2012 Second Quarter Financial Report

For the period ended June 30, 2012

Canada

CANADA POST POSTES CANADA

From anywhere... to anyone

TABLE OF CONTENTS

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis (MD&A) provides a narrative discussion outlining the financial results and operational changes for the second quarter ended June 30, 2012, and for the first two quarters of 2012 for Canada Post Corporation (the "Corporation" or "Canada Post"), and our subsidiaries Purolator Inc. ("Purolator"), SCI Group Inc. ("SCI"), and Innovapost Inc. ("Innovapost"). These companies are collectively referred to as the "Canada Post Group of Companies" or the "Group of Companies." Each of the Corporation's quarters contains 13 weeks and this MD&A covers the 13 and 26 weeks ended June 30, 2012. This discussion should be read together with the unaudited interim condensed consolidated financial statements for the 13 and 26 weeks ended June 30, 2012, which have been prepared in accordance with the Treasury Board of Canada Standard on Quarterly Financial Reports for Crown Corporations and International Accounting Standard 34, "Interim Financial Reporting" ("IAS 34"), and 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, 2011, and the Quarterly Financial Report for the 13 weeks ended March 31, 2012. Financial results reported in the MD&A are rounded to the nearest million while related percentages are based on numbers rounded to the nearest thousand. The information in this MD&A is current to August 21, 2012, 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.

Lettermail™, epost™, Addressed Admail™, Unaddressed Admail™, Publications Mail™, Business Reply Mail™ and SmartFlow™ are trademarks of Canada Post Corporation.

Materiality

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

Forward-looking statements

The unaudited interim condensed consolidated financial statements and the MD&A contain forward-looking statements that reflect management's expectations regarding the 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 management considers these Assumptions to be reasonable based on information currently available, 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 expects. These risks, uncertainties and other factors include, but are not limited to, those risks and uncertainties set forth in *Section 5 – Risks and Risk Management on page 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 2011. On an annual basis, our employees deliver approximately 10 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 retail 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 provide a standard of postal service that meets the needs of the people of Canada by providing quality postal services to all Canadians, rural and urban, individuals and businesses, in a secure and financially self-sustaining manner.

The unaudited interim condensed consolidated financial statements of Canada Post Corporation include the accounts for the Group of Companies. Canada Post is the largest segment with revenue of $3 billion for the first two quarters of 2012 (78 per cent of total year-to-date revenue) and $5.9 billion for the full year ending December 2011 (78 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' 2012 Corporate Plan:

(in millions of dollars)	**2012 Plan**
Consolidated	
Revenue from operations	7,865
Cost of operations	7,793
Investing and financing expense	36
Profit before tax	36

Electronic substitution, competitive pressures, uncertain market conditions and the lasting impact of the June 2011 labour disruption have put significant pressures on our financial performance. We continue to face significant financial challenges because of large pension obligations relative to our revenue and profit, significant volume declines in Transaction Mail and Direct Marketing, and ongoing uncertainty around the collective agreement with our largest union, the Canadian Union of Postal Workers ("CUPW"), due to delays in the arbitration process. Given these challenges, we are not likely to achieve our plan. However, we are putting measures in place to help mitigate any further losses.

We are also continuing to invest in people and systems to improve service performance in the Canada Post segment's Physical Delivery Network. We are taking steps to defend and strengthen our core mail and parcel businesses and are building new capabilities in the Digital Delivery Network.

Financial highlights

For the second quarter ended June 30, 2012, the Canada Post Group of Companies experienced a consolidated loss before tax of $10 million, compared to a loss of $18 million in the second quarter of 2011. For the first two quarters of 2012, the Corporation reported a loss before tax of $13 million, compared to a profit before tax of $4 million in the same period of 2011. Losses have resulted from poor revenue performance due to a number of factors including electronic substitution, competitive pressures, an uncertain economic climate and mail volume erosion. Although overall revenue in the Canada Post segment increased for the second quarter and the first two quarters of 2012 compared to the same periods in 2011, revenue would have shown a significant decline year-over year if results were adjusted for the June 2011 labour disruption, which led to an estimated revenue loss of $167 million in the second quarter of 2011. The actual revenue increases were $87 million and $65 million respectively for the second quarter and first two quarters of 2012 when compared to the same periods in 2011.

Consistent with the trend in recent quarters, the Canada Post segment's financial results continued to be significantly impacted by mail volume erosion. We are in the midst of the largest technology shift in the history of paper-based communications and this is causing accelerated mail volume declines. In the first two quarters of 2012, Transaction Mail volume declined by 88 million pieces or 4.5 per cent over the same period in 2011 and by over 200 million pieces or 8.6 per cent compared to the same period in 2010. Transaction Mail revenue declined by $12 million and $31 million respectively for the second quarter and first two quarters of 2012 compared to the same periods in 2011, despite price increases in 2012 and revenue declines due to the June 2011 labour disruption.

Results have also been disappointing for Direct Marketing mail in the first half of 2012. When compared to the same period in 2011, volumes remained flat and, although revenue increased marginally (up $17 million), this increase is misleading given that 2011 results were significantly impacted by the June 2011 labour disruption. Expected to be a growth area, Direct Marketing volumes have declined by over 140 million pieces or 5.5 per cent in the first two quarters of 2012 compared to the same period in 2010.

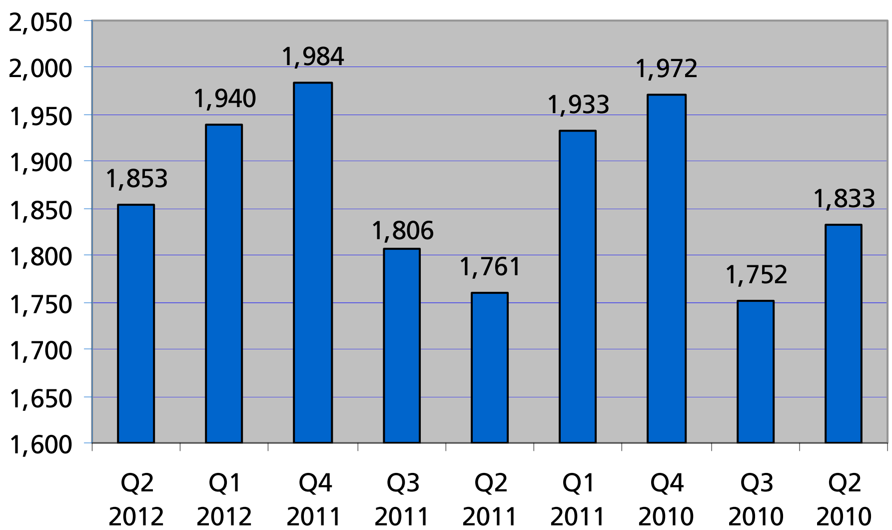
We are aggressively pursuing our parcel growth strategy by focusing on the fast-growing e-commerce segment and, in the first half of 2012, we achieved positive results. Revenue from parcels totalled $621 million after the first two quarters of 2012, an increase of 8.7 per cent over the same period in 2011. Volumes increased by 7 million pieces or 9.8 per cent after the first two quarters of 2012 compared to the same period in 2011. However, in this highly competitive parcel industry it will be imperative for us to lower our costs to ensure we remain price competitive.

Canada Post, as plan sponsor, is responsible for making current service contributions to the pension plan as well as special payments to cover any funding shortfalls. The large pension commitments, given their size compared to revenue and profit, have put a strain on the Corporation's financial performance and cash resources. In the second quarter of 2012, actuarial losses of $620 million, net of tax, were recorded in other comprehensive income (loss), which further eroded the Group of Companies' equity to a negative $2.4 billion as at June 30, 2012. Market volatility continued to negatively impact the Group of Companies' pension plans, which triggered this re-measurement of pension, other post-employment and other long-term benefit liabilities.

The following bar charts show the Corporation's consolidated results for the last nine quarters. An extra quarter, Q2 2010, is being provided for comparative purposes given that the Q2 2011 numbers are not considered typical as they were significantly impacted by the June 2011 labour disruption. Volumes of the Corporation's consolidated operations have historically varied throughout the year with the highest demand for services occurring during the holiday season in the fourth quarter. Volumes typically decline gradually over the following quarters, reaching their lowest level 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.

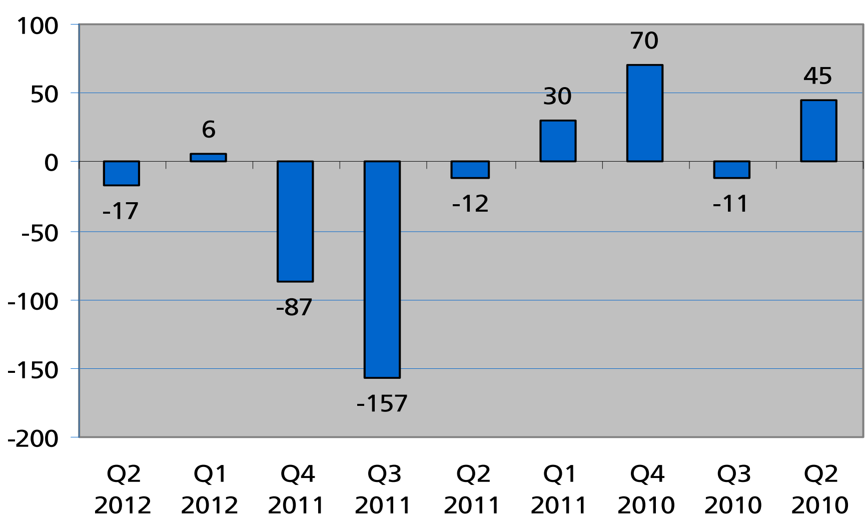
Quarterly consolidated revenue from operations

(in millions of dollars)



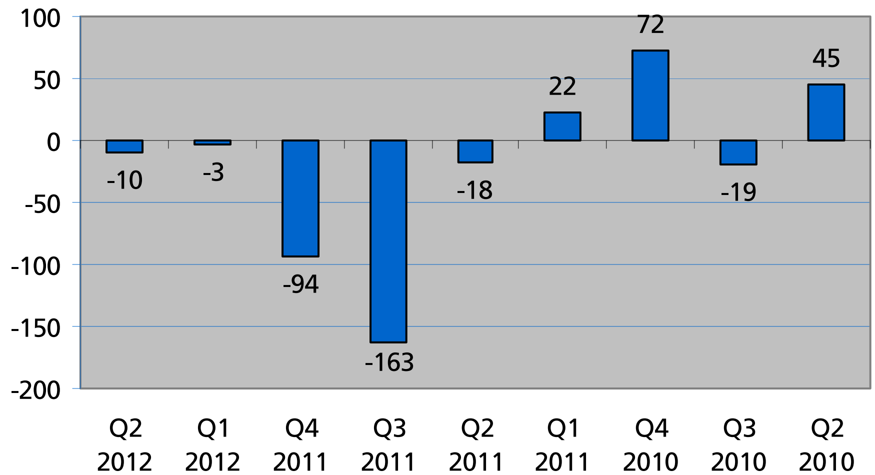
Quarterly consolidated profit (loss) from operations

(in millions of dollars)



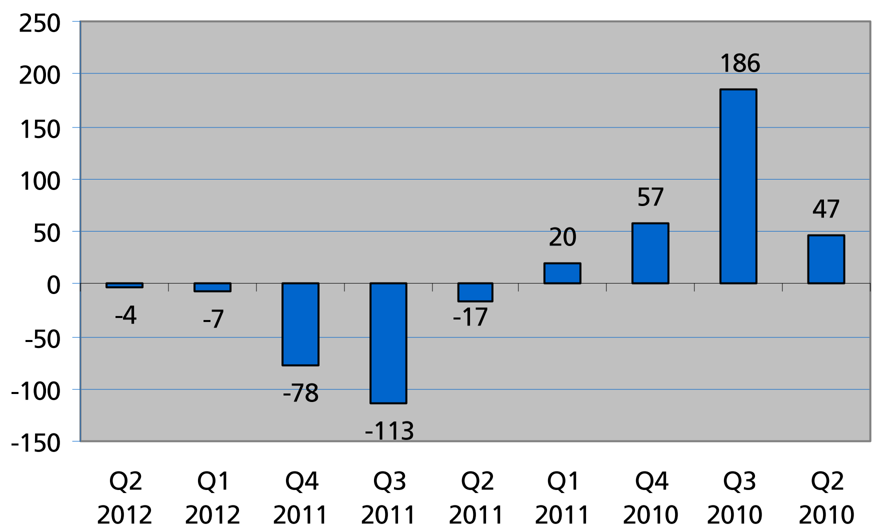
Quarterly consolidated profit (loss) before tax

(in millions of dollars)



Quarterly consolidated net profit (loss)

(in millions of dollars)



The following table presents the Corporation's consolidated performance for the second quarter and the first two quarters of 2012 compared to the same periods in the prior year.

(in millions of dollars)	13 weeks ended				26 weeks ended				
	June 30, 2012	July 2, 2011	Change	%	June 30, 2012	July 2, 2011	Change	%	Explanation of change
Consolidated Statement of Comprehensive Income									*Highlights, as discussed in Section 8 – Discussion of Operations on page 19.*
Revenue from operations	1,853	1,761	92	3.6%*	3,793	3,694	99	1.9%*	Improvement in the first two quarters of 2012 primarily driven by increased volumes in the Purolator segment, the June 2011 labour disruption and annual pricing action partially offset by significant volume declines in Transaction Mail in the Canada Post segment.
Cost of operations	1,870	1,773	97	5.5%	3,804	3,676	128	3.5%	Increases largely driven by increased labour costs in the Canada Post segment due to the June 2011 labour disruption, which decreased costs in 2011.
Profit (loss) before tax	(10)	(18)	8	44.1%	(13)	4	(17)	(430.2)%	
Net profit (loss)	(4)	(17)	13	74.2%	(11)	3	(14)	(457.2)%	
Comprehensive income (loss)	(615)	(10)	(605)	(5741)%	(768)	2	(770)	(28633)%	Actuarial losses were recorded in 2012 as a result of the re-measurement of the defined benefit plans; the fluctuations in pension plan investment returns and the decline in the discount rate negatively impacted the Group of Companies' pension plans.
Consolidated Statement of Cash Flows									*Highlights, as discussed in Section 6 – Liquidity and Capital Resources on page 12.*
Cash provided by (used in) operating activities	29	(234)	263	112.2%	32	(378)	410	108.4%	Positive cash flow variance in the first two quarters due to changes in non-cash operating working capital and a decrease in employee future benefit payments.
Cash provided by investing activities	156	17	139	813.0%	43	81	(38)	(47.2)%	Cash provided by investing activities was primarily from proceeds from the sale of short-term investments used to pay for capital acquisitions.
Cash used in financing activities	(4)	(4)	(0)	(21.1)%	(9)	(8)	(1)	(9.4)%	No material change.

* Adjusted for trading days where applicable.

Significant changes and business developments

On May 11, 2012, the Federal Court Judge granted a stay in the arbitration process between Canada Post and the CUPW until the Federal Court hearing on July 25, 2012 to address the decision of Arbitrator Guy Dufort not to recuse himself.

In the meantime, while the arbitration process was on hold, Canada Post tabled a new offer to the CUPW on July 19, 2012. In its offer, Canada Post communicated to the CUPW its goal to obtain a collective agreement that reduces costs and positions Canada Post for the future, while minimizing the impact on the take-home pay of employees. The new offer is designed to assist in addressing the continued deterioration of our core Transaction Mail and Direct Marketing lines of business and the importance of reducing our cost structure to help secure the financial viability of Canada Post.

On July 25, 2012, submissions by the CUPW, the Corporation and the Federal Attorney General were heard by the Federal Court. On August 8, 2012, Justice Tremblay-Lamer ordered Mr. Dufort to recuse himself and ordered Labour Minister Raitt to appoint a new arbitrator.

Canada Post is now waiting for the appointment of the new arbitrator, as well as a response from the CUPW on our July 19 offer. For more details on the status of the negotiations, refer *to Section 4 – Capabilities on page 10 of this MD&A.*

On May 22, 2012, the Purolator Board announced the departure of Tom Schmitt as President and Chief Executive Officer (CEO) of Purolator and a search to permanently replace Mr. Schmitt is under way.

2 Core Business and Strategy

A discussion of the business and strategy of our core businesses

On a global level the postal industry continues to face significant challenges. The accelerating decline in letter volumes is now viewed as a structural change spurred by a technological shift, and future volumes are expected to drop by as much as 50 per cent from their peak levels. Compounding this issue is the opening of many postal markets to competition. International Posts have adopted various strategies to address industry challenges. Most have taken action by pursuing a productivity agenda that focuses on cost-cutting initiatives, including pension reform, and have pursued growth opportunities by expanding their product and service portfolios.

In Canada, as in other administrations, the slow and uncertain pace of economic recovery, along with growing requirements to fund pension obligations and post-retirement benefits, challenge the ability to fund necessary transformational change.

Our core business and strategy were described in *Section 2 – Core Business and Strategy of the 2011 Annual MD&A*. There were no material changes to the strategies during the second quarter of 2012. We continue to focus our efforts in two principal areas in the pursuit of our vision of being a leader in providing innovative physical and digital delivery solutions, creating value for our customers, employees, and all Canadians:

1. operational transformation to overcome structural cost issues and improve our competitiveness,
2. a pursuit of growth opportunities that build on or complement our core assets and capabilities.

3 Key Performance Drivers

A discussion of the key drivers of our performance and our progress against 2012 objectives

The Canada Post segment uses performance scorecards to measure the Corporation's progress relative to our strategic objectives, and to provide management with a comprehensive view of the Corporation's performance.

As discussed in *Section 2.3 – Our strategy and strategic priorities of the 2011 Annual MD&A*, Canada Post's strategic priorities include operational transformation to overcome structural cost issues and improve our competiveness; and a pursuit of growth opportunities that build on or complement our core assets and capabilities. In this regard, Canada Post has developed a number of key performance measures that align with and measure our progress toward achieving our strategic priorities. In addition to financial and service performance imperatives and improving the safety of our employees, these performance measures include the following:

- Maximizing the value of mail by generating more revenue from consumer products, better leveraging the retail network and extracting more value from mail.
- Competing more aggressively in e-commerce by building desirable product sets to serve the e-commerce market, competing where we don't today and driving for cost leadership.
- Increasing our focus on digital products by improving our online channel performance, revitalizing and growing our epost™ service and commercializing and growing our data offerings.
- Achieving operating excellence by improving our execution on quality and cost, delivering Postal Transformation on time and on budget, improving the customer experience, seeking changes to our labour-cost model, restructuring our information systems/information technology, and leveraging the respective strengths of all of the businesses in the Group of Companies.

Performance results for 2012 will be updated at the end of the year and will be included as part of the 2012 Annual MD&A.

4 Capabilities

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

A discussion of these topics was provided in *Section 4 – Capabilities of the 2011 Annual MD&A*. Updates are provided below.

4.1 Labour relations

The number of employees covered by collective agreements as at December 31, 2011 and various bargaining activities were summarized in *Section 4.3 – Labour relations of the 2011 Annual MD&A* and in the *2012 First Quarter MD&A*. An update of collective bargaining activity by segment is provided below.

Canada Post segment

In November 2011, the Supreme Court of Canada ruled in favour of the Public Service Alliance of Canada ("PSAC") and the Canadian Human Rights Commission in the PSAC pay equity complaint against Canada Post that dated back to the years 1982 to 2002. In doing so, it upheld the 2005 decision of the Canadian Human Rights Tribunal (the "Tribunal") that concluded that the Corporation had participated in "systematic discrimination" in the wages provided for a group of PSAC members and ordered payment to compensate the wage gap at a discount of 50 per cent. Canada Post recognized an estimate of these additional costs in 2011. Over the past several months, Canada Post and PSAC have been in discussions regarding the implementation of the decision. After several meetings, the parties were in agreement on all but a few aspects of the implementation process. However, on July 12, 2012 the PSAC wrote to the Tribunal to request a ruling on one of the issues that remain in dispute and we are now awaiting a response from the Tribunal.

Collective bargaining continued in the second quarter of 2012, with the main focus being on the Canadian Union of Postal Workers ("CUPW"), which represents the plant and retail workers as well as letter carriers and mail service couriers, and the Canadian Union of Postal Workers – Rural and Suburban Mail Carriers ("CUPW-RSMC"), which represents the mail carriers who are responsible for transportation and delivery of mail in rural and suburban areas of Canada.

CUPW

As discussed in the *2011 Annual MD&A*, Canada Post experienced a labour disruption in June 2011 which culminated in return-to-work legislation. The legislation provides that an arbitrator is to be appointed for final offer selection and that the arbitrator renders a decision within 90 days of the appointment. An extension may be granted by the Minister of Labour. The terms of the previous collective agreement apply until the arbitration is concluded and a new collective agreement comes into force.

The Minister of Labour appointed Guy Dufort as the new arbitrator in the negotiations between Canada Post and the CUPW, effective March 19, 2012, after the initial appointed arbitrator submitted his resignation to the Minister of Labour on November 1, 2011. Two days after his appointment, the CUPW asked Mr. Dufort to recuse himself from the arbitration, which he declined. On application by the CUPW, the Federal Court stayed the arbitration proceedings until the case could be heard in the Federal Court. On July 25, 2012, the Federal Court heard submissions by Canada Post, the CUPW, and the Federal Attorney General. After taking the case under deliberation, on August 8, 2012, Justice Tremblay-Lamer agreed with the CUPW and ordered Mr. Dufort to recuse himself. She also ordered Labour Minister Raitt to appoint a new arbitrator. Subsequent to the ruling, the CUPW requested mediation and asked Minister Raitt to appoint a mediator to assist the parties in coming to a negotiated agreement.

In the meantime while the arbitration process was on hold, Canada Post, in an effort to move towards a negotiated collective agreement, tabled a new offer to the CUPW on July 19, 2012 to reflect the new economic realities of the Corporation. In its offer, Canada Post communicated to the CUPW its goal to obtain a collective agreement that reduces costs and positions Canada Post for the future, while minimizing the impact on the take-home pay of employees. The CUPW is currently reviewing the offer.

CUPW-RSMC

The eight-year collective agreement between Canada Post and the CUPW-RSMC expired on December 31, 2011. Bargaining for the new collective agreement began in November 2011 and the Corporation remains committed to reaching a negotiated agreement.

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

The collective agreement with PSAC/UPCE expires on August 31, 2012. Negotiations are expected to begin in the third quarter.

There were no new significant developments in labour relations activities in the second quarter of 2012 for the Canadian Postmasters and Assistants Association ("CPAA"), the Association of Postal Officials of Canada ("APOC") and the Union of Postal Communications Employees ("UPCE").

Purolator segment

Collective agreements with various Teamsters local unions, representing the hourly clerical and administrative employees, as well as the Union of Postal Communications Employees affiliated with the Public Service Alliance of Canada, expire on December 31, 2012. Negotiations will begin in the latter half of the year. There were no other new developments in labour relations activities in the second quarter of 2012.

Logistics segment – SCI Group

There were no new developments in labour relations activities in the second quarter of 2012.

4.2 Internal controls and procedures

Changes in internal control over financial reporting

During the second quarter of 2012, 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 considers risks and opportunities at all levels of decision-making and a 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 2011 Annual MD&A* and updated in the *2012 First Quarter MD&A*. Updates to these risks for the second quarter of 2012 are provided below.

5.1 Strategic risks

Labour negotiations

The renewal process of the collective agreement between Canada Post and the Canadian Union of Postal Workers (CUPW) is still ongoing. On July 25, 2012, the Federal Court heard the parties on the CUPW's challenge of the decision of Guy Dufort not to recuse himself as arbitrator and on August 8, 2012, Justice Tremblay-Lamer ordered Mr. Dufort to recuse himself and directed Labour Minister Raitt to appoint a new arbitrator. A decision by Minister Raitt is now pending.

Negotiations with the Canadian CUPW-RSMC are continuing. The CUPW-RSMC represents 7,000 mail carriers responsible for delivery of mail in rural and suburban Canada.

The collective agreement with PSAC/UPCE will also expire on August 31, 2012.

The Corporation faces risks related to negotiating labour agreements that enable us to respond to a changing business environment. Delays in reaching suitable settlements are negatively affecting our financial results and will have an impact on the long-term economic viability of the Corporation.

Economic uncertainty

World economic outlook has weakened in the second quarter of 2012. An intensified sovereign debt crisis in the Euro Zone has led to decreased worldwide demand for goods and services, particularly from China. The subsequent lessening demand for resources among emerging markets will, in turn, slow export growth and result in lower economic growth projections for Canada and the United States. Worries about a return to recession have caused world banks to lower borrowing rates in an effort to spur demand.

In Canada, lower than expected performance in the first quarter of 2012, combined with expected softening of demand for exports, has encouraged analysts to lower growth forecasts for 2012 and 2013 to just over 2 per cent. Inflation rates continue at target levels as fuel costs remain steady, however, ongoing spending restraints continue to have an impact on Canada Post's ability to generate revenue growth.

5.2 Operational risks

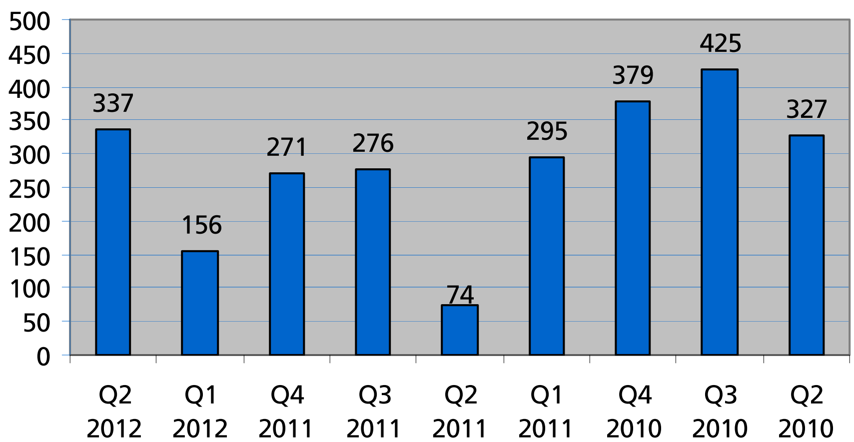
There are no material changes to the operational risks disclosed in *Section 5.3 – Operational risks of the 2011 Annual MD&A*. These risks include service quality, health and safety, security and privacy, business continuity, attrition, environmental sustainability and legal risks.

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 $337 million as at June 30, 2012 – an increase of $66 million compared to December 31, 2011. The increase is mainly due to $32 million in cash generated from operations, $290 million in net sales of short-term and segregated securities, partially offset by net equipment and other acquisitions of $247 million.

6.2 Operating activities

	13 weeks ended			26 weeks ended		
(in millions of dollars)	June 30, 2012	July 2, 2011	Change	June 30, 2012	July 2, 2011	Change
Cash provided by (used in) operating activities	29	(234)	263	32	(378)	410

Cash generated from operations in the second quarter of 2012 increased by $263 million compared to the same period in the prior year. This cash flow variance was primarily driven by a $236-million decrease in the growth of non-cash operating working capital and a $77-million decrease in employee future benefit payments. The positive cash flow increase of $410 million for the first two quarters of 2012, compared to the same period in the prior year, was primarily driven by a $296-million decrease in the growth of non-cash operating working capital and a $164-million decrease in employee future benefit payments. The decrease in employee future benefit payments for the quarter and the year-to-date is mainly due to the use of government regulations supporting the reduction of special solvency contributions for the Canada Post segment's pension plan that was implemented in Q3 of 2011. The decrease in the growth of non-cash working capital is related primarily to changes in trade and other receivables, and salaries and benefits payable and related provisions.

6.3 Investing activities

	13 weeks ended			26 weeks ended		
(in millions of dollars)	June 30, 2012	July 2, 2011	Change	June 30, 2012	July 2, 2011	Change
Cash provided by investing activities	156	17	139	43	81	(38)

Cash generated from investing activities increased by $139 million in the second quarter of 2012 mainly due to higher net proceeds of $168 million from the sale of short-term investments, offset by an increase in net equipment and other acquisitions of $29 million. For the first two quarters of 2012, cash provided by investing activities decreased by $38 million, compared to the same period in the prior year, mainly due to higher net equipment and other acquisitions of $70 million, offset by an increase of $32 million in net proceeds from the sale of short-term investments.

Capital expenditures

	13 weeks ended			26 weeks ended		
(in millions of dollars)	June 30, 2012	July 2, 2011	Change	June 30, 2012	July 2, 2011	Change
Canada Post	133	102	31	247	176	71
Purolator	7	4	3	17	6	11
Logistics	1	1	0	2	1	1
Intersegment and consolidation	(0)	(1)	1	(1)	(2)	1
Canada Post Group of Companies	**141**	**106**	**35**	**265**	**181**	**84**

Capital expenditures for the Group of Companies grew in the second quarter and first two quarters of 2012, when compared to the same periods last year, mainly due to increased spending on Postal Transformation.

6.4 Financing activities

	13 weeks ended			26 weeks ended		
(in millions of dollars)	June 30, 2012	July 2, 2011	Change	June 30, 2012	July 2, 2011	Change
Cash used in financing activities	(4)	(4)	(0)	(9)	(8)	(1)

There were no significant changes in financing activities in the second quarter and first two quarters of 2012, when compared to the same periods in 2011.

6.5 Canada Post Pension Plan

The Canada Post segment's pension plan is one of the largest single-employer pension plans in Canada, and has assets with a market value of over $15 billion. A description of the effects of the pension plan on liquidity is provided in *Section 6.5 – Canada Post Pension Plan of the 2011 Annual MD&A* and in the *2012 First Quarter MD&A*. An update is provided below.

On June 29, 2012, Canada Post filed the actuarial valuation of the Canada Post Pension Plan as at December 31, 2011, with the federal pension regulator, the Office of the Superintendent of Financial Institutions. The actuarial valuation as of December 31, 2011, disclosed a going-concern deficit to be funded of $404 million and a solvency deficit to be funded (three-year average solvency ratio basis), before any relief, of $4.7 billion[1].

As the Plan sponsor, Canada Post is responsible for funding shortfalls in the pension plan and is required to make special contributions to cover going-concern and/or solvency deficits over specific periods of time. Employer special contributions for the first two quarters of 2012 were $31 million, compared to $214 million for the first two quarters of 2011. The year-over-year difference is mainly due to a reduction in special solvency payments.

As reported in the *2011 Annual MD&A* and in the *2012 First Quarter MD&A*, changes to pension legislation provide Crown Corporations with funding relief on special solvency contributions if certain conditions are met. Canada Post had previously received funding relief from January 1, 2011 to June 30, 2012 and in August 2012, the Minister of Finance and the Minister of Transport, Infrastructure and Communities agreed to extend the funding relief until June 30, 2013. The aggregate amount of all solvency payment reductions up to December 31, 2012, will total approximately $1.3 billion.

Current service contributions amounted to $161 million and $150 million respectively for the first two quarters of 2012 and 2011. The estimated amount of current service contributions for 2012 is approximately $351 million.

[1]The solvency deficit on a market value basis is $6.6 billion.

6.6 Liquidity and capital resources

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

Liquidity

During the second quarter of 2012, the liquidity required by the Canada Post Group of Companies to support its financial obligations and fund capital and strategic requirements was provided by accumulated funds and immediately accessible lines of credit. The Canada Post segment had $758 million of unrestricted liquid investments on hand as at June 30, 2012, and $250 million of lines of credit established under its short-term borrowing authority approved by the Minister of Finance.

The Canada Post segment believes it has sufficient liquidity to support its operations over the next 12 months, including adequate financial resources for fluctuations in working capital, adverse changes in business results or unforeseen expenditures. This belief is, in part, based upon the expectation that its short-term authority of $250 million, which expires on December 31, 2012, will be renewed by the Government of Canada at an appropriately higher level through December 31, 2013.

The Corporation's subsidiaries had a total of $118 million of unrestricted cash on hand and undrawn credit facilities of $134 million as at June 30, 2012, ensuring sufficient liquidity to support their operations over the next 12 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.

Borrowings for the Canada Post segment and the Corporation's subsidiaries as at June 30, 2012, amounted to $1,056 million and $66 million respectively. For more information on liquidity and access to capital markets, refer to *Section 6.6 – Liquidity and Capital Resources in the 2011 Annual MD&A* as well as updates included in the *2012 First Quarter MD&A*.

Dividends

For information on our dividend policy, refer to *Section 6.6 – Liquidity and capital resources of the 2011 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 2011 Annual MD&A*.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in external market factors, such as interest rates, foreign currency exchange rates and commodity prices. In the first two quarters of 2012, the Corporation continued the economic hedge program to mitigate its exposure to foreign exchange balances and also implemented an economic hedge program to mitigate its exposure to 2012 forecasted sales denominated in Special Drawing Rights. These forward contracts are not designated as hedges for hedge accounting purposes. For more information on foreign exchange risk, please refer to *Note 12 Foreign Exchange Risk of the unaudited interim condensed consolidated financial statements for the 13 and 26 weeks ended June 30, 2012*. There were no other material changes to market risk during the first two quarters of 2012.

Credit risk

Credit risk is the risk of financial loss due to the counterparty's inability to meet its contractual obligations. Credit risk arises from investments in corporations and financial institutions as well as credit exposures to wholesale and commercial customers, including outstanding receivables. Sales to consumers are settled in cash or using major credit cards. There were no material changes to credit risk during the first two quarters of 2012.

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. There were no material changes to liquidity risk during the first two quarters of 2012.

6.8 Contractual obligations and commitments

Contractual obligations and commitments were explained in *Section 6.8 – Contractual obligations and commitments of the 2011 Annual MD&A*. There were no material changes to contractual obligations and commitments during the first half of 2012.

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 2011 Annual MD&A*. For more information on related party transactions, please refer to *Note 13 Related Party Transactions of the unaudited interim condensed consolidated financial statements for the 13 and 26 weeks ended June 30, 2012*.

6.10 Contingent liabilities

Contingent liabilities are described in *Note 9 Contingent Liabilities of the unaudited interim condensed consolidated financial statements for the 13 and 26 weeks ended June 30, 2012.*

7 Changes in Financial Position

A discussion of significant changes in our assets and liabilities between June 30, 2012 and December 31, 2011

(in millions of dollars)

ASSETS	**June 30, 2012**	**Dec. 31, 2011**	**Change**	**%**	**Explanation of change**
Cash and cash equivalents	337	271	66	24.2%	*Refer to Section 6 – Liquidity and Capital Resources on page 12.*
Marketable securities	539	842	(303)	(36.0)%	Primarily due to the drawdown of short-term investments to pay for capital acquisitions in the Canada Post segment.
Trade and other receivables	597	662	(65)	(9.8)%	Mainly due to decreased receivables for the Canada Post and Purolator segments that resulted from seasonality with highest sales occurring in December.
Income tax receivable	65	56	9	17.5%	Primarily due to expected refunds for the Canada Post, Innovapost, and Purolator segments.
Other assets	101	115	(14)	(12.0)%	Mainly due to sale of assets.
Total current assets	**1,639**	**1,946**	**(307)**	**(15.7)%**	
Property, plant and equipment	2,504	2,379	125	5.2%	Primarily due to the Canada Post segment's net capital acquisitions.
Intangible assets	163	165	(2)	(1.0)%	No material change.
Segregated securities	568	553	15	2.8%	Mainly due to interest income and unrealized gains.
Pension benefit assets	91	93	(2)	(2.7)%	No material change.
Deferred tax assets	1,727	1,472	255	17.2%	Primarily due to the increase of temporary differences resulting from actuarial losses recognized in other comprehensive income for Canada Post's Registered Pension Plan assets and post-employment benefits.
Goodwill	130	125	5	3.9%	Increase due to Logistics segment's purchase of several companies.
Other assets	13	11	2	20.0%	No material change.
Total non-current assets	**5,196**	**4,798**	**398**	**8.3%**	
Total assets	**6,835**	**6,744**	**91**	**1.3%**	

(in millions of dollars)

LIABILITIES & EQUITY	June 30, 2012	Dec. 31, 2011	Change	%	Explanation of change
Trade and other payables	441	482	(41)	(8.5)%	Primarily due to decreased trade payables from lower purchases in June 2012 when compared to December 2011 for the Canada Post segment.
Salaries and benefits payable and related provisions	640	732	(92)	(12.4)%	Primarily due to timing on payroll remittances and other salary adjustments in the Canada Post segment.
Provisions	87	75	12	16.2%	Mainly attributable to a change in labour-related provisions.
Income tax payable	1	2	(1)	(35.0)%	No material change.
Deferred revenue	101	129	(28)	(21.9)%	Due to a reduction in stamp deferrals and customer prepayments.
Loans and borrowings	16	16	0	0.1%	No material change.
Other long-term benefit liabilities	86	86	–	–%	No material change.
Total current liabilities	**1,372**	**1,522**	**(150)**	**(9.8)%**	
Loans and borrowings	1,106	1,111	(5)	(0.5)%	No material change.
Pension, other post-employment and other long-term benefit liabilities	6,731	5,719	1,012	17.7%	Primarily resulting from actuarial losses for the Canada Post segment.
Deferred tax liabilities	1	–	1	536.9%	No material change.
Provisions	3	4	(1)	(22.0)%	No material change.
Other liabilities	21	19	2	15.9%	Primarily due to deferred gain on sale of assets.
Total non-current liabilities	**7,862**	**6,853**	**1,009**	**14.7%**	
Total liabilities	**9,234**	**8,375**	**859**	**10.3%**	
Equity					
Contributed capital	1,155	1,155	–	–%	No material change.
Accumulated other comprehensive income	49	45	4	8.3%	No material change.
Accumulated deficit	(3,628)	(2,855)	(773)	(27.1)%	Primarily due to net actuarial losses resulting from asset and accrued benefits re-measurement.
Equity of Canada	**(2,424)**	**(1,655)**	**(769)**	**(46.5)%**	
Non-controlling interests	25	24	1	3.4%	
Total equity	**(2,399)**	**(1,631)**	**(768)**	**(47.1)%**	
Total liabilities and equity	**6,835**	**6,744**	**91**	**1.3%**	

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)	Q2 2012	Q1 2012	Q4 2011	Q3 2011	Q2 2011	Q1 2011	Q4 2010	Q3 2010	Q2 2010
Revenue from operations	1,853	1,940	1,984	1,806	1,761	1,933	1,972	1,752	1,833
Cost of operations	1,870	1,934	2,071	1,963	1,773	1,903	1,902	1,763	1,788
Profit (loss) from operations	**(17)**	**6**	**(87)**	**(157)**	**(12)**	**30**	**70**	**(11)**	**45**
Investing and financing income (expense)	7	(9)	(7)	(6)	(6)	(8)	2	(8)	(0)
Profit (loss) before tax	**(10)**	**(3)**	**(94)**	**(163)**	**(18)**	**22**	**72**	**(19)**	**45**
Tax expense (income)	(6)	4	(16)	(50)	(1)	2	15	(205)	(2)
Net profit (loss)	**(4)**	**(7)**	**(78)**	**(113)**	**(17)**	**20**	**57**	**186**	**47**

8.2 Consolidated results from operations

Consolidated results for the second quarter and first two quarters of 2012

	13 weeks ended				**26 weeks ended**			
(in millions of dollars)	**June 30, 2012**	**July 2, 2011**	**Change**	**%**	**June 30, 2012**	**July 2, 2011**	**Change**	**%**
Revenue from operations	1,853	1,761	92	3.6%*	3,793	3,694	99	1.9%*
Cost of operations	1,870	1,773	97	5.5%	3,804	3,676	128	3.5%
Profit (loss) from operations	**(17)**	**(12)**	**(5)**	**(41.1)%**	**(11)**	**18**	**(29)**	**(160.2)%**
Investing and financing income (expense)	7	(6)	13	226.7%	(2)	(14)	12	87.7%
Profit (loss) before tax	**(10)**	**(18)**	**8**	**44.1%**	**(13)**	**4**	**(17)**	**(430.2)%**
Tax expense (income)	(6)	(1)	(5)	(933.6)%	(2)	1	(3)	(301.8)%
Net profit (loss)	**(4)**	**(17)**	**13**	**74.2%**	**(11)**	**3**	**(14)**	**(457.2)%**
Other comprehensive income (loss)	(611)	7	(618)	(8,940)%	(757)	(1)	(756)	(165,617)%
Comprehensive income (loss)	**(615)**	**(10)**	**(605)**	**(5,741)%**	**(768)**	**2**	**(770)**	**(28,633)%**

* Adjusted for trading days where applicable.

The Canada Post Group of Companies reported a net loss of $4 million for the second quarter of 2012 – an improvement of $13 million when compared to the same quarter in the previous year. For the first two quarters of 2012, the net loss was $11 million, a deterioration of $14 million when compared to the same period last year.

Consolidated revenue from operations

For the second quarter of 2012, revenue from operations increased by $92 million or 3.6 per cent when compared to the same quarter in the previous year. For the first two quarters of 2012, revenue from operations increased by $99 million or 1.9 per cent when compared to the same period last year. The revenue growth in 2012 compared to 2011 was inflated due to lower than normal revenue in 2011 caused by the June 2011 labour disruption in the Canada Post segment. Compared to the same periods in 2010, consolidated revenues increased by only $20 million in the second quarter and $64 million in the first two quarters despite two years of price increases and strong revenue growth in the Purolator segment. Significant volume erosion in both Canada Post's Transaction Mail and Direct Marketing lines of business resulting from electronic substitution, competitive pressures, an uncertain economy and the lasting impact of the June 2011 labour disruption have negatively impacted revenue in the Canada Post segment. A detailed discussion of revenue by segment follows in *sections 8.4 to 8.7*.

Consolidated cost of operations

Cost of operations increased by $97 million or 5.5 per cent in the second quarter of 2012 when compared to the same quarter last year. For the first two quarters of 2012, costs of operations increased by $128 million or 3.5 per cent when compared to the same period last year. A detailed discussion by segment is provided in *sections 8.4 to 8.7.*

Consolidated investing and financing income (expense)

Net investing and financing income increased by $13 million in the second quarter of 2012 compared to the same period in the prior year. In the first two quarters, net investing and financing expense improved by $12 million when compared to the same period in the prior year. Improvements in both the second quarter and first two quarters were primarily due to the Canada Post segment.

Consolidated tax expense (income)

The consolidated tax income increased for the first two quarters of 2012 when compared to the same period in the prior year, primarily driven by the decrease in the Group of Companies' profit before tax.

The consolidated tax income increased for the second quarter of 2012 when compared to the same period in the prior year, in spite of a decrease in the Group of Companies' loss for the quarter. The increase in the consolidated tax income is driven by the impact of the declining statutory rate on the 2011 loss carry back and temporary differences as well as the 2012 permanent differences.

Consolidated other comprehensive income (loss)

Actuarial losses were recorded as a result of the re-measurement of the defined benefit plans. Fluctuations in pension plan investment returns and a decline in the discount rate negatively impacted the Group of Companies' pension plans.

8.3 Operating results by segment

Segmented results – profit (loss) before tax

(in millions of dollars)	13 weeks ended June 30, 2012	July 2, 2011	Change	%	26 weeks ended June 30, 2012	July 2, 2011	Change	%
Canada Post	(34)	(44)	10	22.0%	(23)	(21)	(2)	(10.8)%
Purolator	20	24	(4)	(15.1)%	9	18	(9)	(45.2)%
Logistics	3	2	1	21.6%	5	4	1	7.4%
Other	0	5	(5)	(91.0)%	4	9	(5)	(48.4)%
Intersegment and consolidation	1	(5)	6	113.4%	(8)	(6)	(2)	(32.5)%
Canada Post Group of Companies	**(10)**	**(18)**	**8**	**44.1%**	**(13)**	**4**	**(17)**	**(430.2)%**

A detailed discussion of operating results by segment is provided in *sections 8.4 to 8.7.*

8.4 Canada Post segment

The Canada Post segment experienced a loss before tax of $34 million in the second quarter of 2012, an improvement of $10 million when compared to the same period in the prior year. The loss before tax incurred after the first two quarters was $23 million, a drop of $2 million compared with the same period in 2011. A detailed discussion of revenue and cost of operations is provided below.

Canada Post results for the second quarter and first two quarters of 2012

(in millions of dollars)	13 weeks ended June 30, 2012	July 2, 2011	Change	%	26 weeks ended June 30, 2012	July 2, 2011	Change	%
Revenue from operations	1,429	1,342	87	4.8%*	2,968	2,903	65	1.4%*
Cost of operations	1,471	1,386	85	6.1%	3,000	2,917	83	2.8%
Profit (loss) from operations	**(42)**	**(44)**	**2**	**4.4%**	**(32)**	**(14)**	**(18)**	**(120.1)%**
Investing and financing income (expense)	8	0	8	13,288%	9	(7)	16	226.5%
Profit (loss) before tax	**(34)**	**(44)**	**10**	**22.0%**	**(23)**	**(21)**	**(2)**	**(10.8)%**
Tax expense (income)	(12)	(9)	(3)	(39.5)%	(8)	(8)	(0)	(5.3)%
Net profit (loss)	**(22)**	**(35)**	**13**	**37.4%**	**(15)**	**(13)**	**(2)**	**(14.2)%**

* Adjusted for trading days where applicable.

Revenue from operations

Canada Post generated revenue from operations of $1,429 million in the second quarter of 2012 – an increase of $87 million or 4.8 per cent, when compared with the same quarter last year. For the first two quarters of 2012, revenue amounted to $2,968 million, an increase of $65 million or 1.4 per cent compared to the same period in the prior year. The increase in revenue was primarily due to the large impact of the June 2011 labour disruption on 2011 revenue, which led to an estimated revenue loss of $167 million in June 2011. Given normal conditions, Canada Post would have experienced a significant decline in revenue in the first two quarters of 2012 due to a number of factors, including electronic substitution, competitive pressures, economic uncertainty, and the absence of revenue from the 2011 federal election and Statistics Canada census.

Quarterly revenue by line of business

(in millions of dollars)	13 weeks ended June 30, 2012	13 weeks ended July 2, 2011	Change	%*	26 weeks ended June 30, 2012	26 weeks ended July 2, 2011	Change	%*
Transaction Mail	731	743	(12)	(3.1)%	1,563	1,594	(31)	(2.7)%
Direct Marketing	316	286	30	8.6%	629	612	17	2.0%
Parcels	302	245	57	21.5%	621	567	54	8.7%
Other revenue	80	68	12	15.0%	155	130	25	17.9%
Total	**1,429**	**1,342**	**87**	**4.8%**	**2,968**	**2,903**	**65**	**1.4%**

* Adjusted for trading days where applicable.

2011 revenue by line of business was reclassified to ensure comparability with the new 2012 product categorization. Further, minor reclassifications took place in Q2 2012. Total revenue remains unchanged.

Transaction Mail

Transaction Mail revenue of $731 million for the second quarter of 2012 was composed of the following three product categories: domestic Lettermail™ ($659 million), outbound Letter-post ($39 million), and inbound Letter-post ($33 million).

In the second quarter of 2012, Transaction Mail revenue decreased by $12 million or 3.1 per cent and volumes decreased by 31 million pieces or 4.4 per cent compared to the same period last year (and by approximately 120 million pieces compared to 2010). For domestic Lettermail, the largest product category, volumes decreased by 33 million pieces or 4.8 per cent and revenues decreased by $12 million or 3.3 per cent. Decreases in volume would have been significantly higher if not for the loss of revenue and volume caused by the June 2011 labour disruption. Decreases in the volume and revenue in the second quarter were primarily driven by erosion due to electronic substitution. This decline in paper-based communication has been accelerated by the implementation of pay-for-paper initiatives by some of our largest customers, especially in the Financial Services and Communication segments, and an uncertain economic environment. Revenue and volumes were also lower in the second quarter of 2012 compared to 2011 as there was federal election and Statistics Canada census mail in 2011.

In the first two quarters of 2012, Transaction Mail revenue decreased by $31 million or 2.7 per cent and volumes declined by 88 million pieces or 4.5 per cent compared to the same period last year (and by over 200 million pieces compared to 2010). For domestic Lettermail, volumes decreased by 90 million pieces or 4.9 per cent and revenue decreased by $40 million or 3.5 per cent. The volume and revenue declines were largely driven by the continued shift away from paper-based communications.

Direct Marketing

Direct Marketing revenue of $316 million for the second quarter of 2012 was composed of the following four categories: Addressed Admail™ ($141 million), Unaddressed Admail™ ($106 million), Publications Mail™ ($62 million), and Business Reply Mail™ and Other Mail ($7 million).

Direct Marketing revenue increased for the second quarter by $30 million or 8.6 per cent while volumes increased by 97 million pieces or 6.6 per cent when compared to the same period in the prior year. Impacting the period-over-period results was the June 2011 labour disruption which significantly inflated the period-over-period revenue and volume increases. In fact, Q2 2012 results were much lower than expected and, compared to the same period in 2010, Direct Marketing volumes actually declined by approximately 90 million pieces in 2012. Lower results were caused by commercial customers in the Financial Services, Communication and Retail segments reducing their marketing spend as well as redirecting some of their overall marketing expenditures to other media channels.

On a year-to-date basis, revenue increased by $17 million or 2.0 per cent while 2012 volumes remained flat when compared to the same period in 2011. The impact of the June 2011 labour disruption on 2011 revenue and volumes reversed the Q1 2012 negative revenue and volume variances. However, 2012 year-to-date revenue and volumes remain well below management expectations and compared to the same period in 2010, Direct Marketing volumes declined by over 140 million pieces due to the continued volume declines in the Financial Services, Communication and Retail segments.

Parcels

Parcel revenue of $302 million for the second quarter of 2012 was composed of four product categories: domestic parcels ($211 million), outbound parcels ($45 million), inbound parcels ($42 million), and other ($4 million).

Parcel revenue for the second quarter experienced an increase of $57 million or 21.5 per cent while volumes increased by 7 million pieces or 21 per cent compared to the same quarter last year. On a year-to-date basis, parcel revenue increased by $54 million or 8.7 per cent while volumes increased by 7 million pieces or 9.8 per cent. The revenue and volume increases reflect the strong growth in e-commerce orders as well as the negative impact of the June 2011 labour disruption on 2011 results, offset by the loss of volume and revenue from Canada Post exiting the Food Mail Program at the end of the first quarter in 2011.

Other revenue

Other revenue of $80 million increased by $12 million or 15 per cent in the second quarter of 2012, when compared to the same period in the prior year. At the end of two quarters, revenue increased by $25 million or 17.9 per cent compared to the same period in 2011. The revenue increases were the result of continued strong growth of the new stamp programs and strong performance in Mail Redirection and other data products, partially offset by the impact of the 2011 census on the SmartFlow™ products.

Cost of operations

Cost of operations for the Canada Post segment totaled $1,471 million in the second quarter of 2012 – an increase of $85 million or 6.1 per cent when compared to the same quarter last year. The cost of operations for the first two quarters of 2012 totaled $3,000 million – an increase of $83 million or 2.8 per cent when compared to the same period in 2011.

	13 weeks ended				26 weeks ended			
(in millions of dollars)	**June 30, 2012**	**July 2, 2011**	**Change**	**%**	**June 30, 2012**	**July 2, 2011**	**Change**	**%**
Labour	785	677	108	15.8%	1,596	1,502	94	6.2%
Employee benefits	255	291	(36)	(12.3)%	512	528	(16)	(3.1)%
Total labour and employee benefits	**1,040**	**968**	**72**	**7.4%**	**2,108**	**2,030**	**78**	**3.8%**
Non-labour collection, processing and delivery	189	174	15	8.6%	410	407	3	0.7%
Property, facilities and maintenance	57	58	(1)	(1.9)%	117	118	(1)	(0.8)%
Selling, administrative and other	125	129	(4)	(2.9)%	245	248	(3)	(1.0)%
Total other operating costs	**371**	**361**	**10**	**2.8%**	**772**	**773**	**(1)**	**(0.1)%**
Depreciation and amortization	60	57	3	5.6%	120	114	6	5.4%
Total	**1,471**	**1,386**	**85**	**6.1%**	**3,000**	**2,917**	**83**	**2.8%**

Labour

The cost of labour increased by $108 million, or 15.8 per cent, for the second quarter of 2012. In the first two quarters of 2012, labour increased by $94 million or 6.2 per cent when compared to the same period in the previous year. These increases were largely driven by the cost reductions in June 2011 associated with the wages not paid to the CUPW members during the labour disruption, as well as increased usage of temporary employees, increased labour costs for Rural and Suburban Mail Carriers (RSMCs) and regular annual wage increases.

Employee benefits

Employee benefits for the second quarter of 2012 decreased by $36 million, or 12.3 per cent, when compared to the same period last year. For the first two quarters, employee benefits decreased by $16 million or 3.1 per cent when compared to the same period in 2011. The decrease was due to a one-time accounting charge in June 2011 for a change in the *Pension Benefits Standards Act*, *1985*, partially offset by the negative impacts of changes in discount rates and returns on plan assets, as well as the impact from the June 2011 labour disruption. The employee benefits expense would have increased by 12.1 per cent in the second quarter of 2012 compared to the same period last year was it not for the one-time accounting charge in June 2011.

Non-labour collection, processing and delivery

Contracted collection, processing and delivery costs increased by $15 million or 8.6 per cent for the second quarter of 2012, when compared to the same period in the prior year. For the first two quarters of 2012, costs increased by $3 million or 0.7 per cent when compared to the same period in the prior year. These increases are mainly due to the cost reductions in June 2011 associated with the labour disruption as well as inflationary pressures, which were partially offset by exiting the Government of Canada's Food Mail Program (as at March 31, 2011).

Property, facilities and maintenance

Cost of facilities remained stable for the second quarter and first two quarters, when compared to the same periods last year.

Selling, administrative and other

Selling, administrative and other expenses (which includes information technology, administration, program expense, selling and other costs) remained relatively flat, decreasing by $4 million or 2.9 per cent for the second quarter of 2012 and $3 million or 1.0 per cent for the first two quarters when compared to the same period in the prior year.

Depreciation and amortization

Depreciation and amortization expenses increased by $3 million or 5.6 per cent for the second quarter of 2012 and $6 million or 5.4 per cent for the first two quarters, when compared to the same period 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 a net profit of $15 million for the second quarter of 2012, a decrease of $3 million when compared with the same period in the prior year. For the first two quarters of 2012, Purolator segment net profit amounted to $6 million, a decrease of $7 million or 56.7 per cent when compared to the prior year.

Purolator results for the second quarter and first two quarters of 2012

	13 weeks ended				26 weeks ended			
(in millions of dollars)	June 30, 2012	July 2, 2011	Change	%	June 30, 2012	July 2, 2011	Change	%
Revenue from operations	416	415	1	(1.3)%*	814	787	27	2.6%*
Cost of operations	395	390	5	1.2%	803	768	35	4.6%
Profit (loss) from operations	**21**	**25**	**(4)**	**(15.4)%**	**11**	**19**	**(8)**	**(44.5)%**
Investing and financing income (expense)	(1)	(1)	0	24.0%	(2)	(1)	(1)	(37.0)%
Profit (loss) before tax	**20**	**24**	**(4)**	**(15.1)%**	**9**	**18**	**(9)**	**(45.2)%**
Tax expense (income)	5	6	(1)	(3.3)%	3	5	(2)	(13.5)%
Net profit (loss)	**15**	**18**	**(3)**	**(19.1)%**	**6**	**13**	**(7)**	**(56.7)%**

* Adjusted for trading days where applicable.

Revenue from operations

Purolator generated revenue from operations of $416 million in the second quarter of 2012 – an increase of $1 million when compared with the same period last year. After the first two quarters, 2012 revenue totalled $814 million – an increase of $27 million or 2.6 per cent compared with the same period in 2011. Increases were mainly driven by increased volumes.

Cost of operations

Labour

Cost of labour increased by $4 million or 3.1 per cent for the second quarter of 2012 when compared to the same period in the prior year. In the first two quarters of 2012, labour increased by $17 million or 6.0 per cent when compared to the same period in 2011. These increases were mainly due to increased volumes, annual wage increases, increased spending in previously understaffed areas and filling of vacant positions.

Operational costs

Operational costs increased by $5 million or 3.2 per cent for the second quarter of 2012 and $13 million or 4.4 per cent for the first two quarters of 2012, 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 $2 million of net profit to the consolidated results for the second quarter of 2012, an increase of 27.8 per cent compared to the same period in the prior year. For the first two quarters of 2012, the Logistics segment's net profit amounted to $3 million, a decrease of 2.9 per cent compared to the same period in the prior year.
On May 14, 2012, a subsidiary of SCI Group Inc. purchased 100 per cent of the shares of E&J Truck Leasing Ltd., White Glove Transportation Systems Ltd. and White Glove Logistix Solutions Ltd. for a cash consideration of $10 million. The acquisition will provide synergies with SCI's existing operations.

Logistics results for the second quarter and first two quarters of 2012

	13 weeks ended				26 weeks ended			
(in millions of dollars)	June 30, 2012	July 2, 2011	Change	%	June 30, 2012	July 2, 2011	Change	%
Revenue from operations	40	34	6	16.2%*	75	68	7	9.7%*
Cost of operations	37	32	5	15.0%	70	64	6	10.6%
Profit (loss) from operations	**3**	**2**	**1**	**33.8%**	**5**	**4**	**1**	**11.1%**
Investing and financing income (expense)	0	0	(0)	(86.0)%	0	0	(0)	(62.8)%
Profit (loss) before tax	**3**	**2**	**1**	**21.6%**	**5**	**4**	**1**	**7.4%**
Tax expense (income)	1	1	0	7.5%	2	1	1	30.6%
Net profit (loss)	**2**	**1**	**1**	**27.8%**	**3**	**3**	**(0)**	**(2.9)%**

* Adjusted for trading days where applicable.

Revenue from operations

SCI generated revenue from operations of $40 million in the second quarter of 2012 – an increase of $6 million or 16.2 per cent, when compared with the same period last year. After the first two quarters, 2012 revenue totalled $75 million – an increase of $7 million or 9.7 per cent, when compared with the same period in 2011. The increases were mainly driven by higher volumes in logistics and transportation and the White Glove acquisition in May 2012.

Cost of operations

Labour

Cost of labour increased by $2 million or 14.2 per cent in the second quarter of 2012 when compared to the same period in 2011. In the first two quarters of 2012, labour increased by $2 million or 7.2 per cent when compared to the same period in the prior year. These increases were primarily the result of increased volumes from new business growth and the White Glove acquisition.

Operational costs

Operational costs increased by $1 million or 18.7 per cent for the second quarter of 2012 and $3 million or 20.8 per cent for the first two quarters of 2012, when compared to the same periods in the previous year, due to, new business growth, the impact of the White Glove acquisition and higher volume in transportation clients.

8.7 Other segment

The Other segment includes the financial results of Innovapost. Innovapost provides virtually all its services to the Canada Post Group of Companies. Results of Innovapost are consolidated commencing March 14, 2012, the date Innovapost became a subsidiary of the Corporation, and its revenue is eliminated against the other segments' cost of operations upon consolidation. Innovapost was previously a joint venture accounted for using proportionate consolidation.

9 Critical Accounting Estimates and Accounting Policy Developments

A review of critical accounting estimates and changes in accounting policies in 2012 and future years

9.1 Critical accounting estimates

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 *2011 Annual MD&A* and in *Note 3 Critical Accounting Judgments and Key Sources of Estimation Uncertainty* of our 2011 consolidated financial statements, which are contained in our 2011 Annual Report, for additional information.

9.2 Accounting standards developments

The following table presents the new standards and amendments issued by the International Accounting Standards Board ("IASB"), which were assessed as having a possible impact on the Group of Companies in the future. A more detailed description of most of these pronouncements can be found under the accounting policy developments of our *2011 Annual MD&A*, which is contained in our 2011 Annual Report. Pronouncements which have been issued since the Corporation's last quarterly report are discussed below.

Standard or amendment	Effective for annual periods beginning on or after
IFRS 9 Financial Instruments	January 1, 2015
IFRS 10 Consolidated Financial Statements	January 1, 2013
IFRS 11 Joint Arrangements	January 1, 2013
IFRS 12 Disclosure of Interests in Other Entities	January 1, 2013
IFRS 13 Fair Value Measurement	January 1, 2013
IAS 27 Separate Financial Statements	January 1, 2013
IAS 28 Investments in Associates and Joint Ventures	January 1, 2013
Amendments to IAS 19 Employee Benefits	January 1, 2013
Amendments to IAS 1 – Presentation of Items of Other Comprehensive Income	July 1, 2012
Amendments to IFRS 9 and IFRS 7 – Mandatory Effective Date and Transition Disclosures	January 1, 2015
Amendments to IFRS 7 – Disclosures – Offsetting Financial Assets and Financial Liabilities	January 1, 2013
Amendments to IAS 32 – Offsetting Financial Assets and Financial Liabilities	January 1, 2014
Annual improvements 2009-2011 Cycle	January 1, 2013
Amendments to IFRS 10, IFRS 11, IFRS 12 – Transitional Guidance	January 1, 2013

Recently issued standards and amendments

(a) Annual Improvements 2009-2011 Cycle • In May 2012, the IASB issued its latest set of annual improvements in response to non-urgent issues addressed during the 2009-2011 cycle. The standards and topics covered by the amendments are as follows: IFRS 1 "First-time Adoption of International Reporting Standards" ("IFRS 1") addressing the repeated application of IFRS 1 and borrowing costs, IAS 1 "Presentation of Financial Statements" providing clarification on the requirements for comparative information, IAS 16 "Property, Plant and Equipment" providing additional guidance on the classification of servicing equipment, IAS 32 "Financial Instruments: Presentation" addressing the tax effect of distributions to holders of equity instruments and IAS 34 "Interim Financial Reporting" addressing interim financial reporting and segment information for total assets and liabilities. The amendments are to be applied retrospectively for annual periods beginning on or after January 1, 2013, with early adoption permitted.

(b) Amendments to IFRS 10, IFRS 11 and IFRS 12 – Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance • In June 2012, the IASB issued amendments to clarify the transition guidance in IFRS 10 "Consolidated Financial Statements" ("IFRS 10"). The amendments also provide additional transition relief in IFRS 10, IFRS 11 "Joint Arrangements" ("IFRS 11") and IFRS 12 "Disclosure of Interests in Other Entities" ("IFRS 12"). The amendments limit the requirement to provide adjusted comparative information to only the preceding comparative period, and for disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before the first annual period for which IFRS 12 is first applied. The amendments are to be applied retrospectively for annual periods beginning on or after January 1, 2013, which is aligned with the effective date of IFRS 10, 11 and 12. If IFRS 10, 11 and 12 are adopted prior to the effective date, these amendments must be applied for that earlier period.

The Corporation is currently determining the impact of all of the standards and amendments that are not yet effective on its consolidated financial statements. The Corporation has applied the amendments to IAS 1 titled Presentation of Items of Other Comprehensive Income in advance of the effective date as detailed in *Section 9.3 – Accounting policies and adoption of new accounting standards*.

Upon its adoption, the amendments to IAS 19 will have a material negative impact on the Corporation's consolidated net profit or loss. The significant amendments to IAS 19 that will impact the Corporation's financial results are as follows:

- Expected returns on plan assets will no longer be recognized in net profit or loss. Instead, interest income on plan assets, calculated using the discount rate used to measure the pension obligation, will be recognized in the net profit or loss.
- Post-employment and other long-term employee benefit costs will consist of service costs, net interest and re-measurements, with re-measurements of post-employment benefit costs being recorded in other comprehensive income or loss and re-measurements of other long-term employee benefit costs being recorded in net profit or loss.
- Past service costs are to be recognized immediately in net profit or loss. All unvested past service costs, as well as curtailments, will be expensed at the earliest of when the plan amendment occurs or when the related restructuring or termination benefits are recognized.
- Plan administration costs are to be expensed as incurred.

9.3 Accounting policies and adoption of new accounting standards

Accounting policies

Our significant accounting policies were described in *Note 2 Basis of Presentation and Significant Accounting Policies* of our 2011 consolidated financial statements, which are contained in our 2011 Annual Report. There were no changes in accounting policies by the Group of Companies in the 13 weeks ended June 30, 2012.

Adoption of new accounting standards

(a) **Amendments to IAS 1 titled Presentation of Items of Other Comprehensive Income •** The Corporation elected to early adopt the amendments to IAS 1 titled Presentation of Items of Other Comprehensive Income in advance of the effective date (annual periods beginning on or after July 1, 2012). The amendments to IAS 1 require additional disclosures in the other comprehensive income section of the financial statements such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to net profit or loss; and (b) items that may be reclassified subsequently to net profit or loss when specific conditions are met. Furthermore, where items of other comprehensive income are presented before related tax effects, which is the case for the Corporation, the aggregated tax amount will also have to be allocated between these two categories. While the Corporation has already presented other comprehensive income in the above two categories, the allocation of income tax between the two categories is a change from previous reporting. The amendments have been applied retrospectively, and the presentation of items of other comprehensive income has been modified to reflect the change. Other than the above mentioned presentation changes, the application of the amendments to IAS 1 does not result in any impact on net profit or loss, other comprehensive income or comprehensive income.

MANAGEMENT'S RESPONSIBILITY FOR INTERIM FINANCIAL REPORTING

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

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

President and Chief Executive Officer	Chief Financial Officer

August 21, 2012

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at (Unaudited – in millions of Canadian dollars)	Notes	June 30, 2012	December 31, 2011
Assets			
Current assets			
Cash and cash equivalents		**$ 337**	$ 271
Marketable securities		**539**	842
Trade and other receivables		**597**	662
Income tax receivable		**65**	56
Other assets		**101**	115
Total current assets		**1,639**	1,946
Non-current assets			
Property, plant and equipment	**5**	**2,504**	2,379
Intangible assets	**5**	**163**	165
Segregated securities		**568**	553
Pension benefit assets	**6**	**91**	93
Deferred tax assets		**1,727**	1,472
Goodwill	**8**	**130**	125
Other assets		**13**	11
Total non-current assets		**5,196**	4,798
Total assets		**$ 6,835**	$ 6,744
Liabilities and equity			
Current liabilities			
Trade and other payables		**$ 441**	$ 482
Salaries and benefits payable and related provisions		**640**	732
Provisions		**87**	75
Income tax payable		**1**	2
Deferred revenue		**101**	129
Loans and borrowings		**16**	16
Other long-term benefit liabilities	**6**	**86**	86
Total current liabilities		**1,372**	1,522
Non-current liabilities			
Loans and borrowings		**1,106**	1,111
Pension, other post-employment and other long-term benefit liabilities	**6**	**6,731**	5,719
Deferred tax liabilities		**1**	–
Provisions		**3**	4
Other liabilities		**21**	19
Total non-current liabilities		**7,862**	6,853
Total liabilities		**9,234**	8,375
Equity			
Contributed capital		**1,155**	1,155
Accumulated other comprehensive income		**49**	45
Accumulated deficit		**(3,628)**	(2,855)
Equity of Canada		**(2,424)**	(1,655)
Non-controlling interests		**25**	24
Total equity		**(2,399)**	(1,631)
Total liabilities and equity		**$ 6,835**	$ 6,744
Contingent liabilities	**9**		

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the (Unaudited – in millions of Canadian dollars)	Notes	13 weeks ended **June 30, 2012**	13 weeks ended July 2, 2011	26 weeks ended **June 30, 2012**	26 weeks ended July 2, 2011
Revenue from operations		**$ 1,853**	$ 1,761	**$ 3,793**	$ 3,694
Cost of operations					
Labour		**965**	841	**1,948**	1,824
Employee benefits	**6**	**295**	331	**593**	605
		1,260	1,172	**2,541**	2,429
Other operating costs	**10**	**534**	530	**1,111**	1,105
Depreciation and amortization		**76**	71	**152**	142
Total cost of operations		**1,870**	1,773	**3,804**	3,676
Profit (loss) from operations		**(17)**	(12)	**(11)**	18
Investing and financing income (expense)					
Investment and other income	**11**	**19**	7	**26**	12
Finance costs and other expense	**11**	**(12)**	(13)	**(28)**	(26)
Investing and financing income (expense), net		**7**	(6)	**(2)**	(14)
Profit (loss) before tax		**(10)**	(18)	**(13)**	4
Tax expense (income)	**7**	**(6)**	(1)	**(2)**	1
Net profit (loss)		**$ (4)**	$ (17)	**$ (11)**	$ 3
Other comprehensive income (loss)					
Items that will not be reclassified to Net profit (loss)					
Actuarial losses on defined benefit plans	**6**	**$ (827)**	$ –	**$ (1,012)**	$ –
Income tax relating to items that will not be reclassified	**7**	**207**	–	**251**	–
Items that may be reclassified subsequently to Net profit (loss)					
Unrealized gains on available-for-sale financial assets		**12**	13	**5**	4
Realized gains reclassified to Net profit (loss)		**–**	(4)	**–**	(5)
Income tax relating to items that may be reclassified	**7**	**(3)**	(2)	**(1)**	–
Other comprehensive income (loss)		**(611)**	7	**(757)**	(1)
Comprehensive income (loss)		**$ (615)**	$ (10)	**$ (768)**	$ 2
Net profit (loss) attributable to					
Government of Canada		**$ (5)**	$ (17)	**$ (11)**	$ 3
Non-controlling interests		**1**	–	**–**	–
		$ (4)	$ (17)	**$ (11)**	$ 3
Comprehensive income (loss) attributable to					
Government of Canada		**$ (616)**	$ (10)	**$ (768)**	$ 2
Non-controlling interests		**1**	–	**–**	–
		$ (615)	$ (10)	**$ (768)**	$ 2

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 June 30, 2012 and July 2, 2011 (Unaudited – in millions of Canadian dollars)	Contributed capital	Accumulated other comprehensive income	Accumulated deficit	Equity of Canada	Non-controlling interests	Total equity
Balance at beginning of period, 2012	**$ 1,155**	**$ 40**	**$ (3,003)**	**$ (1,808)**	**$ 24**	**$ (1,784)**
Net profit (loss)	**–**	**–**	**(5)**	**(5)**	**1**	**(4)**
Other comprehensive income (loss)						
Items that will not be reclassified to Net profit (loss)						
Actuarial losses on defined benefit plans	**–**	**–**	**(827)**	**(827)**	**–**	**(827)**
Income tax relating to items that will not be reclassified	**–**	**–**	**207**	**207**	**–**	**207**
Items that may be reclassified subsequently to Net profit (loss)						
Unrealized gains on available-for-sale financial assets	**–**	**12**	**–**	**12**	**–**	**12**
Income tax relating to items that may be reclassified	**–**	**(3)**	**–**	**(3)**	**–**	**(3)**
Other comprehensive income (loss)	**–**	**9**	**(620)**	**(611)**	**–**	**(611)**
Comprehensive income (loss)	**–**	**9**	**(625)**	**(616)**	**1**	**(615)**
Balance at June 30, 2012	**$ 1,155**	**$ 49**	**$ (3,628)**	**$ (2,424)**	**$ 25**	**$ (2,399)**
Balance at beginning of period, 2011	$ 1,155	$ 1	$ (1,465)	$ (309)	$ 27	$ (282)
Net loss	–	–	(17)	(17)	–	(17)
Other comprehensive income (loss)						
Items that may be reclassified subsequently to Net profit (loss)						
Unrealized gains on available-for-sale financial assets	–	13	–	13	–	13
Realized gains reclassified to Net loss	–	(4)	–	(4)	–	(4)
Income tax relating to items that may be reclassified	–	(2)	–	(2)	–	(2)
Other comprehensive income	–	7	–	7	–	7
Comprehensive income (loss)	–	7	(17)	(10)	–	(10)
Balance at July 2, 2011	$ 1,155	$ 8	$ (1,482)	$ (319)	$ 27	$ (292)

For the 26 weeks ended June 30, 2012 and July 2, 2011 (Unaudited – in millions of Canadian dollars)	Contributed capital	Accumulated other comprehensive income	Accumulated deficit	Equity of Canada	Non-controlling interests	Total equity
Balance at beginning of year, 2012	**$ 1,155**	**$ 45**	**$ (2,855)**	**$ (1,655)**	**$ 24**	**$ (1,631)**
Net loss	**–**	**–**	**(11)**	**(11)**	**–**	**(11)**
Other comprehensive income (loss)						
Items that will not be reclassified to Net profit (loss)						
Actuarial losses on defined benefit plans	**–**	**–**	**(1,012)**	**(1,012)**	**–**	**(1,012)**
Income tax relating to items that will not be reclassified	**–**	**–**	**251**	**251**	**–**	**251**
Items that may be reclassified subsequently to Net profit (loss)						
Unrealized gains on available-for-sale financial assets	**–**	**5**	**–**	**5**	**–**	**5**
Income tax relating to items that may be reclassified	**–**	**(1)**	**–**	**(1)**	**–**	**(1)**
Other comprehensive income (loss)	**–**	**4**	**(761)**	**(757)**	**–**	**(757)**
Comprehensive income (loss)	**–**	**4**	**(772)**	**(768)**	**–**	**(768)**
Transactions with shareholders						
Non-controlling interest arising on business combination	**–**	**–**	**–**	**–**	**1**	**1**
Other transactions with non-controlling interests	**–**	**–**	**(1)**	**(1)**	**–**	**(1)**
Total transactions with shareholders	**–**	**–**	**(1)**	**(1)**	**1**	**–**
Balance at June 30, 2012	**$ 1,155**	**$ 49**	**$ (3,628)**	**$ (2,424)**	**$ 25**	**$ (2,399)**
Balance at beginning of year, 2011	$ 1,155	$ 9	$ (1,485)	$ (321)	$ 27	$ (294)
Net profit	–	–	3	3	–	3
Other comprehensive income (loss)						
Items that may be reclassified subsequently to Net profit (loss)						
Unrealized gains on available-for-sale financial assets	–	4	–	4	–	4
Realized gains reclassified to Net profit	–	(5)	–	(5)	–	(5)
Other comprehensive loss	–	(1)	–	(1)	–	(1)
Comprehensive income (loss)	–	(1)	3	2	–	2
Balance at July 2, 2011	$ 1,155	$ 8	$ (1,482)	$ (319)	$ 27	$ (292)

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the (Unaudited – in millions of Canadian dollars)	Notes	13 weeks ended June 30, 2012	13 weeks ended July 2, 2011	26 weeks ended June 30, 2012	26 weeks ended July 2, 2011
Cash flows from operating activities					
Net profit (loss)		**$ (4)**	$ (17)	**$ (11)**	$ 3
Adjustments to reconcile Net profit (loss) to cash provided by (used in) operating activities:					
Depreciation and amortization	5	**76**	71	**152**	142
Pension, other post-employment and other long-term benefit expense	6	**151**	203	**302**	335
Pension, other post-employment and other long-term benefit payments	6	**(158)**	(235)	**(300)**	(464)
Gain on sale of capital assets	11	**(16)**	(3)	**(17)**	(3)
Tax expense (income)	7	**(6)**	(1)	**(2)**	1
Net interest expense	11	**8**	8	**17**	16
Change in non-cash operating working capital:					
Decrease (increase) in trade and other receivables		**30**	(61)	**86**	(55)
Decrease in trade and other payables		**(9)**	(32)	**(51)**	(91)
Decrease in salaries and benefits payable and related provisions		**(20)**	(135)	**(98)**	(183)
Increase (decrease) in provisions		**13**	–	**10**	(5)
Net increase in other non-cash operating working capital		**(37)**	(31)	**(27)**	(42)
Other income not affecting cash, net		**(6)**	(8)	**(10)**	(16)
Cash provided by (used in) operations before interest and taxes		**22**	(241)	**51**	(362)
Interest received		**12**	13	**19**	18
Interest paid		**(1)**	(1)	**(26)**	(26)
Tax paid		**(4)**	(5)	**(12)**	(8)
Cash provided by (used in) operating activities		**29**	(234)	**32**	(378)
Cash flows from investing activities					
Business acquisitions, net of cash acquired	4	**(10)**	–	**(21)**	–
Acquisition of securities		**(57)**	(465)	**(519)**	(1,056)
Proceeds from sale of securities		**341**	593	**826**	1,305
Acquisition of capital assets		**(141)**	(106)	**(265)**	(181)
Proceeds from sale of capital assets		**19**	3	**39**	4
Other investing activities, net		**4**	(8)	**(17)**	9
Cash provided by investing activities		**156**	17	**43**	81
Cash flows from financing activities					
Payments on finance lease obligations		**(4)**	(3)	**(8)**	(6)
Other financing activities, net		**–**	(1)	**(1)**	(2)
Cash used in financing activities		**(4)**	(4)	**(9)**	(8)
Net increase (decrease) in cash and cash equivalents		**181**	(221)	**66**	(305)
Cash and cash equivalents, beginning of period		**156**	295	**271**	379
Cash and cash equivalents, end of period		**$ 337**	$ 74	**$ 337**	$ 74

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the 13 and 26 weeks ended June 30, 2012
(Unaudited – in millions of Canadian dollars, unless otherwise indicated)

1. Incorporation, Business Activities and Directives

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 include Purolator, Inc. ("Purolator"), SCI Group Inc. ("SCI") and Innovapost Inc. ("Innovapost"). Purolator and SCI offer courier, transportation and logistics services, while Innovapost 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."

In December 2006, the Corporation was issued a directive pursuant to section 89 of the *Financial Administration Act* to restore and maintain its mail delivery at rural roadside mailboxes that were serviced by the Corporation on September 1, 2005, while respecting all applicable laws. The Corporation is continuing to assess the safety risks related to rural roadside mailboxes in 2012.

2. Basis of Presentation

Statement of compliance • These interim condensed consolidated financial statements have been prepared in accordance with IAS 34 "Interim Financial Reporting" ("IAS 34"). 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 audited consolidated financial statements for its fiscal year ended December 31, 2011.

The interim condensed consolidated financial statements were approved and authorized for issue by the Board of Directors on August 21, 2012. They have been prepared based on IFRS issued and effective as at the time these statements were prepared, with the exception of the amendments to IAS 1 "Presentation of Financial Statements" ("IAS 1") as explained below in the section *Early adoption of new accounting standards*.

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.

Basis of consolidation • These interim condensed consolidated financial statements include the accounts of the Canada Post Group of Companies. The results of Purolator and SCI are consolidated for the 13 and 26 weeks ended June 30, 2012 and July 2, 2011. The results of Innovapost are consolidated commencing March 14, 2012, the date Innovapost became a subsidiary of the Corporation. Innovapost was previously a joint venture accounted for using proportionate consolidation.

Significant accounting policies • Significant accounting policies applied in these interim condensed consolidated financial statements are disclosed in Note 2 of the Corporation's annual consolidated financial statements for the year ended December 31, 2011. The accounting policies have been applied consistently to the current and comparative quarters.

Early adoption of new accounting standards • The Corporation elected to early adopt the amendments to IAS 1 titled Presentation of Items of Other Comprehensive Income in advance of the effective date (annual periods beginning on or after July 1, 2012). The amendments to IAS 1 require additional disclosures in the other comprehensive income section of the financial statements such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to net profit or loss; and (b) items that may be reclassified subsequently to net profit or loss when specific conditions are met. Furthermore, where items of other comprehensive income are presented before related tax effects, which is the case for the Corporation, the aggregated tax amount will also have to be allocated between these two categories. While the Corporation has already presented other comprehensive income in the two categories, the allocation of income tax between the two categories is a change from previous reporting. The amendments have been applied retrospectively, and the presentation of items of other comprehensive income has been modified to reflect the change. Other than these presentation changes, the application of the amendments to IAS 1 does not result in any impact on net profit or loss, other comprehensive income or comprehensive income.

The Corporation has not chosen to apply any other new IFRS or amendments to IFRS in the current period that have been issued but are not yet effective.

Critical accounting judgments and key sources of estimation uncertainty • The preparation of the Corporation's interim condensed consolidated financial statements requires management to make complex or subjective judgments, estimates and assumptions based on existing knowledge that affect reported amounts and disclosures in the interim condensed consolidated financial statements and accompanying notes. Actual results may differ from the judgments, estimates and assumptions. It is reasonably possible that management's reassessments of these and other estimates and assumptions in the near term, as well as actual results, could require a 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. Critical judgments and key sources of estimation uncertainty are disclosed in Note 3 of the Corporation's annual consolidated financial statements for the year ended December 31, 2011.

3. Accounting Pronouncements Requiring Implementation in Future Years

The following amendments to standards issued by the International Accounting Standards Board since the publication of the Corporation's 2011 Annual Report have been assessed as having a possible effect on the Group of Companies in the future. The Corporation is determining the impact of the amendments on its consolidated financial statements.

Annual Improvements 2009–2011 Cycle • In May 2012, the IASB issued its latest set of annual improvements in response to non-urgent issues addressed during the 2009–2011 cycle. The standards and topics covered by the amendments are as follows: IFRS 1 "First-time Adoption of International Reporting Standards" ("IFRS 1") addressing the repeated application of IFRS 1 and borrowing costs, IAS 1 "Presentation of Financial Statements" providing clarification on the requirements for comparative information, IAS 16 "Property, Plant and Equipment" providing additional guidance on the classification of servicing equipment, IAS 32 "Financial Instruments: Presentation" addressing the tax effect of distributions to holders of equity instruments and IAS 34 "Interim Financial Reporting" addressing interim financial reporting and segment information for total assets and liabilities. The amendments are to be applied retrospectively for annual periods beginning on or after January 1, 2013, with early adoption permitted.

Amendments to IFRS 10, IFRS 11 and IFRS 12 – Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance • In June 2012, the IASB issued amendments to clarify the transition guidance in IFRS 10 "Consolidated Financial Statements" ("IFRS 10"). The amendments also provide additional transition relief in IFRS 10, IFRS 11 "Joint Arrangements" ("IFRS 11") and IFRS 12 "Disclosure of Interests in Other Entities" ("IFRS 12"). The amendments limit the requirement to provide adjusted comparative information to only the preceding comparative period, and for disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before the first annual period for which IFRS 12 is applied. The amendments are to be applied retrospectively for annual periods beginning on or after January 1, 2013, which is aligned with the effective date of IFRS 10, 11 and 12. If IFRS 10, 11 and 12 are adopted prior to the effective date, these amendments must be applied for that earlier period.

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

4. Business Combinations

Details of the business combination that occurred during the prior reporting period are included in the Corporation's interim condensed consolidated financial statements for its first quarter ended March 31, 2012.

On May 14, 2012, a subsidiary of SCI purchased 100% of the common shares of E&J Truck Leasing Ltd., White Glove Transportation Systems Ltd., and White Glove Logistix Solutions Ltd. for a cash consideration of $10 million. Goodwill of $5 million was recorded on the acquisition, representing the expected benefits of the synergies with SCI's existing operations. The business combination has been accounted for using the acquisition method, and the results of the acquired entity were included in the consolidated financial statements from the date of acquisition.

At the date of approval of these interim condensed consolidated financial statements, the purchase price allocation is preliminary until completion of the final valuation of assets acquired and liabilities assumed.

The details of net assets acquired were as follows:

	Preliminary purchase price allocation
Assets	
Current assets	$ 3
Non-current assets	4
Total assets	**$ 7**
Liabilities	
Current liabilities	$ 1
Non-current liabilities	1
Total liabilities	**$ 2**
Identifiable net assets	**$ 5**
Goodwill	**$ 5**

The fair value of the receivables approximated the gross contractual amount.

Subsequent to the acquisition date and after the effect of intersegment eliminations, the amount of revenue related to the business combination included in the Corporation's consolidated revenue for the 13-week period was $2 million. There was no material effect on the Corporation's consolidated net loss for the 13-week period. Had the acquisition taken place on January 1, 2012, the beginning of the reporting period, the Corporation's consolidated revenue for the 13- and 26-week periods would have been $1,855 million and $3,799 million, respectively. There would have been no material effect on the Corporation's consolidated net loss for either the 13- or 26-week period had the acquisition occurred on January 1, 2012.

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

5. Capital Assets

(a) Property, plant and equipment

Property, plant and equipment consisted of the following items:

	Land	Buildings	Leasehold improvements	Plant equipment	Vehicles	Sales counters, office furniture and equipment	Other equipment	Assets under development	Total
Cost or deemed cost									
December 31, 2011	$ 312	$ 1,644	$ 240	$ 1,164	$ 329	$ 431	$ 860	$ 95	$ 5,075
Additions	25	24	11	60	26	10	13	79	248
Acquisitions through business combinations	–	–	–	–	–	3	–	–	3
Retirements	–	–	(3)	(31)	(8)	(5)	–	–	(47)
Transfers (nets to nil with Note 5 [b])	–	39	2	4	–	–	–	(50)	(5)
June 30, 2012	**$ 337**	**$ 1,707**	**$ 250**	**$ 1,197**	**$ 347**	**$ 439**	**$ 873**	**$ 124**	**$ 5,274**
Accumulated depreciation									
December 31, 2011	$ –	$ 830	$ 171	$ 696	$ 173	$ 301	$ 525	$ –	$ 2,696
Depreciation	–	30	9	29	14	19	19	–	120
Retirements	–	–	(3)	(31)	(8)	(4)	–	–	(46)
June 30, 2012	**$ –**	**$ 860**	**$ 177**	**$ 694**	**$ 179**	**$ 316**	**$ 544**	**$ –**	**$ 2,770**
Carrying amounts									
December 31, 2011	$ 312	$ 814	$ 69	$ 468	$ 156	$ 130	$ 335	$ 95	$ 2,379
June 30, 2012	**$ 337**	**$ 847**	**$ 73**	**$ 503**	**$ 168**	**$ 123**	**$ 329**	**$ 124**	**$ 2,504**

During 2012, capitalized borrowing costs related to property, plant and equipment amounted to $2 million (July 2, 2011 – nil), with a capitalization rate of 4.3%.

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

(b) Intangible assets

Intangible assets consisted of the following items:

	Software	Software under development	Customer contracts and relationships	Total
Cost				
December 31, 2011	$ 585	$ 44	$ 27	$ 656
Additions	13	7	–	20
Acquisitions through business combinations	3	–	3	6
Retirements	(39)	–	–	(39)
Transfers (nets to nil with Note 5 [a])	–	5	–	5
June 30, 2012	**$ 562**	**$ 56**	**$ 30**	**$ 648**
Accumulated amortization				
December 31, 2011	$ 467	$ –	$ 24	$ 491
Amortization	31	–	1	32
Retirements	(38)	–	–	(38)
June 30, 2012	**$ 460**	**$ –**	**$ 25**	**$ 485**
Carrying amounts				
December 31, 2011	$ 118	$ 44	$ 3	$ 165
June 30, 2012	**$ 102**	**$ 56**	**$ 5**	**$ 163**

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

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

The pension benefit plans of the Group of Companies are funded through contributions made to separately administered funds. The other benefit plans, which include the other post-employment and other long-term benefits plans, are unfunded.

(a) Costs

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

For the 13 weeks ended	**June 30, 2012**			July 2, 2011		
	Pension benefit plans	**Other benefit plans**	**Total**	Pension benefit plans	Other benefit plans	Total
Current service cost	$ 108	$ 34	$ 142	$ 101	$ 35	$ 136
Interest cost	244	44	288	242	47	289
Expected return on plan assets	(278)	–	(278)	(289)	–	(289)
Past service cost (credit)	–	(3)	(3)	70	(3)	67
Defined benefit costs	74	75	149	124	79	203
Defined contribution costs	2	–	2	–	–	–
Total costs	76	75	151	124	79	203
Return on segregated securities	–	(5)	(5)	–	(9)	(9)
Net costs recognized in net profit (loss)	**$ 76**	**$ 70**	**$ 146**	$ 124	$ 70	$ 194
Actuarial losses on defined benefit plans recognized in other comprehensive income (loss)	825	2	827	–	–	–
Recognized in comprehensive income (loss)	**$ 901**	**$ 72**	**$ 973**	$ 124	$ 70	$ 194

For the 26 weeks ended	**June 30, 2012**			July 2, 2011		
	Pension benefit plans	**Other benefit plans**	**Total**	Pension benefit plans	Other benefit plans	Total
Current service cost	$ 214	$ 68	$ 282	$ 201	$ 71	$ 272
Interest cost	487	88	575	483	94	577
Expected return on plan assets	(555)	–	(555)	(579)	–	(579)
Past service cost (credit)	–	(5)	(5)	70	(5)	65
Defined benefit costs	146	151	297	175	160	335
Defined contribution costs	5	–	5	–	–	–
Total costs	151	151	302	175	160	335
Return on segregated securities	–	(10)	(10)	–	(15)	(15)
Net costs recognized in net profit (loss)	**$ 151**	**$ 141**	**$ 292**	$ 175	$ 145	$ 320
Actuarial losses on defined benefit plans recognized in other comprehensive income (loss)	847	165	1,012	–	–	–
Recognized in comprehensive income (loss)	**$ 998**	**$ 306**	**$ 1,304**	$ 175	$ 145	$ 320

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

During the 13 and 26 weeks ended June 30, 2012, the Canada Post Group of Companies updated the measurement of its employee benefit assets and liabilities, resulting in pre-tax other comprehensive losses of $827 million and $1,012 million, respectively (July 2, 2011 – nil and nil, respectively). These losses were a result of a decrease in the discount rates, which are sensitive to falling bond yields, and a volatile return on pension plan assets.

(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		26 weeks ended	
	June 30, 2012	July 2, 2011	**June 30, 2012**	July 2, 2011
Benefits paid directly to beneficiaries for other benefit plans	$ 40	$ 39	$ 77	$ 79
Employer regular contributions to pension benefit plans	87	84	178	164
Employer special contributions to pension benefit plans	29	112	40	221
Total cash payments for defined benefit plans	156	235	295	464
Contributions to defined contribution plans	2	–	5	–
Total cash payments	**$ 158**	$ 235	**$ 300**	$ 464

In 2012, the Group of Companies' total contributions to pension benefit plans are estimated to be $489 million. This amount includes the Canada Post Corporation Registered Pension Plan regular contributions of $351 million and special contributions of $61 million. The latter takes into consideration the reduction of special solvency contributions as permitted by legislation. In August 2012, the Minister of Finance and the Minister of Transport, Infrastructure and Communities approved the Corporation's request for funding relief until June 30, 2013.

(c) Assets and liabilities

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

As at	**June 30, 2012**	December 31, 2011
Pension benefit assets	**$ 91**	$ 93
Pension benefit liabilities	$ 3,254	$ 2,481
Other post-employment and other long-term benefit liabilities	3,563	3,324
Total pension, other post-employment and other long-term benefit liabilities	$ 6,817	$ 5,805
Current other long-term benefit liabilities	**$ 86**	$ 86
Non-current pension, other post-employment and other long-term benefit	**$ 6,731**	$ 5,719

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

7. Income Taxes

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

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

	13 weeks ended		26 weeks ended	
	June 30, 2012	July 2, 2011	**June 30, 2012**	July 2, 2011
Current tax expense (income)	$ (3)	$ 22	$ 2	$ 1
Deferred tax expense (income) relating to:				
Origination and reversal of temporary differences	(3)	(23)	(4)	(2)
Reduction in tax rate	–	–	–	2
Tax expense (income)	**$ (6)**	$ (1)	**$ (2)**	$ 1

Income tax recognized in other comprehensive income was as follows:

For the 13 weeks ended	**June 30, 2012**			July 2, 2011		
	Before tax	**Tax impact**	**Net of tax**	Before tax	Tax impact	Net of tax
Items that will not be reclassified to Net profit (loss)						
Actuarial losses on defined benefit plans	$ (827)	$ 207	$ (620)	$ –	$ –	$ –
Items that may be reclassified subsequently to Net profit (loss)						
Unrealized gains on available-for-sale financial assets	12	(3)	9	13	(3)	10
Realized gains reclassified to Net profit (loss)	–	–	–	(4)	1	(3)
	$ (815)	**$ 204**	**$ (611)**	$ 9	$ (2)	$ 7

For the 26 weeks ended	**June 30, 2012**			July 2, 2011		
	Before tax	**Tax impact**	**Net of tax**	Before tax	Tax impact	Net of tax
Items that will not be reclassified to Net profit (loss)						
Actuarial losses on defined benefit plans	$ (1,012)	$ 251	$ (761)	$ –	$ –	$ –
Items that may be reclassified subsequently to Net profit (loss)						
Unrealized gains on available-for-sale financial assets	5	(1)	4	4	(1)	3
Realized gains reclassified to Net profit (loss)	–	–	–	(5)	1	(4)
	$ (1,007)	**$ 250**	**$ (757)**	$ (1)	$ –	$ (1)

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

8. Goodwill

The carrying amounts of goodwill for those segments that have a goodwill balance were as follows:

						June 30, 2012		December 31, 2011
		Purolator segment		**Logistics segment**		**Total**		Total
Balance, beginning of period	$	121	$	4	$	125	$	125
Goodwill acquired during the period (Note 4)		–		5		5		–
Balance, end of period	**$**	**121**	**$**	**9**	**$**	**130**	$	125

Goodwill impairment testing

Impairment testing is carried out annually for goodwill as at June 30 for the Purolator segment and September 30 for the Logistics segment. The recoverable amount of each segment was estimated based on its value in use and was determined to be higher than its carrying value. As a result, no impairment was recognized in the current or prior comparative period, or prior year.

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

- Future cash flows were discounted in determining the value in use. The cash flows were based on Purolator's five-year plan, which is aligned with how Purolator is managed. Cash flows were extrapolated in perpetuity using a growth rate of 3.5% (2011 – 3.5%), which considers both growth and inflation, and reflects an acceptable percentage given the current market.
- The recoverable amount was calculated using a pre-tax discount rate of 19% (2011 – 19%), which is based on Purolator's weighted average cost of capital as at June 30, 2012 (2011 – June 30).

9. Contingent Liabilities

(a) 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 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.

(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.

After being appointed arbitrator by the Minister of Labour for final offer selection arbitration as provided for in the legislation, the Honourable Justice Coulter Osborne submitted his resignation as arbitrator to the Minister of Labour on November 1, 2011. The Minister of Labour subsequently appointed Guy Dufort as the new arbitrator in the negotiations between the Corporation and the CUPW, effective March 19, 2012. The CUPW asked Mr. Dufort to recuse himself from the arbitration, which he has declined to do. On application by the CUPW, the Federal Court stayed the arbitration proceedings pending the review of Mr. Dufort's decision not to recuse himself. On July 25, 2012, submissions by the CUPW, the Corporation and the Federal Attorney General were heard by the Federal Court. After taking the case under deliberation, on August 8, 2012, the presiding judge agreed with the CUPW, ordered Mr. Dufort to recuse himself and the Minister of Labour to appoint another arbitrator. The Corporation is awaiting the appointment of the new arbitrator by the Minister. 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) 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.

(d) 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.

(e) 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 interim condensed 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 that 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.

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

10. Other Operating Costs

Other operating costs consisted of the following:

	13 weeks ended		26 weeks ended	
	June 30, 2012	July 2, 2011	**June 30, 2012**	July 2, 2011
Non-labour collection, processing and delivery	$ 319	$ 299	$ 671	$ 651
Property, facilities and maintenance	80	79	164	163
Selling, administrative and other	135	152	276	291
Other operating costs	**$ 534**	$ 530	**$ 1,111**	$ 1,105

11. Investing and Financing Income (Expense)

Investing and financing income and expense consisted of the following:

	13 weeks ended		26 weeks ended	
	June 30, 2012	July 2, 2011	**June 30, 2012**	July 2, 2011
Interest revenue	$ 3	$ 4	$ 6	$ 9
Gain on sale of capital assets	16	3	17	3
Other income	–	–	3	–
Investment and other income	**$ 19**	$ 7	**$ 26**	$ 12
Interest expense	$ (11)	$ (12)	$ (23)	$ (25)
Other expense	(1)	(1)	(5)	(1)
Finance costs and other expense	**$ (12)**	$ (13)	**$ (28)**	$ (26)
Investing and financing income (expense), net	**$ 7**	$ (6)	**$ (2)**	$ (14)

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

12. Foreign Exchange Risk

The Group of Companies' exposure to foreign exchange risk arises mostly from international settlements with foreign postal administrations and from the redemption of money orders denominated in foreign currencies. The Corporation's obligation to settle with foreign postal administrations is denominated in Special Drawing Rights ("SDRs"), a basket of currencies comprising the U.S. dollar ("US$"), euro ("€"), British pound ("£") and yen ("¥"), whereas payment is usually denominated in US$.

In the first half of the year, the Corporation continued its economic hedge program to mitigate its exposure to foreign exchange balances and also implemented an economic hedge program to mitigate its exposure to 2012 forecasted sales denominated in SDRs. These exposures are first netted against forecasted expenses denominated in SDRs, and the remaining exposure may be hedged using foreign exchange forward contracts denominated in the four currencies, which underlie one SDR. Under the program, hedging is permitted on up to 70% of forecasted net exposures where cash flows are highly probable. The notional amounts of forward contracts outstanding were as follows:

As at June 30, 2012

Currency	Nominal value	Canadian equivalent	Average contract rate	Maturity range	Type	Fair value
U.S. dollar	US$65	$ 67	$1.03/US$	July 12 – Dec. 21, 2012	Sell forward	$ –
Euro	€38	49	$1.30/€	July 13 – Dec. 21, 2012	Sell forward	–
British pound	£9	14	$1.58/£	July 13 – Dec. 21, 2012	Sell forward	–
Yen	¥1,045	14	$0.013/¥	July 13 – Dec. 21, 2012	Sell forward	1
Total		$ 144				**$ 1**

As at December 31, 2011

Currency	Nominal value	Canadian equivalent	Average contract rate	Maturity	Type	Fair value
U.S. dollar	US$28	$ 29	$1.02/US$	January 17, 2012	Sell forward	$ –
Euro	€12	16	$1.36/€	January 18, 2012	Sell forward	1
British pound	£2	3	$1.60/£	January 18, 2012	Sell forward	–
Yen	¥260	3	$0.013/¥	January 18, 2012	Sell forward	–
Total		$ 51				$ 1

The fair value of these contracts is recorded in trade and other receivables as risk management financial assets, or in trade and other payables as risk management financial liabilities. The Corporation does not apply hedge accounting and the fair value measurement of these contracts is level 2 in the fair value hierarchy.

The related unrealized gains and the realized gains (losses) on forward contracts recognized in the period were as follows:

	13 weeks ended		26 weeks ended	
	June 30, 2012	July 2, 2011	**June 30, 2012**	July 2, 2011
Unrealized gains	$ –	$ 1	$ –	$ 1
Realized gains (losses)	–	(2)	1	(2)
Total	**$ –**	$ (1)	**$ 1**	$ (1)

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

13. 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 Group of Companies had the following transactions with related parties in addition to those disclosed elsewhere in these interim condensed consolidated financial statements:

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

Transactions with the Government of Canada, its agencies and other Crown corporations consisted of the following:

	13 weeks ended		26 weeks ended	
	June 30, 2012	July 2, 2011	**June 30, 2012**	July 2, 2011
Related party revenue	**$ 69**	$ 107	**$ 150**	$ 186
Compensation payments for programs				
Government mail and mailing of materials for the blind	**$ 5**	$ 5	**$ 11**	$ 11
Food Mail Program	**–**	–	**–**	14
Payments from related parties for premises leased from the Corporation	**$ 1**	$ 1	**$ 3**	$ 3
Related party expenditures	**$ 7**	$ 8	**$ 16**	$ 13

The majority of the related party revenue was for commercial contracts relating to postal services with the Government of Canada. As well, compensation was provided by the Government of Canada for parliamentary mail services and mailing of materials for the blind sent free of postage, and the Food Mail Program. The Government of Canada compensated the Corporation for the difference between the cost of shipping eligible goods under the federal Food Mail Program and the applicable postage paid by shippers, pursuant to an agreement with the Department of Indian Affairs and Northern Development (now Aboriginal Affairs and Northern Development Canada). The Food Mail Program was terminated March 31, 2011.

The amounts due to and from related parties and included in the interim condensed consolidated statement of financial position were as follows:

As at	**June 30, 2012**	December 31, 2011
Due to/from related parties		
Included in trade and other receivables	**$ 19**	$ 28
Included in trade and other payables	**$ 7**	$ 9
Deferred revenue from related parties	**$ 5**	$ 6

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

During the 13 and 26 weeks ended June 30, 2012, the Corporation provided administration services to the Canada Post Corporation Registered Pension Plan in the amounts of $2 million and $4 million, respectively (July 2, 2011 – $1 million and $3 million, respectively). As at June 30, 2012, $2 million (December 31, 2011 – $1 million) relating to transactions with the Registered Pension Plan is outstanding and included in trade and other receivables.

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

(c) Other

During the 26 weeks ended June 30, 2012, 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 amounts of $26 million and $55 million for the 13 and 26 weeks ended June 30, 2012, respectively (July 2, 2011 – $28 million and $57 million, respectively). As at June 30, 2012, $3 million is due to the company from the subsidiary (December 31, 2011 – $6 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.

14. Segmented Information

Operating segments • 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 external customer's purchases account for more than 10% of total revenues.

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

As at and for the 13 weeks ended June 30, 2012

	Canada Post	Purolator	Logistics	Other	Intersegment and consolidation	Total
Revenue from external customers	$ 1,423	$ 395	$ 35	$ –	$ –	$ 1,853
Intersegment revenue	6	21	5	59	(91)	–
Revenue from operations	$ 1,429	$ 416	$ 40	$ 59	$ (91)	$ 1,853
Labour and employee benefits	$ 1,040	$ 181	$ 16	$ 23	$ –	$ 1,260
Other operating costs	371	199	19	35	(90)	534
Depreciation and amortization	60	15	2	1	(2)	76
Cost of operations	$ 1,471	$ 395	$ 37	$ 59	$ (92)	$ 1,870
Profit (loss) from operations	$ (42)	$ 21	$ 3	$ –	$ 1	$ (17)
Investment and other income	19	–	–	–	–	19
Finance costs and other expense	(11)	(1)	–	–	–	(12)
Profit (loss) before tax	$ (34)	$ 20	$ 3	$ –	$ 1	$ (10)
Tax expense (income)	(12)	5	1	–	–	(6)
Net profit (loss)	$ (22)	$ 15	$ 2	$ –	$ 1	$ (4)
Total assets	$ 6,292	$ 759	$ 86	$ 87	$ (389)	$ 6,835

As at and for the 13 weeks ended July 2, 2011

	Canada Post	Purolator	Logistics	Other	Intersegment and consolidation	Total
Revenue from external customers	$ 1,338	$ 392	$ 31	$ –	$ –	$ 1,761
Intersegment revenue	4	23	3	41	(71)	–
Revenue from operations	$ 1,342	$ 415	$ 34	$ 41	$ (71)	$ 1,761
Labour and employee benefits	$ 968	$ 180	$ 13	$ 11	$ –	$ 1,172
Other operating costs	361	196	18	25	(70)	530
Depreciation and amortization	57	14	1	–	(1)	71
Cost of operations	$ 1,386	$ 390	$ 32	$ 36	$ (71)	$ 1,773
Profit (loss) from operations	$ (44)	$ 25	$ 2	$ 5	$ –	$ (12)
Investment and other income	12	–	–	–	(5)	7
Finance costs and other expense	(12)	(1)	–	–	–	(13)
Profit (loss) before tax	$ (44)	$ 24	$ 2	$ 5	$ (5)	$ (18)
Tax expense (income)	(9)	6	1	1	–	(1)
Net profit (loss)	$ (35)	$ 18	$ 1	$ 4	$ (5)	$ (17)
Total assets	$ 5,462	$ 702	$ 80	$ 47	$ (337)	$ 5,954

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

As at and for the 26 weeks ended June 30, 2012

	Canada Post	Purolator	Logistics	Other	Intersegment and consolidation	Total
Revenue from external customers	$ 2,957	$ 769	$ 67	$ –	$ –	$ 3,793
Intersegment revenue	11	45	8	99	(163)	–
Revenue from operations	$ 2,968	$ 814	$ 75	$ 99	$ (163)	$ 3,793
Labour and employee benefits	$ 2,108	$ 367	$ 30	$ 36	$ –	$ 2,541
Other operating costs	772	405	37	58	(161)	1,111
Depreciation and amortization	120	31	3	1	(3)	152
Cost of operations	$ 3,000	$ 803	$ 70	$ 95	$ (164)	$ 3,804
Profit (loss) from operations	$ (32)	$ 11	$ 5	$ 4	$ 1	$ (11)
Investment and other income	32	–	–	–	(6)	26
Finance costs and other expense	(23)	(2)	–	–	(3)	(28)
Profit (loss) before tax	$ (23)	$ 9	$ 5	$ 4	$ (8)	$ (13)
Tax expense (income)	(8)	3	2	1	–	(2)
Net profit (loss)	$ (15)	$ 6	$ 3	$ 3	$ (8)	$ (11)
Total assets	$ 6,292	$ 759	$ 86	$ 87	$ (389)	$ 6,835

As at and for the 26 weeks ended July 2, 2011

	Canada Post	Purolator	Logistics	Other	Intersegment and consolidation	Total
Revenue from external customers	$ 2,894	$ 738	$ 62	$ –	$ –	$ 3,694
Intersegment revenue	9	49	6	76	(140)	–
Revenue from operations	$ 2,903	$ 787	$ 68	$ 76	$ (140)	$ 3,694
Labour and employee benefits	$ 2,030	$ 348	$ 29	$ 22	$ –	$ 2,429
Other operating costs	773	393	32	45	(138)	1,105
Depreciation and amortization	114	27	3	–	(2)	142
Cost of operations	$ 2,917	$ 768	$ 64	$ 67	$ (140)	$ 3,676
Profit (loss) from operations	$ (14)	$ 19	$ 4	$ 9	$ –	$ 18
Investment and other income	18	–	–	–	(6)	12
Finance costs and other expense	(25)	(1)	–	–	–	(26)
Profit (loss) before tax	$ (21)	$ 18	$ 4	$ 9	$ (6)	$ 4
Tax expense (income)	(8)	5	1	3	–	1
Net profit (loss)	$ (13)	$ 13	$ 3	$ 6	$ (6)	$ 3
Total assets	$ 5,462	$ 702	$ 80	$ 47	$ (337)	$ 5,954

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

General inquiries: 1-866-607-6301
For more detailed contact information, please visit our website at canadapost.ca.

Canada

CANADA POST POSTES CANADA

From anywhere... to anyone