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Canada Post Corporation Quarterly Financial Report

For the 13 and 39 weeks ended October 1, 2011

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 October 1, 2011, and for the first three quarters of 2011 for Canada Post Corporation (the "Corporation" or "Canada Post"), our subsidiaries Purolator Inc. ("Purolator") and SCI Group Inc. ("SCI"), and our interest in 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 thirteen weeks and this MD&A covers the 13 and 39 weeks ended October 1, 2011. This discussion should be read together with the unaudited interim condensed consolidated financial statements for the 13 and 39 weeks ended October 1, 2011 which have been prepared in accordance with the Treasury Board of Canada Standard on Quarterly Financial Reports for Crown Corporations, IAS 34, "Interim Financial Reporting" and IFRS 1, "First-time Adoption of International Financial Reporting Standards," and which are reported 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, 2010 and the Quarterly Financial Report for the 13 and 26 weeks ended July 2, 2011. 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 24, 2011, 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. Comparative reporting periods have not been reviewed by the Corporation's external auditors. The Corporation's joint auditors will audit the January 1, 2010 consolidated opening statement of financial position and the comparative December 31, 2010 financial information prepared under International Financial Reporting Standards ("IFRS") as part of the audit of the Corporation's annual IFRS consolidated financial statements for the year ending December 31, 2011.

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Materiality

In assessing what information is to be provided in the MD&A, management applies the materiality principle as guidance for disclosure. Management considers information material if it is considered probable that its omission or misstatement, judged in the surrounding circumstances, would influence the economic decisions of our Shareholder, the Government of Canada.

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 Corporation's 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 (collectively, the "Assumptions"). While we consider these Assumptions to be reasonable, based on information currently available to us, 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 currently expect. 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 11* of this MD&A (collectively the "Risks").

To the extent the Group of Companies provides forward-looking information that is 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 purposes of describing its future expectations. Readers are, therefore, cautioned that this information may not be appropriate for any other purpose. Further, 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 the date of this Quarterly Financial Report, 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

Canada Post Corporation is one of the largest federal Crown corporations and one of the largest employers in Canada, employing either directly or through our subsidiaries about 69,000 employees as at the end of 2010. On an annual basis, our employees deliver approximately 10.6 billion pieces of mail, parcels and messages to over 15 million addresses in urban, rural and remote locations across Canada. The Canada Post segment operates the largest retail network in Canada with almost 6,500 post offices. A Crown corporation since 1981, Canada Post reports to Parliament through the Minister of Transport, Infrastructure and Communities and has a single Shareholder, the Government of Canada.

Pursuant to the *Canada Post Corporation Act*, the Corporation has a mandate to operate a postal service for Canadians, with regard to the need to conduct its operations on a financially self-sustaining basis while providing a standard of service that will meet the needs of the people of Canada.

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 $4.3 billion for the first three quarters of 2011 (78 per cent of total year-to-date revenue) and $5.9 billion for the full year ending December 2010 (79 per cent of total revenue). The Corporation manages its consolidated operations and determines its operating segments on the basis of the legal entities. There are three reportable operating segments: Canada Post, Purolator and Logistics. The remaining operations are combined and disclosed in the "Other" category.

The following table presents the Canada Post Group of Companies' 2011 Corporate Plan:

(in millions of dollars)	**2011 Plan**
Consolidated	
Revenue from operations	7,682
Cost of operations	7,530
Expense from investing and financing activities	29
Profit before tax	123

Canada Post continues to assess the long-term impact of the labour disruption that occurred in June of this year. The impact has been significant and given normal performance has led to an estimated revenue loss of $173 million to date. As a result of the revenue loss and provisions recorded for the pay equity settlement, it is anticipated that the Group of Companies will not meet the revenue and profit targets included in the 2011 Corporate Plan.

Financial Highlights

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

For the second quarter of 2011, the Corporation observed unusual volume decreases as a result of the threat of a labour disruption and ultimately the disruption itself. There were revenue increases in the third quarter of 2011 as a result of a combination of increases in volumes at Purolator and pricing action partially offset by the exit from the Food Mail Program[1] and the lingering effects of the labour disruption. Despite third quarter revenue from clearing the mail backlog created by the labour disruption, the Corporation estimates a total negative revenue impact of the labour disruption for the first three quarters of 2011 of $173 million ($167 – second quarter of 2011).

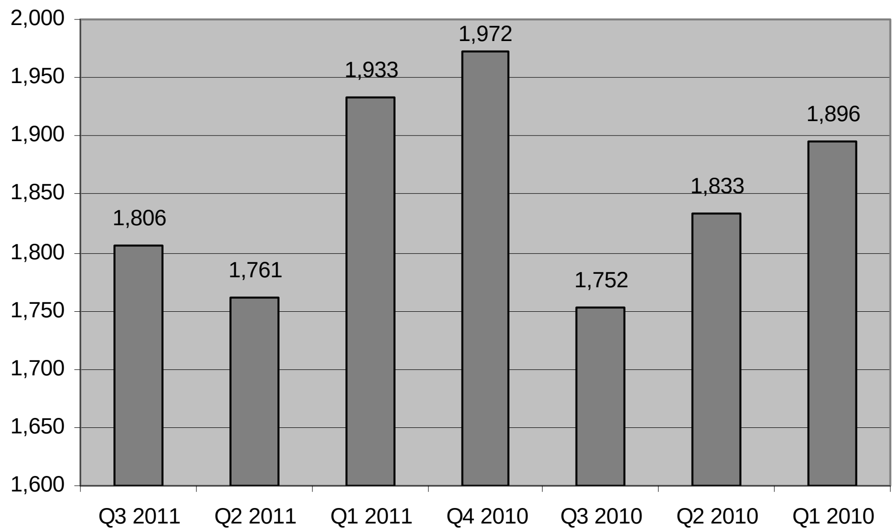
The continuous significant financial market volatility negatively impacted the Group of Companies' pension plans which triggered a re-measurement of post-employment benefit liabilities and, as a result, actuarial losses of $2,214 million were recorded in other comprehensive income (loss) in the third quarter of 2011. This further eroded the Group of Companies' equity to a negative $2.1 billion as at October 1, 2011. The financial health of the Corporation is critical, as the key to a strong pension plan is a strong sponsor.

On November 17, 2011, the Supreme Court of Canada ruled in favour of the Public Service Alliance of Canada ("PSAC") and the Canadian Human Rights Commission ("the Commission") in their pay equity complaint against Canada Post. In doing so, it maintained the 2005 decision of the Canadian Human Rights Tribunal ("the Tribunal"). The Tribunal rendered a decision in October 2005 concluding that the Corporation had participated in "systematic discrimination" in the setting of wages for a group of PSAC members and ordered payment to compensate the found wage gap at a discount of 50 per cent. Canada Post has indicated it will abide by the ruling and has recognized an estimate of these additional costs in the third quarter of 2011. The Corporation is currently in the process of validating the various elements of the computation and will be consulting with the PSAC in order to reach an agreement on the final amount. More detailed information is contained in *Note 12 Subsequent Event of the unaudited interim condensed consolidated financial statements for the 13 and 39 weeks ended October 1, 2011.*

[1] The Food Mail Program was a federal Government program that subsidized the cost of transporting nutritious, perishable food and other essential items by air to isolated northern communities that are not accessible year-round by surface or marine transportation. The Food Mail Program ended on March 31, 2011.

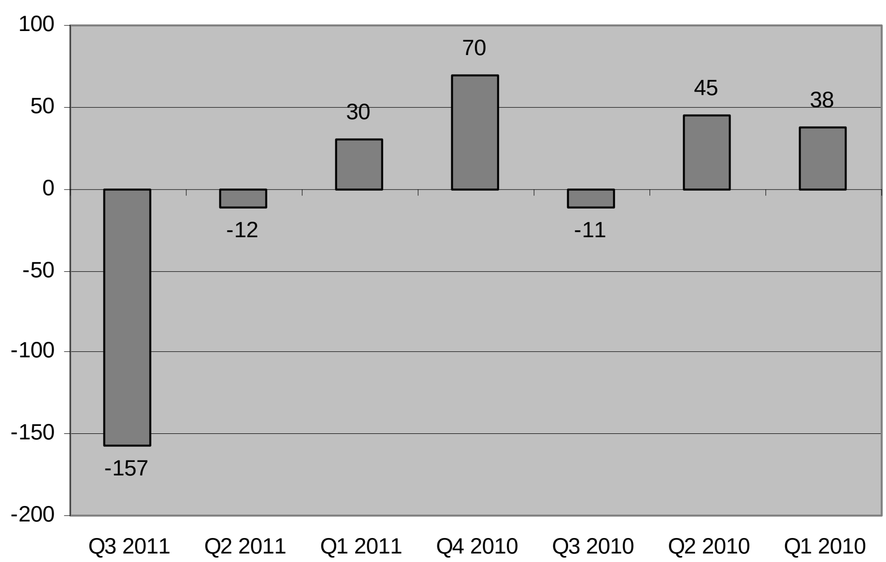
Quarterly consolidated revenue from operations

(in millions of dollars)



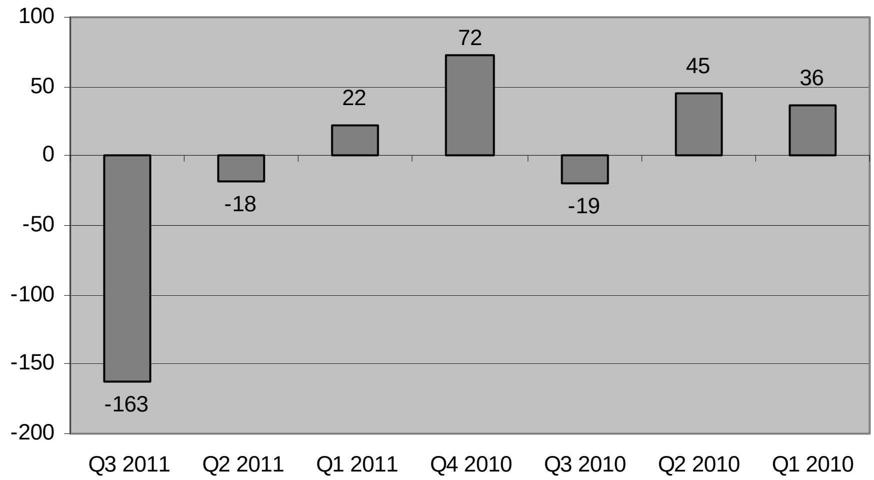
Quarterly consolidated profit (loss) from operations

(in millions of dollars)



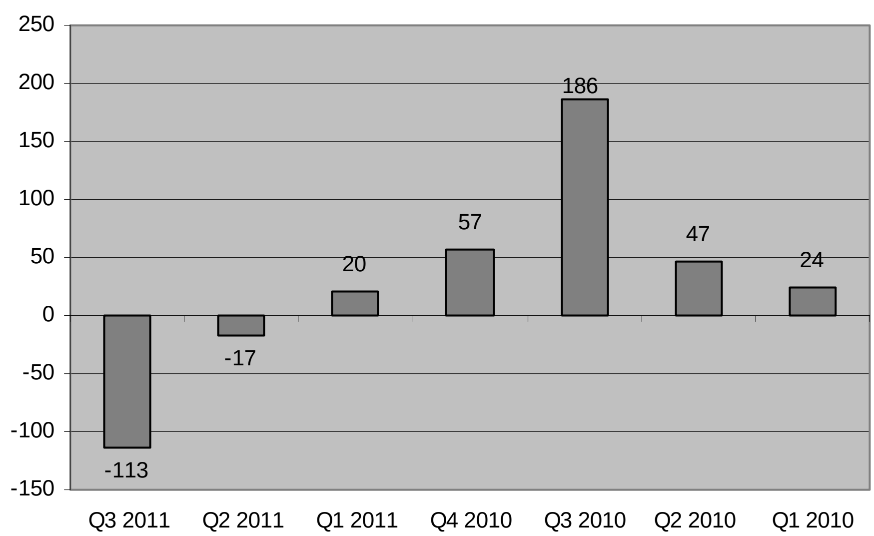
Quarterly consolidated profit (loss) before tax

(in millions of dollars)



Quarterly consolidated net profit (loss)

(in millions of dollars)



The following table presents the Corporation's consolidated performance for the third quarter and the first three quarters of 2011 compared to the same periods in the prior year.

(in millions of dollars)

	13 weeks ended				39 weeks ended				
	October 1, 2011	**October 2, 2010**	**Change**	**%**	**October 1, 2011**	**October 2, 2010**	**Change**	**%**	**Explanation of change**
Consolidated Statement of Comprehensive Income									*Highlights, as discussed in Section 8 – Discussion of Operations on page 19*
Revenue from operations	1,806	1,752	54	3.1%*	5,500	5,481	19	0.9%*	Improvement in third quarter primarily driven by Purolator and annual pricing action partially offset by the loss of Food Mail and lingering impacts of the labour disruption at Canada Post
Cost of operations	1,963	1,763	200	11.4%	5,639	5,409	230	4.3%	Increases largely driven by Supreme Court ruling on pay equity and increased costs in Purolator segment due to increased volumes which more than offset cost reductions from the labour disruption
Profit (loss) before tax	(163)	(19)	(144)	(815.0)%	(159)	62	(221)	(353.1)%	Decreases mainly driven by negative impacts from the ruling on pay equity and the labour disruption
Net profit (loss)	(113)	186	(299)	(160.4)%	(110)	257	(367)	(142.7)%	Declines primarily due to pay equity ruling and the labour disruption as well as recognition in third quarter of 2010 of previously unrecognized deferred tax asset temporary differences of $192 million
Comprehensive loss	(1,748)	(2,266)	518	22.8%	(1,746)	(2,188)	442	20.2%	Actuarial losses were recorded as a result of the re-measurement of the defined benefit plans; continuing volatility in global financial markets is negatively impacting the status of the Group of Companies' Pension Plans
Consolidated Statement of Cash Flows									*Highlights, as discussed in Section 6 – Liquidity and Capital Resources on page 13*
Cash provided by (used in) operating activities	332	14	318	2,127.9%	(46)	(249)	203	81.6%	Positive cash flow variance in third quarter due to a decrease in employee benefits payments of $98 million, a $76-million decrease in trade and other receivables, and a $67-million increase in tax refunds
Cash used in investing activities	(127)	(894)	767	85.8%	(46)	(791)	745	94.2%	Decrease in cash used in investing activities for third quarter primarily due to a $851-million decline in the purchase of short-term investments in 2011 relative to the large purchases made in 2010 as a result of the $1-billion bond issue in 2010
Cash provided by (used in) financing activities	(3)	978	(981)	(100.3)%	(11)	992	(1,003)	(101.1)%	Decline in cash provided by financing activities for third quarter of 2011 due to the $1-billion bond issue in 2010

* Adjusted for trading days where applicable

Significant changes and business developments

The June labour disruption with employees represented by the Canadian Union of Postal Workers ("CUPW") affected the Corporation's operations and personnel in the second quarter of 2011. The disruption created a backlog of mail in the second quarter of 2011, which was cleared in the third quarter of 2011.

During the third quarter, Canada Post and the CUPW began preliminary meetings with the arbitrator appointed for final offer selection, as provided for in the back-to-work legislation. Given the CUPW's motion before the Federal Court contesting the appointment of the Honourable Justice Osborne, the Federal Court granted the stay application by the CUPW to suspend the proceedings in the final offer selection arbitration. Judge Osborne subsequently resigned on November 1, 2011. The Minister of Labour has indicated her intention to appoint a new arbitrator. Canada Post Management remains optimistic that a quick resolution can be reached which is critical to the future financial viability of the Corporation. For more details on the status of the negotiations, *refer to Section 4 – Capabilities on page 10 of this MD&A.*

On November 17, 2011, the Supreme Court of Canada ruled in favour of the Public Service Alliance of Canada and the Canadian Human Rights Commission in a pay equity complaint. Originally filed in 1983, the complaint alleged that women performing clerical work were being systematically discriminated against in that they were earning less than men in comparable positions. The Commission referred the complaint to the Canadian Human Rights Tribunal, which ruled in 2005 that a discriminatory gap did exist from1982 until 2002. That decision was overturned in February 2008 by the Federal Court Trial Division. This decision was subsequently appealed by the PSAC and the Commission to the Federal Court of Appeal, which, in early 2010, agreed with the Trial Division's decision. After the PSAC and the Commission were granted leave to appeal, the Supreme Court of Canada allowed the appeal and ultimately re-instated the decision of the Tribunal. The Corporation will abide by the Court's decision. The Corporation is currently in the process of validating the various elements of the computation and will be consulting with the PSAC in order to reach an agreement on the final amount. More detailed information is contained in *Note 12 Subsequent Event of the unaudited interim condensed consolidated financial statements for the 13 and 39 weeks ended October 1, 2011.*

There were no other significant or material changes during the third quarter of 2011 with regard to operations, personnel and programs.

2 Core Business and Strategy

A discussion of the business and strategy of our core businesses

The Corporation is facing some of its greatest challenges due to electronic substitution, competition and economic uncertainty. Accordingly, we are making changes to our business by investing in innovation, our services and infrastructure.

Our core business and strategy were described in Section 2 – Our Business, Vision and Strategy of the 2010 Annual MD&A and in the 2011 Second Quarter MD&A. There were no material changes to the strategies during the third quarter of 2011. However, strategies are being refined as part of the preparation of the 2012 Corporate Plan.

3 Key Performance Drivers

A discussion of the key drivers of our performance and our 2011 priorities

As described in Section 3 – Key Performance Drivers of the 2010 Annual MD&A, the Canada Post segment uses a balanced scorecard management system to measure the Corporation's progress relative to our vision and strategies, and to provide management with a comprehensive view of the business's performance. This approach ensures a balance between customer value, employee engagement, delivery performance and financial results when establishing key performance drivers and corporate priorities each year.

Our 2011 priorities were described in Section 3.3 – 2011 Priorities of the 2010 Annual MD&A and in the 2011 Second Quarter MD&A and are summarized below:

Financial Imperatives

- Continue to focus on revenue growth that leverages our core strengths
- Continue to remain profitable by implementing focused cost-management measures
- Successfully obtain a new collective agreement with our largest union, the Canadian Union of Postal Workers ("CUPW") that enables the financial sustainability of the Corporation

Growing the Business

- Offer new products and services related to our core business to meet changing customer demands, especially those arriving from growing demand in the area of eCommerce
- Explore opportunities to diversify our revenue through unique digital and data offerings
- Leverage the Canada Post Group of Companies' strengths and compete more effectively for major distribution and logistics contracts

2011 Postal Transformation Program

- Continue with our national equipment deployment
- Continue the transformation of our delivery services through depot modernization and introduction of sequenced mail
- Optimize work processes to provide better service for Canadians and a safer work environment
- Achieve benefits from Postal Transformation as we proceed to steady state in 2017

Sustainability and Engagement

- Promote a customer and growth-oriented focus with our employees
- Build a highly engaged and trained workforce
- Reduce the frequency of accidents
- Deliver programs focused on raising safety awareness, accident avoidance and prevention, and adherence to safe operating practices
- Continue rural mailbox safety assessments to address the safety of rural mail delivery
- Continue to invest in areas to improve the quality and security of the mail

There were no changes to these priorities during the third quarter of 2011.

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 was provided in Section 4 – Capability to Deliver Results of the 2010 Annual MD&A and in the 2011 Second Quarter MD&A. Updates are provided below.

4.1 Labour relations

The number of employees covered by collective agreements as at December 31, 2010 and various bargaining activities were summarized in Section 4.3 – Labour Relations of the 2010 Annual MD&A and in the 2011 Second Quarter MD&A. An update of collective bargaining activity by segment is provided below.

Canada Post segment

On November 17, 2011, the Supreme Court of Canada delivered its ruling in the long standing pay equity complaint filed by the Public Service Alliance of Canada ("PSAC") and the Canadian Human Rights Commission and re-instated the decision of the Canadian Human Rights Tribunal. The Corporation will abide by the Court's decision. For more detail on the complaint and the ruling, refer to *Note 12 Subsequent Event of the unaudited interim condensed consolidated financial statements for the 13 and 39 weeks ended October 1, 2011.*

In January 2010, the Canadian Union of Postal Workers ("CUPW") applied to the Canada Industrial Relations Board (the "Board"), requesting the establishment of a single bargaining unit for all operations employees, excluding supervisory personnel. In September 2011, the CUPW's request was denied and the Board ruled that sufficient evidence was not presented to show that the existing bargaining unit structure at Canada Post was no longer appropriate for collective bargaining.

In the third quarter of 2011, there have been no new significant developments in labour relations activities for Canadian Postmasters and Assistants Association ("CPAA"), the Association of Postal Officials of Canada ("APOC") and the Union of Postal Communications Employees ("UPCE"), the Canada Post component of the PSAC.

Collective bargaining has continued in 2011 with the main focus on the CUPW bargaining units: Urban Postal Operations as well as Rural and Suburban Mail Carriers.

Canadian Union of Postal Workers – Urban Postal Operations
The parties began negotiating a new contract in October 2010 prior to the expiry of the CPC/CUPW collective agreement on January 31, 2011. In January 2011, the CUPW applied for conciliation as provided for under the *Canada Labour Code*. The CUPW exercised its right to strike through rotating strikes across the country beginning June 2, 2011 and the Corporation locked out employees on June 14, 2011. The Government of Canada tabled back-to-work legislation on June 20, 2011 and the legislation received Royal Assent on June 26, 2011. The Honourable Justice Coulter Osborne was appointed arbitrator by the Minister of Labour for final offer selection arbitration as provided for in the legislation, and the parties began preliminary meetings before him. The legislation states that a decision is to be provided within 90 days of the arbitrator's appointment, with any extension provided by the Minister of Labour. The initial 90-day period has been extended until January 23, 2012. The Federal Court granted the stay application by the CUPW to suspend the proceedings in the final offer selection arbitration pending CUPW's motion before the Federal Court contesting the appointment of Justice Osborne. The CUPW has also filed an application contesting the constitutionality of the legislation itself. Justice Osborne submitted his resignation as arbitrator to the Minister of Labour on November 1, 2011. The Minister of Labour has indicated her intention to appoint a new arbitrator.

Canadian Union of Postal Workers – Rural and Suburban Mail Carriers ("CUPW-RSMC")
As discussed in Section 4.3 – Labour relations of the 2010 Annual MD&A and in the 2011 Second Quarter MD&A, Canada Post and the CUPW-RSMC are in the final year of an eight-year collective agreement that will expire on December 31, 2011. The parties concluded their submissions regarding the third and final contract reopener in September after the union referred all unresolved matters to interest arbitration in January 2010. On October 26, 2011, the arbitrator awarded improvements to wages and benefits, which include the introduction of the short-term disability and the corporate team incentive programs. Bargaining for the new collective agreement began on November 10, 2011 as notice to bargain was received on October 13, 2011.

Purolator segment

The collective bargaining agreement with Purolator segment's largest union, The Canada Council of Teamsters, will expire on December 31, 2011. On November 11, 2011, a tentative agreement was reached, subject to ratification by the union. There have been no other new developments in labour relations activities in the third quarter of 2011.

Logistics segment – SCI Group

There have been no new developments in labour relations activities in the third quarter of 2011.

4.2 Internal controls and procedures

Changes in internal control over financial reporting

Our January 1, 2011 changeover to IFRS from Canadian generally accepted accounting principles ("GAAP") impacted the way we present our financial results and the accompanying disclosures. In the second quarter of 2011, we evaluated the impact of the changeover on our financial reporting systems, processes and controls and concluded that there were no fundamental changes required as a result of the implementation of IFRS.

During the third quarter of 2011, there were no changes in internal control over financial reporting that have materially affected, or are 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

Canada Post management incorporates the consideration of risks and opportunities in decision-making at all levels. An integrated and rigorous approach to Enterprise Risk Management ("ERM") has been implemented for the Corporation. A description of our risks is provided in Section 5.2 – Strategic risks and Section 5.3 – Operational risks in the 2010 Annual MD&A and updated in the 2011 Second Quarter MD&A. Updates to these risks for the third quarter of 2011 are provided below.

5.1 Strategic risks

Labour negotiations

Legal challenges to the statutorily-imposed arbitration process to establish a new collective agreement with our largest bargaining unit of urban operational employees will result in the process extending into the first half of 2012. Uncertainty will remain regarding ongoing operating costs until the agreement is finalized. While the Corporation continues to pursue a revenue-recovery strategy to win back customers that have been lost as a result of the service disruption earlier this year, there remains uncertainty with respect to the long-term impact of this disruption on customer relationships and revenue.

Ability to develop revenue growth and diversification strategy

Canada Post's core mail and parcel businesses continue to face pressures on several fronts including electronic substitution and discretionary spending decisions by customers. While we maintain a focus on growing the revenue, limited resources, effective innovation and corporate culture are all challenges that we must address in pursuit of growth opportunities. In response to these challenges, on July 20, 2011, Canada Post's Chief Executive Officer announced the creation of two distinct business units, physical mail delivery and digital mail delivery, each headed by a Group President. Reorganization of the Corporation along distinct network lines has been designed to encourage revenue growth by focusing efforts on the service offerings and potential of Canada Post's physical and digital networks.

Pension deficits require significant funding

The Canada Post Group of Companies' pension plans are subject to inherently volatile primary risk factors: (1) a decline in long-term discount rates, which can increase the pension obligation on a solvency basis; and (2) below-expected returns on the Group of Companies' pension plan assets, which create a shortfall in the assets available to meet the pension obligation. These combined risk factors can also have a significant impact on the Corporation's reported pension plan liabilities and expenses.

The continued economic uncertainty has had a significant effect on the Group of Companies' financial statements, especially on its employee benefit liabilities. In the third quarter, the significant decline in financial markets caused the Group of Companies to re-measure their post-employment benefit liabilities, resulting in a decrease to total equity of $2,214 million before any tax impact. This was a result of lower-than-expected returns from the Group of Companies' pension plan assets and an increase in the pension plan obligations due to a decreased discount rate which is sensitive to falling bond yields.

Economic uncertainty

The global economy has experienced sluggish growth in 2011 amid fears that a second global recession could result from failing European economies and a faltering U.S. recovery. The potential for such a global recession could impact the Canadian economy as demand for commodities decreases, resulting in forecasts of slow economic growth into 2012. In Canada, a second quarter contraction was followed by slow growth in the third quarter of 2011. The economic uncertainty continues to have an adverse effect on Canada Post's ability to generate new revenues as customers look to reduce costs in all areas of their businesses.

5.2 Operational risks

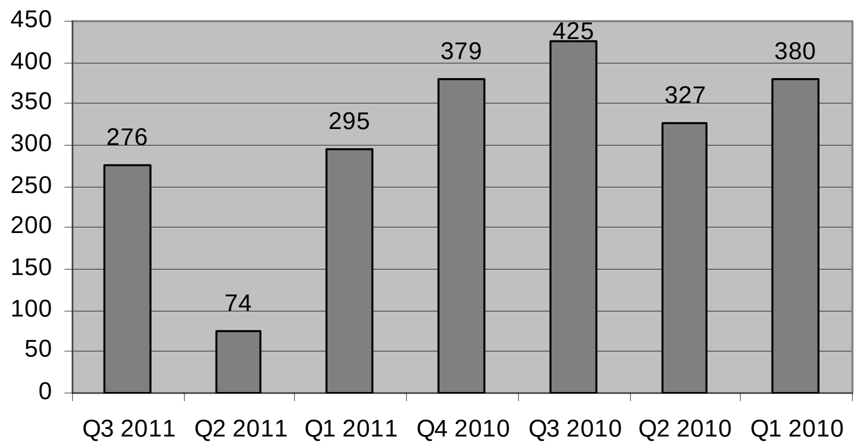
There are no material changes to the operational risks disclosed in Section 5.3 – Operational risks of the 2010 Annual MD&A and in the 2011 Second Quarter MD&A. These risks include health and safety, security and privacy, business continuity, attrition, environmental sustainability and legal risks.

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 in the amount of $276 million as at October 1, 2011 — a decrease of $103 million compared to December 31, 2010. The biggest contributors to the decline were capital expenditures of $350 million, cash flows used in operating activities of $46 million and $9 million in payments of capital lease obligations, all of which were offset by $308 million in net proceeds from the sale of short-term investments.

6.2 Operating activities

	13 weeks ended			39 weeks ended		
(in millions of dollars)	October 1, 2011	October 2, 2010	Change	October 1, 2011	October 2, 2010	Change
Cash provided by (used in) operating activities	332	14	318	(46)	(249)	203

Cash generated from operations in the third quarter of 2011 increased by $318 million compared to the same period in the prior year. This cash flow variance was primarily driven by a $98-million decrease in employee future benefit payments, a $76-million decrease in trade and other receivables, and a $67-million increase in tax refunds. The positive cash flow increase of $203 million for the first three quarters of 2011, compared to the same period in the prior year, was primarily driven by a $98-million decrease in employee future benefits payments and a $73-million increase in tax refunds.

6.3 Investing activities

	13 weeks ended			39 weeks ended		
(in millions of dollars)	October 1, 2011	October 2, 2010	Change	October 1, 2011	October 2, 2010	Change
Cash used in investing activities	(127)	(894)	767	(46)	(791)	745

Cash used in investing activities declined by $767 million in the third quarter of 2011 mainly due to a $851-million decline in the purchase of short-term investments in 2011. Large purchases of short-term investments were made in 2010 as a result of the $1-billion bond issue in 2010. This decline was partially offset by an increase in capital expenditures of $67 million mostly related to Postal Transformation investment. For the first three quarters of 2011, cash used in investing activities declined by $745 million compared to the same period in the prior year mainly due to a $1-billion decline in the purchase of short-term investments in 2011 for the reason mentioned above. This was partially offset by an increase in capital spending of $123 million mostly related to Postal Transformation and an increase in segregated investments totaling $175 million. Segregated funds were sold in 2010 by the Canada Post segment to fund Postal Transformation and solvency payments to the Corporation's pension plan. This segregated fund was drawn down to zero by the end of 2010.

Capital expenditures

	13 weeks ended			39 weeks ended		
(in millions of dollars)	October 1, 2011	October 2, 2010	Change	October 1, 2011	October 2, 2010	Change
Canada Post	150	98	52	326	217	109
Purolator	18	4	14	24	9	15
Logistics	1	1	0	3	2	1
Other and intersegment	0	(1)	1	(3)	(1)	(2)
The Canada Post Group of Companies	**169**	**102**	**67**	**350**	**227**	**123**

Capital expenditures for the Group of Companies grew in the third quarter and the first three quarters of 2011 when compared to the same periods last year due to increased spending on Postal Transformation.

6.4 Financing activities

	13 weeks ended			39 weeks ended		
(in millions of dollars)	October 1, 2011	October 2, 2010	Change	October 1, 2011	October 2, 2010	Change
Cash provided by (used in) financing activities	(3)	978	(981)	(11)	992	(1,003)

Cash provided by financing activities decreased by $981 million in the third quarter of 2011 and by just over $1 billion in the first three quarters of 2011 when compared to the same periods last year. These decreases were mainly due to the $1-billion bond issue in 2010.

6.5 Canada Post Pension Plan

A description of the Canada Post Pension Plan's effects on liquidity is provided in Section 6.5 – Canada Post Pension Plan of the 2010 Annual MD&A and in the 2011 Second Quarter MD&A. An update is provided below.

Current service contributions for the third quarter and the first three quarters of 2011 were $74 million and $224 million respectively compared to $75 million and $218 million for the same period in the prior year.

Employer special solvency contributions totaled $2 million and $216 million for the third quarter and the first three quarters of 2011 respectively compared to $106 million and $319 million for the same period last year. The reduction in contributions is in accordance with the new funding measures contained in Bill C-9 which deals with the reduction of special solvency contributions made by Crown corporations. In August of 2011, Canada Post obtained the approval from the Minister of Finance and the Minister of Transport, Infrastructure and Communities to reduce the special solvency contributions from January 1, 2011 to June 30, 2012. This reduction is $433 million for 2011.

6.6 Liquidity and capital resources

The Canada Post Group of Companies manages capital, which includes the Equity of Canada, loans and borrowings and other long-term financial obligations.

(in millions of dollars)	**October 1, 2011**	**December 31, 2010**
Equity of Canada	(2,064)	(321)
Loans and borrowings	1,098	1,108
Other long-term financial obligation	13	14

The Equity of Canada remains in a deficit position for the third quarter ended October 1, 2011. The decrease in Equity of Canada is mostly attributable to the recognition of net actuarial losses for pension, post-employment and other long-term employee benefit plans.

Liquidity

For the first three quarters of 2011, 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. The Canada Post segment had $938 million of unrestricted liquid investments on hand as at October 1, 2011, and short-term borrowing authority of $250 million. The Canada Post segment believes it has sufficient liquidity to support operations over the next twelve months, including an adequate contingency cushion for fluctuations in working capital, adverse changes in business results or unforeseen expenditures. The Corporation's subsidiaries and joint venture had a total of $113 million of unrestricted cash on hand as at October 1, 2011 and undrawn credit facilities of $158 million ensuring sufficient liquidity to support their operations over the next twelve months.

Access to capital markets

Pursuant to the *Canada Post Corporation Act*, the Canada Post segment may borrow a maximum of $500 million from the Government of Canada's Consolidated Revenue Fund. Pursuant to *Appropriation Act No.4,* 2009-10, which received Royal Assent on 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 $250 million available for cash management purposes in the form of short-term borrowings. The Corporation's subsidiaries and joint venture also have access to financing facilities totaling $202 million as at October 1, 2011, of which $158 million is undrawn.

The Canada Post segment borrowings amounted to $1,054 million and the Corporation's subsidiaries and joint venture borrowings amounted to $44 million as at October 1, 2011. For more information on liquidity and access to capital markets, refer to Section 6.6 – Liquidity and Capital Resources of the 2010 Annual MD&A as well as updates included in the 2011 Second Quarter MD&A.

Dividends

For information on our dividend policy, refer to Section 6.6 – Liquidity and capital resources of the 2010 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 the activities of the business which are described in section 6.7 – Risks associated with financial instruments of the 2010 Annual MD&A and in the 2011 Second Quarter MD&A. Investments are held for liquidity purposes or for longer terms in accordance with the investment policies of the Group of Companies.

Market risk and credit 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 Group of Companies' principal foreign exchange exposure is in US Dollar. In the first quarter of 2011, an economic hedging program was implemented to mitigate the exposure to foreign exchange balances. Where possible, exposures are netted internally and any remaining exposure may be hedged using foreign exchange forward contracts. These forward contracts are not designated as hedges for hedge accounting purposes. For more information on foreign exchange risk, please refer to *Note 9 Foreign Exchange Risk of the unaudited interim condensed consolidated financial statements for the 13 and 39 weeks ended October 1, 2011.*

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 in cash or using major credit cards.

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 continuously monitoring forecast to actual cash flows, and matching the maturity profiles of financial assets and liabilities.

6.8 Contractual obligations and commitments

Contractual obligations and commitments were explained in Section 6.8 – Contractual obligations and commitments of the 2010 Annual MD&A and in the 2011 Second Quarter MD&A. There were no material changes to contractual obligations and commitments during the third quarter of 2011.

6.9 Related party transactions

The Corporation has a variety of transactions with related parties both in the normal course of business and in supporting the Government of Canada's public policies. These transactions are not materially different from what was reported in section 6.9 – Related party transactions of the 2010 Annual MD&A. For more information on related party transactions, please refer to *Note 10 Related Party Transactions of the unaudited interim condensed consolidated financial statements for the 13 and 39 weeks ended October 1, 2011*.

6.10 Contingent liabilities

Contingent liabilities are described in *Note 6 Contingent Liabilities of the unaudited interim condensed consolidated financial statements for the 13 and 39 weeks ended October 1, 2011.*

7 Changes in Financial Position

A discussion of significant changes in our assets and liabilities between October 1, 2011 and December 31, 2010

(in millions of dollars)

ASSETS	October 1, 2011	December 31, 2010	Change	%	Explanation of Change
Cash and cash equivalents	276	379	(103)	(27.2)%	*Refer to Section 6 – Liquidity and Capital Resources on page 13*
Marketable securities	775	1,082	(307)	(28.4)%	Primarily attributed to securities sold to fund capital acquisitions and special solvency contributions for Canada Post segment
Trade and other receivables	624	628	(4)	(0.7)%	Mainly due to decreased receivables for the Canada Post and Logistics segments resulting from higher sales in December 2010, partially offset by increased receivables for the Purolator segment from increased revenues in 2011
Income tax receivable	67	141	(74)	(53.0)%	Decrease is primarily due to the receipt of the prior year's refund partially offset by the current year's expected refund generated by a loss carry-back for the Canada Post segment
Other assets	107	73	34	48.2%	Mainly due to increased prepaid expenses and assets held for sale
Total current assets	**1,849**	**2,303**	**(454)**	**(19.7)%**	
Property, plant and equipment (note 3)	2,247	2,127	120	5.6%	Due to the Canada Post segment’s capital acquisitions partially offset by Purolator segment’s increased depreciation
Intangible assets (note 3)	161	161	0	0.1%	No material change
Segregated securities	554	499	55	11.1%	Mainly due to unrealized gains and interest income
Pension benefit assets (note 4)	83	112	(29)	(25.3)%	Primarily due to actuarial losses related to asset re-measurement
Deferred tax assets	1,603	1,054	549	52.1%	Primarily due to the increase of temporary differences resulting from actuarial losses recognized in other comprehensive income for Canada Post's Registered Pension Plan asset and post-employment benefits
Goodwill	125	125	0	0.3%	No material change
Other assets	11	11	(0)	(3.0)%	No material change
Total non-current assets	**4,784**	**4,089**	**695**	**17.0%**	
Total assets	**6,633**	**6,392**	**241**	**3.8%**	

(in millions of dollars)

LIABILITIES & EQUITY	October 1, 2011	December 31, 2010	Change	%	Explanation of Change
Trade and other payables	444	477	(33)	(6.9)%	Primarily due to decreased goods received and trade payables for the Canada Post segment, partially offset by increased payables for the Purolator segment due to timing
Provisions (note 12)	239	64	175	270.7%	Primarily due to the November 17, 2011 Supreme Court of Canada ruling on pay equity in the Canada Post segment
Salaries and benefits payable	360	537	(177)	(33.0)%	Primarily resulting from lower accrued salaries and benefits partially due to timing
Income tax payable	2	0	2	429.9%	No material change
Deferred revenue	109	120	(11)	(8.7)%	Due to a reduction in stamp and meter deferrals, partially offset by an increase in customer prepayments
Loans and borrowings	11	13	(2)	(8.3)%	Primarily due to capital lease payments in the Canada Post segment
Other long-term benefit liability (note 4)	84	84	0	0 %	No material change
Total current liabilities	**1,249**	**1,295**	**(46)**	**(3.5)%**	
Loans and borrowings	1,087	1,095	(8)	(0.7)%	Primarily due to capital lease payments in the Purolator segment
Pension, other post-employment and other long-term benefit liability (note 4)	6,308	4,255	2,053	48.2%	Primarily resulting from actuarial losses due to asset and accrued benefits re-measurement, partially offset by benefit payments
Deferred tax liabilities	0	7	(7)	(99.7)%	Primarily due to a decrease in temporary differences in Purolator's Pension Plan asset
Provisions	10	10	(0)	(8.1)%	No material change
Other liabilities	19	24	(5)	(18.6)%	Primarily due to amortization of deferred inducements in the Canada Post segment and repurchase of employee-owned shares in the Purolator segment
Total non-current liabilities	**7,424**	**5,391**	**2,033**	**37.7%**	
Total liabilities	**8,673**	**6,686**	**1,987**	**29.7%**	
Equity					
Contributed capital	1,155	1,155	0	0 %	No material change
Accumulated other comprehensive income	34	9	25	282.9%	Mainly due to net unrealized gains on available-for-sale financial assets for the Canada Post segment
Accumulated deficit	(3,253)	(1,485)	(1,768)	(119.2)%	Primarily due to net actuarial losses due to asset and accrued benefits re-measurement
Equity of Canada	**(2,064)**	**(321)**	**(1,743)**	**(544.9)%**	
Non-controlling interests	24	27	(3)	(4.8)%	
Total equity	**(2,040)**	**(294)**	**(1,746)**	**(592.6)%**	
Total liabilities and equity	**6,633**	**6,392**	**241**	**3.8%**	

8 Discussion of Operations

A detailed discussion of our financial performance

8.1 Summary of quarterly results

Consolidated results by quarter

(in millions of dollars)	Q3 2011	Q2 2011	Q1 2011	Q4 2010	Q3 2010	Q2 2010	Q1 2010
Revenue from operations	1,806	1,761	1,933	1,972	1,752	1,833	1,896
Cost of operations	1,963	1,773	1,903	1,902	1,763	1,788	1,858
Profit (loss) from operations	**(157)**	**(12)**	**30**	**70**	**(11)**	**45**	**38**
Investing and financing income (expense)	(6)	(6)	(8)	2	(8)	(0)	(2)
Profit (loss) before tax	**(163)**	**(18)**	**22**	**72**	**(19)**	**45**	**36**
Tax expense (income)	(50)	(1)	2	15	(205)	(2)	12
Net profit (loss)	**(113)**	**(17)**	**20**	**57**	**186**	**47**	**24**

8.2 Consolidated results from operations

Consolidated net profit (loss) and comprehensive loss for the third quarter and the first three quarters of 2011

	13 weeks ended				39 weeks ended			
(in millions of dollars)	October 1, 2011	October 2, 2010	Change	%	October 1, 2011	October 2, 2010	Change	%
Revenue from operations	1,806	1,752	54	3.1%*	5,500	5,481	19	0.9%*
Cost of operations	1,963	1,763	200	11.4%	5,639	5,409	230	4.3%
Profit (loss) from operations	**(157)**	**(11)**	**(146)**	**(1,411.7)%**	**(139)**	**72**	**(211)**	**(291.8)%**
Investing and financing income (expense)	(6)	(8)	2	27.6%	(20)	(10)	(10)	(97.7)%
Profit (loss) before tax	**(163)**	**(19)**	**(144)**	**(815.0)%**	**(159)**	**62**	**(221)**	**(353.1)%**
Tax expense (income)	(50)	(205)	155	75.9%	(49)	(195)	146	75.0%
Net profit (loss)	**(113)**	**186**	**(299)**	**(160.4)%**	**(110)**	**257**	**(367)**	**(142.7)%**
Other comprehensive loss	(1,635)	(2,452)	817	33.3%	(1,636)	(2,445)	809	33.1%
Comprehensive loss	**(1,748)**	**(2,266)**	**518**	**22.8%**	**(1,746)**	**(2,188)**	**442**	**20.2%**

* Adjusted for trading days where applicable

The Canada Post Group of Companies reported a net loss of $113 million for the third quarter of 2011—a decrease of $299 million when compared to the same quarter in the previous year. For the first three quarters of 2011, the net loss was $110 million—a decrease of $367 million when compared to the same period last year.

Consolidated revenue from operations

For the third quarter of 2011, revenue from operations increased by $54 million or 3.1 per cent when compared to the same quarter in the previous year. For the first three quarters of 2011, revenue from operations increased by $19 million or 0.9 per cent when compared to the same period last year. A detailed discussion of revenue by segment follows in sections 8.3 to 8.7.

Consolidated cost of operations

Cost of operations increased by $200 million or 11.4 per cent in the third quarter of 2011 when compared to the same quarter last year. The increase was primarily driven by the costs related to the November 17, 2011 Supreme Court of Canada ruling on the pay equity case in the Canada Post segment. Cost of operations in the first three quarters of 2011 increased by $230 million or 4.3 per cent when compared to the same period last year. These increases were mainly due to the pay equity ruling and cost increases in the Purolator segment, partially offset by cost reductions from the labour dispute in the Canada Post segment. A detailed discussion of cost of operations by segment follows in sections 8.3 to 8.7.

Consolidated investing and financing income (expense)

Expenses from investing and financing activities decreased by $2 million in the third quarter and increased by $10 million in the first three quarters when compared to the same periods in the prior year primarily due to the Canada Post segment.

Consolidated tax expense (income)

Consolidated tax income decreased for the third quarter and the first three quarters of 2011 when compared to the same period in the prior year. This decrease is primarily due to the recognition in the third quarter of 2010 of previously unrecognized temporary differences of $192 million for the Canada Post segment. A decrease in the Group of Companies' profit before tax of $221 million for the first three quarters of 2011 further contributed to the decrease in consolidated tax income.

Consolidated other comprehensive income (loss)

In accordance with IFRS, significant market fluctuations impacting actuarial gains and losses are immediately recognized, which could lead to significant fluctuations in other comprehensive income (loss) from period to period. The continuing volatility in the financial markets is still negatively impacting the Group of Companies and has triggered a re-measurement. An actuarial loss of $2,214 million was recorded in the third quarter, mainly due to actuarial losses arising from the fluctuation between the actual plan returns and the expected long-term rates of return as well as the fluctuation in the discount rate on defined benefits plans.

8.3 Operating results by segment

Segmented results – profit (loss) before tax

	13 weeks ended				**39 weeks ended**			
(in millions of dollars)	**October 1, 2011**	**October 2, 2010**	**Change**	**%**	**October 1, 2011**	**October 2, 2010**	**Change**	**%**
Canada Post	(190)	(49)	(141)	(287.3)%	(211)	7	(218)	(3,347.9)%
Purolator	20	24	(4)	(20.7)%	38	45	(7)	(17.6)%
Logistics	1	2	(1)	(63.5)%	5	7	(2)	(31.0)%
Other	6	5	1	17.2%	15	14	1	4.2%
Intersegment and unallocated	0	(1)	1	172.5%	(6)	(11)	5	51.4%
Canada Post Group of Companies	**(163)**	**(19)**	**(144)**	**(815.0)%**	**(159)**	**62**	**(221)**	**(353.1)%**

A detailed discussion of operating results by segment is provided below.

8.4 Canada Post segment

The Canada Post segment experienced a loss before tax of $190 million in the third quarter of 2011 and $211 million in the first three quarters of 2011, a decrease of $141 million and $218 million, respectively, when compared to the same periods in the prior year. The decrease in the third quarter of 2011 was mainly driven by the ruling on pay equity. The performance for the third quarter of 2011 would have been worse had it not been for the revenue generated by the clearing of the mail backlog. The decline during the first three quarters of 2011 is largely due to the pay equity ruling and the net impacts of the labour disruption. A detailed discussion of revenue and cost of operations is provided below.

Expenses from investing and financing activities decreased by $2 million in the third quarter of 2011 and increased by $15 million in the first three quarters of 2011 when compared to the same periods in the prior year. The decrease in expense in the third quarter is mainly due to the gains on disposal of capital assets. The increase in expense in the first three quarters is mainly due to the net interest impact of the $1-billion bond issue in 2010.

Canada Post results for the third quarter and the first three quarters of 2011

	13 weeks ended				**39 weeks ended**			
(in millions of dollars)	**October 1, 2011**	**October 2, 2010**	**Change**	**%**	**October 1, 2011**	**October 2, 2010**	**Change**	**%**
Revenue from operations	1,401	1,375	26	2.0%*	4,304	4,354	(50)	(0.6)%*
Cost of operations	1,586	1,417	169	12.0%	4,503	4,350	153	3.5%
Profit (loss) from operations	**(185)**	**(42)**	**(143)**	**(342.4)%**	**(199)**	**4**	**(203)**	**(5,505.5)%**
Investing and financing income (expense)	(5)	(7)	2	33.0%	(12)	3	(15)	(508.9)%
Profit (loss) before tax	**(190)**	**(49)**	**(141)**	**(287.3)%**	**(211)**	**7**	**(218)**	**(3,347.9)%**
Tax expense (income)	(58)	(214)	156	72.7%	(66)	(215)	149	69.2%
Net profit (loss)	**(132)**	**165**	**(297)**	**(179.6)%**	**(145)**	**222**	**(367)**	**(165.2)%**

* Adjusted for trading days where applicable

Revenue from operations

Canada Post generated revenue from operations of $1,401 million in the third quarter of 2011—an increase of $26 million or 2.0 per cent, when compared with the same quarter last year. Revenue amounted to $4,304 million for the first three quarters of 2011, a decrease of $50 million or 0.6 per cent compared to the same period in the prior year. The labour disruption in June impacted all lines of business and, given normal performance, led to an estimated revenue loss of $173 million to date. Revenues from the federal election, the 2011 Statistics Canada census ($22 million and $32 million respectively) and pricing action offset some of the losses from the labour disruption.

Quarterly revenue by line of business

	13 weeks ended				39 weeks ended			
	October 1, 2011	October 2, 2010	Change	%*	October 1, 2011	October 2, 2010	Change	%*
Transaction Mail	744	727	17	2.4%	2,358	2,368	(10)	0.1%
Parcels	277	284	(7)	(2.3)%	849	904	(55)	(5.6)%
Direct Marketing	347	338	9	2.8%	994	992	2	0.8%
Other revenue	33	26	7	27.4%	103	90	13	15.3%
Total	**1,401**	**1,375**	**26**	**2.0%**	**4,304**	**4,354**	**(50)**	**(0.6)%**

* Adjusted for trading days where applicable

Transaction Mail

Transaction Mail revenue of $744 million for the third quarter of 2011 was comprised of the following four product categories: domestic Lettermail™ ($674 million); outbound Letter-post ($28 million); inbound Letter-post ($31 million); and other ($11 million).

In the third quarter of 2011, Transaction Mail volume increased by 13 million pieces or 1.2 per cent and revenue increased by $17 million or 2.4 per cent when compared to the same period last year. For domestic Lettermail, the largest product category, volumes increased by 14 million pieces or 1.4 per cent and revenues increased by $19 million or 2.8 per cent. Increases in the volume and revenue in the third quarter were primarily driven by the clearing of backlog mail arising from the labour disruption in June.

In the first three quarters of 2011, Transaction Mail volumes declined by 111 million pieces or 2.6 per cent and revenue decreased by $10 million when compared to the same period last year. For domestic Lettermail, volumes decreased by 96 million pieces or 2.4 per cent and revenue decreased by $9 million. The volume and revenue declines were largely driven by the labour disruption during June, offset by the federal election and the 2011 Statistics Canada census.

Parcels

Parcel revenue of $277 million for the third quarter of 2011 was comprised of four product categories: domestic parcels ($189 million); outbound parcels ($42 million); inbound parcels ($38 million); and other ($8 million).

Parcel revenue for the third quarter experienced a decline of $7 million or 2.3 per cent while volumes increased by 1 million pieces or 5.1 per cent compared to the same quarter last year. The revenue decline was primarily driven by Canada Post's exit from the Food Mail Program at the end of the first quarter and the lingering effects of the labour disruption in the second quarter. The volume increase reflects growth in US inbound parcels resulting from the strong Canadian dollar.

In the first three quarters of 2011, revenue decreased by $55 million or 5.6 per cent and volumes declined by 3 million pieces or 1.9 per cent compared to the same period last year. The volume and revenue declines were largely driven by Canada Post's labour disruption and exit from the Food Mail Program.

Direct Marketing

Direct Marketing revenue of $347 million for the third quarter of 2011 was comprised of the following four categories: Addressed Admail™ ($155 million); Unaddressed Admail™ ($101 million); Publications Mail™ ($63 million); Business Reply Mail™ & Other Mail ($8 million); and other ($20 million).

Direct Marketing revenue increased for the third quarter and the first three quarters of 2011 by $9 million or 2.8 per cent, and by $2 million or 0.8 per cent, respectively, when compared to the same periods in the prior year, as a result of pricing action. Volumes decreased for the third quarter and the first three quarters of 2011 by 24 million pieces or 1.8 per cent and by 181 million pieces or 4.0 per cent over the same period in the prior year primarily due to the labour disruption in June.

Other revenue

Other revenue of $33 million increased by $7 million or 27.4 per cent in the third quarter of 2011, when compared to the same period in the prior year, due to increased sales from Royal Wedding stamps, gifts and collectibles. For the first three quarters of 2011, other revenue increased by $13 million or 15.3 per cent when compared to the same period last year.

Cost of operations

Cost of operations for the Canada Post segment totaled $1,586 million in the third quarter of 2011—an increase of $169 million or 12.0 per cent when compared to the same quarter last year. The cost of operations for the first three quarters of 2011 totaled $4,503 million—an increase of $153 million or 3.5 per cent when compared to the same period last year.

	13 weeks ended				**39 weeks ended**			
(in millions of dollars)	**October 1, 2011**	**October 2, 2010**	**Change**	**%**	**October 1, 2011**	**October 2, 2010**	**Change**	**%**
Labour	939	768	171	22.3%	2,441	2,374	67	2.8%
Employee benefits	217	217	(0)	(0.2)%	745	677	68	10.1%
Total labour and employee benefits	**1,156**	**985**	**171**	**17.3%**	**3,186**	**3,051**	**135**	**4.4%**
Non-labour collection, processing and delivery	191	200	(9)	(4.4)%	598	625	(27)	(4.4)%
Property, facilities and maintenance	55	55	0	1.5%	173	166	7	4.7%
Selling, administrative and other	126	121	5	4.3%	374	351	23	6.8%
Total other operating costs	**372**	**376**	**(4)**	**(0.7)%**	**1,145**	**1,142**	**3**	**0.3%**
Depreciation and amortization	58	56	2	4.1%	172	157	15	9.3%
Total	**1,586**	**1,417**	**169**	**12.0%**	**4,503**	**4,350**	**153**	**3.5%**

Labour

The cost of labour increased by $171 million, or 22.3 per cent, for the third quarter of 2011. In the first three quarters of 2011, labour increased by $67 million or 2.8 per cent when compared to the same period in the previous year. These increases were mainly due to the ruling on pay equity, partially offset by cost reductions resulting from the labour disruption.

Employee benefits

There was no significant variance relating to employee benefits for the third quarter of 2011 when compared to the same period last year. The benefit cost for employees increased by $68 million or 10.1 per cent for the first three quarters of 2011 when compared to the same period in the previous year. The increase in benefits was mainly due to a one-time adjustment of $63 million relating to amendments to the *Pension Benefits Standards Act, 1985,* and its relevant regulations to enhance the pre-retirement death benefits.

Non-labour collection, processing and delivery
Contracted collection, processing and delivery costs decreased by $9 million or 4.4 per cent for the third quarter of 2011 as a result of exiting the Government of Canada's Food Mail Program (as at March 31, 2011). For the first three quarters of 2011, costs decreased by $27 million or 4.4 per cent when compared to the same period in the prior year. This decrease was mainly due to exiting the Food Mail Program, as well as to reductions in costs from the impact of the labour disruption which was partially offset by increases in transportation.

Property, facilities and maintenance
Cost of facilities remained stable for the third quarter of 2011 and increased by $7 million or 4.7 per cent for the first three quarters of 2011, when compared to the same periods last year. The increases were mainly due to increases in utilities, repair and maintenance costs.

Selling, administrative and other
Selling, administrative and other expenses (which includes information technology, administration, program expense, selling and other costs) increased by $5 million or 4.3 per cent for the third quarter of 2011 when compared to the same quarter in the prior year. This increase is mainly due to increased program expenses, which are expenses directly related to investment projects. In the first three quarters of 2011, these expenses increased by $23 million or 6.8 per cent when compared to the prior year. This year-over-year increase is also mainly due to increased program expenses in 2011, in addition to a one-time cost recovery in 2010. The 2010 cost recovery resulted from a legal proceeding which disallowed some costs previously charged to Canada Post by a supplier.

Depreciation and amortization
Depreciation and amortization expenses increased by $2 million or 4.1 per cent for the third quarter of 2011 and by $15 million or 9.3 per cent for the first three quarters of 2011, when compared to the same periods in the prior year. Both increases were primarily due to increased capital asset acquisitions relating to Postal Transformation and replenishment of the existing asset base.

8.5 Purolator segment

The Purolator segment contributed $20 million to the consolidated results for the third quarter of 2011, a decrease of $4 million, when compared with the same period in the prior year. For the first three quarters of 2011, Purolator segment profit before tax amounted to $38 million, a decrease of $7 million or 17.6 per cent when compared to the prior year.

Purolator results for the third quarter and the first three quarters of 2011

	13 weeks ended				**39 weeks ended**			
(in millions of dollars)	**October 1, 2011**	**October 2, 2010**	**Change**	**%**	**October 1, 2011**	**October 2, 2010**	**Change**	**%**
Revenue from operations	401	368	33	8.7%*	1,188	1,101	87	8.5%*
Cost of operations	380	343	37	10.7%	1,148	1,053	95	9.1%
Profit from operations	**21**	**25**	**(4)**	**(19.1)%**	**40**	**48**	**(8)**	**(17.2)%**
Investing and financing expense	(1)	(1)	(0)	(376.5)%	(2)	(3)	1	10.0%
Profit before tax	**20**	**24**	**(4)**	**(20.7)%**	**38**	**45**	**(7)**	**(17.6)%**
Tax expense (income)	7	7	0	6.0%	12	13	(1)	(10.9)%
Net profit	**13**	**17**	**(4)**	**(30.4)%**	**26**	**32**	**(6)**	**(20.3)%**

* Adjusted for trading days where applicable

Revenue from operations

Overall, Purolator generated revenue from operations of $401 million in the third quarter of 2011—an increase of $33 million or 8.7 per cent, when compared with the same period last year, mainly driven by pricing action and increased volumes. For the first three quarters of 2011, revenue increased by $87 million compared to the same period in the prior year due to pricing action and an overall increase in volumes.

Cost of operations

Labour

Cost of labour increased by $11 million or 8.6 per cent for the third quarter of 2011, when compared to the same period in the previous year due to increased volumes and filling of vacant positions. The cost of labour increased by $26 million, or 6.7 per cent, for the first three quarters of 2011, mainly due to increases in volumes, annual wage increases, and filling of vacant positions.

Operational Costs

Operational costs increased by $16 million or 12.0 per cent for the third quarter of 2011 and $40 million or 10.0 per cent for the first three quarters of 2011, when compared to the same periods in the previous year, due to increases in volumes and inflationary pressures.

8.6 Logistics segment

The Logistics segment includes the financial results of SCI Group. The Logistics segment contributed $1 million to the consolidated results for the third quarter of 2011, a decrease of $1 million compared to the same period in the prior year. For the first three quarters of 2011, the Logistics segment profit before tax amounted to $5 million, a decrease of $2 million or 31.0 per cent compared to the same period last year.

8.7 Other segment

The Other segment includes the financial results of Innovapost. Virtually all of the services provided by Innovapost are provided to the Canada Post Group of Companies. Accordingly, the Corporation's proportionate share of Innovapost revenue is eliminated against the other segments' cost of operations upon consolidation. Cost of operations included in the Corporation's unaudited interim condensed consolidated financial statements for the 13 and 39 weeks ended October 1, 2011 include the Corporation's proportionate share of expenses related to these services for the third quarter of 2011 of approximately $32 million, an increase of $4 million when compared to the same quarter of 2010. The proportionate share of expenses was $99 million in the first three quarters of 2011, an increase of $6 million when compared to the same period in the prior year.

Canada Post and Purolator had individually entered into long-term agreements with Innovapost for the provision of IT-related services. These agreements expire in 2012. Both Canada Post and Purolator have declared that they are not renewing the agreements with Innovapost and are currently exploring options for their information technology and services requirements.

9 Critical Accounting Estimates and Accounting Policy Developments

A review of critical accounting estimates and changes in accounting policies in 2011 and future years

9.1 Critical accounting estimates

Our significant accounting policies were described in Note 2 Basis of Presentation and Significant Accounting Policies of the unaudited interim condensed consolidated financial statements for the 13 and 26 weeks ended July 2, 2011.

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 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 considerable 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 in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

The Group of Companies' critical accounting estimates remain substantially unchanged from the prior year. Refer to our discussion of critical accounting estimates in our 2010 Annual MD&A and in Note 3 Critical Accounting Judgments and Key Sources of Estimation Uncertainty of the unaudited interim condensed consolidated financial statements for the 13 and 26 weeks ended July 2, 2011 for additional information.

9.2 Accounting policy developments

New standards and amendments issued by the International Accounting Standards Board ("IASB") assessed as having a possible impact on the Group of Companies in the future were detailed in our 2011 Second Quarter MD&A. No additional pronouncements applicable to the Group of Companies have been issued.

9.3 International Financial Reporting Standards ("IFRS")

On January 1, 2011, the Canadian Accounting Standards Board replaced Canadian GAAP with IFRS for publicly accountable enterprises, with a transition date of January 1, 2010. In 2009, the Public Sector Accounting Board approved an amendment to the scope of public sector accounting, confirming that government business enterprises ("GBEs") are required to follow IFRS for periods beginning January 1, 2011. Accordingly, the Corporation, which meets the current definition of a GBE, is reporting under IFRS, effective January 1, 2011.

As previously discussed in the Corporation's MD&A for the year ended December 31, 2010, the Corporation implemented an IFRS changeover plan, consisting of three phases, to support the transition from Canadian GAAP to IFRS in the 2011 financial statements. The first and second phases of the plan, covering planning and issue identification, followed by detailed evaluations and implementation of the new standards have been completed in previous years. The third phase, which focused mainly on implementation activities, was largely completed in 2010 and during the first two quarters of 2011. Throughout the remainder of 2011, the Canada Post Group of Companies will focus on the maintenance of sustainable IFRS compliant financial data and processes for fiscal 2011 and beyond. The IFRS changeover plan addressed all key areas identified by the Corporation that could be affected by the conversion, such as financial statement preparation, financial reporting expertise, information technology, internal control over financial reporting, disclosure controls and procedures and business activities.

The Corporation has updated descriptions of its significant accounting policies for the transition to IFRS, as applicable, described in Note 2 Basis of Presentation and Significant Accounting Policies of the unaudited interim condensed consolidated financial statements for the 13 and 26 weeks ended July 2, 2011. However, the IASB and the Canadian Accounting Standards Board continue to amend and add to current IFRS standards and interpretations with several projects underway. As a result, the accounting policies adopted by the Corporation for its first annual IFRS consolidated financial statements for the year ending December 31, 2011 may differ from the significant accounting policies used in the preparation of the unaudited interim condensed consolidated financial statements as at and for the period ended October 1, 2011. As of the date of this document, the Corporation does not expect any of the current IFRS developments to have a significant impact on its 2011 consolidated financial statements.

The Corporation's unaudited interim condensed consolidated financial statements as at and for the period ended October 1, 2011 have been prepared in accordance with IAS 34, using policies the Corporation intends on applying in its first annual IFRS consolidated financial statements for the year ending December 31, 2011. These unaudited interim condensed consolidated financial statements include a comparative statement of financial position as at December 31, 2010 and statements of changes in equity, comprehensive income and cash flows for the period ended October 2, 2010, which were previously prepared in accordance with Canadian GAAP prior to the Corporation's changeover to IFRS.

The transition to IFRS did not impact how the Corporation conducts its various businesses nor the cash it generates, however the adoption of IFRS did have a substantial impact on the Corporation's consolidated statements of financial position, comprehensive income and changes in equity. The Corporation has prepared reconciliations of equity and comprehensive income between Canadian GAAP and IFRS for comparable annual and 39-week periods. The reader should refer *to Note 13 First-time Adoption of IFRS of the unaudited interim condensed consolidated financial statements* for these reconciliations and for additional material relevant to understanding the financial impact of adoption of IFRS by the Corporation. Reconciliations of the consolidated statement of financial position as at January 1, 2010 and December 31, 2010, and a reconciliation of the consolidated statement of comprehensive income for the year ended December 31, 2010 can be found in Note 14 of the unaudited interim condensed consolidated financial statements for the 13 and 26 weeks ended July 2, 2011.

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 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, results of operations and cash flows of the Corporation, as at the date of and for the periods presented in the interim condensed consolidated financial statements.

President and Chief Executive Officer

Chief Financial Officer

November 24, 2011

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Unaudited - in millions of Canadian dollars)	Notes	**October 1, 2011**	December 31, 2010
Assets			
Current assets			
Cash and cash equivalents		**$ 276**	$ 379
Marketable securities		**775**	1,082
Trade and other receivables		**624**	628
Income tax receivable		**67**	141
Other assets		**107**	73
Total current assets		**1,849**	2,303
Non-current assets			
Property, plant and equipment	**3**	**2,247**	2,127
Intangible assets	**3**	**161**	161
Segregated securities		**554**	499
Pension benefit assets	**4**	**83**	112
Deferred tax assets		**1,603**	1,054
Goodwill		**125**	125
Other assets		**11**	11
Total non-current assets		**4,784**	4,089
Total assets		**$ 6,633**	$ 6,392
Liabilities and equity			
Current liabilities			
Trade and other payables		**$ 444**	$ 477
Provisions	**12**	**239**	64
Salaries and benefits payable		**360**	537
Income tax payable		**2**	–
Deferred revenue		**109**	120
Loans and borrowings		**11**	13
Other long-term benefit liabilities	**4**	**84**	84
Total current liabilities		**1,249**	1,295
Non-current liabilities			
Loans and borrowings		**1,087**	1,095
Pension, other post-employment and other long-term benefit liabilities	**4**	**6,308**	4,255
Deferred tax liabilities		**–**	7
Provisions		**10**	10
Other liabilities		**19**	24
Total non-current liabilities		**7,424**	5,391
Total liabilities		**8,673**	6,686
Equity			
Contributed capital		**1,155**	1,155
Accumulated other comprehensive income		**34**	9
Accumulated deficit		**(3,253)**	(1,485)
Equity of Canada		**(2,064)**	(321)
Non-controlling interests		**24**	27
Total equity		**(2,040)**	(294)
Total liabilities and equity		**$ 6,633**	$ 6,392
Contingent liabilities	**6**		
Subsequent event	**12**		

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(Unaudited - in millions of Canadian dollars)	Notes	13 weeks ended October 1, 2011	13 weeks ended October 2, 2010	39 weeks ended October 1, 2011	39 weeks ended October 2, 2010
Revenue from operations		**$ 1,806**	$ 1,752	**$ 5,500**	$ 5,481
Cost of operations					
Labour		**1,098**	919	**2,922**	2,832
Employee benefits, net of transitional support	**4**	**247**	247	**852**	767
		1,345	1,166	**3,774**	3,599
Other operating costs	**7**	**545**	527	**1,650**	1,610
Depreciation and amortization		**73**	70	**215**	200
Total cost of operations		**1,963**	1,763	**5,639**	5,409
Profit (loss) from operations		**(157)**	(11)	**(139)**	72
Investing and financing income (expense)					
Investment and other income	**8**	**6**	4	**18**	7
Finance costs and other expense	**8**	**(12)**	(12)	**(38)**	(17)
Investing and financing income (expense), net		**(6)**	(8)	**(20)**	(10)
Profit (loss) before tax		**(163)**	(19)	**(159)**	62
Tax expense (income)	**5**	**(50)**	(205)	**(49)**	(195)
Net profit (loss)		**$ (113)**	$ 186	**$ (110)**	$ 257
Other comprehensive income (loss)					
Non-reclassifying to Net profit (loss)					
Actuarial losses on defined benefit plans	**4**	**$ (2,214)**	$ (3,281)	**$ (2,214)**	$ (3,281)
Reclassifying to Net profit (loss)					
Unrealized gains on available-for-sale financial assets		**$ 35**	$ 12	**$ 39**	$ 21
Realized gains reclassified to Net profit (loss)		**(1)**	–	**(6)**	–
Tax relating to all components of Other comprehensive loss	**5**	**545**	817	**545**	815
Other comprehensive loss		**(1,635)**	(2,452)	**(1,636)**	(2,445)
Comprehensive loss		**$ (1,748)**	$ (2,266)	**$ (1,746)**	$ (2,188)
Net profit (loss) attributable to:					
Government of Canada		**$ (114)**	$ 185	**$ (111)**	$ 255
Non-controlling interests		**1**	1	**1**	2
		$ (113)	$ 186	**$ (110)**	$ 257
Comprehensive income (loss) attributable to:					
Government of Canada		**$ (1,745)**	$ (2,267)	**$ (1,743)**	$ (2,190)
Non-controlling interests		**(3)**	1	**(3)**	2
		$ (1,748)	$ (2,266)	**$ (1,746)**	$ (2,188)

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 October 1, 2011 and October 2, 2010

(Unaudited - in millions of Canadian dollars)	**Contributed capital**	**Accumulated other comprehensive income** Fair value of financial assets	**Accumulated deficit**	**Equity of Canada**	**Non-controlling interests**	**Total equity**
Balance at beginning of period, 2011	$ 1,155	$ 8	$ (1,482)	$ (319)	$ 27	$ (292)
Net profit (loss)	–	–	(114)	(114)	1	(113)
Other comprehensive income (loss)						
Non-reclassifying to Net profit (loss)						
Actuarial losses on defined benefit plans	–	–	(2,209)	(2,209)	(5)	(2,214)
Reclassifying to Net profit (loss)						
Unrealized gains on available-for-sale financial assets	–	35	–	35	–	35
Realized gains reclassified to Net profit (loss)	–	(1)	–	(1)	–	(1)
Tax relating to all components of Other comprehensive loss	–	(8)	552	544	1	545
Other comprehensive income (loss)	–	26	(1,657)	(1,631)	(4)	(1,635)
Comprehensive income (loss)	–	26	(1,771)	(1,745)	(3)	(1,748)
Balance at October 1, 2011	$ 1,155	$ 34	$ (3,253)	$ (2,064)	$ 24	$ (2,040)
Balance at beginning of period, 2010	$ 1,155	$ 6	$ (259)	$ 902	$ 25	$ 927
Net profit	–	–	185	185	1	186
Other comprehensive income (loss)						
Non-reclassifying to Net profit (loss)						
Actuarial losses on defined benefit plans	–	–	(3,281)	(3,281)	–	(3,281)
Reclassifying to Net profit (loss)						
Unrealized gains on available-for-sale financial assets	–	12	–	12	–	12
Tax relating to all components of Other comprehensive loss	–	(3)	820	817	–	817
Other comprehensive income (loss)	–	9	(2,461)	(2,452)	–	(2,452)
Comprehensive income (loss)	–	9	(2,276)	(2,267)	1	(2,266)
Balance at October 2, 2010	$ 1,155	$ 15	$ (2,535)	$ (1,365)	$ 26	$ (1,339)

For the 39 weeks ended October 1, 2011 and October 2, 2010

(Unaudited - in millions of Canadian dollars)	**Contributed capital**	**Accumulated other comprehensive income (loss)** Fair value of financial assets	**Accumulated deficit**	**Equity of Canada**	**Non-controlling interests**	**Total equity**
Balance at beginning of year, 2011	$ 1,155	$ 9	$ (1,485)	$ (321)	$ 27	$ (294)
Net profit (loss)	–	–	(111)	(111)	1	(110)
Other comprehensive income (loss)						
Non-reclassifying to Net profit (loss)						
Actuarial losses on defined benefit plans	–	–	(2,209)	(2,209)	(5)	(2,214)
Reclassifying to Net profit (loss)						
Unrealized gains on available-for-sale financial assets	–	39	–	39	–	39
Realized gains reclassified to Net profit (loss)	–	(6)	–	(6)	–	(6)
Tax relating to all components of Other comprehensive loss	–	(8)	552	544	1	545
Other comprehensive income (loss)	–	25	(1,657)	(1,632)	(4)	(1,636)
Comprehensive income (loss)	–	25	(1,768)	(1,743)	(3)	(1,746)
Balance at October 1, 2011	$ 1,155	$ 34	$ (3,253)	$ (2,064)	$ 24	$ (2,040)
Balance at beginning of year, 2010	$ 1,155	$ (1)	$ (329)	$ 825	$ 24	$ 849
Net profit	–	–	255	255	2	257
Other comprehensive income (loss)						
Non-reclassifying to Net profit (loss)						
Actuarial losses on defined benefit plans	–	–	(3,281)	(3,281)	–	(3,281)
Reclassifying to Net profit (loss)						
Unrealized gains on available-for-sale financial assets	–	21	–	21	–	21
Tax relating to all components of Other comprehensive loss	–	(5)	820	815	–	815
Other comprehensive income (loss)	–	16	(2,461)	(2,445)	–	(2,445)
Comprehensive income (loss)	–	16	(2,206)	(2,190)	2	(2,188)
Balance at October 2, 2010	$ 1,155	$ 15	$ (2,535)	$ (1,365)	$ 26	$ (1,339)

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(Unaudited - in millions of Canadian dollars)	Notes	13 weeks ended October 1, 2011	13 weeks ended October 2, 2010	39 weeks ended October 1, 2011	39 weeks ended October 2, 2010
Cash flows from operating activities					
Net profit (loss)		**$ (113)**	$ 186	**$ (110)**	$ 257
Adjustments to reconcile Net profit (loss) to cash provided by (used in) operating activities:					
Depreciation and amortization		**73**	70	**215**	200
Pension, other post-employment and other long-term benefit expense	4	**134**	131	**469**	371
Pension, other post-employment and other long-term benefit payments	4	**(137)**	(235)	**(601)**	(699)
Transitional support offsetting pension reform incremental costs	4	**–**	(3)	**–**	(9)
Gain on sale of capital assets		**(3)**	–	**(6)**	–
Tax expense (income)		**(50)**	(205)	**(49)**	(195)
Net interest expense	8	**9**	9	**25**	12
Change in non-cash operating working capital:					
Decrease (increase) in trade and other receivables		**60**	(16)	**5**	(24)
Increase (decrease) in trade and other payables		**70**	62	**(21)**	8
Increase (decrease) in salaries and benefits payable		**6**	(19)	**(177)**	(124)
Increase (decrease) in provisions		**177**	(6)	**172**	(34)
Net decrease (increase) in other non-cash operating working capital		**9**	(7)	**(33)**	(39)
Other income not affecting cash, net		**(8)**	(11)	**(24)**	(24)
Cash provided by (used in) operations		**227**	(44)	**(135)**	(300)
Interest received		**5**	4	**23**	16
Interest paid		**(25)**	(4)	**(51)**	(9)
Tax received		**125**	58	**117**	44
Cash provided by (used in) operating activities		**332**	14	**(46)**	(249)
Cash flows from investing activities					
Acquisition of securities		**(351)**	(947)	**(1,407)**	(1,332)
Proceeds from sale of securities		**383**	153	**1,688**	753
Acquisition of capital assets		**(169)**	(102)	**(350)**	(227)
Proceeds from sale of capital assets		**5**	–	**9**	6
Other investing activities, net		**5**	2	**14**	9
Cash used in investing activities		**(127)**	(894)	**(46)**	(791)
Cash flows from financing activities					
Transitional support received from the Government of Canada		**–**	–	**–**	13
Repayment of loans and borrowings		**–**	(15)	**–**	(15)
Proceeds from loans and borrowings		**–**	1,000	**–**	1,010
Payments on finance lease obligations		**(3)**	(2)	**(9)**	(7)
Other financing activities, net		**–**	(5)	**(2)**	(9)
Cash provided by (used in) financing activities		**(3)**	978	**(11)**	992
Net increase (decrease) in cash and cash equivalents		**202**	98	**(103)**	(48)
Cash and cash equivalents, beginning of period		**74**	327	**379**	473
Cash and cash equivalents, end of period		**$ 276**	$ 425	**$ 276**	$ 425

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

Notes to Interim Condensed Consolidated Financial Statements (Unaudited)

For the 13 and 39 weeks ended October 1, 2011

1. Incorporation and Business Activities

Established by the *Canada Post Corporation Act* ("the Act") in 1981, Canada Post Corporation ("the 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 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 Act, the Corporation has the sole and exclusive privilege (with some exceptions) of collecting, transmitting and delivering letters to the addressee thereof within Canada. Other lines of business not covered by the exclusive privilege include parcels and direct marketing products and services. The Corporation's principal subsidiaries, Purolator, Inc. ("Purolator") and SCI Group Inc. ("SCI"), offer courier, transportation and logistics services. Innovapost Inc. ("Innovapost"), a joint venture, provides information technology services to the Corporation and its subsidiaries. The Corporation, Purolator, SCI and Innovapost are collectively referred to as the "Canada Post Group of Companies," or the "Group of Companies."

2. Basis of Presentation

Statement of compliance • The Canadian Accounting Standards Board and the Public Sector Accounting Board require publicly accountable enterprises to adopt International Financial Reporting Standards ("IFRS") as the basis of accounting under Canadian generally accepted accounting principles ("GAAP") for fiscal years beginning on or after January 1, 2011. These unaudited interim condensed consolidated financial statements represent an interim period to be included in the Corporation's first annual IFRS consolidated financial statements. They have been prepared in accordance with IAS 34 "Interim Financial Reporting" ("IAS 34") and IFRS 1 "First-time Adoption of International Financial Reporting Standards" ("IFRS 1"). Throughout these interim condensed consolidated financial statements the term "Canadian GAAP" refers to Canadian GAAP prior to the Group of Companies' transition to IFRS. Comparative financial information previously prepared in accordance with Canadian GAAP has been restated from January 1, 2010, the date of transition.

As permitted under IAS 34, 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 Canadian GAAP audited consolidated financial statements for its fiscal year ended December 31, 2010 and the Corporation's unaudited interim condensed consolidated financial statements for the 13 and 26 weeks ended July 2, 2011.

The interim condensed consolidated financial statements were approved and authorized for issue by the Board of Directors on November 24, 2011 and have been prepared based on IFRS issued and effective as at the time these statements were prepared, using policies the Corporation intends to apply in its first annual IFRS consolidated financial statements for the year ending December 31, 2011. Subsequent amendments to IFRS applied to policies effective in the annual consolidated financial statements may result in changes to the reported amounts in these interim condensed consolidated financial statements, including adjustments on transition to IFRS. Comparative reporting periods have not been reviewed by the Corporation's external auditors.

In some areas, the Group of Companies determined that changes in accounting policies were necessary under IFRS compared to the policies applied under Canadian GAAP. Descriptions of the effect of these differences in policies, and reconciliations of financial information previously reported under Canadian GAAP are disclosed in note 13, First-time Adoption of IFRS. Annual disclosures for the year ended December 31, 2010 that are significantly different under IFRS and are considered material to an understanding of the Corporation's interim condensed consolidated financial statements are disclosed in notes 15, 16 and 17 of the Corporation's interim condensed consolidated financial statements for the 13 and 26 weeks ended July 2, 2011.

Basis of presentation • The 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 generally shown in millions, unless otherwise noted.

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.

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

Significant accounting policies • Significant accounting policies applied in these interim condensed consolidated financial statements are disclosed in note 2 of the Corporation's interim condensed consolidated financial statements for the 13 and 26 weeks ended July 2, 2011. The accounting policies have been applied consistently to all periods presented.

Critical accounting judgements and key sources of estimation uncertainty • The preparation of the Corporation's interim condensed consolidated financial statements requires management to make complex or subjective judgements, 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 judgements, 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 considerable 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 the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods. Critical judgements and key sources of estimation uncertainty are disclosed in note 3 of the Corporation's interim condensed consolidated financial statements for the 13 and 26 weeks ended July 2, 2011.

3. Capital Assets

(a) Property, plant and equipment

Property, plant and equipment consisted of the following items:

(in millions)

	Land	Buildings	Leasehold improvements	Plant equipment	Vehicles	Sales counters, office furniture and equipment	Other equipment	Assets under development	Total property, plant and equipment
Cost or deemed cost									
December 31, 2010	$ 309	$ 1,590	$ 225	$ 1,129	$ 274	$ 409	$ 822	$ 37	$ 4,795
Additions	9	36	11	115	23	19	26	78	317
Reclassified as held for sale	(15)	(8)	–	–	–	–	–	–	(23)
Retirements	–	(1)	(4)	(88)	(10)	(10)	–	–	(113)
Transfers (nets to nil with note 3 (b))	–	9	1	7	–	–	–	(23)	(6)
October 1, 2011	**$ 303**	**$ 1,626**	**$ 233**	**$ 1,163**	**$ 287**	**$ 418**	**$ 848**	**$ 92**	**$ 4,970**
Accumulated depreciation									
December 31, 2010	$ –	$ 804	$ 160	$ 775	$ 163	$ 275	$ 491	$ –	$ 2,668
Depreciation	–	44	12	47	15	27	27	–	172
Reclassified as held for sale	–	(6)	–	–	–	–	–	–	(6)
Retirements	–	(1)	(4)	(88)	(10)	(8)	–	–	(111)
October 1, 2011	**$ –**	**$ 841**	**$ 168**	**$ 734**	**$ 168**	**$ 294**	**$ 518**	**$ –**	**$ 2,723**
Carrying amounts									
December 31, 2010	309	786	65	354	111	134	331	37	2,127
October 1, 2011	**$ 303**	**$ 785**	**$ 65**	**$ 429**	**$ 119**	**$ 124**	**$ 330**	**$ 92**	**$ 2,247**

During 2011, capitalized borrowing costs related to property, plant and equipment amounted to $1 million (2010 – nil), with a capitalization rate of 4%.

(b) Intangible assets

Intangible assets consisted of the following items:

(in millions)

	Software	Software under development	Customer contracts & relationships	Total intangible assets
Cost				
December 31, 2010	$ 540	$ 26	$ 27	$ 593
Additions	14	23	–	37
Retirements	(1)	–	–	(1)
Transfers (nets to nil with note 3 (a))	7	(1)	–	6
October 1, 2011	**$ 560**	**$ 48**	**$ 27**	**$ 635**
Accumulated amortization				
December 31, 2010	$ 409	$ –	$ 23	$ 432
Amortization	42	–	1	43
Retirements	(1)	–	–	(1)
October 1, 2011	**$ 450**	**$ –**	**$ 24**	**$ 474**
Carrying amounts				
December 31, 2010	131	26	4	161
October 1, 2011	**$ 110**	**$ 48**	**$ 3**	**$ 161**

4. Pension, Other Post-Employment and Other Long-Term Benefit Plans

(a) Costs (recoveries)

The elements of defined employee benefit costs (recoveries) recognized in the period, presented in employee benefits in the interim condensed consolidated statement of comprehensive income, were as follows:

For the 13 weeks ended (in millions)	**October 1, 2011**			October 2, 2010		
	Pension benefit plans	**Other benefit plans**	**Total**	Pension benefit plans	Other benefit plans	Total
Current service cost	$ 98	$ 35	$ 133	$ 75	$ 31	$ 106
Interest cost	242	47	289	233	47	280
Expected return on plan assets	(289)	–	(289)	(256)	–	(256)
Past service costs	(1)	(3)	(4)	–	(3)	(3)
Defined benefit costs	50	79	129	52	75	127
Defined contribution costs	5	–	5	4	–	4
Total defined benefit and contribution costs	55	79	134	56	75	131
Return on segregated securities	–	(7)	(7)	–	(7)	(7)
Transitional support from the Government of Canada	–	–	–	–	(3)	(3)
Net costs recognized in net profit (loss)	**$ 55**	**$ 72**	**$ 127**	$ 56	$ 65	$ 121
Actuarial losses on defined benefit plans recognized in other comprehensive loss	2,091	123	2,214	2,804	477	3,281
Recognized in comprehensive loss	**$ 2,146**	**$ 195**	**$ 2,341**	$ 2,860	$ 542	$ 3,402

For the 39 weeks ended (in millions)	**October 1, 2011**			October 2, 2010		
	Pension benefit plans	**Other benefit plans**	**Total**	Pension benefit plans	Other benefit plans	Total
Current service cost	$ 299	$ 106	$ 405	$ 233	$ 90	$ 323
Interest cost	725	141	866	702	141	843
Expected return on plan assets	(868)	–	(868)	(774)	–	(774)
Past service costs	69	(8)	61	–	(12)	(12)
Curtailment gain	–	–	–	–	(13)	(13)
Defined benefit costs	225	239	464	161	206	367
Defined contribution costs	5	–	5	4	–	4
Total defined benefit and contribution costs	230	239	469	165	206	371
Return on segregated securities	–	(22)	(22)	–	(16)	(16)
Transitional support from the Government of Canada	–	–	–	–	(9)	(9)
Net costs recognized in net profit (loss)	**$ 230**	**$ 217**	**$ 447**	$ 165	$ 181	$ 346
Actuarial losses on defined benefit plans recognized in other comprehensive loss	2,091	123	2,214	2,804	477	3,281
Recognized in comprehensive loss	**$ 2,321**	**$ 340**	**$ 2,661**	$ 2,969	$ 658	$ 3,627

In the third quarter of 2011, the Canada Post Group of Companies updated the measurement of its employee benefit assets and liabilities, resulting in a pre-tax increase of $2,214 million (2010 – $3,281 million) to the net pension, other post-employment and other long-term benefit liabilities and to other comprehensive loss. This was a result of lower-than-expected returns from the Group of Companies' pension plan assets and an increase in the pension plans' obligations due to a decrease in the discount rate, which is sensitive to falling bond yields.

In April 2011, certain sections of the *Pension Benefits Standards Act, 1985* and the regulations thereunder were amended to enhance pre-retirement death benefits. The cost of pension benefit improvements is attributed to vested past service and has therefore been immediately recognized in net profit or loss.

(b) Total cash payments

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

	13 weeks ended		**39 weeks ended**	
(in millions)	**October 1, 2011**	October 2, 2010	**October 1, 2011**	October 2, 2010
Benefits paid directly to beneficiaries for unfunded other benefit plans	$ 37	$ 36	$ 116	$ 115
Employer regular contributions to funded pension benefit plans	86	89	250	246
Employer special contributions to funded pension benefit plans	9	106	230	334
Total cash payments for defined benefit plans	132	231	596	695
Contributions to defined contribution plans	5	4	5	4
Total cash payments	**$ 137**	$ 235	**$ 601**	$ 699

Pursuant to a December 31, 2010 pension valuation report filed in June 2011, the Corporation was required to make employer special contributions of $651 million in 2011 to fund going concern and solvency deficits. In August 2011, as permitted by existing pension legislation, the Corporation obtained approval from the Minister of Finance and the Minister of Transport, Infrastructure and Communities to reduce solvency special payments by $433 million for the remainder of 2011.

(c) Assets and liabilities

The amounts recognized and presented in the interim condensed consolidated statement of financial position were as follows:

(in millions)	**October 1, 2011**	December 31, 2010
Pension benefit assets	**$ 83**	$ 112
Pension benefit liabilities	$ 2,810	$ 1,003
Other post-employment and other long-term benefit liabilities	3,582	3,336
Less current other long-term benefit liabilities	**(84)**	(84)
Non-current pension, other post-employment and other long-term benefit liabilities	**$ 6,308**	$ 4,255

5. 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 and joint venture are subject to federal and provincial income taxes.

The major components of tax expense (income) were as follows:

(in millions)	13 weeks ended **October 1, 2011**	13 weeks ended October 2, 2010	39 weeks ended **October 1, 2011**	39 weeks ended October 2, 2010
Current tax expense (income)	$ (40)	$ (46)	$ (39)	$ (98)
Deferred tax expense (income) relating to:				
Origination and reversal of temporary differences	(10)	(159)	(12)	(98)
Reduction in tax rate	–	–	2	1
Tax expense (income)	**$ (50)**	$ (205)	**$ (49)**	$ (195)

Income tax recognized in other comprehensive income was as follows:

For the 13 weeks ended (in millions)	**October 1, 2011** **Before tax**	**Tax impact**	**Net of tax**	October 2, 2010 Before tax	Tax impact	Net of tax
Non-reclassifying to Net profit (loss)						
Actuarial losses on defined benefit plans	$ (2,214)	$ 553	$ (1,661)	$ (3,281)	$ 820	$ (2,461)
Reclassifying to Net profit (loss)						
Net unrealized gains on available-for-sale financial assets	34	(8)	26	12	(3)	9
	$ (2,180)	**$ 545**	**$ (1,635)**	$ (3,269)	$ 817	$ (2,452)

For the 39 weeks ended (in millions)	**October 1, 2011** **Before tax**	**Tax impact**	**Net of tax**	October 2, 2010 Before tax	Tax impact	Net of tax
Non-reclassifying to Net profit (loss)						
Actuarial losses on defined benefit plans	$ (2,214)	$ 553	$ (1,661)	$ (3,281)	$ 820	$ (2,461)
Reclassifying to Net profit (loss)						
Net unrealized gains on available-for-sale financial assets	33	(8)	25	21	(5)	16
	$ (2,181)	**$ 545**	**$ (1,636)**	$ (3,260)	$ 815	$ (2,445)

6. Contingent Liabilities

(a) A complaint has been filed with the Canadian Human Rights Commission ("the Commission") alleging discrimination by the Corporation concerning work of equal value. The complaint, filed by the Canadian Postmasters and Assistants Association initially in December 1982 was, in February 2006, recommended by a conciliator to be declined by the Commission on the basis that the complaint is one that could more appropriately be dealt with under the *Canada Labour Code*. There have been no new developments in respect of this complaint. The outcome of this complaint is currently not determinable and as a result no provision has been recorded in the interim condensed consolidated financial statements.

Settlement, if any, arising from resolution of this matter, is presently planned to be recovered in future postal rates (as determined in accordance with the *Canada Post Corporation Act*).

(b) The current collective agreement between the Corporation and the Canadian Union of Postal Workers ("CUPW") expired January 31, 2011. The parties began negotiating a new contract in October 2010. In January 2011, the CUPW applied for conciliation as provided for under the *Canada Labour Code*. The CUPW exercised its right to strike through rotating strikes across the country beginning June 2, 2011, and the Corporation locked out employees on June 14, 2011. The Government of Canada tabled back-to-work legislation on June 20, 2011 and the legislation received Royal Assent on June 26, 2011.

The Honourable Justice Coulter Osborne was appointed arbitrator by the Minister of Labour for final offer selection arbitration as provided for in the legislation, and the parties began preliminary meetings before him. The legislation states that a decision is to be provided within 90 days of the arbitrator's appointment, with any extension provided by the Minister of Labour. The initial 90-day period has been extended until January 23, 2012.

On October 20, 2011, the Federal Court granted a stay application by the CUPW to suspend the proceedings in the final offer selection arbitration pending the CUPW's motion before the Federal Court contesting the appointment of Justice Osborne. Justice Osborne submitted his resignation as arbitrator to the Minister of Labour on November 1, 2011. The Minister of Labour has indicated her intention of appointing a new arbitrator. The CUPW has also filed an application contesting the constitutionality of the legislation itself.

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

(c) The Corporation and Purolator have individually entered into agreements with Innovapost for the provision of IT-related services. These agreements were signed for a 10-year period that commenced in 2002, with an optional renewal period of five years. The Corporation and Purolator have declared that they are not renewing the agreements with Innovapost and are currently exploring options for their information technology and services requirements. Under their respective agreements, the Corporation and Purolator have made certain commitments that apply upon the expiration or termination of their respective agreements with Innovapost. These commitments include the purchase of assets used on a dedicated basis in the provision of services to the Corporation and Purolator, as the case may be, at the time of expiration or termination of the agreements, for an amount equal to the then net book value, and the assumption of certain obligations and contracts related to such assets or applicable to the services provided by Innovapost to the Corporation or Purolator, as the case may be. In addition, upon the occurrence of specific events described in its agreement with Innovapost, Purolator has the option, rather than the obligation, to assume these commitments. The Corporation is in the process of assessing the value of assets used on a dedicated basis and the carrying value of the contractual obligations at the time of expiration or termination of agreements in anticipation of the expiry of the original agreements in 2012.

The maximum potential future liability under the above commitments is dependent on the value of the subject assets, obligations and contracts at the time of expiration or termination of the agreements. The Corporation is in the process of assessing such future liability.

(d) In the normal course of business, the Group of Companies has entered into agreements that include indemnities in favour of third parties. In addition, the Group of Companies has entered into indemnity agreements with each of its directors, officers and certain employees to indemnify them, subject to the terms of these agreements, against claims and expenses incurred by them as a result of serving as a director or officer of the Group of Companies or as a director, officer or in a similar capacity of another entity at the request of the Group of Companies.

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

(e) The Group of Companies is involved in various other claims and litigation in the normal course of business for which the outflows of resources to settle the obligations either cannot be estimated or are not probable at this time. Provisions for such claims are recorded when an obligation exists, when an outflow of resources is probable, and amounts can be reasonably estimated.

(f) Certain of the Corporation's owned buildings have asbestos-containing materials which the Corporation will be obligated to remove and dispose of in a special manner should the property undergo major renovations or full or partial demolition. Unless such renovations or demolitions occur, there would be no related provision recognized in the consolidated financial statements as there is currently no obligation to remove and dispose of the asbestos-containing material.

The Corporation has recognized decommissioning liabilities associated with asbestos removal and other site restoration costs for properties which are planned to be disposed of by sale (these obligations are expected to be transferred to the prospective purchasers of the properties on the date of sale) or have planned renovations. These liabilities have been recorded in provisions.

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

7. Other Operating Costs

Other operating costs consisted of:

	13 weeks ended		**39 weeks ended**	
(in millions)	**October 1, 2011**	October 2, 2010	**October 1, 2011**	October 2, 2010
Non-labour collection, processing and delivery	**$ 319**	$ 311	**$ 970**	$ 965
Property, facilities and maintenance	**77**	75	**240**	230
Selling, administrative and other	**149**	141	**440**	415
Total other operating costs	**$ 545**	$ 527	**$ 1,650**	$ 1,610

8. Investing and Financing Income (Expense)

Investing and financing income and expense consisted of:

	13 weeks ended		39 weeks ended	
(in millions)	**October 1, 2011**	October 2, 2010	**October 1, 2011**	October 2, 2010
Interest revenue	$ 3	$ 3	$ 12	$ 5
Gain on sale of capital assets	3	–	6	–
Other income	–	1	–	2
Investment and other income	**$ 6**	$ 4	**$ 18**	$ 7
Interest expense	$ (12)	$ (12)	$ (37)	$ (17)
Other expense	–	–	(1)	–
Finance costs and other expense	**$ (12)**	$ (12)	**$ (38)**	$ (17)
Investing and financing income (expense), net	**$ (6)**	$ (8)	**$ (20)**	$ (10)

9. Foreign Exchange Risk

The Group of Companies' exposure to foreign exchange risk mostly arises 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, a basket of currencies comprising the US Dollar ("US$"), Euro, British Pound and Japanese Yen, whereas payment is usually denominated in US$.

In the first quarter of 2011, an economic hedging program was implemented to mitigate the exposure to foreign exchange balances. Where possible, exposures are netted internally and any remaining exposure may be hedged using foreign exchange forward contracts. These forward contracts are not designated as hedges for accounting purposes. The cumulative notional amount of contracts outstanding at October 1, 2011 were US$31 million to sell forward US Dollars, €11 million to sell forward Euros, £3 million to sell forward British Pounds and ¥245 million to sell forward Japanese Yen. These contracts settle in less than 90 days from period end and were in a liability position of $2 million at October 1, 2011, which was included in trade and other payables. In addition, an unrealized loss of $2 million reflecting the change in fair value of these contracts was recorded in investment and other income for the period ended October 1, 2011. The fair value measurement of these contracts is level 2 in the fair value hierarchy.

10. Related Party Transactions

The Corporation is wholly owned by the Government of Canada and is under common control with other governmental agencies and departments, and Crown corporations. The Canada Post Group of Companies had the following transactions with related parties:

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

The Government of Canada provided compensation to the Corporation to partially offset foregone revenue from Government mail and mailing of materials for the blind sent free of postage under the *Canada Post Corporation Act*. In addition, pursuant to an agreement with the Department of Indian Affairs and Northern Development (now Aboriginal Affairs and Northern Development Canada), the Government of Canada compensated the Corporation for the difference between the Corporation's cost of shipping eligible goods under the Food Mail Program and the applicable postage paid by shippers. The compensation payments relating to both of these programs were included in revenue from operations and were as follows:

	13 weeks ended		**39 weeks ended**	
(in millions)	**October 1, 2011**	October 2, 2010	**October 1, 2011**	October 2, 2010
Government mail and mailing of materials for the blind	$ 6	$ 6	$ 17	$ 17
Food Mail Program	–	15	14	46
Total compensation	**$ 6**	$ 21	**$ 31**	$ 63

In May 2010, the Government of Canada announced a new northern food subsidy program to replace the Food Mail Program, which was terminated effective March 31, 2011. The new program, Nutrition North Canada, came into effect April 1, 2011. The Corporation has no role in the shipment of goods under the new program.

In addition, the Corporation has other transactions with the Government of Canada, its agencies and other Crown corporations in the normal course of business at commercial prices and terms. As at October 1, 2011, the amounts of accounts receivable and deferred revenue from these related parties were $18 million (December 31, 2010 – $38 million) and $5 million (December 31, 2010 – $5 million), respectively. As at October 1, 2011, remittances of $5 million (December 31, 2010 – $3 million) were due to the Canada Revenue Agency for customs collected on their behalf.

(b) Transactions with the Canada Post Corporation Registered Pension Plan

During the 13 and 39 weeks ended October 1, 2011, the Corporation provided administration services to the Canada Post Corporation Registered Pension Plan in the amounts of $2 million and $5 million, respectively (October 2, 2010 – $2 million and $4 million, respectively). As at October 1, 2011, $1 million (December 31, 2010 – $1 million) of this amount is outstanding and is included in trade and other receivables. Transactions with the Registered Pension Plan were conducted in the normal course of business at commercial prices and terms.

(c) Other

During the 39 weeks ended October 1, 2011, a subsidiary of the Corporation had business transactions with a company controlled by a minority shareholder of that subsidiary. The minority shareholder is also a director of the subsidiary. This company provided air services to the subsidiary in the amount of $25 million and $83 million for the 13 and 39 weeks ended October 1, 2011, respectively (October 2, 2010 – $28 million and $81 million, respectively). As at October 1, 2011, $2 million is due to the company from the subsidiary (December 31, 2010 – $3 million) and is included in trade and other payables. These transactions were made at prices and terms comparable to those given to other suppliers of the subsidiary.

11. Segmented Information

Operating segments • The Corporation manages its consolidated operations and, accordingly, determines its operating segments on the basis of the legal entities. Three reportable operating segments have been identified: Canada Post, Purolator and Logistics. The Logistics segment is comprised of SCI.

The Canada Post segment provides transaction mail, parcels and direct marketing services, as well as other products and services. The Purolator segment derives its revenues from specialized courier services. The Logistics segment provides third-party logistics services in supply chain management and transportation services in the small to medium enterprise market.

Operating segments below the quantitative thresholds, for determining reportable operating segments, are combined and disclosed in the "Other" category. The revenue relating to this segment is attributable to information technology services.

The accounting policies of the operating segments are the same as those of the Group of Companies.

Transactions occur between the operating segments at commercial prices and terms comparable to those given to other customers and suppliers and without subsidy between operating segments. On a consolidated basis, no individual external customer's purchases account for more than 10% of total revenues.

As at and for the 13 weeks ended October 1, 2011
(in millions)

	Canada Post	Purolator	Logistics	Other	Elimination of intersegment	Total
Revenue from external customers	$ 1,396	$ 380	$ 30	$ –	$ –	$ 1,806
Intersegment revenue	5	21	3	38	(67)	–
Revenue from operations	$ 1,401	$ 401	$ 33	$ 38	$ (67)	$ 1,806
Profit (loss) before the undernoted items	$ (127)	$ 35	$ 2	$ 7	$ (1)	$ (84)
Depreciation and amortization	(58)	(14)	(1)	(1)	1	(73)
Investment and other income	6	–	–	–	–	6
Finance costs and other expense	(11)	(1)	–	–	–	(12)
Profit (loss) before tax	$ (190)	$ 20	$ 1	$ 6	$ –	$ (163)
Tax expense (income)	(58)	7	–	1	–	(50)
Net profit (loss)	$ (132)	$ 13	$ 1	$ 5	$ –	$ (113)
Assets	$ 6,106	$ 730	$ 80	$ 220	$ (506)	$ 6,630
Unallocated amounts						3
Total assets						$ 6,633

As at and for the 13 weeks ended October 2, 2010
(in millions)

	Canada Post	Purolator	Logistics	Other	Elimination of intersegment	Total
Revenue from external customers	$ 1,370	$ 347	$ 35	$ –	$ –	$ 1,752
Intersegment revenue	5	21	3	33	(62)	–
Revenue from operations	$ 1,375	$ 368	$ 38	$ 33	$ (62)	$ 1,752
Profit before the undernoted items	$ 14	$ 38	$ 4	$ 5	$ (2)	$ 59
Depreciation and amortization	(56)	(13)	(2)	–	1	(70)
Investment and other income	4	–	–	–	–	4
Finance costs and other expense	(11)	(1)	–	–	–	(12)
Profit (loss) before tax	$ (49)	$ 24	$ 2	$ 5	$ (1)	$ (19)
Tax expense (income)	(214)	7	1	1	–	(205)
Net profit	$ 165	$ 17	$ 1	$ 4	$ (1)	$ 186
Assets	$ 6,106	$ 692	$ 76	$ 212	$ (501)	$ 6,585
Unallocated amounts						(1)
Total assets						$ 6,584

As at and for the 39 weeks ended October 1, 2011
(in millions)

	Canada Post	Purolator	Logistics	Other	Elimination of intersegment	Total
Revenue from external customers	$ 4,290	$ 1,118	$ 92	$ –	$ –	$ 5,500
Intersegment revenue	14	70	9	114	(207)	–
Revenue from operations	$ 4,304	$ 1,188	$ 101	$ 114	$ (207)	$ 5,500
Profit (loss) before the undernoted items	$ (27)	$ 81	$ 9	$ 16	$ (3)	$ 76
Depreciation and amortization	(172)	(41)	(4)	(1)	3	(215)
Investment and other income	24	–	–	–	(6)	18
Finance costs and other expense	(36)	(2)	–	–	–	(38)
Profit (loss) before tax	$ (211)	$ 38	$ 5	$ 15	$ (6)	$ (159)
Tax expense (income)	(66)	12	1	4	–	(49)
Net profit (loss)	$ (145)	$ 26	$ 4	$ 11	$ (6)	$ (110)
Assets	$ 6,106	$ 730	$ 80	$ 220	$ (506)	$ 6,630
Unallocated amounts						3
Total assets						$ 6,633

As at and for the 39 weeks ended October 2, 2010
(in millions)

	Canada Post	Purolator	Logistics	Other	Elimination of intersegment	Total
Revenue from external customers	$ 4,340	$ 1,040	$ 101	$ –	$ –	$ 5,481
Intersegment revenue	14	61	7	107	(189)	–
Revenue from operations	$ 4,354	$ 1,101	$ 108	$ 107	$ (189)	$ 5,481
Profit before the undernoted items	$ 161	$ 87	$ 13	$ 15	$ (4)	$ 272
Depreciation and amortization	(157)	(39)	(6)	(1)	3	(200)
Investment and other income	17	–	–	–	(10)	7
Finance costs and other expense	(14)	(3)	–	–	–	(17)
Profit before tax	$ 7	$ 45	$ 7	$ 14	$ (11)	$ 62
Tax expense (income)	(215)	13	3	4	–	(195)
Net profit	$ 222	$ 32	$ 4	$ 10	$ (11)	$ 257
Assets	$ 6,106	$ 692	$ 76	$ 212	$ (501)	$ 6,585
Unallocated amounts						(1)
Total assets						$ 6,584

12. Subsequent Event

In 1983, a complaint was filed with the Canadian Human Rights Commission ("the Commission") alleging discrimination by the Corporation concerning work of equal value. The complaint, filed by the Public Service Alliance of Canada ("PSAC"), was referred by the Commission to the Canadian Human Rights Tribunal ("the Tribunal"). The Tribunal rendered a decision in October 2005 concluding that the Corporation had participated in "systemic discrimination" in the setting of wages for a group of PSAC members and ordered payment to compensate the found wage gap at a discount of 50%.

Both the PSAC and the Corporation appealed the decision of the Tribunal to the Federal Court Trial Division. In February 2008, this court released its decision allowing the Corporation's application for judicial review and referred the complaint back to the Tribunal with the direction that the complaint be dismissed. In March 2008, the PSAC and the Commission appealed this decision to the Federal Court of Appeal.

On February 22, 2010, a majority of the Court of Appeal upheld the Trial Division's decision, finding in favour of the Corporation and dismissing both appeals.

After being granted leave, the PSAC and the Commission's appeals were heard by the Supreme Court of Canada on November 17, 2011, with the Supreme Court upholding the Tribunal's decision. As a result of this ruling, an estimate of the cost to the Corporation has been accrued as part of provisions in these interim condensed consolidated financial statements. Uncertainty associated with the final amount and timing of the actual payments remains as the Tribunal's decision requires that the determination of the final payments must be agreed to by both parties. More detailed information relating to this provision is not provided as the Corporation is in the process of validating various elements of the computation and will be consulting with the PSAC in order to reach an agreement on the final amount.

Settlement arising from resolution of this matter is presently planned to be recovered in future postal rates (as determined in accordance with the *Canada Post Corporation Act*).

13. First-time Adoption of IFRS

These are the Corporation's second interim condensed consolidated financial statements for an interim period, prepared in accordance with IAS 34, to be included in its first annual IFRS consolidated financial statements. The previous annual consolidated financial statements for the year ended December 31, 2010 were prepared in accordance with Canadian GAAP.

The accounting policies set out in note 2 in the Corporation's interim condensed consolidated financial statements for the 13 and 26 weeks ended July 2, 2011 have been applied in preparing the interim condensed consolidated financial statements for the 13 and 39 weeks ended October 1, 2011, the comparative information for the 13 and 39 weeks ended October 2, 2010, the year ended December 31, 2010 and the opening IFRS statement of financial position as at January 1, 2010. The policies selected and applied are based on IFRS issued and effective as at the time the interim condensed consolidated financial statements were prepared. However, the International Accounting Standards Board continues to amend and add to current IFRS standards and interpretations with several projects underway. Consequently, the standards used to prepare the information in this note may differ from those used to prepare the Corporation's consolidated financial statements for the year ended December 31, 2011.

In preparing the interim condensed consolidated financial statements, the Canada Post Group of Companies has applied the requirements of IFRS 1, which requires retrospective application of IFRS, subject to some areas where an alternative treatment is required, or permitted, by the election of an IFRS 1 exemption. As specifically required by IFRS 1, estimates made by the Group of Companies in accordance with IFRS at the date of transition, as well as for all comparative periods, are consistent with estimates made for the same date in accordance with Canadian GAAP.

A description of the IFRS 1 exemptions applied by the Canada Post Group of Companies upon transition to IFRS, as well as detailed reconciliations of the statements of financial position and comprehensive income previously presented under Canadian GAAP to those prepared under IFRS, can be found in note 14 in the Corporation's interim condensed consolidated financial statements for the 13 and 26 weeks ended July 2, 2011.

Reconciliation of Canadian GAAP to IFRS

In order to explain how the transition from Canadian GAAP to IFRS affected the financial position and performance of the Canada Post Group of Companies, reconciliations of equity as at the date of transition, October 2, 2010 and December 31, 2010, and reconciliations of comprehensive income for the 39 weeks ended October 2, 2010 and for the year ended December 31, 2010 are included below. The Group of Companies' transition to IFRS did not have a material impact on the total operating, investing or financing cash flows. The significant adjustments to equity and comprehensive income, as a result of the adoption of IFRS, are shown in the tables below. The adjustments relating to equity as at the date of transition and to comprehensive income for the year are further explained in the notes accompanying the tables.

Reconciliations of equity and comprehensive income as at and for the 39 weeks ended October 2, 2010

(in millions)	Notes	January 1, 2010	Comprehensive income (loss) Net profit	OCI*	October 2, 2010**
Equity of Canada, net profit and OCI under Canadian GAAP		$ 1,787	$ 340	$ 16	$ 2,143
IFRS differences increasing (decreasing) reported equity of Canada, net profit and OCI:					
Employee benefits					
Net actuarial losses	(i)	(1,194)	–	(3,281)	(4,475)
Expected return on plan assets	(ii)	–	(90)	–	(90)
Asset limit and minimum funding requirements	(iii)	(46)	–	–	(46)
Past service cost and funding excess	(iv)	99	(37)	–	62
Attribution period	(v)	169	(1)	–	168
Other long-term benefits	(vi)	(238)	13	–	(225)
Property, plant and equipment	(vii)	(84)	1	–	(83)
Leases	(viii)	5	–	–	5
Provisions	(ix)	(2)	–	–	(2)
Deferred tax	(x)	324	29	820	1,173
Non-controlling interest impact	(xi)	5	–	–	5
Equity of Canada, net profit and OCI attributable to the Government of Canada under IFRS		$ 825	$ 255	$ (2,445)	$ (1,365)
Reclassification of non-controlling interests to equity under IFRS	(xi)	29	2	–	31
Non-controlling interest share of adjustments	(xi)	(5)	–	–	(5)
Total equity, net profit and OCI under IFRS		**$ 849**	$ 257	$ (2,445)	**$ (1,339)**

* Other comprehensive income (loss)

** There is no additional explanatory material provided for the adjustments to equity and comprehensive income as at and for the 39 weeks ended October 2, 2010, respectively. However, the notes referenced above, which explain the adjustments on transition and for 2010, provide an understanding of the general nature of each adjustment.

Reconciliations of equity and comprehensive income as at and for the year ended December 31, 2010

(in millions)	Notes *	January 1, 2010	Comprehensive income (loss) Net profit	Comprehensive income (loss) OCI	December 31, 2010
Equity of Canada, net profit and OCI under Canadian GAAP		$ 1,787	$ 439	$ 10	$ 2,236
IFRS differences increasing (decreasing) reported equity of Canada, net profit and OCI:					
Employee benefits					
Net actuarial losses	(i)	(1,194)	(17)	(2,002)	(3,213)
Expected return on plan assets	(ii)	–	(120)	–	(120)
Asset limit and minimum funding requirements	(iii)	(46)	–	46	–
Past service cost and funding excess	(iv)	99	(48)	–	51
Attribution period	(v)	169	(2)	–	167
Other long-term benefits	(vi)	(238)	13	–	(225)
Property, plant and equipment	(vii)	(84)	1	–	(83)
Leases	(viii)	5	(1)	–	4
Provisions	(ix)	(2)	1	–	(1)
Deferred tax	(x)	324	44	489	857
Non-controlling interest impact	(xi)	5	–	1	6
Equity of Canada, net profit and OCI attributable to the Government of Canada under IFRS		$ 825	$ 310	$ (1,456)	$ (321)
Reclassification of non-controlling interests to equity under IFRS	(xi)	29	4	–	33
Non-controlling interest share of adjustments	(xi)	(5)	–	(1)	(6)
Total equity, net profit and OCI under IFRS		**$ 849**	$ 314	$ (1,457)	**$ (294)**

* The notes referenced provide additional explanatory material for the adjustments to equity on transition and to comprehensive income for 2010.

(i) Employee benefits – Actuarial gains and losses

The Canada Post Group of Companies made the transitional election to recognize all previously unrecognized net actuarial losses in retained earnings at the date of transition, resulting in a $1,194-million decrease in equity consisting of a decrease in pension benefit assets of $1,149 million and an increase in pension, post-employment and other long-term benefit liabilities of $45 million when compared to amounts recorded under Canadian GAAP at the same date.

Under IFRS, a policy choice for post-employment benefit plans is available allowing the immediate recognition of actuarial gains and losses in other comprehensive income or the deferral and amortization methodology similar to Canadian GAAP. The policy adopted by the Group of Companies is immediate recognition in other comprehensive income. For other long-term benefits, actuarial gains and losses are recorded immediately in net profit or loss as required under IFRS, whereas under Canadian GAAP they were recognized in income over the average duration of the obligations. The combined impact of the policy choice and changes was to decrease net profit by $17 million and decrease other comprehensive income by $2,002 million for the year ended December 31, 2010.

(ii) Employee benefits – Expected return on plan assets using fair value of assets

Under IAS 19, the expected return on plan assets component of the pension expense is calculated using fair value of plan assets. The Canada Post Group of Companies' policy under Canadian GAAP was to calculate this component using the market-related values of assets (commonly referred to as smoothed value of assets). The IAS 19 requirement to use fair value of plan assets for computation purposes resulted in a decrease in net profit of $120 million in 2010.

(iii) Employee benefits – Pension benefit asset limit and minimum funding requirement liability

Under IAS 19, when a plan gives rise to a defined benefit asset, impairment may occur if it is established that the surplus will not provide future economic benefits with respect to future service costs. Furthermore, in circumstances where the funding position of a plan is in a deficit with respect to past service, the minimum funding requirements for past service may require further reduction of the defined benefit asset and even create or increase a defined benefit liability. The application of these requirements resulted in a reduction in equity of $46 million at the transition date consisting of a $25-million reduction in the pension benefit assets and a $21-million increase in the pension, post-employment and other long-term benefit liabilities. In 2010, these amounts were reversed through other comprehensive income as no impairment or minimum funding liability was required at December 31, 2010.

(iv) Employee benefits – Vested past service cost and funding excess

Under IFRS, vested past service costs resulting from plan amendments are recognized when plan amendments occur, whereas under Canadian GAAP both vested and unvested past service costs were deferred and amortized. On transition, equity was increased by $42 million due to the recognition of vested negative past service costs. This resulted in a $22-million reduction in pension benefit assets and a $64-million reduction of pension, post-employment and other long-term benefit liabilities. In 2010, the reversal of Canadian GAAP amortization from these vested past service costs resulted in a decrease in net profit of $20 million, which was partially offset by a $4-million increase in net profit due to the negotiation of a new plan amendment during 2010 resulting in immediate recognition of vested negative past service costs.

As part of the Federal *Public Sector Pension Reform,* assets were transferred from the Government of Canada to the Corporation's pension plan. The value of assets exceeded the obligations assumed for the defined benefit pension plan, resulting in a funding excess which was recognized on a straight-line basis under Canadian GAAP. Under IFRS, this amount would have been recognized in net profit or loss immediately. On transition, the unamortized portion of the funding excess was recognized, resulting in a $57-million increase in both equity and pension benefit assets. In 2010, the Canadian GAAP amortization relating to the excess funding was reversed thereby decreasing net profit by $32 million.

(v) Employee benefits – Attribution period

In determining the present value of the defined benefit obligation and current service cost, the actuarial method attributes benefits to periods of service under the plan's benefit formula. In some circumstances, where no significant benefits are earned by further service or where benefits are considered to be earned only in later years of service, the determination of the attribution period under IFRS can differ from Canadian GAAP. The Canada Post Group of Companies' post-employment term life and death benefit plans have terms that reduce the length of the attribution period under IFRS, and as a result the benefit liability was increased on transition by $34 million. An assessment of the terms of the Group of Companies' post-employment health, dental and other health benefit plans resulted in a change in the start date of the attribution period and a reduction in the benefit liability on transition of $203 million. For the year ended December 31, 2010, the combined impact of the change in the attribution period on all plans was to reduce net profit by $2 million.

(vi) Employee benefits – Other long-term benefits

IFRS requires that an obligation for short-term or long-term compensated accumulating absences be recorded as service is rendered by the employee. Canadian GAAP only addresses long-term accumulated absences that vest or are paid out on termination. On transition to IFRS, the Group of Companies was required to recognize a liability for sick leave resulting in a reduction in equity and an increase in the pension, post-employment and other long-term benefit liabilities of $236 million. Other long-term employee benefits such as an additional liability for long-service awards were also recognized based on the specific requirement of IAS 19 and also resulted in a reduction of equity and an increase in liabilities of $2 million.

For the year ended December 31, 2010, an actuarially determined expense of $39 million related to these new plans was recognized with employee benefit costs. This amount includes an actuarial loss of $7 million, which is discussed separately with *Employee benefits – actuarial gains and losses* in (i) above. This new actuarial expense replaces a $32-million sick leave expense which under Canadian GAAP was recognized as incurred and classified with labour costs. In addition, a $13-million gain on the partial curtailment of sick leave as a result of collective agreement negotiations resulted in an increase of $13 million in net profit for the year under IFRS relative to Canadian GAAP for the same period.

(vii) Property, plant and equipment and depreciation – Fair value as deemed cost

As previously noted, the Corporation elected to apply the fair value as deemed cost exemption to selected items of land and buildings at the date of transition. The fair value of the selected items was measured by an independent appraiser at the date of transition. The aggregate adjustment for these items relative to the carrying amount reported under Canadian GAAP at December 31, 2009 was a decrease of $84 million. The aggregate fair value for the land and buildings for which the exemption was applied was $213 million at the date of transition, with a corresponding Canadian GAAP net book value of $297 million.

For the year ended December 31, 2010, depreciation under IFRS was $1 million lower than the amount reported under Canadian GAAP due to the reduction of the value ascribed to the buildings at the date of transition relative to Canadian GAAP.

(viii) Leases – Sale leaseback transaction

During 2009, the Corporation entered into a sale leaseback transaction whereby a property was sold at a gain and an operating lease was entered into for the same property at fair value. Under Canadian GAAP, a portion of the gain arising from a sale and leaseback transaction was deferred and amortized over the period of the operating lease. Under IFRS, gains arising from a sale and operating leaseback transaction are recognized immediately in net profit or loss provided that the transaction has been entered into at fair value.

The impact of this difference was to increase IFRS equity relative to Canadian GAAP at the date of transition by $5 million and to reduce net profit under IFRS relative to Canadian GAAP during 2010 by $1 million due to the differing requirements relating to the timing of gain recognition.

(ix) Provisions

IAS 37 “Provisions, Contingent Liabilities and Contingent Assets” (“IAS 37”) provides guidance around liabilities for which the amount and timing of the obligation incorporate a considerable degree of uncertainty. The measurement and recognition criteria differ in some respects relative to Canadian GAAP. Specifically, IAS 37 encompasses both legal and constructive obligations, requires a measurement approach where both the discount rate and the incorporation of risk into the cash flows can differ relative to Canadian GAAP and establishes a lower threshold for liability recognition. The collective impact of these differences was to decrease equity upon transition to IFRS by $2 million due to the increase in liabilities within the scope of IAS 37. The impact of this change on net profit for the year ended December 31, 2010 was an increase of $1 million.

(x) Deferred tax

The net impact of the IFRS adjustments on temporary differences between carrying amounts and tax bases was an increase of $296 million in deferred tax assets, and a decrease of $28 million in deferred tax liabilities, resulting in a net increase of $324 million in equity at the date of transition. In 2010, the IFRS adjustments resulted in a decrease in deferred tax expense of $44 million related to net profit and a decrease in deferred tax expense of $489 million related to other comprehensive income.

(xi) Non-controlling interests

Under IFRS, non-controlling interests are required to be presented as a component of equity, separate from the equity of Canada, and this presentation is reflected in the statement of financial position for all periods presented. Of the overall adjustment to equity of $967 million as a result of transition, $5 million was attributed, and has been allocated, to non-controlling interests. Similarly, net profit and other comprehensive income for the period are required to be attributed to the owners of the parent (the Government of Canada) and to the non-controlling interests based on the respective ownership interests, resulting in a decrease from Canadian GAAP of $1 million in comprehensive income for the year ended December 31, 2010.

(xii) Significant changes in terminology and presentation under IFRS

Under IFRS, the terminology for certain financial statement line items and classification within the consolidated financial statements differ in comparison to Canadian GAAP. Key differences relevant to the Canada Post Group of Companies' transition are as follows:

- Provisions represent a new category of liabilities and are required to be presented as a separate line item. Certain liabilities included within salaries and benefits payable and accounts payable and accrued liabilities under Canadian GAAP have been reclassified to provisions under IFRS.
- Deferred tax was formerly referred to as future income tax under Canadian GAAP. Additionally, deferred tax is required to be presented as non-current in its entirety under IFRS, whereas Canadian GAAP required it to be segregated between current and non-current components.
- Non-current assets held for sale were previously classified as non-current assets under Canadian GAAP. As per IFRS guidance, non-current assets held for sale are to be presented as current assets, resulting in the reclassification of this balance on transition to IFRS.
- Further to the recognition of additional other long-term liabilities, a portion of this liability was determined to be current and was therefore classified as such on transition to IFRS to appropriately reflect this determination.
- As part of the transition to IFRS and to better reflect the nature of the expenses, the following costs which were presented separately in previous years, have been aggregated in the line 'Other operating costs' in the IFRS consolidated statement of comprehensive income: non-labour collection, processing and delivery; property, facilities and maintenance; and selling, administrative and other.

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