2013 First Quarter Financial Report

For the period ended March 30, 2013

Canada

CANADA POST POSTES CANADA

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis (MD&A) provides a narrative discussion outlining the financial results and operational changes for the first quarter ended March 30, 2013 for Canada Post Corporation (Corporation or Canada Post) and its subsidiaries – Purolator Holdings Ltd. (Purolator), SCI Group Inc. (SCI) and Innovapost Inc. (Innovapost). These companies are collectively referred to as the Canada Post Group of Companies or the Group of Companies. Each of the Corporation's quarters contains 13 weeks and this MD&A covers the 13 weeks ended March 30, 2013. This discussion should be read with the unaudited interim condensed consolidated financial statements for the 13 weeks ended March 30, 2013, 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 are presented in Canadian dollars. We also recommend that this information be read in conjunction with the Corporation's annual consolidated financial statements and MD&A for the year ended December 31, 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 May 23, 2013, unless otherwise noted.

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

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Materiality

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

Forward-looking statements

The unaudited interim condensed consolidated financial statements and the MD&A contain forward-looking statements that reflect management's expectations regarding the Group of Companies' objectives, plans, strategies, future growth, results of operations, performance, and business prospects and opportunities. Forward-looking statements are typically identified by words or phrases such as "plans," "anticipates," "expects," "believes," "estimates," "intends," and other similar expressions. These forward-looking statements are not facts, but only estimates regarding future results. These estimates are based on certain factors or assumptions regarding expected growth, results of operations, performance, business prospects and opportunities (assumptions). While management considers these assumptions to be reasonable based on available information, they may prove to be incorrect. These estimates of future results are subject to a number of risks, uncertainties and other factors that could cause actual results to differ materially from what the Group of Companies expects. These risks, uncertainties and other factors include, but are not limited to, those risks and uncertainties set forth in Section 5 – Risks and Risk Management on page 11 of this MD&A (risks).

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

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

The forward-looking statements included in the unaudited interim condensed consolidated financial statements and MD&A are made only as of May 23, 2013, and the Corporation does not undertake to publicly update these statements to reflect new information, future events or changes in circumstances or for any other reason after this date.

1 Executive Summary

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

The Canada Post Group of Companies consists of Canada Post and its subsidiaries – Purolator Holdings Ltd., SCI Group Inc., and Innovapost Inc. The Group of Companies is one of Canada's largest employers, employing about 68,000 employees as at December 31, 2012. Every year, 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 6,400 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 $1.5 billion for the first quarter of 2013 (79% of total revenue) and $5.9 billion for the full year ending December 2012 (78% of total revenue). The Corporation manages its consolidated operations and determines its operating segments on the basis of the legal entities. There are four reportable operating segments: Canada Post, Purolator, Logistics, and Innovapost.

Significant changes and business developments

The Canada Post Group of Companies is at a pivotal stage in its history. The value of Canada Post's exclusive privilege to deliver mail has significantly declined due to electronic substitution, and Lettermail volumes are quickly eroding. In addition, the Direct Marketing business is facing intense competition from digital solutions that use mobile and smart technologies, and both Canada Post and Purolator parcels businesses operate in a highly competitive environment. On the cost side, Canada Post's large pension solvency deficit is putting significant financial pressure on the Corporation. To stay relevant, Canada Post must reconfigure its business model, including making fundamental structural changes to its network, delivery and other aspects of its business. This is necessary in order for Canada Post to remain competitive, to be able to continue to offer Canadian businesses and consumers affordable services, and to be financially self-sustainable.

In April 2013, The Conference Board of Canada released its report, *The Future of Postal Service in Canada*. Canada Post commissioned the Conference Board of Canada to conduct this independent assessment of the future of postal service in Canada and to consider potential paths forward. The purpose of the report was not to recommend any one or particular combinations of options, but rather to illustrate both the potential financial impact of a range of choices and how such changes would be seen by Canada Post's business and residential customers. The report highlighted the dramatic impact that technology is having on the way Canadians use postal services and projected that Canada Post's Transaction Mail, Addressed Admail, Unaddressed Admail, and Publications Mail volumes will continue to significantly decline, pushing the Corporation into significant annual operating losses if its business model is not reconfigured. The Conference Board also stated in its report that no single change to prices or service standards will be sufficient to prevent significant and growing losses on postal operations as mail volumes continue to decline. This report provides a framework for dialoguing with Canadians and the Government of Canada on various options to build a new Canada Post for the next generation of Canadians.

Financial highlights

For the first quarter ended March 30, 2013, the Canada Post Group of Companies experienced a consolidated loss from operations of $51 million, compared to a loss from operations of $64 million in the same period in 2012. On a consolidated basis, the Group of Companies earned a profit before tax of $51 million, compared to a loss before tax of $73 million in the first quarter of 2012. The Group of Companies would have experienced a loss before tax of $58 million in the first quarter of 2013 had it not been for the $109 million gain from the sale of Canada Post's downtown Vancouver mail processing plant. Operating losses have resulted primarily from mail volume erosion due to a number of factors, including electronic substitution, bill consolidation and intense competition.

The Canada Post segment reported a loss from operations of $41 million and a profit before tax of $68 million for the first quarter of 2013. Revenue totalled $1,513 million in the first quarter of 2013 and, despite price increases, was mainly flat compared to the same period in 2012. Total volumes declined by over 136 million pieces in the first quarter of 2013 compared to 2012 and continued to be adversely affected by mail erosion driven by electronic substitution. Consumers, businesses, and governments are continuing to shift to electronic delivery, sparked by consumer preferences and by efforts of business and governments to reduce costs. Parcel volumes increased by approximately 300,000 pieces or 4% and Parcels revenue grew by 2.9% on a trading day adjusted basis in the first quarter of 2013 compared to the same period in 2012.

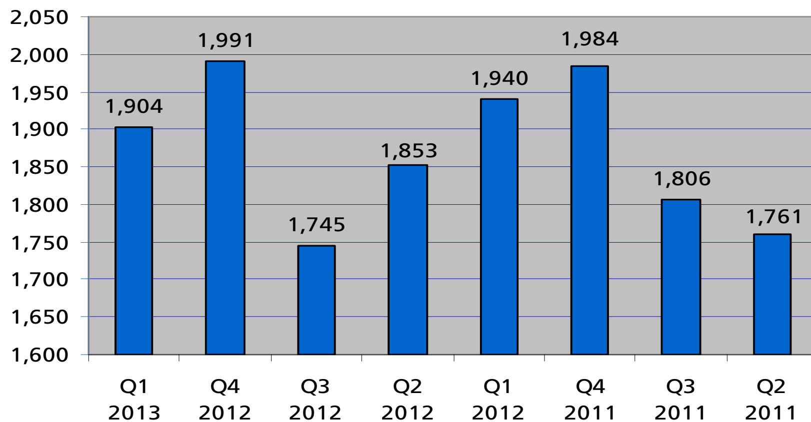
In January 2013, Canada Post disposed of its downtown Vancouver mail processing plant for net proceeds of $152 million. The plant was one of Canada Post's most significant properties and was classified as held for sale at December 31, 2012. The proceeds from the sale will increase the available cash flow for 2013. Canada Post is constructing a new multi-purpose facility at the Vancouver International Airport that is expected to be fully operational in 2014. When completed, the facility will process letters, parcels, packets and advertising mail under one roof and will be able to process mail faster, improve its delivery logistics and provide better customer service.

Effective January 1, 2013, the Group of Companies applied, retrospectively, amendments to IAS 19 "Employee Benefits" (IAS 19), which makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. As a result of the amendments, the Group of Companies' 2012 consolidated financial statements were restated, resulting in a reduction in net profit, comprehensive loss and other comprehensive loss of $178 million, $26 million and $204 million, respectively, from what was originally reported. For the 13 weeks ended March 31, 2012, the resulting impact was an increase in net loss and comprehensive loss of $52 million and $1 million, respectively, and a decrease in other comprehensive loss of $51 million. The biggest impact for the Group of Companies related to the change in calculating interest income on plan assets where the discount rate is now used to measure the plan obligation (compared to the expected long-term rate of return). For more information on IAS 19, please refer to Section 9.2 – Accounting pronouncements on page 26 and Note 3 – Application of New and Revised International Financial Reporting Standards in the unaudited interim condensed consolidated financial statements for the 13 weeks ended March 30, 2013 on page 34.

Canada Post, as pension plan sponsor, is responsible for making current service contributions to its pension plans as well as special payments to cover any funding shortfalls. The large pension commitments, given their size compared to revenue and profit, continue to have a significant impact on the Corporation's financial performance and cash resources. In the first quarter of 2013, market volatility had a positive impact on the Group of Companies' defined benefit plans, which resulted in remeasurement gains of $281 million, net of tax, being recorded in other comprehensive income. These remeasurement gains were mostly the result of positive market change in the first quarter of 2013, offset by the continued decrease in discount rates. Although this helped to improve the Group of Companies' equity, total equity remained negative at $2.3 billion as at March 30, 2013.

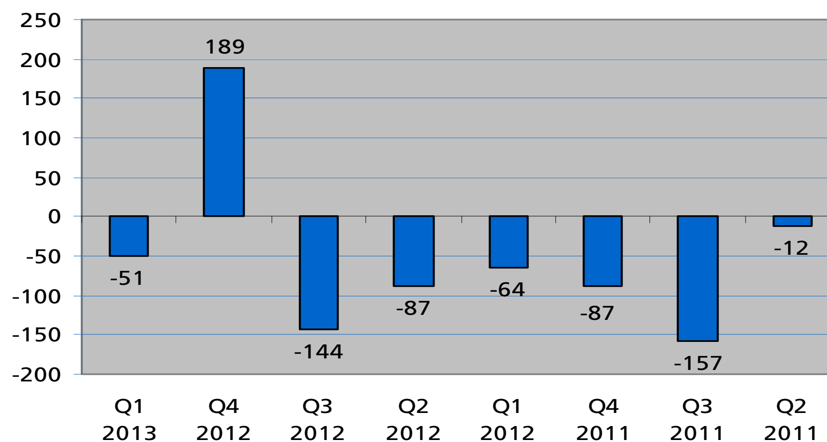
The following bar charts show the Corporation's consolidated results for the last eight quarters. Volumes of the Corporation's consolidated operations have historically varied throughout the year, with the highest demand for services occurring during the holiday season in the fourth quarter. Volumes 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[1]
(in millions of dollars)



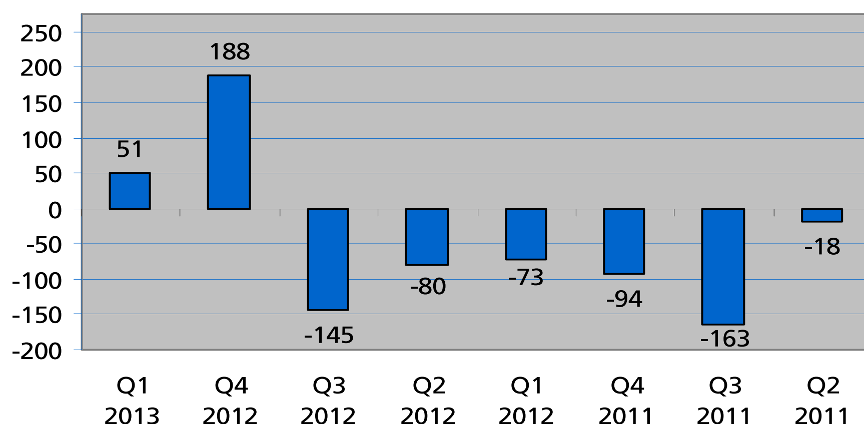
1. Consolidated revenue from operations for Q2 2011 reflects the impact of the June 2011 labour disruption at Canada Post.

Quarterly consolidated profit (loss) from operations[2]
(in millions of dollars)

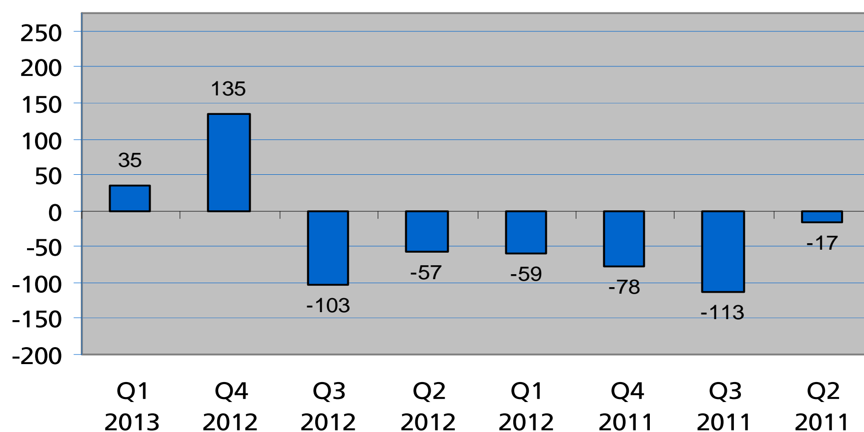


2. The amounts for 2012 have been restated as a result of the adoption of new or revised accounting standards. See Note 3 – Application of New and Revised International Financial Reporting Standards in the accompanying financial statements for more details.

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



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



1. The amounts for 2012 have been restated as a result of the adoption of new or revised accounting standards. See Note 3 – Application of New and Revised International Financial Reporting Standards in the accompanying financial statements for more details.

The following table presents the Corporation's consolidated performance for the first quarter of 2013, compared to the same period in the prior year.

(in millions of dollars)	13 weeks ended				
	March 30, 2013	March 31, 2012 (restated)[1]	Change	%	Explanation of change
Consolidated Statement of Comprehensive Income					Highlights, as discussed in Section 8 – Discussion of Operations on page 19
Revenue from operations	1,904	1,940	(36)	1.3%*	Slight improvement on a trading day adjusted basis in the first quarter of 2013, primarily driven by annual pricing action partially offset by volume erosion in Transaction Mail and Direct Marketing in the Canada Post segment and parcel volume declines in the Purolator segment.
Cost of operations	1,955	2,004	(49)	(2.4)%	Decreases largely driven by decreased labour costs in the Canada Post segment mainly from the timing of expenses and one less paid day in the first quarter of 2013.
Profit (loss) before tax	51	(73)	124	–%	Increase mainly due to a $109-million gain on the sale of the Vancouver mail processing plant in the Canada Post segment.
Net profit (loss)	35	(59)	94	–%	
Comprehensive income (loss)	313	(154)	467	–%	Remeasurement gains on the pension and other employee benefit plans were recorded in the first quarter of 2013.
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	(42)	3	(45)	–%	Negative cash flow variance in first quarter of 2013 primarily driven by a change in non-cash operating working capital.
Cash provided by (used in) investing activities	146	(113)	259	–%	Positive cash flow variance mainly due to the sale of Canada Post's Vancouver processing plant in the first quarter of 2013.
Cash used in financing activities	(5)	(5)	(0)	(7.5)%	No material change.

* Adjusted for trading days, where applicable.

1. The amounts for 2012 have been restated as a result of the adoption of new or revised accounting standards. See Note 3 – Application of New and Revised International Financial Reporting Standards in the accompanying financial statements for more details.

2 Core Businesses and Strategy

A discussion of the business and strategy of our core businesses

Canada Post faces the same challenges as its global counterparts – managing the decline in core Transaction Mail volumes, while still maintaining an extensive and growing delivery network as required by our service mandate. Advertising mail, which was expected to replace some of the lost revenue from Transaction Mail, has been negatively affected by electronic substitution and the slow economic recovery. Growth in the e-commerce market has contributed to higher volumes and revenue in our Parcels business but this segment is highly price competitive and the growth is not large enough to offset mail volume declines.

Our core business and strategy were described in Section 2 – Core Businesses and Strategy of the 2012 Annual MD&A. There were no material changes to the strategies during the first quarter of 2013.

3 Key Performance Drivers

A discussion of the key drivers of our performance and our progress against 2013 objectives

The Canada Post segment uses performance scorecards to measure the Corporation's progress relative to its key 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 2012 Annual MD&A, Canada Post's priorities include operational transformation (including achieving operational excellence) and the pursuit of growth opportunities (such as competing more aggressively in e-commerce and maximizing the mail) that build on or complement our core assets and capabilities. In this regard, Canada Post has developed a number of key performance measures that support progress toward achieving its strategic priorities.

Key performance measures include the following:

- financial imperatives for the physical and digital delivery networks (including business growth and cost efficiencies),
- service performance targets,
- employee safety (including accident frequency),
- customer experience enhancements,
- ongoing implementation of Postal Transformation and realization of benefits,
- Group of Company synergies,
- leveraging of the retail network to enhance the e-commerce strategy.

Performance results for 2013 will be updated at the end of the year and included as part of the 2013 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 2012 Annual MD&A. Updates are provided below.

4.1 Labour relations

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

Canada Post segment

Legal developments

On November 17, 2011, the Supreme Court of Canada ruled in favour of the Public Service Alliance of Canada (PSAC) and the Canadian Human Rights Commission in a pay equity complaint against Canada Post dating back to 1983. Over several months in 2012, the Corporation and PSAC attempted to negotiate a global solution regarding the implementation of the ruling. However, in July 2012, PSAC applied to the Canadian Human Rights Tribunal to request a ruling on issues that remained in dispute. In October 2012, PSAC withdrew its request before the Tribunal to seek enforcement under the *Federal Courts Act* and *Canadian Human Rights Act*. On December 3, 2012, PSAC filed a motion in Federal Court to obtain an order securing payment. An initial hearing was held on January 8, 2013. Subsequent hearing dates were established; however, the parties agreed to postpone them to allow for implementation discussions to continue. In the meantime, a team of 60 employees continue to review tens of thousands of individual employee files in preparation of payment.

Labour relations activities

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

The collective agreement with PSAC/UPCE expired on August 31, 2012. PSAC represents two groups of employees, those who perform administrative work, including call centres, administration, pay and production, control and reporting as well as technical employees from areas such as finance and engineering. Collective bargaining with PSAC is ongoing, with three weeks of discussions having occurred at the end of the first quarter of 2013 and one in the second quarter. The Corporation has provided proposals that will help secure the future of its employees and help ensure that it remains relevant and competitive. The hope is to reach a mutual understanding of the structural challenges facing the Corporation and achieve a negotiated settlement that helps address some of these challenges.

Canadian Union of Postal Workers – Urban Postal Operations (CUPW-UPO)

As discussed in the 2012 Annual MD&A, Canada Post signed three collective agreements with the Canadian Union of Postal Workers (CUPW) on December 21, 2012, two that apply to the Canadian Union of Postal Workers – Urban Postal Operations (CUPW-UPO) and one that applies to the Canadian Union of Postal Workers – Rural and Suburban Mail Carriers (CUPW-RSMC). The new CUPW-UPO agreements bring significant changes, such as lower starting wages for new employees, a zero per cent wage increase for the year 2015-16, and the adoption of the short-term disability program in place of the traditional sick leave program. These changes will help bring the Corporation's cost structure more in line with that of the competition. The focus of the first quarter of 2013 has been on effective and efficient implementation of the new collective agreements to obtain the savings that have been negotiated. A variety of efforts including 47 presentations to more than 3,000 team leaders across the country as well as improved how-to guides are helping to achieve this goal. Discussions have also continued between the Corporation and the CUPW national office regarding implementation issues.

CUPW-RSMC

The collective agreement reached with CUPW-RSMC on December 21, 2012 includes wage and benefit improvements. As with CUPW-UPO, the focus of the first quarter of 2013 has been to assist in the efficient implementation of the negotiated changes. To that end, the Corporation continues to meet and discuss issues related to the implementation of the negotiated changes.

Association of Postal Officials of Canada (APOC)

The five-year collective agreement with APOC will expire on March 31, 2014. The Association represents supervisors and supervisory support groups, such as trainers, route measurement officers and sales employees. Negotiations for a new collective agreement will begin later in 2013. The APOC collective agreement provides for final offer selection arbitration as a means of resolving outstanding issues when a negotiated settlement cannot be reached. The process is used in place of a strike or lockout.

Canadian Postmasters and Assistants Association (CPAA)

The Corporation is in its second-last year of a five-year collective agreement with the CPAA, which will expire on December 31, 2014. The CPAA represents rural post office postmasters and assistants. There were no developments in labour relations activities in the first quarter of 2013. As with the APOC collective agreement, the CPAA agreement refers to the final offer selection process as a means to resolving outstanding issues in place of a strike or lockout.

Purolator segment

In 2012, Purolator and a number of Teamster local unions, which represent a significant portion of clerical and administrative employees in Canada, commenced bargaining to renew agreements that expired on December 31, 2012. In addition, an agreement in British Columbia with the Union of Postal Communication Employees expired on December 31, 2012.

As at March 30, 2013, four local agreements have been ratified (Local 938/91 [Ontario], Local 879 [Ontario], Local 987 [Alberta] and Local 979 [Manitoba]). Purolator does not foresee any issues that will prevent it from reaching the same agreements with the outstanding groups.

Logistics segment – SCI Group

As of the end of 2012, the membership of the Communications, Energy and Paperworkers (CEP) voted to proceed with a merger with the Canadian Auto Workers (CAW). The steering or founding committee of the new union is working on the constitution and related governance structures in preparation for the founding convention of the new union in September 2013.

4.2 Internal controls and procedures

Changes in internal control over financial reporting

During the first quarter of 2013, 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 the Canada Post segment's risks is provided in Section 5.2 – Strategic risks and Section 5.3 – Operational risks of the 2012 Annual MD&A. Updates to these risks for the first quarter of 2013 are provided below.

5.1 Strategic risks

Labour agreements

In 2012, agreements were reached on new contracts with CUPW-UPO and CUPW-RSMC, providing cost savings and operational flexibility. Negotiations have begun on a new agreement with PSAC/UPCE and are continuing in 2013.

Economic uncertainty

Global economic growth will remain slow in 2013 reflecting fiscal consolidation, household deleveraging and cautious spending by businesses in most of the established economies. The eurozone is still dealing with an austerity-induced recession, coupled with high unemployment in the south and exacerbated by the recent crisis in Cyprus. The U.S. economy has shown moderate growth, which could be quickly derailed by the impacts of sequestration and the $85 billion reduction in spending that automatically kicked in on March 1 of this year. Any slowdown in the U.S. economy will have an impact on export-dependant economies such as Canada's.

Canada's economy finished 2012 with a growth rate of just 1.8%, and 2013 is expected to remain under 2%. Canada's growth in 2012 was lower than that of the U.S. for the first time in six years. With the recent decline of mid-sized manufacturing businesses, the economy is ever more reliant on commodity exports, particularly to the U.S. Inflation continues to track well below the Bank of Canada target rate of 2%, meaning that interest rate hikes are not likely for a while yet, although downward pressure on the dollar could force some response later in the year. The uncertain nature of the economic recovery continues to be a primary contributing factor to the pace of mail volume erosion, particularly for the Direct Marketing product group. While parcel volumes have grown in 2012 and in the first quarter of 2013 on the strength of the growing e-commerce market, maintaining growth in the current economic climate will necessitate controlling costs to remain price competitive.

5.2 Operational risks

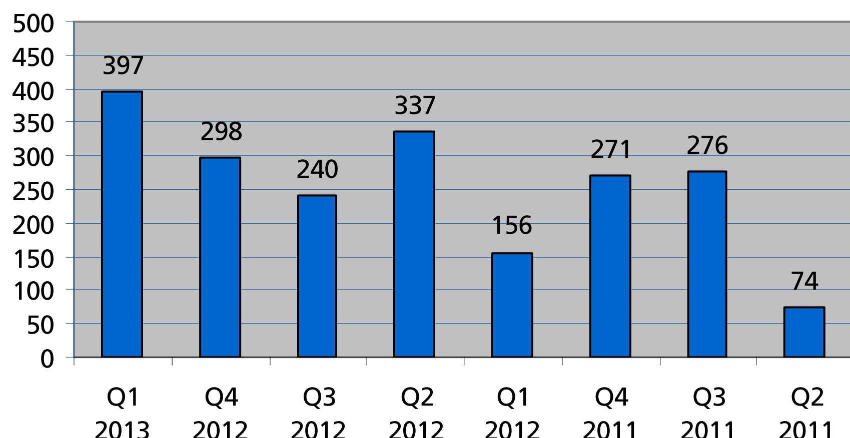
Except as noted below, there are no material changes to the operational risks disclosed in Section 5.3 – Operational risks of the 2012 Annual MD&A. These risks include operational excellence, health and safety, security and privacy, business continuity, IT transformation, attrition, service quality, environmental sustainability, and legal risks. With respect to legal risks, a settlement to the class action has been agreed to between the Corporation and Lee Valley Tools, a settlement which is subject to court approval. The results from operations for the first quarter ended March 30, 2013 reflect this settlement. In addition, as of May 23, 2013, three complaints have been filed with the Canadian Human Rights Commission alleging, among other things, discrimination by the Corporation concerning work of equal value. The Commission had previously declined jurisdiction in respect of similar complaints filed in 2012. These complaints contend, among other things, that the Corporation is in violation of the *Canadian Human Rights Act* by denying pay equity between the RSMC unit and external employees in the Corporation's postal operations unit. The outcome of these claims is currently not determinable, and as a result no provision has been recorded.

6 Liquidity and Capital Resources

A discussion of our cash flow, liquidity and capital resources

6.1 Cash and cash equivalents

(in millions of dollars)



The Group of Companies held cash and cash equivalents of $397 million as at March 30, 2013 – an increase of $99 million compared to December 31, 2012. The increase is mainly due to $153 million in cash generated from the sale of assets (substantially all from the sale of Canada Post's downtown Vancouver mail processing plant in January 2013), $67 million in net sales of short-term securities partially offset by net capital asset and business acquisitions of $74 million, $42 million in cash used in operating activities and $5 million in capital lease payments.

6.2 Operating activities

	13 weeks ended		
(in millions of dollars)	March 30, 2013	March 31, 2012	Change
Cash provided by (used in) operating activities	(42)	3	(45)

Cash used in operations in the first quarter of 2013 increased by $45 million, compared to the same period in the prior year. This cash flow variance was primarily driven by a $65-million change in non-cash operating working capital.

6.3 Investing activities

(in millions of dollars)	13 weeks ended March 30, 2013	13 weeks ended March 31, 2012	Change
Cash provided by (used in) investing activities	146	(113)	259

Cash generated from investing activities increased by $259 million in the first quarter of 2013 mostly due to a $133 million increase in proceeds from the sales of capital assets (mainly the sale of Canada Post's Vancouver mail processing plant), lower business and capital asset acquisitions of $61 million and a $65 million increase in net short-term investment proceeds.

Capital expenditures

(in millions of dollars)	13 weeks ended March 30, 2013	13 weeks ended March 31, 2012	Change
Canada Post	71	115	(44)
Purolator	3	10	(7)
Logistics	1	1	0
Innovapost and intersegment	(1)	(2)	1
Canada Post Group of Companies	**74**	**124**	**(50)**

Capital expenditures for the Group of Companies declined in the first quarter of 2013, when compared to the same period last year, mainly due to a decrease in spending on Postal Transformation.

6.4 Financing activities

(in millions of dollars)	13 weeks ended March 30, 2013	13 weeks ended March 31, 2012	Change
Cash used in financing activities	(5)	(5)	(0)

There were no significant changes in financing activities in the first quarter of 2013, when compared to the same period in 2012.

6.5 Canada Post Corporation Registered Pension Plan

The Canada Post Corporation Registered Pension Plan (RPP) has assets with a market value of over $16 billion, making it one of the largest single-employer pension plans in Canada. A description of the effects of the RPP on liquidity is provided in Section 6.5 – Canada Post Corporation Registered Pension Plan of the 2012 Annual MD&A. An update is provided below.

Based on existing legislation, the current estimate of the financial position of the RPP as at December 31, 2012, is a going-concern surplus of approximately $98 million[1] (using the smoothed value of RPP assets) and a solvency deficit to be funded of approximately $5.9 billion[1, 2] (using the three-year average solvency ratio basis).

As the RPP sponsor, Canada Post is responsible for funding shortfalls in the RPP and is required to make special contributions to cover going-concern and/or solvency deficits over specific periods of time.

As reported in the 2012 Annual MD&A, changes to pension legislation provide Crown corporations with funding relief on special solvency contributions if certain conditions are met. In 2012, Canada Post received approval from the Minister of Finance and the Minister of Transport, Infrastructure and Communities to extend this funding relief until June 30, 2013. The aggregate amount of the relief at the end of 2013 is expected to total $2.4 billion. As the aggregate amount of the relief is limited to 15% of RPP assets, the Corporation expects to reach the limit in early 2014, putting significant pressure on the Corporation's cash resources. The Corporation is evaluating all options, including seeking regulatory relief and changes to the RPP design to help address these challenges.

Current service contributions amounted to $77 million and $83 million respectively for the first quarter of 2013 and 2012. The estimated amount of current service contributions for 2013 is approximately $261 million.

On December 14, 2012, the *Jobs and Growth Act,* 2012, Bill C-45, was enacted enabling changes to the public service pension plans. Consequently, effective January 1, 2013, the cap for the employees' share of current service costs was increased from 40% to 50%. The Board of Directors of Canada Post has approved changes to the RPP, and the Corporation intends to move to 50/50 cost sharing by 2014.

In the first quarter of 2013, Canada Post, the RPP sponsor, recorded remeasurement gains of $310 million, net of tax, in other comprehensive income.

1. Estimate as of May 2013.
2. The solvency deficit when using fair value of RPP assets is approximately $6.5 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 first quarter of 2013, 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 $833 million of unrestricted liquid investments on hand as at March 30, 2013, and $250 million of lines of credit established under its short-term borrowing authority approved by the Minister of Finance. A complete description of Canada Post's borrowing capacities is provided in Section 6.6 – Liquidity and capital resources of the 2012 Annual MD&A.

Based on the current financial forecast, the Canada Post segment believes it has sufficient liquidity to support its operations until at least the end of the first quarter of 2014. This belief is, in part, based on the expectation that (1) its short-term borrowing authority, which expires on December 31, 2013, will be renewed by the Government of Canada through December 31, 2014 and (2) its agreement with the Government of Canada under the *Pension Benefits Standards Act, 1985*, which allows the Corporation to reduce its special solvency payments, will be renewed. The Corporation currently has no reason to believe that such renewals will not be received.

However, given current financial projections and the fact that the maximum relief from pension solvency payments is expected to be reached in early 2014, the Corporation will likely face a cash shortfall soon thereafter. To address this expected shortfall, Canada Post needs to restructure its business model to meet the changing needs of Canadians and Canadian businesses. In addition, the Corporation is exploring and evaluating all options for generating additional funds, including seeking additional pension regulatory relief and tapping into existing borrowing capacities.

The Corporation's subsidiaries had a total of $65 million of unrestricted cash on hand and undrawn credit facilities of $124 million as at March 30, 2013, ensuring sufficient liquidity to support their operations over at least 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 for cash management purposes in the form of short-term borrowings.

Borrowings for the Canada Post segment and the Corporation's subsidiaries as at March 30, 2013, amounted to $1,058 million and $81 million respectively. For more information on liquidity and access to capital markets, refer to Section 6.6 – Liquidity and capital resources in the 2012 Annual MD&A.

Dividends

For information on our dividend policy, refer to Section 6.6 – Liquidity and capital resources of the 2012 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, under Section 6.7 – Risks associated with financial instruments of the 2012 Annual MD&A in the *2012 Canada Post Annual Report.*

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. During the 13-weeks ended March 30, 2013, the Group of Companies continued its economic hedge programs to mitigate its exposure to foreign exchange balances and to 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 11 – Fair Values and Risks Arising from Financial Instruments of the unaudited interim condensed consolidated financial statements for the 13 weeks ended March 30, 2013. There were no other material changes to market risk during the first quarter of 2013.

Credit risk

Credit risk is the risk of financial loss due to the counterparty's inability to meet its contractual obligations. Credit risk arises from investments in corporations and financial institutions as well as credit exposures to wholesale and commercial customers, including outstanding receivables. Sales to consumers are settled by paying cash or using major credit cards. There were no material changes to credit risk during the first quarter of 2013.

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 forecasted and actual cash flows and matching the maturity profiles of financial assets and liabilities. For more details, please refer to Section 6.6 Liquidity and capital resources of the MD&A and Note 11 – Fair Values and Risks Arising from Financial Instruments of the unaudited interim condensed consolidated financial statements for the 13 weeks ended March 30, 2013.

6.8 Contractual obligations and commitments

Contractual obligations and commitments were explained in Section 6.8 – Contractual obligations and commitments of the 2012 Annual MD&A in the *2012 Canada Post Annual Report*. There were no material changes to contractual obligations and commitments during the first quarter of 2013.

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 2012 Annual MD&A. For more information on related party transactions, please refer to Note 10 – Related Party Transactions of the unaudited interim condensed consolidated financial statements for the 13 weeks ended March 30, 2013.

6.10 Contingent liabilities

Contingent liabilities are described in Note 7 – Contingent Liabilities of the unaudited interim condensed consolidated financial statements for the 13 weeks ended March 30, 2013.

7 Changes in Financial Position

A discussion of significant changes in our assets and liabilities between March 30, 2013 and December 31, 2012

(in millions of dollars)

ASSETS	Mar. 30, 2013	Dec. 31, 2012 (restated)[1]	Change	%	Explanation of change
Cash and cash equivalents	397	298	99	32.9%	Refer to Section 6 – Liquidity and Capital Resources on page 12.
Marketable securities	501	570	(69)	(12.1)%	Primarily due to the drawdown of short-term investments to pay for capital acquisitions in the Canada Post segment.
Trade and other receivables	703	702	1	0.2%	No material change.
Income tax receivable	10	8	2	26.7%	Primarily due to an expected refund in the Purolator segment.
Other assets	87	126	(39)	(31.2)%	Mainly due to the disposal of properties held for sale.
Total current assets	**1,698**	**1,704**	**(6)**	**(0.4)%**	
Property, plant and equipment	2,658	2,655	3	0.1%	No material change.
Intangible assets	135	143	(8)	(5.9)%	Primarily due to amortization of software assets exceeding acquisitions.
Segregated securities	560	560	0	0.0%	No material change.
Pension benefit assets	87	83	4	5.3%	No material change.
Deferred tax assets	1,700	1,808	(108)	(6.0)%	Primarily due to the decrease of temporary differences resulting from remeasurement gains recognized in the first quarter of 2013 in other comprehensive income for Canada Post's Registered Pension Plan and post-employment benefits.
Goodwill	130	130	0	0.1%	No material change.
Other assets	9	11	(2)	(22.1)%	No material change.
Total non-current assets	**5,279**	**5,390**	**(111)**	**(2.1)%**	
Total assets	**6,977**	**7,094**	**(117)**	**(1.7)%**	

1. The amounts for 2012 have been restated as a result of the adoption of new or revised accounting standards. See Note 3 – Application of New and Revised International Financial Reporting Standards in the accompanying financial statements for more details.

(in millions of dollars)

LIABILITIES AND EQUITY	Mar. 30, 2013	Dec. 31, 2012 (restated)[1]	Change	%	Explanation of change
Trade and other payables	494	540	(46)	(8.5)%	Primarily due to decreased trade payables and bond interest payments in the Canada Post segment.
Salaries and benefits payable and related provisions	623	699	(76)	(10.9)%	Primarily due to decreased accrued salaries in the Canada Post segment due to timing.
Provisions	91	85	6	6.6%	Mainly attributable to a change in legal and labour-related provisions.
Income tax payable	0	1	(1)	(62.5)%	No material change.
Deferred revenue	119	137	(18)	(13.3)%	Primarily attributable to a reduction in stamp deferrals due to seasonality.
Loans and borrowings	20	20	(0)	(3.3)%	No material change.
Other long-term benefit liabilities	72	72	0	0.0%	No material change.
Total current liabilities	**1,419**	**1,554**	**(135)**	**(8.8)%**	
Loans and borrowings	1,119	1,123	(4)	(0.4)%	No material change.
Pension, other post-employment and other long-term benefit liabilities	6,717	7,007	(290)	(4.1)%	Primarily resulting from remeasurement gains in the Canada Post segment.
Deferred tax liabilities	2	2	(0)	(0.4)%	No material change.
Provisions	6	5	1	34.7%	No material change.
Other liabilities	15	17	(2)	(7.1)%	No material change.
Total non-current liabilities	**7,859**	**8,154**	**(295)**	**(3.6)%**	
Total liabilities	**9,278**	**9,708**	**(430)**	**(4.4)%**	
Equity					
Contributed capital	1,155	1,155	0	0.0%	No material change.
Accumulated other comprehensive income	49	52	(3)	(6.8)%	Mainly due to net unrealized loss on available for sale financial assets in the Canada Post segment.
Accumulated deficit	(3,523)	(3,840)	317	8.3%	Primarily due to remeasurement gains on pension and other post-employment plans.
Equity of Canada	**(2,319)**	**(2,633)**	**314**	**11.9%**	
Non-controlling interests	18	19	(1)	(2.0)%	
Total equity	**(2,301)**	**(2,614)**	**313**	**12.0%**	
Total liabilities and equity	**6,977**	**7,094**	**(117)**	**(1.7)%**	

1. The amounts for 2012 have been restated as a result of the adoption of new or revised accounting standards. See Note 3 – Application of New and Revised International Financial Reporting Standards in the accompanying financial statements for more details.

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)	Q1 2013	Q4 2012[1]	Q3 2012[1]	Q2 2012[1]	Q1 2012[1]	Q4 2011	Q3 2011	Q2 2011
Revenue from operations	1,904	1,991	1,745	1,853	1,940	1,984	1,806	1,761
Cost of operations	1,955	1,802	1,889	1,940	2,004	2,071	1,963	1,773
Profit (loss) from operations	**(51)**	**189**	**(144)**	**(87)**	**(64)**	**(87)**	**(157)**	**(12)**
Investing and financing income (expense)	102	(1)	(1)	7	(9)	(7)	(6)	(6)
Profit (loss) before tax	**51**	**188**	**(145)**	**(80)**	**(73)**	**(94)**	**(163)**	**(18)**
Tax expense (income)	16	53	(42)	(23)	(14)	(16)	(50)	(1)
Net profit (loss)	**35**	**135**	**(103)**	**(57)**	**(59)**	**(78)**	**(113)**	**(17)**

1. The amounts for 2012 have been restated as a result of the adoption of new or revised accounting standards. See Note 3 – Application of New and Revised International Financial Reporting Standards in the accompanying financial statements for more details.

8.2 Consolidated results from operations

Consolidated results for the first quarter of 2013

	13 weeks ended			
(in millions of dollars)	March 30, 2013	March 31, 2012 (restated)[1]	Change	%
Revenue from operations	1,904	1,940	(36)	1.3%*
Cost of operations	1,955	2,004	(49)	(2.4)%
Loss from operations	**(51)**	**(64)**	**13**	**19.5%**
Investing and financing income (expense)	102	(9)	111	–%
Profit (loss) before tax	**51**	**(73)**	**124**	–%
Tax expense (income)	16	(14)	30	–%
Net profit (loss)	**35**	**(59)**	**94**	–%
Other comprehensive income (loss)	278	(95)	373	–%
Comprehensive income (loss)	**313**	**(154)**	**467**	–%

* Adjusted for trading days, where applicable.

1. The amounts for 2012 have been restated as a result of the adoption of new or revised accounting standards. See Note 3 – Application of New and Revised International Financial Reporting Standards in the accompanying financial statements for more details.

The Canada Post Group of Companies reported a net profit of $35 million for the first quarter of 2013 – an improvement of $94 million when compared to the same quarter in the previous year.

Consolidated revenue from operations

For the first quarter of 2013, revenue from operations decreased by $36 million when compared to the same quarter in 2012, but when adjusted for trading days (there were two less trading days in the first quarter of 2013), revenue increased by 1.3%. The increase resulted from 2013 price increases partially offset by volume erosion in both Canada Post's Transaction Mail and Direct Marketing lines of business resulting from electronic substitution, bill consolidation and intense competition. A detailed discussion of revenue by segment follows in sections 8.4 to 8.7.

Consolidated cost of operations

Cost of operations decreased by $49 million or 2.4% in the first quarter of 2013 when compared to the same quarter 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 $111 million in the first quarter of 2013 compared to the same period in the prior year. The increase was primarily due to the gain from the sale of Canada Post's downtown Vancouver mail processing plant in January 2013.

Consolidated tax expense (income)

Consolidated tax expense increased by $30 million for the first quarter of 2013 when compared to the same period in the prior year. This increase was primarily driven by higher profits when compared to the same period in the prior year.

Consolidated other comprehensive income (loss)

Consolidated other comprehensive income amounted to $278 million in the first quarter of 2013, mainly due to remeasurement gains on the pension and other post-employment plans. Fluctuations in pension plan investment returns and changes to the discount rate used to measure these plans continue to have a significant impact on the Group of Companies' other comprehensive income.

8.3 Operating results by segment

Segmented results – profit (loss) before tax

	13 weeks ended			
(in millions of dollars)	March 30, 2013	March 31, 2012 (restated)[1]	Change	%
Canada Post	68	(59)	127	–%
Purolator	(12)	(11)	(1)	(6.7)%
Logistics	1	2	(1)	(9.7)%
Innovapost	0	4	(4)	(93.3)%
Intersegment and unallocated	(6)	(9)	3	34.0%
Canada Post Group of Companies	**51**	**(73)**	**124**	**–%**

1. The amounts for 2012 have been restated as a result of the adoption of new or revised accounting standards. See Note 3 – Application of New and Revised International Financial Reporting Standards in the accompanying financial statements for more details.

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 recorded a profit before tax of $68 million in the first quarter of 2013, compared to a loss of $59 million in the first quarter of 2012. Canada Post would have experienced a loss before tax of $41 million in the first quarter of 2013 had it not been for the sale of its downtown Vancouver mail processing plant in January 2013, which generated a gain of $109 million.

Canada Post results for the first quarter of 2013

	13 weeks ended			
(in millions of dollars)	March 30, 2013	March 31, 2012 (restated)[1]	Change	%
Revenue from operations	1,513	1,539	(26)	1.5%*
Cost of operations	1,554	1,599	(45)	(2.7)%
Loss from operations	**(41)**	**(60)**	**19**	**28.9%**
Investing and financing income (expense)	109	1	108	–%
Profit (loss) before tax	**68**	**(59)**	**127**	–%
Tax expense (income)	19	(14)	33	–%
Net profit (loss)	**49**	**(45)**	**94**	–%

* Adjusted for trading days, where applicable.

1. The amounts for 2012 have been restated as a result of the adoption of new or revised accounting standards. See Note 3 – Application of New and Revised International Financial Reporting Standards in the accompanying financial statements for more details.

Revenue from operations

Canada Post earned revenue from operations of $1,513 million in the first quarter of 2013 – a decrease of $26 million when compared to the same quarter in 2012. However, when adjusting first quarter results for trading days (there were two less trading days in Q1 2013), revenue for the first quarter of 2013 increased by 1.5% over the same period in 2012. The increase was primarily the result of price increases that came into effect January 14, 2013, partially offset by continued volume declines from electronic substitution, bill consolidation and intense competition.

Quarterly revenue by line of business

	13 weeks ended			
(in millions of dollars)	March 30, 2013	March 31, 2012	Change	%*
Transaction Mail	827	836	(9)	2.1%
Direct Marketing	301	313	(12)	(0.8)%
Parcels	318	319	(1)	2.9%
Other revenue	67	71	(4)	(2.7)%
Total	**1,513**	**1,539**	**(26)**	**1.5%**

* Adjusted for trading days, where applicable.

Transaction Mail

Transaction Mail revenue of $827 million for the first quarter of 2013 was composed of the following three product categories: domestic Lettermail ($748 million), outbound Letter-post ($48 million), and inbound Letter-post ($31 million).

In the first quarter of 2013, Transaction Mail revenue decreased by $9 million, but increased by 2.1% on a trading day adjustment basis, and volumes decreased by 60 million pieces or 1.9% compared to the same period in 2012. Overall, 2013 rate increases and timing of some government and retail mailings were sufficient to offset the volume erosion due to electronic substitution in the first quarter of 2013. For domestic Lettermail, the largest product category, revenue decreased by $4 million, but increased by 2.7% on a trading day adjustment basis, and volumes decreased by 54 million pieces or 1.8% in the first quarter of 2013 compared to the same period in 2012. The value of Canada Post's exclusive privilege in Transaction Mail continues to decrease with the many credible alternatives to paper-based communication, the implementation of pay-for-paper initiatives by some of our largest customers, especially in the banking and telecommunications segments, and the highly competitive environment.

Direct Marketing

Direct Marketing revenue of $301 million for the first quarter of 2013 was composed of the following four categories: Addressed Admail ($149 million), Unaddressed Admail ($89 million), Publications Mail ($56 million), and Business Reply Mail and Other mail ($7 million).

Direct Marketing revenue declined in the first quarter of 2013 by $12 million or 0.8%, while volumes decreased by 76 million pieces or 2.9% when compared to the same period in the prior year, primarily due to a drop in Unaddressed Admail and Publications Mail. Declines in Unaddressed Admail revenue and volumes was caused in part from timing as some commercial customers started their campaigns later than expected as well as commercial customers reducing their marketing spend and/or redirecting some of their overall marketing expenditures to lower priced products or other media channels. Declines in Publications Mail revenue and volumes continued with the increasing popularity of digital alternatives.

Parcels

Parcels revenue of $318 million for the first quarter of 2013 was composed of four product categories: domestic parcels ($220 million), outbound parcels ($51 million), inbound parcels ($43 million), and other ($4 million).

Parcels revenue decreased by $1 million, but increased by 2.9% on a trading day adjustment basis for the first quarter of 2013, while volumes increased by about 300,000 pieces or 4.0% when compared to the same period in the prior year. Overall revenue and volume growth reflect the continued growth in e-commerce orders as customers continue to order more products online. While Parcels revenue and volume growth was good, Parcels yield did decline in the first quarter of 2013 compared to the same period in 2012 as average revenue per piece dropped due to a consumer shift to cheaper, less urgent delivery products and aggressive competition.

Other revenue

Other revenue totalled $67 million in the first quarter of 2013 – a decrease of $4 million or 2.7%, when compared to the same period in the prior year. The revenue decrease was primarily the result of lower consumer product revenue, partially offset by increases in mail redirection and epost.

Cost of operations

Cost of operations for the Canada Post segment amounted to $1,554 million in the first quarter of 2013 – a decrease of $45 million or 2.7% when compared to the same quarter last year.

(in millions of dollars)	March 30, 2013	March 31, 2012 (restated)[1]	Change	%
	13 weeks ended			
Labour	779	812	(33)	(4.0)%
Employee benefits	330	326	4	1.3%
Total labour and employee benefits	**1,109**	**1,138**	**(29)**	**(2.5)%**
Non-labour collection, processing and delivery	209	220	(11)	(4.7)%
Property, facilities and maintenance	63	60	3	4.4%
Selling, administrative and other	107	121	(14)	(11.0)%
Total other operating costs	**379**	**401**	**(22)**	**(5.3)%**
Depreciation and amortization	66	60	6	9.7%
Total	**1,554**	**1,599**	**(45)**	**(2.7)%**

1. The amounts for 2012 have been restated as a result of the adoption of new or revised accounting standards. See Note 3 – Application of New and Revised International Financial Reporting Standards in the accompanying financial statements for more details.

Labour

Labour costs decreased by $33 million or 4.0% for the first quarter of 2013 when compared to the same period in the previous year. The decrease was primarily the result of the timing of expenses, a reduction in headcount and having one fewer paid days in the first quarter of 2013, partially offset by regular annual wage increases.

Employee benefits

Employee benefit costs increased by $4 million or 1.3% for the first quarter of 2013 when compared to the same period in the previous year. The increase was mainly due to an increase in pension expense, primarily from a decrease in the discount rate, partially offset by a reduction in sick leave benefits as a result of the new collective agreement with CUPW.

Non-labour collection, processing and delivery

Contracted collection, processing and delivery costs decreased by $11 million or 4.7% for the first quarter of 2013, when compared to the same period in the prior year mainly due to lower expenditures on transportation and employee conveyance expenses.

Property, facilities and maintenance

The cost of facilities increased by $3 million or 4.4% for the first quarter of 2013 when compared to the same period last year, mainly due to utilities and rent increases.

Selling, administrative and other

Selling, administrative and other expenses dropped by $14 million or 11.0% for the first quarter of 2013, when compared to the same period in the prior year, mainly due to savings in the areas of information technology services, travel, administration, and investment project expenses, partially offset by higher advertising expenses.

Depreciation and amortization

Depreciation and amortization expenses increased by $6 million or 9.7% for the first quarter of 2013, when compared to the same period in the prior year, substantially due to capital asset acquisitions relating to Postal Transformation and replenishment of the existing asset base.

8.5 Purolator segment

The Purolator segment experienced a net loss of $9 million for the first quarter of 2013, an improvement of 4.1% when compared with the same period in the prior year.

Purolator results for the first quarter of 2013

	13 weeks ended			
(in millions of dollars)	March 30, 2013	March 31, 2012 (restated)[1]	Change	%
Revenue from operations	379	398	(19)	(1.6)%*
Cost of operations	390	408	(18)	(4.4)%
Loss from operations	**(11)**	**(10)**	**(1)**	**(3.9)%**
Investing and financing income (expense)	(1)	(1)	(0)	(71.4)%
Loss before tax	**(12)**	**(11)**	**(1)**	**(6.7)%**
Tax expense (income)	(3)	(2)	(1)	(58.9)%
Net loss	**(9)**	**(9)**	**0**	**4.1%**

* Adjusted for trading days, where applicable.

1. The amounts for 2012 have been restated as a result of the adoption of new or revised accounting standards. See Note 3 – Application of New and Revised International Financial Reporting Standards in the accompanying financial statements for more details.

Revenue from operations

Purolator generated revenue from operations of $379 million in the first quarter of 2013 – a decrease of $19 million when compared with the same period last year. Overall decrease was mainly driven by reduced volumes due to competition and the economy.

Cost of operations

Total labour

Cost of total labour was $183 million in the first quarter of 2013 – a decrease of $3 million or 2.0% when compared to the same period in the prior year. The decrease was mainly due to decreased volumes and organizational restructuring.

Total non-labour

Total non-labour costs were $207 million in the first quarter of 2013 – a decrease of $15 million or 6.4% when compared to the same period in the prior year. Overall decrease was due to reduced volumes and organizational restructuring.

8.6 Logistics segment

The Logistics segment includes the financial results of SCI Group. The Logistics segment contributed $1 million of net profit to the consolidated results for the first quarter of 2013, an increase of 106.8% compared to the same period in the prior year.

Logistics results for the first quarter of 2013

	13 weeks ended			
(in millions of dollars)	March 30, 2013	March 31, 2012	Change	%
Revenue from operations	42	35	7	21.5%*
Cost of operations	41	33	8	18.8%
Profit from operations	**1**	**2**	**(1)**	**(7.3)%**
Investing and financing income (expense)	0	0	(0)	(84.8)%
Profit before tax	**1**	**2**	**(1)**	**(9.7)%**
Tax expense	0	1	(1)	(86.2)%
Net profit	**1**	**1**	**0**	**106.8%**

* Adjusted for trading days, where applicable.

Revenue from operations

SCI generated revenue from operations of $42 million in the first quarter of 2013 – an increase of $7 million or 21.5%, when compared with the same period last year. The increase was mainly driven by new business growth and the White Glove acquisition in May 2012.

Cost of operations

Total labour costs

Cost of total labour was $19 million in the first quarter of 2013 – an increase of $5 million or 25.6% when compared to the same period in 2012. This increase was primarily the result of increased volumes from new business growth and the White Glove acquisition.

Total non-labour costs

Total non-labour costs totalled $22 million in the first quarter of 2013 – an increase of $3 million or 13.6% when compared to the same period in the previous year, due to new business growth and the impact of the White Glove acquisition.

8.7 Innovapost segment

Innovapost provides virtually all its services to the Canada Post Group of Companies. Results of Innovapost have been consolidated since March 14, 2012, the date Innovapost became a subsidiary of the Corporation, and its revenue of $56 million was eliminated against the other segments' cost of operations upon consolidation.

9 Critical Accounting Estimates and Accounting Policy Developments

A review of critical accounting estimates and changes in accounting policies in 2013 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 material change in reported amounts and disclosures in the consolidated financial statements of future periods.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period 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. For additional information, refer to our discussion of critical accounting estimates in the 2012 Annual MD&A and in Note 3 – Critical Accounting Estimates and Judgments of our 2012 consolidated financial statements, which are contained in the *2012 Canada Post Annual Report*.

9.2 Accounting pronouncements

(a) New standards, amendments and interpretations effective January 1, 2013

The following new pronouncements issued by the International Accounting Standards Board (IASB) or the IFRS Interpretation Committee were adopted by the Corporation on the mandatory effective date of January 1, 2013. These standards and amendments affected amounts reported, the presentation of balances or related disclosure in the interim condensed consolidated financial statements for the 13 weeks ended March 30, 2013 (refer to Note 3 – Application of New and Revised International Financial Reporting Standards of the unaudited interim condensed consolidated financial statements for the 13 weeks ended March 30, 2013 for a list of standards and amendments adopted on January 1, 2013 that did not have a significant impact).

Amendments to IAS 19 "Employee Benefits" (IAS 19) • The amendments to IAS 19 change the accounting for defined benefit plans and termination benefits. The most significant change and impact for the Group of Companies is the requirement for interest income on plan assets to be computed by applying the discount rate used to measure the plan obligation, as opposed to applying management's best estimate of the expected long-term rate of return on plan assets. The amendments to IAS 19 also require that the unvested portion of past service costs and credits, resulting from plan amendments, be recognized in net profit and loss at the time the plan amendments occur. Finally, the cost of managing plan assets is to be recorded against the actual return on assets and, consequently, in other comprehensive income or loss; other administrative costs are to be recorded in net profit or loss.

These amendments were applied retrospectively to the interim condensed consolidated financial statements for the 13 weeks ended March 30, 2013.

The cumulative impact of the adoption of these amendments resulted in a decrease of $9 million in the accumulated deficit at January 1, 2012. For the restated first quarter of 2012, the net loss increased by $52 million, whereas other comprehensive loss was reduced by $51 million. The restated accumulated deficit was reduced by $8 million at March 31, 2012. After the restatement of the results for the year ended December 31, 2012, net profit decreased by $178 million, resulting in a net loss, whereas other comprehensive loss was reduced by $204 million. The restated accumulated deficit was reduced by $35 million at December 31, 2012.

For additional details of the impact of these amendments on the comparative figures, refer to Note 3 – Application of New and Revised International Financial Reporting Standards of the unaudited interim condensed consolidated financial statements for the 13 weeks ended March 30, 2013.

IFRS 13 "Fair Value Measurement" (IFRS 13) • IFRS 13 defines fair value, sets out in a single IFRS a framework to measure fair value, and requires disclosure regarding fair value measurements. This standard was applied prospectively beginning January 1, 2013 to the interim condensed consolidated financial statements for the 13 weeks ended March 30, 2013. Upon adoption of IFRS 13, the fair value measurement basis of certain pension plan assets moved from bid prices to close-of-market prices, the former being the required fair value basis for an asset under IAS 39. Upon adoption, the pension, other post-employment and other long-term benefit liabilities and deferred tax assets decreased by $31 million and $8 million, respectively and other comprehensive income increased by $23 million. The fair value basis of other assets and liabilities was not affected by the adoption of IFRS 13.

Amendments to IFRS 7 – Disclosures – Offsetting Financial Assets and Financial Liabilities • The amendments to IFRS 7 require disclosure of information to enable users of financial statements to evaluate the effect on an entity's financial position of netting arrangements, including rights of offset. These amendments were applied retrospectively to the interim condensed consolidated financial statements for the 13 weeks ended March 30, 2013. Due to the early adoption of amendments to IAS 32 (see [b] below) effective January 1, 2013, there was no material impact on the Corporation's unaudited interim condensed consolidated financial statements for the 13 weeks ended March 30, 2013 upon the adoption of the amendments to IFRS 7.

Annual Improvements to IFRS – 2009-2011 Cycle • The only amendment affecting the Corporation in the IASB's annual improvements from the 2009-2011 cycle pertains to IAS 34 "Interim Financial Reporting," which requires the disclosure of segment information for total assets and liabilities. The Corporation was already compliant with interim reporting of segment information for total assets. Upon adoption of this amendment on January 1, 2013, the Corporation commenced reporting segment information for total liabilities.

(b) Early adoption of new accounting standards, amendments and interpretations

Amendments to IAS 32 – Offsetting Financial Assets and Financial Liabilities • The amendments to IAS 32 clarify existing guidance concerning legally enforceable rights to offset the recognized amounts of assets and liabilities, and intentions to settle assets and liabilities on a net basis or simultaneously. These amendments are to be applied retrospectively for annual periods beginning on or after January 1, 2014. The Group of Companies early adopted these amendments for the annual period beginning on January 1, 2013. As a result, certain settlement balances of foreign postal administrations that were offset on the consolidated statement of financial position no longer meet the revised legally enforceable right to offset criteria. As a result, trade and other receivables, and trade and other payables each increased by $81 million and $87 million as at January 1, 2012, and December 31, 2012, respectively.

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

IFRS 9 "Financial Instruments" (IFRS 9) • In November 2009, the IASB issued IFRS 9 as the first part of Phase 1: Classification and Measurement in its project to replace IAS 39 "Financial Instruments: Recognition and Measurement" (IAS 39). This first part of the standard addresses the classification and measurement of financial assets. Initial measurement will be at fair value, and for financial assets not classified at fair value through profit or loss, certain transaction costs will be included. Subsequent measurement of financial assets will be at amortized cost or fair value.

In October 2010, the IASB completed Phase 1 by adding requirements for liabilities to the standard, which are mostly unchanged from IAS 39.

IFRS 9 is to be applied retrospectively for annual periods beginning on or after January 1, 2015, with early adoption permitted. The Group of Companies intends to adopt IFRS 9 for the annual period beginning on January 1, 2015. The extent of the impact of adoption of IFRS 9 has not yet been determined.

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

May 23, 2013

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at (Unaudited – in millions of Canadian dollars)	**Notes**	**March 30, 2013**	December 31, 2012 (Restated – Note 3)	January 1, 2012 (Restated – Note 3)
Assets				
Current assets				
Cash and cash equivalents		**$ 397**	$ 298	$ 271
Marketable securities		**501**	570	842
Trade and other receivables		**703**	702	743
Income tax receivable		**10**	8	56
Prepaid expenses		**80**	79	93
Assets held for sale	**4**	**7**	47	22
Total current assets		**1,698**	1,704	2,027
Non-current assets				
Property, plant and equipment	**4**	**2,658**	2,655	2,379
Intangible assets	**4**	**135**	143	165
Segregated securities		**560**	560	553
Pension benefit assets	**5**	**87**	83	93
Deferred tax assets		**1,700**	1,808	1,469
Goodwill		**130**	130	125
Other assets		**9**	11	11
Total non-current assets		**5,279**	5,390	4,795
Total assets		**$ 6,977**	$ 7,094	$ 6,822
Liabilities and equity				
Current liabilities				
Trade and other payables		**$ 494**	$ 540	$ 563
Salaries and benefits payable and related provisions		**623**	699	732
Provisions		**91**	85	75
Income tax payable		**–**	1	2
Deferred revenue		**119**	137	129
Loans and borrowings		**20**	20	16
Other long-term benefit liabilities	**5**	**72**	72	86
Total current liabilities		**1,419**	1,554	1,603
Non-current liabilities				
Loans and borrowings		**1,119**	1,123	1,111
Pension, other post-employment and other long-term benefit liabilities	**5**	**6,717**	7,007	5,708
Deferred tax liabilities		**2**	2	–
Provisions		**6**	5	4
Other liabilities		**15**	17	19
Total non-current liabilities		**7,859**	8,154	6,842
Total liabilities		**9,278**	9,708	8,445
Equity				
Contributed capital		**1,155**	1,155	1,155
Accumulated other comprehensive income		**49**	52	45
Accumulated deficit		**(3,523)**	(3,840)	(2,846)
Equity of Canada		**(2,319)**	(2,633)	(1,646)
Non-controlling interests		**18**	19	23
Total equity		**(2,301)**	(2,614)	(1,623)
Total liabilities and equity		**$ 6,977**	$ 7,094	$ 6,822
Contingent liabilities	**7**			

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the 13 weeks ended (Unaudited – in millions of Canadian dollars)	**Notes**	**March 30, 2013**	March 31, 2012 (Restated – Note 3)
Revenue from operations		**$ 1,904**	$ 1,940
Cost of operations			
Labour		**956**	983
Employee benefits	**5**	**377**	368
		1,333	1,351
Other operating costs	**8**	**542**	577
Depreciation and amortization		**80**	76
Total cost of operations		**1,955**	2,004
Loss from operations		**(51)**	(64)
Investing and financing income (expense)			
Investment and other income	**9**	**114**	7
Finance costs and other expense	**9**	**(12)**	(16)
Investing and financing income (expense), net		**102**	(9)
Profit (loss) before tax		**51**	(73)
Tax expense (income)	**6**	**16**	(14)
Net profit (loss)		**$ 35**	$ (59)
Other comprehensive income (loss)			
Items that will not be reclassified to Net profit (loss)			
Remeasurements of defined benefit plans	**5**	**$ 375**	$ (117)
Income tax relating to items that will not be reclassified	**6**	**(94)**	27
Items that may be reclassified subsequently to Net profit (loss)			
Unrealized losses on available-for-sale financial assets		**(4)**	(7)
Income tax relating to items that may be reclassified	**6**	**1**	2
Other comprehensive income (loss)		**278**	(95)
Comprehensive income (loss)		**$ 313**	$ (154)
Net profit (loss) attributable to			
Government of Canada		**$ 36**	$ (58)
Non-controlling interests		**(1)**	(1)
		$ 35	$ (59)
Comprehensive income (loss) attributable to			
Government of Canada		**$ 314**	$ (153)
Non-controlling interests		**(1)**	(1)
		$ 313	$ (154)

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 March 30, 2013 (Unaudited – in millions of Canadian dollars)	Contributed capital	Accumulated other comprehensive income	Accumulated deficit	Equity of Canada	Non-controlling interests	Total equity
Balance at December 31, 2012 (Restated – Note 3)	**$ 1,155**	**$ 52**	**$ (3,840)**	**$ (2,633)**	**$ 19**	**$ (2,614)**
Net profit (loss)	**–**	**–**	**36**	**36**	**(1)**	**35**
Other comprehensive income (loss)						
Items that will not be reclassified to Net profit (loss)						
Remeasurements of defined benefit plans	**–**	**–**	**375**	**375**	**–**	**375**
Income tax relating to items that will not be reclassified	**–**	**–**	**(94)**	**(94)**	**–**	**(94)**
Items that may be reclassified subsequently to Net profit (loss)						
Unrealized losses on available-for-sale financial assets	**–**	**(4)**	**–**	**(4)**	**–**	**(4)**
Income tax relating to items that may be reclassified	**–**	**1**	**–**	**1**	**–**	**1**
Other comprehensive income (loss)	**–**	**(3)**	**281**	**278**	**–**	**278**
Comprehensive income (loss)	**–**	**(3)**	**317**	**314**	**(1)**	**313**
Balance at March 30, 2013	**$ 1,155**	**$ 49**	**$ (3,523)**	**$ (2,319)**	**$ 18**	**$ (2,301)**

For the 13 weeks ended March 31, 2012 (Unaudited – in millions of Canadian dollars) (Restated – Note 3)	Contributed capital	Accumulated other comprehensive income	Accumulated deficit	Equity of Canada	Non-controlling interests	Total equity
Balance at December 31, 2011	$ 1,155	$ 45	$ (2,855)	$ (1,655)	$ 24	$ (1,631)
Effect of adoption of new and revised standards (Note 3)	–	–	9	9	(1)	8
Balance at January 1, 2012	1,155	45	(2,846)	(1,646)	23	(1,623)
Net loss	–	–	(58)	(58)	(1)	(59)
Other comprehensive income (loss)						
Items that will not be reclassified to Net profit (loss)						
Remeasurements of defined benefit plans	–	–	(117)	(117)	–	(117)
Income tax relating to items that will not be reclassified	–	–	27	27	–	27
Items that may be reclassified subsequently to Net profit (loss)						
Unrealized losses on available-for-sale financial assets	–	(7)	–	(7)	–	(7)
Income tax relating to items that may be reclassified	–	2	–	2	–	2
Other comprehensive loss	–	(5)	(90)	(95)	–	(95)
Comprehensive loss	–	(5)	(148)	(153)	(1)	(154)
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 March 31, 2012	$ 1,155	$ 40	$ (2,995)	$ (1,800)	$ 23	$ (1,777)

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the 13 weeks ended (Unaudited – in millions of Canadian dollars)	Notes	March 30, 2013	March 31, 2012 (Restated – Note 3)
Cash flows from operating activities			
Net profit (loss)		**$ 35**	$ (59)
Adjustments to reconcile Net profit (loss) to cash provided by operating activities:			
Depreciation and amortization	**4**	**80**	76
Pension, other post-employment and other long-term benefit expense	**5**	**227**	221
Pension, other post-employment and other long-term benefit payments	**5**	**(146)**	(142)
Gain on sale of capital assets	**9**	**(111)**	(1)
Tax expense (income)	**6**	**16**	(14)
Net interest expense	**9**	**7**	9
Change in non-cash operating working capital:			
Decrease in trade and other receivables		**2**	60
Decrease in trade and other payables		**(34)**	(46)
Decrease in salaries and benefits payable and related provisions		**(76)**	(78)
Increase (decrease) in provisions		**5**	(3)
Net decrease (increase) in other non-cash operating working capital		**(19)**	10
Other income not affecting cash, net		**(8)**	(4)
Cash provided by (used in) operations before interest and taxes		**(22)**	29
Interest received		**5**	7
Interest paid		**(25)**	(25)
Tax paid		**–**	(8)
Cash provided by (used in) operating activities		**(42)**	3
Cash flows from investing activities			
Business acquisitions, net of cash acquired		**–**	(11)
Acquisition of securities		**(269)**	(483)
Proceeds from sale of securities		**336**	485
Acquisition of capital assets		**(74)**	(124)
Proceeds from sale of capital assets		**153**	20
Cash provided by (used in) investing activities		**146**	(113)
Cash flows from financing activities			
Payments on finance lease obligations		**(5)**	(4)
Other financing activities, net		**–**	(1)
Cash used in financing activities		**(5)**	(5)
Net increase (decrease) in cash and cash equivalents		**99**	(115)
Cash and cash equivalents, beginning of period		**298**	271
Cash and cash equivalents, end of period		**$ 397**	$ 156

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the 13 weeks ended March 30, 2013
(Unaudited – in millions of Canadian dollars, unless otherwise indicated)

1. Incorporation, Business Activities and Directives

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

The Corporation operates a postal service for the collection, transmission and delivery of messages, information, funds and goods, both within Canada and between Canada and places outside Canada. While maintaining basic customary postal services, the 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.

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.

2. Basis of Presentation

Statement of compliance • The Corporation has prepared its interim condensed consolidated financial statements in compliance with IAS 34 "Interim Financial Reporting." As permitted under this standard, these interim condensed consolidated financial statements do not include all of the disclosures required for annual consolidated financial statements, and should be read in conjunction with the Corporation's audited consolidated financial statements for its fiscal year ended December 31, 2012.

These interim condensed consolidated financial statements have been prepared based on International Financial Reporting Standards (IFRS) issued and effective as at the reporting date, with the exception of the early adoption of the amendments to IAS 32 "Offsetting Financial Assets and Financial Liabilities" (IAS 32), as explained in Note 3. They were approved and authorized for issue by the Board of Directors on May 23, 2013.

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 shown in millions, unless otherwise noted.

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

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

Significant accounting policies • Significant accounting policies used in these interim condensed consolidated financial statements are disclosed in Note 2 of the Corporation's annual consolidated financial statements for the year ended December 31, 2012, except for the application of new standards, amendments and interpretations effective January 1, 2013, as well as the early adoption of a new standard, as explained in Note 3. The accounting policies have been applied consistently to all periods presented, unless otherwise indicated.

Basis of consolidation • These interim condensed consolidated financial statements include the accounts of the Corporation, Purolator Holdings Ltd. (Purolator), SCI Group Inc. (SCI), and Innovapost Inc. (Innovapost). The results of Purolator, SCI and Innovapost are consolidated year-to-date. For the comparative period, the results of Innovapost were consolidated commencing March 14, 2012, the date Innovapost became a subsidiary of the Corporation. Up to this date, the investment in Innovapost qualified as a joint operation under IFRS 11 "Joint Arrangements" and was accounted for in accordance with IFRS 11, with the Corporation recognizing and measuring the assets and liabilities (and the related revenues and expenses) in relation to its interest in the arrangement in accordance with applicable IFRS. The Corporation, Purolator, SCI and Innovapost are collectively referred to as the "Canada Post Group of Companies," or the "Group of Companies."

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

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, 2012.

3. Application of New and Revised International Financial Reporting Standards

(a) New standards, amendments and interpretations effective January 1, 2013

Certain pronouncements were issued by the International Accounting Standards Board (IASB) or the IFRS Interpretation Committee that are mandatory for accounting periods beginning on January 1, 2013.

The following new standards and amendments were determined to be relevant for the Group of Companies. However, their mandatory adoption did not have a significant impact on the interim condensed consolidated financial statements:

- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Interests in Other Entities
- IAS 27 Separate Financial Statements
- IAS 28 Investments in Associates and Joint Ventures
- Amendments to IFRS 10, IFRS 11, IFRS 12 – Transition Guidance

The following new standards, amendments and interpretations adopted by the Group of Companies on January 1, 2013, affected amounts reported in these interim condensed consolidated financial statements, the presentation of balances or related disclosure.

Amendments to IAS 19 "Employee Benefits" (IAS 19) • The amendments to IAS 19 change the accounting for defined benefit plans and termination benefits. The most significant change and impact for the Group of Companies is the requirement for interest income on plan assets to be computed by applying the discount rate used to measure the plan obligation, as opposed to applying management's best estimate of the expected long-term rate of return on plan assets. The amendments to IAS 19 also require that the unvested portion of past service costs and credits, resulting from plan amendments, be recognized in net profit and loss at the time the plan amendments occur. Finally, the cost of managing plan assets is to be recorded against the actual return on assets and, consequently, in other comprehensive income or loss; other administrative costs are to be recorded in net profit or loss.

These amendments were applied retrospectively to these interim condensed consolidated financial statements.

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

Consolidated statement of comprehensive income

For the 13 weeks ended March 31, 2012	As previously reported	Amended IAS 19 effects	Restated
Employee benefits	$ 298	$ 70	$ 368
Tax expense (income)	4	(18)	(14)
Net loss	$ (7)	$ (52)	$ (59)
Remeasurements of defined benefit plans	$ (185)	$ 68	$ (117)
Income tax relating to items that will not be reclassified	44	(17)	27
Other comprehensive loss	$ (146)	$ 51	$ (95)
Comprehensive loss	$ (153)	$ (1)	$ (154)

Consolidated statement of financial position

As at December 31, 2012	As previously reported	Amended IAS 19 effects	Restated
Deferred tax assets	$ 1,819	$ (11)	$ 1,808
Pension, other post-employment and other long-term benefit liabilities	$ 7,052	$ (45)	$ 7,007
Accumulated deficit	$ (3,875)	$ 35	$ (3,840)
Non-controlling interests	$ 20	$ (1)	$ 19

Consolidated statement of financial position

As at January 1, 2012	As previously reported	Amended IAS 19 effects	Restated
Deferred tax assets	$ 1,472	$ (3)	$ 1,469
Pension, other post-employment and other long-term benefit liabilities	$ 5,719	$ (11)	$ 5,708
Accumulated deficit	$ (2,855)	$ 9	$ (2,846)
Non-controlling interests	$ 24	$ (1)	$ 23

IFRS 13 "Fair Value Measurement" (IFRS 13) • IFRS 13 defines fair value, sets out in a single IFRS a framework to measure fair value, and requires disclosure regarding fair value measurements. This standard was applied prospectively beginning January 1, 2013. Upon adoption of IFRS 13, the fair value measurement basis of certain pension plan assets moved from bid prices to close-of-market prices, the former being the required fair value basis for an asset under IAS 39. Upon adoption, the pension, other post-employment and other long-term benefit liabilities and deferred tax assets decreased by $31 million and $8 million, respectively and other comprehensive income increased by $23 million. The fair value basis of other assets and liabilities was not affected by the adoption of IFRS 13.

Amendments to IFRS 7 – Disclosures – Offsetting Financial Assets and Financial Liabilities • The amendments to IFRS 7 require disclosure of information to enable users of financial statements to evaluate the effect on an entity's financial position of netting arrangements, including rights of offset. These amendments were applied retrospectively. Due to the early adoption of amendments to IAS 32 (see [b] below) effective January 1, 2013, there was no material impact on the Corporation's interim condensed consolidated financial statements upon the adoption of the amendments to IFRS 7.

Annual Improvements to IFRS – 2009-2011 Cycle • The only amendment affecting the Corporation in the IASB's annual improvements from the 2009-2011 cycle pertains to IAS 34 "Interim Financial Reporting," which requires the disclosure of segment information for total assets and liabilities. The Corporation was already compliant with interim reporting of segment information for total assets. Upon adoption of this amendment on January 1, 2013, the Corporation commenced reporting segment information for total liabilities.

(b) Early adoption of new accounting standards, amendments and interpretations

Amendments to IAS 32 – Offsetting Financial Assets and Financial Liabilities • The amendments to IAS 32 clarify existing guidance concerning legally enforceable rights to offset the recognized amounts of assets and liabilities, and intentions to settle assets and liabilities on a net basis or simultaneously. These amendments are to be applied retrospectively for annual periods beginning on or after January 1, 2014. The Group of Companies early adopted these amendments for the annual period beginning on January 1, 2013. As a result, certain settlement balances of foreign postal administrations that were offset on the consolidated statement of financial position no longer meet the revised legally enforceable right to offset criteria. As a result, trade and other receivables, and trade and other payables each increased by $81 million and $87 million as at January 1, 2012, and December 31, 2012, respectively.

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

IFRS 9 "Financial Instruments" (IFRS 9) • In November 2009, the IASB issued IFRS 9 as the first part of Phase 1: Classification and Measurement in its project to replace IAS 39 "Financial Instruments: Recognition and Measurement" (IAS 39). This first part of the standard addresses the classification and measurement of financial assets. Initial measurement will be at fair value, and for financial assets not classified at fair value through profit or loss, certain transaction costs will be included. Subsequent measurement of financial assets will be at amortized cost or fair value.

In October 2010, the IASB completed Phase 1 by adding requirements for liabilities to the standard, which are mostly unchanged from IAS 39.

IFRS 9 is to be applied retrospectively for annual periods beginning on or after January 1, 2015, with early adoption permitted. The Group of Companies intends to adopt IFRS 9 for the annual period beginning on January 1, 2015. The extent of the impact of adoption of IFRS 9 has not yet been determined.

4. 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, 2012	$ 309	$ 1,726	$ 266	$ 1, 278	$ 403	$ 430	$ 888	$ 175	$ 5,475
Additions	–	9	2	27	9	2	3	20	72
Reclassified as held for sale	(2)	(5)	–	–	–	–	–	–	(7)
Retirements	–	–	(2)	(6)	(3)	–	–	–	(11)
Transfers	–	21	2	–	–	–	–	(23)	–
March 30, 2013	**$ 307**	**$ 1,751**	**$ 268**	**$ 1,299**	**$ 409**	**$ 432**	**$ 891**	**$ 172**	**$ 5,529**
Accumulated depreciation									
December 31, 2012	$ –	$ 873	$ 182	$ 704	$ 191	$ 307	$ 563	$ –	$ 2,820
Depreciation	–	16	5	17	9	9	10	–	66
Reclassified as held for sale	–	(4)	–	–	–	–	–	–	(4)
Retirements	–	–	(2)	(6)	(3)	–	–	–	(11)
Transfers	–	(1)	1	–	–	–	–	–	–
March 30, 2013	**$ –**	**$ 884**	**$ 186**	**$ 715**	**$ 197**	**$ 316**	**$ 573**	**$ –**	**$ 2,871**
Carrying amounts									
December 31, 2012	$ 309	$ 853	$ 84	$ 574	$ 212	$ 123	$ 325	$ 175	$ 2,655
March 30, 2013	**$ 307**	**$ 867**	**$ 82**	**$ 584**	**$ 212**	**$ 116**	**$ 318**	**$ 172**	**$ 2,658**

During 2013, capitalized borrowing costs related to Postal Transformation amounted to $2 million (March 31, 2012 – $1 million), with a capitalization rate of 4.3% (March 31, 2012 – 4.3%).

(b) Intangible assets

Intangible assets consisted of the following items:

	Software	Software under development	Customer contracts and relationships	Total
Cost				
December 31, 2012	$ 610	$ 22	$ 30	$ 662
Additions	1	5	–	6
Transfers	3	(3)	–	–
March 30, 2013	**$ 614**	**$ 24**	**$ 30**	**$ 668**
Accumulated amortization				
December 31, 2012	$ 494	$ –	$ 25	$ 519
Amortization	14	–	–	14
March 30, 2013	**$ 508**	**$ –**	**$ 25**	**$ 533**
Carrying amounts				
December 31, 2012	$ 116	$ 22	$ 5	$ 143
March 30, 2013	**$ 106**	**$ 24**	**$ 5**	**$ 135**

(c) Assets held for sale

The Group of Companies had several properties classified as held for sale at the end of the first quarter of 2013, all of them from the Canada Post segment. It is anticipated that the carrying amount of the properties will be fully recovered through the sale proceeds.

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

As described in Note 3 (a), effective January 1, 2013, the Group of companies adopted the amendments to IAS 19 "Employee Benefits." Disclosures in these interim condensed consolidated financial statements have been updated to provide certain complementary useful information regarding the adoption of the amendments to IAS 19.

(a) Risks associated with defined benefit plans

Funding risk

One of the primary risks that plan sponsors face is funding risk, which is the risk that the investment asset growth and contribution rates of the Group of Companies' pension plans will not be sufficient to cover the pension obligations, resulting in unfunded liabilities. When funding deficits exist, regulatory authorities require that special contributions be made over specified future periods. Partial relief from these special contributions is available to the Corporation but must first be approved by the Minister of Finance and the Minister of Transport, Infrastructure and Communities (the Ministers). Refer to notes 5 (c) and 11 (b) for further details and risks associated with the funding relief.

The most significant contributors to funding risk are the declines in discount rates and investments failing to achieve expected returns. In addition, the pension obligations are affected by non-economic factors like changes in member demographics. Funding risk is managed by monitoring and reviewing the funded ratio on an ongoing basis and ensuring that investment decisions are made in accordance with individual investment policies and procedures and applicable legislation. Investment policies and procedures are designed to provide the pension plans with a long-term rate of return sufficient to assist the plans in meeting funding objectives and the ongoing growth of pension obligations. For the most significant plans, asset-liability studies are conducted periodically to ensure that the pension plan's investment strategy remains appropriate in challenging economic environments. The investment strategy also incorporates a mix of return-generating and liability-matching investments. The portion of the plan assets invested in liability-matching investments have characteristics that offset a portion of variation in the defined benefit obligation.

Other risks

The plan assets are also subject to a variety of financial risks as a result of investment activities. These risks include credit risk, market risk (interest rate, currency and price risk) and liquidity risk. In addition, the defined benefit obligation and costs are subject to measurement uncertainty due to the use of actuarial assumptions (see Note 11 [g] in the annual consolidated financial statements for fiscal year ended December 31, 2012). The impact of these factors on the remeasurement of the pension benefit asset, and pension, other post-employment and other long-term benefit liabilities can be significant and volatile at times.

(b) 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	**March 30, 2013**			March 31, 2012 (Restated – Note 3)		
	Pension benefit plans	**Other benefit plans**	**Total**	Pension benefit plans	Other benefit plans	Total
Current service cost	$ 115	$ 30	$ 145	$ 106	$ 34	$ 140
Interest cost	226	39	265	243	44	287
Interest income on plan assets	(189)	–	(189)	(212)	–	(212)
Other administration cost	3	–	3	3	–	3
Plan amendments	1	–	1	–	–	–
Defined benefit costs	156	69	225	140	78	218
Defined contribution costs	2	–	2	3	–	3
Total costs	158	69	227	143	78	221
Return on segregated securities	–	(5)	(5)	–	(5)	(5)
Components of cost included in Net profit (loss)	**$ 158**	**$ 64**	**$ 222**	$ 143	$ 73	$ 216
Remeasurement (gains) losses:						
Return on plan assets, excluding interest income on plan assets	$ (744)	$ –	$ (744)	$ (593)	$ –	$ (593)
Actuarial losses	323	46	369	547	163	710
Components of cost included in Other comprehensive income (loss)	**$ (421)**	**$ 46**	**$ (375)**	$ (46)	$ 163	$ 117
Net defined benefit and contribution costs (credits)	**$ (263)**	**$ 110**	**$ (153)**	$ 97	$ 236	$ 333

(c) Total cash payments

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

For the 13 weeks ended	**March 30, 2013**	March 31,2012
Benefits paid directly to beneficiaries for other benefit plans	$ 32	$ 37
Employer regular contributions to pension benefit plans	87	91
Employer special contributions to pension benefit plans	25	11
Total cash payments for defined benefit plans	144	139
Contributions to defined contribution plans	2	3
Total cash payments	**$ 146**	$ 142

The Group of Companies' estimated total contributions to pension benefit plans in 2013 have not changed significantly from those disclosed in the Corporation's audited consolidated financial statements for the year ended December 31, 2012. These estimated total contributions also take into consideration the Corporation's reduction of special solvency contributions as permitted by legislation. The Minister of Finance and the Minister of Transport, Infrastructure and Communities have approved the Corporation's request for funding relief until June 30, 2013.

(d) Assets and liabilities

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

As at	**March 30, 2013**	December 31, 2012 (Restated – Note 3)
Pension benefit assets	**$ 87**	$ 83
Pension benefit liabilities	$ 3,135	$ 3,508
Other post-employment and other long-term benefit liabilities	3,654	3,571
Total pension, other post-employment and other long-term benefit liabilities	$ 6,789	$ 7,079
Current other long-term benefit liabilities	**$ 72**	$ 72
Non-current pension, other post-employment and other long-term benefit liabilities	**$ 6,717**	$ 7,007

6. 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:

For the 13 weeks ended	**March 30, 2013**	March 31, 2012 (Restated – Note 3)
Current tax expense (income)	$ (2)	$ 4
Deferred tax expense (income) related to origination and reversal of temporary differences	18	(18)
Tax expense (income)	**$ 16**	$ (14)

Income tax recognized in other comprehensive income (loss) was as follows:

For the 13 weeks ended	**March 30, 2013**			March 31, 2012 (Restated – Note 3)		
	Before tax	**Tax impact**	**Net of tax**	Before tax	Tax impact	Net of tax
Items that will not be reclassified to Net profit (loss)						
Remeasurements of defined benefit plans	$ 375	$ (94)	$ 281	$ (117)	$ 27	$ (90)
Items that may be reclassified subsequently to Net profit (loss)						
Unrealized losses on available-for-sale financial assets	(4)	1	(3)	(7)	2	(5)
	$ 371	**$ (93)**	**$ 278**	$ (124)	$ 29	$ (95)

7. Contingent Liabilities

(a) A complaint was filed with the Canadian Human Rights Commission (Commission) alleging discrimination by the Corporation concerning work of equal value. The complaint was filed by the Canadian Postmasters and Assistants Association (CPAA) initially in December 1982. In March 2006, on the recommendation of a conciliator, the Commission declined the complaint on the basis that it could be dealt with more appropriately under the *Canada Labour Code*.

On October 10, 2012, the Corporation received notice from the Commission that the CPAA had requested the reactivation of its pay equity complaint. The Corporation filed a full legal brief on December 10, 2012, in response to the Commission's request for submission.

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

The outcome of CUPW's application contesting the constitutionality of the back-to-work legislation is currently not determinable and as a result no provision has been recorded in the interim condensed consolidated financial statements.

(c) By the date these interim condensed consolidated financial statements were authorized for issue, three complaints were filed (2013 complaints) with the Canadian Human Rights Commission (Commission) alleging, among other things, discrimination by the Corporation concerning work of equal value. The Commission had declined jurisdiction in respect of similar complaints filed in 2012 (2012 complaints).

Following the decline of jurisdiction by the Commission in respect of the 2012 complaints, claims were filed against the Corporation on behalf of individual members of the Rural and Suburban Mail Carriers (RSMC) unit of CUPW in various locations. These claims contend, among other things, that the Corporation is in violation of the *Canadian Human Rights Act* by denying pay equity between the RSMC unit and external employees in the Corporation's postal operations unit. Consistent with the process already in place for the 2012 complaints, the Corporation requested that the Commission use its jurisdiction to decline to hear the 2013 complaints on the basis that the non-litigated internal dispute process should first be exhausted.

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

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

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

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

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

The Corporation has recognized decommissioning liabilities associated with asbestos removal and other site restoration costs for properties 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.

8. Other Operating Costs

Other operating costs consisted of the following:

For the 13 weeks ended		**March 30, 2013**		March 31, 2012
Non-labour collection, processing and delivery	$	337	$	352
Property, facilities and maintenance		90		84
Selling, administrative and other		115		141
Other operating costs	**$**	**542**	$	577

9. Investing and Financing Income (Expense)

Investing and financing income and expense consisted of the following:

For the 13 weeks ended		**March 30, 2013**		March 31, 2012
Interest revenue	$	3	$	3
Gain on sale of capital assets[1]		111		1
Other income		–		3
Investment and other income	**$**	**114**	$	7
Interest expense	$	(10)	$	(12)
Other expense		(2)		(4)
Finance costs and other expense	**$**	**(12)**	$	(16)
Investing and financing income (expense), net	**$**	**102**	$	(9)

1. Gain is primarily due to the disposal of a significant property sold during the first quarter of the current year that was classified as held for sale at December 31, 2012.

10. Related Party Transactions

The Corporation is wholly owned by the Government of Canada and is under common control with other governmental agencies and departments, and Crown corporations. The 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:

For the 13 weeks ended	March 30, 2013	March 31, 2012
Related party revenue	**$ 80**	$ 81
Compensation payments for programs		
Government mail and mailing of materials for the blind	**$ 6**	$ 6
Payments from related parties for premises leased from the Corporation	**$ 2**	$ 2
Related party expenditures	**$ 8**	$ 7

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.

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

As at	March 30, 2013	December 31, 2012
Due to/from related parties		
Included in trade and other receivables	**$ 32**	$ 19
Included in trade and other payables	**$ 10**	$ 10
Deferred revenue from related parties	**$ 7**	$ 7

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

During the 13 weeks ended March 30, 2013, the Corporation provided administration services to the Canada Post Corporation Registered Pension Plan in the amount of $2 million (March 31, 2012 – $2 million). As at March 30, 2013, $1 million (December 31, 2012 – $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 5.

(c) Transactions with entities in which key management personnel (KMP) of the Canada Post Group of Companies have control or joint control

In the normal course of business, the Group of Companies may interact with companies whose financial and operating policies are solely or jointly governed by KMP of the Group of Companies. The affected KMP always recuse themselves from all discussions and decisions relating to transactions between the companies. The only significant transactions for the 13 weeks ended March 30, 2013, were between Purolator and a company controlled by one of the Group of Companies' KMP, who is a director and also a minority shareholder of Purolator. This company provided air services to Purolator in the amount of $27 million (March 31, 2012 – $29 million). As at March 30, 2013, $4 million is due to the company from Purolator (December 31, 2012 – $5 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 Purolator.

11. Fair Values and Risks Arising from Financial Instruments

Financial Instruments carried at fair value

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

As at March 30, 2013

	Level 1[1]	Level 2[2]	Level 3[3]	Total
Assets				
Cash and cash equivalents	$ 204	$ 193	$ –	**$ 397**
Marketable securities	$ –	$ 501	$ –	**$ 501**
Segregated securities	$ –	$ 560	$ –	**$ 560**
Liabilities				
Trade and other payables: risk management financial liabilities	$ –	$ 1	$ –	**$ 1**

As at December 31, 2012

	Level 1[1]	Level 2[2]	Level 3[3]	Total
Assets				
Cash and cash equivalents	$ 243	$ 55	$ –	**$ 298**
Marketable securities	$ –	$ 570	$ –	**$ 570**
Segregated securities	$ –	$ 560	$ –	**$ 560**

Cash equivalents, marketable securities and segregated securities are now being disclosed as level 2 in the fair value hierarchy. Comparative figures also reflect this assessment. The credit rating of these securities remains in compliance with the Corporation's investment policy, which requires Dominion Bond Rating Service ratings of R-1 (middle) for short-term investments and A for long-term investments.

1. Level 1 financial assets are defined as assets with unadjusted quoted prices in active markets for identical assets.
2. Level 2 financial assets are defined as assets measured at fair value with a valuation technique using inputs other than quoted prices included in level 1 that are observable, either directly or indirectly, including inputs and quoted prices in markets that are not considered to be active.
3. Level 3 financial assets are defined as assets measured at fair value with a valuation technique using unobservable market inputs requiring management's best estimate.

Fair values of other financial instruments carried at amortized cost

The fair values of the following items approximate their carrying values due to their expected short-term settlement: trade and other receivables; trade and other payables; and salaries and benefits payable and related provisions. At March 30, 2013, fair values of loans and borrowings amounted to $1,356 million (December 31, 2012 – $1,366 million) compared to a carrying value of $1,139 million (December 31, 2012 – $1,143 million) and are estimated by reference to quoted market prices. In the absence of quoted market prices, fair values are calculated by discounting the future cash flows of the financial instrument using equivalent interest rates at the close of business on the reporting date.

Financial risk factors

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

(a) Market risk

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

During the 13 weeks ended March 30, 2013, the Group of Companies continued its economic hedge programs to mitigate its exposure to foreign exchange balances and to forecasted sales denominated in SDRs. The notional amounts of forward contracts outstanding were as follows:

As at March 30, 2013

Currency	**Nominal value**	**Canadian equivalent**	**Average contract rate**	**Maturity range**	**Type**	**Fair value**
U.S. dollar	US$75	$ 75	$1.00/US$	April 15 – Dec. 23, 2013	Sell forward	$ (2)
Euro	€39	52	$1.33/€	April 16 – Dec. 24, 2013	Sell forward	1
British pound	£9	14	$1.58/£	April 23 – Dec. 24, 2013	Sell forward	–
Yen	¥1,075	12	$0.011/¥	April 23 – Dec. 24, 2013	Sell forward	–
Total		$ 153				**$ (1)**

As at December 31, 2012

Currency	**Nominal value**	**Canadian equivalent**	**Average contract rate**	**Maturity**	**Type**	**Fair value**
U.S. dollar	US$16	$ 16	$0.99/US$	January 10, 2013	Sell forward	$ –
Euro	€9	12	$1.30/€	January 11, 2013	Sell forward	–
British pound	£2	3	$1.60/£	January 11, 2013	Sell forward	–
Yen	¥250	3	$0.012/¥	January 11, 2013	Sell forward	–
Total		$ 34				$ –

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

For the 13 weeks ended	**March 30, 2013**			March 31, 2012		
	Foreign exchange gains (losses)	**Derivative losses**	**Total**	Foreign exchange gains	Derivative gains	Total
Unrealized	$ (1)	$ (1)	$ (2)	$ 1	$ 1	$ 2
Realized	1	(1)	–	–	1	1
Total	**$ –**	**$ (2)**	**$ (2)**	$ 1	$ 2	$ 3

(b) Liquidity risk

Liquidity risk is the risk that a company will not be able to meet its financial obligations as they fall due. The Group of Companies manages liquidity risk by maintaining adequate cash reserves, banking facilities and reserve-borrowing facilities, by monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The accelerated decline in volumes observed last year, combined with the funding volatility of its Registered Pension Plan, creates ongoing pressure on the liquidity of the Corporation. The Canada Post Corporation Registered Pension Plan (RPP) remains one of the largest single-employer pension plans in Canada with assets of over $16 billion in market value. Volatile returns and the decline of discount rates over the past reporting periods have resulted in substantial solvency deficits and a growing post-employment benefit liability. The Corporation, as the RPP sponsor, is responsible for funding shortfalls in the pension plan. In addition to measures taken by the Corporation internally to enhance overall return and reduce volatility in the RPP, the federal government has provided some relief from solvency funding to federally regulated pension plans, but this is currently legislated and capped at an aggregate amount of 15% of total pension asset value and must be approved annually by the Minister of Finance and the Minister of Transport, Infrastructure and Communities, who is responsible for the Corporation.

The Corporation believes it has sufficient liquidity to support its operations until at least the end of the first quarter of 2014. This belief is based on the Corporation's latest forecast, the expectations that the approved short-term borrowing will be renewed on December 31, 2013, and that relief from solvency funding will be renewed by the federal government up to the legislated 15% limit. The Corporation currently has no reason to believe that such renewals will not be received.

In 2014, the Corporation is expected to reach the cap for the relief from solvency funding, unless there are significant changes in long-term interest rates or in the return on assets, and it will not be eligible for further relief from solvency funding under the current legislation. Based on current financial projections, lack of additional relief from solvency funding and existing approved borrowings, the Corporation will likely face a cash shortfall by sometime next year. The Corporation needs to restructure its business model to meet the changing needs of Canadians and Canadian businesses, and in light of the expected cash shortfall, it is evaluating every alternative to maintain financial self-sustainability.

Refer to notes 17 and 24 (c) of the Corporation's annual consolidated financial statements for the year ended December 31, 2012 for the Corporation's current authorized borrowing facilities.

12. Segmented Information

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

Intersegment transactions are recognized at the exchange amount, which is the amount agreed to by the various legal entities and business units. The terms and conditions of these transactions are comparable to those offered in the marketplace, with the exception of the IT business unit for services that are used internally, as Innovapost operates on a cost-recovery basis since March 14, 2012. On a consolidated basis, no external customer's purchases account for more than 10% of total revenues.

As at and for the 13 weeks ended March 30, 2013

	Canada Post	Purolator	Logistics	Innovapost	Intersegment and consolidation	Total
Revenue from external customers	$ 1,508	$ 357	$ 39	$ –	$ –	$ 1,904
Intersegment revenue	5	22	3	56	(86)	–
Revenue from operations	$ 1,513	$ 379	$ 42	$ 56	$ (86)	$ 1,904
Labour and employee benefits	$ 1,109	$ 183	$ 19	$ 22	$ –	$ 1,333
Other operating costs	379	194	21	33	(85)	542
Depreciation and amortization	66	13	1	1	(1)	80
Cost of operations	$ 1,554	$ 390	$ 41	$ 56	$ (86)	$ 1,955
Profit (loss) from operations	$ (41)	$ (11)	$ 1	$ –	$ –	$ (51)
Investment and other income	$ 120	$ –	$ –	$ –	$ (6)	$ 114
Finance costs and other expense	(11)	(1)	–	–	–	(12)
Profit (loss) before tax	$ 68	$ (12)	$ 1	$ –	$ (6)	$ 51
Tax expense (income)	19	(3)	–	–	–	16
Net profit (loss)	$ 49	$ (9)	$ 1	$ –	$ (6)	$ 35
Total assets	$ 6,454	$ 772	$ 92	$ 87	$ (428)	$ 6,977
Acquisition of capital assets	$ 75	$ 3	$ 1	$ –	$ (1)	$ 78
Total liabilities	$ 8,866	$ 397	$ 62	$ 39	$ (86)	$ 9,278

As at and for the 13 weeks ended March 31, 2012
(Restated – Note 3)

	Canada Post	Purolator	Logistics	Innovapost	Intersegment and consolidation	Total
Revenue from external customers	$ 1,534	$ 374	$ 32	$ –	$ –	$ 1,940
Intersegment revenue	5	24	3	40	(72)	–
Revenue from operations	$ 1,539	$ 398	$ 35	$ 40	$ (72)	$ 1,940
Labour and employee benefits	$ 1,138	$ 186	$ 14	$ 13	$ –	$ 1,351
Other operating costs	401	206	18	23	(71)	577
Depreciation and amortization	60	16	1	–	(1)	76
Cost of operations	$ 1,599	$ 408	$ 33	$ 36	$ (72)	$ 2,004
Profit (loss) from operations	$ (60)	$ (10)	$ 2	$ 4	$ –	$ (64)
Investment and other income	$ 13	$ –	$ –	$ –	$ (6)	$ 7
Finance costs and other expense	(12)	(1)	–	–	(3)	(16)
Profit (loss) before tax	$ (59)	$ (11)	$ 2	$ 4	$ (9)	$ (73)
Tax expense (income)	(14)	(2)	1	1	–	(14)
Net profit (loss)	$ (45)	$ (9)	$ 1	$ 3	$ (9)	$ (59)
Total assets	$ 6,196	$ 764	$ 81	$ 95	$ (401)	$ 6,735
Acquisition of capital assets	$ 117	$ 9	$ 1	$ –	$ (1)	$ 126
Total liabilities	$ 8,150	$ 329	$ 45	$ 47	$ (60)	$ 8,511

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