2013 Second Quarter Financial Report

For the period ended June 29, 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 second quarter ended June 29, 2013, and for the first two quarters of 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 and 26 weeks ended June 29, 2013. This discussion should be read with the unaudited interim condensed consolidated financial statements for the 13 and 26 weeks ended June 29, 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 August 22, 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 August 22, 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 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 $2.9 billion for the first two quarters of 2013 (78% 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. Canadians are significantly decreasing their use of transaction mail in favour of digital communications. This is having a profound effect on a business model founded on paper-based communications. In fact, since 2006 the Canada Post segment has experienced a decline of almost one billion domestic Lettermail™ pieces. Volumes are declining faster than Canada Post's ability to reduce costs given its current service obligations. In addition, large pension and post-employment benefit liabilities are putting significant pressures on the Corporation, especially given the current environment of low interest rates. The Direct Marketing business is facing intense competition from digital solutions that use mobile technologies, and both Canada Post and Purolator parcels businesses operate in a highly competitive environment. These factors have resulted in significant financial pressures and create an urgent need for Canada Post to transform its business.

In April 2013, The Conference Board of Canada issued a report entitled *The Future of Postal Service in Canada*. The report forecasted an annual financial loss of close to $1 billion by the year 2020. The report assessed the potential impact of various options for reducing those losses, including options similar to those being considered or implemented by other postal administrations. These include the following:

- conversion of households with door-to-door delivery to community mailboxes,
- wage restraint,
- alternate-day delivery for mail,
- more franchises of corporate post offices,
- price increases,
- relaxed service standards of mail (speed of delivery).

Canada Post commissioned The Conference Board of Canada to conduct this independent assessment in order to initiate an important conversation with Canadians. Following the release of the report, Canada Post began a dialogue with Canadians about their need for postal services now and in the future. This consultation is ongoing. Canada Post executives are visiting dozens of Canadian communities, meeting with groups of local officials, customers and consumers, and speaking with the media. The views of Canadians are also being solicited directly and posted on the Canada Post website, while other Canadians are choosing to write letters to the Corporation on the subject. Canada Post is thoughtfully assessing the report from the Conference Board of Canada and the feedback from Canadians to define balanced solutions that will help alleviate the financial pressure that the Corporation is facing.

Canada Post is discussing these solutions with the Government of Canada that align with the needs of Canadians and that will better position Canada Post to be financially self-sustaining. Given its financial position and outlook, Canada Post believes changes must be implemented as quickly as possible.

Financial highlights

For the second quarter ended June 29, 2013, the Canada Post Group of Companies experienced a consolidated loss before tax of $76 million, compared to a loss before tax of $80 million in the same period in 2012. For the first two quarters of 2013, the Group of Companies experienced a loss before tax of $25 million, compared to a loss before tax of $153 million in the first two quarters of 2012. Overall, the Group of Companies' 2013 year-to-date loss before tax was aided by the $109 million gain from the sale of Canada Post's downtown Vancouver mail processing plant in the first quarter. Without this gain, the loss before tax for the first two quarters of 2013 would have been $134 million. Operating losses have resulted primarily from mail volume erosion due to a number of factors, including electronic substitution, bill consolidation and intense competition, as well as from Canada Post's high, largely fixed operating costs required to meet its service mandate – to deliver mail five days a week to a growing number of addresses, despite volume declines.

The Canada Post segment reported losses from operations of $100 million for the second quarter of 2013 and $141 million for the first two quarters of 2013, compared to losses of $110 million and $170 million for the same periods in 2012. The reduced loss was mainly due to cost control efforts and parcel growth. Canada Post earned revenue of $1,435 million in the second quarter of 2013 and $2,948 in the first two quarters of 2013, substantially unchanged compared to the same periods in 2012, as price increases introduced in 2013 were sufficient to offset mail erosion in the first two quarters of 2013. Overall mail erosion, driven mainly by electronic substitution, caused mail volumes to decline by 32 million pieces or 2.9% in the second quarter of 2013 and by 169 million pieces or 2.7% in the first two quarters of 2013 compared to 2012. 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. On a positive note, Parcel volumes increased by approximately 700,000 pieces or 0.3% in the second quarter of 2013 and by 1 million pieces or 2.2% for the first two quarters of 2013, while parcel revenue for both the second quarter and first two quarters increased by $20 million or 5.0% and $19 million or 3.9% respectively compared to the same periods in 2012.

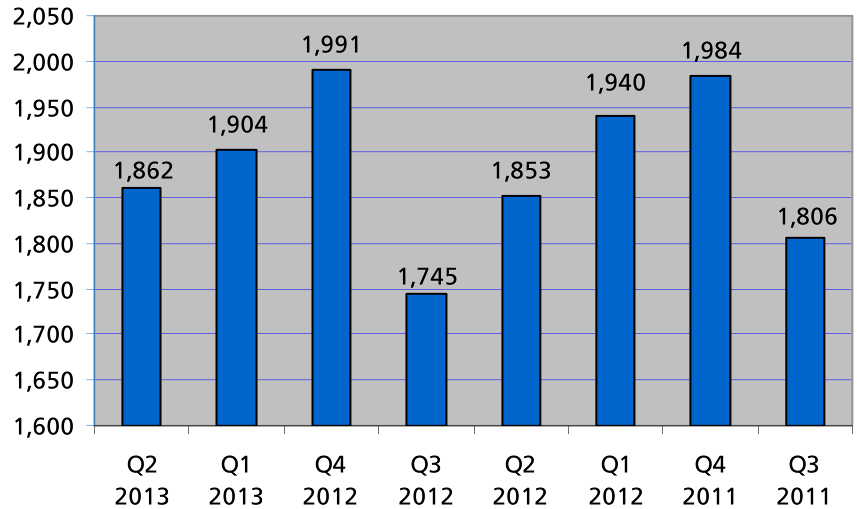
Canada Post, as pension plan sponsor, is responsible for making current service contributions to its pension plans as well as special payments to cover any funding shortfalls. The large pension commitments, given their size compared to revenue and profit, continue to have a significant impact on the Corporation's financial performance and cash resources. In the second quarter of 2013, market volatility had a positive impact on the Group of Companies' defined benefit plans, which resulted in remeasurement gains of $1.1 billion, net of tax, being recorded in other comprehensive income. These remeasurement gains were mostly from a year-to-date increase in the discount rates used to calculate the defined benefit liabilities. This helped to improve the Group of Companies' total equity to negative $1.3 billion as at June 29, 2013 and contributed to a reduction in the pension, other post-employment and other long-term benefit liabilities to $5.3 billion.

Liquidity outlook

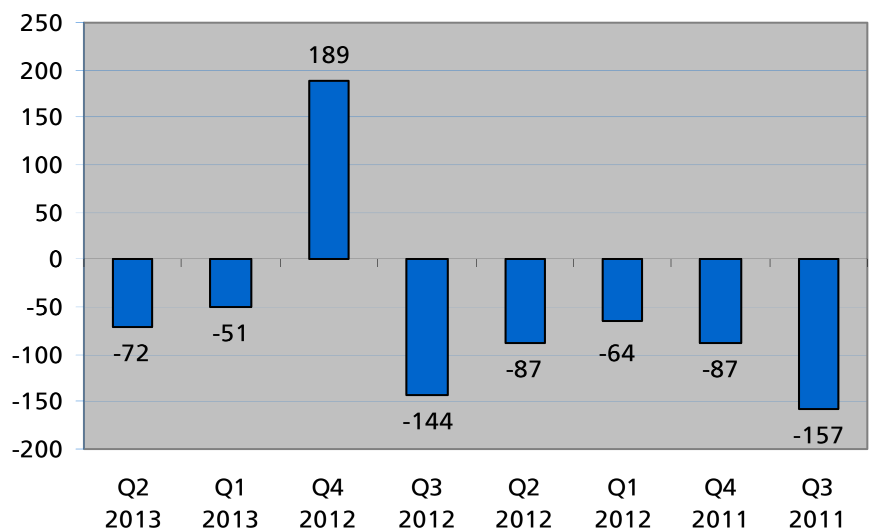
Based on the current financial forecast, Canada Post believes that it will require additional liquidity by the end of the second quarter of 2014 to support its operations. This is based on the expectation that the maximum legislated pension relief from special solvency payments will be reached in early 2014. Canada Post would need to resume its special solvency contributions to eliminate the solvency deficit ($5.9 billion as of December 31, 2012) over five years, requiring an estimated $1.1 billion in special solvency contributions in fiscal 2014. In addition, Canada Post's current business model does not allow it to achieve sufficient profitability to support its operations, contributing to this cash shortfall. This cash shortfall is expected to increase rapidly throughout the remainder of fiscal 2014. To address this expected shortfall, Canada Post is evaluating options with the Government of Canada, its sole shareholder, as some measures may require express shareholder approval. These options include seeking additional pension regulatory relief and securing additional financing. Canada Post is also looking for support to restructure its business model to assure its financial sustainability, while continuing to meet the changing needs of Canadians and Canadian businesses.

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
(in millions of dollars)

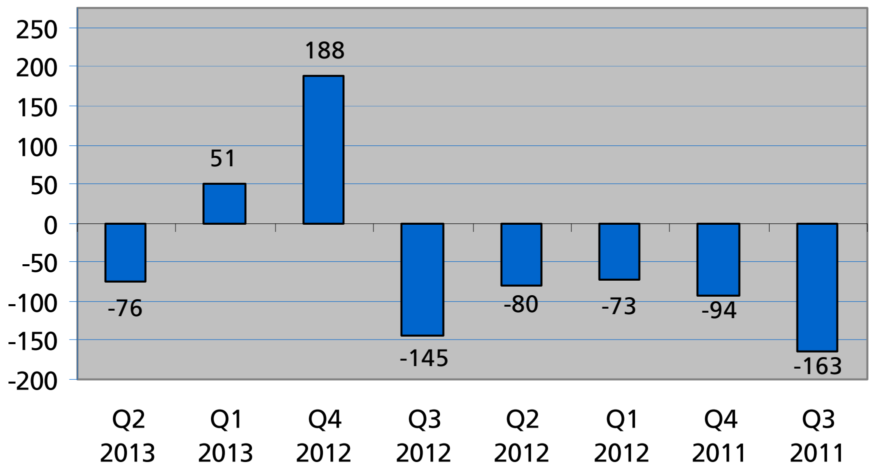


Quarterly consolidated profit (loss) from operations[1]
(in millions of dollars)

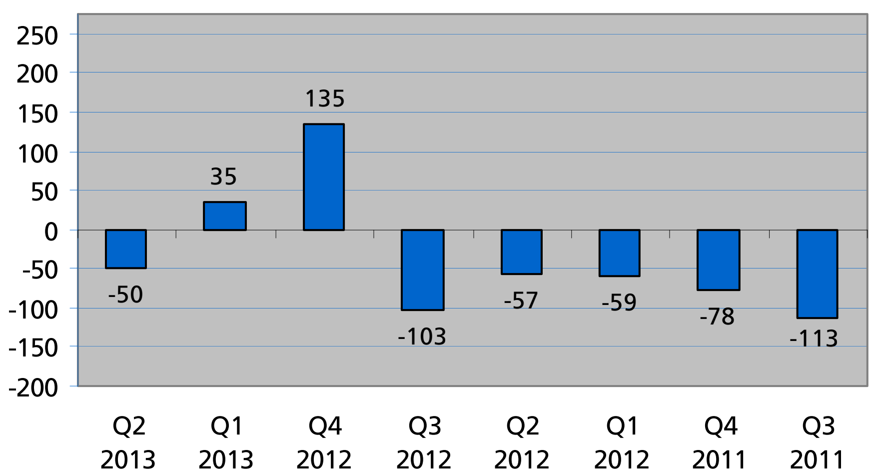


1. The amounts for 2012 were restated as a result of the adoption of new or revised accounting standards. See Note 4 – Application of New and Revised International Financial Reporting Standards in the accompanying financial statements for more details.

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 were restated as a result of the adoption of new or revised accounting standards. See Note 4 – 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 second quarter and the first two quarters of 2013, compared to the same periods in the prior year.

(in millions of dollars)	13 weeks ended				26 weeks ended				
	June 29, 2013	June 30, 2012 (restated)[1]	Change	%	June 29, 2013	June 30, 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	1,862	1,853	9	(1.1)[2]	3,766	3,793	(27)	0.1[2]	There's no material change.
Cost of operations	1,934	1,940	(6)	(0.3)	3,889	3,944	(55)	(1.4)	Decreases were largely driven by lower labour costs due to productivity improvements and one fewer paid days in the first two quarters of 2013, and lower selling, administration and other expenses in the Canada Post segment.
Loss before tax	(76)	(80)	4	4.1	(25)	(153)	128	83.6	The improvement was mainly due to a $109-million gain on the sale of the Vancouver mail processing plant in the Canada Post segment.
Net loss	(50)	(57)	7	11.0	(15)	(116)	101	86.8	
Comprehensive income (loss)	1,049	(617)	1,666	–	1,362	(771)	2,133	–	Remeasurement gains on the pension and other employee benefit plans were recorded in the first and second quarters of 2013.
Consolidated statement of cash flows									Highlights, as discussed in Section 6 – Liquidity and Capital Resources on page 12.
Cash provided by operating activities	95	29	66	231.4	53	32	21	64.7	Positive cash flow variance in the second quarter and first two quarters was due to changes in non-cash operating working capital, higher adjusted net income and a reduction in income taxes paid.
Cash provided by (used in) investing activities	(93)	156	(249)	–	53	43	10	22.9	Negative cash flow variance in the second quarter was mainly due to an increase in the acquisition of securities. In the first two quarters, the positive cash flow variance was primarily due to lower business and capital asset acquisitions and the sale of the Vancouver mail processing plant, partially offset by lower proceeds on the sale of securities.
Cash used in financing activities	(4)	(4)	0	16.4	(9)	(9)	0	3.8	There's no material change.

1. The amounts for 2012 were restated as a result of the adoption of new or revised accounting standards. See Note 4 – Application of New and Revised International Financial Reporting Standards in the accompanying financial statements for more details.

2. Adjusted for trading days, where applicable.

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 its 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, which represents about 22% of Canada Post's year-to-date revenue. However, this market is highly price-competitive and e-commerce 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 second 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 concentrating on revenue opportunities, such as evidence mail – identification cards, licences, and other evidence or proof of transactions – where there is a potential to grow mail volumes) that build on or complement its 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 injury 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

Pay equity update

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. On June 25, 2013, the Corporation and PSAC signed a memorandum of agreement outlining details such as eligibility, calculation methodology, application of interest and payment process. This agreement, consistent with the Supreme Court ruling and approved by the Tribunal on August 6 2013, provides the certainty and clarity required to begin proceeding with payments to eligible employees. A team of 60 employees continue the lengthy and complex process of reviewing tens of thousands of employee files in preparation of payment. Canada Post began issuing pay equity payments in August 2013. Given the complexity of reviewing and processing each file, completing this process will take time.

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. While collective bargaining with PSAC continues, the parties have agreed to a communications embargo during this period. The hope is to reach a mutual understanding of the challenges facing the Corporation and achieve a settlement that helps address some of these challenges.

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

The most recent CUPW-UPO agreements bring significant changes, such as lower starting wages for new employees, a zero per cent wage increase for 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 the economic realities it is facing. The focus of the second quarter has been on continued tracking of the implementation of these changes to ensure compliance and understanding. To that end, additional support and guidelines have been put in place.

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

Canada Post and CUPW-RSMC are in the second year of the recently negotiated four-year collective agreement that will expire on December 31, 2015. Implementation of agreed changes is ongoing, including improvements to wages and benefits. Canada Post has also introduced corporate right-hand drive vehicles and a reaching device to ensure safe deliveries to rural mailboxes.

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 second 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. Purolator reached agreements with all Teamster clerical groups, which were ratified by the end of July 2013. These new agreements expire on December 31, 2017. In addition,Purolator ratified an agreement with the Union of Postal Communication Employees in British Colombia on July 30, 2013. This new agreement expires on December 31, 2017.

The national collective agreement with the Canada Council of Teamsters for all hourly operations employees remains in force until December 31, 2016.

Logistics segment – SCI Group

There were no new developments in labour relation activities in the second quarter of 2013.

4.2 Internal controls and procedures

Changes in internal control over financial reporting

During the second 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 second quarter of 2013 are provided below.

5.1 Strategic risks

Labour agreements

Negotiations with PSAC/UPCE are continuing in 2013.

Economic uncertainty

The Bank of Canada projects modest global economic growth in 2013, with a rate of 3.0%. Growth is expected to strengthen to 3.6% in 2014 and 3.8% in 2015. While U.S. economic expansion is continuing at a modest pace despite the effects of sequestration that kicked in on March 1, there are persistent downside risks including a continuing European recession and a longer-than-expected slowdown of growth in emerging countries after a strong second half of 2012.

Following a weaker than expected 2012, Canada's economy is not expected to pick up momentum until the latter part of 2013. Continued restraint in government and business investment spending are factors in the projection of a second straight year of economic growth at less than 2%, despite a fairly strong first quarter result of 2.5%. The Bank of Canada does not see Canada's economy returning to full capacity until mid-2015. The uncertain nature of the economic recovery continues to be a primary contributing factor to the pace of mail volume erosion. While parcel volumes grew in 2012 and through the first part 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 and Section 5.2 – Operational risks of the 2013 First Quarter 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 launched in 2006 has been reached between the Corporation and Lee Valley Tools, which is subject to court approval. The impact of this settlement was reflected in the first quarter results from operations.

In 2013, individual members of the Rural and Suburban Mail Carriers unit of CUPW (CUPW-RSMC) filed complaints 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. 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 of procedural errors and that the non-litigated internal dispute process be exhausted first.

After the Commission declined jurisdiction in respect of the 2012 complaints to the Commission, further claims were filed against the Corporation on behalf of individual members by the CUPW-RSMC 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.

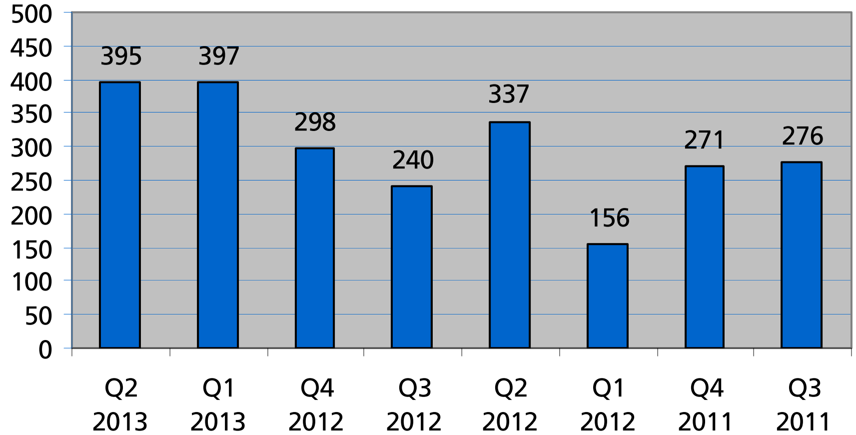
The outcome of these claims is currently not determinable, and as a result no provision has been recorded in the interim condensed consolidated financial statements.

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 $395 million as at June 29, 2013 – an increase of $97 million compared to December 31, 2012. The increase is mainly due to $157 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), $53 million in net sales of securities, and $53 million in cash from operating activities, partially offset by net capital asset acquisitions of $157 million and $9 million in finance lease obligations and other financing activities.

6.2 Operating activities

	13 weeks ended			26 weeks ended		
(in millions of dollars)	June 29, 2013	June 30, 2012	Change	June 29, 2013	June 30, 2012	Change
Cash provided by operating activities	95	29	66	53	32	21

Cash generated from operations in the second quarter of 2013 increased by $66 million, compared to the same period in the prior year. This cash flow variance was primarily driven by a change in non-cash operating working capital. The positive cash flow increase of $21 million for the first two quarters of 2013, compared to the same period in the prior year, was primarily driven by higher adjusted net income and a reduction in income taxes paid.

6.3 Investing activities

(in millions of dollars)	13 weeks ended June 29, 2013	June 30, 2012	Change	26 weeks ended June 29, 2013	June 30, 2012	Change
Cash provided by (used in) investing activities	(93)	156	(249)	53	43	10

Cash used in investing activities increased by $249 million in the second quarter of 2013, compared to the same period in 2012, mostly due to an increase in acquisitions of securities of $231 million, a reduction in proceeds from the sale of securities and capital assets of $86 million, partially offset by lower business and capital asset acquisitions of $68 million. For the first two quarters of 2013, cash provided by investing activities increased by $10 million, compared to the same period in the prior year, mainly due to $118-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 $129 million, partially offset by a reduction in proceeds from the sale of securities of $220 million and a $17-million increase in acquisitions of securities.

Capital expenditures

(in millions of dollars)	13 weeks ended June 29, 2013	June 30, 2012	Change	26 weeks ended June 29, 2013	June 30, 2012	Change
Canada Post	77	133	(56)	148	247	(99)
Purolator	5	7	(2)	8	17	(9)
Logistics	1	1	(0)	2	2	(0)
Intersegment and consolidation	0	(0)	(0)	(1)	(1)	(0)
Canada Post Group of Companies	**83**	**141**	**(58)**	**157**	**265**	**(108)**

Capital expenditures for the Group of Companies declined by $58 million in the second quarter of 2013 and by $108 million in the first two quarters of 2013, when compared to the same periods last year. The reductions were mainly due to a decrease in spending on Postal Transformation in the Canada Post segment.

6.4 Financing activities

(in millions of dollars)	13 weeks ended June 29, 2013	June 30, 2012	Change	26 weeks ended June 29, 2013	June 30, 2012	Change
Cash used in financing activities	(4)	(4)	0	(9)	(9)	0

There were no significant changes in financing activities in the second quarter and first two quarters of 2013, when compared to the same periods 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 $17 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 and in the 2013 First Quarter MD&A. An update is provided below.

On June 28, 2013, Canada Post filed the actuarial valuation of the RPP as at December 31, 2012, with the federal pension regulator, the Office of the Superintendent of Financial Institutions. The actuarial valuation as of December 31, 2012, disclosed a going-concern surplus of $81 million (using the smoothed value of RPP assets) and a solvency deficit to be funded of $5.9 billion[1] (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 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. In August 2013, the Ministers approved the Corporation's request for funding relief until June 30, 2014. The aggregate amount of the relief is expected to total $2.4 billion at the end of 2013. 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 exploring all options, including seeking regulatory relief and changes to the pension plan framework to help address these challenges.

Current service contributions amounted to $81 million and $158 million respectively for the second quarter and first two quarters of 2013, compared to $78 million and $161 million for the same periods in 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 is moving to 50/50 cost sharing by 2014. CUPW is challenging this decision to raise the rate of employee contributions as the union alleges it is a violation of the terms of the collective agreement.

Canada Post, the RPP sponsor, records remeasurement adjustments, net of tax, in other comprehensive income. For the second quarter and first two quarters of 2013, remeasurement gains, net of tax, amounted to $935 million and $1.2 billion respectively.

1. 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 second 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 $805 million of unrestricted liquid investments on hand as at June 29, 2013, and $250 million of lines of credit ($100 million as of July 1, 2013) 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.

Large pension funding obligations have a significant impact on Canada Post's liquidity, which will only increase as the maximum legislated pension relief from special solvency payments is expected to be reached in early 2014. As a result, Canada Post would be required to resume its special solvency contributions to eliminate the solvency deficit ($5.9 billion as of December 31, 2012) over five years. The solvency contributions for fiscal 2014 are expected to be $1.1 billion at this time. Based on the current financial forecast, the Canada Post segment believes that it will require additional liquidity by the end of the second quarter of 2014 to support its operations. The shortfall is expected to increase rapidly throughout the remainder of fiscal 2014 due to these pension funding requirements and an unsustainable business model. To address this expected shortfall, Canada Post is evaluating options with the Government of Canada, its sole shareholder, as some measures may require express shareholder approval. These options include seeking additional pension regulatory relief and securing additional financing. Canada Post is also looking for support to restructure its business model to assure its financial sustainability, while continuing to meet the changing needs of Canadians and Canadian businesses.

The Corporation's subsidiaries had a total of $97 million of unrestricted cash on hand and undrawn credit facilities of $128 million as at June 29, 2013, ensuring sufficient liquidity to support their operations over at least the next 12 months.

Access to capital markets

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 $100 million as of July 1, 2013 (previously $250 million) for cash management purposes in the form of short-term borrowings. In addition, pursuant to the *Canada Post Corporation Act*, the Canada Post segment may also borrow a maximum of $500 million from the Government of Canada's Consolidated Revenue Fund.

Borrowings for the Canada Post segment and the Corporation's subsidiaries as at June 29, 2013, amounted to $1,059 million and $77 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 business activities, 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 26 weeks ended June 29, 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 accounting purposes. For more information on foreign exchange risk, please refer to Note 12 – Fair Values and Risks Arising From Financial Instruments of the unaudited interim condensed consolidated financial statements for the 13 and 26 weeks ended June 29, 2013. There were no material changes to market risk during the second 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 second 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. The Canada Post segment expects to face a liquidity shortfall by the end of the second quarter of 2014. For more details, please refer to Section 6.6 Liquidity and capital resources of the MD&A and Note 3 – Liquidity Matters of the unaudited interim condensed consolidated financial statements for the 13 and 26 weeks ended June 29, 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 second 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 11 – Related Party Transactions of the unaudited interim condensed consolidated financial statements for the 13 and 26 weeks ended June 29, 2013.

6.10 Contingent liabilities

Contingent liabilities are described in Note 8 – Contingent Liabilities of the unaudited interim condensed consolidated financial statements for the 13 and 26 weeks ended June 29, 2013.

7 Changes in Financial Position

A discussion of significant changes in our assets and liabilities between June 29, 2013 and December 31, 2012

(in millions of dollars)

ASSETS	June 29, 2013	Dec. 31, 2012 (restated)[1]	Change	%	Explanation of change
Cash and cash equivalents	395	298	97	32.4	Refer to Section 6 – Liquidity and Capital Resources on page 12.
Marketable securities	507	570	(63)	(11.1)	Primarily due to the drawdown of short-term investments to pay for capital acquisitions in the Canada Post segment.
Trade and other receivables	693	702	(9)	(1.2)	There's no material change.
Income tax receivable	7	8	(1)	(10.2)	There's no material change.
Other assets	111	126	(15)	(12.0)	Mainly due to the disposal of properties held for sale, partially offset by an increase in prepaid expenses.
Total current assets	**1,713**	**1,704**	**9**	**0.5**	
Property, plant and equipment	2,665	2,655	10	0.4	There's no material change.
Intangible assets	127	143	(16)	(11.1)	Primarily due to amortization of software assets exceeding acquisitions.
Segregated securities	538	560	(22)	(4.0)	Mainly due to unrealized losses, partially offset by interest income.
Pension benefit assets	109	83	26	31.3	Primarily resulting from remeasurement gains in the Canada Post segment.
Deferred tax assets	1,365	1,808	(443)	(24.5)	Primarily due to the decrease of temporary differences resulting from remeasurement gains recognized in the first two quarters of 2013 in other comprehensive income for Canada Post's Registered Pension Plan and post-employment benefits.
Goodwill	130	130	0	0.1	There's no material change.
Other assets	8	11	(3)	(26.6)	There's no material change.
Total non-current assets	**4,942**	**5,390**	**(448)**	**(8.3)**	
Total assets	**6,655**	**7,094**	**(439)**	**(6.2)**	

1. The amounts for 2012 were restated as a result of the adoption of new or revised accounting standards. See Note 4 – Application of New and Revised International Financial Reporting Standards in the accompanying financial statements for more details.

(in millions of dollars)

LIABILITIES AND EQUITY	June 29, 2013	Dec. 31, 2012 (restated)[1]	Change	%	Explanation of change
Trade and other payables	534	540	(6)	(1.1)	There's no material change.
Salaries and benefits payable and related provisions	626	699	(73)	(10.5)	Primarily due to a decrease in accrued salaries in the Canada Post segment.
Provisions	90	85	5	6.1	Mainly attributable to a change in legal, lease-termination and labour-related provisions.
Income tax payable	0	1	(1)	(87.8)	There's no material change.
Deferred revenue	110	137	(27)	(20.1)	Primarily attributable to a reduction in stamp deferrals and customer prepayments.
Loans and borrowings	22	20	2	5.8	There's no material change.
Other long-term benefit liabilities	72	72	–	–	There's no material change.
Total current liabilities	**1,454**	**1,554**	**(100)**	**(6.5)**	
Loans and borrowings	1,114	1,123	(9)	(0.8)	There's no material change.
Pension, other post-employment and other long-term benefit liabilities	5,315	7,007	(1,692)	(24.1)	Primarily resulting from remeasurement gains in the Canada Post segment.
Deferred tax liabilities	2	2	(0)	(3.2)	There's no material change.
Provisions	6	5	1	38.8	There's no material change.
Other liabilities	16	17	(1)	(8.1)	There's no material change.
Total non-current liabilities	**6,453**	**8,154**	**(1,701)**	**(20.8)**	
Total liabilities	**7,907**	**9,708**	**(1,801)**	**(18.6)**	
Equity					
Contributed capital	1,155	1,155	–	–	There's no material change.
Accumulated other comprehensive income	28	52	(24)	(46.4)	Mainly due to net unrealized loss on available-for-sale financial assets in the Canada Post segment.
Accumulated deficit	(2,457)	(3,840)	1,383	36.0	Primarily due to remeasurement gains on pension and other post-employment plans.
Equity of Canada	**(1,274)**	**(2,633)**	**1,359**	**51.6**	
Non-controlling interests	22	19	3	18.8	
Total equity	**(1,252)**	**(2,614)**	**1,362**	**52.1**	
Total liabilities and equity	**6,655**	**7,094**	**(439)**	**(6.2)**	

1. The amounts for 2012 were restated as a result of the adoption of new or revised accounting standards. See Note 4 – 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)	Q2 2013	Q1 2013	Q4 2012[1]	Q3 2012[1]	Q2 2012[1]	Q1 2012[1]	Q4 2011	Q3 2011
Revenue from operations	1,862	1,904	1,991	1,745	1,853	1,940	1,984	1,806
Cost of operations	1,934	1,955	1,802	1,889	1,940	2,004	2,071	1,963
Profit (loss) from operations	**(72)**	**(51)**	**189**	**(144)**	**(87)**	**(64)**	**(87)**	**(157)**
Investing and financing income (expense)	(4)	102	(1)	(1)	7	(9)	(7)	(6)
Profit (loss) before tax	**(76)**	**51**	**188**	**(145)**	**(80)**	**(73)**	**(94)**	**(163)**
Tax expense (income)	(26)	16	53	(42)	(23)	(14)	(16)	(50)
Net profit (loss)	**(50)**	**35**	**135**	**(103)**	**(57)**	**(59)**	**(78)**	**(113)**

1. The amounts for 2012 were restated as a result of the adoption of new or revised accounting standards. See Note 4 – 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 second quarter and first two quarters of 2013

	13 weeks ended				26 weeks ended			
(in millions of dollars)	June 29, 2013	June 30, 2012 (restated)[1]	Change	%	June 29, 2013	June 30, 2012 (restated)[1]	Change	%
Revenue from operations	1,862	1,853	9	(1.1)[2]	3,766	3,793	(27)	0.1[2]
Cost of operations	1,934	1,940	(6)	(0.3)	3,889	3,944	(55)	(1.4)
Loss from operations	**(72)**	**(87)**	**15**	**17.5**	**(123)**	**(151)**	**28**	**18.4**
Investing and financing income (expense)	(4)	7	(11)	–	98	(2)	100	–
Loss before tax	**(76)**	**(80)**	**4**	**4.1**	**(25)**	**(153)**	**128**	**83.6**
Tax expense (income)	(26)	(23)	(3)	(13.1)	(10)	(37)	27	73.1
Net loss	**(50)**	**(57)**	**7**	**11.0**	**(15)**	**(116)**	**101**	**86.8**
Other comprehensive income (loss)	1,099	(560)	1,659	–	1,377	(655)	2,032	–
Comprehensive income (loss)	**1,049**	**(617)**	**1,666**	**–**	**1,362**	**(771)**	**2,133**	**–**

1. The amounts for 2012 were restated as a result of the adoption of new or revised accounting standards. See Note 4 – Application of New and Revised International Financial Reporting Standards in the accompanying financial statements for more details.

2. Adjusted for trading days, where applicable.

The Canada Post Group of Companies reported a net loss of $50 million for the second quarter of 2013 – an improvement of $7 million when compared to the same quarter in the previous year. For the first two quarters of 2013, the net loss was $15 million, an improvement of $101 million when compared to the same period last year, primarily due to the sale of Canada Post's downtown Vancouver mail processing plant in January 2013, which generated a gain of $109 million.

Consolidated revenue from operations

For the second quarter of 2013, revenue from operations increased by $9 million when compared to the same quarter in 2012, but when adjusted for trading days (there was one additional trading day in the second quarter of 2013), revenue decreased by 1.1%. For the first two quarters of 2013, revenue from operations decreased by $27 million when compared to the same period in 2012, but when adjusted for trading days (there was one less trading day in the first two quarters of 2013), revenue increased by 0.1%. Overall, while revenue was aided by 2013 price increases, they were barely sufficient to offset volume erosion in 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 $6 million or 0.3% in the second quarter of 2013 when compared to the same quarter last year. For the first two quarters of 2013, costs of operations decreased by $55 million or 1.4% when compared to the same period last year. A detailed discussion by segment is provided in sections 8.4 to 8.7.

Consolidated investing and financing income (expense)

Net investing and financing expense increased by $11 million in the second quarter of 2013, compared to the same period in the prior year, mainly due from lower gains on disposal of assets in the Canada Post segment. In the first two quarters of 2013, net investing and financing income increased by $100 million 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 income increased by $3 million for the second quarter of 2013 when compared to the same period in the prior year. For the first two quarters of 2013, the consolidated tax income decreased by $27 million when compared to the same period in the prior year, primarily driven by a decrease in losses in the Group of Companies.

Consolidated other comprehensive income (loss)

Consolidated other comprehensive income amounted to $1,099 million in the second quarter of 2013 and $1,377 million for the first two quarters 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				26 weeks ended			
(in millions of dollars)	June 29, 2013	June 30, 2012 (restated)[1]	Change	%	June 29, 2013	June 30, 2012 (restated)[1]	Change	%
Canada Post	(104)	(102)	(2)	0.2	(36)	(161)	125	77.9
Purolator	25	19	6	23.6	13	8	5	44.5
Logistics	2	2	(0)	(34.2)	3	4	(1)	(25.8)
Innovapost	(0)	0	(0)	–	0	4	(4)	(99.2)
Intersegment and consolidation	1	1	(0)	(17.6)	(5)	(8)	3	35.4
Canada Post Group of Companies	**(76)**	**(80)**	**4**	**4.1**	**(25)**	**(153)**	**128**	**83.6**

1. The amounts for 2012 were restated as a result of the adoption of new or revised accounting standards. See Note 4 – 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 loss before tax of $104 million in the second quarter of 2013, compared to a loss of $102 million in the second quarter of 2012. After the first two quarters of 2013, the loss before tax was $36 million – an improvement of $125 million over the same period in 2012, primarily due to the sale of its downtown Vancouver mail processing plant in January 2013, which generated a gain of $109 million.

Canada Post results for the second quarter and first two quarters of 2013

	13 weeks ended				26 weeks ended			
(in millions of dollars)	June 29, 2013	June 30, 2012 (restated)[1]	Change	%	June 29, 2013	June 30, 2012 (restated)[1]	Change	%
Revenue from operations	1,435	1,429	6	(1.1)[2]	2,948	2,968	(20)	0.1[2]
Cost of operations	1,535	1,539	(4)	(0.4)	3,089	3,138	(49)	(1.6)
Loss from operations	**(100)**	**(110)**	**10**	**11.1**	**(141)**	**(170)**	**29**	**17.2**
Investing and financing income (expense)	(4)	8	(12)	–	105	9	96	–
Loss before tax	**(104)**	**(102)**	**(2)**	**0.2**	**(36)**	**(161)**	**125**	**77.9**
Tax expense (income)	(33)	(29)	(4)	(12.0)	(14)	(43)	29	67.1
Net loss	**(71)**	**(73)**	**2**	**5.1**	**(22)**	**(118)**	**96**	**81.7**

Revenue from operations

Canada Post earned revenue from operations of $1,435 million in the second quarter of 2013 – an increase of $6 million when compared to the same quarter in 2012. Adjusting for trading days (there was one additional trading day in the second quarter of 2013), revenue decreased by 1.1%. For the first two quarters of 2013, Canada Post generated revenue of $2,948 million, a decrease of $20 million compared to the same period in 2012. Adjusting for trading days (there was one less trading day in the first two quarters of 2013) revenue increased by 0.1%. Overall, volume declines from electronic substitution, bill consolidation and intense competition were offset by price increases that came into effect January 14, 2013, and revenue increases in Parcels driven by e-commerce growth.

Quarterly revenue by line of business

	13 weeks ended				26 weeks ended			
(in millions of dollars)	June 29, 2013	June 30, 2012	Change	%[2]	June 29, 2013	June 30, 2012	Change	%[2]
Transaction Mail	732	736	(4)	(2.1)	1,559	1,572	(13)	(0.1)
Direct Marketing	310	317	(7)	(3.6)	612	632	(20)	(2.3)
Parcels	322	302	20	5.0	640	621	19	3.9
Other revenue	71	74	(3)	(4.5)	137	143	(6)	(3.1)
Total	**1,435**	**1,429**	**6**	**(1.1)**	**2,948**	**2,968**	**(20)**	**0.1**

1. The amounts for 2012 were restated as a result of the adoption of new or revised accounting standards. See Note 4 – Application of New and Revised International Financial Reporting Standards in the accompanying financial statements for more details.

2. Adjusted for trading days, where applicable.

Transaction Mail

Transaction Mail revenue of $732 million for the second quarter of 2013 was composed of the following three product categories: domestic Lettermail ($660 million), outbound Letter-post ($40 million), and inbound Letter-post ($32 million).

In the second quarter of 2013, Transaction Mail revenue decreased by $4 million or 2.1% and volumes decreased by 51 million pieces or 6.3% compared to the same period in 2012. Despite 2013 rate increases, revenue continued to fall from volume erosion due to electronic substitution in the second quarter of 2013. For domestic Lettermail, the largest product category, revenue decreased by $4 million or 2.1%, and volumes decreased by 48 million pieces or 6.4% in the second quarter of 2013 compared to the same period in 2012. In today's highly competitive environment, the demand for Transaction Mail continues to diminish due to the many credible alternatives to paper-based communication. As well, some of our largest customers, especially in the banking and telecommunications segments, have implemented pay-for-paper initiatives, which have also had a negative impact on our transaction mail volumes and revenue.

In the first two quarters of 2013, Transaction Mail revenue decreased by $13 million or 0.1%, and volumes declined by 111 million pieces or 4.1% compared to the same period in 2012. For domestic Lettermail, revenue decreased by $8 million and volumes decreased by 102 million pieces or 4.1% in the first two quarters of 2013, compared to the same period last year. The volume declines were largely driven by the continued shift away from paper-based communications.

Direct Marketing

Direct Marketing revenue of $310 million for the second quarter of 2013 was composed of the following four categories: Addressed Admail™ ($136 million), Unaddressed Admail™ ($108 million), Publications Mail™ ($60 million), and Business Reply Mail™ and Other mail ($6 million).

Direct Marketing revenue declined in the second quarter of 2013 by $7 million or 3.6%, while volumes increased by 18 million pieces when compared to the same period in 2012, primarily due to an increase in Unaddressed Admail, partially offset by reductions in Addressed Admail and Publications Mail. Declines in Addressed Admail revenue and volumes were caused in part by commercial customers shifting some of their advertising spending to other products or media channels.

In the first two quarters of 2013, Direct Marketing revenue decreased by $20 million or 2.3%, and volumes declined by 59 million pieces or 1.5% compared to the same period in 2012. Revenue and volumes were down across each of the four categories compared to the prior year, largely driven by the continued volume declines in the telecommunication, banking, and insurance segments. Some commercial customers have reduced their overall marketing spending or redirected some of their marketing activities to other products or media channels. Declines in Publications Mail revenue and volumes continued with the increasing popularity of digital alternatives.

Parcels

Parcels revenue of $322 million for the second quarter of 2013 was composed of four product categories: domestic parcels ($226 million), outbound parcels ($47 million), inbound parcels ($44 million), and other ($5 million).

Parcels revenue increased by $20 million or 5.0% for the second quarter of 2013, while volumes increased by about 700,000 pieces or 0.3% when compared to the same period in the prior year. For domestic parcels, the largest product category, revenue increased by $15 million or 5.7% with volume growth of 5.1% in the second quarter of 2013 compared to the same period in 2012. In the first two quarters of 2013, Parcels revenue increased by $19 million or 3.9%, and volumes increased by about 1 million pieces or 2.2% when compared to the same period in 2012. For domestic parcels, revenue increased by over $14 million or 4.1% and volumes increased by 3.9% in the first two quarters of 2013, compared to the same period last year. Overall revenue and volume growth reflect the continued growth in e-commerce orders as customers continue to order more products online.

Other revenue

Other revenue totalled $71 million in the second quarter of 2013 – a decrease of $3 million or 4.5%, when compared to the same period in the prior year. At the end of two quarters, revenue declined by $6 million or 3.1% compared to the same period in 2012. The revenue decreases were primarily the result of lower consumer product revenue, partially offset by revenue increases in mail redirection.

Cost of operations

Cost of operations for the Canada Post segment amounted to $1,535 million in the second quarter of 2013 – a decrease of $4 million or 0.4% when compared to the same quarter last year. After the first two quarters of 2013, the cost of operations was $3,089 million – a decrease of $49 million or 1.6% when compared to the same period in 2012.

	13 weeks ended				26 weeks ended			
(in millions of dollars)	June 29, 2013	June 30, 2012 (restated)[1]	Change	%	June 29, 2013	June 30, 2012 (restated)[1]	Change	%
Labour	774	784	(10)	(1.3)	1,553	1,596	(43)	(2.7)
Employee benefits	331	324	7	2.1	661	650	11	1.7
Total labour and employee benefits	**1,105**	**1,108**	**(3)**	**(0.3)**	**2,214**	**2,246**	**(32)**	**(1.4)**
Non-labour collection, processing and delivery	191	190	1	0.3	400	409	(9)	(2.4)
Property, facilities and maintenance	64	56	8	13.2	127	117	10	8.7
Selling, administrative and other	114	125	(11)	(9.4)	221	246	(25)	(10.2)
Total other operating costs	**369**	**371**	**(2)**	**(1.0)**	**748**	**772**	**(24)**	**(3.2)**
Depreciation and amortization	61	60	1	3.1	127	120	7	6.4
Total	**1,535**	**1,539**	**(4)**	**(0.4)**	**3,089**	**3,138**	**(49)**	**(1.6)**

1. The amounts for 2012 were restated as a result of the adoption of new or revised accounting standards. See Note 4 – Application of New and Revised International Financial Reporting Standards in the accompanying financial statements for more details.

Labour

Labour costs decreased by $10 million or 1.3% for the second quarter of 2013 and by $43 million or 2.7% in the first two quarters of 2013, when compared to the same periods in the previous year. The decreases were primarily due to productivity improvements, a reduction in headcount and having one fewer paid days in the first two quarters of 2013, partially offset by regular annual wage increases.

Employee benefits

Employee benefits for the second quarter of 2013 increased by $7 million or 2.1% when compared to the same period in 2012. For the first two quarters, employee benefits increased by $11 million or 1.7% when compared to the same period in 2012. The increases were mainly due to an increase in pension expense, primarily from a decrease in the discount rate.

Non-labour collection, processing and delivery

Contracted collection, processing and delivery costs remained substantially unchanged for the second quarter of 2013 compared to the same period in 2012. For the first two quarters, costs decreased by $9 million or 2.4% when compared to the same period in the prior year mainly due to lower transportation and employee conveyance expenses.

Property, facilities and maintenance

The cost of facilities increased by $8 million or 13.2% for the second quarter of 2013 and by $10 million or 8.7% for the first two quarters of 2013, when compared to the same periods in the prior year, mainly due to utilities and rent increases.

Selling, administrative and other

Selling, administrative and other expenses decreased by $11 million or 9.4% for the second quarter of 2013 and $25 million or 10.2% for the first two quarters, when compared to the same periods in the prior year, mainly due to savings in travel costs and one-time investment project expenses, partially offset by higher contracted services expenses.

Depreciation and amortization

Depreciation and amortization expenses increased by $1 million or 3.1% for the second quarter of 2013 and $7 million or 6.4% for the first two quarters, when compared to the same periods 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 contributed a net profit of $18 million for the second quarter of 2013, an improvement of $4 million or 26.4% when compared with the same period in the prior year. For the first two quarters of 2013, Purolator earned a net profit of $9 million, an increase of $4 million or 81.4% when compared with the prior year.

Purolator results for the second quarter and first two quarters of 2013

	13 weeks ended				**26 weeks ended**			
(in millions of dollars)	June 29, 2013	June 30, 2012 (restated)[1]	Change	%	June 29, 2013	June 30, 2012 (restated)[1]	Change	%
Revenue from operations	412	416	(4)	(2.6)[2]	791	814	(23)	(2.0)[2]
Cost of operations	387	396	(9)	(2.2)	777	804	(27)	(3.3)
Profit from operations	**25**	**20**	**5**	**21.6**	**14**	**10**	**4**	**40.4**
Investing and financing income (expense)	(0)	(1)	1	45.2	(1)	(2)	1	(5.6)
Profit before tax	**25**	**19**	**6**	**23.6**	**13**	**8**	**5**	**44.5**
Tax expense	7	5	2	16.9	4	3	1	3.6
Net profit	**18**	**14**	**4**	**26.4**	**9**	**5**	**4**	**81.4**

1. The amounts for 2012 were restated as a result of the adoption of new or revised accounting standards. See Note 4 – Application of New and Revised International Financial Reporting Standards in the accompanying financial statements for more details.

2. Adjusted for trading days, where applicable.

Revenue from operations

Purolator generated revenue from operations of $412 million in the second quarter of 2013 – a decrease of $4 million or 2.6% when compared with the same period last year. After the first two quarters, 2013 revenue totalled $791 million – a decrease of $23 million or 2.0% compared to the same period in 2012. Decreases were mainly driven by reduced volumes due to competition and the slow economy.

Cost of operations

Total labour costs

Cost of total labour was $184 million in the second quarter of 2013 – an increase of $2 million or 1.0% when compared to the same period in the prior year. After the first two quarters of 2013, the cost of total labour was $367 million – a decrease of $1 million or 0.5% compared to 2012. The overall decrease was mainly due to reduced volumes and organizational restructuring.

Total non-labour costs

Total non-labour costs were $203 million in the second quarter of 2013 – a decrease of $11 million or 5.0% when compared to the same period in the prior year. After the first two quarters of 2013, the non-labour costs were $410 million – a decrease of $26 million or 5.7% compared to 2012. Decreases were 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 $2 million of net profit to the consolidated results for the second quarter of 2013. For the first two quarters of 2013, the Logistics segment earned a net profit of $3 million.

Logistics results for the second quarter and first two quarters of 2013

	13 weeks ended				26 weeks ended			
(in millions of dollars)	June 29, 2013	June 30, 2012 (restated)[1]	Change	%	June 29, 2013	June 30, 2012 (restated)[1]	Change	%
Revenue from operations	43	40	3	7.4[2]	85	75	10	14.1[2]
Cost of operations	41	38	3	12.2	82	71	11	15.3
Profit from operations	**2**	**2**	**(0)**	**(32.9)**	**3**	**4**	**(1)**	**(24.2)**
Investing and financing income (expense)	(0)	0	(0)	–	(0)	0	(0)	–
Profit before tax	**2**	**2**	**(0)**	**(34.2)**	**3**	**4**	**(1)**	**(25.8)**
Tax expense	0	1	(1)	(37.4)	0	2	(2)	(63.7)
Net profit	**2**	**1**	**1**	**–**	**3**	**2**	**1**	**–**

1. The amounts for 2012 were restated as a result of the adoption of new or revised accounting standards. See Note 4 – Application of New and Revised International Financial Reporting Standards in the accompanying financial statements for more details.

2. Adjusted for trading days, where applicable.

Revenue from operations

SCI generated revenue from operations of $43 million in the second quarter of 2013 – an increase of $3 million or 7.4%, when compared with the same period last year. After the first two quarters, 2013 revenue was $85 million – an increase of $10 million or 14.1% when compared to 2012. Increases were mainly driven by the White Glove acquisition in May 2012 and growth from new and existing clients.

Cost of operations

Total labour costs

Cost of total labour was $16 million in the second quarter of 2013 – a decrease of $1 million or 3.0% when compared to the same period in the prior year. After the first two quarters of 2013, the cost of total labour was $35 million – an increase of $4 million or 13.7% compared to 2012. These variances were primarily the result of volume changes and the White Glove acquisition.

Total non-labour costs

Total non-labour costs were $25 million in the second quarter of 2013 – an increase of $4 million or 19.4% when compared to the same period in the previous year. After the first two quarters of 2013, total non-labour costs were $47 million – an increase of $7 million or 16.6% compared to 2012. These increases were 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 $114 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 and estimation uncertainties

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period when estimates are revised if revisions affect only that period or in the period of revision and future periods if revisions affect both current and future periods. In addition to the critical judgments and key sources of estimation uncertainty disclosed in the Corporation's annual consolidated financial statements for the year ended December 31, 2012, there is uncertainty regarding the Corporation's profitability and cash flow, and its ability to secure additional financing or further relief from solvency funding, as discussed in Note 3 – Liquidity Matters of the unaudited interim condensed consolidated financial statements for the 13 and 26 weeks ended June 29, 2013.

9.2 Accounting pronouncements

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

The Corporation's *2013 First Quarter Financial Report* includes a complete discussion of the impact on the Corporation of pronouncements issued by the International Accounting Standards Board (IASB) or the IFRS Interpretations Committee (Interpretations Committee) that were mandatory for accounting periods beginning on January 1, 2013.

The following new pronouncements adopted by the Group of Companies on January 1, 2013, affected amounts reported, the presentation of balances or related disclosure in the interim condensed consolidated financial statements for the 13 and 26 weeks ended June 29, 2013.

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 and 26 weeks ended June 29, 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 26-week period ended June 30, 2012, the net loss increased by $105 million, whereas other comprehensive loss was reduced by $102 million. The restated accumulated deficit was reduced by $6 million at June 30, 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 4 – Application of New and Revised International Financial Reporting Standards of the unaudited interim condensed consolidated financial statements for the 13 and 26 weeks ended June 29, 2013.

(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 $87 million as at December 31, 2012.

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

The following table presents the new standards, amendments and interpretations issued by the IASB and the Interpretations Committee, which were assessed as having a possible impact on the Group of Companies in the future. Pronouncements that have been issued since the Corporation's last quarterly report are discussed below. The Corporation is determining the impact of the amendments on its consolidated financial statements, if any.

Amendment or interpretation	Effective for annual periods beginning on or after
IFRS 9 Financial Instruments	January 1, 2015
Amendments to IAS 36 – Recoverable Amount Disclosures for Non-Financial Assets	January 1, 2014
IFRIC 21 Levies	January 1, 2014

Amendments to IAS 36 – Recoverable Amount Disclosures for Non-Financial Assets • The amendments to IAS 36 clarify existing guidance that was intended to require disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. Further, the amendments require additional information about these fair value measurements, including the fair value hierarchy level. The amendments are to be applied retrospectively for annual periods beginning on or after January 1, 2014. Earlier adoption is permitted.

IFRIC 21 Levies • This IFRIC addresses the accounting for a liability to pay a levy within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as well as accounting for a levy whose timing and amount is uncertain. A levy is defined as an outflow of resources embodying economic benefits that is imposed by governments in accordance with legislation, and excludes outflows of resources within the scope of other standards, including IAS 12 Income Taxes, and fines or other penalties imposed for breaches of the legislation. This interpretation is to be applied retrospectively for annual periods beginning on or after January 1, 2014. Earlier adoption is permitted.

MANAGEMENT'S RESPONSIBILITY FOR INTERIM FINANCIAL REPORTING

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

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

President and Chief Executive Officer

Chief Financial Officer

August 22, 2013

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at (Unaudited – in millions of Canadian dollars)	Notes	June 29, 2013	December 31, 2012 (Restated – Note 4)
Assets			
Current assets			
Cash and cash equivalents		**$ 395**	$ 298
Marketable securities		**507**	570
Trade and other receivables		**693**	702
Income tax receivable		**7**	8
Prepaid expenses		**99**	79
Assets held for sale	**5**	**12**	47
Total current assets		**1,713**	1,704
Non-current assets			
Property, plant and equipment	**5**	**2,665**	2,655
Intangible assets	**5**	**127**	143
Segregated securities		**538**	560
Pension benefit assets	**6**	**109**	83
Deferred tax assets		**1,365**	1,808
Goodwill		**130**	130
Other assets		**8**	11
Total non-current assets		**4,942**	5,390
Total assets		**$ 6,655**	$ 7,094
Liabilities and equity			
Current liabilities			
Trade and other payables		**$ 534**	$ 540
Salaries and benefits payable and related provisions		**626**	699
Provisions		**90**	85
Income tax payable		**–**	1
Deferred revenue		**110**	137
Loans and borrowings		**22**	20
Other long-term benefit liabilities	**6**	**72**	72
Total current liabilities		**1,454**	1,554
Non-current liabilities			
Loans and borrowings		**1,114**	1,123
Pension, other post-employment and other long-term benefit liabilities	**6**	**5,315**	7,007
Deferred tax liabilities		**2**	2
Provisions		**6**	5
Other liabilities		**16**	17
Total non-current liabilities		**6,453**	8,154
Total liabilities		**7,907**	9,708
Equity			
Contributed capital		**1,155**	1,155
Accumulated other comprehensive income		**28**	52
Accumulated deficit		**(2,457)**	(3,840)
Equity of Canada		**(1,274)**	(2,633)
Non-controlling interests		**22**	19
Total equity		**(1,252)**	(2,614)
Total liabilities and equity		**$ 6,655**	$ 7,094
Contingent liabilities	**8**		

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the		13 weeks ended		26 weeks ended	
		June 29, 2013	June 30, 2012	**June 29, 2013**	June 30, 2012
(Unaudited – in millions of Canadian dollars)	**Notes**		(Restated – Note 4)		(Restated – Note 4)
Revenue from operations		**$ 1,862**	$ 1,853	**$ 3,766**	$ 3,793
Cost of operations					
Labour		**951**	965	**1,907**	1,948
Employee benefits	**6**	**376**	365	**753**	733
		1,327	1,330	**2,660**	2,681
Other operating costs	**9**	**531**	534	**1,073**	1,111
Depreciation and amortization		**76**	76	**156**	152
Total cost of operations		**1,934**	1,940	**3,889**	3,944
Loss from operations		**(72)**	(87)	**(123)**	(151)
Investing and financing income (expense)					
Investment and other income	**10**	**7**	19	**121**	26
Finance costs and other expense	**10**	**(11)**	(12)	**(23)**	(28)
Investing and financing income (expense), net		**(4)**	7	**98**	(2)
Loss before tax		**(76)**	(80)	**(25)**	(153)
Tax expense (income)	**7**	**(26)**	(23)	**(10)**	(37)
Net loss		**$ (50)**	$ (57)	**$ (15)**	$ (116)
Other comprehensive income (loss)					
Items that will not be reclassified to Net profit (loss)					
Remeasurements of defined benefit plans	**6**	**$ 1,494**	$ (759)	**$ 1,869**	$ (876)
Income tax relating to items that will not be reclassified	**7**	**(374)**	190	**(468)**	217
Items that may be reclassified subsequently to Net profit (loss)					
Unrealized gains (losses) on available-for-sale financial assets		**(28)**	12	**(32)**	5
Income tax relating to items that may be reclassified	**7**	**7**	(3)	**8**	(1)
Other comprehensive income (loss)		**1,099**	(560)	**1,377**	(655)
Comprehensive income (loss)		**$ 1,049**	$ (617)	**$ 1,362**	$ (771)
Net profit (loss) attributable to					
Government of Canada		**$ (52)**	$ (58)	**$ (16)**	$ (116)
Non-controlling interests		**2**	1	**1**	–
		$ (50)	$ (57)	**$ (15)**	$ (116)
Comprehensive income (loss) attributable to					
Government of Canada		**$ 1,045**	$ (618)	**$ 1,359**	$ (771)
Non-controlling interests		**4**	1	**3**	–
		$ 1,049	$ (617)	**$ 1,362**	$ (771)

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the 13 weeks ended June 29, 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 March 30, 2013	**$ 1,155**	**$ 49**	**$ (3,523)**	**$ (2,319)**	**$ 18**	**$ (2,301)**
Net profit (loss)	**–**	**–**	**(52)**	**(52)**	**2**	**(50)**
Other comprehensive income (loss)						
Items that will not be reclassified to Net profit (loss)						
Remeasurements of defined benefit plans	**–**	**–**	**1,491**	**1,491**	**3**	**1,494**
Income tax relating to items that will not be reclassified	**–**	**–**	**(373)**	**(373)**	**(1)**	**(374)**
Items that may be reclassified subsequently to Net profit (loss)						
Unrealized losses on available-for-sale financial assets	**–**	**(28)**	**–**	**(28)**	**–**	**(28)**
Income tax relating to items that may be reclassified	**–**	**7**	**–**	**7**	**–**	**7**
Other comprehensive income (loss)	**–**	**(21)**	**1,118**	**1,097**	**2**	**1,099**
Comprehensive income (loss)	**–**	**(21)**	**1,066**	**1,045**	**4**	**1,049**
Balance at June 29, 2013	**$ 1,155**	**$ 28**	**$ (2,457)**	**$ (1,274)**	**$ 22**	**$ (1,252)**

For the 13 weeks ended June 30, 2012 (Unaudited – in millions of Canadian dollars) (Restated – Note 4)	Contributed capital	Accumulated other comprehensive income	Accumulated deficit	Equity of Canada	Non-controlling interests	Total equity
Balance at March 31, 2012	$ 1,155	$ 40	$ (2,995)	$ (1,800)	$ 23	$ (1,777)
Net profit (loss)	–	–	(58)	(58)	1	(57)
Other comprehensive income (loss)						
Items that will not be reclassified to Net profit (loss)						
Remeasurements of defined benefit plans	–	–	(759)	(759)	–	(759)
Income tax relating to items that will not be reclassified	–	–	190	190	–	190
Items that may be reclassified subsequently to Net profit (loss)						
Unrealized gains on available-for-sale financial assets	–	12	–	12	–	12
Income tax relating to items that may be reclassified	–	(3)	–	(3)	–	(3)
Other comprehensive income (loss)	–	9	(569)	(560)	–	(560)
Comprehensive income (loss)	–	9	(627)	(618)	1	(617)
Balance at June 30, 2012	$ 1,155	$ 49	$ (3,622)	$ (2,418)	$ 24	$ (2,394)

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

For the 26 weeks ended June 29, 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	**$ 1,155**	**$ 52**	**$ (3,840)**	**$ (2,633)**	**$ 19**	**$ (2,614)**
Net profit (loss)	**–**	**–**	**(16)**	**(16)**	**1**	**(15)**
Other comprehensive income (loss)						
Items that will not be reclassified to Net profit (loss)						
Remeasurements of defined benefit plans	**–**	**–**	**1,866**	**1,866**	**3**	**1,869**
Income tax relating to items that will not be reclassified	**–**	**–**	**(467)**	**(467)**	**(1)**	**(468)**
Items that may be reclassified subsequently to Net profit (loss)						
Unrealized losses on available-for-sale financial assets	**–**	**(32)**	**–**	**(32)**	**–**	**(32)**
Income tax relating to items that may be reclassified	**–**	**8**	**–**	**8**	**–**	**8**
Other comprehensive income (loss)	**–**	**(24)**	**1,399**	**1,375**	**2**	**1,377**
Comprehensive income (loss)	**–**	**(24)**	**1,383**	**1,359**	**3**	**1,362**
Balance at June 29, 2013	**$ 1,155**	**$ 28**	**$ (2,457)**	**$ (1,274)**	**$ 22**	**$ (1,252)**

For the 26 weeks ended June 30, 2012 (Unaudited – in millions of Canadian dollars) (Restated – Note 4)	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 4)	–	–	9	9	(1)	8
Balance at January 1, 2012	1,155	45	(2,846)	(1,646)	23	(1,623)
Net loss	–	–	(116)	(116)	–	(116)
Other comprehensive income (loss)						
Items that will not be reclassified to Net profit (loss)						
Remeasurements of defined benefit plans	–	–	(876)	(876)	–	(876)
Income tax relating to items that will not be reclassified	–	–	217	217	–	217
Items that may be reclassified subsequently to Net profit (loss)						
Unrealized gains on available-for-sale financial assets	–	5	–	5	–	5
Income tax relating to items that may be reclassified	–	(1)	–	(1)	–	(1)
Other comprehensive income (loss)	–	4	(659)	(655)	–	(655)
Comprehensive income (loss)	–	4	(775)	(771)	–	(771)
Transactions with shareholders						
Non-controlling interest arising on business combination	–	–	–	–	1	1
Other transactions with non-controlling interests	–	–	(1)	(1)	–	(1)
Total transactions with shareholders	–	–	(1)	(1)	1	–
Balance at June 30, 2012	$ 1,155	$ 49	$ (3,622)	$ (2,418)	$ 24	$ (2,394)

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the (Unaudited – in millions of Canadian dollars)	Notes	13 weeks ended June 29, 2013	13 weeks ended June 30, 2012 (Restated – Note 4)	26 weeks ended June 29, 2013	26 weeks ended June 30, 2012 (Restated – Note 4)
Cash flows from operating activities					
Net loss		**$ (50)**	$ (57)	**$ (15)**	$ (116)
Adjustments to reconcile Net loss to cash provided by operating activities:					
Depreciation and amortization	**5**	**76**	76	**156**	152
Pension, other post-employment and other long-term benefit expense	**6**	**230**	221	**457**	442
Pension, other post-employment and other long-term benefit payments	**6**	**(160)**	(158)	**(306)**	(300)
Gain on sale of capital assets	**10**	**(4)**	(16)	**(115)**	(17)
Tax expense (income)	**7**	**(26)**	(23)	**(10)**	(37)
Net interest expense	**10**	**8**	8	**15**	17
Change in non-cash operating working capital:					
Decrease in trade and other receivables		**10**	39	**12**	99
Increase (decrease) in trade and other payables		**28**	(18)	**(6)**	(64)
Increase (decrease) in salaries and benefits payable and related provisions		**3**	(20)	**(73)**	(98)
Increase (decrease) in provisions		**(1)**	13	**4**	10
Net increase in other non-cash operating working capital		**(23)**	(37)	**(42)**	(27)
Other income not affecting cash, net		**(6)**	(6)	**(14)**	(10)
Cash provided by operations before interest and taxes		**85**	22	**63**	51
Interest received		**12**	12	**17**	19
Interest paid		**(1)**	(1)	**(26)**	(26)
Tax paid		**(1)**	(4)	**(1)**	(12)
Cash provided by operating activities		**95**	29	**53**	32
Cash flows from investing activities					
Business acquisitions, net of cash acquired		**–**	(10)	**–**	(21)
Acquisition of securities		**(284)**	(53)	**(553)**	(536)
Proceeds from sale of securities		**270**	341	**606**	826
Acquisition of capital assets		**(83)**	(141)	**(157)**	(265)
Proceeds from sale of capital assets		**4**	19	**157**	39
Cash provided by (used in) investing activities		**(93)**	156	**53**	43
Cash flows from financing activities					
Payments on finance lease obligations		**(3)**	(4)	**(8)**	(8)
Other financing activities, net		**(1)**	–	**(1)**	(1)
Cash used in financing activities		**(4)**	(4)	**(9)**	(9)
Net increase (decrease) in cash and cash equivalents		**(2)**	181	**97**	66
Cash and cash equivalents, beginning of period		**397**	156	**298**	271
Cash and cash equivalents, end of period		**$ 395**	$ 337	**$ 395**	$ 337

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the 13 and 26 weeks ended June 29, 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," as explained in Note 4. They were approved and authorized for issue by the Board of Directors on August 22, 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 4. 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. In addition to the critical judgments and key sources of estimation uncertainty disclosed in the Corporation's annual consolidated financial statements for the year ended December 31, 2012, there is uncertainty regarding the Corporation's profitability and cash flow, and its ability to secure additional financing or further relief from solvency funding, as discussed in Note 3 below.

3. Liquidity Matters

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 the end of the second quarter in 2014, which will continue to increase rapidly throughout the remainder of fiscal 2014 given the unsustainable business model and pension funding requirements.

The decline in volumes observed over the past reporting periods, combined with the funding volatility of its Registered Pension Plan, continue to create ongoing pressure on the liquidity of the Corporation. Canada Post Corporation operates Canada's postal service on a self-sustaining basis, including the collection, transmission and delivery of messages, information, funds and goods, both within Canada and between Canada and other countries. The Canada Post Corporation Registered Pension Plan (RPP) is one of the largest single-employer pension plans in Canada. Volatile returns and the decline of discount rates over the past reporting periods have resulted in substantial solvency deficits, as well as significant post-employment benefit liabilities for the sponsor as at June 29, 2013, as observed on the statement of financial position. The Corporation, as the RPP sponsor, is responsible for funding shortfalls in the pension plan.

In addition to measures taken by the Corporation 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. Solvency funding relief 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, who is responsible for the Corporation. In August 2013, the Ministers re-approved the Corporation's request for funding relief until June 30, 2014, or up to the legislated limit of total pension asset value.

The Corporation is expected to reach the cap for the relief from solvency funding in early 2014, unless there are significant changes in long-term interest rates or in the return on RPP assets. Further, the Corporation will not be eligible for additional relief from solvency funding under the current legislation. With a solvency deficit of $5.9 billion (using the three-year average solvency ratio basis) at December 31, 2012,[1] the Corporation will likely have to resume its special solvency contributions in early 2014. Without any further relief, which is a measure outside the control of the Corporation, the solvency contributions for fiscal 2014 are estimated to be $1.1 billion at this time.

The Corporation may borrow a maximum of $500 million from the Government of Canada's Consolidated Revenue Fund, and is authorized to borrow other than from the Crown an aggregate outstanding amount not exceeding $2.5 billion, in accordance with terms and conditions approved by the Minister of Finance. As part of the total authorized borrowing limit, a maximum of $250 million was available for cash management purposes in the form of short-term borrowings at the reporting date. Effective July 1, 2013, the maximum limit approved is $100 million for cash management purposes in the form of short-term borrowings. The Corporation's loans and borrowings amounted to $1,059 million, and letters of credit of $12 million were issued at the reporting date. No amounts have been drawn on the short-term borrowing facilities.

In order to access further funds from its borrowing capacity, the Corporation must indicate its intention to borrow money in its annual Corporate Plan, or amendment thereto, both of which are subject to the approval of the Corporation's Board of Directors and the Governor in Council. In addition, the detailed terms and conditions of any specific borrowing transaction must be approved by the Minister of Finance.

The ability of the Corporation to maintain financial self-sustainability is directly dependent on improving the Corporation's profitability and cash flow, and securing additional financing and further relief from solvency funding. The Corporation believes that profitability can be improved by restructuring its business model to meet the changing needs of Canadians and Canadian businesses, and is evaluating every alternative to maintain financial self-sustainability. As an agent of the Crown, the Corporation is also reviewing available alternatives in conjunction with the Government of Canada, as some measures may require express shareholder approval.

1. As per the December 31, 2012, RPP actuarial valuation, filed on June 28, 2013.

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

4. Application of New and Revised International Financial Reporting Standards

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

The Corporation's *2013 First Quarter Financial Report* includes a complete discussion of the impact on the Corporation of pronouncements issued by the International Accounting Standards Board (IASB) or the IFRS Interpretations Committee (Interpretations Committee) that were mandatory for accounting periods beginning on January 1, 2013.

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 June 30, 2012	As previously reported	Amended IAS 19 effects	Restated
Employee benefits	$ 295	$ 70	$ 365
Tax expense (income)	(6)	(17)	(23)
Net loss	$ (4)	$ (53)	$ (57)
Remeasurements of defined benefit plans	$ (827)	$ 68	$ (759)
Income tax relating to items that will not be reclassified	207	(17)	190
Other comprehensive loss	$ (611)	$ 51	$ (560)
Comprehensive loss	$ (615)	$ (2)	$ (617)

Consolidated statement of comprehensive income

For the 26 weeks ended June 30, 2012	As previously reported	Amended IAS 19 effects	Restated
Employee benefits	$ 593	$ 140	$ 733
Tax expense (income)	(2)	(35)	(37)
Net loss	$ (11)	$ (105)	$ (116)
Remeasurements of defined benefit plans	$ (1,012)	$ 136	$ (876)
Income tax relating to items that will not be reclassified	251	(34)	217
Other comprehensive loss	$ (757)	$ 102	$ (655)
Comprehensive loss	$ (768)	$ (3)	$ (771)

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

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

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.

(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 $87 million as at December 31, 2012.

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

The following amendments and interpretations issued by the IASB and the Interpretations Committee since the publication of the Corporation's 2012 Annual Report have been assessed as having a possible effect on the Group of Companies in the future. The Corporation is determining the impact of the amendments on its consolidated financial statements, if any.

Amendments to IAS 36 – Recoverable Amount Disclosures for Non-Financial Assets • The amendments to IAS 36 clarify existing guidance that was intended to require disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. Further, the amendments require additional information about these fair value measurements, including the fair value hierarchy level, and for measurements categorized within levels 2 and 3 of the fair value hierarchy, a description of the valuation techniques and key assumptions used by management in its determination of fair value less costs of disposal. Finally, these amendments incorporate a new requirement proposed in the Exposure Draft "Annual Improvements to IFRS 2010-2012 Cycle" to disclose the discount rates that were used in the current and previous measurements if the recoverable amount of impaired assets based on fair value less costs of disposal was measured using a present value technique, thereby harmonizing the disclosure requirements for fair value less costs of disposal and value in use when present value techniques are used to measure the recoverable amount of impaired assets.

The amendments are to be applied retrospectively for annual periods beginning on or after January 1, 2014. Earlier application is permitted.

IFRIC 21 "Levies" • This IFRIC addresses the accounting for a liability to pay a levy within the scope of IAS 37 "Provisions, Contingent Liabilities and Contingent Assets," as well as accounting for a levy whose timing and amount is uncertain. A levy is defined as an outflow of resources embodying economic benefits that is imposed by governments in accordance with legislation, and excludes outflows of resources within the scope of other standards, including IAS 12 "Income Taxes," and fines or other penalties imposed for breaches of the legislation. This interpretation is to be applied retrospectively for annual periods beginning on or after January 1, 2014. Earlier application is permitted.

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

5. Capital Assets

(a) Property, plant and equipment

Property, plant and equipment consisted of the following items:

	Land	Buildings	Leasehold improvements	Plant equipment	Vehicles	Sales counters, office furniture and equipment	Other equipment	Assets under development	Total
Cost or deemed cost									
December 31, 2012	$ 309	$ 1,726	$ 266	$ 1,278	$ 403	$ 430	$ 888	$ 175	$ 5,475
Additions	–	23	3	49	19	4	8	42	148
Reclassified as held for sale	(5)	(18)	–	–	–	–	–	–	(23)
Retirements	–	(1)	(3)	(17)	(3)	–	–	–	(24)
Transfers	–	35	3	–	–	2	–	(40)	–
June 29, 2013	**$ 304**	**$ 1,765**	**$ 269**	**$ 1,310**	**$ 419**	**$ 436**	**$ 896**	**$ 177**	**$ 5,576**
Accumulated depreciation									
December 31, 2012	$ –	$ 873	$ 182	$ 704	$ 191	$ 307	$ 563	$ –	$ 2,820
Depreciation	–	31	9	31	19	19	19	–	128
Reclassified as held for sale	–	(14)	–	–	–	–	–	–	(14)
Retirements	–	(1)	(3)	(16)	(3)	–	–	–	(23)
Transfers	–	(1)	1	–	–	–	–	–	–
June 29, 2013	**$ –**	**$ 888**	**$ 189**	**$ 719**	**$ 207**	**$ 326**	**$ 582**	**$ –**	**$ 2,911**
Carrying amounts									
December 31, 2012	$ 309	$ 853	$ 84	$ 574	$ 212	$ 123	$ 325	$ 175	$ 2,655
June 29, 2013	**$ 304**	**$ 877**	**$ 80**	**$ 591**	**$ 212**	**$ 110**	**$ 314**	**$ 177**	**$ 2,665**

During 2013, capitalized borrowing costs related to Postal Transformation amounted to $5 million (June 30, 2012 – $2 million), with a capitalization rate of 4.3% (June 30, 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	11	–	12
Transfers	3	(3)	–	–
June 29, 2013	**$ 614**	**$ 30**	**$ 30**	**$ 674**
Accumulated amortization				
December 31, 2012	$ 494	$ –	$ 25	$ 519
Amortization	28	–	–	28
June 29, 2013	**$ 522**	**$ –**	**$ 25**	**$ 547**
Carrying amounts				
December 31, 2012	$ 116	$ 22	$ 5	$ 143
June 29, 2013	**$ 92**	**$ 30**	**$ 5**	**$ 127**

(c) Assets held for sale

The Group of Companies had several properties classified as held for sale at the end of the second quarter of 2013, the majority 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.

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

As described in Note 4 (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 (the Ministers). Refer to notes 6 (c) and 3 for further details and risks associated with the funding relief.

The most significant contributors to funding risk are 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.

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

(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		**June 29, 2013**		June 30, 2012 (Restated – Note 4)		
	Pension benefit plans	**Other benefit plans**	**Total**	Pension benefit plans	Other benefit plans	Total
Current service cost	$ 117	$ 30	$ 147	$ 106	$ 34	$ 140
Interest cost	230	39	269	244	44	288
Interest income on plan assets	(192)	–	(192)	(212)	–	(212)
Other administration cost	4	–	4	3	–	3
Defined benefit costs	159	69	228	141	78	219
Defined contribution costs	2	–	2	2	–	2
Total costs	161	69	230	143	78	221
Return on segregated securities	–	(5)	(5)	–	(5)	(5)
Components of cost included in Net loss	**$ 161**	**$ 64**	**$ 225**	$ 143	$ 73	$ 216
Remeasurement (gains) losses:						
Return on plan assets, excluding interest income on plan assets	$ 148	$ –	$ 148	$ 519	$ –	$ 519
Actuarial (gains) losses	(1,465)	(177)	(1,642)	239	1	240
Components of cost included in Other comprehensive income (loss)	**$ (1,317)**	**$ (177)**	**$ (1,494)**	$ 758	$ 1	$ 759
Net defined benefit and contribution costs (credits)	**$ (1,156)**	**$ (113)**	**$ (1,269)**	$ 901	$ 74	$ 975

For the 26 weeks ended		**June 29, 2013**		June 30, 2012 (Restated – Note 4)		
	Pension benefit plans	**Other benefit plans**	**Total**	Pension benefit plans	Other benefit plans	Total
Current service cost	$ 232	$ 60	$ 292	$ 212	$ 68	$ 280
Interest cost	456	78	534	487	88	575
Interest income on plan assets	(381)	–	(381)	(424)	–	(424)
Other administration cost	7	–	7	6	–	6
Plan amendments	1	–	1	–	–	–
Defined benefit costs	315	138	453	281	156	437
Defined contribution costs	4	–	4	5	–	5
Total costs	319	138	457	286	156	442
Return on segregated securities	–	(10)	(10)	–	(10)	(10)
Components of cost included in Net loss	**$ 319**	**$ 128**	**$ 447**	$ 286	$ 146	$ 432
Remeasurement (gains) losses:						
Return on plan assets, excluding interest income on plan assets	$ (596)	$ –	$ (596)	$ (74)	$ –	$ (74)
Actuarial (gains) losses	(1,142)	(131)	(1,273)	786	164	950
Components of cost included in Other comprehensive income (loss)	**$ (1,738)**	**$ (131)**	**$ (1,869)**	$ 712	$ 164	$ 876
Net defined benefit and contribution costs (credits)	**$ (1,419)**	**$ (3)**	**$ (1,422)**	$ 998	$ 310	$ 1,308

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

(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**		**26 weeks ended**	
	June 29, 2013	June 30, 2012	**June 29, 2013**	June 30, 2012
Benefits paid directly to beneficiaries for other benefit plans	$ 39	$ 40	$ 71	$ 77
Employer regular contributions to pension benefit plans	93	87	180	178
Employer special contributions to pension benefit plans	26	29	51	40
Total cash payments for defined benefit plans	158	156	302	295
Contributions to defined contribution plans	2	2	4	5
Total cash payments	**$ 160**	$ 158	**$ 306**	$ 300

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. In August 2013, the Minister of Finance and the Minister of Transport approved the Corporation's request for funding relief until June 30, 2014, or up to the legislated limit of total pension asset value.

(d) Assets and liabilities

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

As at	**June 29, 2013**	December 31, 2012 (Restated – Note 4)
Pension benefit assets	**$ 109**	$ 83
Pension benefit liabilities	$ 1,880	$ 3,508
Other post-employment and other long-term benefit liabilities	3,507	3,571
Total pension, other post-employment and other long-term benefit liabilities	$ 5,387	$ 7,079
Current other long-term benefit liabilities	**$ 72**	$ 72
Non-current pension, other post-employment and other long-term benefit liabilities	**$ 5,315**	$ 7,007

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

7. Income Taxes

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

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

For the	13 weeks ended		26 weeks ended	
	June 29, 2013	June 30, 2012 (Restated – Note 4)	**June 29, 2013**	June 30, 2012 (Restated – Note 4)
Current tax expense (income)	$ 5	$ (2)	$ 3	$ 2
Deferred tax expense (income) related to origination and reversal of temporary differences	(31)	(21)	(13)	(39)
Tax expense (income)	**$ (26)**	$ (23)	**$ (10)**	$ (37)

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

For the 13 weeks ended	June 29, 2013			June 30, 2012 (Restated – Note 4)		
	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	$ 1,494	$ (374)	$ 1,120	$ (759)	$ 190	$ (569)
Items that may be reclassified subsequently to Net profit (loss)						
Unrealized gains (losses) on available-for-sale financial assets	(28)	7	(21)	12	(3)	9
	$ 1,466	**$ (367)**	**$ 1,099**	$ (747)	$ 187	$ (560)

For the 26 weeks ended	June 29, 2013			June 30, 2012 (Restated – Note 4)		
	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	$ 1,869	$ (468)	$ 1,401	$ (876)	$ 217	$ (659)
Items that may be reclassified subsequently to Net profit (loss)						
Unrealized gains (losses) on available-for-sale financial assets	(32)	8	(24)	5	(1)	4
	$ 1,837	**$ (460)**	**$ 1,377**	$ (871)	$ 216	$ (655)

8. 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) In 2013, individual members of the Rural and Suburban Mail Carriers unit of CUPW (CUPW-RSMC) filed complaints (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 previously declined jurisdiction in respect of similar complaints filed in 2012 (2012 complaints). 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 of procedural errors and that the non-litigated internal dispute process should first be exhausted.

After the Commission declined jurisdiction in respect of the 2012 complaints to the Commission, further claims were filed against the Corporation on behalf of individual members by the CUPW-RSMC 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.

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.

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

9. Other Operating Costs

Other operating costs consisted of the following:

For the	13 weeks ended		26 weeks ended	
	June 29, 2013	June 30, 2012	**June 29, 2013**	June 30, 2012
Non-labour collection, processing and delivery	$ 325	$ 319	$ 662	$ 671
Property, facilities and maintenance	87	80	177	164
Selling, administrative and other	119	135	234	276
Other operating costs	**$ 531**	$ 534	**$ 1,073**	$ 1,111

10. Investing and Financing Income (Expense)

Investing and financing income and expense consisted of the following:

For the	13 weeks ended		26 weeks ended	
	June 29, 2013	June 30, 2012	**June 29, 2013**	June 30, 2012
Interest revenue	$ 3	$ 3	$ 6	$ 6
Gain on sale of capital assets[1]	4	16	115	17
Other income	–	–	–	3
Investment and other income	**$ 7**	$ 19	**$ 121**	$ 26
Interest expense	$ (11)	$ (11)	$ (21)	$ (23)
Other expense	–	(1)	(2)	(5)
Finance costs and other expense	**$ (11)**	$ (12)	**$ (23)**	$ (28)
Investing and financing income (expense), net	**$ (4)**	$ 7	**$ 98**	$ (2)

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.

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

11. 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		26 weeks ended	
	June 29, 2013	June 30, 2012	**June 29, 2013**	June 30, 2012
Related party revenue	**$ 68**	$ 69	**$ 148**	$ 150
Compensation payments for programs				
Government mail and mailing of materials for the blind	**$ 5**	$ 5	**$ 11**	$ 11
Payments from related parties for premises leased from the Corporation	**$ 2**	$ 1	**$ 4**	$ 3
Related party expenditures	**$ 7**	$ 6	**$ 15**	$ 13

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

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

As at	June 29, 2013	December 31, 2012
Due to/from related parties		
Included in trade and other receivables	**$ 20**	$ 19
Included in trade and other payables	**$ 8**	$ 10
Deferred revenue from related parties	**$ 7**	$ 7

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

During the 13 and 26 weeks ended June 29, 2013, the Corporation provided administration services to the Canada Post Corporation Registered Pension Plan in the amounts of $3 million and $5 million, respectively (June 30, 2012 – $2 million and $4 million respectively). As at June 29, 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 6.

(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 26 weeks ended June 29, 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 amounts of $28 million and $55 million for the 13 and 26 weeks ended June 29, 2013, respectively (June 30, 2012 – $26 million and $55 million, respectively). As at June 29, 2013, $5 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.

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

12. 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 June 29, 2013

	Level 1[1]	Level 2[2]	Level 3[3]	Total
Assets				
Cash and cash equivalents	$ 255	$ 140	$ –	**$ 395**
Marketable securities	$ –	$ 507	$ –	**$ 507**
Segregated securities	$ –	$ 538	$ –	**$ 538**
Liabilities				
Trade and other payables: risk management financial liabilities	$ –	$ 4	$ –	**$ 4**

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

Consistent with the classification adopted in Q1 2013, cash equivalents, marketable securities and segregated securities are 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 June 29, 2013, fair values of loans and borrowings amounted to $1,283 million (December 31, 2012 – $1,366 million) compared to a carrying value of $1,136 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 risk discussed below.

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

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 26 weeks ended June 29, 2013, the Group of Companies continued its economic hedge programs to mitigate its exposure to foreign exchange balances and forecasted sales denominated in SDRs. The notional amounts of forward contracts outstanding were as follows:

As at June 29, 2013

Currency	**Nominal value**	**Canadian equivalent**	**Average contract rate**	**Maturity range**	**Type**	**Fair value**
U.S. dollar	US$63	$ 63	$1.00/US$	July 11 – Dec. 23, 2013	Sell forward	$ (3)
Euro	€34	45	$1.33/€	July 12 – Dec. 24, 2013	Sell forward	(1)
British pound	£8	13	$1.59/£	July 12 – Dec. 24, 2013	Sell forward	–
Yen	¥900	10	$0.011/¥	July 12 – Dec. 24, 2013	Sell forward	–
Total		$ 131				**$ (4)**

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		**June 29, 2013**			June 30, 2012	
	Foreign exchange gains	**Derivative losses**	**Total**	Foreign exchange gains (losses)	Derivative gains (losses)	Total
Unrealized	$ 2	$ (3)	$ (1)	$ –	$ –	$ –
Realized	1	(1)	–	–	–	–
Total	**$ 3**	**$ (4)**	**$ (1)**	$ –	$ –	$ –

For the 26 weeks ended		**June 29, 2013**			June 30, 2012	
	Foreign exchange gains	**Derivative losses**	**Total**	Foreign exchange gains	Derivative gains	Total
Unrealized	$ 1	$ (4)	$ (3)	$ 1	$ 1	$ 2
Realized	2	(2)	–	–	1	1
Total	**$ 3**	**$ (6)**	**$ (3)**	$ 1	$ 2	$ 3

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

13. 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 June 29, 2013

	Canada Post	Purolator	Logistics	Innovapost	Intersegment and consolidation	Total
Revenue from external customers	$ 1,429	$ 393	$ 40	$ –	$ –	$ 1,862
Intersegment revenue	6	19	3	58	(86)	–
Revenue from operations	$ 1,435	$ 412	$ 43	$ 58	$ (86)	$ 1,862
Labour and employee benefits	$ 1,105	$ 184	$ 16	$ 22	$ –	$ 1,327
Other operating costs	369	189	23	36	(86)	531
Depreciation and amortization	61	14	2	–	(1)	76
Cost of operations	$ 1,535	$ 387	$ 41	$ 58	$ (87)	$ 1,934
Profit (loss) from operations	$ (100)	$ 25	$ 2	$ –	$ 1	$ (72)
Investment and other income	$ 6	$ –	$ –	$ –	$ 1	$ 7
Finance costs and other expense	(10)	–	–	–	(1)	(11)
Profit (loss) before tax	$ (104)	$ 25	$ 2	$ –	$ 1	$ (76)
Tax expense (income)	(33)	7	–	–	–	(26)
Net profit (loss)	$ (71)	$ 18	$ 2	$ –	$ 1	$ (50)
Total assets	$ 6,113	$ 772	$ 91	$ 99	$ (420)	$ 6,655
Acquisition of capital assets	$ 77	$ 5	$ 1	$ –	$ (1)	$ 82
Total liabilities	$ 7,532	$ 343	$ 60	$ 52	$ (80)	$ 7,907

As at and for the 13 weeks ended June 30, 2012
(Restated – Note 4)

	Canada Post	Purolator	Logistics	Innovapost	Intersegment and consolidation	Total
Revenue from external customers	$ 1,423	$ 395	$ 35	$ –	$ –	$ 1,853
Intersegment revenue	6	21	5	59	(91)	–
Revenue from operations	$ 1,429	$ 416	$ 40	$ 59	$ (91)	$ 1,853
Labour and employee benefits	$ 1,108	$ 182	$ 17	$ 23	$ –	$ 1,330
Other operating costs	371	199	19	35	(90)	534
Depreciation and amortization	60	15	2	1	(2)	76
Cost of operations	$ 1,539	$ 396	$ 38	$ 59	$ (92)	$ 1,940
Profit (loss) from operations	$ (110)	$ 20	$ 2	$ –	$ 1	$ (87)
Investment and other income	$ 19	$ –	$ –	$ –	$ –	$ 19
Finance costs and other expense	(11)	(1)	–	–	–	(12)
Profit (loss) before tax	$ (102)	$ 19	$ 2	$ –	$ 1	$ (80)
Tax expense (income)	(29)	5	1	–	–	(23)
Net profit (loss)	$ (73)	$ 14	$ 1	$ –	$ 1	$ (57)
Total assets	$ 6,354	$ 764	$ 86	$ 87	$ (389)	$ 6,902
Acquisition of capital assets	$ 134	$ 8	$ 1	$ 1	$ (2)	$ 142
Total liabilities	$ 8,945	$ 314	$ 47	$ 39	$ (49)	$ 9,296

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

As at and for the 26 weeks ended June 29, 2013

	Canada Post	Purolator	Logistics	Innovapost	Intersegment and consolidation	Total
Revenue from external customers	$ 2,937	$ 750	$ 79	$ –	$ –	$ 3,766
Intersegment revenue	11	41	6	114	(172)	–
Revenue from operations	$ 2,948	$ 791	$ 85	$ 114	$ (172)	$ 3,766
Labour and employee benefits	$ 2,214	$ 367	$ 35	$ 44	$ –	$ 2,660
Other operating costs	748	383	44	69	(171)	1,073
Depreciation and amortization	127	27	3	1	(2)	156
Cost of operations	$ 3,089	$ 777	$ 82	$ 114	$ (173)	$ 3,889
Profit (loss) from operations	$ (141)	$ 14	$ 3	$ –	$ 1	$ (123)
Investment and other income	$ 126	$ –	$ –	$ –	$ (5)	$ 121
Finance costs and other expense	(21)	(1)	–	–	(1)	(23)
Profit (loss) before tax	$ (36)	$ 13	$ 3	$ –	$ (5)	$ (25)
Tax expense (income)	(14)	4	–	–	–	(10)
Net profit (loss)	$ (22)	$ 9	$ 3	$ –	$ (5)	$ (15)
Total assets	$ 6,113	$ 772	$ 91	$ 99	$ (420)	$ 6,655
Acquisition of capital assets	$ 152	$ 8	$ 2	$ –	$ (2)	$ 160
Total liabilities	$ 7,532	$ 343	$ 60	$ 52	$ (80)	$ 7,907

As at and for the 26 weeks ended June 30, 2012
(Restated – Note 4)

	Canada Post	Purolator	Logistics	Innovapost	Intersegment and consolidation	Total
Revenue from external customers	$ 2,957	$ 769	$ 67	$ –	$ –	$ 3,793
Intersegment revenue	11	45	8	99	(163)	–
Revenue from operations	$ 2,968	$ 814	$ 75	$ 99	$ (163)	$ 3,793
Labour and employee benefits	$ 2,246	$ 368	$ 31	$ 36	$ –	$ 2,681
Other operating costs	772	405	37	58	(161)	1,111
Depreciation and amortization	120	31	3	1	(3)	152
Cost of operations	$ 3,138	$ 804	$ 71	$ 95	$ (164)	$ 3,944
Profit (loss) from operations	$ (170)	$ 10	$ 4	$ 4	$ 1	$ (151)
Investment and other income	$ 32	$ –	$ –	$ –	$ (6)	$ 26
Finance costs and other expense	(23)	(2)	–	–	(3)	(28)
Profit (loss) before tax	$ (161)	$ 8	$ 4	$ 4	$ (8)	$ (153)
Tax expense (income)	(43)	3	2	1	–	(37)
Net profit (loss)	$ (118)	$ 5	$ 2	$ 3	$ (8)	$ (116)
Total assets	$ 6,354	$ 764	$ 86	$ 87	$ (389)	$ 6,902
Acquisition of capital assets	$ 251	$ 17	$ 2	$ 1	$ (3)	$ 268
Total liabilities	$ 8,945	$ 314	$ 47	$ 39	$ (49)	$ 9,296

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