and \$26 million or 3.0%¹ in the first two quarters of 2016, compared to the same periods in 2015, and contributed to the increase in profitability in the Canada Post segment in the second quarter and the first two quarters of 2016 compared to the same periods in 2015. These results demonstrate how changing discount rates, investment returns and other actuarial assumptions can cause significant volatility in the Corporation's financial statements.

The following bar charts show the Group of Companies' results for the last eight quarters. Volumes have historically varied throughout the year, with the highest demand for services occurring during the holiday season in the fourth quarter. Volumes typically decline over the following quarters, reaching their lowest level during the summer months, in the third quarter. The Group of Companies' significant fixed costs do not vary, in the short term, as a result of these changes in demand for its services. Quarterly results can also be affected by the number of business and paid days, which can vary by quarter.

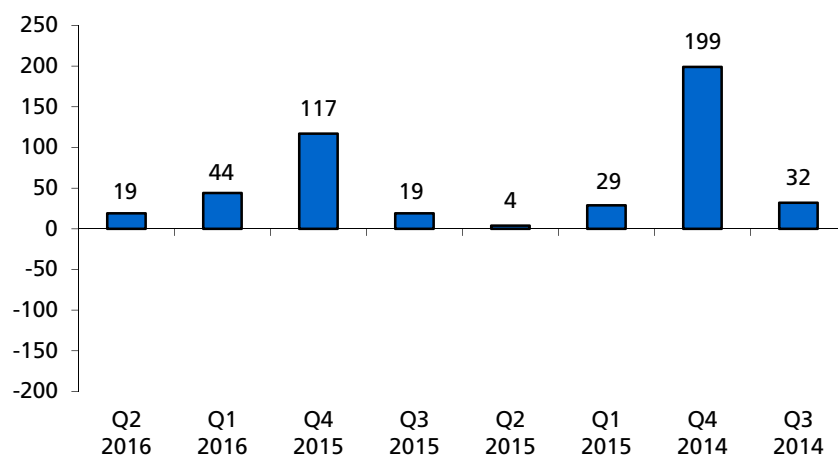
Quarterly consolidated revenue from operations

(in millions of dollars)



Quarterly consolidated profit from operations

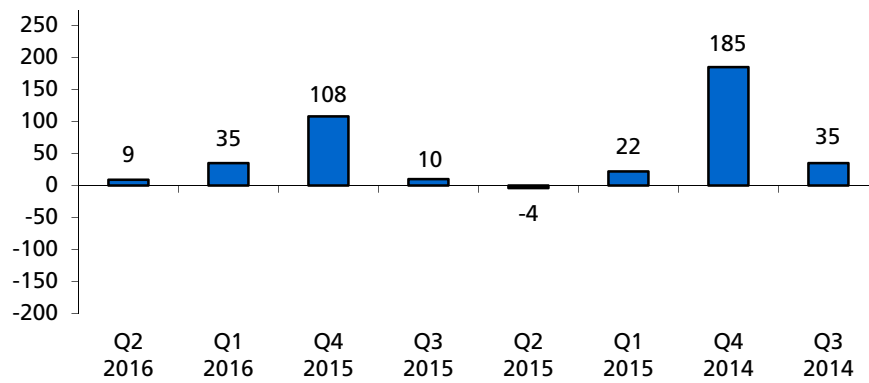
(in millions of dollars)



1. Adjusted for trading days or paid days, where applicable.

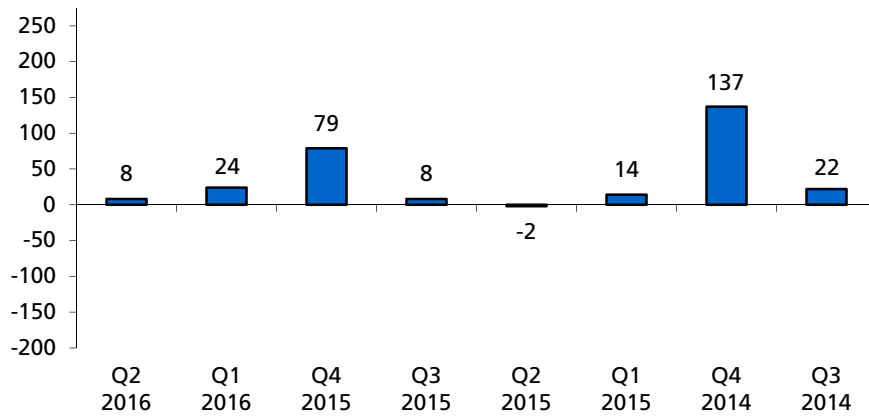
Quarterly consolidated profit (loss) before tax

(in millions of dollars)



Quarterly consolidated net profit (loss)

(in millions of dollars)



The following table presents the Corporation's consolidated performance for the second quarter and the first two quarters of 2016, compared to the same periods in the prior year.

(in millions of dollars)	13 weeks ended				26 weeks ended				Explanation of change
	July 2, 2016	July 4, 2015	Change	%	July 2, 2016	July 4, 2015	Change	%	
Consolidated statement of comprehensive income									Highlights, as discussed in Section 8 – Discussion of Operations page 16.
Revenue from operations	1,977	1,947	30	1.5	3,994	4,011	(17)	0.3 ¹	For the second quarter, increase mainly due to Parcels growth and additional Transaction Mail revenue from the 2016 Census in the Canada Post segment, partially offset by lower revenue in the Purolator segment due to lower volumes. For the first two quarters, decrease mainly due to ongoing Lettermail erosion partially offset by Parcels growth in the Canada Post segment, a decrease in revenue in the Purolator segment due to reduced courier volumes, and one less business day in the first two quarters of 2016 compared to the same period in 2015.
Cost of operations	1,958	1,943	15	0.8	3,931	3,978	(47)	(0.4) ²	For the second quarter, increase mainly due to higher labour costs, partially offset by lower employee benefit expenses and lower program expenses due to the suspension of the Five-point Action Plan in the Canada Post segment. The first two-quarter results were also affected by one less paid day in the first two quarters of 2016, compared to the same period in 2015.
Profit from operations	19	4	15	373.4	63	33	30	88.0	
Investing and financing income (expense), net	(10)	(8)	(2)	(27.1)	(19)	(15)	(4)	(25.1)	No material change.
Profit (loss) before tax	9	(4)	13	–	44	18	26	138.7	
Net profit (loss)	8	(2)	10	–	32	12	20	171.6	
Comprehensive income (loss)	(755)	1,228	(1,983)	–	(1,766)	984	(2,750)	–	Mainly due to a decrease in discount rates.
Consolidated statement of cash flows									Highlights, as discussed in Section 6 – Liquidity and Capital Resources page 10.
Cash provided by operating activities	78	77	1	–	188	110	78	68.5	For the second quarter, no material change. For the first two quarters, mainly due to changes in non-cash working capital, partially offset by higher income tax payments.
Cash used in investing activities	(133)	(85)	(48)	(57.0)	(224)	(194)	(30)	(15.9)	Mainly due to higher net acquisitions of investments, partially offset by lower acquisitions of capital assets.
Cash used in financing activities	(6)	(4)	(2)	(40.5)	(68)	(9)	(59)	(603.6)	Mainly due to the repayment of non-redeemable bonds that matured in March 2016.

1. Adjusted for trading days, where applicable.

2. Adjusted for paid days, where applicable.

2 Core Businesses and Strategy

A discussion of the business and strategy of our core businesses

Canada Post is facing a monumental shift in its business, as the rise in digital communications has dramatically changed how Canadians use postal services. Digital platforms are rapidly replacing paper as the medium of choice to communicate, invoice, pay bills and advertise. This behavioural shift is causing significant volume erosion for Transaction Mail, the segment's largest line of business, which is putting downward pressure on revenue at a time when the number of addresses in the network is increasing each year and the labour cost structure remains largely inflexible. Canada Post must adapt to this shift and the changing needs of Canadians by being an essential enabler of communication and commerce. Canada Post is focused on providing quality postal services to all Canadians and growing the Parcels and Direct Marketing lines of business to help the Corporation succeed in this digital age.

On May 5, 2016, the Government of Canada announced that it is undertaking an independent review of Canada Post to ensure Canadians receive quality postal services at a reasonable price. Canada Post will work with the Government of Canada to determine the best path to follow given the ongoing challenges faced by the Canadian postal system.

Our core business and strategy are described in Section 2 – Core Businesses and Strategy of the 2015 Annual MD&A. There were no material changes to the strategies during the second quarter of 2016.

3 Key Performance Drivers

A discussion of our key achievements in 2016

The Canada Post segment uses performance scorecards to monitor progress against strategic priorities and provide management with a comprehensive view of the segment's performance. Results are reported monthly to senior management.

As discussed in Section 2.3 – Our strategy and strategic priorities of the 2015 Annual MD&A, our main strategic priorities are focused on growing our Parcels and Direct Marketing lines of business.

Performance results for 2016 will be updated at the end of the year and included as part of the 2016 Annual MD&A.

4 Capabilities

A discussion of the issues that affect our ability to execute strategies, manage key performance drivers and deliver results

A discussion of these topics appears in Section 4 – Capabilities of the 2015 Annual MD&A. Updates are provided below.

4.1 Labour relations

The number of employees covered by collective agreements as at December 31, 2015, and various bargaining activities are summarized in Section 4.1 – Our employees – Labour relations of the 2015 Annual MD&A. An update of collective bargaining activity by segment is provided below.

Canada Post segment

Pay equity update

In 2012, Canada Post commenced the complex process of preparing payments to eligible employees following the Supreme Court of Canada ruling in favour of the Public Service Alliance of Canada (PSAC). The parties subsequently signed a memorandum of agreement (MOA) outlining the details of eligibility, calculation methodology, application of interest and payment process. Pay equity payments commenced in August 2013. Canada Post has been working with the Canada Revenue Agency and other groups to reach remaining eligible individuals whom the Corporation has been unable to contact. The Corporation provided notice to PSAC that former employees who could not be reached by mail or other forms of notification have five years to claim their entitlement as per the MOA. The five-year time frame started July 28, 2016.

Canadian Postmasters and Assistants Association (CPAA)

The collective agreement between Canada Post and the CPAA, which represents rural post office postmasters and assistants, expired December 31, 2014. Negotiations commenced in the first quarter of 2015. Despite ongoing discussions, Canada Post and the CPAA reached an impasse on key issues. On March 16, 2016, Canada Post notified the CPAA that it was referring all outstanding matters to an arbitrator for final offer selection. Under this dispute resolution method, each party presents final proposals and the relevant supporting evidence. The arbitrator then chooses one proposal in its entirety and has no latitude to blend elements from both proposals. On August 15, 2016, the arbitrator decided to accept Canada Post's final offer, which includes modest wage increases, a lump sum non-pensionable payment, changes to post-retirement contributions and changes for new employees such as a defined contribution pension plan, starting rates of pay and vacation leave entitlements. This decision is effective immediately. The new four-year collective agreement will expire December 31, 2018.

Canadian Union of Postal Workers – Urban Postal Operations and Rural and Suburban Mail Carriers

The collective agreements for the Urban Postal Operations (CUPW-UPO) and the Rural and Suburban Mail Carriers (CUPW-RSMC) expired January 31, 2016, and December 31, 2015, respectively, and negotiations for both groups commenced in January 2016. Canada Post's goal for the discussions was and remains negotiated collective agreements that are fair for employees, but also reflect the changing nature of the business and the needs of customers.

Canada Post submitted final offers on June 25, 2016, and the union responded with its own offers late July 1, but talks remained at an impasse as the union proposals did not address the employer's long-term business requirements. On July 6, the Minister of Employment, Workforce Development and Labour (the Minister) asked both parties to submit to binding arbitration. Canada Post agreed; CUPW refused. Meanwhile, the period of uncertainty began to affect customers, and with volumes of mail and parcels dropping significantly, Canada Post proposed on July 8 an extended 30-day cooling-off period followed by binding arbitration should the parties be unable to reach a negotiated settlement. Again, the union refused this proposal. On July 10, the Minister intervened and encouraged both parties to continue their discussions, which are still ongoing. However, the possibility of a labour disruption still remains. The lingering uncertainty has the potential to cause significant long-term harm to the Corporation, as many customers have already made alternate arrangements to secure their mail and parcel delivery services.

Meanwhile, the terms and conditions of the expired collective agreements continue to apply.

Public Service Alliance of Canada / Union of Postal Communication Employees (PSAC/UPCE)

The collective agreement between Canada Post and the PSAC/UPCE will expire on August 31, 2016. This agreement provides for strike or lockout. A notice to bargain was filed by PSAC/UPCE on August 10, 2016.

Purolator segment

The national collective agreement with the Canada Council of Teamsters for all hourly operations employees remains in force until December 31, 2016. All Teamsters clerical groups and the Union of Postal Communication Employees in British Columbia have renewed collective agreements, which expire December 31, 2017.

4.2 Internal controls and procedures

Changes in internal control over financial reporting

During the second quarter of 2016, there were no changes in internal control over financial reporting that materially affected, or were reasonably likely to materially affect, the Group of Companies' internal control over financial reporting.

5 Risks and Risk Management

A discussion of the key risks and uncertainties inherent in our business and our approach to managing these risks

Management considers risks and opportunities at all levels of decision making and has implemented a rigorous approach to enterprise risk management (ERM). A description of the Canada Post segment's risks is provided in Section 5.2 – Strategic risks and Section 5.3 – Operational risks of the 2015 Annual MD&A. Updates to these risks for the second quarter of 2016 are provided below.

Canada Post has determined that no provision needs to be made for the following claims. Should the ultimate resolution of these actions differ from management's assessments and assumptions, this could result in a material future adjustment to the Corporation's financial position and results of operations.

Labour agreements

Canada Post is engaged in negotiations with employees represented by CUPW in two separate collective agreements (UPO and RSMC). CUPW is Canada Post's largest union, representing more than 40,000 employees. The Corporation is committed to negotiating agreements that are fair to employees while providing affordable pricing and service to Canadians. The risk of a labour disruption remains until such agreements are reached. The ongoing uncertainty, which has caused many customers to secure alternatives for their postal delivery services, has the potential for significant long-term harm to the Corporation.

Canada Post's objective during collective bargaining is also to protect its financial viability and sustainability and reach settlements that balance employee expectations and cost containment.

Air transportation procurement – Canadian North

On December 18, 2007, Canadian North filed a statement of claim alleging that Canada Post conducted an unfair procurement of air transportation services to remote northern communities for the Food Mail Program of the Government of Canada. The airline was seeking \$75 million in damages and \$1 million in punitive damages. On August 2, 2016, the parties arrived at an out of court settlement for an amount significantly less than originally claimed. The documentation that will lead to the withdrawal of the claim is currently being finalized.

CPAA pay equity complaint

A complaint was filed with the Canadian Human Rights Commission (CHRC) alleging discrimination by the Corporation concerning work of equal value. The complaint was filed by the Canadian Postmasters and Assistants Association (CPAA) initially in December 1982. In March 2006, on the recommendation of a conciliator, the Commission declined the complaint on the basis that it could be dealt with more appropriately under the *Canada Labour Code*. On October 10, 2012, the Corporation received notice from the Commission that the CPAA had requested the reactivation of its pay equity complaint. The Corporation filed a full legal brief December 10, 2012, in response to the Commission's request for submissions on the reactivation. The report of the Commission investigator was released December 8, 2014. The investigator found that, while agreements between the parties resolved pay equity issues for the period subsequent to 1997, the prior period (1991-97) remains in issue and should be referred to the Canadian Human Rights Tribunal (Tribunal) without further investigation. Canada Post made submissions to the Commission January 30, 2015. In March 2015, the Commission rendered a decision to refer the matter on its merits to the Tribunal. Canada Post's application for judicial review of the Commission's decision was dismissed by the Federal Court in a decision released July 28, 2016.

On August 28, 2015, notice was also given to the Tribunal that Canada Post will bring a motion for the dismissal of the complaint. Canada Post provided written materials in support of its motion April 15, 2016. Written arguments were submitted by all parties, Canada Post, the CPAA and the Commission, at the Tribunal's request, on June 22, 2016. On August 24, 2016, the Tribunal questioned the parties about their submissions pertaining to the CPAA's objection to Canada Post's motion to dismiss and is now considering the merits.

City of Hamilton by-law in respect of CMB installation

The City of Hamilton enacted a municipal by-law that would force Canada Post to seek permits before it can install community mailboxes (CMBs). On June 11, 2015, the Ontario Superior Court declared the City of Hamilton municipal by-law to be inoperative and of no effect. On July 6, 2015, the City of Hamilton filed an appeal of the Ontario Superior Court's decision. The Federation of Canadian Municipalities was granted intervenor status in the appeal. The appeal was heard February 2, 2016, and judgment was reserved.

Federal Court review of Canada Post's decision to convert door-to-door delivery to CMB delivery

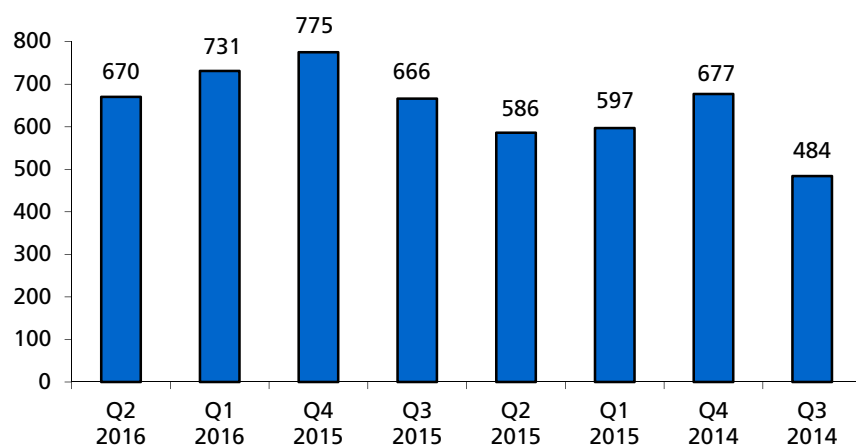
An application to the Federal Court seeking a judicial review of Canada Post's decision to convert door-to-door delivery to community mailbox delivery was filed by CUPW and others in November 2014. By motion to the Federal Court, a number of Montréal urban communities were granted intervenor status in September 2015. A hearing on the application has not yet been scheduled. The parties have agreed and the Court has sanctioned that the matter be put in abeyance to allow the government to complete the review of Canada Post. The program to convert existing customers with door-to-door delivery to community mailbox delivery was stopped in October 2015.

6 Liquidity and Capital Resources

A discussion of our cash flow, liquidity and capital resources

6.1 Cash and cash equivalents

(in millions of dollars)



The Group of Companies held cash and cash equivalents of \$670 million as at July 2, 2016 – a decrease of \$105 million compared to December 31, 2015. The decrease was mainly due to acquisitions of securities (net), capital assets and the repayment of non-redeemable bonds, partially offset by cash provided by operating activities.

6.2 Operating activities

(in millions of dollars)	13 weeks ended			26 weeks ended		
	July 2, 2016	July 4, 2015	Change	July 2, 2016	July 4, 2015	Change
Cash provided by operating activities	78	77	1	188	110	78

There were no significant changes in the cash provided by operations in the second quarter of 2016 compared to the same period in 2015. For the first two quarters of 2016, cash provided by operations increased by \$78 million compared to the same period in 2015, primarily driven by changes in non-cash working capital, partially offset by higher income tax payments.

6.3 Investing activities

(in millions of dollars)	13 weeks ended			26 weeks ended		
	July 2, 2016	July 4, 2015	Change	July 2, 2016	July 4, 2015	Change
Cash used in investing activities	(133)	(85)	(48)	(224)	(194)	(30)

Cash used in investing activities increased by \$48 million in the second quarter of 2016 compared to the same period in 2015. The change was mainly due to higher net acquisitions of investments, partially offset by lower net acquisitions of capital assets in the second quarter of 2016 compared to the same period in 2015. For the first two quarters of 2016, cash used in investing activities increased by \$30 million compared to the same period in 2015, mainly due to higher net acquisitions of investments, partially offset by lower acquisitions of capital assets, compared to the same period in 2015.

Capital expenditures

(in millions of dollars)	13 weeks ended			26 weeks ended		
	July 2, 2016	July 4, 2015	Change	July 2, 2016	July 4, 2015	Change
Canada Post	44	57	(13)	63	104	(41)
Purolator	8	12	(4)	16	17	(1)
Logistics	–	–	–	2	2	–
Intersegment and consolidation	(1)	(2)	1	(3)	(2)	(1)
Canada Post Group of Companies	51	67	(16)	78	121	(43)

Capital expenditures for the Group of Companies decreased by \$16 million in the second quarter of 2016 and by \$43 million in the first two quarters of 2016, when compared to the same periods in 2015. The decreases in 2016 were mainly due to reduced spending on the Five-point Action Plan in the Canada Post segment.

6.4 Financing activities

(in millions of dollars)	13 weeks ended			26 weeks ended		
	July 2, 2016	July 4, 2015	Change	July 2, 2016	July 4, 2015	Change
Cash used in financing activities	(6)	(4)	(2)	(68)	(9)	(59)

There were no significant changes in financing activities in the second quarter of 2016 compared to the same period in 2015. Cash used in financing activities increased by \$59 million in the first two quarters of 2016, when compared to the same period in 2015. The change was mainly due to the repayment of non-redeemable bonds that matured in March 2016.

6.5 Canada Post Corporation Registered Pension Plan

The Canada Post Corporation Registered Pension Plan (RPP) has assets with a market value of \$22 billion as at December 31, 2015, making it one of the largest single-employer sponsored pension plans in Canada. A description of the effects of the RPP on liquidity is provided in Section 6.5 – Canada Post Corporation Registered Pension Plan of the 2015 Annual MD&A. An update is provided below.

In February 2014, the Government of Canada introduced the *Canada Post Corporation Pension Plan Funding Regulations*. Under these regulations, the Corporation is exempt from making special contributions to the Registered Pension Plan from 2014 to 2017. This temporary measure recognizes the Corporation's serious operational challenges and the risks to the sustainability of the RPP. In 2018, the Corporation expects that it will revert back to the regulations in the *Pension Benefits Standards Act, 1985*. Under these regulations, the aggregate amount of relief is limited to 15% of the fair value of plan assets, after which Canada Post, as plan sponsor, would be required to make special payments to eliminate any shortfalls of assets to liabilities, based on the actuarial valuations, over five years on a solvency basis and over 15 years on a going-concern basis.

On June 28, 2016, Canada Post filed the actuarial valuation of the RPP as at December 31, 2015, with the federal pension regulator, the Office of the Superintendent of Financial Institutions (OSFI). The actuarial valuation as of December 31, 2015, disclosed a going-concern surplus of \$1.2 billion (using the smoothed value of RPP assets) and a solvency deficit to be funded of \$6.3 billion (using the three-year average solvency ratio basis), or \$6.1 billion (using market value of plan assets).

For the second quarter of 2016, the going-concern surplus (using the smoothed value of RPP assets) was estimated at \$1.6 billion, and the solvency deficit (using market value of plan assets) increased by \$2 billion, from \$6.1 billion at December 31, 2015, to an estimated \$8.1 billion at the end of the second quarter, due to a significant drop in the discount rate in 2016.

Current service contributions amounted to \$53 million and \$120 million, respectively for the second quarter and first two quarters of 2016, compared to \$53 million and \$124 million, respectively for the same periods in 2015. The estimated amount of current service contributions for 2016 is approximately \$244 million. The special payments without any pension relief would amount to an additional \$1.3 billion in 2016, based on the latest estimate of the actuarial valuation as of December 31, 2015.

Canada Post, the RPP sponsor, records remeasurement adjustments, net of tax, in other comprehensive income. For the second quarter of 2016, remeasurement losses, net of tax, amounted to \$599 million for the RPP. For the first two quarters of 2016, remeasurement losses, net of tax, amounted to \$1,490 million. The RPP is subject to significant volatility due to fluctuations in discount rates, investment returns and other changes in actuarial assumptions.

6.6 Liquidity and capital resources

The Canada Post Group of Companies manages capital, which it defines as loans and borrowings, other liabilities (non-current) and equity of Canada. This view of capital is used by management and may not be comparable to definitions used by other postal organizations or public companies. The Corporation's objectives in managing capital include maintaining sufficient liquidity to support its financial obligations and its operating and strategic plans, and maintaining financial capacity and access to credit facilities to support future development of the business.

Liquidity

During the second quarter of 2016, the liquidity required by the Canada Post Group of Companies to support its financial obligations and fund capital and strategic requirements was provided by accumulated funds and immediately accessible lines of credit. The Canada Post segment had \$1,492 million of unrestricted liquid investments on hand as at July 2, 2016, and \$100 million of lines of credit established under its short-term borrowing authority approved by the Minister of Finance.

In February 2014, the Government of Canada introduced regulations that provide Canada Post with relief from making special pension payments to the Registered Pension Plan from 2014 to 2017. The Corporation expects to resume special payments in 2018, at the end of the temporary relief period. Based on the temporary relief, Canada Post believes it has sufficient liquidity and authorized borrowing capacity to support operations for at least the next 12 months.

The Corporation's subsidiaries had a total of \$152 million of unrestricted cash on hand and undrawn credit facilities of \$148 million as at July 2, 2016, ensuring sufficient liquidity to support their operations for at least the next 12 months.

Access to capital markets

Pursuant to *Appropriation Act No. 4, 2009-10*, which received royal assent December 15, 2009, borrowing from other than the Government of Canada's Consolidated Revenue Fund is limited to \$2.5 billion. Included in this total authorized borrowing limit is a maximum of \$100 million for cash management purposes in the form of short-term borrowings. In addition, pursuant to the *Canada Post Corporation Act*, the Canada Post segment may also borrow a maximum of \$500 million from the Government of Canada's Consolidated Revenue Fund.

Borrowings for the Canada Post segment and the Corporation's subsidiaries as at July 2, 2016, amounted to \$997 million and \$72 million respectively. For more information on liquidity and access to capital markets, refer to Section 6.6 – Liquidity and capital resources of the 2015 Annual MD&A.

Dividends

For information on our dividend policy, refer to Section 6.6 – Liquidity and capital resources of the 2015 Annual MD&A.

6.7 Risks associated with financial instruments

The Canada Post Group of Companies uses a variety of financial instruments to carry out business activities, which are summarized in Section 6.7 – Risks associated with financial instruments of the 2015 Annual MD&A.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in external market factors, such as interest rates, foreign currency exchange rates and commodity prices. The Canada Post segment has an economic hedge program to mitigate its exposure to foreign exchange balances and forecasted sales denominated in special drawing rights. These forward contracts are not designated as hedges for accounting purposes. For more information on foreign exchange risk, refer to Note 11 – Fair Values and Risks Arising from Financial Instruments of the unaudited interim condensed consolidated financial statements for the 13 and 26 weeks ended July 2, 2016. There were no material changes to market risk during the second quarter of 2016.

Credit risk

Credit risk is the risk of financial loss due to the counterparty's inability to meet its contractual obligations. Credit risk arises from investments in corporations and financial institutions as well as credit exposures to wholesale and commercial customers, including outstanding receivables. Sales to consumers are settled by paying cash or using major credit cards. There were no material changes to credit risk during the second quarter of 2016.

Liquidity risk

Liquidity risk is the risk that the Group of Companies will not be able to meet its financial obligations as they fall due. Liquidity risk is managed by maintaining adequate cash reserves, banking facilities and reserve borrowing facilities, by monitoring forecasted and actual cash flows and matching the maturity profiles of financial assets and liabilities. There were no material changes to liquidity risk during the second quarter of 2016.

6.8 Contractual obligations and commitments

Contractual obligations and commitments are explained in Section 6.8 – Contractual obligations and commitments of the 2015 Annual MD&A. There were no material changes to contractual obligations and commitments during the second quarter of 2016.

6.9 Related party transactions

The Corporation has a variety of transactions with related parties both in the normal course of business and in the support of the Government of Canada's public policies. These transactions are not materially different from what is reported in Section 6.9 – Related party transactions of the 2015 Annual MD&A. For more information on related party transactions, refer to Note 14 – Related Party Transactions of the unaudited interim condensed consolidated financial statements for the 13 and 26 weeks ended July 2, 2016.

6.10 Contingent liabilities

Contingent liabilities are described in Note 10 – Contingent Liabilities of the unaudited interim condensed consolidated financial statements for the 13 and 26 weeks ended July 2, 2016. There were no material changes to contingent liabilities during the second quarter of 2016.

7 Changes in Financial Position

A discussion of significant changes in our assets and liabilities between July 2, 2016, and December 31, 2015

(in millions of dollars)

ASSETS	July 2, 2016	Dec. 31, 2015	Change	%	Explanation of change
Cash and cash equivalents	670	775	(105)	(13.6)	Refer to Section 6 – Liquidity and Capital Resources page 10.
Marketable securities	974	837	137	16.3	Mainly due to the investment of cash in short-term investments for higher returns.
Trade and other receivables	761	790	(29)	(3.6)	Primarily due to decreased receivables for the Purolator and Canada Post segments that resulted from lower sales in the second quarter of 2016 when compared to the fourth quarter of 2015.
Other assets	123	103	20	20.5	Mainly due to an increase in prepaid expenses and income tax receivable in the Purolator segment.
Total current assets	2,528	2,505	23	0.9	
Property, plant and equipment	2,653	2,738	(85)	(3.1)	Mainly due to depreciation in excess of acquisitions in the Canada Post segment.
Intangible assets	112	107	5	4.5	No material change.
Segregated securities	577	539	38	7.0	Mainly due to unrealized gains.
Pension benefit assets	115	157	(42)	(26.5)	Due to remeasurement losses on post-employment benefit plans resulting from a decrease in discount rates.
Deferred tax assets	2,191	1,540	651	42.2	Mainly due to the increase of temporary differences from remeasurement losses recognized in other comprehensive income for Canada Post's Registered Pension Plan and other post-employment benefits.
Goodwill	130	130	–	–	No change.
Other assets	4	4	–	24.4	No material change.
Total non-current assets	5,782	5,215	567	10.9	
Total assets	8,310	7,720	590	7.7	

(in millions of dollars)

LIABILITIES AND EQUITY	July 2, 2016	Dec. 31, 2015	Change	%	Explanation of change
Trade and other payables	428	530	(102)	(19.2)	Mainly due to decreased trade and sales tax payables in the Canada Post segment.
Salaries and benefits payable and related provisions	462	434	28	6.3	Mainly due to increased statutory deductions payable and accrued salaries in the Canada Post segment.
Provisions	74	65	9	13.8	Mainly due to increases in legal and grievance provisions in the Canada Post segment and restructuring costs in the Purolator segment.
Income tax payable	2	65	(63)	(96.9)	Mainly due to the payment of an expected tax liability for the Canada Post segment.
Deferred revenue	103	124	(21)	(16.5)	Mainly due to lower customer credit balances and a reduction in stamp and meter deferrals.
Loans and borrowings	20	76	(56)	(73.6)	Mainly due to the repayment of non-redeemable bonds that matured in March 2016.
Other long-term benefit liabilities	62	62	–	–	No change.
Total current liabilities	1,151	1,356	(205)	(15.1)	
Loans and borrowings	1,049	1,059	(10)	(1.0)	Mainly due to the repayment of some finance lease obligations in the Purolator segment.
Pension, other post-employment and other long-term benefit liabilities	8,973	6,398	2,575	40.2	Mainly due to remeasurement losses on post-employment benefit plans in the Canada Post segment that are attributable to a decrease in discount rates.
Other liabilities	28	31	(3)	(5.3)	No material change.
Total non-current liabilities	10,050	7,488	2,562	34.2	
Total liabilities	11,201	8,844	2,357	26.7	
Equity					
Contributed capital	1,155	1,155	–	–	No change.
Accumulated other comprehensive income	68	48	20	40.9	Mainly due to the net unrealized gains on available-for-sale financial assets in the Canada Post segment.
Accumulated deficit	(4,133)	(2,354)	(1,779)	(75.6)	Mainly due to remeasurement losses on post-employment benefit plans as a result of a decrease in discount rates.
Equity of Canada	(2,910)	(1,151)	(1,759)	(153.0)	
Non-controlling interests	19	27	(8)	(30.2)	
Total equity	(2,891)	(1,124)	(1,767)	(157.3)	
Total liabilities and equity	8,310	7,720	590	7.7	

8 Discussion of Operations

A detailed discussion of our financial performance

8.1 Summary of quarterly results

Consolidated results by quarter

The following table shows the Group of Companies' consolidated results for the last eight quarters. Volumes have historically varied throughout the year, with the highest demand for services occurring during the holiday season in the fourth quarter. Volumes typically decline over the following quarters, reaching their lowest level during the summer months, in the third quarter. The Group of Companies' significant fixed costs do not vary, in the short term, as a result of these changes in demand for its services. The quarterly results can also be affected by the number of business (trading) and paid days, which can vary by quarter. Additional business days result in increased revenue, while additional paid days result in increased cost of operations. In the first two quarters of 2016, there was one less business day and one less paid day in comparison to the same period in 2015. This represents a timing difference that will be eliminated by the end of 2016.

(in millions of dollars)	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2014	Q3 2014
Revenue from operations	1,977	2,017	2,092	1,903	1,947	2,064	2,233	1,874
Cost of operations	1,958	1,973	1,975	1,884	1,943	2,035	2,034	1,842
Profit from operations	19	44	117	19	4	29	199	32
Investing and financing income (expense), net	(10)	(9)	(9)	(9)	(8)	(7)	(14)	3
Profit (loss) before tax	9	35	108	10	(4)	22	185	35
Tax expense (income)	1	11	29	2	(2)	8	48	13
Net profit (loss)	8	24	79	8	(2)	14	137	22

8.2 Consolidated results from operations

Consolidated results for the second quarter and first two quarters of 2016

(in millions of dollars)	13 weeks ended				26 weeks ended			
	July 2, 2016	July 4, 2015	Change	%	July 2, 2016	July 4, 2015	Change	%
Revenue from operations	1,977	1,947	30	1.5	3,994	4,011	(17)	0.3 ¹
Cost of operations	1,958	1,943	15	0.8	3,931	3,978	(47)	(0.4) ¹
Profit from operations	19	4	15	373.4	63	33	30	88.0
Investing and financing income (expense), net	(10)	(8)	(2)	(27.1)	(19)	(15)	(4)	(25.1)
Profit (loss) before tax	9	(4)	13	-	44	18	26	138.7
Tax expense (income)	1	(2)	3	-	12	6	6	79.3
Net profit (loss)	8	(2)	10	-	32	12	20	171.6
Other comprehensive income (loss)	(763)	1,230	(1,993)	-	(1,798)	972	(2,770)	-
Comprehensive income (loss)	(755)	1,228	(1,983)	-	(1,766)	984	(2,750)	-

1. Adjusted for trading days or paid days, where applicable.

The Canada Post Group of Companies reported a profit before tax of \$9 million for the second quarter of 2016, compared to a loss before tax of \$4 million in the second quarter of 2015. For the first two quarters of 2016, the profit before tax was \$44 million, an increase of \$26 million compared to the same period in 2015. Increases in profit before tax in 2016 were primarily driven by the Canada Post segment. Also, in the first two quarters of 2016, there was one less business day and one less paid day, compared to the same period in 2015. A detailed discussion by segment follows in sections 8.4 to 8.6.

Consolidated revenue from operations

For the second quarter of 2016, revenue from operations increased by \$30 million when compared to the same quarter in 2015 primarily due to Parcels growth and additional mail generated by the 2016 Census in the Canada Post segment, partially offset by lower revenues in the Purolator segment due to lower volumes. For the first two quarters of 2016, revenue from operations decreased by \$17 million, when compared to the same period in 2015 mainly due to Lettermail™ erosion in the Canada Post segment, a decrease in revenue in the Purolator segment driven by reduced courier volumes, and one less business day in the first two quarters of 2016 compared to the same period in 2015. This was partially offset by Parcels growth in the Canada Post segment. A detailed discussion of revenue by segment follows in sections 8.4 to 8.6.

Consolidated cost of operations

The cost of operations increased by \$15 million in the second quarter of 2016 when compared to the same quarter last year, mainly due to higher labour costs, partially offset by lower employee benefit expenses and lower program expenses related to the suspension of the Five-point Action Plan in the Canada Post segment. For the first two quarters of 2016, costs of operations decreased by \$47 million when compared to the same period in 2015. The results of the first two quarters were mainly due to lower employee benefit and program expenses the Canada Post segment and one less paid day in the first two quarters of 2016 compared to the same period in 2015. A detailed discussion by segment follows in sections 8.4 to 8.6.

Consolidated tax expense

The consolidated tax expense for the second quarter and first two quarters of 2016 increased by \$3 million and \$6 million, respectively, compared to the same periods in the prior year, primarily driven by an increase in the Group of Companies' profit before tax.

Consolidated other comprehensive income (loss)

The consolidated other comprehensive loss for the second quarter and the first two quarters of 2016 amounted to \$763 million and \$1,798 million, respectively. The losses were mainly due to remeasurement losses on pension and other post-employment plans resulting from a decrease in discount rates. Volatility, caused by fluctuations in pension plan investment returns and changes to the discount rates used to measure these plans, continued to have a significant impact on the Group of Companies' other comprehensive income (loss).

8.3 Operating results by segment

Segmented results – profit (loss) before tax

(in millions of dollars)	13 weeks ended				26 weeks ended			
	July 2, 2016	July 4, 2015	Change	%	July 2, 2016	July 4, 2015	Change	%
Canada Post	1	(31)	32	–	45	(7)	52	–
Purolator	15	23	(8)	(35.8)	3	17	(14)	(81.1)
Logistics	5	5	–	(8.4)	9	9	–	(2.4)
Other	(12)	(1)	(11)	–	(13)	(1)	(12)	–
Canada Post Group of Companies	9	(4)	13	–	44	18	26	138.7

A detailed discussion of operating results by segment follows in sections 8.4 to 8.6.

8.4 Canada Post segment

The Canada Post segment recorded a profit before tax of \$1 million in the second quarter of 2016, compared to a loss before tax of \$31 million in the second quarter of 2015. For the first two quarters of 2016, Canada Post recorded a profit before tax of \$45 million compared to a loss before tax of \$7 million in same period in 2015. The \$32 million and \$52 million increases were mainly due to Parcels revenue growth, additional mail generated by the 2016 Census, lower employee benefit expenses and lower program expenses related to the suspension of the Five-point Action Plan, offset by an increase in labour costs. There was also one less business day and one less paid day in the first two quarters of 2016 compared to the same period in 2015. This represents a timing difference that will be eliminated by the end of 2016.

Canada Post results for the second quarter and first two quarters of 2016

(in millions of dollars)	13 weeks ended				26 weeks ended			
	July 2, 2016	July 4, 2015	Change	%	July 2, 2016	July 4, 2015	Change	%
Revenue from operations	1,559	1,518	41	2.8	3,185	3,155	30	1.8 ¹
Cost of operations	1,560	1,542	18	1.2	3,134	3,148	(14)	0.4 ¹
Profit (loss) from operations	(1)	(24)	23	-	51	7	44	602.5
Investing and financing income (expense), net	2	(7)	9	-	(6)	(14)	8	60.1
Profit (loss) before tax	1	(31)	32	-	45	(7)	52	-
Tax expense (income)	(5)	(10)	5	46.5	8	(2)	10	-
Net profit (loss)	6	(21)	27	-	37	(5)	42	-

1. Adjusted for trading days or paid days, where applicable.

Revenue from operations

Canada Post earned revenue from operations of \$1,559 million in the second quarter of 2016 – an increase of \$41 million or 2.8% when compared to the same quarter in 2015. The increase was primarily due to solid growth in Parcels and increased Transaction Mail revenues because of the 2016 Census, partially offset by a decline in Direct Marketing revenue. For the first two quarters of 2016, Canada Post generated revenue of \$3,185 million, an increase of \$30 million or 1.8%¹ compared to the same period in 2015. The increase in revenue was primarily due to continued growth in Parcels revenue, partially offset by Lettermail erosion, a drop in Direct Marketing revenue and one less business day in the first two quarters of 2016 compared to the same period in 2015.

The prolonged negotiations with the Canadian Union of Postal Workers and the risk of a work disruption had a minimal impact on the Canada Post segment revenues in the second quarter of 2016; however, many customers started to make alternate arrangements to secure their mail and parcel deliveries later in the quarter. Although discussions between parties are still ongoing, the lingering uncertainty due to a possible labour disruption has the potential for significant long-term harm to the Corporation.

Quarterly revenue by line of business

(in millions of dollars)	13 weeks ended				26 weeks ended			
	July 2, 2016	July 4, 2015	Change	%	July 2, 2016	July 4, 2015	Change	% ¹
Transaction Mail	784	779	5	0.7	1,633	1,668	(35)	(1.3)
Parcels	404	370	34	9.2	825	750	75	10.9
Direct Marketing	296	300	(4)	(1.3)	582	601	(19)	(2.4)
Other revenue	75	69	6	9.5	145	136	9	7.8
Total	1,559	1,518	41	2.8	3,185	3,155	30	1.8

1. Adjusted for trading days, where applicable.

Transaction Mail

Transaction Mail revenue of \$784 million for the second quarter of 2016 was made up of the following three product categories: Domestic Lettermail (\$717 million), Outbound Letter-post (\$28 million), and Inbound Letter-post (\$39 million).

In the second quarter of 2016, Transaction Mail revenue increased by \$5 million or 0.7%, while volumes decreased by 28 million pieces or 3.0% compared to the same period in 2015. For Domestic Lettermail, the largest product category, revenue increased by \$3 million or 0.5% and volumes decreased by 18 million pieces and 2.2%. Overall erosion was lower than prior periods due to additional mail (almost 27 million pieces or \$25 million in revenue) generated from the 2016 Census. Excluding these mailings, Transaction Mail volumes would have decreased by approximately 6% and revenue would have declined by \$20 million or approximately 3% in the second quarter of 2016, compared to the same period in 2015. The Transaction Mail erosion excluding the 2016 Census mail is consistent with prior periods.

In the first two quarters of 2016, Transaction Mail revenue decreased by \$35 million or 1.3%,¹ while volumes decreased by 111 million pieces or 5.0%¹ compared to the same period in 2015. For Domestic Lettermail, revenue decreased by \$37 million or 1.6%,¹ and volumes decreased by 89 million pieces or 4.3%¹. Overall erosion would have been higher except for the additional mail (almost 27 million pieces) generated from the 2016 Census. Excluding these mailings, Transaction Mail volumes would have decreased by approximately 6.4% and revenue would have declined by \$60 million or approximately 2.8% for the first two quarters of 2016, compared to the same period in 2015.

Volume declines were primarily driven by erosion due to electronic substitution. Demand for mail continues to steadily drop given the continued increase in the use of digital alternatives by households and businesses, the implementation of pay-for-paper initiatives by some of our largest customers, and the highly competitive environment.

Parcels

Parcels revenue of \$404 million for the second quarter of 2016 was made up of the following four product categories: Domestic Parcels (\$293 million), Outbound Parcels (\$52 million), Inbound Parcels (\$55 million), and Other (\$4 million).

Parcels revenue increased by \$34 million or 9.2%, while volumes increased by four million pieces or 8.5% when compared to the same period in the prior year. Domestic Parcels, the largest product category, continued its growth as revenue increased by \$32 million or 11.8%, and volumes grew by four million pieces or 11.9%.

In the first two quarters of 2016, Parcels revenue increased by \$75 million or 10.9%,¹ and volumes increased by nine million pieces or 11.4%¹ when compared to the same period in 2015. For Domestic Parcels, revenue increased by \$72 million or 14.6%¹ and volumes increased by nine million pieces or 16.1%¹ in the first two quarters of 2016, compared to the same period last year.

The increase in revenue and volumes was propelled by a strong performance from our major commercial customers and our solid delivery performance. It reflects the growth in the business-to-consumer e-commerce delivery market as customers continue to order more products online.

Direct Marketing

Direct Marketing revenue of \$296 million for the second quarter of 2016 was made up of the following four categories: Canada Post Personalized Mail™, formerly Addressed Admail™ (\$131 million), Canada Post Neighbourhood Mail™, formerly Unaddressed Admail™ (\$107 million), Publications Mail™ (\$48 million), Business Reply Mail™ and Other mail (\$10 million).

In the second quarter of 2016, Direct Marketing revenue decreased by \$4 million or 1.3%, while volumes decreased by 35 million pieces or 2.8% when compared to the same period in 2015. Neighbourhood Mail, the largest volume product category, saw revenue decrease by \$1 million or 0.9%, while volumes declined by 27 million pieces or 2.8% compared to the same period in 2015, mainly due to volume decline in the parliamentary mail service. Personalized Mail revenue increased by \$1 million or 0.8%, while volumes declined by three million pieces or 1.0%. The volume decline was caused by commercial customers, especially in the financial, retail and telecommunications segments, reducing their marketing expenditures and redirecting some of them to other media channels. Publications Mail revenue decreased by \$4 million or 6.9%, and volumes were lower by five million pieces or 7.1%, due to a decline in mail publication subscriptions.

In the first two quarters of 2016, Direct Marketing revenue decreased by \$19 million or 2.4%,¹ while volumes decreased by 85 million pieces or 2.7%,¹ compared to the same period in 2015. Neighbourhood Mail revenue decreased by \$1 million, but when adjusted for trading days it grew by 0.3%¹ and volumes declined by 50 million pieces or 2.0%¹. Volumes were negatively affected by the volume decline of the parliamentary mail service. Personalized Mail™ revenue decreased by \$8 million or 2.2%¹ and volumes decreased by 20 million pieces or 2.9%¹. The declines were caused by commercial customers, especially in the financial, retail and telecommunications segments, reducing their marketing expenditures and redirecting some of them to other media channels. Publications Mail revenue declined by \$9 million or 7.9%¹ and volumes decreased by 14 million pieces or 8.4%¹ in the first two quarters of 2016 compared to the same period in 2015, due to a decline in mail publication subscriptions.

Other revenue

Other revenue totalled \$75 million in the second quarter of 2016 – an increase of \$6 million or 9.5%, when compared to the same period in the prior year. At the end of two quarters in 2016, revenue was \$145 million – an increase of \$9 million or 7.8%¹ compared to the same period in 2015.

1. Adjusted for trading days, where applicable.

Cost of operations

Cost of operations for the Canada Post segment amounted to \$1,560 million in the second quarter of 2016 – an increase of \$18 million or 1.2% when compared to the same quarter last year. The increase was mainly due to higher labour costs during the second quarter of 2016, partially offset by lower employee benefit expenses and lower program expenses related to the suspension of the Five-point Action Plan, when compared to the same period in 2015. After the first two quarters of 2016, the cost of operations was \$3,134 million – a decrease of \$14 million or 0.4%¹ compared to the same period in 2015, primarily due to one less paid day for the first two quarters of 2016 compared to 2015.

(in millions of dollars)	13 weeks ended				26 weeks ended			
	July 2, 2016	July 4, 2015	Change	%	July 2, 2016	July 4, 2015	Change	% ¹
Labour	802	764	38	5.0	1,585	1,546	39	3.3
Employee benefits	325	332	(7)	(1.9)	651	677	(26)	(3.1)
Total labour and employee benefits	1,127	1,096	31	2.9	2,236	2,223	13	1.4
Non-labour collection, processing and delivery	186	183	3	0.8	409	401	8	2.6
Property, facilities and maintenance	61	61	–	0.1	127	133	(6)	(3.3)
Selling, administrative and other	121	137	(16)	(11.3)	235	262	(27)	(9.4)
Total other operating costs	368	381	(13)	(3.7)	771	796	(25)	(2.4)
Depreciation and amortization	65	65	–	1.7	127	129	(2)	(0.3)
Total	1,560	1,542	18	1.2	3,134	3,148	(14)	0.4

1. Adjusted for paid days, where applicable.

Labour

Labour costs increased by \$38 million or 5.0% in the second quarter of 2016 and by \$39 million or 3.3%¹ in the first two quarters of 2016, when compared to the same periods in the previous year. The overall increase was primarily due to parcel volume growth and inflationary pressures, partially offset by one less paid day in the first two quarters of 2016 compared to 2015.

Employee benefits

Employee benefits decreased by \$7 million or 1.9% for the second quarter of 2016 and by \$26 million or 3.1%¹ in the first two quarters of 2016, when compared to the same periods in 2015. The decreases were mainly due to the positive impacts from an increase in the 2015 discount rates used to calculate benefit plan costs in 2016, as well as positive pension asset returns in 2015, offset by one less paid day in first two quarters of 2016 compared to 2015.

Non-labour collection, processing and delivery

Contracted collection, processing and delivery costs increased by \$3 million or 0.8% for the second quarter of 2016 and by \$8 million or 2.6%¹ for the first two quarters of 2016, when compared to the same periods in 2015, mainly due to higher international settlement costs, customs fees, and maintenance and repairs expenses.

Property, facilities and maintenance

The cost of facilities remained consistent in the second quarter of 2016 when compared to the same period last year. For the first two quarters of 2016, the cost of facilities decreased by \$6 million or 3.3%¹ compared to the same period in 2015, mainly due to a decrease in the cost of contract rent and utilities.

Selling, administrative and other

Selling, administrative and other expenses decreased by \$16 million or 11.3% for the second quarter of 2016 and by \$27 million or 9.4%¹ for the first two quarters of 2016, when compared to the same period last year, mainly due to lower program expenses relating to the suspension of the Five-point Action Plan.

Depreciation and amortization

Depreciation and amortization expense remained consistent in the second quarter of 2016 and for the first two quarters of 2016 decreased by \$2 million, compared to the same periods in 2015.

1. Adjusted for paid days, where applicable.

8.5 Purolator segment

The Purolator segment contributed a net profit of \$11 million for the second quarter of 2016, a decrease of 37.4% when compared to the same period in the prior year. For the first two quarters of 2016, Purolator earned a net profit of \$2 million, a decrease of 87.2% when compared to the prior year.

Purolator results for the second quarter and first two quarters of 2016

(in millions of dollars)	13 weeks ended				26 weeks ended			
	July 2, 2016	July 4, 2015	Change	%	July 2, 2016	July 4, 2015	Change	%
Revenue from operations	377	389	(12)	(3.5)	727	791	(64)	(7.5) ¹
Cost of operations	361	365	(4)	(1.5)	723	773	(50)	(5.9) ¹
Profit from operations	16	24	(8)	(34.3)	4	18	(14)	(76.8)
Investing and financing income (expense), net	(1)	(1)	–	(48.6)	(1)	(1)	–	(85.1)
Profit before tax	15	23	(8)	(35.8)	3	17	(14)	(81.1)
Tax expense	4	7	(3)	(32.1)	1	6	(5)	(68.2)
Net profit	11	16	(5)	(37.4)	2	11	(9)	(87.2)

1. Adjusted for trading days or paid days, where applicable.

Revenue from operations

Purolator generated revenue from operations of \$377 million in the second quarter of 2016 – a decrease of \$12 million or 3.5% when compared to the same period last year. After the first two quarters of 2016, revenue totalled \$727 million – a decrease of \$64 million or 7.5%¹ compared to the same period in 2015. Decreases were mainly due to a reduction in volumes.

Cost of operations

Total labour costs

Total labour costs were \$192 million in the second quarter and \$382 million after the first two quarters of 2016. An increase of \$7 million or 4.0% in labour costs in the second quarter when compared to the same period in the prior year was due to restructuring costs. A decrease of \$1 million or 0.4%¹ in the first two quarters of 2016 when compared to the same period in 2015 was mainly due to a reduction in volumes.

Total non-labour costs

Total non-labour costs were \$169 million in the second quarter of 2016 – a decrease of \$11 million or 7.0% when compared to the same period in the prior year. After the first two quarters of 2016, total non-labour costs were \$341 million – a decrease of \$49 million or 12.2%¹ compared to the same period in 2015. Decreases were driven primarily by a reduction in volumes.

1. Adjusted for trading days or paid days, where applicable.

8.6 Logistics segment

The Logistics segment includes the financial results of SCI Group. The Logistics segment contributed \$4 million of net profit to the consolidated results for the second quarter of 2016, a decrease of 8.8% when compared to the same period in the prior year. For the first two quarters of 2016, the Logistics segment earned a net profit of \$7 million, a decrease of 2.8% when compared to the prior year.

Logistics results for the second quarter and first two quarters of 2016

(in millions of dollars)	13 weeks ended				26 weeks ended			
	July 2, 2016	July 4, 2015	Change	%	July 2, 2016	July 4, 2015	Change	%
Revenue from operations	63	63	–	(1.9)	126	123	3	1.4 ¹
Cost of operations	58	58	–	0.5	117	114	3	1.9 ¹
Profit from operations	5	5	–	(8.9)	9	9	–	(3.0)
Profit before tax	5	5	–	(8.4)	9	9	–	(2.4)
Tax expense	1	1	–	(7.1)	2	2	–	(1.1)
Net profit	4	4	–	(8.8)	7	7	–	(2.8)

1. Adjusted for trading days or paid days, where applicable.

Revenue from operations

SCI generated revenue from operations of \$63 million in the second quarter of 2016 – a decrease of 1.9%, when compared to the same period last year. After the first two quarters of 2016, revenue was \$126 million – an increase of \$3 million or 1.4%¹ when compared to the same period in 2015. The decrease in the second quarter of 2016 was mainly driven by lower volumes from certain clients, partially offset by growth from new clients and services. The increase for the first two quarters was mainly driven by volume growth from current clients and new services.

Cost of operations

Total labour costs

Total labour costs were \$29 million in the second quarter of 2016 – an increase of \$1 million or 4.8% when compared to the same period in the prior year. After the first two quarters of 2016, total labour costs were \$60 million – an increase of \$4 million or 6.9%¹ compared to the same period in 2015. Increases were primarily the result of changes in volume mix among current clients, as well as new business growth.

Total non-labour costs

Total non-labour costs were \$29 million in the second quarter of 2016 – a decrease of \$1 million or 3.6% when compared to the same period in the previous year. After the first two quarters of 2016, total non-labour costs were \$57 million – a decrease of \$1 million or 3.0%¹ when compared to the same period in 2015. Decreases were mainly due to changes in volume mix among current clients.

1. Adjusted for trading days or paid days, where applicable.

8.7 Consolidated results to plan

The first phase of the independent review of Canada Post announced by the Government of Canada began in May 2016. Canada Post will work with the Government of Canada to determine the best path forward given the ongoing challenges faced by the Canadian postal system. The 2016-2020 Corporate Plan for the Canada Post Group of Companies was not submitted to the Government of Canada in light of the review currently underway.

9 Critical Accounting Estimates and Accounting Policy Developments

A review of critical accounting estimates and changes in accounting policies in 2016 and future years

9.1 Critical accounting estimates and estimation uncertainties

The preparation of the Corporation's interim condensed consolidated financial statements requires management to make complex or subjective judgments, estimates and assumptions based on existing knowledge that affect reported amounts and disclosures in the interim condensed consolidated financial statements and accompanying notes. Actual results may differ from the judgments, estimates and assumptions. It is reasonably possible that management's reassessments of these and other estimates and assumptions in the near term, as well as actual results, could require a material change in reported amounts and disclosures in the consolidated financial statements of future periods.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period when estimates are revised if revisions affect only that period, or in the period of revision and future periods if revisions affect both current and future periods.

The Group of Companies' critical accounting estimates remain substantially unchanged from the prior year. For additional information, refer to our discussion of critical accounting estimates in the 2015 Annual MD&A and Note 3 – Critical Accounting Estimates and Judgments of the 2015 consolidated financial statements, which are contained in the *Canada Post Corporation 2015 Annual Report*.

9.2 Accounting pronouncements

(a) New standards, amendments and interpretations

There were no new standards, amendments or interpretations issued by the International Accounting Standards Board (IASB) or the IFRS Interpretations Committee that required mandatory adoption in the second quarter of 2016.

(b) Standards, amendments and interpretations not yet in effect

The following table presents standards and amendments issued by the IASB, which were assessed as having a possible impact on the Group of Companies in the future. The Group of Companies is determining the impact, if any, of the standards and amendments on its consolidated financial statements.

Standard or amendment	Effective for annual periods beginning on or after
Disclosure Initiative – Amendments to IAS 7 “Statement of Cash Flows”	January 1, 2017
IFRS 15 “Revenue from Contracts with Customers”	January 1, 2018
Amendments to IFRS 15 “Revenue from Contracts with Customers”	January 1, 2018
IFRS 9 “Financial Instruments”	January 1, 2018
IFRS 16 “Leases”	January 1, 2019

Management's Responsibility for Interim Financial Reporting

Management is responsible for the preparation and fair presentation of these interim condensed consolidated financial statements in accordance with the Treasury Board of Canada's "Standard on Quarterly Financial Reports for Crown Corporations" and International Accounting Standard 34, "Interim Financial Reporting," and for such internal controls as management determines are necessary to enable the preparation of interim condensed consolidated financial statements that are free from material misstatement. Management is also responsible for ensuring that all other information in this quarterly financial report is consistent, where appropriate, with the interim condensed consolidated financial statements.

Based on our knowledge, these unaudited interim condensed consolidated financial statements present fairly, in all material respects, the financial position, financial performance and cash flows of the Corporation, as at the date of and for the periods presented in the interim condensed consolidated financial statements.



President and Chief Executive Officer



Chief Financial Officer

August 25, 2016

Interim Condensed Consolidated Statement of Financial Position

As at

(Unaudited – in millions of Canadian dollars)

	Notes	July 2, 2016	December 31, 2015
Assets			
Current assets			
Cash and cash equivalents		\$ 670	\$ 775
Marketable securities		974	837
Trade and other receivables		761	790
Other assets	4	123	103
Total current assets		2,528	2,505
Non-current assets			
Property, plant and equipment	5	2,653	2,738
Intangible assets	5	112	107
Segregated securities		577	539
Pension benefit assets	6	115	157
Deferred tax assets		2,191	1,540
Goodwill		130	130
Other assets		4	4
Total non-current assets		5,782	5,215
Total assets		\$ 8,310	\$ 7,720
Liabilities and equity			
Current liabilities			
Trade and other payables		\$ 428	\$ 530
Salaries and benefits payable and related provisions		462	434
Provisions	9	74	65
Income tax payable		2	65
Deferred revenue		103	124
Loans and borrowings		20	76
Other long-term benefit liabilities	6	62	62
Total current liabilities		1,151	1,356
Non-current liabilities			
Loans and borrowings		1,049	1,059
Pension, other post-employment and other long-term benefit liabilities	6	8,973	6,398
Other liabilities		28	31
Total non-current liabilities		10,050	7,488
Total liabilities		11,201	8,844
Equity			
Contributed capital		1,155	1,155
Accumulated other comprehensive income		68	48
Accumulated deficit		(4,133)	(2,354)
Equity of Canada		(2,910)	(1,151)
Non-controlling interests		19	27
Total equity		(2,891)	(1,124)
Total liabilities and equity		\$ 8,310	\$ 7,720
Contingent liabilities	10		

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

Interim Condensed Consolidated Statement of Comprehensive Income

For the		13 weeks ended		26 weeks ended	
	Notes	July 2, 2016	July 4, 2015	July 2, 2016	July 4, 2015
(Unaudited – in millions of Canadian dollars)					
Revenue from operations		\$ 1,977	\$ 1,947	\$ 3,994	\$ 4,011
Cost of operations					
Labour		1,001	954	1,980	1,935
Employee benefits, including gains from plan amendments	6	374	379	752	778
		1,375	1,333	2,732	2,713
Other operating costs	12	503	531	1,042	1,107
Depreciation and amortization	5	80	79	157	158
Total cost of operations		1,958	1,943	3,931	3,978
Profit from operations		19	4	63	33
Investing and financing income (expense)					
Investment and other income	13	2	5	5	10
Finance costs and other expense	13	(12)	(13)	(24)	(25)
Investing and financing income (expense), net		(10)	(8)	(19)	(15)
Profit (loss) before tax		9	(4)	44	18
Tax expense (income)	7	1	(2)	12	6
Net profit (loss)		\$ 8	\$ (2)	\$ 32	\$ 12
Other comprehensive income (loss)					
Items that may be reclassified subsequently to net profit (loss)					
Unrealized gains (losses) on available-for-sale financial assets	8	\$ 14	\$ (23)	\$ 21	\$ –
Foreign currency translation adjustment	8	–	1	(1)	2
Items that will not be reclassified to net profit (loss)					
Remeasurements of defined benefit plans	8	(777)	1,252	(1,818)	970
Other comprehensive income (loss)		(763)	1,230	(1,798)	972
Comprehensive income (loss)		\$ (755)	\$ 1,228	\$ (1,766)	\$ 984
Net profit (loss) attributable to					
Government of Canada		\$ 7	\$ (3)	\$ 32	\$ 11
Non-controlling interests		1	1	–	1
		\$ 8	\$ (2)	\$ 32	\$ 12
Comprehensive income (loss) attributable to					
Government of Canada		\$ (753)	\$ 1,224	\$ (1,759)	\$ 982
Non-controlling interests		(2)	4	(7)	2
		\$ (755)	\$ 1,228	\$ (1,766)	\$ 984

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

Interim Condensed Consolidated Statement of Changes in Equity

For the 13 weeks ended July 2, 2016 (Unaudited – in millions of Canadian dollars)	Contributed capital	Accumulated other comprehensive income	Accumulated deficit	Equity of Canada	Non-controlling interests	Total equity
Balance at April 2, 2016	\$ 1,155	\$ 54	\$ (3,366)	\$ (2,157)	\$ 22	\$ (2,135)
Net profit	–	–	7	7	1	8
Other comprehensive income (loss)	–	14	(774)	(760)	(3)	(763)
Comprehensive income (loss)	–	14	(767)	(753)	(2)	(755)
Transactions with shareholders – Dividend	–	–	–	–	(1)	(1)
Balance at July 2, 2016	\$ 1,155	\$ 68	\$ (4,133)	\$ (2,910)	\$ 19	\$ (2,891)

For the 13 weeks ended July 4, 2015 (Unaudited – in millions of Canadian dollars)	Contributed capital	Accumulated other comprehensive income	Accumulated deficit	Equity of Canada	Non-controlling interests	Total equity
Balance at April 4, 2015	\$ 1,155	\$ 78	\$ (3,510)	\$ (2,277)	\$ 22	\$ (2,255)
Net profit (loss)	–	–	(3)	(3)	1	(2)
Other comprehensive income (loss)	–	(22)	1,249	1,227	3	1,230
Comprehensive income (loss)	–	(22)	1,246	1,224	4	1,228
Balance at July 4, 2015	\$ 1,155	\$ 56	\$ (2,264)	\$ (1,053)	\$ 26	\$ (1,027)

For the 26 weeks ended July 2, 2016 (Unaudited – in millions of Canadian dollars)	Contributed capital	Accumulated other comprehensive income	Accumulated deficit	Equity of Canada	Non-controlling interests	Total equity
Balance at December 31, 2015	\$ 1,155	\$ 48	\$ (2,354)	\$ (1,151)	\$ 27	\$ (1,124)
Net profit	–	–	32	32	–	32
Other comprehensive income (loss)	–	20	(1,811)	(1,791)	(7)	(1,798)
Comprehensive income (loss)	–	20	(1,779)	(1,759)	(7)	(1,766)
Transactions with shareholders – Dividend	–	–	–	–	(1)	(1)
Balance at July 2, 2016	\$ 1,155	\$ 68	\$ (4,133)	\$ (2,910)	\$ 19	\$ (2,891)

For the 26 weeks ended July 4, 2015 (Unaudited – in millions of Canadian dollars)	Contributed capital	Accumulated other comprehensive income	Accumulated deficit	Equity of Canada	Non-controlling interests	Total equity
Balance at December 31, 2014	\$ 1,155	\$ 54	\$ (3,244)	\$ (2,035)	\$ 24	\$ (2,011)
Net profit	–	–	11	11	1	12
Other comprehensive income	–	2	969	971	1	972
Comprehensive income	–	2	980	982	2	984
Balance at July 4, 2015	\$ 1,155	\$ 56	\$ (2,264)	\$ (1,053)	\$ 26	\$ (1,027)

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

Interim Condensed Consolidated Statement of Cash Flows

For the	13 weeks ended		26 weeks ended		
	Notes	July 2, 2016	July 4, 2015	July 2, 2016	July 4, 2015
(Unaudited – in millions of Canadian dollars)					
Cash flows from operating activities					
Net profit (loss)		\$ 8	\$ (2)	\$ 32	\$ 12
Adjustments to reconcile net profit to cash provided by operating activities:					
Depreciation and amortization	5	80	79	157	158
Pension, other post-employment and other long-term benefit expense	6	221	232	444	471
Pension, other post-employment and other long-term benefit payments	6	(122)	(123)	(254)	(263)
Gain (loss) on sale of capital assets and assets held for sale	13	3	(3)	3	(3)
Tax expense (income)	7	1	(2)	12	6
Net interest expense	13	7	10	16	17
Change in non-cash operating working capital:					
(Increase) decrease in trade and other receivables		(10)	18	30	11
(Decrease) increase in trade and other payables		(16)	1	(103)	(96)
(Decrease) increase in salaries and benefits payable and related provisions		(43)	(106)	27	(61)
Increase (decrease) in provisions		5	–	9	(2)
Net increase in other non-cash operating working capital		(22)	(12)	(34)	(36)
Other income not affecting cash, net		(6)	(5)	(13)	(12)
Cash provided by operations before interest and tax		106	87	326	202
Interest received		11	11	17	18
Interest paid		–	(1)	(25)	(26)
Tax paid		(39)	(20)	(130)	(84)
Cash provided by operating activities		78	77	188	110
Cash flows from investing activities					
Acquisition of securities		(479)	(228)	(940)	(636)
Proceeds from sale of securities		397	209	794	558
Acquisition of capital assets		(51)	(67)	(78)	(121)
Proceeds from sale of capital assets		–	1	–	5
Cash used in investing activities		(133)	(85)	(224)	(194)
Cash flows from financing activities					
Repayment of loans and borrowings		–	–	(55)	–
Payments on finance lease obligations		(5)	(4)	(12)	(9)
Dividend paid to non-controlling interests		(1)	–	(1)	–
Cash used in financing activities		(6)	(4)	(68)	(9)
Net decrease in cash and cash equivalents					
Cash and cash equivalents, beginning of period		731	597	775	677
Effect of exchange rate changes on cash and cash equivalents		–	1	(1)	2
Cash and cash equivalents, end of period		\$ 670	\$ 586	\$ 670	\$ 586

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

Notes to Interim Condensed Consolidated Financial Statements

For the 13 and 26 weeks ended July 2, 2016
(Unaudited – in millions of Canadian dollars, unless otherwise indicated)

1. Incorporation, Business Activities and Directives

Established by the *Canada Post Corporation Act* in 1981, Canada Post Corporation (Corporation) is a Crown corporation included in Part II of Schedule III to the *Financial Administration Act* and is an agent of Her Majesty. The Corporation's head office is located at 2701 Riverside Drive, Ottawa, Ontario, Canada.

The Corporation operates a postal service for the collection, transmission and delivery of messages, information, funds and goods, both within Canada and between Canada and places outside Canada. While maintaining basic customary postal services, the *Canada Post Corporation Act* requires the Corporation to carry out its statutory objects, with regard to the need to conduct its operations on a self-sustaining financial basis, while providing a standard of service that will meet the needs of the people of Canada and that is similar with respect to communities of the same size.

Under the *Canada Post Corporation Act*, the Corporation has the sole and exclusive privilege (with some exceptions) of collecting, transmitting and delivering letters to the addressee thereof within Canada. Other lines of business not covered by the exclusive privilege include Parcels and Direct Marketing products and services.

In December 2006, the Corporation was issued a directive pursuant to section 89 of the *Financial Administration Act* to restore and maintain its mail delivery at rural roadside mailboxes that were serviced by the Corporation September 1, 2005, while respecting all applicable laws. The Corporation's assessment of the safety risks related to rural roadside mailboxes was completed at the end of 2013, and applicable corrective measures were implemented over the course of the assessment, as required.

In December 2013, the Corporation was issued an order pursuant to section 89 of the *Financial Administration Act* to a) with respect to collective agreements that expire in 2014 or later, have its negotiating mandates approved by Treasury Board, and b) obtain Treasury Board approval before fixing the terms and conditions of employment of non-unionized employees who are not appointed by the Governor in Council. On June 3, 2016, paragraph a) of this order was repealed such that Treasury Board approval of the Corporation's negotiating mandates is no longer required.

In July 2015, the Corporation was issued a directive pursuant to section 89 of the *Financial Administration Act* to align its travel, hospitality, conference and event expenditure policies, guidelines and practices with Treasury Board policies, directives and related instruments in a manner that is consistent with the Corporation's legal obligations, and to report on the implementation of the directive in the Corporation's next Corporate Plan. The Corporation is reviewing its current corporate policies as well as Treasury Board policies, directives and related instruments to align its travel, hospitality, conference and event expenditure policies, guidelines and practices with those of Treasury Board, without undue delays and no later than 2017.

2. Basis of Presentation

Statement of compliance • The Corporation has prepared its interim condensed consolidated financial statements in compliance with IAS 34 "Interim Financial Reporting." As permitted under this standard, these interim condensed consolidated financial statements do not include all of the disclosures required for annual consolidated financial statements, and should be read in conjunction with the Corporation's audited consolidated financial statements for its fiscal year ended December 31, 2015.

These interim condensed consolidated financial statements have been prepared based on International Financial Reporting Standards (IFRS) issued and effective as at the reporting date. They were approved and authorized for issue by the Board of Directors August 25, 2016.

Basis of presentation • These interim condensed consolidated financial statements have been prepared on a historical cost basis, except as permitted by IFRS and as otherwise indicated within these notes. Although the Corporation's year end of December 31 matches the calendar year end, the Corporation's quarter end dates do not necessarily coincide with calendar year quarters; instead, each of the Corporation's quarters contains 13 weeks. Amounts are shown in millions, unless otherwise noted.

Functional and presentation currency • These interim condensed consolidated financial statements are presented in Canadian dollars, which is the functional currency of the Corporation.

Seasonality • The volume of the Corporation’s consolidated operations has historically varied during the year, with the highest demand for services experienced over the holiday season during the fourth quarter of each year. For the first three quarters of the year, the level of demand typically declines on a steady basis, with the lowest demand for services occurring during the summer months in the third quarter. The consolidated operations include significant fixed costs, which do not vary in the short term with these changes in demand for services.

Significant accounting policies • Significant accounting policies used in these interim condensed consolidated financial statements are disclosed in Note 2 of the Corporation’s annual consolidated financial statements for the year ended December 31, 2015, except for the application of new standards, amendments and interpretations effective January 1, 2016, disclosed in Note 3 of the interim condensed consolidated financial statements of the 13-week period ended April 2, 2016. The accounting policies have been applied consistently to all periods presented, unless otherwise indicated.

Basis of consolidation • These interim condensed consolidated financial statements include the accounts of the Corporation and its subsidiaries, Purolator Holdings Ltd. (Purolator), SCI Group Inc. (SCI) and Innovapost Inc. (Innovapost). The Corporation, Purolator, SCI and Innovapost are collectively referred to as the “Canada Post Group of Companies” or the “Group of Companies”.

Critical accounting judgments and key sources of estimation uncertainty • The preparation of the Corporation’s interim condensed consolidated financial statements requires management to make complex or subjective judgments, estimates and assumptions based on existing knowledge that affect reported amounts and disclosures in the interim condensed consolidated financial statements and accompanying notes. Actual results may differ from the judgments, estimates and assumptions. It is reasonably possible that management’s reassessments of these and other estimates and assumptions in the near term, as well as actual results, could require a material change in reported amounts and disclosures in the consolidated financial statements of future periods.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which estimates are revised if revisions affect only that period, or in the period of revision and future periods if revisions affect both current and future periods. Critical judgments and key sources of estimation uncertainty are disclosed in Note 3 of the Corporation’s annual consolidated financial statements for the year ended December 31, 2015.

3. Application of New and Revised International Financial Reporting Standards

(a) New standards, amendments and interpretations

There were no new standards, amendments or interpretations issued by the International Accounting Standards Board (IASB) or the IFRS Interpretations Committee (Interpretations Committee) that required mandatory adoption in the second quarter.

(b) Standards, amendments and interpretations not yet in effect

There were no new standards, amendments and interpretations issued by the IASB or the Interpretations Committee that would have a possible effect on the Group of Companies in the future. The standards, amendments and interpretations not yet in effect are disclosed in Note 4 (b) of the Corporation’s annual consolidated financial statements for the year ended December 31, 2015, and in Note 3 (b) of the Corporation’s interim condensed consolidated financial statements for the 13 weeks ended April 2, 2016.

4. Other Current Assets

As at	July 2, 2016	December 31, 2015
Income tax receivable	\$ 14	\$ 6
Prepaid expenses	107	94
Assets held for sale	2	3
Total other current assets	\$ 123	\$ 103

As at July 2, 2016, all of the properties classified as held for sale were from the Canada Post segment. It is anticipated that the carrying amount of the properties will be fully recovered through the sale proceeds.

5. Capital Assets

(a) Property, plant and equipment

	Land	Buildings	Leasehold improvements	Plant equipment	Vehicles	Sales counters, office furniture and equipment	Other equipment	Assets under development	Total
Cost									
December 31, 2015	\$ 315	\$ 2,018	\$ 273	\$ 1,315	\$ 524	\$ 421	\$ 904	\$ 89	\$ 5,859
Additions	–	15	3	7	4	5	7	13	54
Reclassified as held for sale	–	(2)	–	–	–	–	–	–	(2)
Retirements	–	–	–	(2)	(1)	(1)	(3)	–	(7)
Transfers	–	7	1	2	–	–	8	(18)	–
July 2, 2016	\$ 315	\$ 2,038	\$ 277	\$ 1,322	\$ 527	\$ 425	\$ 916	\$ 84	\$ 5,904
Accumulated depreciation									
December 31, 2015	\$ –	\$ 1,013	\$ 210	\$ 764	\$ 305	\$ 351	\$ 478	\$ –	\$ 3,121
Depreciation	–	28	7	43	25	12	22	–	137
Reclassified as held for sale	–	(2)	–	–	–	–	–	–	(2)
Retirements	–	–	–	(1)	(1)	–	(3)	–	(5)
July 2, 2016	\$ –	\$ 1,039	\$ 217	\$ 806	\$ 329	\$ 363	\$ 497	\$ –	\$ 3,251
Carrying amounts									
December 31, 2015	\$ 315	\$ 1,005	\$ 63	\$ 551	\$ 219	\$ 70	\$ 426	\$ 89	\$ 2,738
July 2, 2016	\$ 315	\$ 999	\$ 60	\$ 516	\$ 198	\$ 62	\$ 419	\$ 84	\$ 2,653

(b) Intangible assets

	Software	Software under development	Customer contracts and relationships	Total
Cost				
December 31, 2015	\$ 684	\$ 21	\$ 30	\$ 735
Additions	2	23	–	25
July 2, 2016	\$ 686	\$ 44	\$ 30	\$ 760
Accumulated amortization				
December 31, 2015	\$ 601	\$ –	\$ 27	\$ 628
Amortization	20	–	–	20
July 2, 2016	\$ 621	\$ –	\$ 27	\$ 648
Carrying amounts				
December 31, 2015	\$ 83	\$ 21	\$ 3	\$ 107
July 2, 2016	\$ 65	\$ 44	\$ 3	\$ 112

6. Pension, Other Post-employment and Other Long-term Benefit Plans

(a) Net defined benefit liability

The net defined benefit liability was recognized and presented in the interim condensed consolidated statement of financial position as follows:

As at	July 2, 2016	December 31, 2015
Pension benefit assets	\$ 115	\$ 157
Pension benefit liabilities	\$ 5,070	\$ 2,820
Other post-employment and other long-term benefit liabilities	3,965	3,640
Total pension, other post-employment and other long-term benefit liabilities	\$ 9,035	\$ 6,460
Current other long-term benefit liabilities	\$ 62	\$ 62
Non-current pension, other post-employment and other long-term benefit liabilities	\$ 8,973	\$ 6,398

(b) Defined benefit and defined contribution costs

The defined benefit and defined contribution costs components recognized in the interim condensed consolidated statement of comprehensive income were as follows:

For the 13 weeks ended	July 2, 2016			July 4, 2015		
	Pension benefit plans	Other benefit plans	Total	Pension benefit plans	Other benefit plans	Total
Current service cost	\$ 122	\$ 27	\$ 149	\$ 127	\$ 28	\$ 155
Interest cost	263	38	301	253	36	289
Interest income on plan assets	(235)	–	(235)	(218)	–	(218)
Other administration costs	3	–	3	4	–	4
Defined benefit expense	153	65	218	166	64	230
Defined contribution expense	3	–	3	2	–	2
Total expense	156	65	221	168	64	232
Return on segregated securities	–	(5)	(5)	–	(5)	(5)
Component included in employee benefits expense	\$ 156	\$ 60	\$ 216	\$ 168	\$ 59	\$ 227
Remeasurement losses (gains):						
Return on plan assets, excluding interest income on plan assets	\$ (334)	\$ –	\$ (334)	\$ 267	\$ –	\$ 267
Actuarial losses (gains)	1,203	168	1,371	(1,729)	(207)	(1,936)
Component included in other comprehensive income (loss)	\$ 869	\$ 168	\$ 1,037	\$ (1,462)	\$ (207)	\$ (1,669)

For the 26 weeks ended	July 2, 2016			July 4, 2015		
	Pension benefit plans	Other benefit plans	Total	Pension benefit plans	Other benefit plans	Total
Current service cost	\$ 245	\$ 54	\$ 299	\$ 259	\$ 57	\$ 316
Interest cost	529	76	605	513	73	586
Interest income on plan assets	(473)	–	(473)	(443)	–	(443)
Other administration costs	7	–	7	7	–	7
Defined benefit expense	308	130	438	336	130	466
Defined contribution expense	6	–	6	5	–	5
Total expense	314	130	444	341	130	471
Return on segregated securities	–	(10)	(10)	–	(10)	(10)
Component included in employee benefits expense	\$ 314	\$ 120	\$ 434	\$ 341	\$ 120	\$ 461
Remeasurement losses (gains):						
Return on plan assets, excluding interest income on plan assets	\$ 91	\$ –	\$ 91	\$ (835)	\$ –	\$ (835)
Actuarial losses (gains)	2,064	272	2,336	(407)	(50)	(457)
Component included in other comprehensive income (loss)	\$ 2,155	\$ 272	\$ 2,427	\$ (1,242)	\$ (50)	\$ (1,292)

(c) Total cash payments

Total cash payments for pension, other post-employment and other long-term benefits for the Group of Companies were as follows:

For the	13 weeks ended		26 weeks ended	
	July 2, 2016	July 4, 2015	July 2, 2016	July 4, 2015
Benefits paid directly to beneficiaries for other benefit plans	\$ 41	\$ 39	\$ 77	\$ 79
Employer regular contributions to pension benefit plans	66	67	145	148
Employer special contributions to pension benefit plans	12	15	26	31
Cash payments for defined benefit plans	119	121	248	258
Contributions to defined contribution plans	3	2	6	5
Total cash payments	\$ 122	\$ 123	\$ 254	\$ 263

The estimates for the Group of Companies' total contributions to the defined benefit pension plans in 2016 did not change significantly from those disclosed in the Corporation's audited consolidated financial statements for the year ended December 31, 2015. These estimated total contributions take into consideration the Corporation's exemption from making special contributions into its Registered Pension Plan from 2014 to 2017, as permitted by the *Canada Post Corporation Pension Plan Funding Regulations*. In 2018, the Corporation expects that it will revert back to the regulations in the *Pension Benefits Standard Act, 1985*. Under these regulations, the aggregate amount of relief is limited to 15% of the fair value of plan assets, after which Canada Post, as plan sponsor, would be required to make special payments to eliminate any shortfalls of assets to liabilities, based on the actuarial valuations, over five years on a solvency basis and over 15 years on a going-concern basis.

7. Income Taxes

The Corporation is a prescribed Crown corporation for tax purposes and, as such, is subject to federal income taxation under the *Income Tax Act*. The Corporation's subsidiaries are subject to federal and provincial income taxes.

For the	13 weeks ended		26 weeks ended	
	July 2, 2016	July 4, 2015	July 2, 2016	July 4, 2015
Current tax expense	\$ 38	\$ 20	\$ 60	\$ 37
Deferred tax income relating to origination and reversal of temporary differences	(37)	(22)	(48)	(31)
Tax expense (income)	\$ 1	\$ (2)	\$ 12	\$ 6

8. Other Comprehensive Income (Loss)

	Items that may subsequently be reclassified to net profit (loss)			Item never reclassified to net profit (loss)	
	Change in unrealized fair value of available-for-sale financial assets – gains arising	Cumulative foreign currency translation adjustment	Accumulated other comprehensive income	Remeasurements of defined benefit plans	Other comprehensive loss
For the 13 weeks ended July 2, 2016					
Accumulated balance as at April 2, 2016	\$ 50	\$ 4	\$ 54		
Amount arising Income taxes	\$ 19 (5)	\$ – –	\$ 19 (5)	\$ (1,037) 260	\$ (1,018) 255
Net	\$ 14	\$ –	\$ 14	\$ (777)	\$ (763)
Accumulated balance as at July 2, 2016	\$ 64	\$ 4	\$ 68		

	Items that may subsequently be reclassified to net profit (loss)			Item never reclassified to net profit (loss)	
	Change in unrealized fair value of available-for-sale financial assets – gains arising	Cumulative foreign currency translation adjustment	Accumulated other comprehensive income	Remeasurements of defined benefit plans	Other comprehensive income
For the 13 weeks ended July 4, 2015					
Accumulated balance as at April 4, 2015	\$ 76	\$ 2	\$ 78		
Amount arising Income taxes	\$ (29) 6	\$ 1 –	\$ (28) 6	\$ 1,669 (417)	\$ 1,641 (411)
Net	\$ (23)	\$ 1	\$ (22)	\$ 1,252	\$ 1,230
Accumulated balance as at July 4, 2015	\$ 53	\$ 3	\$ 56		

	Items that may subsequently be reclassified to net profit (loss)			Item never reclassified to net profit (loss)	
	Change in unrealized fair value of available-for-sale financial assets – gains arising	Cumulative foreign currency translation adjustment	Accumulated other comprehensive income	Remeasurements of defined benefit plans	Other comprehensive loss
For the 26 weeks ended July 2, 2016					
Accumulated balance as at December 31, 2015	\$ 43	\$ 5	\$ 48		
Amount arising Income taxes	\$ 28 (7)	\$ (1) –	\$ 27 (7)	\$ (2,427) 609	\$ (2,400) 602
Net	\$ 21	\$ (1)	\$ 20	\$ (1,818)	\$ (1,798)
Accumulated balance as at July 2, 2016	\$ 64	\$ 4	\$ 68		

For the 26 weeks ended July 4, 2015	Items that may subsequently be reclassified to net profit (loss)			Item never reclassified to net profit (loss)	
	Change in unrealized fair value of available-for-sale financial assets – gains arising	Cumulative foreign currency translation adjustment	Accumulated other comprehensive income	Remeasurements of defined benefit plans	Other comprehensive income
Accumulated balance as at December 31, 2014	\$ 53	\$ 1	\$ 54		
Amount arising	\$ –	\$ 2	\$ 2	\$ 1,292	\$ 1,294
Income taxes	–	–	–	(322)	(322)
Net	\$ –	\$ 2	\$ 2	\$ 970	\$ 972
Accumulated balance as at July 4, 2015	\$ 53	\$ 3	\$ 56		

9. Provisions

Pay equity

Salaries and benefits payable and related provisions include a provision that reflects management's best estimate of the remaining liability to comply with the memorandum of agreement reached between the Public Service Alliance of Canada (PSAC) and the Corporation related to its pay equity complaint. The Corporation provided notice to PSAC that former employees who could not be reached by mail or other forms of notification have five years to claim their entitlement under the memorandum of agreement. The five-year time frame started July 28, 2016.

10. Contingent Liabilities

(a) In October 2012, the Corporation received notice from the Canadian Human Rights Commission (Commission) that the Canadian Postmasters and Assistants Association (CPAA) had requested the reactivation of its pay equity complaint, originally filed in 1982. The report of the Commission's investigator, which was released December 8, 2014, found that pay equity issues for the period of 1991 to 1997 remained unresolved and should be referred to the Canadian Human Rights Tribunal (Tribunal) without further investigation. The Corporation made submissions to the Commission January 30, 2015, in respect of the report. In March 2015, the Commission rendered a decision that this matter should proceed on its merits to the Tribunal. Materials in support of the Corporation's application for judicial review of the Commission's decision were filed April 24, 2015. Canada Post's application for judicial review was heard by the Federal Court on June 7, 2016. On July 28, 2016, the Federal Court released its decision dismissing Canada Post's application for judicial review.

On August 28, 2015, notice was also given to the Tribunal that Canada Post will be bringing a motion for the dismissal of the complaint, and, in the alternative, to adjourn the complaint pending the determination of the judicial review. Canada Post provided written materials in support of its motion April 15, 2016. Written arguments were submitted by all parties, Canada Post, the CPAA and the Commission, at the Tribunal's request, on June 22, 2016. On August 24, 2016, the Tribunal questioned the parties about their submissions pertaining to the CPAA's objection to Canada Post's motion to dismiss and is now considering the merits.

The outcome of this complaint is currently not determinable, and as a result no provision has been recorded in the interim condensed consolidated financial statements.

(b) The collective agreement that was signed in May 2007 between the Corporation and the Canadian Union of Postal Workers (CUPW) expired in January 2011. In response to rotating strikes across the country by CUPW and the lockout of employees by the Corporation, back-to-work legislation tabled by the Government of Canada received royal assent in June 2011. In October 2011, CUPW filed an application contesting the constitutionality of the legislation. Thereafter, new agreements were ratified and signed in December 2012.

CUPW's application was heard in October 2015. The court released its judgment on April 28, 2016, and found that the back-to-work legislation was invalid. No other remedy was granted, financial or otherwise.

(c) An application to the Federal Court seeking a judicial review of Canada Post's decision to convert door-to-door delivery to community-mailbox delivery was filed by CUPW and others in November 2014, with a number of Montréal urban communities granted intervenor status. A hearing on the application has not yet been scheduled, and the matter is currently held in abeyance pending the results of the independent review of Canada Post. The outcome of this challenge is currently not determinable, and as a result no provision has been recorded in the interim condensed consolidated financial statements.

- (d) In the normal course of business, the Group of Companies enters into agreements that include indemnities in favour of third parties. In addition, each member of the Group of Companies indemnifies its respective directors, officers and certain employees, either through corporate by-laws or indemnity agreements, against claims and expenses incurred by them as a result of serving as directors or officers of the Group of Companies or as directors or officers or in a similar capacity of another entity at the request of the Group of Companies.

These agreements generally do not contain specified limits on the Group of Companies' liability. Therefore, it is not possible to estimate the potential future liability from these indemnities. No amounts have been accrued in the interim condensed consolidated financial statements with respect to these indemnities.

- (e) The Group of Companies is involved in various other claims and litigation in the normal course of business for which the outflows of resources to settle the obligations either cannot be estimated or are not probable at this time. Provisions for such claims are recorded when an obligation exists, when an outflow of resources is probable, and amounts can be reasonably estimated.
- (f) Some of the Corporation's owned buildings have asbestos-containing materials, which the Corporation would be obligated to remove and dispose of in a special manner should the property undergo major renovations or full or partial demolition. Unless such renovations or demolitions occur, there would be no related provision recognized in the interim condensed consolidated financial statements as there is currently no obligation to remove and dispose of asbestos-containing materials.

The fair value of decommissioning obligations associated with site restoration after permanent removal of a community mailbox from a location is not reasonably estimable due to indeterminate settlement dates. The Corporation will continue to assess its ability to estimate the fair values of its decommissioning obligations at each future reporting date.

11. Fair Values and Risks Arising From Financial Instruments

Fair values of financial instruments

The following table provides the estimated fair values of financial instruments in accordance with the Group of Companies' accounting policies. Fair values have been measured and disclosed based on a hierarchy described below that reflects the significance of inputs used in making these estimates.

As at July 2, 2016

	Level 1 ¹	Level 2 ²	Level 3 ³	Total
Assets measured at fair value				
Cash and cash equivalents	\$ 561	\$ 109	\$ –	\$ 670
Marketable securities	\$ –	\$ 974	\$ –	\$ 974
Segregated securities	\$ –	\$ 577	\$ –	\$ 577
Trade and other receivables: risk management financial assets	\$ –	\$ 12	\$ –	\$ 12
Liabilities measured at amortized cost				
Loans and borrowings	\$ –	\$ 1,379	\$ –	\$ 1,379

As at December 31, 2015

	Level 1 ¹	Level 2 ²	Level 3 ³	Total
Assets measured at fair value				
Cash and cash equivalents	\$ 515	\$ 260	\$ –	\$ 775
Marketable securities	\$ –	\$ 837	\$ –	\$ 837
Segregated securities	\$ –	\$ 539	\$ –	\$ 539
Liabilities measured at fair value				
Trade and other payables: risk management financial liabilities	\$ –	\$ 1	\$ –	\$ 1
Liabilities measured at amortized cost				
Loans and borrowings	\$ –	\$ 1,394	\$ –	\$ 1,394

- Level 1: Fair value is based on unadjusted quoted prices in active markets for identical financial instruments.
- Level 2: Fair value is based on valuation techniques using inputs other than quoted prices included in level 1 that are observable, either directly or indirectly, including inputs and quoted prices in markets that are not considered to be active. Financial assets and liabilities are measured by discounting future cash flows, making maximum use of directly or indirectly observable market data, such as interest rates with similar terms and characteristics and yield curves and forward market prices from interest rates and credit spreads of identical or similar instruments.
- Level 3: Fair value is based on valuation techniques using unobservable market inputs requiring management's best estimate.

There were no transfers between levels of the fair value hierarchy during the 26-week period ended July 2, 2016.

The fair values of trade and other receivables, trade and other payables and salaries and benefits payable and related provisions approximate their carrying values due to their expected short-term settlement.

Financial risk factors

The Group of Companies' financial instruments are exposed to a variety of financial risks: market risk (including interest rate risk, foreign exchange risk and commodity risk), credit risk and liquidity risk. These financial risks have not changed significantly since the end of the last reporting period, with the updated disclosure concerning the nature and extent of foreign exchange risk and liquidity risk discussed below.

(a) Market risk

Foreign exchange risk • Exposure to foreign exchange risk primarily applies to the Canada Post segment where it arises mainly from international settlements with foreign postal administrations and from the redemption of money orders denominated in foreign currencies. The Corporation's obligation to settle with foreign postal administrations is denominated in special drawing rights (SDRs), a basket of currencies comprising the U.S. dollar (US\$), euro (€), British pound (£) and yen (¥), whereas payment is usually denominated in US\$.

The Canada Post segment has an economic hedge program to mitigate its exposure to foreign exchange balances and forecasted sales denominated in SDRs. The forward contracts outstanding were as follows:

As at July 2, 2016

Currency	Notional value	Canadian equivalent	Average contract rate	Maturity	Type	Fair value
U.S. dollar	US\$67	\$ 93	\$1.38/US\$	July 14 – December 15, 2016	Sell forward	\$ 6
Euro	€43	65	\$1.52/€	July 15 – December 16, 2016	Sell forward	4
British pound	£10	20	\$2.01/£	July 15 – December 16, 2016	Sell forward	3
Yen	¥1,083	13	\$0.012/¥	July 15 – December 16, 2016	Sell forward	(1)
Total		\$ 191				\$ 12

As at December 31, 2015

Currency	Notional value	Canadian equivalent	Average contract rate	Maturity	Type	Fair value
U.S. dollar	US\$25	\$ 34	\$1.35/US\$	January 14, 2016	Sell forward	\$ (1)
Euro	€15	23	\$1.49/€	January 15, 2016	Sell forward	–
British pound	£3	6	\$2.06/£	January 15, 2016	Sell forward	–
Yen	¥300	3	\$0.011/¥	January 15, 2016	Sell forward	–
Total		\$ 66				\$ (1)

The foreign exchange gains (losses) and derivative gains (losses) were recognized as follows:

	July 2, 2016			July 4, 2015		
	Foreign exchange gains (losses)	Derivative gains	Total	Foreign exchange gains	Derivative losses	Total
Unrealized	\$ 1	\$ 1	\$ 2	\$ 1	\$ (2)	\$ (1)
Realized	(1)	3	2	–	–	–
Total	\$ –	\$ 4	\$ 4	\$ 1	\$ (2)	\$ (1)

	July 2, 2016			July 4, 2015		
	Foreign exchange gains (losses)	Derivative gains	Total	Foreign exchange gains	Derivative losses	Total
Unrealized	\$ (10)	\$ 13	\$ 3	\$ 2	\$ (3)	\$ (1)
Realized	3	1	4	4	(3)	1
Total	\$ (7)	\$ 14	\$ 7	\$ 6	\$ (6)	\$ –

(b) Liquidity risk

Liquidity risk is the risk that a company will not be able to meet its financial obligations as they fall due. The Group of Companies manages liquidity risk by maintaining adequate cash reserves, banking facilities and reserve-borrowing facilities, by monitoring forecasted and actual cash flows and matching the maturity profiles of financial assets and liabilities. Surplus cash is invested into a range of short-term money market securities. The Group of Companies invests in high-credit quality government or corporate securities, in accordance with policies approved by the Board of Directors.

Refer to notes 17 and 24 (c) of the Corporation's annual consolidated financial statements for the year ended December 31, 2015, for the Corporation's current authorized borrowing facilities.

12. Other Operating Costs

For the	13 weeks ended		26 weeks ended	
	July 2, 2016	July 4, 2015	July 2, 2016	July 4, 2015
Non-labour collection, processing and delivery	\$ 286	\$ 293	\$ 608	\$ 633
Property, facilities and maintenance	87	86	179	185
Selling, administrative and other	130	152	255	289
Other operating costs	\$ 503	\$ 531	\$ 1,042	\$ 1,107

13. Investing and Financing Income (Expense)

For the	13 weeks ended		26 weeks ended	
	July 2, 2016	July 4, 2015	July 2, 2016	July 4, 2015
Interest revenue	\$ 5	\$ 2	\$ 8	\$ 7
Gain (loss) on sale of capital assets and assets held for sale	(3)	3	(3)	3
Investment and other income	\$ 2	\$ 5	\$ 5	\$ 10
Interest expense	\$ (12)	\$ (12)	\$ (24)	\$ (24)
Other expense	–	(1)	–	(1)
Finance costs and other expense	\$ (12)	\$ (13)	\$ (24)	\$ (25)
Investing and financing expense, net	\$ (10)	\$ (8)	\$ (19)	\$ (15)

14. Related Party Transactions

The Corporation is wholly owned by the Government of Canada and is under common control with other government agencies and departments, and Crown corporations. The Group of Companies had the following transactions with related parties in addition to those disclosed elsewhere in these interim condensed consolidated financial statements:

(a) Government of Canada, its agencies and other Crown corporations

For the	13 weeks ended		26 weeks ended	
	July 2, 2016	July 4, 2015	July 2, 2016	July 4, 2015
Related party revenue	\$ 102	\$ 69	\$ 174	\$ 141
Compensation payments for programs				
Government mail and mailing of materials for the blind	\$ 5	\$ 5	\$ 11	\$ 11
Payments from related parties for premises leased from the Corporation	\$ 2	\$ 2	\$ 4	\$ 4
Related party expenditures	\$ 8	\$ 6	\$ 17	\$ 13

The majority of the related party revenue was for commercial contracts relating to postal services with the Government of Canada. As well, compensation was provided by the Government of Canada for parliamentary mail services and mailing of materials for the blind sent free of postage.

As at	July 2, 2016	December 31, 2015
Due to/from related parties		
Included in trade and other receivables	\$ 47	\$ 29
Included in trade and other payables	\$ 9	\$ 12
Deferred revenue from related parties	\$ 2	\$ 2

(b) Transactions with entities in which KMP of the Canada Post Group of Companies have control or joint control

In the normal course of business, the Group of Companies may interact with companies whose financial and operating policies are solely or jointly governed by key management personnel (KMP) of the Group of Companies. The affected KMP always recuse themselves from all discussions and decisions relating to transactions between the companies. The only significant transactions for the 26 weeks ended July 2, 2016, were between Purolator and a company controlled by one of the Group of Companies' KMP, who is a director and also a minority shareholder of Purolator. This company provided air services to Purolator in the amounts of \$3 million and \$5 million for the 13 and 26 weeks ended July 2, 2016, respectively (July 4, 2015 – \$3 million and \$27 million, respectively). As at July 2, 2016, no amount was due to the company from Purolator (December 31, 2015 – nil). These transactions had been made at prices and terms comparable to those given to other suppliers of Purolator.

(c) Transactions with the Corporation's pension plans

During the 13 and 26 weeks ended July 2, 2016, the Corporation provided administration services to the Canada Post Corporation Registered Pension Plan in the amounts of \$3 million and \$6 million, respectively (July 4, 2015 – \$3 million and \$5 million, respectively). As at July 2, 2016, \$6 million (December 31, 2015 – \$9 million) relating to transactions with the Registered Pension Plan was outstanding and included in trade and other receivables.

Cash payments, including contributions to the defined benefit plans and defined contribution plans for the Group of Companies, are disclosed in Note 6 (c).

15. Segmented Information

Operating segments • The accounting policies of the operating segments are the same as those of the Group of Companies. Intersegment transactions have terms and conditions comparable to those offered in the marketplace. Innovapost, the information technology (IT) business unit, delivers shared services within the Group of Companies on a cost-recovery basis. On a consolidated basis, no external customer's purchases account for more than 10% of total revenue.

For the 13 and 26 weeks ended July 2, 2016, the IT business unit earned intercompany revenue of \$59 million and \$126 million, respectively (July 4, 2015 – \$68 million and \$134 million, respectively), incurred cost of operations of \$59 million and \$126 million, respectively (July 4, 2015 – \$68 million and \$134 million, respectively), and earned net profit of nil for the 13 and 26 week reporting periods in 2016 and 2015. Total assets and liabilities at July 2, 2016, were \$129 million and \$78 million, respectively (December 31, 2015 – \$125 million and \$74 million, respectively).

As at and for the 13 weeks ended July 2, 2016

	Canada Post	Purolator	Logistics	Other	Total
Revenue from external customers	\$ 1,552	\$ 373	\$ 52	\$ –	\$ 1,977
Intersegment revenue	7	4	11	(22)	–
Revenue from operations	\$ 1,559	\$ 377	\$ 63	\$ (22)	\$ 1,977
Labour and employee benefits	\$ 1,127	\$ 192	\$ 29	\$ 27	\$ 1,375
Other operating costs	368	157	26	(48)	503
Depreciation and amortization	65	12	3	–	80
Cost of operations	\$ 1,560	\$ 361	\$ 58	\$ (21)	\$ 1,958
Profit (loss) from operations	\$ (1)	\$ 16	\$ 5	\$ (1)	\$ 19
Investment and other income	\$ 13	\$ –	\$ –	\$ (11)	\$ 2
Finance costs and other expense	(11)	(1)	–	–	(12)
Profit (loss) before tax	\$ 1	\$ 15	\$ 5	\$ (12)	\$ 9
Tax expense (income)	(5)	4	1	1	1
Net profit (loss)	\$ 6	\$ 11	\$ 4	\$ (13)	\$ 8
Total assets	\$ 7,691	\$ 853	\$ 117	\$ (351)	\$ 8,310
Acquisition of capital assets	\$ 43	\$ 7	\$ 1	\$ (1)	\$ 50
Total liabilities	\$ 10,737	\$ 474	\$ 49	\$ (59)	\$ 11,201

As at and for the 13 weeks ended July 4, 2015

	Canada Post	Purolator	Logistics	Other	Total
Revenue from external customers	\$ 1,510	\$ 386	\$ 51	\$ –	\$ 1,947
Intersegment revenue	8	3	12	(23)	–
Revenue from operations	\$ 1,518	\$ 389	\$ 63	\$ (23)	\$ 1,947
Labour and employee benefits	\$ 1,096	\$ 185	\$ 28	\$ 24	\$ 1,333
Other operating costs	381	168	28	(46)	531
Depreciation and amortization	65	12	2	–	79
Cost of operations	\$ 1,542	\$ 365	\$ 58	\$ (22)	\$ 1,943
Profit (loss) from operations	\$ (24)	\$ 24	\$ 5	\$ (1)	\$ 4
Investment and other income	\$ 5	\$ –	\$ –	\$ –	\$ 5
Finance costs and other expense	(12)	(1)	–	–	(13)
Profit (loss) before tax	\$ (31)	\$ 23	\$ 5	\$ (1)	\$ (4)
Tax expense (income)	(10)	7	1	–	(2)
Net profit (loss)	\$ (21)	\$ 16	\$ 4	\$ (1)	\$ (2)
Total assets	\$ 6,687	\$ 806	\$ 110	\$ (333)	\$ 7,270
Acquisition of capital assets	\$ 58	\$ 11	\$ 1	\$ (2)	\$ 68
Total liabilities	\$ 7,953	\$ 326	\$ 59	\$ (41)	\$ 8,297

As at and for the 26 weeks ended July 2, 2016

	Canada Post	Purolator	Logistics	Other	Total
Revenue from external customers	\$ 3,171	\$ 718	\$ 105	\$ –	\$ 3,994
Intersegment revenue	14	9	21	(44)	–
Revenue from operations	\$ 3,185	\$ 727	\$ 126	\$ (44)	\$ 3,994
Labour and employee benefits	\$ 2,236	\$ 382	\$ 60	\$ 54	\$ 2,732
Other operating costs	771	315	52	(96)	1,042
Depreciation and amortization	127	26	5	(1)	157
Cost of operations	\$ 3,134	\$ 723	\$ 117	\$ (43)	\$ 3,931
Profit (loss) from operations	\$ 51	\$ 4	\$ 9	\$ (1)	\$ 63
Investment and other income	\$ 17	\$ –	\$ –	\$ (12)	\$ 5
Finance costs and other expense	(23)	(1)	–	–	(24)
Profit (loss) before tax	\$ 45	\$ 3	\$ 9	\$ (13)	\$ 44
Tax expense (income)	8	1	2	1	12
Net profit (loss)	\$ 37	\$ 2	\$ 7	\$ (14)	\$ 32
Total assets	\$ 7,691	\$ 853	\$ 117	\$ (351)	\$ 8,310
Acquisition of capital assets	\$ 62	\$ 15	\$ 3	\$ (1)	\$ 79
Total liabilities	\$ 10,737	\$ 474	\$ 49	\$ (59)	\$ 11,201

As at and for the 26 weeks ended July 4, 2015

	Canada Post	Purolator	Logistics	Other	Total
Revenue from external customers	\$ 3,140	\$ 769	\$ 102	\$ –	\$ 4,011
Intersegment revenue	15	22	21	(58)	–
Revenue from operations	\$ 3,155	\$ 791	\$ 123	\$ (58)	\$ 4,011
Labour and employee benefits	\$ 2,223	\$ 383	\$ 56	\$ 51	\$ 2,713
Other operating costs	796	364	54	(107)	1,107
Depreciation and amortization	129	26	4	(1)	158
Cost of operations	\$ 3,148	\$ 773	\$ 114	\$ (57)	\$ 3,978
Profit (loss) from operations	\$ 7	\$ 18	\$ 9	\$ (1)	\$ 33
Investment and other income	\$ 10	\$ –	\$ –	\$ –	\$ 10
Finance costs and other expense	(24)	(1)	–	–	(25)
Profit (loss) before tax	\$ (7)	\$ 17	\$ 9	\$ (1)	\$ 18
Tax expense (income)	(2)	6	2	–	6
Net profit (loss)	\$ (5)	\$ 11	\$ 7	\$ (1)	\$ 12
Total assets	\$ 6,687	\$ 806	\$ 110	\$ (333)	\$ 7,270
Acquisition of capital assets	\$ 105	\$ 16	\$ 3	\$ (2)	\$ 122
Total liabilities	\$ 7,953	\$ 326	\$ 59	\$ (41)	\$ 8,297

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