CANADA POST CORPORATION

2015 **First Quarter** Financial Report

For the period ended April 4, 2015

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Management's Discussion and Analysis

This Management's Discussion and Analysis (MD&A) provides a narrative discussion outlining the financial results and operational changes for the first quarter ended April 4, 2015, for Canada Post Corporation (Corporation or Canada Post) and its subsidiaries – Purolator Holdings Ltd. (Purolator), SCI Group Inc. (SCI) and Innovapost Inc. (Innovapost). These companies are collectively referred to as the Canada Post Group of Companies or the Group of Companies. Each of the Corporation's quarters contains 13 weeks, and this MD&A covers the 13 weeks ended April 4, 2015. This discussion should be read with the unaudited interim condensed consolidated financial statements for the 13 weeks ended April 4, 2015, which were prepared in accordance with the Treasury Board of Canada "Standard on Quarterly Financial Reports for Crown Corporations" and International Accounting Standard 34, "Interim Financial Reporting" (IAS 34), and are presented in Canadian dollars. We also recommend that this information be read in conjunction with the Corporation's annual consolidated financial statements and MD&A for the year ended December 31, 2014. Financial results reported in the MD&A are rounded to the nearest million, while related percentages are based on numbers rounded to the nearest thousand. The information in this MD&A is current to May 21, 2015, 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 8 of this MD&A (risks).

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

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

The forward-looking statements included in the unaudited interim condensed consolidated financial statements and MD&A are made only as of May 21, 2015, 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. With approximately 65,000 employees, the Canada Post Group of Companies is one of Canada's largest employers. In 2014, our employees delivered over nine billion pieces of mail, parcels and messages to 15.7 million addresses in urban, rural and remote locations across Canada. The Canada Post segment operates the largest retail network in Canada with almost 6,300 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 $1.6 billion for the first quarter of 2015 (79% of total revenue) and $6.2 billion for the full year ended December 31, 2014 (78% of total revenue). There are three reportable operating segments: Canada Post, Purolator and Logistics.

Significant changes and business developments

With the increasing popularity of internet and mobile devices, Canada Post is facing a pivotal period in its history. Canadian households and businesses are relying far less on Lettermail™ services, which has led to a significant drop in Lettermail volumes. In fact, in 2014, we delivered 3.6 billion pieces of Domestic Lettermail, 1.4 billion (or 28%) less than we did in the peak year of 2006. Yet, the same internet is creating the largest opportunity for us to deliver more packages as Canadians are buying more and more items online. We announced the Five-point Action Plan in December 2013 to help us make the necessary changes to our business model and succeed in this highly competitive environment. The Action Plan is intended to build a new, flexible cost structure that will allow us to prepare for further Lettermail erosion and compete in a highly contested parcel market. It centres around five initiatives:

1. converting the one third of Canadian households, representing approximately five million addresses in 2013 that received their mail at the door, to community mailbox (CMB) delivery;
2. introducing a tiered pricing structure for Lettermail to better reflect the cost of serving various customer segments;
3. expanding access and convenience to postal services through franchises;
4. streamlining internal operations;
5. addressing the cost of labour.

These initiatives are the foundation of a strategy to help Canada Post return to profitability and ensure that the Corporation remains financially viable and self-sustaining. Once fully implemented, the first four of the five initiatives are expected to contribute an estimated $700 million to $900 million per year to the Corporation's bottom line. Here's the progress of Action Plan initiatives during the first quarter of 2015.

Community mailboxes
To date, we have completed community mailbox installations for approximately 100,000 addresses across Canada. These installations were the first conversions of households, previously receiving mail at the door, to community mailbox delivery and part of a five-year national initiative that will involve five million addresses. Canada Post is following a robust municipal engagement strategy, including working with elected officials, municipalities and residents to ensure open communication, collaboration and consultation throughout the implementation. Residents are being asked to provide feedback on factors such as the proximity of CMB locations, safety and accessibility. Implementation is accelerating and progressing well for some 900,000 conversions slated for 2015.

A new approach to Lettermail pricing
A tiered pricing structure for domestic and international letters was introduced March 31, 2014, and has been in place for a full year. Under this structure, customers who purchase a single domestic stamp pay full price. Discounts are available for customers who buy stamps in booklets, coils and panes, for businesses that use postage meters or indicia, and for incentive Lettermail customers who meet volume and preparation requirements. In 2015, pricing for stamps will not change, though there will be a small rate increase for businesses that use postage meters or indicia.

Expanding convenience through postal franchises
In retail initiatives, Canada Post continues its focus on optimizing the network of corporate post offices based on customer traffic patterns and changing hours of operation. Dealer-managed (franchise) outlets provide added convenience to customers and we continue to adjust hours and add new dealers, where required.

Streamlining operations
Canada Post continues to implement new mail processing strategies and network changes to maintain and improve efficiency. These changes are in response to a shift in our business – to more parcels and less Lettermail. With Lettermail volumes declining, the Corporation is looking to streamline operations and improve operational efficiencies by consolidating or transferring mail operations to major urban centres.

Addressing the cost of labour

On the labour front, Canada Post signed a new collective agreement with the Association of Postal Officials of Canada at the end of 2014. New employees now receive a lower starting annual wage rate and are eligible for a defined contribution pension plan. Negotiations with employees represented by the Canadian Postmasters and Assistants Association (CPAA) started in February 2015. The negotiations with employees represented by the Canadian Union of Postal Workers (CUPW) in two separate agreements (Urban Postal Operations, UPO, and Rural and Suburban Mail Carriers, RSMC) will begin later in 2015.

Financial highlights

For the first quarter ended April 4, 2015, the Canada Post Group of Companies reported a profit before tax of $22 million, compared to a loss before tax of $37 million for the same period in 2014. The Group of Companies' positive results compared to the same periods in 2014 were mainly driven by an increase in revenue in the Canada Post segment. Given the first quarter ending dates (April 4 in 2015 and March 29 in 2014) and the timing of the Easter holiday, there were three more business (trading) days, which increased our revenue by approximately 5%, and four additional paid days, which increased our cost of operations by approximately 6%, in the first quarter of 2015, compared to the same period in 2014. These additional days represent a timing difference. By the end of the fourth quarter, they will even out and have no impact on the annual results for 2015 compared to 2014.

The Canada Post segment reported a profit before tax of $24 million for the first quarter of 2015, compared to a loss before tax of $27 million for the first quarter of 2014. The improved results in 2015 were primarily due to higher Transaction Mail revenue of $112 million, primarily driven by price action for Lettermail (despite mail erosion of 8.0%[1]), higher Parcels revenue of $39 million, and partially offset by a higher employee benefit expense of $70 million. Without the increased revenue from higher rates introduced for Lettermail, the Corporation would have recorded a significant loss in the first quarter of 2015. Three additional business days and four additional paid days in the first quarter of 2015, compared to the same period in 2014, artificially increased revenue and cost of operations; this timing difference will be eliminated by the end of 2015. Therefore, revenue and volume variance percentages for the lines of business (shown below) are adjusted for the impact of the additional days.

Canada Post generated revenue of $1,637 million in the first quarter of 2015, an increase of $169 million or 6.4%[1] compared to the same period in 2014, despite mail erosion of 8.0%[1]. The revenue increase was driven by higher Transaction Mail revenue ($112 million) from rate action introduced in a new tiered pricing structure for Lettermail March 31, 2014, growth in Parcels ($39 million) from the continued strength of the business-to-consumer e-commerce delivery market, and three additional business days in the first quarter of 2015.

Transaction Mail volumes continued to decline – by 39 million pieces or 8.0%[1] in the first quarter of 2015 compared to the same period in 2014. Volumes in 2015 continued to be adversely affected by mail erosion driven by electronic substitution.

Parcel volumes increased by over four million pieces or 6.5%[1] in the first quarter of 2015, while Parcels revenue for the first quarter of 2015 increased by $39 million or 6.2%[1] compared to the same period in 2014. Parcels revenue and volumes continued to be positively affected by the continuous growth in e-commerce and our efforts to deliver competitive offerings.

Direct Marketing volumes increased slightly by 47 million pieces, which represented a decrease of 0.7% once adjusted for trading days, in the first quarter of 2015 compared to the same period in 2014. Similarly, Direct Marketing revenue for the first quarter of 2015 increased by $11 million, which represented a decrease of 0.9% once adjusted for trading days.

Canada Post, as pension plan sponsor, is responsible for making current service contributions to its pension plans as well as special payments to cover any funding shortfalls. These pension commitments and other post-employment benefit obligations are substantial; they continue to significantly affect the Corporation's financial performance and, if not for temporary pension relief on special payments, would put immediate pressure on its cash resources. In February 2014, the Government of Canada provided relief to Canada Post from the requirement to make special payments to the Canada Post Corporation Registered Pension Plan (RPP) from 2014 to 2017. Without pension funding relief permitted by legislation, Canada Post would have been required to make special contributions to the RPP of approximately $1.4 billion in 2015.

Fluctuations in discount rates, investment returns and other actuarial assumptions create volatility from one period to the next, resulting in sizeable financial and long-term liquidity risks to the Corporation. During the first quarter of 2015, this volatility negatively affected the Group of Companies' defined benefit plans, causing remeasurement losses of $282 million, net of tax, recorded in other comprehensive income (loss) and decreasing the Group of Companies' equity balance to negative $2.3 billion as at April 4, 2015. These remeasurement losses were mostly the result of a decrease in discount rates in the first quarter of 2015, partially offset by strong pension asset returns.

The prior year's discount rates and other actuarial assumptions, as well as pension asset balances, are used to calculate the current year's employee benefit expense, and thereby affect the Corporation's operating results. A decrease in the discount rates as at December 31, 2014, partially offset by strong pension asset returns in 2014, contributed to increase employee benefit expenses by over $70 million or 18.1%[1] in the first quarter of 2015, compared to the same period in 2014, and significantly reduced the Corporation's profit from operations in the first quarter of 2015. These results demonstrate how changing discount rates, investment returns and other actuarial assumptions can cause significant volatility in the Corporation's financial statements.

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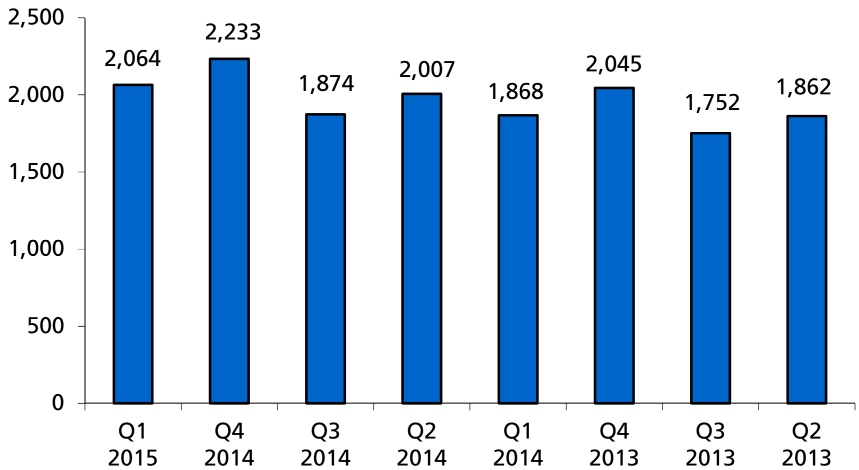
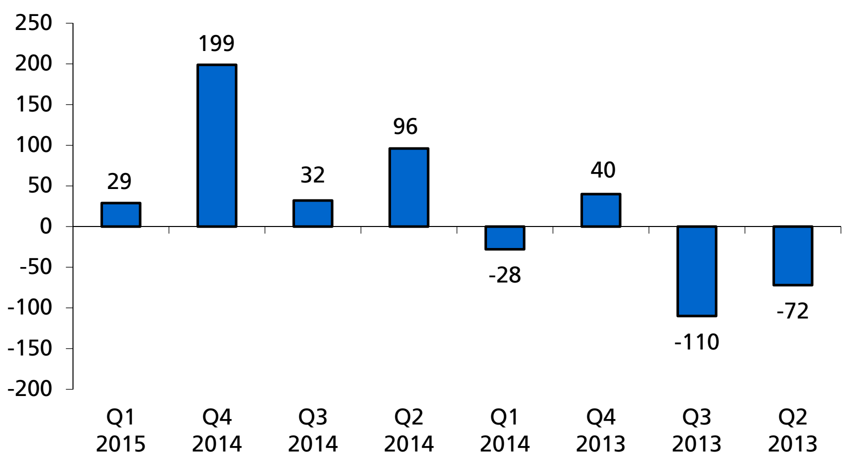
1. Adjusted for trading days or paid days, where applicable.

The following bar charts show the Group of Companies' results for the last eight quarters. Volumes have historically varied throughout the year, with the highest demand for services occurring during the holiday season in the fourth quarter. Volumes typically decline over the following quarters, reaching their lowest level during the summer months, in the third quarter. The Group of Companies' significant fixed costs do not vary, in the short term, as a result of these changes in demand for its services. Quarterly results can also be affected by the number of business and paid days, which can vary by quarter.

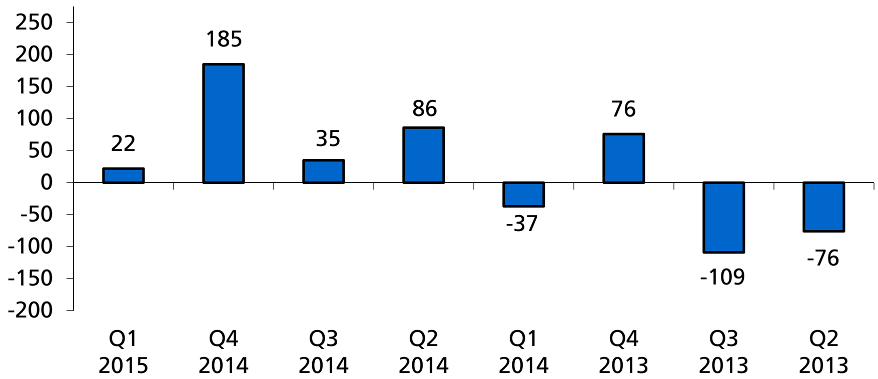
Quarterly consolidated revenue from operations
(in millions of dollars)



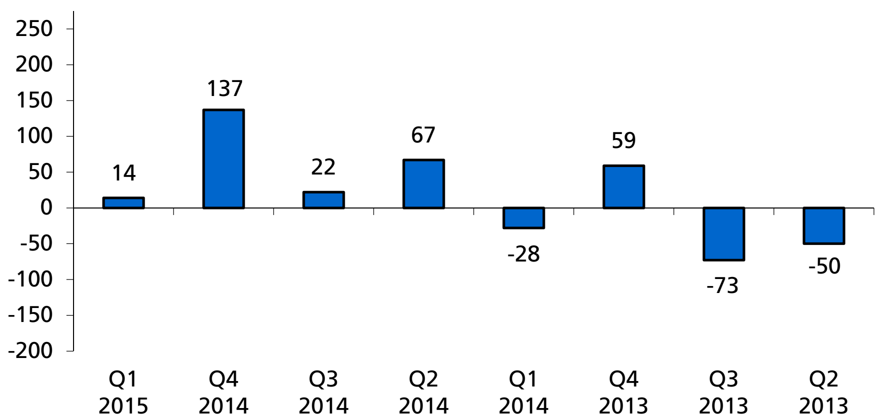
Quarterly consolidated profit (loss) from operations
(in millions of dollars)



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



Quarterly consolidated net profit (loss)
(in millions of dollars)



The following table presents the Corporation's consolidated performance for the first quarter of 2015, compared to the same period in the prior year.

(in millions of dollars)	13 weeks ended				
	April 4, 2015	March 29, 2014	Change	%	Explanation of change
Consolidated statement of comprehensive income					Highlights, as discussed in Section 8 – Discussion of Operations page 15
Revenue from operations	2,064	1,868	196	5.4[1]	Mainly due to increased Transaction Mail and Parcels revenue in the Canada Post segment.
Cost of operations	2,035	1,896	139	0.9[2]	Mainly a result of a higher employee benefit expense in the Canada Post segment.
Profit (loss) from operations	29	(28)	57	–	
Investing and financing expense, net	(7)	(9)	2	20.3	No material change.
Profit (loss) before tax	22	(37)	59	–	
Net profit (loss)	14	(28)	42	–	
Comprehensive loss	(244)	(752)	508	67.5	Mainly due to remeasurement losses on pension and other post-employment plans primarily as a result of lower discount rates.
Consolidated statement of cash flows					Highlights, as discussed in Section 6 – Liquidity and Capital Resources page 9
Cash provided by (used in) operating activities	34	(74)	108	–	Mainly from higher revenues and changes in non-cash working capital.
Cash (used in) provided by investing activities	(109)	6	(115)	–	Mainly due to higher net acquisitions of investments and higher net capital asset acquisitions.
Cash used in financing activities	(5)	(6)	1	4.4	No material change.

1. Adjusted for trading days, where applicable.
2. Adjusted for paid 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 the service mandate. Competition is increasing in all lines of business and the exclusive privilege on letters up to 500 grams is losing its value in a digital world. Growth of the e-commerce market has generated opportunities and increased competition. Canada Post also faces challenges as a result of an inflexible and expensive cost structure, and significant changes are required to improve its cost competitiveness. To remain sustainable, we have developed strategic priorities that will help us address our operational challenges and grow the business, while meeting the evolving postal needs of Canadians.

Our core business and strategy are described in Section 2 – Core Businesses and Strategy of the 2014 Annual MD&A. There were no material changes to the strategies during the first quarter of 2015.

3 Key Performance Drivers

A discussion of our key achievements in 2015

The Canada Post segment uses performance scorecards to monitor progress against strategic priorities and provide management with a comprehensive view of the segment's performance. Results are reported monthly to senior management.

As discussed in Section 2.3 – Our strategy and strategic priorities of the 2014 Annual MD&A, our main strategic priorities are focused on refining postal service through the successful implementation of the Five-point Action Plan and pursuing growth opportunities that build on or complement our core assets and capabilities.

Performance results for 2015 will be updated at the end of the year and included as part of the 2015 Annual MD&A.

4 Capabilities

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

A discussion of these topics appears in Section 4 – Capabilities of the 2014 Annual MD&A. Updates are provided below.

4.1 Labour relations

The number of employees covered by collective agreements as at December 31, 2014, and various bargaining activities are summarized in Section 4.1 – Our employees – Labour relations of the 2014 Annual MD&A. An update of collective bargaining activity by segment is provided below.

Canada Post segment

Pay equity update

Pay equity payments commenced in August 2013 and are ongoing. Canada Post is in the process of completing the payment to eligible employees following the Supreme Court of Canada ruling in favour of the Public Service Alliance of Canada (PSAC). Canada Post is now working with the Canada Revenue Agency to reach remaining potentially eligible individuals whom the Corporation has been unable to contact. In addition, Canada Post has applied other means, such as notices in newspapers, to connect with eligible former employees.

Canadian Postmasters and Assistants Association (CPAA)

The current collective agreement between Canada Post and the CPAA expired December 31, 2014. Negotiations commenced in the first quarter of 2015 and are continuing. CPAA represents rural post office postmasters and assistants. The CPAA agreement provides for a final offer selection process to resolve outstanding issues in place of a strike or lockout.

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

Canada Post continues to meet CUPW-UPO and discuss the Corporation's business and pension-related challenges. Canada Post and CUPW-UPO are now in the last year of the collective agreement, which will expire January 31, 2016.

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

Canada Post and CUPW-RSMC are now in the final year of the four-year collective agreement, which will expire December 31, 2015.

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

Canada Post and PSAC/UPCE are now in the third year of the four-year collective agreement, which will expire August 31, 2016. PSAC/UPCE represents two groups of employees, those who perform administrative work, including call centres, administration, pay and production, control and reporting, as well as those who perform technical work in areas such as finance and engineering.

Association of Postal Officials of Canada (APOC)

Canada Post and APOC reached a new collective agreement, which took effect December 23, 2014, and expires March 31, 2018. APOC represents supervisors, superintendents, and supervisory support groups, such as trainers, route measurement officers and sales employees.

Purolator segment

The national collective agreement with the Canada Council of Teamsters for all hourly operations employees remains in force until December 31, 2016. All Teamsters clerical groups and the Union of Postal Communication Employees in British Columbia have renewed collective agreements, which expire December 31, 2017. The agreement with Unifor, which governs the employment relationship with administrative and clerical employees in Quebec, expires at the end of 2017.

The agreement with the Canadian Office and Professional Employees Union, governing approximately seven clerical employees in Thunder Bay, expired January 31, 2015. No dates for bargaining have yet been set.

Logistics segment – SCI Group

There were no developments in labour relation activities in the first quarter of 2015.

4.2 Internal controls and procedures

Changes in internal control over financial reporting

During the first quarter of 2015, there were no changes in internal control over financial reporting that materially affected, or were reasonably likely to materially affect, the Group of Companies' internal control over financial reporting.

5 Risks and Risk Management

A discussion of the key risks and uncertainties inherent in our business and our approach to managing these risks

Management considers risks and opportunities at all levels of decision making and has implemented a rigorous approach to enterprise risk management (ERM). A description of the Canada Post segment's risks is provided in Section 5.2 – Strategic risks and Section 5.3 – Operational risks of the 2014 Annual MD&A. Updates to these risks for the first quarter of 2015 are provided below.

Legal risk

CPAA pay equity complaint

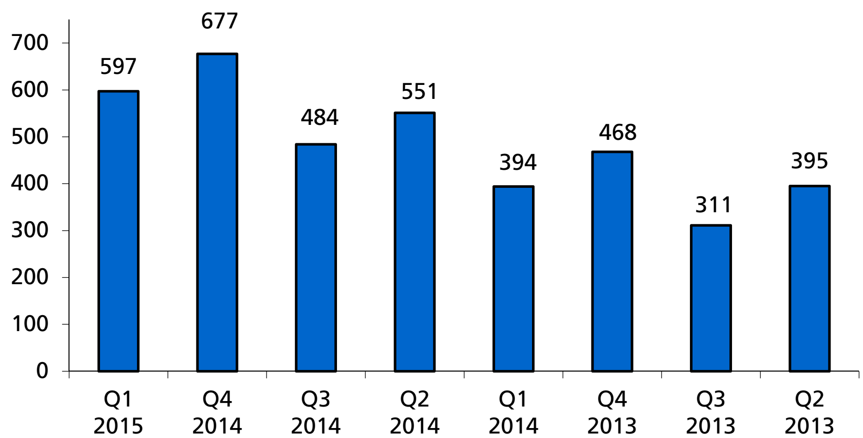
In October 2012, Canada Post received notice from the Canadian Human Rights Commission (Commission) that the CPAA had requested to resurrect its pay equity complaint, originally filed in 1982. Canada Post filed a full legal brief December 10, 2012, in response to the Commission's request for submission. On December 8, 2014, the Commission investigator released a report, which found that agreements between the parties resolved any pay equity issues for the period subsequent to 1997, but that the prior period (1991 to 1997) remains unresolved and should be referred to the Canadian Human Rights Tribunal (Tribunal) without further investigation. Canada Post made submissions to the Commission January 30, 2015. In March 2015, the Commission rendered a decision to refer the matter on its merits to the Tribunal. Materials in support of Canada Post's Application for Judicial Review of the Commission's decision were filed April 24, 2015. A motion for a stay of the Tribunal's proceedings is being prepared.

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 $597 million as at April 4, 2015 – a decrease of $80 million compared to December 31, 2014. The decrease was mainly due to cash used in investing activities, primarily used for net acquisitions of investments and net acquisitions of capital assets.

6.2 Operating activities

	13 weeks ended		
(in millions of dollars)	April 4, 2015	March 29, 2014	Change
Cash provided by (used in) operating activities	34	(74)	108

Cash provided by operations in the first quarter of 2015 increased by $108 million compared to the same period in 2014. The positive changes in 2015 cash flow, compared to the same period in 2014, were primarily driven by increased earnings and changes in non-cash working capital, partially offset by higher income taxes paid.

6.3 Investing activities

	13 weeks ended		
(in millions of dollars)	April 4, 2015	March 29, 2014	Change
Cash (used in) provided by investing activities	(109)	6	(115)

Cash used in investing activities increased by $115 million in the first quarter of 2015 compared to the same period in 2014, mostly due to $107 million higher net acquisitions of investments and $8 million in higher net acquisitions of capital assets.

Capital expenditures

(in millions of dollars)	13 weeks ended April 4, 2015	March 29, 2014	Change
Canada Post	47	38	9
Purolator	5	4	1
Logistics	2	2	0
Innovapost and intersegment	(0)	(1)	1
Canada Post Group of Companies	**54**	**43**	**11**

Capital expenditures for the Group of Companies increased by $11 million in the first quarter of 2015 when compared to the same period in 2014. The increase in 2015 was mainly due to increased spending on the Five-point Action Plan in the Canada Post segment.

6.4 Financing activities

(in millions of dollars)	13 weeks ended April 4, 2015	March 29, 2014	Change
Cash used in financing activities	(5)	(6)	1

There were no significant changes in financing activities in the first quarter of 2015, when compared to the same period in 2014.

6.5 Canada Post Corporation Registered Pension Plan

The Canada Post Corporation Registered Pension Plan (RPP) has assets with a market value of over $20 billion as at December 31, 2014, making it one of the largest single-employer sponsored pension plans in Canada. A description of the effects of the RPP on liquidity is provided in Section 6.5 – Canada Post Corporation Registered Pension Plan of the 2014 Annual MD&A. An update is provided below.

In February 2014, the Government of Canada introduced the *Canada Post Corporation Pension Plan Funding Regulations* that provide relief to Canada Post from the need to make special payments into the RPP for four years (from 2014 to 2017). This temporary measure recognizes the Corporation's serious operational challenges and the risks to the sustainability of the RPP. Canada Post is working with its unions and other representatives of RPP members to evaluate all options, including plan design changes, to make the RPP financially sustainable and is also studying and evaluating other jurisdictions' approaches to modifying the design of their pension plans. A Communications and Consultation Group was also established to help facilitate the exchange of information between the Corporation and Plan members. The Group is composed of 12 representatives, including five elected individuals representing management and retirees, survivors and deferred defined benefit plan members, and seven selected individuals representing APOC, CPAA, CUPW, PSAC/UPCE and Canada Post as plan administrator.

The current estimate of the financial position of the RPP as at December 31, 2014, is a going-concern surplus of approximately $0.5 billion (using the smoothed value of RPP assets) and a solvency deficit to be funded of approximately $6.8 billion[1] (using the three-year average solvency ratio basis). These preliminary estimates are subject to changes as actuarial assumptions are being finalized. Final actuarial valuations as at December 31, 2014, will be filed by the end of June 2015 and results may differ significantly from these estimates.

Current service contributions amounted to $71 million and $61 million respectively for the first quarter of 2015 and 2014. The estimated amount of current service contributions for 2015 is approximately $244 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 has moved to 50/50 cost sharing. CUPW filed a grievance in 2013 challenging the decision to raise the rate of employee contributions, alleging that it is a violation of the terms of the collective agreement. There were no developments on this grievance during 2014 or the first quarter of 2015.

Canada Post, the RPP sponsor, records remeasurement adjustments, net of tax, in other comprehensive income. For the first quarter of 2015, remeasurement losses, net of tax, amounted to $132 million for the Canada Post RPP. The RPP is subject to significant volatility due to fluctuations in discount rates, investment returns and other changes in actuarial assumptions.

1. The solvency deficit when using market value of plan assets, as at December 31, 2014, was estimated at $6.9 billion.

6.6 Liquidity and capital resources

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

Liquidity

During the first quarter of 2015, 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 $1,221 million of unrestricted liquid investments on hand as at April 4, 2015, and $100 million of lines of credit established under its short-term borrowing authority approved by the Minister of Finance.

In February 2014, the Government of Canada introduced regulations that provide Canada Post with relief from making special pension payments to the Registered Pension Plan from 2014 to 2017. The Corporation expects to resume special payments in 2018, at the end of the temporary relief period. In addition, the Corporation has started implementing the initiatives included in the Five-point Action Plan to address operational sustainability and help ensure the Corporation's profitability. Based on the temporary relief and the implementation of the Five-point Action Plan, Canada Post believes it has sufficient liquidity and authorized borrowing capacity to support its operations for at least the next 12 months.

The Corporation's subsidiaries had a total of $122 million of unrestricted cash on hand and undrawn credit facilities of $131 million as at April 4, 2015, ensuring sufficient liquidity to support their operations for at least the next 12 months.

Access to capital markets

Pursuant to *Appropriation Act No. 4,* 2009-10, which received royal assent December 15, 2009, borrowing from other than the Government of Canada's Consolidated Revenue Fund is limited to $2.5 billion. Included in this total authorized borrowing limit is a maximum of $100 million for cash management purposes in the form of short-term borrowings. 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 April 4, 2015, amounted to $1,054 million and $74 million respectively. For more information on liquidity and access to capital markets, refer to Section 6.6 – Liquidity and capital resources of the 2014 Annual MD&A.

Dividends

For information on our dividend policy, refer to Section 6.6 – Liquidity and capital resources of the 2014 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, which are summarized in Section 6.7 – Risks associated with financial instruments of the 2014 Annual MD&A.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in external market factors, such as interest rates, foreign currency exchange rates and commodity prices. The Canada Post segment has an economic hedge program to mitigate its exposure to foreign exchange balances and forecasted sales denominated in special drawing rights. These forward contracts are not designated as hedges for accounting purposes. For more information on foreign exchange risk, refer to Note 13 – Fair Values and Risks Arising from Financial Instruments of the unaudited interim condensed consolidated financial statements for the 13 weeks ended April 4, 2015. There were no material changes to market risk during the first quarter of 2015.

Credit risk

Credit risk is the risk of financial loss due to the counterparty's inability to meet its contractual obligations. Credit risk arises from investments in corporations and financial institutions as well as credit exposures to wholesale and commercial customers, including outstanding receivables. Sales to consumers are settled by paying cash or using major credit cards. There were no material changes to credit risk during the first quarter of 2015.

Liquidity risk

Liquidity risk is the risk that the Group of Companies will not be able to meet its financial obligations as they fall due. Liquidity risk is managed by maintaining adequate cash reserves, banking facilities and reserve borrowing facilities, by monitoring forecasted and actual cash flows and matching the maturity profiles of financial assets and liabilities. There were no material changes to liquidity risk during the first quarter of 2015.

6.8 Contractual obligations and commitments

Contractual obligations and commitments are explained in Section 6.8 – Contractual obligations and commitments of the 2014 Annual MD&A. There were no material changes to contractual obligations and commitments during the first quarter of 2015.

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 is reported in Section 6.9 – Related party transactions of the 2014 Annual MD&A. For more information on related party transactions, refer to Note 12 – Related Party Transactions of the unaudited interim condensed consolidated financial statements for the 13 weeks ended April 4, 2015.

6.10 Contingent liabilities

Contingent liabilities are described in Note 9 – Contingent Liabilities of the unaudited interim condensed consolidated financial statements for the 13 weeks ended April 4, 2015. There were no material changes to contingent liabilities during the first quarter of 2015.

7 Changes in Financial Position

A discussion of significant changes in our assets and liabilities between April 4, 2015, and December 31, 2014

(in millions of dollars)

ASSETS	Apr. 4, 2015	Dec. 31, 2014	Change	%	Explanation of change
Cash and cash equivalents	597	677	(80)	(11.7)	Refer to Section 6 – Liquidity and Capital Resources page 9.
Marketable securities	746	689	57	8.3	Mainly due to the investment of cash in short-term investments for higher returns.
Trade and other receivables	804	795	9	1.0	No material change.
Income tax receivable	6	1	5	371.4	Mainly due to instalment payments for the Purolator segment.
Other assets	114	98	16	15.8	Mainly due to an increase in prepaid expenses in the Purolator segment.
Total current assets	**2,267**	**2,260**	**7**	**0.3**	
Property, plant and equipment	2,654	2,676	(22)	(0.8)	Mainly due to depreciation exceeding acquisitions.
Intangible assets	110	117	(7)	(5.4)	Mainly due to amortization of software assets exceeding acquisitions.
Segregated securities	586	551	35	6.4	Mainly due to unrealized gains and interest income.
Pension benefit assets	135	141	(6)	(3.7)	Mainly due to actuarial losses mostly attributable to a decrease in discount rates, partially offset by stronger pension asset returns.
Deferred tax assets	1,802	1,706	96	5.6	Mainly due to the increase of temporary differences from remeasurement losses recognized in other comprehensive income for Canada Post's Registered Pension Plan and other post-employment benefits.
Goodwill	130	130	0	0.0	No change.
Other assets	5	3	2	6.8	No material change.
Total non-current assets	**5,422**	**5,324**	**98**	**1.8**	
Total assets	**7,689**	**7,584**	**105**	**1.4**	

(in millions of dollars)

LIABILITIES AND EQUITY	Apr. 4, 2015	Dec. 31, 2014	Change	%	Explanation of change
Trade and other payables	473	583	(110)	(18.7)	Mainly due to decreased trade payables and sales taxes payable in the Canada Post segment, largely due to timing.
Salaries and benefits payable and related provisions	532	487	45	9.3	Mainly due to an increase in accrued salaries in the Canada Post segment due to more days outstanding.
Provisions	69	71	(2)	(2.9)	No material change.
Income tax payable	9	52	(43)	(82.4)	Mainly due to the payment of an expected tax liability for the Canada Post segment.
Deferred revenue	128	133	(5)	(4.3)	Mainly due to a reduction in stamp deferrals due to seasonality.
Loans and borrowings	77	22	55	255.0	Mainly due to bonds maturing in March 2016 that were reclassified from non-current.
Other long-term benefit liabilities	65	65	0	0.0	No change.
Total current liabilities	**1,353**	**1,413**	**(60)**	**(4.2)**	
Loans and borrowings	1,051	1,112	(61)	(5.5)	Mainly due to bonds maturing in March 2016 that were reclassified to current.
Pension, other post-employment and other long-term benefit liabilities	7,507	7,037	470	6.7	Mainly due to actuarial losses in the Canada Post segment mostly attributable to a decrease in discount rates, partially offset by stronger pension asset returns.
Deferred tax liabilities	2	2	(0)	(6.1)	No material change.
Other liabilities	31	31	(0)	(3.6)	No material change.
Total non-current liabilities	**8,591**	**8,182**	**409**	**5.0**	
Total liabilities	**9,944**	**9,595**	**349**	**3.6**	
Equity					
Contributed capital	1,155	1,155	0	0.0	No change.
Accumulated other comprehensive income	78	54	24	44.5	Mainly due to net unrealized gains on available-for-sale financial assets in the Canada Post segment.
Accumulated deficit	(3,510)	(3,244)	(266)	(8.2)	Mainly due to net actuarial losses from post-employment plans remeasurement.
Equity of Canada	**(2,277)**	**(2,035)**	**(242)**	**(11.9)**	
Non-controlling interests	22	24	(2)	(9.6)	
Total equity	**(2,255)**	**(2,011)**	**(244)**	**(12.1)**	
Total liabilities and equity	**7,689**	**7,584**	**105**	**1.4**	

8 Discussion of Operations

A detailed discussion of our financial performance

8.1 Summary of quarterly results

Consolidated results by quarter

The following table shows the Group of Companies' consolidated results for the last eight quarters. Volumes have historically varied throughout the year, with the highest demand for services occurring during the holiday season in the fourth quarter. Volumes typically decline over the following quarters, reaching their lowest level during the summer months, in the third quarter. The Group of Companies' significant fixed costs do not vary, in the short term, as a result of these changes in demand for its services. The quarterly results can also be affected by the number of business (trading) and paid days, which can vary by quarter. Additional business days result in increased revenue, while additional paid days result in increased cost of operations. In the first quarter of 2015, there were three more business days and four additional paid days in comparison to the same period in 2014. This represents a timing difference and will be eliminated by the end of 2015.

(in millions of dollars)	Q1 2015	Q4 2014	Q3 2014	Q2 2014	Q1 2014	Q4 2013	Q3 2013	Q2 2013
Revenue from operations	2,064	2,233	1,874	2,007	1,868	2,045	1,752	1,862
Cost of operations	2,035	2,034	1,842	1,911	1,896	2,005	1,862	1,934
Profit (loss) from operations	**29**	**199**	**32**	**96**	**(28)**	**40**	**(110)**	**(72)**
Investing and financing income (expense), net	(7)	(14)	3	(10)	(9)	36	1	(4)
Profit (loss) before tax	**22**	**185**	**35**	**86**	**(37)**	**76**	**(109)**	**(76)**
Tax expense (income)	8	48	13	19	(9)	17	(36)	(26)
Net profit (loss)	**14**	**137**	**22**	**67**	**(28)**	**59**	**(73)**	**(50)**

8.2 Consolidated results from operations

Consolidated results for the first quarter of 2015

	13 weeks ended				
(in millions of dollars)	April 4, 2015	March 29, 2014	Change	%	Adjusted %[1]
Revenue from operations	2,064	1,868	196	10.5	5.4
Cost of operations	2,035	1,896	139	7.3	0.9
Profit (loss) from operations	**29**	**(28)**	**57**	**–**	**–**
Investing and financing expense, net	(7)	(9)	2	20.3	–
Profit (loss) before tax	**22**	**(37)**	**59**	**–**	**–**
Tax expense (income)	8	(9)	17	–	–
Net profit (loss)	**14**	**(28)**	**42**	**–**	**–**
Other comprehensive loss	(258)	(724)	466	64.4	–
Comprehensive loss	**(244)**	**(752)**	**508**	**67.5**	**–**

1. Adjusted for trading days or paid days, where applicable.

The Canada Post Group of Companies reported a profit before tax of $22 million for the first quarter of 2015, compared to a loss before tax of $37 million in the first quarter of 2014. Improvements in profit before tax in 2015 were primarily driven by the Canada Post segment. Also, as mentioned, in the first quarter of 2015, there were three additional business days, which increased our revenue by approximately 5%, and four additional paid days, which increased our cost of operations by approximately 6%, compared to the same period in 2014. A detailed discussion by segment is provided in sections 8.4 to 8.6.

Consolidated revenue from operations

For the first quarter of 2015, revenue from operations increased by $196 million when compared to the same quarter in 2014. Overall, improvements to revenue in the first quarter of 2015 resulted primarily from increases in Canada Post's Transaction Mail ($112 million) and Parcels ($39 million) lines of business and three additional business days compared to the same period in 2014. A detailed discussion of revenue by segment follows in sections 8.4 to 8.6.

Consolidated cost of operations

The cost of operations increased by $139 million in the first quarter of 2015 when compared to the same quarter in 2014. The increase in the first quarter of 2015 was mainly due to four additional paid days in the first quarter of 2015, and a higher employee benefit expense in the Canada Post segment. A detailed discussion by segment is provided in sections 8.4 to 8.6.

Consolidated tax expense (income)

The consolidated tax expense for the first quarter 2015 increased by $17 million compared to the same period in 2014, primarily driven by higher profits across the Group of Companies.

Consolidated other comprehensive income (loss)

The consolidated other comprehensive loss amounted to $258 million, net of tax, in the first quarter of 2015, mainly due to remeasurement losses on pension and other post-employment plans primarily as a result of lower discount rates, partially offset by strong pension asset returns. Volatility, caused by fluctuations in pension plan investment returns and changes to the discount rates used to measure these plans, continued to have a significant impact on the Group of Companies' other comprehensive income.

8.3 Operating results by segment

Segmented results – Profit (loss) before tax

	13 weeks ended			
(in millions of dollars)	April 4, 2015	March 29, 2014	Change	%
Canada Post	24	(27)	51	–
Purolator	(6)	(11)	5	45.5
Logistics	4	2	2	95.2
Other	0	(1)	1	–
Canada Post Group of Companies	**22**	**(37)**	**59**	**–**

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

8.4 Canada Post segment

The Canada Post segment recorded a profit before tax of $24 million in the first quarter of 2015, compared to a loss before tax of $27 million in the first quarter of 2014. The improvement in profit before tax in the first quarter was due to increased Transaction Mail revenue ($112 million), mainly due to Domestic Lettermail™ rate action implemented March 31, 2014, growth in Parcels revenue ($39 million), and productivity improvements, partially offset by an increase in the post-employment benefit expense. Without the increased revenue from higher rates introduced for Lettermail, the Corporation would have recorded a significant loss in the first quarter of 2015. The three additional business (trading) days and four additional paid days in the first quarter of 2015, compared to the same period in 2014, also increased both revenue and costs of operations.

Canada Post results for the first quarter of 2015

	13 weeks ended				
(in millions of dollars)	April 4, 2015	March 29, 2014	Change	%	Adjusted %[1]
Revenue from operations	1,637	1,468	169	11.5	6.4
Cost of operations	1,606	1,486	120	8.0	1.6
Profit (loss) from operations	**31**	**(18)**	**49**	**–**	**–**
Investing and financing expense, net	(7)	(9)	2	18.4	–
Profit (loss) before tax	**24**	**(27)**	**51**	**–**	**–**
Tax expense (income)	8	(8)	16	–	–
Net profit (loss)	**16**	**(19)**	**35**	**–**	**–**

1. Adjusted for trading days or paid days, where applicable.

Revenue from operations

Canada Post earned revenue from operations of $1,637 million in the first quarter of 2015 – an increase of $169 million or 6.4% when compared to the same quarter in 2014. The increase in revenue was primarily due to higher rates introduced in a new tiered pricing structure for Lettermail that took effect March 31, 2014, continued growth in Parcels revenue, and three additional business days in the first quarter of 2015, partially offset by Lettermail erosion.

Quarterly revenue by line of business

	13 weeks ended				
(in millions of dollars)	April 4, 2015	March 29, 2014	Change	%	Adjusted %[1]
Transaction Mail	889	777	112	14.4	9.1
Parcels	380	341	39	11.4	6.2
Direct Marketing	298	287	11	3.9	(0.9)
Other revenue	70	63	7	11.9	6.7
Total	**1,637**	**1,468**	**169**	**11.5**	**6.4**

1. Adjusted for trading days, where applicable.

Transaction Mail

Transaction Mail revenue of $889 million for the first quarter of 2015 was made up of the following three product categories: Domestic Lettermail ($811 million), Outbound Letter-post ($39 million), and Inbound Letter-post ($39 million).

In the first quarter of 2015, Transaction Mail revenue increased by $112 million or 9.1%,[1] while volumes decreased by 39 million pieces or 8.0%[1] compared to the same period in 2014. For Domestic Lettermail, the largest product category, revenue increased by $107 million or 9.8%,[1] and volumes decreased by 41 million pieces or 8.4%[1] in the first quarter of 2015 compared to the same period in 2014. While revenue increased due to higher rates introduced for Lettermail March 31, 2014, demand for mail services from our customers, both households and businesses, continued to decline given the many credible alternatives to paper-based communication and the highly competitive environment.

Parcels

Parcels revenue of $380 million for the first quarter of 2015 was made up of the following four product categories: Domestic Parcels ($261 million), Outbound Parcels ($57 million), Inbound Parcels ($58 million), and Other ($4 million).

In the first quarter of 2015, Parcels revenue increased by $39 million or 6.2%,[1] while volumes increased by over four million pieces or 6.5%[1] when compared to the same period in 2014. Domestic Parcels, the largest product category, continued to grow and revenue increased by $27 million or 6.4%;[1] volumes improved by over three million pieces or 7.5%[1] in the first quarter of 2015, compared to the same period in 2014.

The increase in revenue and volumes was propelled by a strong performance from our major commercial customers and our solid delivery performance. It reflects the growth in the business-to-consumer e-commerce delivery market as customers continue to order more products online.

Direct Marketing

Direct Marketing revenue of $298 million for the first quarter of 2015 was made up of the following four product categories: Addressed Admail™ ($146 million), Unaddressed Admail™ ($95 million), Publications Mail™ ($50 million), and Business Reply Mail™ and Other Mail ($7 million).

Direct Marketing revenue increased slightly by $11 million, which represented a decrease of 0.9% once adjusted for trading days, in the first quarter of 2015 compared to the same period in 2014. Similarly, volumes increased by 47 million pieces in the first quarter of 2015, which represented a decrease of 0.7% once adjusted for trading days. Unaddressed Admail, the largest volume product category, grew marginally as revenue increased by $5 million or 1.0%,[1] and volumes improved by over 53 million pieces or 1.9%[1] compared to the same period in 2014, mainly due to growth from large and mid-market mailers. Addressed Admail revenue increased by over $7 million or 0.5%,[1] while volumes decreased by over 1 million pieces or 5.1%.[1] Revenue was up due to an increase in oversized mailings, while volume declines were caused by commercial customers reducing their marketing expenditures and redirecting some of them to other media channels. Publications Mail revenue and volumes declined by 7.8%[1] and 11.0%[1] respectively in the first quarter of 2015 compared to the same period in 2014, mainly due to the continued popularity of digital alternatives.

Other revenue

Other revenue reached $70 million in the first quarter of 2015 – an increase of $7 million or 6.7%,[1] when compared to the same period in 2014. The increase was primarily due to higher consumer product revenue.

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1. Adjusted for trading days, where applicable.

Cost of operations

Cost of operations for the Canada Post segment amounted to $1,606 million in the first quarter of 2015 – an increase of $120 million when compared to the same quarter in 2014, mainly due to four additional paid days in the first quarter of 2015 and a higher employee benefit expense due to a decrease in discount rates.

	13 weeks ended				
(in millions of dollars)	April 4, 2015	March 29, 2014	Change	%	Adjusted %[1]
Labour	782	758	24	3.2	(3.0)
Employee benefits	345	275	70	25.6	18.1
Total labour and employee benefits	**1,127**	**1,033**	**94**	**9.2**	**2.6**
Non-labour collection, processing and delivery	218	208	10	4.8	(1.5)
Property, facilities and maintenance	72	67	5	5.7	(0.6)
Selling, administrative and other	125	113	12	10.2	3.6
Total other operating costs	**415**	**388**	**27**	**6.5**	**0.2**
Depreciation and amortization	64	65	(1)	(0.7)	(6.6)
Total	**1,606**	**1,486**	**120**	**8.0**	**1.6**

1. Adjusted for paid days, where applicable.

Labour

Labour costs increased by $24 million or 3.2% for the first quarter of 2015 when compared to the same period in 2014. The increase was primarily due to four more paid days in the first quarter of 2015 compared to the same period in 2014. Excluding the additional paid days, labour expenses would have decreased by approximately 3% in the first quarter of 2015 compared to the same period in 2014, mainly due to productivity improvements. These savings from productivity improvements are significant and reflect the continued investments that the Corporation is making to optimize efficiencies in its operations.

Employee benefits

Employee benefits increased by $70 million for the first quarter of 2015 when compared to the same period in 2014. The increase was mainly due to the negative impacts from a decrease in the discount rates used to calculate benefit plan costs in 2015, partially offset by the positive impacts of strong pension asset returns in 2014.

Non-labour collection, processing and delivery

Contracted collection, processing and delivery costs increased by $10 million for the first quarter of 2015 compared to the same period in 2014, mainly due to four additional paid days in 2015 compared to the same period in 2014.

Property, facilities and maintenance

The cost of facilities increased by $5 million for the first quarter of 2015 when compared to the same period in 2014, mainly due to increases in the cost of utilities, rent expense, and payments in lieu of taxes.

Selling, administrative and other

Selling, administrative and other expenses increased by $12 million for the first quarter of 2015 compared to the same period in 2014, mainly due to increases in expenses relating to the implementation of the Five-point Action Plan.

Depreciation and amortization

Depreciation and amortization expenses remained relatively flat for the first quarter of 2015 compared to the same period in 2014.

8.5 Purolator segment

The Purolator segment experienced a net loss of $5 million for the first quarter of 2015, an improvement of $4 million or 45.9% when compared to the same period in 2014.

Purolator results for the first quarter of 2015

	13 weeks ended				
(in millions of dollars)	April 4, 2015	March 29, 2014	Change	%	Adjusted %[1]
Revenue from operations	402	386	16	4.0	(0.8)
Cost of operations	408	397	11	2.6	(3.5)
Loss from operations	**(6)**	**(11)**	**5**	**45.1**	**–**
Investing and financing expense, net	(0)	(0)	0	78.3	–
Loss before tax	**(6)**	**(11)**	**5**	**45.5**	**–**
Tax income	(1)	(2)	1	43.7	–
Net loss	**(5)**	**(9)**	**4**	**45.9**	**–**

1. Adjusted for trading days or paid days, where applicable.

Revenue from operations

Purolator generated revenue from operations of $402 million in the first quarter of 2015 – an increase of $16 million when compared to the same period in 2014. The increase in the first quarter of 2015 was mainly due to three additional business days in the first quarter of 2015 compared to the same period in 2014.

Cost of operations

Total labour costs

Total labour costs were $198 million in the first quarter of 2015. The increase of $10 million in the first quarter when compared to the same period in 2014, was mainly due to four additional paid days in the first quarter of 2015 compared to the same period in 2014.

Total non-labour costs

Total non-labour costs were $210 million in the first quarter of 2015, which is relatively consistent with the same period in 2014.

8.6 Logistics segment

The Logistics segment includes the financial results of SCI Group. The Logistics segment contributed $3 million of net profit to the consolidated results for the first quarter of 2015, an increase of $2 million or 96.4% when compared to the same period in 2014.

Logistics results for the first quarter of 2015

(in millions of dollars)	13 weeks ended April 4, 2015	March 29, 2014	Change	%	Adjusted %[1]
Revenue from operations	60	45	15	32.1	34.2
Cost of operations	56	43	13	29.3	29.3
Profit from operations	**4**	**2**	**2**	**92.8**	**–**
Investing and financing income (expense), net	0	(0)	0	–	–
Profit before tax	**4**	**2**	**2**	**95.2**	**–**
Tax expense	1	1	0	92.1	–
Net profit	**3**	**1**	**2**	**96.4**	**–**

1. Adjusted for trading days or paid days, where applicable.

Revenue from operations

SCI generated revenue from operations of $60 million in the first quarter of 2015 – an increase of $15 million when compared to the same period in 2014. Increases in the first quarter of 2015 were mainly driven by volume growth from current clients and new services.

Cost of operations

Total labour costs

Total labour costs were $28 million in the first quarter of 2015 – an increase of $8 million when compared to the same period in 2014. Increases in the first quarter of 2015 were primarily the result of growth in volumes and new business.

Total non-labour costs

Total non-labour costs were $28 million in the first quarter of 2015 – an increase of $5 million when compared to the same period in 2014. Increases in the first quarter of 2015 were mainly due to growth from existing clients and new services.

8.7 Consolidated results to plan

The following table presents the Canada Post Group of Companies' 2015 Corporate Plan.

(in millions of dollars)

Consolidated	2015 Corporate Plan
Revenue from operations	8,108
Cost of operations	8,047
Profit from operations	61
Investing and financing expense, net	(31)
Profit before tax	30

The Canada Post Group of Companies' 2015 Corporate Plan, approved by the Government of Canada, projects a profit before tax of $30 million for the year ending December 31, 2015. This is $239 million lower than the 2014 results primarily due to an expected loss in the Canada Post segment in 2015. It is expected that employee benefit costs for the Canada Post segment will increase substantially in 2015 compared to 2014, mostly due to a decrease in 2014 discount rates, which are used to calculate benefit plan costs in 2015, combined with expected Lettermail erosion and more normal price increases. At the end of the first quarter ended April 4, 2015, the Group of Companies' realized a profit of $22 million and is tracking slightly below plan, primarily due to results in the Canada Post segment.

9 Critical Accounting Estimates and Accounting Policy Developments

A review of critical accounting estimates and changes in accounting policies in 2015 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 judgements, estimates and assumptions. It is reasonably possible that management's reassessments of these and other estimates and assumptions in the near term, as well as actual results, could require a material change in reported amounts and disclosures in the consolidated financial statements of future periods.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period when estimates are revised if revisions affect only that period, or in the period of revision and future periods if revisions affect both current and future periods.

The Group of Companies' critical accounting estimates remain substantially unchanged from the prior year. For additional information, refer to our discussion of critical accounting estimates in the 2014 Annual MD&A and Note 3 – Critical Accounting Estimates and Judgments of the 2014 consolidated financial statements, which are contained in the *Canada Post Corporation 2014 Annual Report*.

9.2 Accounting pronouncements

(a) New standards, amendments and interpretations effective January 1, 2015

The following amendments issued by the International Accounting Standards Board (IASB) that required mandatory adoption by the Group of Companies January 1, 2015, resulted in no changes in accounting policies and did not have an impact on the Corporation's interim condensed consolidated financial statements for the 13 weeks ended April 4, 2015.

Annual Improvements to IFRS – 2010-2012 Cycle • The IASB issued these annual improvements in response to non-urgent issues addressed during the 2010-2012 cycle. The standards and topics covered by the amendments were as follows: IFRS 2 "Share-based Payment" addressing the definition of vesting condition; IFRS 3 "Business Combinations" providing additional guidance on accounting for contingent consideration in a business combination; IFRS 8 "Operating Segments" providing additional guidance on the aggregation of operating segments and reconciliation of the total of the reportable segments' assets to the entity's assets; IFRS 13 "Fair Value Measurement" providing additional guidance on short-term receivables and payables; IAS 16 "Property, Plant and Equipment" addressing the revaluation method for proportionate restatement of accumulated depreciation; IAS 24 "Related Party Disclosures" providing guidance on key management personnel and IAS 38 "Intangible Assets" addressing the revaluation method for proportionate restatement of accumulated amortization.

Annual Improvements to IFRS – 2011-2013 Cycle • The IASB issued these annual improvements in response to non-urgent issues addressed during the 2011-2013 cycle. The standards and topics covered by the amendments were as follows: IFRS 1 "First-time Adoption of International Financial Reporting Standards" addressing the meaning of effective IFRS; IFRS 3 "Business Combinations" addressing scope exceptions for joint ventures; IFRS 13 "Fair Value Measurement" providing additional guidance on the scope of portfolio exception and IAS 40 "Investment Property" providing clarification on classifying property as investment or owner-occupied property.

Amendments to IAS 19 – Defined Benefit Plans: Employee Contributions • The amendments to IAS 19 provide additional guidance for employee contributions to defined benefit plans. The amendments clarify the requirements for contributions from employees or third parties that are linked to service. If the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost when the related service is rendered, instead of attributing the contributions to the periods of service. If the amount of the contributions is dependent on the number of years of service, an entity is required to attribute those contributions to periods of service using the same attribution method required for the gross benefit.

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

The following table presents standards and amendments issued by the IASB, which were assessed as having a possible impact on the Group of Companies in the future. The Group of Companies is determining the impact, if any, of the amendments on its consolidated financial statements.

Standard or amendment	Effective for annual periods beginning on or after
Amendments to IFRS 11 "Joint Arrangements" – Accounting for Acquisitions of Interest in Joint Operations	January 1, 2016
Annual Improvements to IFRS – 2012-2014 Cycle	January 1, 2016
Disclosure Initiative – Amendments to IAS 1 "Presentation of Financial Statements"	January 1, 2016
IFRS 15 "Revenue from Contracts with Customers"	January 1, 2017
IFRS 9 "Financial Instruments"	January 1, 2018

Management's Responsibility for Interim Financial Reporting

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

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

President and Chief Executive Officer

Chief Financial Officer

May 21, 2015

Interim Condensed Consolidated Statement of Financial Position

As at (Unaudited – in millions of Canadian dollars)	Notes	April 4, 2015	December 31, 2014
Assets			
Current assets			
Cash and cash equivalents		**$ 597**	$ 677
Marketable securities		**746**	689
Trade and other receivables		**804**	795
Income tax receivable		**6**	1
Other assets	**4**	**114**	98
Total current assets		**2,267**	2,260
Non-current assets			
Property, plant and equipment	**5**	**2,654**	2,676
Intangible assets	**5**	**110**	117
Segregated securities		**586**	551
Pension benefit assets	**6**	**135**	141
Deferred tax assets		**1,802**	1,706
Goodwill		**130**	130
Other assets		**5**	3
Total non-current assets		**5,422**	5,324
Total assets		**$ 7,689**	$ 7,584
Liabilities and equity			
Current liabilities			
Trade and other payables		**$ 473**	$ 583
Salaries and benefits payable and related provisions		**532**	487
Provisions		**69**	71
Income tax payable		**9**	52
Deferred revenue		**128**	133
Loans and borrowings		**77**	22
Other long-term benefit liabilities	**6**	**65**	65
Total current liabilities		**1,353**	1,413
Non-current liabilities			
Loans and borrowings		**1,051**	1,112
Pension, other post-employment and other long-term benefit liabilities	**6**	**7,507**	7,037
Deferred tax liabilities		**2**	2
Other liabilities		**31**	31
Total non-current liabilities		**8,591**	8,182
Total liabilities		**9,944**	9,595
Equity			
Contributed capital		**1,155**	1,155
Accumulated other comprehensive income		**78**	54
Accumulated deficit		**(3,510)**	(3,244)
Equity of Canada		**(2,277)**	(2,035)
Non-controlling interests		**22**	24
Total equity		**(2,255)**	(2,011)
Total liabilities and equity		**$ 7,689**	$ 7,584
Contingent liabilities	**9**		

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

Interim Condensed Consolidated Statement of Comprehensive Income

For the 13 weeks ended (Unaudited – in millions of Canadian dollars)	Notes	April 4, 2015	March 29, 2014
Revenue from operations		**$ 2,064**	$ 1,868
Cost of operations			
Labour		**981**	940
Employee benefits	**6**	**399**	324
		1,380	1,264
Other operating costs	**10**	**576**	553
Depreciation and amortization	**5**	**79**	79
Total cost of operations		**2,035**	1,896
Profit (loss) from operations		**29**	(28)
Investing and financing income (expense)			
Investment and other income	**11**	**5**	4
Finance costs and other expense	**11**	**(12)**	(13)
Investing and financing expense, net		**(7)**	(9)
Profit (loss) before tax		**22**	(37)
Tax expense (income)	**7**	**8**	(9)
Net profit (loss)		**$ 14**	$ (28)
Other comprehensive income (loss)			
Items that will not be reclassified to net profit (loss)			
Remeasurements of defined benefit plans, net of tax	**8**	**$ (282)**	$ (737)
Items that may be reclassified subsequently to net profit (loss)			
Unrealized gains on available-for-sale financial assets, net of tax	**8**	**24**	13
Other comprehensive loss		**(258)**	(724)
Comprehensive loss		**$ (244)**	$ (752)
Net profit (loss) attributable to			
Government of Canada		**$ 14**	$ (27)
Non-controlling interests		**–**	(1)
		$ 14	$ (28)
Comprehensive loss attributable to			
Government of Canada		**$ (242)**	$ (749)
Non-controlling interests		**(2)**	(3)
		$ (244)	$ (752)

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 April 4, 2015 (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, 2014	**$ 1,155**	**$ 54**	**$ (3,244)**	**$ (2,035)**	**$ 24**	**$ (2,011)**
Net profit	**–**	**–**	**14**	**14**	**–**	**14**
Other comprehensive income (loss)	**–**	**24**	**(280)**	**(256)**	**(2)**	**(258)**
Comprehensive income (loss)	**–**	**24**	**(266)**	**(242)**	**(2)**	**(244)**
Balance at April 4, 2015	**$ 1,155**	**$ 78**	**$ (3,510)**	**$ (2,277)**	**$ 22**	**$ (2,255)**

For the 13 weeks ended March 29, 2014 (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, 2013	$ 1,155	$ 18	$ (1,564)	$ (391)	$ 26	$ (365)
Net loss	–	–	(27)	(27)	(1)	(28)
Other comprehensive income (loss)	–	13	(735)	(722)	(2)	(724)
Comprehensive income (loss)	–	13	(762)	(749)	(3)	(752)
Balance at March 29, 2014	$ 1,155	$ 31	$ (2,326)	$ (1,140)	$ 23	$ (1,117)

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

Interim Condensed Consolidated Statement of Cash Flows

For the 13 weeks ended (Unaudited – in millions of Canadian dollars)	**Notes**	**April 4, 2015**	March 29, 2014
Cash flows from operating activities			
Net profit (loss)		**$ 14**	$ (28)
Adjustments to reconcile net profit (loss) to cash provided by operating activities:			
Depreciation and amortization	**5**	**79**	79
Pension, other post-employment and other long-term benefit expense	**6**	**239**	173
Pension, other post-employment and other long-term benefit payments	**6**	**(140)**	(131)
Tax expense (income)	**7**	**8**	(9)
Net interest expense	**11**	**7**	8
Change in non-cash operating working capital:			
Increase in trade and other receivables		**(7)**	(4)
Decrease in trade and other payables		**(97)**	(110)
Increase in salaries and benefits payable and related provisions		**45**	2
(Decrease) increase in provisions		**(2)**	7
Net increase in other non-cash operating working capital		**(23)**	(32)
Other income not affecting cash, net		**(7)**	(6)
Cash provided by (used in) operations before interest and tax		**116**	(51)
Interest received		**7**	5
Interest paid		**(25)**	(25)
Tax paid		**(64)**	(3)
Cash provided by (used in) operating activities		**34**	(74)
Cash flows from investing activities			
Acquisition of securities		**(408)**	(222)
Proceeds from sale of securities		**349**	270
Acquisition of capital assets		**(54)**	(42)
Proceeds from sale of capital assets		**4**	–
Cash (used in) provided by investing activities		**(109)**	6
Cash flows from financing activities			
Payments on finance lease obligations		**(5)**	(6)
Cash used in financing activities		**(5)**	(6)
Net decrease in cash and cash equivalents		**(80)**	(74)
Cash and cash equivalents, beginning of period		**677**	468
Cash and cash equivalents, end of period		**$ 597**	$ 394

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

Notes to Interim Condensed Consolidated Financial Statements

For the 13 weeks ended April 4, 2015
(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.

In December 2006, the Corporation was issued a directive pursuant to section 89 of the *Financial Administration Act* to restore and maintain its mail delivery at rural roadside mailboxes that were serviced by the Corporation September 1, 2005, while respecting all applicable laws. The Corporation's assessment of the safety risks related to rural roadside mailboxes was completed at the end of 2013, and applicable corrective measures were implemented over the course of the assessment, as required.

In December 2013, the Corporation was also issued an order pursuant to section 89 of the *Financial Administration Act* to obtain Treasury Board's approval of its negotiating mandates with respect to collective agreements that expire in 2014 or later, and before fixing the terms and conditions of employment of non-unionized employees who are not appointed by the Governor in Council.

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, 2014.

These interim condensed consolidated financial statements have been prepared based on International Financial Reporting Standards (IFRS) issued and effective as at the reporting date. They were approved and authorized for issue by the Board of Directors May 21, 2015.

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 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, 2014, except for the application of new standards, amendments and interpretations effective January 1, 2015. 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 and its subsidiaries, Purolator Holdings Ltd. (Purolator), SCI Group Inc. (SCI) and Innovapost Inc. (Innovapost). The Corporation, Purolator, SCI and Innovapost are collectively referred to as the "Canada Post Group of Companies," or the Group of Companies.

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

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which estimates are revised if revisions affect only that period, or in the period of revision and future periods if revisions affect both current and future periods. Critical judgments and key sources of estimation uncertainty are disclosed in Note 3 of the Corporation's annual consolidated financial statements for the year ended December 31, 2014.

3. Application of New and Revised International Financial Reporting Standards

(a) New standards, amendments and interpretations effective January 1, 2015

The following amendments issued by the International Accounting Standards Board (IASB) that required mandatory adoption by the Group of Companies January 1, 2015, resulted in no changes in accounting policies and did not have an impact on the Corporation's interim condensed consolidated financial statements:

Annual Improvements to IFRS – 2010-2012 Cycle • The IASB issued these annual improvements in response to non-urgent issues addressed during the 2010-2012 cycle. The standards and topics covered by the amendments were as follows: IFRS 2 "Share-based Payment" addressing the definition of vesting condition; IFRS 3 "Business Combinations" providing additional guidance on accounting for contingent consideration in a business combination; IFRS 8 "Operating Segments" providing additional guidance on the aggregation of operating segments and reconciliation of the total of the reportable segments' assets to the entity's assets; IFRS 13 "Fair Value Measurement" providing additional guidance on short-term receivables and payables; IAS 16 "Property, Plant and Equipment" addressing the revaluation method for proportionate restatement of accumulated depreciation; IAS 24 "Related Party Disclosures" providing guidance on key management personnel and IAS 38 "Intangible Assets" addressing the revaluation method for proportionate restatement of accumulated amortization.

Annual Improvements to IFRS – 2011-2013 Cycle • The IASB issued these annual improvements in response to non-urgent issues addressed during the 2011-2013 cycle. The standards and topics covered by the amendments were as follows: IFRS 1 "First-time Adoption of International Financial Reporting Standards" addressing the meaning of effective IFRS; IFRS 3 "Business Combinations" addressing scope exceptions for joint ventures; IFRS 13 "Fair Value Measurement" providing additional guidance on the scope of the portfolio exception and IAS 40 "Investment Property" providing clarification on classifying property as investment or owner-occupied property.

Amendments to IAS 19 – Defined Benefit Plans: Employee Contributions • The amendments to IAS 19 provide additional guidance for employee contributions to defined benefit plans. The amendments clarify the requirements for contributions from employees or third parties that are linked to service. If the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the related service is rendered instead of attributing the contributions to the periods of service. If the amount of the contributions is dependent on the number of years of service, an entity is required to attribute those contributions to periods of service using the same attribution method required for the gross benefit.

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

In the first quarter, there were no standards, amendments and interpretations issued by the IASB or the IFRS Interpretations Committee that would have a possible effect on the Group of Companies in the future. The standards, amendments and interpretations not yet in effect are disclosed in Note 4 (b) of the Corporation's annual consolidated financial statements for the year ended December 31, 2014.

4. Other Assets

As at	**April 4, 2015**	December 31, 2014
Prepaid expenses	$ 106	$ 89
Assets held for sale	8	9
Total other assets	**$ 114**	$ 98

The Group of Companies has several properties classified as held for sale, the majority of them from the Purolator segment. It is anticipated that the carrying amount of the properties will be fully recovered through the sale proceeds.

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

5. Capital Assets

(a) Property, plant and equipment

	Land	Buildings	Leasehold improvements	Plant equipment	Vehicles	Sales counters, office furniture and equipment	Other equipment	Assets under development	Total
Cost									
December 31, 2014	$ 313	$ 1,981	$ 263	$ 1,300	$ 480	$ 458	$ 879	$ 52	$ 5,726
Additions	–	3	1	4	8	–	–	33	49
Retirements	–	–	–	(9)	(1)	–	–	–	(10)
Transfers	–	1	–	3	–	–	2	(6)	–
April 4, 2015	**$ 313**	**$ 1,985**	**$ 264**	**$ 1,298**	**$ 487**	**$ 458**	**$ 881**	**$ 79**	**$ 5,765**
Accumulated depreciation									
December 31, 2014	$ –	$ 960	$ 200	$ 699	$ 262	$ 374	$ 555	$ –	$ 3,050
Depreciation	–	15	3	20	12	8	9	–	67
Retirements	–	–	–	(5)	(1)	–	–	–	(6)
April 4, 2015	**$ –**	**$ 975**	**$ 203**	**$ 714**	**$ 273**	**$ 382**	**$ 564**	**$ –**	**$ 3,111**
Carrying amounts									
December 31, 2014	$ 313	$ 1,021	$ 63	$ 601	$ 218	$ 84	$ 324	$ 52	$ 2,676
April 4, 2015	**$ 313**	**$ 1,010**	**$ 61**	**$ 584**	**$ 214**	**$ 76**	**$ 317**	**$ 79**	**$ 2,654**

(b) Intangible assets

	Software	Software under development	Customer contracts and relationships	Total
Cost				
December 31, 2014	$ 657	$ 20	$ 30	$ 707
Additions	–	5	–	5
April 4, 2015	**$ 657**	**$ 25**	**$ 30**	**$ 712**
Accumulated amortization				
December 31, 2014	$ 563	$ 1	$ 26	$ 590
Amortization	12	–	–	12
April 4, 2015	**$ 575**	**$ 1**	**$ 26**	**$ 602**
Carrying amounts				
December 31, 2014	$ 94	$ 19	$ 4	$ 117
April 4, 2015	**$ 82**	**$ 24**	**$ 4**	**$ 110**

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

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

(a) Net defined benefit liability

The net defined benefit liability was recognized and presented in the interim condensed consolidated statement of financial position as follows:

As at	**April 4, 2015**	December 31, 2014
Pension benefit assets	**$ 135**	$ 141
Pension benefit liabilities	$ 3,812	$ 3,525
Other post-employment and other long-term benefit liabilities	3,760	3,577
Total pension, other post-employment and other long-term benefit liabilities	$ 7,572	$ 7,102
Current other long-term benefit liabilities	**$ 65**	$ 65
Non-current pension, other post-employment and other long-term benefit liabilities	**$ 7,507**	$ 7,037

(b) Defined benefit and defined contribution costs

The defined benefit and defined contribution costs components recognized in the interim condensed consolidated statement of comprehensive income were as follows:

For the 13 weeks ended		**April 4, 2015**			March 29, 2014	
	Pension benefit plans	**Other benefit plans**	**Total**	Pension benefit plans	Other benefit plans	Total
Current service cost	$ 132	$ 29	$ 161	$ 89	$ 26	$ 115
Interest cost	260	37	297	254	41	295
Interest income on plan assets	(225)	–	(225)	(243)	–	(243)
Other administration costs	3	–	3	3	–	3
Defined benefit expense	170	66	236	103	67	170
Defined contribution expense	3	–	3	3	–	3
Total expense	173	66	239	106	67	173
Return on segregated securities	–	(5)	(5)	–	(5)	(5)
Component included in employee benefits expense	**$ 173**	**$ 61**	**$ 234**	$ 106	$ 62	$ 168
Remeasurement losses (gains):						
Return on plan assets, excluding interest income on plan assets	$ (1,102)	$ –	$ (1,102)	$ (534)	$ –	$ (534)
Actuarial losses	1,322	157	1,479	1,304	215	1,519
Component included in other comprehensive loss	**$ 220**	**$ 157**	**$ 377**	$ 770	$ 215	$ 985

(c) Total cash payments

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

For the 13 weeks ended	**April 4, 2015**	March 29, 2014
Benefits paid directly to beneficiaries for other benefit plans	$ 40	$ 33
Employer regular contributions to pension benefit plans	81	78
Employer special contributions to pension benefit plans	16	17
Cash payments for defined benefit plans	137	128
Contributions to defined contribution plans	3	3
Total cash payments	**$ 140**	$ 131

The Group of Companies' estimated total contributions to the defined benefit pension plans in 2015 have not changed significantly from those disclosed in the Corporation's audited consolidated financial statements for the year ended December 31, 2014. These estimated total contributions take into consideration the Corporation's exemption from making special contributions into its Registered Pension Plan from 2014 to 2017, as permitted by the *Canada Post Corporation Pension Plan Funding Regulations*. The Corporation expects to resume special contributions in 2018 at the end of the temporary relief period.

(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.

For the 13 weeks ended	**April 4, 2015**	March 29, 2014
Current tax expense (income)	$ 17	$ (4)
Deferred tax expense (income) relating to origination and reversal of temporary differences	(9)	(5)
Tax expense (income)	**$ 8**	$ (9)

8. Other Comprehensive Loss

	Items that will not be reclassified to net profit (loss)	Items that may be reclassified subsequently to net profit (loss)	
	Remeasurements of defined benefit plans	Unrealized gains on available-for-sale financial assets	Other comprehensive loss
For the 13 weeks ended April 4, 2015			
Amount arising during year	$ (377)	$ 30	$ (347)
Income taxes	95	(6)	89
Net	**$ (282)**	**$ 24**	**$ (258)**
For the 13 weeks ended March 29, 2014			
Amount arising during year	$ (985)	$ 18	$ (967)
Income taxes	248	(5)	243
Net	$ (737)	$ 13	$ (724)

9. 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 initially by the Canadian Postmasters and Assistants Association (CPAA) 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 December 10, 2012, in response to the Commission's request for submission. The report of the Commission's investigator was released December 8, 2014, finding that, while the agreements between the parties resolved any pay equity issues for the period subsequent to 1997, the prior period (1991 to 1997) remains unresolved and should be referred to the Canadian Human Rights Tribunal (Tribunal) without further investigation. The Corporation made submissions to the Commission January 30, 2015, in respect of the report. In March 2015, the Commission rendered a decision that this matter should proceed on its merits to the Tribunal. Materials in support of the Corporation's application for judicial review of the Commission's decision were filed April 24, 2015. A motion for a stay of the Tribunal's proceedings is being prepared.

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.

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

(c) Through July 2014, the Corporation received notice from the Canadian International Trade Tribunal (CITT) that it accepted for inquiry a number of complaints, both public and confidential, by CGI Information Systems and Management Consultants Inc. (CGI). The complaints concerned the requests for proposals for data centre services and application development services conducted by Innovapost on behalf of the Group of Companies for the contracts awarded December 6, 2013, and February 18, 2014. CGI's public claims are that it was not provided with the documents and information it is entitled to receive pursuant to its debrief requests, that undisclosed criteria were used to evaluate CGI's bids, and that CGI's bids were improperly evaluated. After reviewing the filed responses and conducting oral hearings, the CITT made recommendations in respect of all public and confidential complaints made by CGI. Other than reimbursement by the Corporation to CGI of its complaint preparation costs, which were minimal, the CITT recommended that no other monetary relief be made to CGI by the Corporation.

In November 2014, the Corporation received notice that CGI is appealing the CITT's recommendations in the data centre services matter and is not appealing the CITT's recommendations in the application development services matter. The outcome of the appeal is currently not determinable, and as a result no provision has been recorded in the interim condensed consolidated financial statements.

(d) An application to the Federal Court seeking a judicial review of Canada Post's decision to convert door-to-door delivery to community-mailbox delivery was filed by CUPW and others in November 2014. The outcome of this challenge is currently not determinable, and as a result no provision has been recorded in the interim condensed consolidated financial statements.

(e) 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.

(f) 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.

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

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.

10. Other Operating Costs

For the 13 weeks ended	**April 4, 2015**	March 29, 2014
Non-labour collection, processing and delivery	$ 340	$ 338
Property, facilities and maintenance	99	96
Selling, administrative and other	137	119
Other operating costs	**$ 576**	$ 553

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

11. Investing and Financing Income (Expense)

For the 13 weeks ended	**April 4, 2015**	March 29, 2014
Interest revenue	$ 5	$ 4
Investment and other income	**$ 5**	$ 4
Interest expense	$ (12)	$ (12)
Other expense	–	(1)
Finance costs and other expense	**$ (12)**	$ (13)
Investing and financing income (expense), net	**$ (7)**	$ (9)

12. Related Party Transactions

The Corporation is wholly owned by the Government of Canada and is under common control with other government agencies and departments, and Crown corporations. The Group of Companies had the following transactions with related parties in addition to those disclosed elsewhere in these interim condensed consolidated financial statements:

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

For the 13 weeks ended	**April 4, 2015**	March 29, 2014
Related party revenue	**$ 72**	$ 65
Compensation payments for programs		
Government mail and mailing of materials for the blind	**$ 6**	$ 6
Payments from related parties for premises leased from the Corporation	**$ 2**	$ 2
Related party expenditures	**$ 7**	$ 8

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 statement of financial position were as follows:

As at	**April 4, 2015**	December 31, 2014
Due to/from related parties		
Included in trade and other receivables	**$ 34**	$ 25
Included in trade and other payables	**$ 7**	$ 7
Deferred revenue from related parties	**$ 3**	$ 3

(b) Transactions with entities in which 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 key management personnel (KMP) of the Group of Companies. The affected KMP always recuse themselves from all discussions and decisions relating to transactions between the companies. The only significant transactions for the 13 weeks ended April 4, 2015, were between Purolator and a company controlled by one of the Group of Companies' KMP, who is a director and also a minority shareholder of Purolator. This company provided air services to Purolator in the amount of $24 million (March 29, 2014 – $27 million). As at April 4, 2015, $4 million is due to the company from Purolator (December 31, 2014 – $6 million) and is included in trade and other payables. These transactions had been made at prices and terms comparable to those given to other suppliers of Purolator.

(c) Transactions with the Corporation's pension plans

During the 13 weeks ended April 4, 2015, the Corporation provided administration services to the Canada Post Corporation Registered Pension Plan in the amount of $3 million (March 29, 2014 – $2 million). As at April 4, 2015, $11 million (December 31, 2014 – $11 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).

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

13. Fair Values and Risks Arising From Financial Instruments

Fair values of financial instruments

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

As at April 4, 2015

	Level 1[1]	Level 2[2]	Level 3[3]	Total
Measured at fair value				
Cash and cash equivalents	$ 373	$ 224	$ –	**$ 597**
Marketable securities	$ –	$ 746	$ –	**$ 746**
Segregated securities	$ –	$ 586	$ –	**$ 586**
Trade and other payables: risk management financial liabilities	$ –	$ 2	$ –	**$ 2**
Measured at amortized cost				
Loans and borrowings	$ –	$ 1,430	$ –	**$ 1,430**

As at December 31, 2014

	Level 1[1]	Level 2[2]	Level 3[3]	Total
Measured at fair value				
Cash and cash equivalents	$ 457	$ 220	$ –	$ 677
Marketable securities	$ –	$ 689	$ –	$ 689
Segregated securities	$ –	$ 551	$ –	$ 551
Trade and other payables: risk management financial liabilities	$ –	$ 1	$ –	$ 1
Measured at amortized cost				
Loans and borrowings	$ –	$ 1,367	$ –	$ 1,367

1. Level 1: Fair value is based on unadjusted quoted prices in active markets for identical financial instruments.
2. Level 2: Fair value is based on valuation techniques using inputs other than quoted prices included in level 1 that are observable, either directly or indirectly, including inputs and quoted prices in markets that are not considered to be active. Financial assets and liabilities are measured by discounting future cash flows, making maximum use of directly or indirectly observable market data, such as interest rates with similar terms and characteristics and yield curves and forward market prices from interest rates and credit spreads of identical or similar instruments.
3. Level 3: Fair value is based on valuation techniques using unobservable market inputs requiring management's best estimate.

There were no transfers between levels of the fair value hierarchy during the period ended April 4, 2015.

The fair values of trade and other receivables, trade and other payables and salaries and benefits payable and related provisions approximate their carrying values due to their expected short-term settlement.

Financial risk factors

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

(a) Market risk

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

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

The Canada Post segment has an economic hedge program to mitigate its exposure to foreign exchange balances and forecasted sales denominated in SDRs. The forward contracts outstanding were as follows:

As at April 4, 2015

Currency	**Notional value**	**Canadian equivalent**	**Average contract rate**	**Maturity**	**Type**	**Fair value**
U.S. dollar	US$69	$ 84	$1.21/US$	April 16 – December 17, 2015	Sell forward	$ (3)
Euro	€45	64	$1.41/€	April 17 – December 18, 2015	Sell forward	1
British pound	£11	21	$1.84/£	April 17 – December 18, 2015	Sell forward	–
Yen	¥1,195	12	$0.010/¥	April 17 – December 18, 2015	Sell forward	–
Total		**$ 181**				**$ (2)**

As at December 31, 2014

Currency	Notional value	Canadian equivalent	Average contract rate	Maturity	Type	Fair value
U.S. dollar	US$24	$ 27	$1.14/US$	January 15, 2015	Sell forward	$ (1)
Euro	€14	20	$1.41/€	January 16, 2015	Sell forward	–
British pound	£3	5	$1.78/£	January 16, 2015	Sell forward	–
Yen	¥300	3	$0.010/¥	January 16, 2015	Sell forward	–
Total		$ 55				$ (1)

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

For the 13 weeks ended		**April 4, 2015**			March 29, 2014	
	Foreign exchange gains	**Derivative losses**	**Total**	Foreign exchange gains	Derivative losses	Total
Unrealized	$ 1	$ (1)	$ –	$ 1	$ (3)	$ (2)
Realized	4	(3)	1	4	(2)	2
Total	**$ 5**	**$ (4)**	**$ 1**	$ 5	$ (5)	$ –

(b) Liquidity risk

Liquidity risk is the risk that a company will not be able to meet its financial obligations as they fall due. The Group of Companies manages liquidity risk by maintaining adequate cash reserves, banking facilities and reserve-borrowing facilities, by monitoring forecasted and actual cash flows and matching the maturity profiles of financial assets and liabilities. Surplus cash is invested into a range of short-term money market securities. The Group of Companies invests in high-credit quality government or corporate securities, in accordance with policies approved by the Board of Directors.

Refer to notes 17 and 24 (c) of the Corporation's annual consolidated financial statements for the year ended December 31, 2014, for the Corporation's current authorized borrowing facilities.

14. Segmented Information

Operating segments • The accounting policies of the operating segments are the same as those of the Group of Companies. Intersegment transactions have terms and conditions comparable to those offered in the marketplace. Innovapost, the information technology (IT) business unit, delivers shared services within the Group of Companies on a cost-recovery basis. On a consolidated basis, no external customer's purchases account for more than 10% of total revenues.

For the 13 weeks ended April 4, 2015, the IT business unit earned intercompany revenue of $66 million (March 29, 2014 – $62 million), incurred cost of operations of $66 million (March 29, 2014 – $62 million), and earned net profit of nil (March 29, 2014 – nil). Total assets and liabilities at April 4, 2015, were $115 million and $67 million, respectively (December 31, 2014 – $113 million and $66 million, respectively).

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

As at and for the 13 weeks ended April 4, 2015

	Canada Post	Purolator	Logistics	Other	Total
Revenue from external customers	$ 1,630	$ 383	$ 51	$ –	$ 2,064
Intersegment revenue	7	19	9	(35)	–
Revenue from operations	$ 1,637	$ 402	$ 60	$ (35)	$ 2,064
Labour and employee benefits	$ 1,127	$ 198	$ 28	$ 27	$ 1,380
Other operating costs	415	196	26	(61)	576
Depreciation and amortization	64	14	2	(1)	79
Cost of operations	$ 1,606	$ 408	$ 56	$ (35)	$ 2,035
Profit (loss) from operations	$ 31	$ (6)	$ 4	$ –	$ 29
Investment and other income	$ 5	$ –	$ –	$ –	$ 5
Finance costs and other expense	(12)	–	–	–	(12)
Profit (loss) before tax	$ 24	$ (6)	$ 4	$ –	$ 22
Tax expense (income)	8	(1)	1	–	8
Net profit (loss)	$ 16	$ (5)	$ 3	$ –	$ 14
Total assets	$ 7,106	$ 815	$ 106	$ (338)	$ 7,689
Acquisition of capital assets	$ 47	$ 5	$ 2	$ –	$ 54
Total liabilities	$ 9,538	$ 394	$ 59	$ (47)	$ 9,944

As at and for the 13 weeks ended March 29, 2014

	Canada Post	Purolator	Logistics	Other	Total
Revenue from external customers	$ 1,462	$ 365	$ 41	$ –	$ 1,868
Intersegment revenue	6	21	4	(31)	–
Revenue from operations	$ 1,468	$ 386	$ 45	$ (31)	$ 1,868
Labour and employee benefits	$ 1,033	$ 188	$ 20	$ 23	$ 1,264
Other operating costs	388	196	22	(53)	553
Depreciation and amortization	65	13	1	–	79
Cost of operations	$ 1,486	$ 397	$ 43	$ (30)	$ 1,896
Profit (loss) from operations	$ (18)	$ (11)	$ 2	$ (1)	$ (28)
Investment and other income	$ 4	$ –	$ –	$ –	$ 4
Finance costs and other expense	(13)	–	–	–	(13)
Profit (loss) before tax	$ (27)	$ (11)	$ 2	$ (1)	$ (37)
Tax expense (income)	(8)	(2)	1	–	(9)
Net profit (loss)	$ (19)	$ (9)	$ 1	$ (1)	$ (28)
Total assets	$ 6,283	$ 751	$ 89	$ (330)	$ 6,793
Acquisition of capital assets	$ 38	$ 4	$ 2	$ (1)	$ 43
Total liabilities	$ 7,598	$ 308	$ 44	$ (40)	$ 7,910

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