CANADA POST CORPORATION

2018 **Third Quarter** Financial Report

For the period ended September 29, 2018

Contents

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 third quarter ended September 29, 2018, and for the first three quarters of 2018 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 39 weeks ended September 29, 2018. This discussion should be read with the unaudited interim condensed consolidated financial statements for the 13 and 39 weeks ended September 29, 2018, 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, 2017. 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 November 22, 2018, 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.

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 9 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 November 22, 2018, 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 2017, employees delivered almost 8.4 billion pieces of mail, parcels and messages to 16.2 million addresses across Canada. The Canada Post segment operates the largest retail network in Canada with almost 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 Accessibility 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 $4.9 billion for the first three quarters of 2018 (76.4% after excluding intersegment revenue) and $6.4 billion for the full year ended December 31, 2017 (77.4% after excluding intersegment revenue). There are three reportable operating segments: Canada Post, Purolator and Logistics.

Significant changes and business developments

Canada Post is at a critical point in its history. As the trend toward online communication is increasing, Canadian households and businesses do not use our Lettermail™ services to the same extent, which has led to a significant drop in Transaction Mail, our largest line of business. In 2017, we delivered three billion pieces of Domestic Lettermail, two billion (or 41%) less than we did in the peak year of 2006.

Digital technology has disrupted many industries, including Canada Post's. However, Canada Post has reinvented itself to continue to play a key role in the lives of Canadians in the digital era and has become the country's number one parcel delivery company. Canada Post has achieved its market-leading position in e-commerce by pivoting its operations, innovating to gain competitive advantage, partnering with retailers and focusing on providing a superior customer experience. Though parcels and direct marketing represent opportunities for Canada Post, their growth alone may not entirely offset the financial impact of the decline in the core Lettermail business.

Labour matters

Canada Post is currently in negotiations to replace expired collective agreements with the Canadian Union of Postal Workers – Urban Postal Operations (CUPW-UPO) and Rural and Suburban Mail Carriers (CUPW-RSMC). On October 22, 2018, the members of CUPW-UPO and CUPW-RSMC initiated rotating strikes. Negotiations are continuing during the labour disruption, with the assistance of a special mediator appointed by the Minister of Labour.

In May 2018, an arbitrator issued a decision that members of CUPW-RSMC perform work of equal value to the work of urban letter carriers of CUPW-UPO, and that parties were to determine the amount of the wage gap between the two groups, as well as the solution to rectify the gap by August 31, 2018. The parties were unable to resolve all the issues by the deadline and outstanding matters proceeded to binding arbitration. On September 20, 2018, the arbitrator released her final ruling.

The pay and benefit changes resulting from the ruling include wage adjustments, increases in pensionable pay received for personal contact items and lock changes (subject to regulatory approval), vacation leave improvements, pre-retirement leave, post-retirement benefits and eligibility for many other benefits, leaves and allowances. Under the agreed terms of the process, adjustments are retroactive to January 1, 2016. The Corporation expects that the cumulative costs associated with the ruling will reach approximately $550 million by the end of 2018, of which an estimated $420 million will have been recorded in the 2018 fiscal year. The annualized impact of the pay equity ruling in future years is an estimated cost increase of $140 million per year. Amounts have been estimated using information available as of the date of approval of this report.

The estimated costs related to adjusting how delivery employees in suburban and rural Canada are paid and the labour disruption are major factors in the Corporation's expected loss for 2018.

Government's review of Canada Post

In 2016, the Government of Canada began a review of Canada Post to ensure Canadians receive quality postal services at a reasonable price. On January 24, 2018, the government announced its vision for renewal at Canada Post focused on serving Canadians. The vision contains five concrete actions and emphasizes service to Canadians, while acknowledging that Canada Post must be efficient and financially sustainable for the long term. New leadership is key to implementing Canada Post's renewal. The Canada Post Board of Directors is overseeing the implementation of the government's vision.

Canada Post has established a national advisory panel to provide ongoing input and a forum for dialogue to help make its delivery services more accessible to persons with disabilities and seniors. The Accessibility Advisory Panel includes experts in disability and seniors' issues, including individuals with lived experiences, from across the country. The Advisory Panel met for the first time on November 5-6, 2018 in Ottawa. In addition, on September 24, 2018, pursuant to subsection 3.3 of the *Financial Administration Act,* Canada Post Corporation was reclassified from Part II of Schedule III to Part I of Schedule III of the Act, removing the requirement to submit an annual dividend proposal to its shareholder. Canada Post has not paid a dividend to its shareholder since 2008.

Canada Post is continuing to implement the actions contained in the vision and is working with stakeholders to determine the best path forward. In implementing the new vision, the Corporation is considering the applicability of global trends and innovations in the postal industry to Canada and examining parcel delivery options. It is also exploring partnerships with the federal government and other jurisdictions to leverage Canada Post's unique retail network to enhance government services, particularly in rural and remote areas.

The government's vision for the renewal of Canada Post provides a valuable blueprint as the Corporation looks to deliver the services Canadians expect today and in the future, while remaining financially self-sustainable.

Financial highlights

For the third quarter ended September 29, 2018, the Canada Post Group of Companies reported a loss before tax of $46 million, compared to a loss before tax of $23 million[1] in the same period in 2017. For the first three quarters of 2018, the Group of Companies recorded a loss before tax of $140 million, compared to a profit before tax of $112 million[1] in the first three quarters of 2017. The $252-million[1] decrease in the Group of Companies' results for the first three quarters of 2018 was driven primarily by results in the Canada Post segment, which reported a loss before tax of $266 million in the first three quarters of 2018 largely due to the negative impact of the RSMC pay equity process, partly offset by parcel growth, compared to a profit before tax of $13 million[1] in the same period in 2017. Had it not been for amounts related to prior years for CUPW-RSMC pay equity, the Canada Post segment would have reported a small profit before tax for the first three quarters of 2018. For the first three quarters of 2018, the Purolator segment's profit before tax was $108 million, compared to a profit before tax of $85 million[1] for the same period in 2017.

The Canada Post segment generated revenue of $1,561 million in the third quarter of 2018, an increase of $74 million[1] or 5.0%,[1] compared to the same period in 2017. For the first three quarters of 2018, revenue earned was $4,904 million, an increase of $195 million[1] or 4.1%[1] over the same period in 2017.

Parcels revenue and volumes increased in the third quarter of 2018 compared to the same period in 2017 – by $106 million[1] or 21.2%,[1] and 14 million pieces or 23.3%, respectively. Domestic Parcels, the largest product category, continued its growth as revenue increased by $92 million[1] or 25.7%,[1] and volumes grew by seven million pieces or 18.1%. For the first three quarters of 2018, Parcels revenue and volumes increased by $322 million[1] or 21.8%[1] and 44 million pieces or 26.7%, respectively, compared to the same period in 2017. Strong results for Parcels were driven by continuous growth in e-commerce and efforts to deliver competitive offerings.

Transaction Mail revenue and volumes continued to decline in the third quarter of 2018, compared to the same period in 2017 – by $24 million[1] or 3.6%,[1] and 35 million pieces or 4.6%. For the first three quarters of 2018, Transaction Mail revenue and volumes decreased by $103 million[1] or 4.6%[1] and 119 million pieces or 4.9%, respectively, compared to the same period in 2017. Volumes continue to be adversely affected by mail erosion driven by electronic substitution.

Direct Marketing revenue was relatively flat in the third quarter of 2018 compared to the same period in 2017, decreasing slightly by $5 million[1] or 1.9%.[1] Volumes decreased by 44 million pieces or 3.9% compared to the third quarter of 2017. For the first three quarters of 2018, Direct Marketing revenue and volumes decreased by $9 million[1] or 1.1%[1] and 54 million pieces or 1.5%, respectively, compared to the same period in 2017. The decrease was mainly the result of commercial customers continuing to reduce their marketing expenditures and redirect some of them to other media channels.

Offsetting the revenue improvements, the cost of operations in the Canada Post segment increased by $123 million,[1] or 7.9%,[1] in the third quarter of 2018 and by $493 million,[1] or 10.5%,[1] in the first three quarters of 2018 compared to same periods in 2017, mainly as a result of the impact of the pay equity ruling for CUPW-RSMC employees on labour costs and employee benefit expenses.

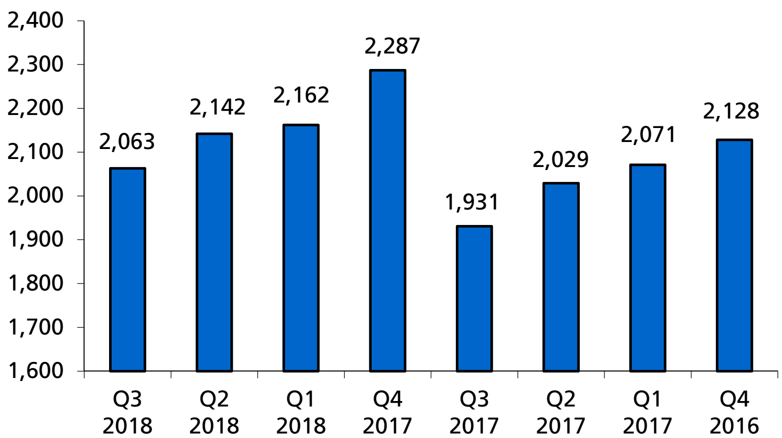
Canada Post, as pension plan sponsor, is responsible for making current service contributions to its pension plans as well as special payments to cover any funding shortfalls. These pension commitments and other post-employment benefit obligations are substantial; they continue to significantly affect Canada Post's financial performance and, if it weren't for the solvency reduction regulations outlined in the *Pension Benefits Standards Regulations, 1985,* currently giving Canada Post relief from making special payments, they would put pressure on its cash resources. The Corporation did not make special payments to the Canada Post Corporation Registered Pension Plan from 2014 to 2017. Further, Canada Post will not have to make special payments in 2018 and projects that it will not have to make special payments in 2019, provided that market conditions remain constant. The RSMC pay equity ruling will have an impact on solvency funding, requiring additional pay equity-related payments, subject to regulatory approval.

1. The amounts for 2017 were restated as a result of new or revised accounting standards. For more details, see section 9.2 Accounting pronouncements in this MD&A and Note 3 – Application of New and Revised International Financial Reporting Standards in the accompanying financial statements.

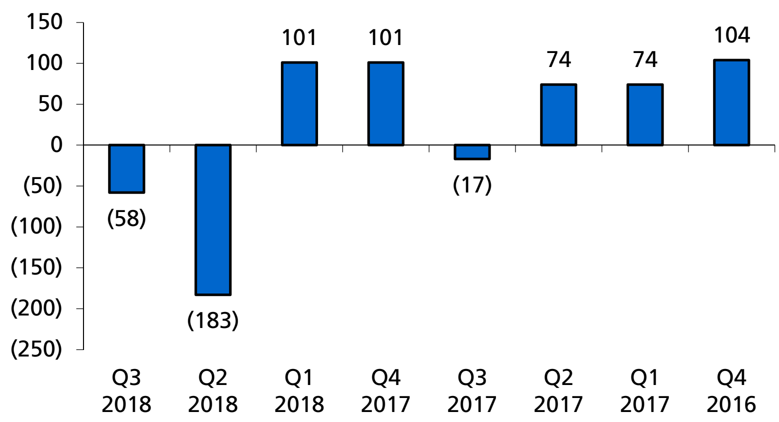
Fluctuations in discount rates, investment returns and other actuarial assumptions create volatility from one period to the next, resulting in sizeable financial and long-term liquidity risks to the Corporation. During the third quarter of 2018, this volatility affected the Group of Companies' defined benefit plans, causing remeasurement gains of $625 million, net of tax, recorded in other comprehensive income, compared to remeasurement gains of $1,097 million in the third quarter of 2017. These remeasurement gains in the third quarter of 2018 were mostly the result of an increase in discount rates in 2018.

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[1]
(in millions of dollars)

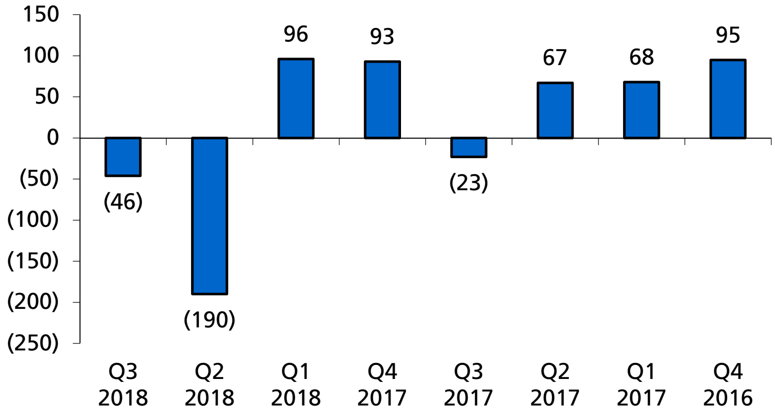


Quarterly consolidated profit (loss) from operations[1]
(in millions of dollars)

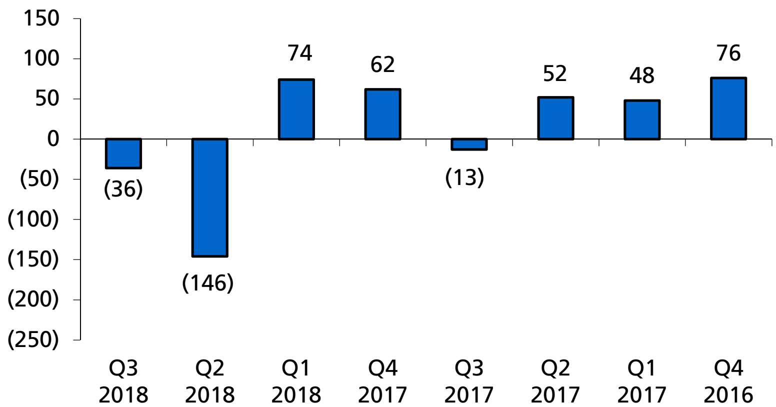


1. The amounts for 2017 were restated as a result of new or revised accounting standards. For more details, see section 9.2 Accounting pronouncements in this MD&A and Note 3 – Application of New and Revised International Financial Reporting Standards in the accompanying financial statements.

Quarterly consolidated profit (loss) before tax[1]
(in millions of dollars)



Quarterly consolidated net profit (loss)[1]
(in millions of dollars)



1. The amounts for 2017 were restated as a result of new or revised accounting standards. For more details, see section 9.2 Accounting pronouncements in this MD&A and Note 3 – Application of New and Revised International Financial Reporting Standards in the accompanying financial statements.

The following table presents the Corporation's consolidated performance for the third quarter and the first three quarters of 2018, compared to the same periods in the prior year.

(in millions of dollars)	13 weeks ended				39 weeks ended				
	Sept. 29, 2018	Sept. 30, 2017[1]	Change[1]	%[1]	Sept. 29, 2018	Sept. 30, 2017[1]	Change[1]	%[1]	Explanation of change
Consolidated statement of comprehensive income									Highlights, as discussed in Section 8 – Discussion of Operations page 16.
Revenue from operations	2,063	1,931	132	6.8	6,367	6,031	336	5.6	Mainly due to continued Parcels growth in the Canada Post and Purolator segments.
Cost of operations	2,121	1,948	173	8.8	6,507	5,900	607	10.3	Mainly a result of increased expenses in the Canada Post segment compared to the same period in 2017, due to the arbitrator's pay equity decision regarding RSMC, volume growth, inflationary pressures and fuel price increases.
Profit (loss) from operations	(58)	(17)	(41)	–	(140)	131	(271)	–	Mainly due to results in the Canada Post segment.
Profit (loss) before tax	(46)	(23)	(23)	–	(140)	112	(252)	–	
Net profit (loss)	(36)	(13)	(23)	–	(108)	87	(195)	–	
Comprehensive income	576	1,065	(489)	–	1,269	260	1,009	–	For the third quarter and the first three quarters, mainly due to remeasurement gains on pension and other post-employment plans largely resulting from an increase in discount rates, compared to the same periods in 2017.
Consolidated statement of cash flows									Highlights, as discussed in Section 6 – Liquidity and Capital Resources page 10.
Cash provided by operating activities	317	238	79	33.0	705	469	236	50.3	Primarily driven by increases in non-cash working capital and non-cash timing of employee future benefits (mainly in the Canada Post segment), partially offset by payment of higher income taxes.
Cash used in investing activities	(177)	(185)	8	3.7	(684)	(127)	(557)	–	Mainly due to lower proceeds from the sales of securities, as well as higher acquisitions of securities and capital assets.
Cash used in financing activities	(3)	(4)	1	29.4	(9)	(15)	6	39.7	Mainly due to lower payments on finance lease obligations in the Purolator segment.

1. The amounts for 2017 were restated as a result of new or revised accounting standards. For more details, see section 9.2 Accounting pronouncements in this MD&A and Note 3 – Application of New and Revised International Financial Reporting Standards in the accompanying financial statements.

2 Core Businesses and Strategy

A discussion of the business and strategy of our core businesses

The Canadian postal system connects rural, remote and urban communities, supports the success of Canadian businesses of all sizes and helps charities raise funds. However, Canada Post is facing an ongoing and irreversible drop in mail volumes, as Canadians are changing the way they use postal services. Digital platforms are replacing paper as the medium of choice to communicate, invoice, pay bills and advertise. In 2017, we delivered three billion pieces of Domestic Lettermail, two billion (or 41%) less than we did in the peak year of 2006. Transaction Mail is not expected to rebound.

While their use of Lettermail™ has declined significantly, Canadians continue to value their postal system and expect it to evolve to meet their changing needs. For example, Canada Post is now the country's number one parcel delivery company. Though Parcels and Direct Marketing represent opportunities for Canada Post, their growth may not entirely offset the financial impact of the decline in the core Lettermail business.

On January 24, 2018, the federal government announced its new vision for Canada Post focused on serving Canadians, which includes concrete actions in five areas to support the implementation of a service-focused vision:

1. The Corporation's program to convert door-to-door delivery to community mailboxes is terminated. All households receiving door-to-door delivery will continue to receive it. New subdivisions will continue to have community mailboxes installed.
2. Canada Post will establish a national advisory panel to develop, implement and promote an enhanced accessible delivery program for Canadians experiencing difficulty with community mailboxes, especially seniors and others with reduced mobility.
3. Canada Post will be reclassified under the *Financial Administration Act* to remove the current requirement to submit an annual dividend proposal to its shareholder, permitting the Corporation to reinvest all its profits in service and innovation.
4. The Corporation will promote affordable remittance services to Canadians who send money overseas to support family members in an effort to increase market share.
5. The government is renewing leadership at Canada Post, including the Chair, the Board of Directors and the President and Chief Executive Officer. The new Chair and Board of Directors will help build more collaborative relationships with communities, employees, labour and other stakeholders.

Since this announcement, Canada Post has begun work in these five areas, as well as work on developing a comprehensive program for renewal. With new leadership on the Corporation's Board of Directors, Board members are overseeing the implementation of the government's vision. At the same time, we continue to execute our current strategy of adapting our network so that we continue to be a leader in e-commerce, developing winning marketing solutions, enhancing our brand through service performance and superior customer service, and creating a more engaged workforce.

Canada Post has established a national advisory panel to provide ongoing input and a forum for dialogue to help make its delivery services more accessible to persons with disabilities and seniors. The Accessibility Advisory Panel includes experts in disability and seniors' issues, including individuals with lived experiences, from across the country. The Advisory Panel met for the first time on November 5-6, 2018 in Ottawa.

On September 24, 2018, through an order in council, Canada Post Corporation was reclassified under the *Financial Administration Act*. Pursuant to subsection 3.3 of the Act, Canada Post was moved from Part II of Schedule III to Part I of Schedule III.

We will continue to report progress on the renewal program through future corporate plans, as well as annual and quarterly reports.

Our core businesses and strategy are described in more detail in Section 2 – Core Businesses and Strategy of the 2017 Annual MD&A. There were no material changes to the strategy during the third quarter of 2018 as we continued to adjust to fully meet the expectations of our single shareholder, as articulated in the new vision.

3 Key Performance Drivers

A discussion of our key achievements in 2018

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 2017 Annual MD&A, our main strategic priorities are focused on growing our Parcels and Direct Marketing lines of businesses.

Performance results for 2018 will be updated at the end of the year and included as part of the 2018 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 2017 Annual MD&A. Updates are provided below.

4.1 Labour relations

The number of employees covered by collective agreements as at December 31, 2017, and various bargaining activities are summarized in Section 4.1 – Our employees – Labour relations of the 2017 Annual MD&A. An update of collective bargaining activity by segment is provided below.

Canada Post segment

Canadian Union of Postal Workers – Urban Postal Operations (CUPW-UPO) and Rural and Suburban Mail Carriers (CUPW-RSMC)

The collective agreements for CUPW-UPO and CUPW-RSMC expired January 31, 2018, and December 31, 2017, respectively. CUPW provided notice to bargain on November 14, 2017, for both bargaining units and, the same day, advised that they had submitted a written request for mediation assistance to the Minister of Employment, Workforce Development and Labour. The Corporation agreed with the request for both bargaining processes. On November 28, 2017, the Minister appointed three mediators to the negotiation processes. The first meetings between the parties began in December 2017 and meetings occurred throughout the first six months of 2018. CUPW filed for conciliation on June 29, 2018, and on July 6, the Minister of Labour appointed two conciliators. On September 11, 2018, members of CUPW-UPO and CUPW-RSMC voted in favour of strike action and rotating strikes began on October 22, 2018. As a result, the terms and conditions of the collective agreements have not been legally in force, and the Corporation has implemented new terms and conditions, which for the most part are the minimum standards under the *Canada Labour Code.* Negotiations are continuing throughout the labour disruption with the help of a special mediator appointed by the Minister of Labour to assist the parties in reaching negotiated collective agreements.

As a part of the previous collective agreement, the Corporation and CUPW-UPO established the Labour-Management Relationship Committee with the objective of promoting more effective open and continuous involvement between the parties and enhancing communication – all to improve labour relations. The Committee is composed of representatives from each party and the Federal Mediation and Conciliation Service, and considers initiatives on which the parties might work collaboratively.

The parties signed a memorandum of understanding on September 1, 2016, in which they agreed to enter into a joint pay equity study to assess whether a gender-based wage gap exists under *the Canadian Human Rights Act* for RSMC occupational groups. The study was coordinated by a committee made up of representatives from both Canada Post and CUPW and their respective pay equity consultants. The parties began discussions in October 2017, however, the arbitrator appointed by the Minister of Labour in February 2017 was unable to mediate a settlement. Binding arbitration commenced in February 2018 and ended May 2, 2018. On May 31, the arbitrator rendered her decision that members of CUPW-RSMC perform work of equal value to that of urban letter carriers of CUPW-UPO. Further, her decision stated that the parties were to determine the amount of the wage gap between the two groups, as well as the solution to rectify the gap, by August 31, 2018. As the parties were unable to resolve issues by the deadline, outstanding matters proceeded to further binding arbitration. Under the agreed terms of the process, adjustments are retroactive to January 1, 2016.

On September 20, the arbitrator released her final ruling on the question of pay equity for CUPW-RSMC employees. The pay and benefit changes include wage adjustments, increases in pensionable pay received for personal contact items and lock changes (subject to regulatory approval), vacation leave improvements, pre-retirement leave, post-retirement benefits and eligibility for many other benefits, leaves and allowances. In implementing the arbitrator's decision, the parties have entered into a memorandum of agreement to work together and meet regularly, which they continue to do.

Canadian Postmasters and Assistants Association (CPAA)

The current collective agreement with the CPAA expires December 31, 2018, and notice to bargain can now be provided. This collective agreement provides for final offer selection. The CPAA represents rural post office postmasters and assistants.

Association of Postal Officials of Canada (APOC)

The current collective agreement with APOC expires March 31, 2021. APOC represents supervisors, superintendents and supervisory support groups, such as trainers, route measurement officers and sales employees.

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

The current collective agreement with PSAC/UPCE expires August 31, 2020. PSAC/UPCE represents two groups of employees, those who perform administrative work, including call centres, administration, pay and production, control and reporting as well as technical employees in areas such as finance and engineering.

Purolator segment

All Teamsters clerical groups and the Union of Postal Communication Employees in British Columbia have collective agreements that expired December 31, 2017. Eight of these agreements have been renewed. Bargaining continues with one other unit.

4.2 Internal controls and procedures

Changes in internal control over financial reporting

During the third quarter of 2018, 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 2017 Annual MD&A. Updates to these risks for the third quarter of 2018 are provided below.

Where appropriate, Canada Post has recorded provisions for some of 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 the CUPW bargaining agent, representing employees covered by two separate collective agreements (Urban Postal Operations and Rural and Suburban Mail Carriers). 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 competitive pricing and service to Canadians.

CPAA pay equity complaint

The Canadian Postmasters and Assistants Association (CPAA) initially filed complaints with the Canadian Human Rights Commission (Commission) in 1982 and 1992, alleging discrimination by the Corporation concerning work of equal value. Both complaints were settled by the parties. However, in 2012, the CPAA requested reactivation of the 1992 complaint and in 2014, the Commission investigator concluded that the period 1992-97 remained in issue and should be referred to the Canadian Human Rights Tribunal (Tribunal). In early 2015, the Commission rendered a decision that the matter should proceed to the Tribunal on its merits. On September 1, 2016, the Tribunal directed the parties (Canada Post, the CPAA and the Commission) to exchange statements of particulars by the end of 2016 in order for the matter to proceed to its merits. Statements of particulars have been exchanged.

In 2017, the CPAA took the position that the Tribunal should not be limited to the 1992-97 period, but should assess liability against Canada Post to the present day. A motion was heard by the Tribunal on June 19, 2017, and by decision of January 15, 2018, the Tribunal ruled that the complaint is limited to the period from September 1992 to March 30, 1997, and does not include ongoing liability. No dates for a hearing on the merits have been established.

Health and safety obligation under the *Canada Labour Code* – Burlington points of call

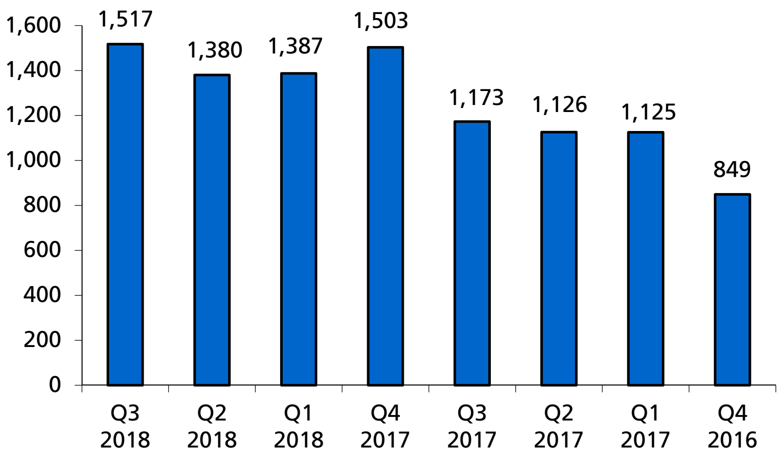
The Federal Court of Appeal reinstated the original direction of a health and safety officer from Employment and Social Development Canada, which requires Canada Post to conduct annual health and safety inspections of all affected points of call in Burlington, Ontario. No monetary award was granted. Leave to appeal was granted by the Supreme Court of Canada in April, and a hearing date has been scheduled for December 10, 2018.

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 $1,517 million as at September 29, 2018 – an increase of $14 million compared to December 31, 2017, due to an increase in cash provided by operating activities, mostly offset by net acquisitions of securities and capital assets in the first three quarters of 2018.

6.2 Operating activities

	13 weeks ended			39 weeks ended		
(in millions of dollars)	Sept. 29, 2018	Sept. 30, 2017	Change	Sept. 29, 2018	Sept. 30, 2017	Change
Cash provided by operating activities	317	238	79	705	469	236

Cash provided by operations in the third quarter and first three quarters of 2018 increased by $79 million and $236 million, respectively, compared to the same periods in 2017. The positive change in 2018 cash flow was primarily driven by changes in non-cash operating working capital and non-cash timing of employee future benefits (mainly in the Canada Post segment), partially offset by lower profits and higher income taxes paid.

6.3 Investing activities

	13 weeks ended			39 weeks ended		
(in millions of dollars)	Sept. 29, 2018	Sept. 30, 2017	Change	Sept. 29, 2018	Sept. 30, 2017	Change
Cash provided by (used in) investing activities	(177)	(185)	8	(684)	(127)	(557)

Cash used in investing activities decreased by $8 million in the third quarter of 2018 compared to the same period in 2017, mainly due to lower net acquisitions of securities, partially offset by higher acquisitions of capital assets. For the first three quarters of 2018 cash used in investing activities increased by $557 million compared to the same period in 2017, mainly due to lower proceeds from the sale of investments, higher acquisitions of capital assets, and an increase in long-term receivables, partially offset by lower acquisitions of securities.

Capital expenditures

	13 weeks ended			39 weeks ended		
(in millions of dollars)	Sept. 29, 2018	Sept. 30, 2017	Change	Sept. 29, 2018	Sept. 30, 2017	Change
Canada Post	96	65	31	185	127	58
Purolator	11	18	(7)	22	26	(4)
Logistics	11	3	8	24	6	18
Intersegment and consolidation	2	(2)	4	2	(5)	7
Canada Post Group of Companies	**120**	**84**	**36**	**233**	**154**	**79**

Capital expenditures for the Group of Companies increased by $36 million and $79 million in the third quarter and first three quarters of 2018, respectively, when compared to the same periods in 2017. The increase in 2018 was mainly due to increased spending on infrastructure capacity in the Canada Post segment.

6.4 Financing activities

	13 weeks ended			39 weeks ended		
(in millions of dollars)	Sept. 29, 2018	Sept. 30, 2017	Change	Sept. 29, 2018	Sept. 30, 2017	Change
Cash used in financing activities	(3)	(4)	1	(9)	(15)	6

Cash used in financing activities decreased by $1 million and $6 million, respectively, in the third quarter and first three quarters of 2018 compared to the same periods in 2017, mainly due to lower payments on finance lease obligations in the Purolator segment.

6.5 Canada Post Corporation Registered Pension Plan

The Canada Post Corporation Registered Pension Plan (RPP) has assets with a market value of $25 billion as at December 31, 2017, 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 2017 Annual MD&A. An update follows.

On May 31, 2018, the arbitrator for the pay equity study issued her decision that rural and suburban mail carriers (Canadian Union of Postal Workers – Rural and Suburban Mail Carriers) perform work of equal value to the work of urban letter carriers (Canadian Union of Postal Workers – Urban Postal Operations) and that the parties were to determine the amount of the wage gap between the two groups, as well as the solution to rectify the gap. As the parties were unable to reach an agreement by the August 31, 2018, deadline, outstanding matters proceeded to binding arbitration. On September 20, the arbitrator released her final ruling, and as a result the Corporation recorded plan amendment losses for the RPP in net profit for the 13 weeks ended September 29, 2018.

Under the regulations in the *Pension Benefits Standards Act, 1985*, solvency reductions are limited to 15% of a plan's solvency liabilities, 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. Canada Post has notified and received no objection from the Minister of Finance and the Minister of Public Services and Procurement of its intent to reduce special solvency contributions for 2018. Canada Post will not have to make special payments in 2018 and projects that it will not have to make special payments in 2019, provided that market conditions remain constant. The RSMC pay equity ruling will have an impact on solvency funding requirements in future years, requiring additional pay equity-related payments, subject to regulatory approval.

On June 20, 2018, Canada Post filed the actuarial valuation of the RPP as at December 31, 2017, with the federal pension regulator, the Office of the Superintendent of Financial Institutions. The actuarial valuation as at December 31, 2017, disclosed a going-concern surplus of $3 billion (using the smoothed value of RPP assets) and a solvency deficit to be funded of $6.4 billion (using the three-year average solvency ratio), or $5.9 billion (using market value of plan assets). At the end of the third quarter of 2018, the solvency deficit (using market value of plan assets) decreased to an estimated $4.8 billion, mainly due to an increase in the discount rate.

Current service contributions amounted to $66 million and $190 million, respectively, for the third quarter and first three quarters of 2018, compared to $69 million and $196 million, respectively, for the same periods in 2017. The employer's current service contributions for 2018 are estimated at $259 million.

Canada Post, the RPP sponsor, records remeasurement adjustments, net of tax, in other comprehensive income. For the third quarter of 2018, remeasurement gains, net of tax, amounted to $531 million for the RPP. For the first three quarters of 2018, remeasurement gains, net of tax, amounted to $1,161 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 third quarter of 2018, 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 $2,395 million of unrestricted liquid investments on hand as at September 29, 2018, and $100 million of lines of credit, as described below under "Access to capital markets," established under its short-term borrowing authority approved by the Minister of Finance.

Canada Post is availing itself of the solvency payment reduction mechanism provided by the regulations in the *Pension Benefits Standards Act, 1985,* and will not be making special payments in 2018. Further, it projects that it will not have to make special payments in 2019, provided that market conditions remain constant. Therefore, 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 $344 million of unrestricted cash on hand and undrawn credit facilities of $89 million as at September 29, 2018, 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, as described above under "Liquidity." 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 September 29, 2018, amounted to $997 million and $31 million, respectively. For more information on liquidity and access to capital markets, refer to Section 6.6 – Liquidity and capital resources of the 2017 Annual MD&A.

Dividends

On September 24, 2018, through an order in council, Canada Post Corporation was reclassified under the *Financial Administration Act*. Pursuant to subsection 3.3 of the Act, Canada Post was moved from Part II of Schedule III to Part I of Schedule III, removing the requirement to submit an annual dividend proposal to its shareholder. The Corporation has not paid a dividend to its shareholder since 2008. For more information on our dividend policy, refer to Section 6.6 – Liquidity and capital resources of the 2017 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 that are summarized in Section 6.7 – Risks associated with financial instruments of the 2017 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. There were no material changes to market risk during the third quarter of 2018. For more information on foreign exchange risk, refer to Note 13 – Fair Values and Risks Arising from Financial Instruments of the unaudited interim condensed consolidated financial statements for the 13 and 39 weeks ended September 29, 2018 and Note 19 – Financial Instruments and Risk Management of the 2017 consolidated financial statements.

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 third quarter of 2018. For more information on credit risk, refer to Note 19 – Financial Instruments and Risk Management of the 2017 consolidated financial statements.

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 third quarter of 2018. For more information on liquidity risk, refer to Note 13 – Fair Values and Risks Arising from Financial Instruments of the unaudited interim condensed consolidated financial statements for the 13 and 39 weeks ended September 29, 2018, and Note 19 – Financial Instruments and Risk Management of the 2017 consolidated financial statements.

6.8 Contractual obligations and commitments

Contractual obligations and commitments are explained in Section 6.8 – Contractual obligations and commitments of the 2017 Annual MD&A. There were no material changes to contractual obligations and commitments during the third quarter of 2018.

6.9 Related party transactions

The Corporation has a variety of transactions with related parties 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 2017 Annual MD&A. For more information on related party transactions, refer to Note 16 – Related Party Transactions of the unaudited interim condensed consolidated financial statements for the 13 and 39 weeks ended September 29, 2018, and Note 24 – Related Party Transactions of the 2017 consolidated financial statements.

6.10 Contingent liabilities

Contingent liabilities are described in Note 12 – Contingent Liabilities of the unaudited interim condensed consolidated financial statements for the 13 and 39 weeks ended September 29, 2018, and Note 16 – Contingent Liabilities of the 2017 consolidated financial statements.

7 Changes in Financial Position

A discussion of significant changes in our assets and liabilities between September 29, 2018, and December 31, 2017

(in millions of dollars)

ASSETS	Sept. 29, 2018	Dec. 31, 2017[1]	Change[1]	%[1]	Explanation of change
Cash and cash equivalents	1,517	1,503	14	0.9	Refer to Section 6 – Liquidity and Capital Resources page 10.
Marketable securities	1,222	821	401	48.8	Mainly due to timing as a result of the purchase of short-term investments.
Trade and other receivables	854	946	(92)	(9.8)	Mainly due to lower trade and international settlement receivables in the Canada Post segment.
Other assets	167	126	41	33.0	Mainly due to higher income tax instalments for 2018 made in the Canada Post segment.
Total current assets	**3,760**	**3,396**	**364**	**10.7**	
Property, plant and equipment	2,649	2,627	22	0.8	Mainly due to acquisitions exceeding depreciation in the Canada Post segment.
Intangible assets	107	119	(12)	(10.7)	No material change.
Segregated securities	519	526	(7)	(1.3)	No material change.
Pension benefit assets	131	116	15	13.2	No material change.
Deferred tax assets	1,223	1,568	(345)	(22.0)	Mainly due to the decrease of temporary differences related to Canada Post's Registered Pension Plan and other post-employment benefits.
Goodwill	130	130	–	–	No change.
Other assets	51	7	44	–	Mainly due to a long-term receivable related to a change in the timing of when CUPW employees are paid.
Total non-current assets	**4,810**	**5,093**	**(283)**	**(5.6)**	
Total assets	**8,570**	**8,489**	**81**	**1.0**	

1. The amounts for 2017 were restated as a result of new or revised accounting standards. For more details, see section 9.2 Accounting pronouncements in this MD&A and Note 3 – Application of New and Revised International Financial Reporting Standards in the accompanying financial statements.

(in millions of dollars)

LIABILITIES	Sept. 29, 2018	Dec. 31, 2017[1]	Change[1]	%[1]	Explanation of change
Trade and other payables	529	583	(54)	(9.4)	Mainly due to higher expenses during the peak period in the last quarter of 2017.
Salaries and benefits payable and related provisions	842	600	242	40.1	Mainly due to increased accrued salaries in the Canada Post segment related to the arbitrator's pay equity ruling for the Canadian Union of Postal Workers Rural and Suburban Mail Carriers (CUPW-RSMC).
Provisions	99	77	22	28.9	Mainly due to an increase in the grievance and other provisions in the Canada Post segment.
Income tax payable	6	38	(32)	(83.6)	Primarily due to the payment of a tax liability for the Canada Post segment.
Deferred revenue	130	138	(8)	(5.4)	No material change.
Loans and borrowings	12	13	(1)	(3.7)	No material change.
Other long-term benefit liabilities	64	63	1	2.1	No material change.
Total current liabilities	**1,682**	**1,512**	**170**	**11.2**	
Loans and borrowings	1,016	1,025	(9)	(0.9)	No material change.
Pension, other post-employment and other long-term benefit liabilities	4,947	6,297	(1,350)	(21.4)	Mainly due to remeasurement gains resulting from an increase in discount rates and positive investment returns, partially offset by plan amendments related to the CUPW-RSMC pay equity ruling.
Other liabilities	26	25	1	0.1	No material change.
Total non-current liabilities	**5,989**	**7,347**	**(1,358)**	**(18.5)**	
Total liabilities	**7,671**	**8,859**	**(1,188)**	**(13.4)**	
EQUITY					
Contributed capital	1,155	1,155	–	–	No change.
Accumulated other comprehensive income	38	54	(16)	(29.0)	No material change.
Accumulated deficit	(336)	(1,611)	1,275	79.1	Mainly driven by remeasurement gains in the Canada Post segment.
Equity of Canada	**857**	**(402)**	**1,259**	–	
Non-controlling interests	42	32	10	31.9	
Total equity	**899**	**(370)**	**1,269**	–	
Total liabilities and equity	**8,570**	**8,489**	**81**	**1.0**	

1. The amounts for 2017 were restated as a result of new or revised accounting standards. For more details, see section 9.2 Accounting pronouncements in this MD&A and Note 3 – Application of New and Revised International Financial Reporting Standards in the accompanying financial statements.

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 third quarter and the first three quarters of 2018, there was no difference in the number of business days or paid days compared to the same periods in 2017.

(in millions of dollars)	Q3 2018	Q2 2018	Q1 2018	Q4 2017[1]	Q3 2017[1]	Q2 2017[1]	Q1 2017[1]	Q4 2016
Revenue from operations	2,063	2,142	2,162	2,287	1,931	2,029	2,071	2,128
Cost of operations	2,121	2,325	2,061	2,186	1,948	1,955	1,997	2,024
Profit (loss) from operations	**(58)**	**(183)**	**101**	**101**	**(17)**	**74**	**74**	**104**
Investing and financing income (expense), net	12	(7)	(5)	(8)	(6)	(7)	(6)	(9)
Profit (loss) before tax	**(46)**	**(190)**	**96**	**93**	**(23)**	**67**	**68**	**95**
Tax expense (income)	(10)	(44)	22	31	(10)	15	20	19
Net profit (loss)	**(36)**	**(146)**	**74**	**62**	**(13)**	**52**	**48**	**76**

8.2 Consolidated results from operations

Consolidated results for the third quarter and first three quarters of 2018

			13 weeks ended				**39 weeks ended**	
(in millions of dollars)	Sept. 29, 2018	Sept. 30, 2017[1]	Change[1]	%[1]	Sept. 29, 2018	Sept. 30, 2017[1]	Change[1]	%[1]
Revenue from operations	2,063	1,931	132	6.8	6,367	6,031	336	5.6
Cost of operations	2,121	1,948	173	8.8	6,507	5,900	607	10.3
Profit (loss) from operations	**(58)**	**(17)**	**(41)**	**–**	**(140)**	**131**	**(271)**	**–**
Investing and financing income (expense), net	12	(6)	18	–	–	(19)	19	–
Profit (loss) before tax	**(46)**	**(23)**	**(23)**	**–**	**(140)**	**112**	**(252)**	**–**
Tax expense (income)	(10)	(10)	–	–	(32)	25	(57)	–
Net profit (loss)	**(36)**	**(13)**	**(23)**	**–**	**(108)**	**87**	**(195)**	**–**
Other comprehensive income	612	1,078	(466)	–	1,377	173	1,204	–
Comprehensive income	**576**	**1,065**	**(489)**	**–**	**1,269**	**260**	**1,009**	**–**

The Canada Post Group of Companies reported a loss before tax of $46 million for the third quarter of 2018, compared to a loss before tax of $23 million[1] in the third quarter of 2017. For the first three quarters of 2018, the loss before tax was $140 million, compared to a profit before tax of $112 million[1] in the first three quarters of 2017. The decrease in profit before tax in 2018 was driven primarily by the Canada Post segment. A detailed discussion by segment follows in sections 8.4 to 8.6.

1. The amounts for 2017 were restated as a result of new or revised accounting standards. For more details, see section 9.2 Accounting pronouncements in this MD&A and Note 3 – Application of New and Revised International Financial Reporting Standards in the accompanying financial statements.

Consolidated revenue from operations

For the third quarter and the first three quarters of 2018, revenue from operations increased by $132 million[1] and $336 million,[1] respectively, when compared to the same periods in 2017, due to growth in the Canada Post and Purolator segments. In the Canada Post segment, Parcels growth was partially offset by Lettermail™ erosion. A detailed discussion of revenue by segment follows in sections 8.4 to 8.6.

Consolidated cost of operations

The cost of operations grew by $173 million[1] and $607 million[1] in the third quarter of 2018 and the first three quarters of 2018, respectively, when compared to the same periods in 2017. The increases were mainly the result of increased costs related to the arbitrator's pay equity decision regarding members of the Canadian Union of Postal Workers – Rural and Suburban Mail Carriers (CUPW-RSMC) in the Canada Post segment, as well as volume growth, inflationary pressures and fuel price increases in the Canada Post and Purolator segments. A detailed discussion by segment follows in sections 8.4 to 8.6.

Consolidated tax expense

The consolidated tax income of $10 million for the third quarter of 2018 was consistent with the same quarter in 2017, despite a decrease in profit before tax. This was mainly due to an unexpected decrease in the annual taxable income for the Canada Post segment in the prior year. For the first three quarters of 2018 the tax expense decreased by $57 million[1] compared to the same period in the prior year, primarily driven by a decrease in the Canada Post segment's profit before tax.

Consolidated other comprehensive income (loss)

The consolidated other comprehensive income for the third quarter and the first three quarters of 2018 amounted to $612 million and $1,377 million, respectively. For the third quarter and the first three quarters, the income was mainly due to remeasurement gains on pension and other post-employment plans resulting from an increase in discount rates, compared to the same periods in 2017. Volatility, caused by fluctuations in pension plan investment returns and changes to the discount rates used to measure these plans, continued to have an impact on the Group of Companies' other comprehensive income (loss).

8.3 Operating results by segment

Segmented results – Profit (loss) before tax

	13 weeks ended				**39 weeks ended**			
(in millions of dollars)	Sept. 29, 2018	Sept. 30, 2017[1]	Change[1]	%[1]	Sept. 29, 2018	Sept. 30, 2017[1]	Change[1]	%[1]
Canada Post	(94)	(64)	(30)	(48.6)	(266)	13	(279)	–
Purolator	42	36	6	20.5	108	85	23	28.3
Logistics	6	6	–	(2.8)	16	15	1	4.5
Other	–	(1)	1	(9.1)	2	(1)	3	–
Canada Post Group of Companies	**(46)**	**(23)**	**(23)**	**–**	**(140)**	**112**	**(252)**	**–**

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

1. The amounts for 2017 were restated as a result of new or revised accounting standards. For more details, see section 9.2 Accounting pronouncements in this MD&A and Note 3 – Application of New and Revised International Financial Reporting Standards in the accompanying financial statements.

8.4 Canada Post segment

The Canada Post segment recorded a loss before tax of $94 million in the third quarter of 2018, compared to a loss before tax of $64 million[1] in the third quarter of 2017. For the first three quarters of 2018 the loss before tax was $266 million, compared to a profit before tax of $13 million[1] for the same period in 2017.

Canada Post results for the third quarter and first three quarters of 2018

	13 weeks ended				39 weeks ended			
(in millions of dollars)	Sept. 29, 2018	Sept. 30, 2017[1]	Change[1]	%[1]	Sept. 29, 2018	Sept. 30, 2017[1]	Change[1]	%[1]
Revenue from operations	1,561	1,487	74	5.0	4,904	4,709	195	4.1
Cost of operations	1,668	1,545	123	7.9	5,171	4,678	493	10.5
Profit (loss) from operations	**(107)**	**(58)**	**(49)**	**83.2**	**(267)**	**31**	**(298)**	**–**
Investing and financing income (expense), net	13	(6)	19	–	1	(18)	19	–
Profit (loss) before tax	**(94)**	**(64)**	**(30)**	**48.6**	**(266)**	**13**	**(279)**	**–**
Tax expense (income)	(23)	(20)	(3)	22.3	(65)	(2)	(63)	–
Net profit (loss)	**(71)**	**(44)**	**(27)**	**60.0**	**(201)**	**15**	**(216)**	**–**

The ruling on pay equity for members of the Canadian Union of Postal Workers – Rural and Suburban Mail Carriers (CUPW-RSMC) is the main contributing factor to the segment's results in 2018. The Corporation expects that the cumulative costs associated with the ruling will reach approximately $550 million by the end of 2018, of which an estimated $420 million will have been recorded in the 2018 fiscal year. The annualized impact of the pay equity ruling in future years will be an estimated cost increase of $140 million per year. Had it not been for amounts related to prior years for CUPW-RSMC pay equity, the Corporation would have reported a small profit before tax for the first three quarters of 2018.

Revenue from operations

Canada Post earned revenue from operations of $1,561 million in the third quarter of 2018 – an increase of $74 million[1] or 5.0%[1] when compared to the same quarter in 2017. For the first three quarters of 2018, Canada Post generated revenue from operations of $4,904 million, an increase of $195 million[1] or 4.1%[1] compared to the same period in 2017. The increases were due primarily to continued growth in Parcels in 2018 compared to the same periods in 2017, partially offset by Lettermail erosion. The 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 third quarter of 2018.

Quarterly revenue by line of business

	13 weeks ended				39 weeks ended			
(in millions of dollars)	Sept. 29, 2018	Sept. 30, 2017[1]	Change[1]	%[1]	Sept. 29, 2018	Sept. 30, 2017[1]	Change[1]	%[1]
Transaction Mail	646	670	(24)	(3.6)	2,115	2,218	(103)	(4.6)
Parcels	597	491	106	21.2	1,797	1,475	322	21.8
Direct Marketing	261	266	(5)	(1.9)	817	826	(9)	(1.1)
Other revenue	57	60	(3)	(1.9)	175	190	(15)	(7.6)
Total	**1,561**	**1,487**	**74**	**5.0**	**4,904**	**4,709**	**195**	**4.1**

1. The amounts for 2017 were restated as a result of new or revised accounting standards. For more details, see section 9.2 Accounting pronouncements in this MD&A and Note 3 – Application of New and Revised International Financial Reporting Standards in the accompanying financial statements.

Transaction Mail

Transaction Mail revenue of $646 million for the third quarter of 2018 was made up of the following three product categories: Domestic Lettermail ($608 million), Outbound Letter-post ($20 million) and Inbound Letter-post ($18 million).

In the third quarter of 2018, Transaction Mail revenue decreased by $24 million[1] or 3.6%,[1] while volumes decreased by 35 million pieces or 4.6% compared to the same period in 2017. For Domestic Lettermail, the largest product category, revenue decreased by $6 million[1] or 1.0%[1] and volumes decreased by 20 million pieces or 2.8%.

In the first three quarters of 2018, Transaction Mail revenue decreased by $103 million[1] or 4.6%[1] while volumes decreased by 119 million pieces or 4.9% compared to the same period in 2017. For Domestic Lettermail, revenue decreased by $40 million[1] or 2.0%[1] and volumes decreased by 76 million pieces or 3.3%.

Volume declines were primarily driven by ongoing 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 $597 million for the third quarter of 2018 was made up of the following four product categories: Domestic Parcels ($446 million), Outbound Parcels ($55 million), Inbound Parcels ($87 million) and Other ($9 million).

Parcels revenue in the third quarter increased by $106 million[1] or 21.2%,[1] and volumes increased by 14 million pieces or 23.3% when compared to the same period in the prior year. Domestic Parcels, the largest product category, continued its growth as revenue increased by $92 million[1] or 25.7%,[1] and volumes grew by seven million pieces or 18.1%.

In the first three quarters of 2018, Parcels revenue increased by $322 million[1] or 21.8%,[1] and volumes increased by 44 million pieces or 26.7% when compared to the same period in the prior year. For Domestic Parcels, revenue increased by $249 million[1] or 23.2%,[1] and volumes grew by 19 million pieces or 16.6%.

The increase in revenue and volumes was driven by a strong performance from major commercial customers and a solid delivery performance. It reflects the growth in the business-to-consumer e-commerce delivery market as customers continue to order more products online. Also, for Inbound Parcels there has been some migration from Transaction Mail Inbound Letter-post due to changes in international induction procedures.

Direct Marketing

Direct Marketing revenue of $261 million for the third quarter of 2018 was made up of the following four categories: Canada Post Personalized Mail™ ($123 million), Canada Post Neighbourhood Mail™ ($96 million), Publications Mail™ ($34 million), and Business Reply Mail™ and Other mail ($8 million).

In the third quarter of 2018, Direct Marketing revenue decreased slightly by $5 million[1] or 1.9%,[1] while volumes decreased by 44 million pieces or 3.9% compared to the same period in 2017. Revenue for Neighbourhood Mail™, the largest volume product category, decreased slightly by $4 million[1] or 3.8%,[1] while volumes decreased by 36 million pieces or 4.2% compared to the same period in 2017. Personalized Mail™ revenue remained relatively flat (increase of $1 million[1]) and volumes decreased slightly by 4 million pieces or 2.1%, respectively, when compared to the third quarter in 2017.

In the first three quarters of 2018, Direct Marketing revenue decreased by $9 million[1] or 1.1%,[1] and volumes dropped by 54 million pieces or 1.5% when compared to the same period in 2017. Revenue for Neighbourhood Mail was flat compared to the same period in 2017, while volumes decreased by 16 million pieces or 0.6%. Personalized Mail revenue and volumes decreased by $3 million[1] or 1.0%[1] and 24 million pieces or 3.5%, respectively, when compared to the first three quarters in 2017.

The declines in Personalized Mail were caused by commercial customers, especially in the financial, retail and telecommunications sectors that reduced their marketing expenditures and redirected some of them to other media channels.

Publications Mail revenue for the third quarter and the first three quarters of 2018 were lower by $3 million[1] and $7 million,[1] respectively, when compared to the same periods in 2017. Volumes for the third quarter and the first three quarters of 2018 were lower by four million pieces and 14 million pieces, respectively, a decrease of 7.8% for each period, when compared to the same periods in 2017. The decreases resulted from declines in mail publication subscriptions.

1. The amounts for 2017 were restated as a result of new or revised accounting standards. For more details, see section 9.2 Accounting pronouncements in this MD&A and Note 3 – Application of New and Revised International Financial Reporting Standards in the accompanying financial statements.

Other revenue

Other revenue totalled $57 million in the third quarter of 2018 – a decrease of $3 million[1] or 1.9%,[1] when compared to the same period in the prior year, mainly due to a loss in foreign exchange and a decrease in consumer products and services. At the end of the first three quarters in 2018, revenue was $175 million – a decrease of $15 million[1] or 7.6%[1] compared to the same period in 2017. The decrease was due to a reduction in sales of consumer and digital products, and fluctuations in foreign currency.

Cost of operations

Cost of operations for the Canada Post segment amounted to $1,668 million in the third quarter of 2018 – an increase of $123 million[1] or 7.9%[1] when compared to the same quarter last year. After the first three quarters of 2018, the cost of operations was $5,171 million – an increase of $493 million[1] or 10.5%[1] compared to the same period in 2017. When compared to the same periods in 2017, the increases were mainly due to higher labour costs and employee benefit expenses resulting from the CUPW-RSMC pay equity decision by the arbitrator.

			13 weeks ended					39 weeks ended
(in millions of dollars)	Sept. 29, 2018	Sept. 30, 2017[1]	Change[1]	%[1]	Sept. 29, 2018	Sept. 30, 2017[1]	Change[1]	%[1]
Labour	869	778	91	11.7	2,533	2,343	190	8.1
Employee benefits	325	324	1	0.2	1,160	952	208	21.9
Total labour and employee benefits	**1,194**	**1,102**	**92**	**8.3**	**3,693**	**3,295**	**398**	**12.1**
Non-labour collection, processing and delivery	231	213	18	7.6	724	682	42	5.9
Property, facilities and maintenance	60	57	3	5.8	192	184	8	4.2
Selling, administrative and other	122	109	13	11.9	378	330	48	14.5
Total other operating costs	**413**	**379**	**34**	**8.5**	**1,294**	**1,196**	**98**	**8.0**
Depreciation and amortization	61	64	(3)	(3.2)	184	187	(3)	(1.0)
Total	**1,668**	**1,545**	**123**	**7.9**	**5,171**	**4,678**	**493**	**10.5**

Labour

Labour costs increased by $91 million or 11.7% in the third quarter of 2018 and by $190 million or 8.1% in the first three quarters of 2018, when compared to the same periods in the previous year. The change was primarily due to the CUPW-RSMC pay equity decision by the arbitrator, as well as continued Parcels growth and inflation.

Employee benefits

Employee benefits were relatively flat in the third quarter of 2018 compared to the same period in 2017 as the impact of the pay equity ruling on benefits was mostly recorded in the second quarter of 2018. In the first three quarters of 2018, benefit costs increased by $208 million or 21.9% when compared to the same period in 2017. The increase in costs was mainly due to plan amendments resulting from the pay equity decision and a decrease in the 2017 discount rate, partially offset by favorable asset returns in 2017, which were both used to calculate benefit plan costs in 2018.

Non-labour collection, processing and delivery

Contracted collection, processing and delivery costs increased by $18 million[1] or 7.6%[1] for the third quarter of 2018 and by $42 million[1] or 5.9%[1] for the first three quarters of 2018, when compared to the same periods in 2017, mainly due to higher transportation, fuel costs and automotive expenses.

Property, facilities and maintenance

The cost of facilities increased slightly by $3 million[1] or 5.8%[1] for the third quarter of 2018 and increased by $8 million[1] or 4.2%[1] for the first three quarters of 2018 when compared to the same periods in 2017, mainly due to an increase in building repair and maintenance costs in the third quarter of 2018.

Selling, administrative and other

Selling, administrative and other expenses increased by $13 million or 11.9% for the third quarter of 2018 and by $48 million or 14.5% for the first three quarters of 2018, when compared to the same periods last year, mainly due to costs associated with community mailbox site restorations and to commodity taxes related to continuous inbound freight.

1. The amounts for 2017 were restated as a result of new or revised accounting standards. For more details, see section 9.2 Accounting pronouncements in this MD&A and Note 3 – Application of New and Revised International Financial Reporting Standards in the accompanying financial statements.

Depreciation and amortization

Depreciation and amortization expenses were $61 million for the third quarter of 2018 and $184 million for the first three quarters of 2018. These amounts are consistent when compared to the same periods in 2017.

8.5 Purolator segment

The Purolator segment recorded a net profit of $31 million for the third quarter of 2018, an increase of $3 million[1] or 19.9%[1] when compared to the same period in 2017. For the first three quarters of 2018, Purolator earned a net profit of $80 million, an increase of $18 million[1] when compared to the prior year.

Purolator results for the third quarter and first three quarters of 2018

	13 weeks ended				39 weeks ended			
(in millions of dollars)	Sept. 29, 2018	Sept. 30, 2017[1]	Change[1]	%[1]	Sept. 29, 2018	Sept. 30, 2017[1]	Change[1]	%[1]
Revenue from operations	449	399	50	12.6	1,319	1,189	130	10.9
Cost of operations	406	363	43	11.5	1,210	1,103	107	9.6
Profit from operations	**43**	**36**	**7**	**23.1**	**109**	**86**	**23**	**27.8**
Investing and financing income (expense), net	(1)	–	(1)	–	(1)	(1)	–	1.8
Profit before tax	**42**	**36**	**6**	**20.5**	**108**	**85**	**23**	**28.3**
Tax expense	11	8	3	22.2	28	23	5	24.8
Net profit	**31**	**28**	**3**	**19.9**	**80**	**62**	**18**	**29.5**

Revenue from operations

Purolator generated revenue from operations of $449 million in the third quarter of 2018 – an increase of $50 million[1] or 12.6%[1] when compared to the same period in 2017. After the first three quarters of 2018, revenue totalled $1,319 million – an increase of $130 million[1] or 10.9%[1] compared to the same period in 2017. The increases were mainly due to increased volumes from new and existing business.

Cost of operations

Total labour costs

Total labour costs were $200 million in the third quarter of 2018, an increase of $13 million or 7.1% compared to the same period in 2017. After the first three quarters of 2018, labour costs amounted to $604 million, an increase of $32 million or 5.5% when compared to the same period in 2017. Increases were driven by business growth.

Total non-labour costs

Total non-labour costs were $206 million in the third quarter of 2018 – an increase of $30 million[1] or 16.3%[1] compared to the same period in 2017. After the first three quarters of 2018, non-labour costs were $606 million[1], an increase of $75 million[1] or 13.9%[1] compared to the same period in 2017. The increases were driven primarily by business growth and higher fuel costs.

1. The amounts for 2017 were restated as a result of new or revised accounting standards. For more details, see section 9.2 Accounting pronouncements in this MD&A and Note 3 – Application of New and Revised International Financial Reporting Standards in the accompanying financial statements.

8.6 Logistics segment

The Logistics segment includes the financial results of SCI Group. The Logistics segment contributed $5 million of net profit to the consolidated results for the third quarter of 2018. For the first three quarters of 2018, the Logistics segment earned a net profit of $12 million, an increase of 4.4%[1] when compared to the prior year.

Logistics results for the third quarter and first three quarters of 2018

	13 weeks ended				39 weeks ended			
(in millions of dollars)	Sept. 29, 2018	Sept. 30, 2017[1]	Change[1]	%[1]	Sept. 29, 2018	Sept. 30, 2017[1]	Change[1]	%[1]
Revenue from operations	82	69	13	19.7	228	199	29	14.7
Cost of operations	76	63	13	22.0	212	184	28	15.7
Profit from operations	**6**	**6**	**–**	**(5.7)**	**16**	**15**	1	**2.6**
Investing and financing income (expense), net	–	–	–	–	–	–	–	–
Profit before tax	**6**	**6**	**–**	**(2.8)**	**16**	**15**	1	**4.5**
Tax expense	1	2	(1)	(2.8)	4	4	–	4.6
Net profit	**5**	**4**	**1**	**(2.8)**	**12**	**11**	1	**4.4**

Revenue from operations

SCI generated revenue from operations of $82 million in the third quarter of 2018 – an increase of $13 million[1] or 19.7%[1] when compared to the same period in 2017. After the first three quarters of 2018, revenue was $228 million – an increase of $29 million[1] or 14.7%[1] when compared to the same period in 2017. The increases were primarily the result of growth in volumes and new business.

Cost of operations

Total labour costs

Total labour costs were $40 million in the third quarter of 2018 – an increase of $7 million or 24.8% when compared to the same period in 2017. After the first three quarters of 2018, total labour costs were $114 million – an increase of $17 million or 17.8% compared to the same period in 2017. Increases were primarily the result of growth in volumes and new business.

Total non-labour costs

Total non-labour costs were $36 million in the third quarter of 2018 – an increase of $6 million[1] or 18.9%[1] when compared to the same period in 2017. After the first three quarters of 2018, total non-labour costs were $98 million – an increase of $11 million[1] or 13.4%[1] when compared to the same period in 2017. Increases were primarily the result of growth from existing clients and new business.

8.7 Consolidated results to plan

While the interim 2018-22 Corporate Plan was filed with the Minister responsible for Canada Post, it was not advanced for Governor-in-Council consideration in light of the Government of Canada's review of Canada Post that was then under way. We submitted the 2019-23 Corporate Plan November 6, 2018, and starting in 2019, we will report on our performance against the approved Corporate Plan in future quarterly and annual reports. Any residual approvals required for the 2018-22 Corporate Plan will be dealt with in the context of Treasury Board's consideration of the 2019-23 Corporate Plan.

1. The amounts for 2017 were restated as a result of new or revised accounting standards. For more details, see section 9.2 Accounting pronouncements in this MD&A and Note 3 – Application of New and Revised International Financial Reporting Standards in the accompanying financial statements.

9 Critical Accounting Estimates and Accounting Policy Developments

A review of critical accounting estimates and changes in accounting policies in 2018 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 2017 Annual MD&A and Note 4 – Critical Accounting Estimates and Judgments of the 2017 consolidated financial statements, which are contained in the *Canada Post Corporation 2017 Annual Report*.

9.2 Accounting pronouncements

(a) New standards, amendments and interpretations adopted

Certain pronouncements were issued by the International Accounting Standards Board (IASB) or the IFRS Interpretations Committee that had mandatory effective dates of annual periods beginning on or after January 1, 2018.

The following standards were adopted by the Group of Companies January 1, 2018.

IFRS 15 "Revenue from Contracts with Customers" (IFRS 15) • The IASB issued IFRS 15, which provides a framework that replaces existing revenue recognition guidance in IFRS. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which affect the amount or timing of revenue recognized. IFRS 15 was applied retrospectively to these interim condensed consolidated financial statements in accordance with the transitional provisions. As required by the transitional provisions, the amount of the restatement for each financial statement line item affected in the comparative period is described below.

IFRS 15 requires that the incremental cost of obtaining a revenue contract be capitalized and expensed at the time when related revenue is recognized. The Group of Companies has identified certain fees paid to its resellers as contract costs. Due to the short delivery cycle, this period is less than one year and, therefore, qualifies under a practical expedient to be expensed directly to cost of operations without first being capitalized. In addition, some of these contract costs previously netted against revenue were reclassified to cost of operations as the Group of Companies is considered the principal in these transactions. As a result, revenue and cost from operations each increased by $18 million and $59 million from amounts previously reported for the 13 weeks and 39 weeks ended September 30, 2017, which had no impact on net profit (loss).

IFRS 15 also has more specific guidance on methods that measure the stage of completion. For stand-ready services such as mail forwarding, where the customer benefits from having the mail forwarding service available throughout the contract period, the Group of Companies has determined a time-based measurement method to recognize revenue is appropriate. As a result, deferred tax assets, deferred revenue and accumulated deficit increased by $7 million, $28 million and $21 million, respectively, from amounts previously reported as at January 1, 2017, and increased by $8 million, $30 million and $22 million, respectively, from amounts previously reported as at December 31, 2017. Revenue decreased by $2 million and $3 million from amounts previously reported for the 13 weeks and 39 weeks ended September 30, 2017, respectively. In addition, the tax expense decreased by $1 million from amounts previously reported for both the 13 weeks and 39 weeks ended September 30, 2017.

In addition, IFRS 15 requires revenue to be recognized as control is transferred to the customer over time rather than at a point in time, which accelerates revenue recognition from delivery of Lettermail™, Direct Marketing and Parcels. As a result, the deferred tax assets, deferred revenue and accumulated deficit decreased by $1 million, $2 million and $1 million, respectively, from amounts previously reported as at January 1, 2017, and decreased by $2 million, $6 million and $6 million, respectively, while trade and other receivables increased by $2 million from amounts previously reported as at December 31, 2017. Revenue and tax expense increased by $4 million and $1 million, respectively, from amounts previously reported for both the 13 weeks and 39 weeks ended September 30, 2017.

The overall impact of these changes on the comparative figures was as follows:

Consolidated statement of financial position

(in millions of dollars)

As at January 1, 2017	As previously reported	IFRS 15 adjustments	Restated
Deferred tax asset	1,384	6	1,390
Deferred revenue	115	26	141
Accumulated deficit	(1,530)	(20)	(1,550)

Consolidated statement of financial position

(in millions of dollars)

As at December 31, 2017	As previously reported	IFRS 15 adjustments	Restated
Trade and other receivables	944	2	946
Deferred tax asset	1,562	6	1,568
Deferred revenue	114	24	138
Accumulated deficit	(1,595)	(16)	(1,611)

Consolidated statement of comprehensive income

(in millions of dollars)

	As previously reported		IFRS 15 adjustments		Restated	
	13 weeks ended Sept. 30, 2017	39 weeks ended Sept. 30, 2017	13 weeks ended Sept. 30, 2017	39 weeks ended Sept. 30, 2017	13 weeks ended Sept. 30, 2017	39 weeks ended Sept. 30, 2017
Revenue from operations	1,911	5,971	20	60	1,931	6,031
Total cost of operations	1,930	5,841	18	59	1,948	5,900
Net profit	(15)	86	2	1	(13)	87

IFRS 9 "Financial Instruments" (IFRS 9) • The IASB issued the final version of IFRS 9, bringing together the classification and measurement, impairment and hedge accounting phases of the project to replace IAS 39 "Financial Instruments: Recognition and Measurement." The Group of Companies has applied IFRS 9 retrospectively, effective January 1, 2018. The Group of Companies has identified changes in the classification and subsequent measurement of cash equivalents and marketable securities previously classified and subsequently measured at fair value through profit and loss. Under the new standard, these financial assets are classified and subsequently measured at fair value through other comprehensive income. Also, the standard requires an entity to measure and recognize expected impairment losses on all financial assets. The Corporation uses the probability-of-default method, adjusted by using forward looking information (i.e. bond spreads), to estimate future losses on its cash equivalents, marketable and segregated securities, as these investments qualify under the low credit risk simplification approach. The overall impact of adopting IFRS 9 did not result in significant adjustments to current or previously reported amounts.

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

During the 39 weeks ended September 29, 2018, 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 5 (b) of the Corporation's annual consolidated financial statements for the year ended December 31, 2017. The Group of Companies has the following update regarding its progress in implementing such future standards:

IFRS 16 "Leases" (IFRS 16) • The IASB issued IFRS 16, completing its project to improve the financial reporting of leases. The new standard to replace IAS 17 "Leases" (IAS 17), sets out the principles for the recognition, measurement, presentation and disclosure of leases for parties of a contract. For lessees, IFRS 16 eliminates the classification of leases as either operating or finance leases that exist under IAS 17, and requires the recognition of assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. IFRS 16 substantially carries forward the lessor accounting requirements under IAS 17, maintaining the classification of leases as operating or finance leases, and accounting for the leases according to their classification. The Group of Companies will adopt IFRS 16 effective January 1, 2019, and intends to apply the full retrospective approach.

The Group of Companies continues to make progress in the review of IFRS 16 and its impact, including the implementation of new lease accounting software. The impact on the consolidated statement of financial position is expected to be significant due to the addition of right-of-use assets and the associated lease liability for a large number of leases. The impact on the consolidated statement of comprehensive income will be quantitatively less significant, but will result in a shifting of some costs from cost of operations to financing expense, given that the existing rent expense will be replaced by depreciation and interest for right-of-use assets. Lessees will also be required to remeasure the lease liability when certain events occur (e.g. a change in the lease term or a change in future lease payments resulting from a lease renewal or extension). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. IFRS 16 also requires lessees and lessors to make more extensive disclosures. The Group of Companies will report more detailed information, including estimated quantitative financial effects once available.

In addition, the Group of Companies is evaluating its internal control environment to determine changes and new controls that will be required as a result of the adoption of IFRS 16.

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.

Chair of the Board of Directors and
Interim President and CEO

Chief Financial Officer

November 22, 2018

Interim Condensed Consolidated Statement of Financial Position

As at (Unaudited – in millions of Canadian dollars)	**Notes**	**September 29, 2018**	December 31, 2017 (Restated – Note 3)	January 1, 2017 (Restated – Note 3)
Assets				
Current assets				
Cash and cash equivalents		**$ 1,517**	$ 1,503	$ 849
Marketable securities		**1,222**	821	1,038
Trade and other receivables		**854**	946	829
Other assets	**4**	**167**	126	110
Total current assets		**3,760**	3,396	2,826
Non-current assets				
Property, plant and equipment	**5**	**2,649**	2,627	2,672
Intangible assets	**5**	**107**	119	117
Segregated securities		**519**	526	523
Pension benefit assets	**6**	**131**	116	135
Deferred tax assets		**1,223**	1,568	1,390
Goodwill	**9**	**130**	130	130
Other assets		**51**	7	5
Total non-current assets		**4,810**	5,093	4,972
Total assets		**$ 8,570**	$ 8,489	$ 7,798
Liabilities and equity				
Current liabilities				
Trade and other payables		**$ 529**	$ 583	$ 548
Salaries and benefits payable and related provisions		**842**	600	487
Provisions	**10**	**99**	77	70
Income tax payable		**6**	38	3
Deferred revenue		**130**	138	141
Loans and borrowings		**12**	13	22
Other long-term benefit liabilities	**6**	**64**	63	62
Total current liabilities		**1,682**	1,512	1,333
Non-current liabilities				
Loans and borrowings		**1,016**	1,025	1,037
Pension, other post-employment and other long-term benefit liabilities	**6**	**4,947**	6,297	5,726
Other liabilities		**26**	25	26
Total non-current liabilities		**5,989**	7,347	6,789
Total liabilities		**7,671**	8,859	8,122
Equity				
Contributed capital		**1,155**	1,155	1,155
Accumulated other comprehensive income	**8**	**38**	54	44
Accumulated deficit		**(336)**	(1,611)	(1,550)
Equity of Canada		**857**	(402)	(351)
Non-controlling interests		**42**	32	27
Total equity		**899**	(370)	(324)
Total liabilities and equity		**$ 8,570**	$ 8,489	$ 7,798
Contingent liabilities	**12**			

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		39 weeks ended	
(Unaudited – in millions of Canadian dollars)	Notes	**September 29, 2018**	September 30, 2017 (Restated – Note 3)	**September 29, 2018**	September 30, 2017 (Restated – Note 3)
Revenue from operations	**17**	**$ 2,063**	$ 1,931	**$ 6,367**	$ 6,031
Cost of operations					
Labour		**1,088**	974	**3,181**	2,938
Employee benefits	**6**	**373**	372	**1,314**	1,104
		1,461	1,346	**4,495**	4,042
Other operating costs	**14**	**585**	525	**1,779**	1,630
Depreciation and amortization	**5**	**75**	77	**233**	228
Total cost of operations		**2,121**	1,948	**6,507**	5,900
Profit (loss) from operations		**(58)**	(17)	**(140)**	131
Investing and financing income (expense)					
Investment and other income	**15**	**25**	6	**44**	15
Finance costs and other expense	**15**	**(13)**	(12)	**(44)**	(34)
Investing and financing income (expense), net		**12**	(6)	**–**	(19)
Profit (loss) before tax		**(46)**	(23)	**(140)**	112
Tax expense (income)	**7**	**(10)**	(10)	**(32)**	25
Net profit (loss)		**$ (36)**	$ (13)	**$ (108)**	$ 87
Other comprehensive income (loss)					
Items that may be reclassified subsequently to net profit (loss)					
Change in unrealized fair value of financial assets	**8**	**$ (12)**	$ (17)	**$ (16)**	$ (2)
Foreign currency translation adjustment	**8**	**(1)**	(2)	**–**	(2)
Items that will not be reclassified to net profit (loss)					
Remeasurements of defined benefit plans	**8**	**625**	1,097	**1,393**	177
Other comprehensive income		**612**	1,078	**1,377**	173
Comprehensive income		**$ 576**	$ 1,065	**$ 1,269**	$ 260
Net profit (loss) attributable to					
Government of Canada		**$ (39)**	$ (15)	**$ (114)**	$ 82
Non-controlling interests		**3**	2	**6**	5
		$ (36)	$ (13)	**$ (108)**	$ 87
Comprehensive income attributable to					
Government of Canada		**$ 572**	$ 1,060	**$ 1,259**	$ 256
Non-controlling interests		**4**	5	**10**	4
		$ 576	$ 1,065	**$ 1,269**	$ 260

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 September 29, 2018 (Unaudited – in millions of Canadian dollars)	Contributed capital	Accumulated other comprehensive income	Accumulated deficit	Equity of Canada	Non-controlling interests	Total equity
Balance at June 30, 2018	**$ 1,155**	**$ 51**	**$ (921)**	**$ 285**	**$ 38**	**$ 323**
Net profit (loss)	**–**	**–**	**(39)**	**(39)**	**3**	**(36)**
Other comprehensive income (loss)	**–**	**(13)**	**624**	**611**	**1**	**612**
Comprehensive income (loss)	**–**	**(13)**	**585**	**572**	**4**	**576**
Balance at September 29, 2018	**$ 1,155**	**$ 38**	**$ (336)**	**$ 857**	**$ 42**	**$ 899**

For the 13 weeks ended September 30, 2017 (Unaudited – in millions of Canadian dollars)	Contributed capital	Accumulated other comprehensive income	Accumulated deficit	Equity of Canada	Non-controlling interests	Total equity
Balance at July 1, 2017	$ 1,155	$ 59	$ (2,348)	$ (1,134)	$ 26	$ (1,108)
Effects of adopting new standards (Note 3)	–	–	(21)	(21)	–	(21)
Restated balance at July 1, 2017	1,155	59	(2,369)	(1,155)	26	(1,129)
Net profit (loss)	–	–	(15)	(15)	2	(13)
Other comprehensive income (loss)	–	(19)	1,094	1,075	3	1,078
Comprehensive income (loss)	–	(19)	1,079	1,060	5	1,065
Balance at September 30, 2017	$ 1,155	$ 40	$ (1,290)	$ (95)	$ 31	$ (64)

For the 39 weeks ended September 29, 2018 (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, 2017	**$ 1,155**	**$ 54**	**$ (1,595)**	**$ (386)**	**$ 32**	**$ (354)**
Effects of adopting new standards (Note 3)	**–**	**–**	**(16)**	**(16)**	**–**	**(16)**
Restated balance as at December 31, 2017	**1,155**	**54**	**(1,611)**	**(402)**	**32**	**(370)**
Net profit (loss)	**–**	**–**	**(114)**	**(114)**	**6**	**(108)**
Other comprehensive income (loss)	**–**	**(16)**	**1,389**	**1,373**	**4**	**1,377**
Comprehensive income (loss)	**–**	**(16)**	**1,275**	**1,259**	**10**	**1,269**
Balance at September 29, 2018	**$ 1,155**	**$ 38**	**$ (336)**	**$ 857**	**$ 42**	**$ 899**

For the 39 weeks ended September 30, 2017 (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, 2016	$ 1,155	$ 44	$ (1,530)	$ (331)	$ 27	$ (304)
Effects of adopting new standards (Note 3)	–	–	(20)	(20)	–	(20)
Restated balance as at January 1, 2017	1,155	44	(1,550)	(351)	27	(324)
Net profit	–	–	82	82	5	87
Other comprehensive income (loss)	–	(4)	178	174	(1)	173
Comprehensive income (loss)	–	(4)	260	256	4	260
Balance at September 30, 2017	$ 1,155	$ 40	$ (1,290)	$ (95)	$ 31	$ (64)

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		39 weeks ended	
(Unaudited – in millions of Canadian dollars)	**Notes**	**September 29, 2018**	September 30, 2017 (Restated – Note 3)	**September 29, 2018**	September 30, 2017 (Restated – Note 3)
Cash flows from operating activities					
Net profit (loss)		**$ (36)**	$ (13)	**$ (108)**	$ 87
Adjustments to reconcile net profit to cash provided by operating activities:					
Depreciation and amortization	**5**	**75**	77	**233**	228
Pension, other post-employment and other long-term benefit expense	**6**	**231**	214	**892**	645
Pension, other post-employment and other long-term benefit payments	**6**	**(131)**	(143)	**(397)**	(408)
Loss (gain) on sale of capital assets and assets held for sale	**15**	**2**	(1)	**4**	(1)
Tax (income) expense	**7**	**(10)**	(10)	**(32)**	25
Net interest (income) expense	**15**	**(3)**	6	**(2)**	20
Change in non-cash operating working capital:					
Decrease in trade and other receivables		**85**	51	**93**	52
Increase (decrease) in trade and other payables		**20**	22	**(44)**	(70)
Increase in salaries and benefits payable and related provisions		**147**	75	**242**	33
(Decrease) increase in provisions		**(2)**	(1)	**21**	7
Net change in other non-cash operating working capital		**(5)**	3	**(11)**	(31)
Other income not affecting cash, net		**(5)**	(4)	**(16)**	(16)
Cash provided by operations before interest and tax		**368**	276	**875**	571
Interest received		**13**	7	**39**	27
Interest paid		**(21)**	(22)	**(43)**	(44)
Tax paid		**(43)**	(23)	**(166)**	(85)
Cash provided by operating activities		**317**	238	**705**	469
Cash flows from investing activities					
Acquisition of securities		**(371)**	(565)	**(1,394)**	(1,541)
Proceeds from sale of securities		**312**	464	**985**	1,566
Acquisition of capital assets		**(120)**	(84)	**(233)**	(154)
Proceeds from sale of capital assets		**–**	–	**1**	2
Decrease (increase) in long-term receivables		**2**	–	**(43)**	–
Cash used in investing activities		**(177)**	(185)	**(684)**	(127)
Cash flows from financing activities					
Payments on finance lease obligations		**(3)**	(4)	**(9)**	(15)
Cash used in financing activities		**(3)**	(4)	**(9)**	(15)
Net increase in cash and cash equivalents		**137**	49	**12**	327
Cash and cash equivalents, beginning of period		**1,380**	1,126	**1,503**	849
Effect of exchange rate changes on cash and cash equivalents		**–**	(2)	**2**	(3)
Cash and cash equivalents, end of period		**$ 1,517**	$ 1,173	**$ 1,517**	$ 1,173

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 39 weeks ended September 29, 2018
(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.

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.

The Corporation is subject to a directive that was issued in December 2013, and a related subsequent directive that was issued in June 2016, pursuant to section 89 of the *Financial Administration Act* to 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.

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 aligned its travel, hospitality, conference and event expenditure policies, guidelines and practices with those of the Treasury Board. The Corporation implemented business processes and systems for an overall solution that is compliant with the travel directive, good governance and the efficiencies required to achieve the commercial and core mandate of the Corporation. An update on the implementation of this directive was included in the 2019-23 Corporate Plan, which was filed with the Minister responsible for Canada Post on November 6, 2018, before the Plan was submitted to the Governor in Council for approval.

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, 2017.

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 November 22, 2018.

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 3 of the Corporation's annual consolidated financial statements for the year ended December 31, 2017, except for the application of new standards, amendments and interpretations effective January 1, 2018, disclosed in Note 3 of these interim condensed consolidated financial statements. The accounting policies have been applied consistently to all periods presented.

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 4 of the Corporation's annual consolidated financial statements for the year ended December 31, 2017.

3. Application of New and Revised International Financial Reporting Standards

(a) New standards, amendments and interpretations

Certain pronouncements were issued by the International Accounting Standards Board (IASB) or the IFRS Interpretations Committee that had mandatory effective dates of annual periods beginning on or after January 1, 2018.

The following standards were adopted by the Group of Companies January 1, 2018.

IFRS 15 "Revenue from Contracts with Customers" (IFRS 15) • The IASB issued IFRS 15, which provides a framework that replaces existing revenue recognition guidance in IFRS. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which affect the amount or timing of revenue recognized. IFRS 15 was applied retrospectively to these interim condensed consolidated financial statements in accordance with the transitional provisions. As required by the transitional provisions, the amount of the restatement for each financial statement line item affected in the comparative period is described below.

IFRS 15 requires that the incremental cost of obtaining a revenue contract be capitalized and expensed at the time when related revenue is recognized. The Group of Companies has identified certain fees paid to its resellers as contract costs. Due to the short delivery cycle, this period is less than one year and, therefore, qualifies under a practical expedient to be expensed directly to cost of operations without first being capitalized. In addition, some of these contract costs previously netted against revenue were reclassified to cost of operations as the Group of Companies is considered the principal in these transactions. As a result, revenue and cost from operations each increased by $18 million and $59 million from amounts previously reported for the 13 weeks and 39 weeks ended September 30, 2017, which had no impact on net profit (loss).

IFRS 15 also has more specific guidance on methods that measure the stage of completion. For stand-ready services such as mail forwarding, where the customer benefits from having the mail forwarding service available throughout the contract period, the Group of Companies has determined a time-based measurement method to recognize revenue is appropriate. As a result, deferred tax assets, deferred revenue and accumulated deficit increased by $7 million, $28 million and $21 million, respectively, from amounts previously reported as at January 1, 2017, and increased by $8 million, $30 million and $22 million, respectively, from amounts previously reported as at December 31, 2017. Revenue decreased by $2 million and $3 million from amounts previously reported for the 13 weeks and 39 weeks ended September 30, 2017, respectively. In addition, the tax expense decreased by $1 million from amounts previously reported for both the 13 weeks and 39 weeks ended September 30, 2017.

In addition, IFRS 15 requires revenue to be recognized as control is transferred to the customer over time rather than at a point in time, which accelerates revenue recognition from delivery of Lettermail™, Direct Marketing and Parcels. As a result, the deferred tax assets, deferred revenue and accumulated deficit decreased by $1 million, $2 million and $1 million, respectively, from amounts previously reported as at January 1, 2017, and decreased by $2 million, $6 million and $6 million, respectively, while trade and other receivables increased by $2 million from amounts previously reported as at December 31, 2017. Revenue and tax expense increased by $4 million and $1 million, respectively, from amounts previously reported for the 13 weeks and 39 weeks ended September 30, 2017.

(Unaudited – in millions of Canadian dollars, unless otherwise indicated)

The overall impact of these changes on the comparative figures was as follows:

Consolidated statement of financial position

As at January 1, 2017	**As previously reported**	**IFRS 15 adjustments**	**Restated**
Deferred tax asset	$ 1,384	$ 6	$ 1,390
Deferred revenue	$ 115	$ 26	$ 141
Accumulated deficit	$ (1,530)	$ (20)	$ (1,550)

Consolidated statement of financial position

As at December 31, 2017	**As previously reported**	**IFRS 15 adjustments**	**Restated**
Trade and other receivables	$ 944	$ 2	$ 946
Deferred tax asset	$ 1,562	$ 6	$ 1,568
Deferred revenue	$ 114	$ 24	$ 138
Accumulated deficit	$ (1,595)	$ (16)	$ (1,611)

Consolidated statement of comprehensive income

For the 13 weeks ended September 30, 2017	**As previously reported**	**IFRS 15 adjustments**	**Restated**
Revenue from operations	$ 1,911	$ 20	$ 1,931
Total cost of operations	$ 1,930	$ 18	$ 1,948
Net loss	$ (15)	$ 2	$ (13)

Consolidated statement of comprehensive income

For the 39 weeks ended September 30, 2017	**As previously reported**	**IFRS 15 adjustments**	**Restated**
Revenue from operations	$ 5,971	$ 60	$ 6,031
Total cost of operations	$ 5,841	$ 59	$ 5,900
Net profit	$ 86	$ 1	$ 87

IFRS 9 "Financial Instruments" (IFRS 9) • The IASB issued the final version of IFRS 9, bringing together the classification and measurement, impairment and hedge accounting phases of the project to replace IAS 39 "Financial Instruments: Recognition and Measurement." The Group of Companies has applied IFRS 9 retrospectively, effective January 1, 2018. The Group of Companies has identified changes in the classification and subsequent measurement of cash equivalents and marketable securities previously classified and subsequently measured at fair value through profit and loss. Under the new standard, these financial assets are classified and subsequently measured at fair value through other comprehensive income. Also, the standard requires an entity to measure and recognize expected impairment losses on all financial assets. The Corporation uses the probability-of-default method, adjusted by using forward looking information (i.e. bond spreads), to estimate future losses on its cash equivalents, as well as marketable and segregated securities, as these investments qualify under the low credit risk simplification approach. The overall impact of adopting IFRS 9 did not result in any adjustments to current or previously reported amounts.

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

During the 39 weeks ended September 29, 2018, 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 5 (b) of the Corporation's annual consolidated financial statements for the year ended December 31, 2017. The Group of Companies has the following update regarding its progress in implementing such future standards:

IFRS 16 "Leases" (IFRS 16) • The IASB issued IFRS 16, completing its project to improve the financial reporting of leases. The new standard to replace IAS 17 "Leases" (IAS 17), sets out the principles for the recognition, measurement, presentation and disclosure of leases for parties of a contract. For lessees, IFRS 16 eliminates the classification of leases as either operating or finance leases that exist under IAS 17, and requires the recognition of assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. IFRS 16 substantially carries forward the lessor accounting requirements under IAS 17, maintaining the classification of leases as operating or finance leases, and accounting for the leases according to their classification. The Group of Companies will adopt IFRS 16 effective January 1, 2019, and intends to apply the full retrospective approach.

(Unaudited – in millions of Canadian dollars, unless otherwise indicated)

The Group of Companies continues to make progress in the review of IFRS 16 and its impact, including the implementation of new lease accounting software. The impact on the consolidated statement of financial position is expected to be significant due to the addition of right-of-use assets and the associated lease liability for a large number of leases. The impact on the consolidated statement of comprehensive income will be quantitatively less significant, but will result in a shifting of some costs from cost of operations to financing expense, given that the existing rent expense will be replaced by depreciation and interest for right-of-use assets. Lessees will also be required to remeasure the lease liability when certain events occur (e.g. a change in the lease term or a change in future lease payments resulting from a lease renewal or extension). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. IFRS 16 also requires lessees and lessors to make more extensive disclosures. The Group of Companies will report more detailed information, including estimated quantitative financial effects once available.

4. Other Current Assets

As at	**September 29, 2018**	December 31, 2017
Income tax receivable	$ 53	$ –
Prepaid expenses	113	94
Assets held for sale	1	32
Total other current assets	**$ 167**	$ 126

As at September 29, 2018, 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. During the 39 week period ended September 29, 2018, a property held for sale was sold for its recoverable amount of $31 million in exchange for $17 million in cash and $14 million in land.

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, 2017	$ 331	$ 2,082	$ 305	$ 1,267	$ 581	$ 324	$ 993	$ 79	$ 5,962
Additions	16	35	8	13	44	29	7	73	225
Retirements	–	–	(2)	(4)	(5)	–	(9)	–	(20)
Transfers	–	12	1	4	4	–	39	(60)	–
September 29, 2018	**$ 347**	**$ 2,129**	**$ 312**	**$ 1,280**	**$ 624**	**$ 353**	**$ 1,030**	**$ 92**	**$ 6,167**
Accumulated depreciation									
December 31, 2017	$ –	$ 1,113	$ 231	$ 786	$ 395	$ 263	$ 547	$ –	$ 3,335
Depreciation	–	51	9	53	38	16	34	–	201
Retirements	–	–	(1)	(4)	(5)	–	(8)	–	(18)
September 29, 2018	**$ –**	**$ 1,164**	**$ 239**	**$ 835**	**$ 428**	**$ 279**	**$ 573**	**$ –**	**$ 3,518**
Carrying amounts									
December 31, 2017	$ 331	$ 969	$ 74	$ 481	$ 186	$ 61	$ 446	$ 79	$ 2,627
September 29, 2018	**$ 347**	**$ 965**	**$ 73**	**$ 445**	**$ 196**	**$ 74**	**$ 457**	**$ 92**	**$ 2,649**

(Unaudited – in millions of Canadian dollars, unless otherwise indicated)

(b) Intangible assets

	Software	Software under development	Customer contracts and relationships	Total
Cost				
December 31, 2017	$ 767	$ 31	$ 23	$ 821
Additions	4	18	–	22
Retirements	–	(2)	–	(2)
Transfers	26	(26)	–	–
September 29, 2018	**$ 797**	**$ 21**	**$ 23**	**$ 841**
Accumulated amortization				
December 31, 2017	$ 680	$ –	$ 22	$ 702
Amortization	32	–	–	32
September 29, 2018	**$ 712**	**$ –**	**$ 22**	**$ 734**
Carrying amounts				
December 31, 2017	$ 87	$ 31	$ 1	$ 119
September 29, 2018	**$ 85**	**$ 21**	**$ 1**	**$ 107**

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	**September 29, 2018**	December 31, 2017
Pension benefit assets	**$ 131**	$ 116
Pension benefit liabilities	$ 1,191	$ 2,441
Other post-employment and other long-term benefit liabilities	3,820	3,919
Total pension, other post-employment and other long-term benefit liabilities	$ 5,011	$ 6,360
Current other long-term benefit liabilities	**$ 64**	$ 63
Non-current pension, other post-employment and other long-term benefit liabilities	**$ 4,947**	$ 6,297

(Unaudited – in millions of Canadian dollars, unless otherwise indicated)

(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		**September 29, 2018**			September 30, 2017	
	Pension benefit plans	**Other benefit plans**	**Total**	Pension benefit plans	Other benefit plans	Total
Current service cost	$ 142	$ 31	$ 173	$ 123	$ 26	$ 149
Interest cost	259	35	294	262	38	300
Interest income on plan assets	(235)	–	(235)	(242)	–	(242)
Actuarial losses[1]	–	3	3	–	–	–
(Gains) losses from plan amendments	(13)	3	(10)	–	–	–
Other administration costs	4	–	4	4	–	4
Defined benefit expense	157	72	229	147	64	211
Defined contribution expense	2	–	2	3	–	3
Total expense	159	72	231	150	64	214
Return on segregated securities	–	(5)	(5)	–	(4)	(4)
Component included in employee benefits expense	**$ 159**	**$ 67**	**$ 226**	$ 150	$ 60	$ 210
Remeasurement (gains) losses:						
Return on plan assets, excluding interest income on plan assets	$ 137	$ –	$ 137	$ 76	$ –	$ 76
Actuarial gains	(895)	(77)	(972)	(1,325)	(214)	(1,539)
Component included in other comprehensive income (loss)	**$ (758)**	**$ (77)**	**$ (835)**	$ (1,249)	$ (214)	$ (1,463)

For the 39 weeks ended		**September 29, 2018**			September 30, 2017	
	Pension benefit plans	**Other benefit plans**	**Total**	Pension benefit plans	Other benefit plans	Total
Current service cost	$ 417	$ 88	$ 505	$ 375	$ 78	$ 453
Interest cost	771	105	876	788	110	898
Interest income on plan assets	(705)	–	(705)	(727)	–	(727)
Actuarial losses[1]	–	3	3	–	–	–
Losses from plan amendments	164	26	190	–	–	–
Other administration costs	11	–	11	11	–	11
Defined benefit expense	658	222	880	447	188	635
Defined contribution expense	12	–	12	10	–	10
Total expense	670	222	892	457	188	645
Return on segregated securities	–	(14)	(14)	–	(14)	(14)
Component included in employee benefits expense	**$ 670**	**$ 208**	**$ 878**	$ 457	$ 174	$ 631
Remeasurement (gains) losses:						
Return on plan assets, excluding interest income on plan assets	$ (218)	$ –	$ (218)	$ (586)	$ –	$ (586)
Actuarial (gains) losses	(1,434)	(207)	(1,641)	294	57	351
Component included in other comprehensive income (loss)	**$ (1,652)**	**$ (207)**	**$ (1,859)**	$ (292)	$ 57	$ (235)

1. Remeasurements for other long-term benefit plans are recognized in net profit (or loss) in the period in which they arise.

(Unaudited – in millions of Canadian dollars, unless otherwise indicated)

On May 31, 2018, the arbitrator for a pay equity study pertaining to the Canadian Union of Postal Workers – Rural and Suburban Mail Carriers (CUPW-RSMC) issued her decision that rural and suburban mail carriers perform work of equal value to the work of urban letter carriers (Canadian Union of Postal Workers – Urban Postal Operations), however, the exact value of the wage gap was not specified. Instead, the parties were to determine the amount of the wage gap between the two groups, as well as the solution to rectify the gap. The parties had until August 31, 2018, to reach an agreement. The parties were then engaged in discussions facilitated by the arbitrator, but since no agreement was reached, outstanding matters proceeded to binding arbitration.

On September 20, 2018, the arbitrator released her final ruling resulting in adjustments to wages, increases in pensionable pay received for personal contact items and lock changes (subject to regulatory approval), vacation leave improvements, pre-retirement leave, post-retirement benefits and eligibility for many other benefits, leaves and allowances. The Corporation has recognized plan amendments to affected pension benefit plans and other post-employment benefit plans in the 39 weeks ended September 29, 2018. See Note 11 for more information.

(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**		**39 weeks ended**	
	September 29, 2018	September 30, 2017	**September 29, 2018**	September 30, 2017
Benefits paid directly to beneficiaries for other benefit plans	$ 37	$ 35	$ 114	$ 113
Employer regular contributions to pension benefit plans	79	89	231	245
Employer special contributions to pension benefit plans	13	16	40	40
Cash payments for defined benefit plans	129	140	385	398
Contributions to defined contribution plans	2	3	12	10
Total cash payments	**$ 131**	$ 143	**$ 397**	$ 408

The estimates for the Group of Companies' total contributions to the defined benefit pension plans in 2018 did not change significantly from those disclosed in the Corporation's audited consolidated financial statements for the year ended December 31, 2017. These estimated total contributions take into consideration the Corporation's reduction of special solvency contributions as permitted by the regulations in the *Pension Benefits Standards Act, 1985*. Under these regulations, solvency reductions are limited to 15% of a plan's solvency liabilities, 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. A going-concern deficit must be funded over 15 years. The CUPW-RSMC pay equity ruling will have an impact on solvency funding in future years, requiring additional pay equity-related payments, subject to regulatory approval.

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**		**39 weeks ended**	
	September 29, 2018	September 30, 2017 (Restated – Note 3)	**September 29, 2018**	September 30, 2017 (Restated – Note 3)
Current tax expense	$ 38	$ 10	$ 82	$ 89
Deferred tax income relating to origination and reversal of temporary differences	(48)	(20)	(114)	(64)
Tax expense (income)	**$ (10)**	$ (10)	**$ (32)**	$ 25

(Unaudited – in millions of Canadian dollars, unless otherwise indicated)

8. Other Comprehensive Income (Loss)

	Items that may subsequently be reclassified to net profit (loss)			Item never reclassified to net profit (loss)	
For the 13 weeks ended September 29, 2018	Change in unrealized fair value of financial assets – losses arising	Cumulative foreign currency translation adjustment	Accumulated other comprehensive income	Remeasurements of defined benefit plans	Other comprehensive income
Accumulated balance as at June 30, 2018	$ 47	$ 4	$ 51		
Amount arising	$ (16)	$ (1)	$ (17)	$ 835	$ 818
Income taxes	4	–	4	(210)	(206)
Net	**$ (12)**	**$ (1)**	**$ (13)**	**$ 625**	**$ 612**
Accumulated balance as at September 29, 2018	**$ 35**	**$ 3**	**$ 38**		

	Items that may subsequently be reclassified to net profit (loss)			Item never reclassified to net profit (loss)	
For the 13 weeks ended September 30, 2017	Change in unrealized fair value of financial assets – losses arising	Cumulative foreign currency translation adjustment	Accumulated other comprehensive income	Remeasurements of defined benefit plans	Other comprehensive income
Accumulated balance as at July 1, 2017	$ 54	$ 5	$ 59		
Amount arising	$ (23)	$ (2)	$ (25)	$ 1,463	$ 1,438
Income taxes	6	–	6	(366)	(360)
Net	$ (17)	$ (2)	$ (19)	$ 1,097	$ 1,078
Accumulated balance as at September 30, 2017	$ 37	$ 3	$ 40		

	Items that may subsequently be reclassified to net profit (loss)			Item never reclassified to net profit (loss)	
For the 39 weeks ended September 29, 2018	Change in unrealized fair value of financial assets – losses arising	Cumulative foreign currency translation adjustment	Accumulated other comprehensive income	Remeasurements of defined benefit plans	Other comprehensive income
Accumulated balance as at December 31, 2017	$ 51	$ 3	$ 54		
Amount arising	$ (21)	$ –	$ (21)	$ 1,859	$ 1,838
Income taxes	5	–	5	(466)	(461)
Net	**$ (16)**	**$ –**	**$ (16)**	**$ 1,393**	**$ 1,377**
Accumulated balance as at September 29, 2018	**$ 35**	**$ 3**	**$ 38**		

(Unaudited – in millions of Canadian dollars, unless otherwise indicated)

	Items that may subsequently be reclassified to net profit (loss)			Item never reclassified to net profit (loss)	
For the 39 weeks ended September 30, 2017	Change in unrealized fair value of financial assets – losses arising	Cumulative foreign currency translation adjustment	Accumulated other comprehensive income	Remeasurements of defined benefit plans	Other comprehensive income
Accumulated balance as at December 31, 2016	$ 39	$ 5	$ 44		
Amount arising	$ (3)	$ (2)	$ (5)	$ 235	$ 230
Income taxes	1	–	1	(58)	(57)
Net	$ (2)	$ (2)	$ (4)	$ 177	$ 173
Accumulated balance as at September 30, 2017	$ 37	$ 3	$ 40		

9. Goodwill

Goodwill was allocated on initial recognition to two cash-generating units, corresponding to the Purolator segment and the Logistics segment. The carrying amounts of goodwill for those segments were as follows:

As at			**September 29, 2018**	December 31, 2017
	Purolator segment	**Logistics segment**	**Total**	Total
Balance, beginning and end of period	$ 121	$ 9	**$ 130**	$ 130

Goodwill impairment testing
Impairment testing for goodwill is carried out annually at the end of the third quarter for the Purolator and Logistics segments. The recoverable amount of each segment was estimated based on its value in use and was determined to be higher than its carrying value. No impairment was recognized in the current or prior comparative period.

The calculation of the value in use for the Purolator segment, the only segment with a material balance, was based on the following assumptions:

- Future cash flows were discounted in determining the value in use. The cash flows were based on Purolator's five-year plan, which is aligned with past experience and the way Purolator is managed. Cash flows were extrapolated in perpetuity using a growth rate of 2.5% (September 30, 2017 – 2.5%), which considers both growth and inflation, and reflects an acceptable percentage given the information and industry standard available at the time of the impairment test.
- The recoverable amount was calculated using a pre-tax discount rate of 15% (September 30, 2017 – 18%), which is based on Purolator's weighted average cost of capital.

10. Provisions

The following table presents the movement in provisions for the 39 week period ended September 29, 2018:

	Claims	Other	Total
Balance at December 31, 2017	$ 57	$ 22	$ 79
Additional provisions recognized	7	35	42
Provisions used during the year	(5)	(13)	(18)
Reduction from remeasurement of provisions	(1)	(1)	(2)
Balance at September 29, 2018	**$ 58**	**$ 43**	**$ 101**
Current provisions	**$ 58**	**$ 41**	**$ 99**
Non-current provisions, included in non-current other liabilities	**$ –**	**$ 2**	**$ 2**

Claims
The provision for claims is management's best estimate of the probable cash outflows related to legal claims, as well as non-litigated disputes. The timing of cash outflows related to these claims is uncertain, as it often depends on the outcome of specific events including, but not limited to, the length of legal proceedings.

Other

The September 29, 2018, and December 31, 2017, balances for the other provisions category consist of a number of items, such as lease retirement obligations, tax provisions and other corporate provisions. A provision for severance is also included in this category and represents management's best estimate of the probable cash outflows related to severance payments. With the exception of lease retirement obligations, the timing of cash outflows relating to these items is current. The cash outflows relating to lease retirement obligations are expected to occur over the next 10 years.

Disclosures regarding contingent liabilities, for which no provisions were recognized due to either insufficient information to reasonably estimate the amount of the obligation, or the outflow of resources associated with the obligation being possible rather than probable, can be found in Note 12.

11. Labour Related Matters

The Corporation is involved in a number of pay equity and related matters filed by various labour groups of Canada Post. The following matters have evolved over the 39-week period ended September 29, 2018:

(a) In September 2016, Canada Post and the Canadian Union of Postal Workers (CUPW) signed a memorandum of understanding in which the parties agreed to enter into a joint pay equity study to assess whether or not a gender-based wage gap exists for the female-predominant occupational group of rural and suburban mail carriers. The study was coordinated by a committee comprising representatives of Canada Post and CUPW. In October 2017, the committee received dual reports on the potential wage gap under the *Canadian Human Rights Act.* Discussions between the parties, in an attempt to resolve any inconsistencies between the reports and to agree on the amount of the wage gap and actions to rectify, did not result in an agreement. Binding arbitration commenced in February 2018 and ended on May 2, 2018. On May 31, 2018, the arbitrator released her decision that urban and suburban mail carriers perform work of equal value, remitting the determination of the extent of the wage gap back to the parties for resolution by August 31, 2018, failing which, outstanding matters would proceed to further binding arbitration. The parties were engaged in discussions, facilitated by the arbitrator, but since no agreement was reached, outstanding matters proceeded to binding arbitration.

On September 20, 2018, the arbitrator released her final ruling, which included wage adjustments, increases in pensionable pay received for personal contact items and lock changes (subject to regulatory approval), vacation leave improvements, pre-retirement leave, post-retirement benefits and eligibility for many other benefits, leaves and allowances. As at and for the 39 weeks ended September 29, 2018, the Corporation has recognized provisions in salaries and benefits payable and related provisions and plan amendments in pension, other post-employment and other long-term benefit liabilities to reflect these changes. Labour and employee benefit costs, excluding plan amendments, also increased for the 39 weeks ended September 29, 2018. Adjustments were retroactive to January 1, 2016. Amounts have been estimated using information available as of the date of approval of these interim condensed consolidated financial statements. In implementing the arbitrator's decision, the parties have entered into a memorandum of agreement to work together and meet regularly, which they continue to do.

(b) The Canadian Postmasters and Assistants Association (CPAA) initially filed complaints with the Canadian Human Rights Commission (Commission) in 1982 and 1992, alleging discrimination by the Corporation concerning work of equal value. Both complaints were settled by the parties. However in 2012, the CPAA requested reactivation of the 1992 complaint and in 2014, the Commission investigator concluded that the period 1992-97 remained in issue and should be referred to the Canadian Human Rights Tribunal. In early 2015, the Commission rendered a decision that the matter should proceed to the Tribunal on its merits. On September 1, 2016, the Tribunal directed the parties (Canada Post, the CPAA and the Commission) to exchange statements of particulars by the end of 2016 in order for the matter to proceed to its merits. Statements of particulars have been exchanged.

In 2017, the CPAA took the position that the Tribunal should not be limited to the 1992-97 period, but should assess liability against Canada Post to the present day. A motion was heard by the Tribunal on June 19, 2017, and by the decision of January 15, 2018, the Tribunal ruled that the complaint is limited to the period from September 1992 to March 30, 1997, and does not include ongoing liability. No dates for a hearing on the merits have been established.

(c) The implementation of the 2013 memorandum of agreement between the Public Service Alliance of Canada (PSAC) and the Corporation regarding the Canadian Human Rights Tribunal (Tribunal) decision related to PSAC's pay equity complaint continues. 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.

It is currently not possible for the Corporation to predict the final outcome of the various pay equity and related matters. Where appropriate, the Corporation has recorded a provision in salary and benefits payable and related provisions, and such a provision is measured at management's best estimate of the expenditure to be incurred. The Corporation may adjust any such provision in its net profit for subsequent periods, as required. These matters will continue to evolve, but further detailed information is not provided as it can be prejudicial to the Corporation.

(Unaudited – in millions of Canadian dollars, unless otherwise indicated)

12. Contingent Liabilities

There have been no significant changes to the contingent liabilities as disclosed in Note 16 of the Corporation's 2017 Annual Report, except as follows:

(a) 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. The matter was placed in abeyance pending the results of the government review of Canada Post. In January 2018, the government announced that it was ending the program to convert door-to-door delivery to community mailboxes. As a result, on consent and on a without-cost basis, CUPW filed a notice of discontinuance with the Federal Court, effectively ending this litigation as of April 12, 2018.

(b) In 2017, the Federal Court of Appeal reinstated the original direction of a health and safety officer from Employment and Social Development Canada (ESDC), which requires Canada Post to conduct annual health and safety inspections of all affected points of call in Burlington, Ontario. No financial compensation was granted. Leave to appeal the decision of the Federal Court of Appeal was granted by the Supreme Court of Canada, and the notice of appeal was filed on May 14, 2018. A hearing date is scheduled for December 10, 2018.

13. 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 September 29, 2018	**Level 1[1]**	**Level 2[2]**	**Level 3[3]**	**Total**
Assets measured at fair value through other comprehensive income				
Cash equivalents	$ –	$ 220	$ –	**$ 220**
Marketable securities	$ –	$ 1,222	$ –	**$ 1,222**
Segregated securities	$ –	$ 519	$ –	**$ 519**
Liabilities measured at fair value through profit or loss				
Risk management financial liabilities	$ –	$ 1	$ –	**$ 1**
Liabilities measured at amortized cost				
Loans and borrowings	$ –	$ 1,174	$ –	**$ 1,174**

As at December 31, 2017 (Restated – Note 3)	Level 1[1]	Level 2[2]	Level 3[3]	Total
Assets measured at fair value through other comprehensive income				
Cash equivalents	$ –	$ 403	$ –	$ 403
Marketable securities	$ –	$ 821	$ –	$ 821
Segregated securities	$ –	$ 526	$ –	$ 526
Assets measured at fair value through profit or loss				
Risk management financial assets	$ –	$ 1	$ –	$ 1
Liabilities measured at amortized cost				
Loans and borrowings	$ –	$ 1,214	$ –	$ 1,214

1. Level 1: Fair value is based on unadjusted quoted prices in active markets for identical financial instruments.
2. 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.
3. 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 39-week period ended September 29, 2018.

The fair values of cash, 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. The updated disclosure concerning the nature and extent of market and liquidity risk are discussed below.

(Unaudited – in millions of Canadian dollars, unless otherwise indicated)

(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$), euro (€), British pound (£), Japanese yen (¥) and Chinese renminbi (CN¥), whereas payment is usually denominated in US$.

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

For the 13 weeks ended	**September 29, 2018**			September 30, 2017		
	Foreign exchange gains (losses)	**Derivative gains (losses)**	**Total**	Foreign exchange losses	Derivative gains	Total
Unrealized	$ (5)	$ 6	$ 1	$ (4)	$ –	$ (4)
Realized	1	(2)	(1)	(4)	4	–
Total	**$ (4)**	**$ 4**	**$ –**	$ (8)	$ 4	$ (4)

For the 39 weeks ended	**September 29, 2018**			September 30, 2017		
	Foreign exchange gains	**Derivative losses**	**Total**	Foreign exchange losses	Derivative gains	Total
Unrealized	$ 1	$ (2)	$ (1)	$ (4)	$ 1	$ (3)
Realized	9	(5)	4	(5)	1	(4)
Total	**$ 10**	**$ (7)**	**$ 3**	$ (9)	$ 2	$ (7)

(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 18 and 19 (c) of the Corporation's annual consolidated financial statements for the year ended December 31, 2017, for the Corporation's current authorized borrowing facilities.

14. Other Operating Costs

For the	**13 weeks ended**		**39 weeks ended**	
	September 29, 2018	September 30, 2017 (Restated – Note 3)	**September 29, 2018**	September 30, 2017 (Restated – Note 3)
Non-labour collection, processing and delivery	$ 363	$ 324	$ 1,101	$ 1,018
Property, facilities and maintenance	91	85	286	274
Selling, administrative and other	131	116	392	338
Other operating costs	**$ 585**	$ 525	**$ 1,779**	$ 1,630

(Unaudited – in millions of Canadian dollars, unless otherwise indicated)

15. Investing and Financing Income (Expense)

For the	13 weeks ended		39 weeks ended	
	September 29, 2018	September 30, 2017	**September 29, 2018**	September 30, 2017
Interest revenue	$ 14	$ 5	$ 35	$ 14
Gain (loss) on sale of capital assets and assets held for sale	(2)	1	(4)	1
Other income	13	–	13	–
Investment and other income	**$ 25**	$ 6	**$ 44**	$ 15
Interest expense	$ (11)	$ (11)	$ (33)	$ (34)
Other expense	(2)	(1)	(11)	–
Finance costs and other expense	**$ (13)**	$ (12)	**$ (44)**	$ (34)
Investing and financing income (expense), net	**$ 12**	$ (6)	**$ –**	$ (19)

16. 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		39 weeks ended	
	September 29, 2018	September 30, 2017	**September 29, 2018**	September 30, 2017
Related party revenue	**$ 56**	$ 64	**$ 186**	$ 201
Compensation payments for programs				
Government mail and mailing of materials for the blind	**$ 6**	$ 6	**$ 17**	$ 17
Payments from related parties for premises leased from the Corporation	**$ 1**	$ 1	**$ 5**	$ 5
Related party expenditures	**$ 6**	$ 5	**$ 22**	$ 18

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	**September 29, 2018**	December 31, 2017
Due to/from related parties		
Included in trade and other receivables	**$ 15**	$ 15
Included in trade and other payables	**$ 8**	$ 10
Deferred revenue from related parties	**$ 1**	$ 1

(b) Transactions with entities in which KMP of the Canada Post Group of Companies have sole 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 are required to recuse themselves from all discussions and decisions relating to transactions between the companies. The only significant transactions for the 39 weeks ended September 29, 2018, 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 $5 million and $11 million for the 13 and 39 weeks ended September 29, 2018, respectively (September 30, 2017 – $3 million and $8 million, respectively). 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 39 weeks ended September 29, 2018, the Corporation provided administration services to the Canada Post Corporation Registered Pension Plan in the amounts of $3 million and $9 million, respectively (September 30, 2017 – $3 million and $9 million, respectively). As at September 29, 2018, $11 million (December 31, 2017 – $14 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).

(Unaudited – in millions of Canadian dollars, unless otherwise indicated)

17. Segmented and Disaggregation of Revenue Information

(a) 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 39 weeks ended September 29, 2018, the IT business unit earned intercompany revenue of $54 million and $161 million, respectively (September 30, 2017 – $54 million and $168 million, respectively), incurred cost of operations of $54 million and $161 million, respectively (September 30, 2017 – $54 million and $168 million, respectively), and earned net profit of nil for the 13- and 39-week reporting periods in 2018 and 2017. Total assets and liabilities at September 29, 2018, were $279 million and $65 million, respectively (December 31, 2017 – $110 million and $60 million, respectively).

As at and for the 13 weeks ended September 29, 2018

	Canada Post	**Purolator**	**Logistics**	**Other**	**Total**
Revenue from external customers	$ 1,548	$ 445	$ 70	$ –	$ 2,063
Intersegment revenue	13	4	12	(29)	–
Revenue from operations	$ 1,561	$ 449	$ 82	$ (29)	$ 2,063
Labour and employee benefits	$ 1,194	$ 200	$ 40	$ 27	$ 1,461
Other operating costs	413	194	33	(55)	585
Depreciation and amortization	61	12	3	(1)	75
Cost of operations	$ 1,668	$ 406	$ 76	$ (29)	$ 2,121
Profit (loss) from operations	$ (107)	$ 43	$ 6	$ –	$ (58)
Investment and other income	$ 25	$ –	$ –	$ –	$ 25
Finance costs and other expense	(12)	(1)	–	–	(13)
Profit (loss) before tax	$ (94)	$ 42	$ 6	$ –	$ (46)
Tax expense (income)	(23)	11	1	1	(10)
Net profit (loss)	$ (71)	$ 31	$ 5	$ (1)	$ (36)
Total assets	$ 7,776	$ 956	$ 153	$ (315)	$ 8,570
Acquisition of capital assets	$ 96	$ 11	$ 11	$ 2	$ 120
Total liabilities	$ 7,395	$ 235	$ 58	$ (17)	$ 7,671

As at and for the 13 weeks ended September 30, 2017
(Restated – Note 3)

	Canada Post	Purolator	Logistics	Other	Total
Revenue from external customers	$ 1,477	$ 394	$ 60	$ –	$ 1,931
Intersegment revenue	10	5	9	(24)	–
Revenue from operations	$ 1,487	$ 399	$ 69	$ (24)	$ 1,931
Labour and employee benefits	$ 1,102	$ 187	$ 33	$ 24	$ 1,346
Other operating costs	379	164	28	(46)	525
Depreciation and amortization	64	12	2	(1)	77
Cost of operations	$ 1,545	$ 363	$ 63	$ (23)	$ 1,948
Profit (loss) from operations	$ (58)	$ 36	$ 6	$ (1)	$ (17)
Investment and other income	$ 5	$ 1	$ –	$ –	$ 6
Finance costs and other expense	(11)	(1)	–	–	(12)
Profit (loss) before tax	$ (64)	$ 36	$ 6	$ (1)	$ (23)
Tax expense (income)	(20)	8	2	–	(10)
Net profit (loss)	$ (44)	$ 28	$ 4	$ (1)	$ (13)
Total assets	$ 7,284	$ 903	$ 137	$ (327)	$ 7,997
Acquisition of capital assets	$ 65	$ 17	$ 3	$ (2)	$ 83
Total liabilities	$ 7,686	$ 350	$ 56	$ (30)	$ 8,062

(Unaudited – in millions of Canadian dollars, unless otherwise indicated)

As at and for the 39 weeks ended September 29, 2018

	Canada Post	Purolator	Logistics	Other	Total
Revenue from external customers	$ 4,864	$ 1,304	$ 199	$ –	$ 6,367
Intersegment revenue	40	15	29	(84)	–
Revenue from operations	$ 4,904	$ 1,319	$ 228	$ (84)	$ 6,367
Labour and employee benefits	$ 3,693	$ 604	$ 114	$ 84	$ 4,495
Other operating costs	1,294	561	91	(167)	1,779
Depreciation and amortization	184	45	7	(3)	233
Cost of operations	$ 5,171	$ 1,210	$ 212	$ (86)	$ 6,507
Profit (loss) from operations	$ (267)	$ 109	$ 16	$ 2	$ (140)
Investment and other income	$ 43	$ 1	$ –	$ –	$ 44
Finance costs and other expense	(42)	(2)	–	–	(44)
Profit (loss) before tax	$ (266)	$ 108	$ 16	$ 2	$ (140)
Tax expense (income)	(65)	28	4	1	(32)
Net profit (loss)	$ (201)	$ 80	$ 12	$ 1	$ (108)
Total assets	$ 7,776	$ 956	$ 153	$ (315)	$ 8,570
Acquisition of capital assets	$ 200	$ 22	$ 23	$ 2	$ 247
Total liabilities	$ 7,395	$ 235	$ 58	$ (17)	$ 7,671

As at and for the 39 weeks ended September 30, 2017
(Restated – Note 3)

	Canada Post	Purolator	Logistics	Other	Total
Revenue from external customers	$ 4,680	$ 1,178	$ 173	$ –	$ 6,031
Intersegment revenue	29	11	26	(66)	–
Revenue from operations	$ 4,709	$ 1,189	$ 199	$ (66)	$ 6,031
Labour and employee benefits	$ 3,295	$ 572	$ 97	$ 78	$ 4,042
Other operating costs	1,196	493	81	(140)	1,630
Depreciation and amortization	187	38	6	(3)	228
Cost of operations	$ 4,678	$ 1,103	$ 184	$ (65)	$ 5,900
Profit (loss) from operations	$ 31	$ 86	$ 15	$ (1)	$ 131
Investment and other income	$ 14	$ 1	$ –	$ –	$ 15
Finance costs and other expense	(32)	(2)	–	–	(34)
Profit before tax	$ 13	$ 85	$ 15	$ (1)	$ 112
Tax expense (income)	(2)	23	4	–	25
Net profit	$ 15	$ 62	$ 11	$ (1)	$ 87
Total assets	$ 7,284	$ 903	$ 137	$ (327)	$ 7,997
Acquisition of capital assets	$ 127	$ 26	$ 6	$ (4)	$ 155
Total liabilities	$ 7,686	$ 350	$ 56	$ (30)	$ 8,062

(Unaudited – in millions of Canadian dollars, unless otherwise indicated)

(b) Geographic area revenue information

Revenue reported for geographical areas outside of Canada is, for the Corporation, based on the location of the foreign postal administration hiring the service, and based on the location of the customer hiring the service for the other segments and the business unit. Individual foreign countries that are sources of material revenue are reported separately. The Group of Companies has no significant assets located outside of Canada. All intersegment revenue is domestic; therefore, revenue for geographic areas is reported net of intersegment revenue.

For the 13 weeks ended	**September 29, 2018**	September 30, 2017
Canada	$ 1,948	$ 1,813
United States	58	63
Rest of the world	57	55
Total revenue	**$ 2,063**	$ 1,931

For the 39 weeks ended	**September 29, 2018**	September 30, 2017
Canada	$ 5,991	$ 5,667
United States	193	202
Rest of the world	183	162
Total revenue	**$ 6,367**	$ 6,031

(c) Products and services revenue information

Revenue reported for products and services is based on information available at the time of sale, such that stamps and meter revenue are reported separately, rather than being attributed to the lines of business.

For the 13 weeks ended September 29, 2018

	Total revenue	**Intersegment and consolidation**	**Revenue from external customers**
Revenue attributed to products and services			
Transaction Mail	$ 450	$ –	$ 450
Parcels	1,112	(19)	1,093
Direct Marketing	261	–	261
Other	107	(63)	44
	$ 1,930	**$ (82)**	**$ 1,848**
Unattributed revenue			
Stamp postage	$ 84	$ –	$ 84
Meter postage	131	–	131
	$ 215	**$ –**	**$ 215**
Total	**$ 2,145**	**$ (82)**	**$ 2,063**

For the 13 weeks ended September 30, 2017

	Total revenue	Intersegment and consolidation	Revenue from external customers
Revenue attributed to products and services			
Transaction Mail	$ 447	$ –	$ 447
Parcels	955	(16)	939
Direct Marketing	266	–	266
Other	108	(62)	46
	$ 1,776	$ (78)	$ 1,698
Unattributed revenue			
Stamp postage	$ 91	$ –	$ 91
Meter postage	142	–	142
	$ 233	$ –	$ 233
Total	$ 2,009	$ (78)	$ 1,931

(Unaudited – in millions of Canadian dollars, unless otherwise indicated)

For the 39 weeks ended September 29, 2018

	Total revenue	**Intersegment and consolidation**	**Revenue from external customers**
Revenue attributed to products and services			
Transaction Mail	$ 1,480	$ (1)	$ 1,479
Parcels	3,289	(62)	3,227
Direct Marketing	816	–	816
Other	327	(181)	146
	$ 5,912	**$ (244)**	**$ 5,668**
Unattributed revenue			
Stamp postage	$ 268	$ –	$ 268
Meter postage	431	–	431
	$ 699	**$ –**	**$ 699**
Total	**$ 6,611**	**$ (244)**	**$ 6,367**

For the 39 weeks ended September 30, 2017

	Total revenue	Intersegment and consolidation	Revenue from external customers
Revenue attributed to products and services			
Transaction Mail	$ 1,497	$ (1)	$ 1,496
Parcels	2,844	(46)	2,798
Direct Marketing	826	–	826
Other	342	(187)	155
	$ 5,509	$ (234)	$ 5,275
Unattributed revenue			
Stamp postage	$ 290	$ –	$ 290
Meter postage	466	–	466
	$ 756	$ –	$ 756
Total	$ 6,265	$ (234)	$ 6,031

(d) Sales channel revenue information

Sales channel revenue is reported for domestic revenue from commercial customers and for domestic retail from sales to consumers. International revenue includes revenue from the United States and the rest of the world as defined in Note 17 (b).

For the 13 weeks ended September 29, 2018

	Total revenue	**Intersegment and consolidation**	**Revenue from external customers**
Domestic			
Commercial	$ 1,489	$ (19)	$ 1,470
Retail	486	–	486
	$ 1,975	$ (19)	$ 1,956
International	$ 115	$ –	$ 115
Other	$ 55	$ (63)	$ (8)
Total	**$ 2,145**	**$ (82)**	**$ 2,063**

(Unaudited – in millions of Canadian dollars, unless otherwise indicated)

For the 13 weeks ended September 30, 2017

	Total revenue	Intersegment and consolidation	Revenue from external customers
Domestic			
Commercial	$ 1,383	$ (17)	$ 1,366
Retail	458	–	458
	$ 1,841	$ (17)	$ 1,824
International	$ 118	$ –	$ 118
Other	$ 50	$ (61)	$ (11)
Total	$ 2,009	$ (78)	$ 1,931

For the 39 weeks ended September 29, 2018

	Total revenue	**Intersegment and consolidation**	**Revenue from external customers**
Domestic			
Commercial	$ 4,550	$ (64)	$ 4,486
Retail	1,519	–	1,519
	$ 6,069	$ (64)	$ 6,005
International	$ 376	$ –	$ 376
Other	$ 166	$ (180)	$ (14)
Total	**$ 6,611**	**$ (244)**	**$ 6,367**

For the 39 weeks ended September 30, 2017

	Total revenue	Intersegment and consolidation	Revenue from external customers
Domestic			
Commercial	$ 4,285	$ (48)	$ 4,237
Retail	1,453	–	1,453
	$ 5,738	$ (48)	$ 5,690
International	$ 364	$ –	$ 364
Other	$ 163	$ (186)	$ (23)
Total	$ 6,265	$ (234)	$ 6,031

CANADA POST
2701 RIVERSIDE DR SUITE N1200
OTTAWA ON K1A 0B1

General inquiries: 1-866-607-6301
For more contact information, visit canadapost.ca.