CANADA POST POSTES CANADA

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Canada Post Quarterly Financial Report

For the 13 and 26 weeks ended July 2, 2011

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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 of Canada Post Corporation (the "Corporation" or "Canada Post") for the second quarter ended July 2, 2011 and for the first six months of 2011. Each of the Corporation's quarters contains thirteen weeks and this MD&A covers the 13 and 26 weeks ending July 2, 2011. This discussion should be read together with the unaudited interim condensed consolidated financial statements which have been prepared in accordance with the Treasury Board of Canada Standard on Quarterly Financial Reports for Crown Corporations, IAS 34, "Interim Financial Reporting" and IFRS 1, "First-time Adoption of International Financial Reporting Standards" and are reported in Canadian dollars. We also recommend that this information be read in conjunction with the Corporation's annual consolidated financial statements and MD&A for the year ended December 31, 2010. Financial results reported in the MD&A are rounded to the nearest million while related per centages are based on numbers rounded to the nearest thousand. The information in this MD&A is current to August 23, 2011, unless otherwise noted.

Management is responsible for the information presented in the unaudited interim condensed consolidated financial statements and the MD&A. All references to "our" or "we" are references to management of Canada Post. The Board of Directors, on the recommendation of its Audit Committee, approved the content of this MD&A and the unaudited interim condensed consolidated financial statements. Comparative reporting periods have not been reviewed by the Corporation's external auditors. The Corporation's joint auditors will audit the January 1, 2010 consolidated opening statement of financial position and the comparative December 31, 2010 financial information prepared under International Financial Reporting Standards ("IFRS") as part of the audit of the Corporation's annual IFRS consolidated financial statements for the year ending December 31, 2011.

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Materiality

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

Forward-looking statements

The unaudited interim condensed consolidated financial statements and the MD&A contain forward-looking statements that reflect management's expectations regarding the Corporation's objectives, plans, strategies, future growth, results of operations, performance, and business prospects and opportunities. Forward-looking statements are typically identified by words or phrases such as "plans", "anticipates," "expects," "believes," "estimates," "intends," and other similar expressions. These forward-looking statements are not facts, but only estimates regarding future results. These estimates are based on certain factors or assumptions regarding expected growth, results of operations, performance, business prospects and opportunities (collectively, the "Assumptions"). While we consider these Assumptions to be reasonable, based on information currently available to us, they may prove to be incorrect. These estimates of future results are subject to a number of risks, uncertainties and other factors that could cause actual results to differ materially from what the Corporation currently expects. These risks, uncertainties and other factors include, but are not limited to, those risks and uncertainties set forth in *Section 5 – Risks and Risk Management on page 10* of this MD&A (collectively the "Risks").

To the extent the Corporation provides forward-looking information that is future-oriented financial

information or a financial outlook, such as future growth and financial performance, the Corporation is providing this information for the purposes of describing its future expectations. Readers are, therefore, cautioned that this information may not be appropriate for any other purpose. Further, future-oriented financial information and financial outlooks, as with forward-looking information generally, are based on the Assumptions and subject to the Risks.

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

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

1 Executive Summary

An overview of The Canada Post Group and a summary of financial performance

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

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

The unaudited interim condensed consolidated financial statements of Canada Post Corporation include the accounts of the Corporation, our subsidiaries Purolator Inc. ("Purolator") and SCI Group Inc. ("SCI"), and our interest in Innovapost Inc. ("Innovapost"). These companies are collectively referred to as "The Canada Post Group." Canada Post is the largest segment with revenue of $2.9 billion for the first six months of 2011 (78 per cent of total year-to-date revenue) and $5.9 billion for the full year ending December 2010 (79 per cent of total revenue). The Corporation manages its operations and determines its operating segments on the basis of the legal entities. There are three reportable operating segments: Canada Post, Purolator and Logistics. The remaining operations are combined and disclosed in the "Other" category.

The following table presents The Canada Post Group's 2011 Corporate Plan:

(in millions of dollars)	2011 Plan
Consolidated	
Revenue from operations	7,682
Cost of operations	7,530
Income (expense) from investing and financing activities	(29)
Profit (loss) before taxes	123

In the Canada Post segment, the 45,000 employees represented by the Canadian Union of Postal Workers ("CUPW") are responsible for the collection, processing and delivery of the mail in larger urban communities. On June 14, 2011, following 12 days of increasingly costly rotating strikes by the CUPW, Canada Post was forced to shut down urban operations, thus suspending operations across the country. The accelerating decline in mail volumes and revenue combined with the inability to deliver mail on a timely and safe basis had left the Corporation with no choice but to make this decision.

When the Corporation entered negotiations, it made it clear that wages, pension and job security were to be protected for current regular employees. The Corporation also let the union know that the postal system is fundamentally changing and it needs to continue modernizing its operations, reducing costs and making changes if its hopes to maintain a financially strong company and be successful in the long term.

On June 26, 2011, Parliament adopted back-to-work legislation, and on June 27, 2011, the Corporation began progressively reinstating service. As required by the legislation, an arbitrator was appointed on July 22, 2011. The arbitrator must select either the final offer submitted by the employer or the final offer submitted by the union, in order to resolve the matters remaining in dispute. The arbitrator must make a decision within 90 days after being appointed. That timeframe can be extended by the Minister of Labour.

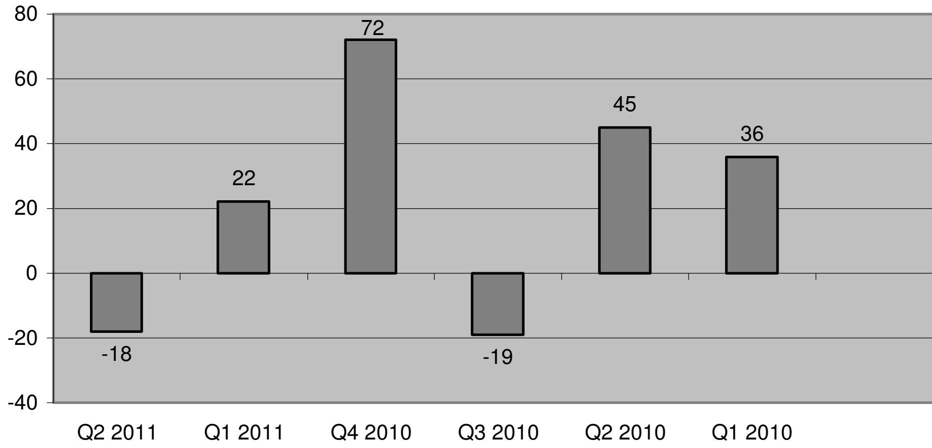
While Canada Post is still assessing the long-term impact of the labour disruption, its immediate impact was significant and given normal performance led to an estimated revenue loss of $167 million in June. The loss of revenue and the outcome of the legislated arbitration process will play a significant role in our ability to meet the profit targets included in our 2011 plan and beyond.

Financial Highlights

The volume of the Corporation's consolidated operations has historically varied throughout the year, with the highest demand for its services taking place over the holiday season during the fourth quarter of each year. For the first three quarters of the year, the level typically declines on a regular basis, with the lowest demand occurring during the summer months in the third quarter. The Corporation's significant fixed costs do not vary in the short term with these changes in the demand for its services. For the second quarter of 2011, the Corporation observed unusual volume decreases as a result of the threat of a labour disruption and ultimately the disruption itself.

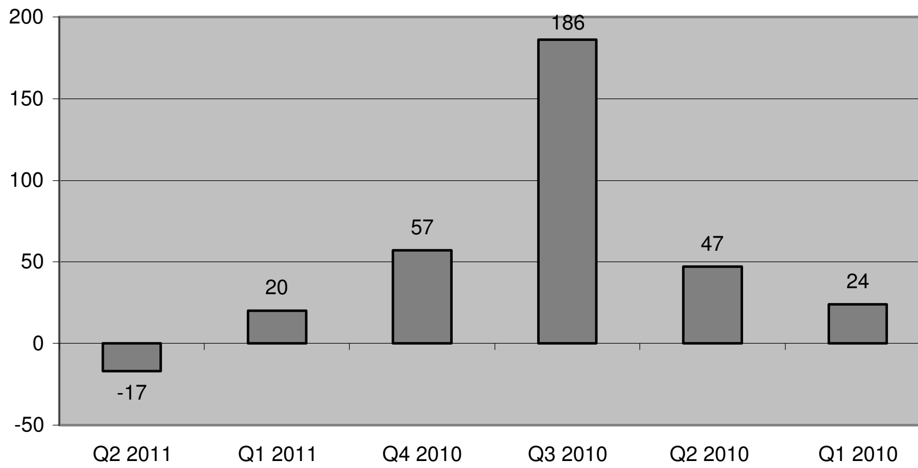
Quarterly consolidated profit (loss) before taxes

(in millions of dollars)



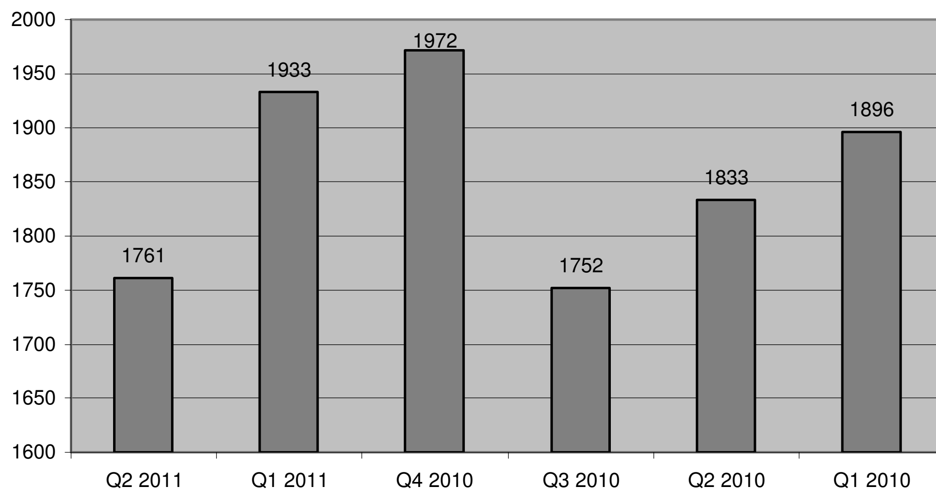
Quarterly consolidated profit (loss)

(in millions of dollars)



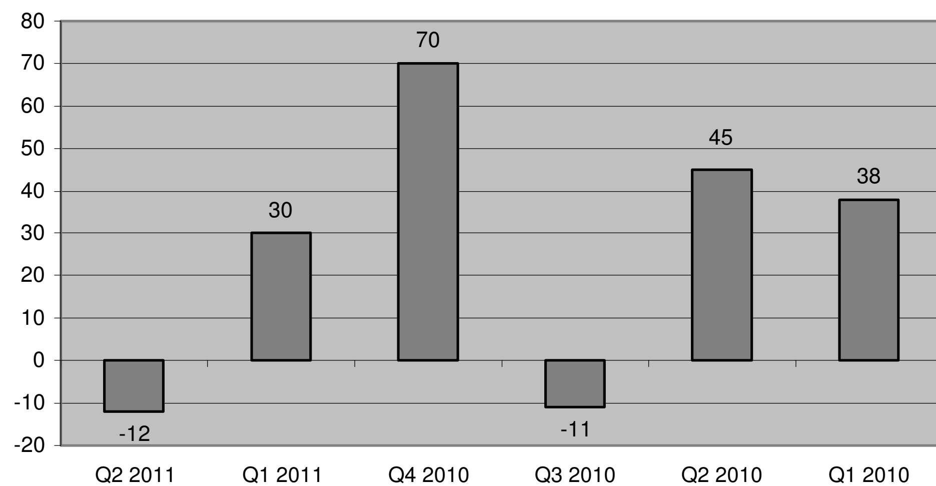
Quarterly consolidated revenue from operations

(in millions of dollars)



Quarterly consolidated profit (loss) from operations

(in millions of dollars)



The following table presents the Corporation's current consolidated performance for the second quarter and the first six months of 2011 compared to the same periods in the prior year.

(in millions of dollars)

	Q2 2011	Q2 2010	Change	%	Q2 YTD 2011	Q2 YTD 2010	Change	%	Explanation of change
Consolidated Statement of comprehensive income									*Highlights, as discussed in Section 8 – Discussion of Operations on page 18*
Revenue from operations	1,761	1,833	(72)	(2.4)%*	3,694	3,729	(35)	(0.2)%*	Decrease in revenue in the second quarter of 2011 mainly due to the labour disruption in the Canada Post segment, partially offset by revenue from the federal election and the 2011 Statistics Canada Census
Cost of operations	1,773	1,788	(15)	(0.8)%	3,676	3,646	30	0.8%	Decrease in the second quarter of 2011 driven by the impacts of the labour dispute; increase in the first six months of 2011, despite the cost reductions from wages not paid during the labour dispute
Profit (loss) before taxes	(18)	45	(63)	(139.5)%	4	81	(77)	(95.3)%	
Profit (loss)	(17)	47	(64)	(137)%	3	71	(68)	(95.5)%	Consolidated loss in the second quarter of 2011 and a decline for the first six months of 2011 mainly due to the impacts of the labour dispute
Consolidated Statement of cash flows									*Highlights, as discussed in Section 6 – Liquidity and Capital Resources on page 11*
Cash used in operating activities	(234)	(266)	32	11.8%	(378)	(263)	(115)	(43.5)%	For the first six months of 2011, variance of $115 million was primarily driven by a decrease of $149 million in non-cash operating working capital
Cash provided by investing activities	17	216	(199)	(92.1)%	81	103	(22)	(21.2)%	Variance for the second quarter of 2011 primarily due to lower net sales of short term and segregated investments of $159 million and an increase in capital investments of $42 million
Cash provided by (used in) financing activities	(4)	(3)	(1)	(13.3)%	(8)	14	(22)	(158.4)%	For the first six months of 2011, cash used in financing activities decreased by $22 million due to borrowings of $10 million in 2010 and $12.5 million of transitional support received from the Government of Canada in 2010

* Adjusted for trading days where applicable

Significant changes and business developments

On July 20, 2011, Canada Post's Chief Executive Officer announced the creation of two distinct business units to provide focus and accountability for growth in both physical and digital mail delivery, each headed by a Group President. The Group President – Physical Delivery Network will lead the growth strategy to revitalize our core mailing business while attempting to gain market share in the fast-growing eCommerce (Parcel) business. The Group President – Digital Delivery Network will have accountability for revitalizing and growing the epost™ and eMarketing businesses.

The June labour disruption with employees represented by the CUPW affected the Corporation's operations and personnel in the second quarter of 2011. Following the adoption of back-to-work legislation, both parties are to meet with an arbitrator for final offer selection arbitration. An arbitrator was appointed on July 22, 2011.

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

2 Core Business and Strategy

A discussion of the business and strategy of our core businesses

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

Our core business and strategy were described in Section 2 – Our Business, Vision and Strategy of the 2010 Annual MD&A. There were no changes to the strategies during the first six months of 2011.

3 Key Performance Drivers

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

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

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

Financial Imperatives

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

Growing the Business

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

2011 Postal Transformation Program

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

Sustainability and Engagement

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

There were no changes to these priorities during the first six months of 2011.

4 Capabilities

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

A discussion of these topics was provided in Section 4 – Capability to Deliver Results of the 2010 Annual MD&A. Updates are provided below.

4.1 Labour relations

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

Canada Post segment

The Canadian Union of Postal Workers ("CUPW") has applied to the Canada Industrial Relations Board (the "Board"), requesting the establishment of a single bargaining unit for all operations employees, excluding supervisory personnel. In May 2011, the Board denied the Corporation's motion to dismiss the CUPW's request for being untimely and agreed to deal with the application on its merits. Later this year, the Board is expected to commence its inquiry into the preliminary question of whether or not the existing bargaining units are appropriate for collective bargaining.

There have been no new developments in labour relations activities for Canadian Postmasters and Assistants Association ("CPAA"), the Association of Postal Officials of Canada ("APOC") and the Union of Postal Communications Employees ("UPCE") in the first two quarters.

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

Canadian Union of Postal Workers ("CUPW") – Urban Postal Operations
The parties began negotiating a new contract in October 2010 prior to the expiry of the CUPW collective agreement on January 31, 2011. In January 2011, the CUPW applied for conciliation as provided for under the *Canada Labour Code*. The CUPW exercised its right to strike through rotating strikes across the country beginning June 2, and the Corporation locked out employees on June 14, 2011. The Government of Canada tabled back-to-work legislation on June 20, 2011 and the legislation received Royal Assent on June 26, 2011. The parties will meet before an arbitrator for final offer selection arbitration, as provided for in the legislation. The Honourable Justice Coulter Osborne has been appointed arbitrator by the Minister of Labour. The legislation states that a decision is to be provided within 90 days of his appointment.

Canadian Union of Postal Workers – Rural and Suburban Mail Carriers ("CUPW-RSMC")
As discussed in section 4.3 – Labour relations of the 2010 Annual MD&A, Canada Post and the CUPW-RSMC are in the final year of an eight-year collective agreement that will expire on December 31, 2011. This agreement contains three contract-reopeners. Resolution of the third and final contract-reopener is pending after the union referred all unresolved matters to interest arbitration in January 2010. Bargaining for the new collective agreement is expected to begin in the fall of 2011.

Purolator segment

In 2011, Purolator and the Canadian Office and Professional Employees Union in Northern Ontario reached a mutually beneficial collective agreement. This agreement is effective from February 1, 2011 to January 31, 2015. Purolator's strong partnership with its employees helped facilitate this mutually acceptable agreement.

The collective bargaining agreement with Purolator segment's largest union, The Canada Council of Teamsters, will expire on December 31, 2011. There have been no other new developments in labour relations activities in the first two quarters of 2011.

Logistics segment – SCI Group

The CEP (Communications, Energy and Paperworkers Union of Canada) Laval bargaining unit's collective agreement expired on December 31, 2010. As a result of Progistix no longer requiring a distribution centre in the province of Quebec after March 31, 2011, the agreement was not renewed. There have been no other new developments in labour relations activities since the end of 2010.

4.2 Internal controls and procedures

Changes in internal control over financial reporting

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

During the first six months of 2011, there were no other changes in internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

5 Risks and Risk Management

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

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

5.1 Strategic risks

The most recent round of collective bargaining with the Canadian Union of Postal Workers resulted in 12 days of rotating strikes and 13 days of national lockout. The immediate impact of this disruption has been lost revenues partially offset by a reduction in costs due to wages not paid. Uncertainty regarding the impact of the collective agreement on ongoing operating costs will remain until the agreement is finalized through the arbitration process. While the Corporation continues to pursue a revenue-recovery strategy to win back customers that have been lost as a result of the service disruption, there remains uncertainty with respect to the long-term impact of this disruption on customer relationships and revenues from the Transaction Mail, Direct Mail, and Parcel businesses.

The market turmoil of August 2011 as well as continued economic uncertainty can have a significant effect on Canada Post's business especially on its revenue and on the value of the employee benefit liabilities. The significant changes in market conditions may require a re-measurement of the Corporation's pension, other post-employment and other long-term benefit plans in the upcoming quarters if the key assumptions fluctuate significantly in one quarter relative to the immediate preceding year-end values. The re-measurement would mainly impact equity in that given quarter. The Corporation is closely monitoring these developments.

5.2 Operational risks

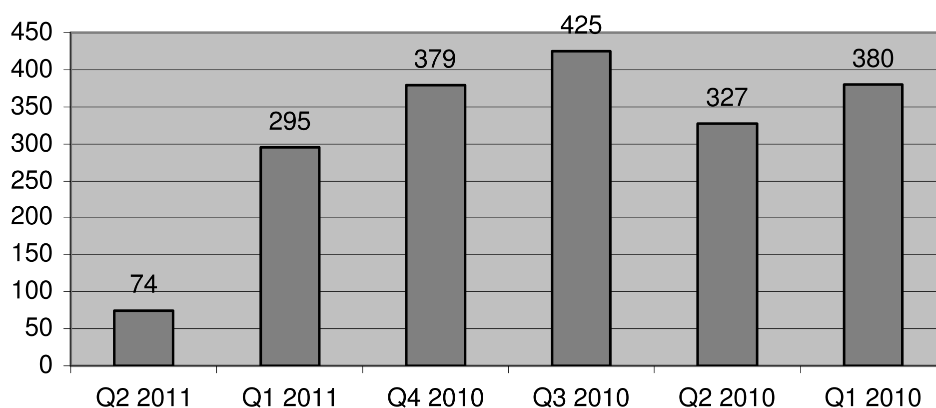
There are no material changes to the operational risks disclosed in Section 5.3 – Operational risks of the 2010 Annual MD&A. These risks include health and safety, security and privacy, business continuity, attrition, environmental sustainability and legal risks.

6 Liquidity and Capital Resources

A discussion of our cash flow, liquidity and capital resources

6.1 Cash and cash equivalents

(in millions of dollars)



Canada Post held cash and cash equivalents in the amount of $74 million as at July 2, 2011—a decrease of $305 million compared to December 31, 2010, primarily due to changes in non-cash operating working capital of $376 million and capital expenditures of $181 million, partially offset by reductions in short term investments of $268 million.

6.2 Operating activities

(in millions of dollars)	Q2 2011	Q2 2010	Change	Q2 YTD 2011	Q2 YTD 2010	Change
Cash used in operating activities	(234)	(266)	32	(378)	(263)	(115)

Cash used in operating activities in the second quarter of 2011 decreased by $32 million compared to the same period in the prior year. This cash flow variance was primarily driven by a $120 million decrease in employee future benefits payments offset by an increase of $136 million in non-cash operating working capital. The negative cash flow variance of $115 million for the first six months of 2011, compared to the same period in the prior year, was primarily driven by an increase of $149 million non-cash operating working capital.

6.3 Investing activities

(in millions of dollars)	Q2 2011	Q2 2010	Change	Q2 YTD 2011	Q2 YTD 2010	Change
Cash provided by investing activities	17	216	(199)	81	103	(22)

Cash provided by investing activities decreased by $199 million in the second quarter of 2011, when compared to the same period in the previous year, primarily due to lower net sales of short-term and segregated investments of $159 million and an increase in capital investments of $42 million. For the first six months of 2011, cash provided by investing activities decreased by $22 million compared to the same period in the prior year mainly due to increased capital investments of $56 million.

Capital expenditures

(in millions of dollars)	Q2 2011	Q2 2010	Change	Q2 YTD 2011	Q2 YTD 2010	Change
Canada Post	102	60	42	176	120	56
Purolator	4	4	0	6	5	1
Logistics	1	1	0	1	1	0
All Other and intersegment	(1)	(1)	0	(2)	(1)	(1)
The Canada Post Group	**106**	**64**	**42**	**181**	**125**	**56**

Capital expenditures for The Canada Post Group grew in the second quarter and the first six months of 2011 when compared to the same periods last year due to increased spending on Postal Transformation.

6.4 Financing activities

(in millions of dollars)	Q2 2011	Q2 2010	Change	Q2 YTD 2011	Q2 YTD 2010	Change
Cash provided by (used in) financing activities	(4)	(3)	(1)	(8)	14	(22)

Cash flows used in financing activities increased by $1 million in the second quarter of 2011 when compared to the same period last year, primarily due to an increase in capital lease payments. For the first six months of 2011, cash flows provided by financing activities decreased by $22 million compared to the same period in the prior year. The decrease was due to borrowings of $10 million in 2010 and $12.5 million of transitional support received from the Government of Canada in 2010 to assist with the incremental costs incurred as a result of establishing the Canada Post Pension Plan. The transitional funding ended in the first quarter of 2011.

6.5 Canada Post Pension Plan

A description of the Canada Post Pension Plan effects on liquidity is provided in Section 6.5 – Canada Post Pension Plan of the 2010 Annual MD&A. An update to that section is provided below.

On June 30, 2011, the Canada Post Pension Plan filed its annual actuarial valuation as of December 31, 2010. The actuarial valuation as of December 31, 2010 disclosed a going concern deficit of $175 million and a solvency deficit of $3,204 million[(1)] compared to the estimated going concern deficit of $174 million and solvency deficit of $3,220 million reported in the 2010 annual financial statements of the Canada Post Pension Plan.

Current service contributions amounted to $150 million and $144 million respectively for the first six months of 2011 and 2010. The estimated amount of current service contributions for 2011 is approximately $352 million.

Employer special solvency contributions totaled $214 million and $213 million respectively for the first six months of 2011 and 2010. In March 2011, the federal Minister of Finance published regulations under the *Pension Benefits Standards Act, 1985*. These regulations support the funding measures contained in Bill C-9 and deal with the reduction of special solvency contributions made by Crown Corporations. Canada Post obtained the approval from the Minister of Finance and the Minister of Transport, Infrastructure and Communities to reduce the special solvency contributions for the remainder of 2011. This reduction is estimated at $431 million for 2011.

(1) Solvency deficit when using fair value of Plan assets is approximately $3,692 million.

6.6 Liquidity and capital resources

The Canada Post Group manages $794 million of capital, which includes Equity of Canada, loans and borrowings and other long-term financial obligations.

(in millions of dollars)	July 2, 2011	Dec. 31, 2010
Equity of Canada	(319)	(321)
Loans and borrowings	1,101	1,108
Other long-term financial obligation	12	14
Total capital	**794**	**801**

The Equity of Canada is in a deficit position whereas previously reported under Canadian GAAP as a positive balance. The difference mainly arises from the recognition of the actuarial losses in the amount of $3,213 million for pension, post-employment and other long-term employee benefit plans. Under Canadian GAAP, actuarial gains and losses were not immediately recognized in the financial statements.

For more information on the impact of IFRS, please refer to *Note 14 First Time Adoption of IFRS of the unaudited interim condensed consolidated financial statements.*

Liquidity

For the first six months of 2011, the liquidity required by The Canada Post Group to support its financial obligations and fund capital and strategic requirements was provided by accumulated funds. The Canada Post segment had $838 million of unrestricted liquid investments on hand as at July 2, 2011, and short-term borrowing authority of $250 million. The Canada Post segment believes it has sufficient liquidity to support operations over the next twelve months, including an adequate contingency cushion for fluctuations in working capital, adverse changes in business results or unforeseen expenditures. The Corporation's subsidiaries and joint venture had a total of $50 million of unrestricted cash on hand as at July 2, 2011 and undrawn credit facilities of $156 million ensuring sufficient liquidity to support their operations over the next twelve months.

Access to capital markets

Pursuant to the *Canada Post Corporation Act*, the Canada Post segment may borrow a maximum of $500 million from the Government of Canada's Consolidated Revenue Fund. Pursuant to *Appropriation Act No. 4,* 2009-10, which received Royal Assent on December 15, 2009, borrowing from other than the Government of Canada's Consolidated Revenue Fund is limited to $2.5 billion. Included in this total authorized borrowing limit is a maximum of $250 million available for cash management purposes in the form of short-term borrowings. The Corporation's subsidiaries and joint venture also have access to financing facilities totaling $202 million as at July 2, 2011.

The Canada Post segment borrowings amounted to $1,055 million and the Corporation's subsidiaries and joint venture borrowings amounted to $46 million as at July 2, 2011. For more information on liquidity and access to capital markets, refer to Section 6.6 – Liquidity and Capital Resources of the 2010 Annual MD&A.

Dividends

For information on our dividend policy, refer to Section 6.6 – Liquidity and capital resources of the 2010 Annual MD&A.

6.7 Risks associated with financial instruments

Canada Post uses a variety of financial instruments to carry out the activities of the business which are described in section 6.7 of the 2010 Annual MD&A. Investments are held for liquidity purposes or for longer terms in accordance with the investment policies of the Corporation.

Market risk and credit risk

Market risk is the risk that the fair value of 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 Corporation's principal foreign exchange exposure is in U.S. dollar ("US$"). In the first quarter of 2011, the Corporation implemented an economic hedging program to mitigate its exposure to foreign exchange balances on the statement of financial position. Where possible, exposures are netted internally and any remaining exposure may be hedged using foreign exchange forward contracts. These forward contracts are not designated as hedges for hedge accounting. For more information on foreign exchange risk, please refer to *Note 12 Foreign Exchange Risk of the unaudited interim condensed consolidated financial statements.*

Credit risk is the risk of financial loss due to the counterparty's inability to meet its contractual obligations. Credit risk arises from investments in corporations and financial institutions as well as credit exposures to wholesale and commercial customers, including outstanding receivables. Sales to consumers are settled in cash or using major credit cards.

Liquidity risk

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

6.8 Contractual obligations and commitments

Contractual obligations and commitments were explained in Section 6.8 – Contractual obligations and commitments of the 2010 Annual MD&A. There were no material changes to contractual obligations and commitments during the first six months of 2011.

6.9 Contingencies

Contingencies are described in *Note 9 Contingent Liabilities of the unaudited interim condensed consolidated financial statements.*

7 Changes in Financial Position

A discussion of significant changes in our assets and liabilities between July 2, 2011 and December 31, 2010

(in millions of dollars)

ASSETS	July 2, 2011	Dec. 31, 2010	Change	%	Explanation of Change
Cash and cash equivalents	74	379	(305)	(80.5)%	*Refer to Section 6 – Liquidity and Capital Resources on page 11*
Marketable securities	814	1,082	(268)	(24.8)%	Drawdown primarily attributed to special solvency contributions and capital acquisitions for Canada Post segment
Trade and other receivables	684	628	56	8.8%	Mainly due to increased trade receivables for the Purolator segment due to increased volume and delayed collections
Income tax receivable	150	141	9	5.6%	Primarily due to an expected refund generated by a loss carry-back for the Canada Post segment
Other assets	99	73	26	36.1%	Mainly due to assets held for sale for one of our properties in Edmonton
Total current assets	**1,821**	**2,303**	**(482)**	**(21.0)%**	
Property, plant and equipment (note 5, 15)	2,154	2,127	27	1.2%	Due to the Canada Post segment's net capital acquisitions partially offset by the Purolator segment's depreciation exceeding acquisitions
Intangible assets (note 5, 15)	159	161	(2)	(1.1)%	Primarily due to amortization of software assets exceeding acquisitions
Segregated securities	513	499	14	2.9%	Mainly due to interest income and unrealized gains
Pension benefit assets (note 16)	111	112	(1)	(0.2)%	No material change
Deferred tax assets (note 17)	1,051	1,054	(3)	(0.2)%	No material change
Goodwill (note 8)	125	125	0	0.3%	No material change
Other assets	11	11	0	4.3%	No material change
Total non-current assets	**4,124**	**4,089**	**35**	**1.0%**	
Total assets	**5,945**	**6,392**	**(447)**	**(7.0)%**	

(in millions of dollars)

LIABILITIES & EQUITY	July 2, 2011	Dec. 31, 2010	Change	%	Explanation of Change
Trade and other payables	377	477	(100)	(21.0)%	Primarily due to decreased goods received, sales taxes payable and trade payables
Provisions	59	64	(5)	(8.5)%	Mainly due to reclassification of Workers' Compensation provision to salaries and benefits payable (Purolator segment)
Salaries and benefits payable	354	537	(183)	(34.1)%	Primarily due to lower accrued benefits due to labour disruption
Income tax payable	1	0	1	129.0%	Due to an increase in taxes payable by Innovapost
Deferred revenue	103	120	(17)	(14.0)%	Due to a reduction in meter and stamp deferrals
Loans and borrowings	11	13	(2)	(9.2)%	Primarily due to capital lease payments in the Canada Post segment
Other long-term benefit liability	84	84	0	0	No material change
Total current liabilities	**989**	**1,295**	**(306)**	**(23.6)%**	
Loans and borrowings	1,090	1,095	(5)	(0.4)%	Primarily due to capital lease payments (Purolator segment)
Pension, other post-employment and other long-term benefit liability (note 16)	4,125	4,255	(130)	(3.1)%	Primarily due to pension contributions (normal and solvency) partially offset by accrued expenses
Deferred tax liabilities (note 17)	4	7	(3)	(42.7)%	Primarily due to a decrease in temporary differences in the Purolator segment's Pension plan asset
Provisions	10	10	(0)	(8.9)%	No material change
Other liabilities	19	24	(5)	(17.1)%	Primarily due to repurchase of employee-owned shares (Purolator segment)
Total non-current liabilities	**5,248**	**5,391**	**(143)**	**(2.7)%**	
Total liabilities	**6,237**	**6,686**	**(449)**	**(6.7)%**	
Equity					
Contributed capital	1,155	1,155	0	0	
Accumulated other comprehensive income (loss)	8	9	(1)	(5.2)%	
Deficit	(1,482)	(1,485)	3	0.1%	
Equity of Canada	**(319)**	**(321)**	**2**	**0.5%**	
Non-controlling interests	27	27	0	2.1%	
Total equity	**(292)**	**(294)**	**2**	**0.8%**	
Total liabilities and equity	**5,945**	**6,392**	**(447)**	**(7.0)%**	

8 Discussion of Operations

A detailed discussion of our financial performance

8.1 Summary of quarterly results

Consolidated results by quarter

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

8.2 Consolidated results from operations

Consolidated results for the second quarter and the first six months of 2011

			Increase (decrease)				Increase (decrease)	
(in millions of dollars)	Q2 2011	Q2 2010	Change	%	Q2 YTD 2011	Q2 YTD 2010	Change	%
Revenue from operations	1,761	1,833	(72)	(2.4)%*	3,694	3,729	(35)	(0.2)%*
Cost of operations	1,773	1,788	(15)	(0.8)%	3,676	3,646	30	0.8%
Profit (loss) from operations	**(12)**	**45**	**(57)**	**(127.1)%**	**18**	**83**	**(65)**	**(78.3)%**
Investing and financing income (expense)	(6)	(0)	(6)	(2,716.9)%	(14)	(2)	(12)	(467.0)%
Profit (loss) before taxes	**(18)**	**45**	**(63)**	**(139.5)%**	**4**	**81**	**(77)**	**(95.3)%**
Tax expense (income)	(1)	(2)	1	66.3%	1	10	(9)	(93.5)%
Profit (loss)	**(17)**	**47**	**(64)**	**(137)%**	**3**	**71**	**(68)**	**(95.5)%**

* Adjusted for trading days where applicable

The Canada Post Group reported a consolidated loss of $17 million for the second quarter of 2011—a decrease of $64 million, when compared with the same quarter in the previous year. For the first six months of 2011, the consolidated profit was $3 million—a decrease of $68 million when compared to the same period last year.

Consolidated revenue from operations

For the second quarter of 2011, revenue from operations decreased by $72 million or 2.4 per cent when compared with the same quarter in the previous year. For the first six months of 2011, revenue from operations decreased by $35 million or 0.2 per cent when compared to the same period last year. A detailed discussion of revenue by segment follows.

Consolidated cost of operations

Cost of operations decreased by $15 million or 0.8 per cent in the second quarter of 2011 when compared to the same quarter last year. The decrease was primarily driven by non-payment of wages to the employees represented by the Canadian Union of Postal Workers ("CUPW") during the labour dispute, which more than offset the cost increases the Canada Post segment had experienced prior to the dispute and the increased costs in the Purolator segment.

Cost of operations in the first six months of 2011 increased by $30 million or 0.8 per cent when compared to the same period last year, with the year-to-date cost increases in both the Canada Post and Purolator segments offsetting the cost reductions from the labour dispute. A detailed discussion of cost of operations by segment follows.

Consolidated Investing and financing income (expense)

Expenses from investing and financing activities increased by $6 million and $12 million respectively in the second quarter and the first six months of 2011, when compared to the same periods in the prior year, mainly due to the net interest impact of the 2010 $1 billion bond issue in the Canada Post segment.

Consolidated tax expense (income)

Consolidated tax (income) for the second quarter of 2011 decreased by $1 million when compared to the same quarter in the prior year, mainly due to reduced loss carry-back availability for Canada Post. For the first six months of 2011, the consolidated tax expense decreased by $9 million from the same period last year, primarily due to the decrease in the group's profit before taxes of $77 million.

8.3 Operating results by segment

Segmented results – profit before taxes

			Increase (decrease)				Increase (decrease)	
(in millions of dollars)	**Q2 2011**	**Q2 2010**	**Change**	**%**	**Q2 YTD 2011**	**Q2 YTD 2010**	**Change**	**%**
Canada Post	(44)	23	(67)	(289.8)%	(21)	56	(77)	(138.0)%
Purolator	24	23	1	1.6%	18	21	(3)	(13.8)%
Logistics	2	3	(1)	(3.6)%	4	5	(1)	(13.8)%
Other	5	6	(1)	(9.7)%	9	9	(0)	(2.9)%
Intersegment and unallocated	(5)	(10)	5	46.0%	(6)	(10)	4	37.6%
The Canada Post Group	**(18)**	**45**	**(63)**	**(139.5)%**	**4**	**81**	**(77)**	**(95.3)%**

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

8.4 Canada Post segment

The Canada Post segment experienced a loss before taxes of $44 million in the second quarter of 2011 and $21 million in the first six months of 2011, a decrease of $67 million and $77 million respectively when compared to the same periods in the prior year. These losses were primarily due to the labour disruption. A detailed discussion of revenue and cost of operation is provided below.

Expenses from investing and financing activities increased by $11 million in the second quarter of 2011 and $17 million for the first six months of 2011, when compared to the same periods in the prior year, mainly due to the net interest impact of the $1 billion bond issue in 2010 along with reduced dividend income.

Canada Post results for the second quarter and the first six months of 2011

			Increase (decrease)				Increase (decrease)	
(in millions of dollars)	**Q2 2011**	**Q2 2010**	**Change**	**%**	**Q2 YTD 2011**	**Q2 YTD 2010**	**Change**	**%**
Revenue from operations	1,342	1,450	(108)	(6.0)%*	2,903	2,979	(76)	(1.8)%*
Cost of operations	1,386	1,438	(52)	(3.6)%	2,917	2,933	(16)	(0.6)%
Profit (loss) from operations	**(44)**	**12**	**(56)**	**(463.1)%**	**(14)**	**46**	**(60)**	**(131.8)%**
Investing and financing income (expense)	0	11	(11)	(100.5)%	(7)	10	(17)	(166.5)%
Profit (loss) before taxes	**(44)**	**23**	**(67)**	**(289.8)%**	**(21)**	**56**	**(77)**	**(138.0)%**
Tax expense (income)	(9)	(12)	3	22.2%	(8)	(1)	(7)	(760.7)%
Profit (loss)	**(35)**	**35**	**(70)**	**(202.2)%**	**(13)**	**57**	**(70)**	**(123.3)%**

* Adjusted for trading days where applicable

Revenue from operations

Canada Post generated revenue from operations of $1,342 million in the second quarter of 2011—a decrease of $108 million or 6.0 per cent, when compared with the same quarter last year. Revenue amounted to $2,903 million for the first six months of 2011, a decrease of $76 million or 1.8 per cent compared to the same period in the prior year. The labour disruption in June impacted all lines of business and given normal performance led to an estimated revenue loss of $167 million in June. Revenues from the federal election and the 2011 Statistics Canada census ($22 million and $30 million respectively) offset some of the losses from the labour disruption.

Quarterly revenue by line of business

(in millions of dollars)	Q2 2011	Q2 2010	Increase (decrease) Change	%	Q2 YTD 2011	Q2 YTD 2010	Increase (decrease) Change	%
Transaction Mail	754	784	(30)	(2.3)%	1,614	1,641	(27)	(0.9)%
Parcels	247	304	(57)	(17.5)%	572	620	(48)	(7.0)%
Direct Marketing	306	332	(26)	(6.5)%	647	654	(7)	(0.2)%
Other revenue	35	30	5	18.9%	70	64	6	10.5%
Total	**1,342**	**1,450**	**(108)**	**(6.0)%**	**2,903**	**2,979**	**(76)**	**(1.8)%**

Transaction Mail

Transaction Mail revenue of $754 million for the second quarter of 2011 is comprised of the following four product categories: domestic Lettermail™ ($667 million); outbound Letter-post ($38 million); inbound Letter-post ($33 million); and other ($16 million).

In the second quarter of 2011, Transaction Mail volume decreased by 88 million pieces or 6.0 per cent and revenue decreased by $30 million or 2.3 per cent when compared to the same period last year. For domestic Lettermail, the largest product category, volumes decreased by 80 million pieces or 5.8 per cent and revenues declined by $36 million or 3.5 per cent. The volume and revenue declines were largely driven by the labour disruption during June, offset by the federal election and the 2011 Statistics Canada census.

In the first six months of 2011, Transaction mail volumes declined by 125 million pieces or 4.3 per cent and revenue decreased by $27 million or 0.9 per cent when compared to the same period last year. For domestic Lettermail, volumes decreased by 110 million pieces or 4.1 per cent and revenue decreased by $28 million or 1.1 per cent. The volume and revenue declines were largely driven by the labour disruption during June, offset by the federal election and the 2011 Statistics Canada census.

Parcels

Parcel revenue of $247 million is comprised of four product categories: domestic parcels ($165 million); outbound parcels ($39 million); inbound parcels ($34 million); and other ($9 million).

Parcel revenue for the second quarter experienced significant declines of $57 million or 17.5 per cent and volumes decreased by 6 million pieces or 14.6 per cent compared to the same quarter last year. The revenue and volume declines were primarily driven by the labour disruption and Canada Post's exit from the Food Mail program at the end of the first quarter. In the first six months of 2011, revenue decreased by $48 million or 7.0 per cent and volumes declined by 4 million pieces or 5.1 per cent compared to the same period last year.

Direct Marketing

Direct Marketing revenue of $306 million for the second quarter of 2011 is comprised of the following four categories: Addressed Admail™ ($127 million); Unaddressed Admail™ ($94 million); Publications Mail™ ($60 million); Business Reply Mail™ & Other Mail ($6 million); and other ($19 million).

Direct Marketing revenue for the second quarter of 2011 decreased by $26 million or 6.5 per cent and volumes decreased by 187 million or 12.2 per cent when compared to the same period last year. The revenue and volume declines were largely driven by the labour disruption in June, offset by the federal election. In the first six months of 2011, Direct Marketing revenue was consistent with the same period in the prior year, decreasing only by $7 million or 0.2 per cent.

Other revenue

Other revenue increased by $5 million or 18.9 per cent in the second quarter of 2011, when compared to the same period in the prior year, due to increased sales from the Royal Wedding stamps, gifts and collectibles. For the first six months of 2011, other revenue increased by $6 million or 10.5 per cent when compared to the same period last year.

Cost of operations

Cost of operations for the Canada Post segment totaled $1,386 in the second quarter of 2011—a decrease of $52 million or 3.6 per cent compared to the same quarter last year, while the cost of operations for the first six months of 2011 totaled $2,917—a decrease of $16 million or 0.6 per cent when compared to the same period last year.

			Increase (decrease)				Increase (decrease)	
(in millions of dollars)	**Q2 2011**	**Q2 2010**	**Change**	**%**	**Q2 YTD 2011**	**Q2 YTD 2010**	**Change**	**%**
Labour	677	787	(110)	(14.0)%	1,502	1,606	(104)	(6.5)%
Employee benefits	291	220	71	32.1%	528	460	68	15.0%
Total labour and employee benefits	**968**	**1,007**	**(39)**	**(3.9)%**	**2,030**	**2,066**	**(36)**	**(1.7)%**
Non-labour collection, processing and delivery	174	201	(27)	(12.8)%	407	425	(18)	(4.5)%
Property, facilities and maintenance costs	58	54	4	6.7%	118	111	7	6.3%
Selling, administrative and other	129	125	4	3.5%	248	230	18	8.1%
Total other operating costs	**361**	**380**	**(19)**	**(4.6)%**	**773**	**766**	**7**	**0.9%**
Depreciation and amortization	57	51	6	11.2%	114	101	13	12.1%
Total	**1,386**	**1,438**	**(52)**	**(3.6)%**	**2,917**	**2,933**	**(16)**	**(0.6)%**

Labour

The cost of labour decreased by $110 million or 14.0 per cent for the second quarter of 2011 and $104 million or 6.5 per cent for the first six months of 2011 when compared to the same periods in the previous year. These decreases were mainly due to wages not paid to the employees represented by CUPW during the labour disruption.

Employee benefits

The net benefit cost for employees increased by $71 million or 32.1 per cent for the second quarter of 2011 and $68 million or 15.0 per cent for the first six months of 2011 when, compared to the same periods in the previous year. The increase in benefits was mainly due to a one-time adjustment of $63M relating to amendments to the *Pension Benefits Standards Act, 1985* and its relevant regulations to enhance the pre-retirement termination and death benefits.

Non-labour collection, processing and delivery

Contracted collection, processing and delivery costs decreased by $27 million or 12.8 per cent for the second quarter of 2011 and $18 million or 4.5 per cent for the first six months of 2011, when compared to the same periods last year. These decreases were mainly due to exiting the Government of Canada's Food Mail program (as at March 31, 2011) as well as reductions in costs from the impact of the labour disruption, partially offset by increases in fuel costs and transportation.

Property, facilities and maintenance costs

Cost of facilities increased by $4 million or 6.7 per cent for the second quarter of 2011 and increased $7 million or 6.3 per cent for the first six months of 2011, when compared to the same periods last year. The increases were mainly due to increases in utilities, repair and maintenance costs.

Depreciation and amortization

Depreciation and amortization expenses increased by $6 million or 11.2 per cent for the second quarter of 2011 and $13 million or 12.1 per cent for the first six months of 2011, when compared to the same periods in the prior year. Both increases were primarily due to increased capital asset acquisitions relating to Postal Transformation and replenishment of the existing asset base.

Selling, administration and other expense

Selling, administration and other expenses, which include information technology, administration, program expense, selling and other costs, increased by $4 million or 3.5 per cent for the second quarter of 2011 when compared to the same quarter in the prior year due to increased program expenses. In the first six months of 2011, these expenses increased by $18 million or 8.1 per cent when compared to the prior year, mainly due to increased program expenses and receiving a one-time cost recovery in 2010 as a result of a proceeding which disallowed some costs previously charged to Canada Post by a supplier.

8.5 Purolator segment

The Purolator segment contributed $24 million consolidated profit before taxes for the second quarter of 2011, an increase of $1 million, when compared with the same period in the prior year. For the first six months of 2011, profit before taxes amounted to $18 million, a decrease of $3 million or 13.8 per cent when compared to the prior year.

Purolator results for the second quarter and the first six months of 2011

			Increase (decrease)				Increase (decrease)	
(in millions of dollars)	**Q2 2011**	**Q2 2010**	**Change**	**%**	**Q2 YTD 2011**	**Q2 YTD 2010**	**Change**	**%**
Revenue from operations	415	373	42	13.1%*	787	733	54	8.4%*
Cost of operations	390	349	41	12.0%	768	710	58	8.3%
Profit (loss) from operations	**25**	**24**	**1**	**1.5%**	**19**	**23**	**(4)**	**(15.2)%**
Investing and financing income (expense)	(1)	(1)	0	0.4%	(1)	(2)	1	27.1%
Profit (loss) before taxes	**24**	**23**	**1**	**1.6%**	**18**	**21**	**(3)**	**(13.8)%**
Tax expense (income)	6	7	(1)	(14.8)%	5	6	(1)	(27.8)%
Profit (loss)	**18**	**16**	**2**	**8.6%**	**13**	**15**	**(2)**	**(7.3)%**

* Adjusted for trading days where applicable

Revenue from operations

Purolator overall generated revenue from operations of $415 million in the second quarter of 2011—an increase of $42 million or 13.1 per cent, when compared with the same period last year, mainly driven by increased volumes and better-than-planned performance from Purolator International. For the first six months of 2011, revenue increased by $54 million compared to the same period in the prior year due to an overall increase in volumes.

Cost of operations

Labour
Cost of labour increased by $12.9 million or 10.1 per cent for the second quarter of 2011, when compared to the same period in the previous year due to the increased volumes. The cost of labour increased by $15.3 million or 5.8 per cent for the first six months of 2011 mainly due to increases in costs in the second quarter.

Operational Costs
Cost of operations increased by $13.1 million or 10 per cent for the second quarter of 2011 and $23.9 million or 9 per cent for the first six months of 2011, when compared to the same periods in the previous year, due to increases in volume and higher fuel costs.

8.6 Logistics segment

The Logistics segment includes the consolidated financial results of SCI Group. The Logistics segment contributed $2 million to consolidated profit before taxes for the second quarter of 2011, a decrease of $1 million compared to the same period in the prior year. For the first six months of 2011 profit before taxes amounted to $4 million, a decrease of $1 million or 13.8 per cent compared to the same period last year.

8.7 Other segment

The Other segment includes the financial results of Innovapost. Virtually all of the services provided by Innovapost are provided to The Canada Post Group. Accordingly, the Corporation's proportionate share of Innovapost revenue is eliminated against the other segments' cost of operations upon consolidation. Cost of operations included in the unaudited interim condensed consolidated financial statements of the Corporation include the Corporation's proportionate share of expenses related to these services for the second quarter of 2011 of approximately $36 million, an increase of $1 million when compared to the same quarter of 2010. The proportionate share of expenses was $67 million in the first six months of 2011, an increase of $2 million when compared to the same period in the prior year.

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

9 Critical Accounting Estimates and Accounting Policy Developments

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

9.1 Critical accounting estimates

Our significant accounting policies are described in *Note 2 Basis of Presentation and Significant Accounting Policies of the unaudited interim condensed consolidated financial statements.*

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

The Corporation's critical accounting estimates remain substantially unchanged from the prior year. Refer to our discussion of critical accounting estimates in our 2010 Annual MD&A and *Note 3 Critical Accounting Judgments and Key Sources of Estimation Uncertainty of the unaudited interim condensed consolidated financial statements* for additional information.

9.2 Accounting policy developments

The Corporation is currently assessing the impact of following new standards and amendments, which could impact the Corporation, on its consolidated financial statements for future periods:

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

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

IFRS 9 is to be applied retrospectively for annual periods beginning on or after January 1, 2013, with early adoption permitted.

(b) **IFRS 10 "Consolidated Financial Statements" ("IFRS 10"), IFRS 11 "Joint Arrangements" ("IFRS 11"), IFRS 12 "Disclosure of Interests in Others" ("IFRS 12"), IAS 27 "Separate Financial Statements" ("IAS 27") and IAS 28 "Investments in Associates and Joint Ventures" ("IAS 28") •** In May 2011, the IASB issued five standards to replace IAS 27 "Consolidated and Separate Financial Statements", IAS 28 "Investments in Associates", IAS 31 "Interests in Joint Ventures", SIC 12 "Consolidation – Special Purpose Entities" and SIC 13 "Jointly Controlled Entities – Non-monetary Contributions by Venturers". These standards are effective for annual periods beginning on or after January 1, 2013. Entities may apply these standards earlier if all five are adopted concurrently.

IFRS 10 defines the principle of control, establishes control as the basis for determining which entities are consolidated, and sets out accounting requirements preparing consolidated financial statements. This standard is applied retrospectively.

IFRS 11 requires an entity to determine the type of joint arrangement (joint operation or joint venture) by assessing its rights and obligations arising from the arrangement. This standard requires the use of the equity method, in accordance with IAS 28, to account for an interest in a joint venture. Application of this standard is prospective for joint ventures previously accounted for using the proportionate consolidation methods, such that the initial investment of these joint ventures, as measured at the beginning of the earliest period presented, is the aggregate of the carrying amounts of assets and liabilities previously proportionately consolidated.

IFRS 12 requires an entity to disclose information to enable users to evaluate the nature of, and risks associated with, interests in other entities, and the effects of those interests on the entity's financial position, performance and cash flows. This standard is applied prospectively.

IAS 27 prescribes the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. This standard is applied retrospectively.

IAS 28 prescribes the accounting for investments in associates and sets out the requirements for the use of the equity method in accounting for both investments in associates and joint ventures. This standard is applied retrospectively.

(c) **IFRS 13 "Fair Value Measurement" ("IFRS 13") •** In May 2011, the IASB issued IFRS 13, which defines fair value, sets out in a single IFRS a framework to measure fair value, and requires disclosures about fair value measurements. This standard is effective for annual periods beginning on or after January 1, 2013 and is applied prospectively.

(d) **Amendments to IAS 19 Employee Benefits •** In June 2011, the IASB issued amendments to IAS 19, which include: elimination of the method to defer gains and losses; streamlining of the presentation of assets and liabilities; requirement for the discount rate to be used as the expected return on assets; requirement to present current and past service costs with operational costs, and interest on the asset and obligation with finance income and costs, respectively. The amendments are to be applied retrospectively for annual periods beginning on or after January 1, 2013, with early adoption permitted. The Corporation is expecting that the amendments to IAS 19 will have a material impact on its consolidated financial statements.

(e) **Amendments to IAS 1 – Presentation of Items of Other Comprehensive Income •** In June 2011, the IASB issued amendments to IAS 1, which require grouping in other comprehensive income for amounts based on whether they can be reclassified to profit and loss subsequently. The presentation amendments are effective for annual periods beginning on or after July 1, 2012, with early adoption permitted.

9.3 International Financial Reporting Standards ("IFRS")

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

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

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

The Corporation's unaudited interim condensed consolidated financial statements as at and for the quarter ended July 2, 2011 have been prepared in accordance with IAS 34, using policies the Corporation intends in applying in its first annual IFRS consolidated financial statements for the year ending December 31, 2011. These unaudited interim condensed consolidated financial statements include comparative statements of financial positions as at December 31, 2010 and January 1, 2010 and statements of changes in equity, comprehensive income and cash flows for the quarter ended July 3, 2010, which were previously prepared in accordance with Canadian GAAP prior to the Corporation's changeover to IFRS.

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

Management's Responsibility for Interim Financial Reporting

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

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

President and Chief Executive Officer

Chief Financial Officer

August 23, 2011

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Unaudited - in millions of Canadian dollars)	Notes	**July 2, 2011**	December 31, 2010	January 1, 2010
Assets				
Current assets				
Cash and cash equivalents		**$ 74**	$ 379	$ 473
Marketable securities		**814**	1,082	270
Trade and other receivables		**684**	628	584
Income tax receivable		**150**	141	70
Other assets		**99**	73	82
Total current assets		**1,821**	2,303	1,479
Non-current assets				
Property, plant and equipment	**5, 15**	**2,154**	2,127	1,964
Intangible assets	**5, 15**	**159**	161	169
Segregated securities		**513**	499	654
Pension benefit assets	**16**	**111**	112	196
Deferred tax assets	**17**	**1,051**	1,054	500
Goodwill	**8**	**125**	125	125
Other assets		**11**	11	17
Total non-current assets		**4,124**	4,089	3,625
Total assets		**$ 5,945**	$ 6,392	$ 5,104
Liabilities and equity				
Current liabilities				
Trade and other payables		**$ 377**	$ 477	$ 422
Provisions		**59**	64	97
Salaries and benefits payable		**354**	537	508
Income tax payable		**1**	–	2
Deferred revenue		**103**	120	142
Loans and borrowings		**11**	13	10
Other long-term benefit liabilities		**84**	84	82
Total current liabilities		**989**	1,295	1,263
Non-current liabilities				
Loans and borrowings		**1,090**	1,095	120
Pension, other post-employment and other long-term benefit liabilities	**16**	**4,125**	4,255	2,824
Deferred tax liabilities	**17**	**4**	7	8
Provisions		**10**	10	8
Other liabilities		**19**	24	32
Total non-current liabilities		**5,248**	5,391	2,992
Total liabilities		**6,237**	6,686	4,255
Equity				
Contributed capital		**1,155**	1,155	1,155
Accumulated other comprehensive income (loss)		**8**	9	(1)
Deficit		**(1,482)**	(1,485)	(329)
Equity of Canada		**(319)**	(321)	825
Non-controlling interests		**27**	27	24
Total equity		**(292)**	(294)	849
Total liabilities and equity		**$ 5,945**	$ 6,392	$ 5,104
Contingent liabilities	**9**			

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(Unaudited - in millions of Canadian dollars)	Notes	13 weeks ended July 2, 2011	13 weeks ended July 3, 2010	26 weeks ended July 2, 2011	26 weeks ended July 3, 2010
Revenue from operations		**$ 1,761**	$ 1,833	**$ 3,694**	$ 3,729
Cost of operations					
Labour		**841**	939	**1,824**	1,913
Employee benefits, net of transitional support	**6**	**331**	250	**605**	520
		1,172	1,189	**2,429**	2,433
Other operating costs	**10**	**530**	534	**1,105**	1,083
Depreciation and amortization		**71**	65	**142**	130
Total cost of operations		**1,773**	1,788	**3,676**	3,646
Profit (loss) from operations		**(12)**	45	**18**	83
Investing and financing income (expense)					
Investment and other income	**11**	**7**	2	**12**	3
Finance costs and other expense	**11**	**(13)**	(2)	**(26)**	(5)
Investing and financing income (expense), net		**(6)**	–	**(14)**	(2)
Profit (loss) before tax		**(18)**	45	**4**	81
Tax expense (income)	**7**	**(1)**	(2)	**1**	10
Profit (loss)		**$ (17)**	$ 47	**$ 3**	$ 71
Other comprehensive income (loss)					
Reclassifying to Profit (loss)					
Unrealized gains on available-for-sale financial assets		**$ 13**	$ 6	**$ 4**	$ 9
Realized gains reclassified to Profit (loss)		**(4)**	–	**(5)**	–
Tax relating to all components of Other comprehensive income (loss)		**(2)**	(2)	**–**	(2)
Other comprehensive income (loss)		**7**	4	**(1)**	7
Comprehensive income (loss)		**$ (10)**	$ 51	**$ 2**	$ 78
Profit (loss) attributable to:					
Government of Canada		**$ (17)**	$ 46	**$ 3**	$ 70
Non-controlling interests		**–**	1	**–**	1
		$ (17)	$ 47	**$ 3**	$ 71
Comprehensive income (loss) attributable to:					
Government of Canada		**$ (10)**	$ 50	**$ 2**	$ 77
Non-controlling interests		**–**	1	**–**	1
		$ (10)	$ 51	**$ 2**	$ 78

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 July 2, 2011 and July 3, 2010

(Unaudited - in millions of Canadian dollars)	Contributed capital	Accumulated other comprehensive income (loss) Fair value of financial assets	Deficit	Equity of Canada	Non-controlling interests	Total equity
Balance at beginning of period, 2011	$ 1,155	$ 1	$ (1,465)	$ (309)	$ 27	$ (282)
Loss	–	–	(17)	(17)	–	(17)
Other comprehensive income (loss)						
Reclassifying to Profit (loss)						
Unrealized gains on available-for-sale financial assets	–	13	–	13	–	13
Realized gains reclassified to Loss	–	(4)	–	(4)	–	(4)
Tax relating to all components of Other comprehensive income	–	(2)	–	(2)	–	(2)
Other comprehensive income	–	7	–	7	–	7
Comprehensive income (loss)	–	7	(17)	(10)	–	(10)
Balance at July 2, 2011	$ 1,155	$ 8	$ (1,482)	$ (319)	$ 27	$ (292)
Balance at beginning of period, 2010	$ 1,155	$ 2	$ (305)	$ 852	$ 24	$ 876
Profit	–	–	46	46	1	47
Other comprehensive income (loss)						
Reclassifying to Profit (loss)						
Unrealized gains on available-for-sale financial assets	–	6	–	6	–	6
Tax relating to all components of Other comprehensive income	–	(2)	–	(2)	–	(2)
Other comprehensive income	–	4	–	4	–	4
Comprehensive income	–	4	46	50	1	51
Balance at July 3, 2010	$ 1,155	$ 6	$ (259)	$ 902	$ 25	$ 927

For the 26 weeks ended July 2, 2011 and July 3, 2010

(Unaudited - in millions of Canadian dollars)	Contributed capital	Accumulated other comprehensive income (loss) Fair value of financial assets	Deficit	Equity of Canada	Non-controlling interests	Total equity
Balance at beginning of year, 2011	$ 1,155	$ 9	$ (1,485)	$ (321)	$ 27	$ (294)
Profit	–	–	3	3	–	3
Other comprehensive income (loss)						
Reclassifying to Profit (loss)						
Unrealized gains on available-for-sale financial assets	–	4	–	4	–	4
Realized gains reclassified to Profit	–	(5)	–	(5)	–	(5)
Tax relating to all components of Other comprehensive loss	–	–	–	–	–	–
Other comprehensive loss	–	(1)	–	(1)	–	(1)
Comprehensive income (loss)	–	(1)	3	2	–	2
Balance at July 2, 2011	$ 1,155	$ 8	$ (1,482)	$ (319)	$ 27	$ (292)
Balance at beginning of year, 2010	$ 1,155	$ (1)	$ (329)	$ 825	$ 24	$ 849
Profit	–	–	70	70	1	71
Other comprehensive income (loss)						
Reclassifying to Profit (loss)						
Unrealized gains on available-for-sale financial assets	–	9	–	9	–	9
Tax relating to all components of Other comprehensive income	–	(2)	–	(2)	–	(2)
Other comprehensive income	–	7	–	7	–	7
Comprehensive income	–	7	70	77	1	78
Balance at July 3, 2010	$ 1,155	$ 6	$ (259)	$ 902	$ 25	$ 927

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(Unaudited - in millions of Canadian dollars)	Notes	13 weeks ended July 2, 2011	13 weeks ended July 3, 2010	26 weeks ended July 2, 2011	26 weeks ended July 3, 2010
Cash flows from operating activities					
Profit (loss)		**$ (17)**	$ 47	**$ 3**	$ 71
Adjustments to reconcile Profit (loss) to cash used in operating activities:					
Depreciation and amortization		**71**	65	**142**	130
Pension, other post-employment and other long-term benefit expense	**6**	**203**	111	**335**	240
Pension, other post-employment and other long-term benefit payments	**6**	**(235)**	(355)	**(464)**	(464)
Transitional support offsetting pension reform incremental costs	**6**	**–**	(3)	**–**	(6)
Gain on sale of property, plant and equipment		**(3)**	(1)	**(3)**	–
Tax expense (income)		**(1)**	(2)	**1**	10
Net interest expense		**8**	1	**16**	3
Change in non-cash operating working capital:					
Decrease (increase) in trade and other receivables		**(61)**	2	**(55)**	(8)
Decrease in trade and other payables		**(37)**	(4)	**(100)**	(56)
Decrease in salaries and benefits payable		**(135)**	(79)	**(183)**	(105)
Decrease in provisions		**–**	(15)	**(5)**	(28)
Net increase in other non-cash operating working capital		**(26)**	(27)	**(33)**	(30)
Other income not affecting cash, net		**(8)**	(5)	**(16)**	(13)
Cash used in operations		**(241)**	(265)	**(362)**	(256)
Interest received		**13**	8	**18**	12
Interest paid		**(1)**	(1)	**(26)**	(5)
Tax paid		**(5)**	(8)	**(8)**	(14)
Cash used in operating activities		**(234)**	(266)	**(378)**	(263)
Cash flows from investing activities					
Acquisition of securities		**(465)**	(55)	**(1,056)**	(385)
Proceeds from sale of securities		**593**	323	**1,305**	600
Acquisition of property, plant and equipment, and intangibles		**(106)**	(64)	**(181)**	(125)
Proceeds from sale of property, plant and equipment		**3**	2	**4**	6
Other investing activities, net		**(8)**	10	**9**	7
Cash provided by investing activities		**17**	216	**81**	103
Cash flows from financing activities					
Transitional support received from the Government of Canada		**–**	–	**–**	13
Proceeds from loans and borrowings		**–**	–	**–**	10
Payments on finance lease obligations		**(3)**	(2)	**(6)**	(5)
Other financing activities, net		**(1)**	(1)	**(2)**	(4)
Cash provided by (used in) financing activities		**(4)**	(3)	**(8)**	14
Net decrease in cash and cash equivalents		**(221)**	(53)	**(305)**	(146)
Cash and cash equivalents, beginning of period		**295**	380	**379**	473
Cash and cash equivalents, end of period		**$ 74**	$ 327	**$ 74**	$ 327

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

Notes to Interim Condensed Consolidated Financial Statements (Unaudited)

For the 13 and 26 weeks ended July 2, 2011

1. Incorporation and Business Activities

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

The Corporation operates a postal service for the collection, transmission and delivery of messages, information, funds and goods, both within Canada and between Canada and places outside Canada. While maintaining basic customary postal services, the Act requires the Corporation to carry out its statutory objects, with regard to the need to conduct its operations on a self-sustaining financial basis while providing a standard of service that will meet the needs of the people of Canada and that is similar with respect to communities of the same size.

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

2. Basis of Presentation and Significant Accounting Policies

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

As permitted under IAS 34, these interim condensed consolidated financial statements do not include all of the disclosures required for annual consolidated financial statements, and should be read in conjunction with the Corporation's audited consolidated financial statements for its fiscal year ended December 31, 2010. Annual disclosures under IFRS material to the understanding of the interim condensed consolidated financial statements are in note 15, Capital Assets; note 16, Pension, Other Post-Employment and Other Long-Term Benefit Plans; and note 17, Income Taxes.

The interim condensed consolidated financial statements were approved and authorized for issue by the Board of Directors on August 23, 2011 and have been prepared based on IFRS issued and effective as at the time these statements were prepared, using policies The Canada Post Group intends to apply in its first annual IFRS consolidated financial statements for the year ending December 31, 2011. Subsequent amendments to IFRS applied to policies effective in the annual consolidated financial statements may result in changes to the reported amounts in these interim condensed consolidated financial statements, including adjustments on transition to IFRS. Comparative reporting periods have not been reviewed by the Corporation's external auditors. The Corporation's joint auditors will audit the January 1, 2010 consolidated IFRS opening statement of financial position and the comparative December 31, 2010 financial information as part of the audit of the Corporation's annual IFRS consolidated financial statements for the year ending December 31, 2011.

In some areas, The Canada Post Group determined that changes in accounting policies were necessary under IFRS compared to the policies applied under Canadian GAAP. Descriptions of the effect of these differences in policies, and reconciliations of financial information previously reported under Canadian GAAP are disclosed in note 14, First Time Adoption of IFRS.

Basis of presentation • The interim condensed consolidated financial statements have been prepared on a historical cost basis as set out in the accounting policies below, 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. The amounts in the interim condensed consolidated financial statements are generally shown in millions, unless otherwise noted.

Seasonality • The volume of the Corporation's consolidated operations has historically varied during the year, with the highest demand for services experienced over the holiday season during the fourth quarter of each year. For the first three quarters of the year the level of demand typically declines on a steady basis, with the lowest demand for services occurring during the summer months in the third quarter. The consolidated operations include significant fixed costs which do not vary in the short term with these changes in demand for services. During the 13-week period ended July 2, 2011, the Corporation experienced an unusual volume decrease due to a labour disruption.

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

Significant accounting policies • A summary of the significant accounting policies used in these interim condensed consolidated financial statements are set out below. The accounting policies have been applied consistently to all periods presented, including the opening IFRS statement of financial position as at January 1, 2010, unless otherwise indicated.

(a) Basis of consolidation • These interim condensed consolidated financial statements include the accounts of The Canada Post Group. The results of Purolator and SCI are consolidated, whereas the investment in Innovapost qualifies as an interest in a jointly-controlled entity under IAS 31 "Interests in Joint Ventures," to which the Corporation has chosen to apply the proportionate consolidation method of accounting.

For acquisitions or disposals, the results of operations of any subsidiary or joint venture are included in the consolidated statement of comprehensive income from the date that control commences, or up to the date that control ceases, as appropriate.

(b) Financial instruments • Upon initial recognition, all financial assets are classified based on the nature and purpose of the financial instruments, or designated by The Canada Post Group as (i) financial assets at fair value through profit or loss, (ii) held to maturity investments, (iii) loans and receivables, or (iv) available-for-sale financial assets. All financial liabilities are classified or designated as (i) financial liabilities at fair value through profit or loss, or (ii) other financial liabilities.

Financial instruments are initially recognized at fair value. Subsequent measurement depends on the classification of the financial instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred, and The Canada Post Group has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the contractual obligation is discharged, cancelled or has expired.

The Canada Post Group's financial instruments consist of the following:

(b.1) Cash equivalents and marketable securities are designated as fair value through profit or loss. Cash equivalents consist of investments with maturities of three months or less, while marketable securities consist of investments that have maturities of twelve months or less from the date of acquisition. These investments are principally used to manage cash flow requirements while maximizing return on investment.

Interest income, changes in fair value and realized gains and losses are recorded in investment and other income.

(b.2) Segregated securities are designated as available-for-sale and consist of investments segregated to manage certain defined benefit plans. Interest income and realized gains and losses on sale of available-for-sale investments are included in benefit costs. Changes in fair value are included in other comprehensive income until the investment is sold, or otherwise derecognized.

The Corporation's investment policy restricts the type of investments to debt securities; therefore, impairment of segregated securities is recognized when there is a significant increase in counterparty

credit risk. When segregated securities are impaired, the unrealized decline in fair value recorded in other comprehensive income is reclassified to investment and other income. The cumulative loss that is removed from other comprehensive income and recognized in investment and other income is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss previously recognized in investment and other income. Changes in impairment provisions attributable to time value of money are reflected as a component of interest income.

(b.3) Risk management financial assets (liabilities) are derivatives purchased to manage foreign exchange risk, which consist of foreign exchange forward contracts that will settle in future periods. They are classified as financial assets or liabilities at fair value through profit or loss and presented within either current other assets or trade and other payables. Fair value adjustments are recognized in investment and other income. These derivatives have not been designated as hedges for hedge accounting purposes.

All transactions for cash equivalents, marketable securities and segregated securities are recognized at the settlement date; risk management assets (liabilities) are recognized at the trade date. Changes in fair value are recognized as they occur.

(b.4) Trade and other receivables are financial assets classified as loans and receivables. These financial assets are subsequently measured at amortized cost using the effective interest method, less any impairment. Where the time value of money is not significant due to short-term settlement, trade and other receivables are recorded at the original invoice amount less allowances for doubtful accounts.

Trade and other receivables that are known to be uncollectible are written off when identified. An allowance for doubtful accounts is established when there is objective evidence that The Canada Post Group will not be able to collect all amounts due according to the original terms of trade receivables. The amount of the allowance is the difference between the receivable's recorded amount and the estimated future cash flows. Credit losses and subsequent recoveries are recognized in other operating costs.

(b.5) Trade and other payables and salaries and benefits payable are classified as other financial liabilities and include financial liabilities as well as obligations created by statutory requirements imposed by governments, which are not financial liabilities. After initial recognition at fair value, other financial liabilities are measured at amortized cost using the effective interest method. Where the time value of money is not significant due to short-term settlement, other financial liabilities are carried at payment or settlement amounts.

(b.6) Loans and borrowings are classified as other financial liabilities and initially recognized at fair value, net of transaction costs. After initial recognition, loans and borrowings are measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account transaction costs and any discount or premium on settlement. Interest expense on loans and borrowings is recognized in finance costs and other expense.

(c) Capital assets • Property, plant and equipment and intangible assets other than goodwill are referred to collectively as capital assets. The carrying value of capital assets is calculated as follows:

(c.1) Recognition and measurement • Capital assets acquired or developed internally are initially recorded at cost. In connection with the adoption of IFRS, the Corporation established fair value as deemed cost for certain items of property, plant and equipment at the date of transition to IFRS (note 14).

Assets acquired under finance leases are initially recorded at their fair value at the inception of the lease, or if lower, at the present value of the minimum lease payments as determined at the inception of the lease.

Cost includes expenditures that are directly attributable to the acquisition of an asset, any other costs directly attributable to bringing the asset to working condition for its intended use, the costs of restoring the site on which it is located, and borrowing costs on a qualifying asset for which the commencement date for capitalization is on or after January 1, 2010, as permitted under IFRS 1.

When significant parts of an item of capital assets have different useful lives, they are accounted for as separate items (major components) of capital assets with depreciation or amortization being recognized over the useful life of each major component.

(c.2) Subsequent costs • The cost of replacing a part of a capital asset is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to The Canada Post Group, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized concurrent with the replacement. The costs of day-to-day servicing of capital assets are recognized in profit or loss as incurred.

(c.3) Depreciation and amortization • Depreciation or amortization commences when assets are available for use and is calculated on the cost (or deemed cost) of an asset less residual value. Depreciation and amortization are recognized over the estimated useful lives of the capital assets as described in the table below. When a capital asset includes major components, depreciation or amortization is recognized at this level; the depreciation or amortization periods noted below incorporate those applicable for major components, if any, contained within the overall asset.

Type of capital asset	Depreciation or amortization method	Depreciation or amortization period or rate
Buildings	Straight-line	10 to 65 years
Leasehold improvements	Straight-line	Shorter of lease term or the asset's economic useful life
Plant equipment	Straight-line	5 to 20 years
Vehicles:		
Passenger	Declining balance	Annual rate of 30%
Other	Straight-line	3 to 12 years
Sales counters, office furniture and equipment	Straight-line	3 to 20 years
Other equipment	Straight-line	5 to 20 years
Software	Straight-line	3 to 7 years
Customer contracts	Straight-line	Term of contract plus period of renewal options
Customer relationships	Straight-line	Estimated period of future benefit, based on historical experience and future projections of customer business

Capital assets held under finance leases are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that The Canada Post Group will obtain ownership by the end of the lease term.

Depreciation and amortization methods and estimates of useful lives and residual values are reviewed on a periodic basis and revised on a prospective basis where appropriate.

(c.4) Decommissioning obligations • Obligations associated with the retirement of property, plant and equipment are recorded when those obligations result from the acquisition, construction, development or normal operation of the assets. The Canada Post Group recognizes these obligations in the period they are incurred at the present value of the best estimate of the expenditures required to settle the present obligation, discounted at a risk-free interest rate. Subsequently, at each reporting date, the obligation is adjusted to reflect the passage of time through accretion expense, and any changes in the estimated amounts required to settle the obligation and significant changes in the discount rate. The associated costs are capitalized as part of the carrying value of the related asset.

(c.5) Impairment of capital assets • The Canada Post Group assesses the carrying amount of non-financial assets including capital assets at each reporting date to determine whether there is any indication that the carrying amount of the assets may be impaired. If such indication exists, or when annual impairment testing for an asset or group of assets is required, The Canada Post Group makes an estimate of the recoverable amount. The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset(s). When the carrying amount exceeds the recoverable amount, the asset or group of assets is considered impaired and is written down to its recoverable amount. For the purpose of assessing recoverability, capital assets are grouped at the cash-generating unit level, which is the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If it is determined that the net carrying value is not recoverable, an impairment loss is recognized as part of profit or loss for the period. After the recognition of an impairment loss, the depreciation or amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less its residual value, on a systematic basis over its remaining useful life.

An assessment is also made at each reporting date as to whether there is an indication that any previously recognized impairment loss may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset’s recoverable amount since the last impairment loss was recognized. In such cases, the carrying amount of the asset is increased to its recoverable amount subject to an upper limit. The carrying amount after the reversal cannot exceed the carrying amount that would have been determined, net of depreciation or amortization, had no impairment loss been recognized for the asset in prior periods. Such reversal is recognized during the period. After any such reversal, depreciation or amortization is adjusted in future periods to allocate the asset’s revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

(c.6) Capital assets to be disposed of by sale • When The Canada Post Group intends to sell a capital asset, for which the sale within 12 months is highly probable, the asset is classified as held for sale and is presented in current other assets. The asset to be sold is measured at the lower of carrying amount and fair value less costs to sell, and no further depreciation or amortization is recorded once the held for sale classification is met. The impairment loss, if any, resulting from the remeasurement of an asset to fair value less costs to sell is recorded as a charge to profit or loss. If subsequently the asset’s fair value less costs to sell increases, the gain is recognized, however only to the extent of cumulative impairment losses already recognized for that particular asset. The gain or loss on the sale of a capital asset held for sale is realized at the time the asset is disposed of by sale.

(d) **Goodwill** • Goodwill arising on the acquisition of a business represents the excess of the cost of acquisition over the net fair value of the identifiable assets and liabilities of the business recognized at the date of acquisition. Goodwill is initially recognized at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill is not amortized but is tested for impairment annually, as at the same date each year, or more frequently if events and circumstances indicate that there may be an impairment. Impairment losses recognized for goodwill are not subsequently reversed.

For the purpose of impairment testing, goodwill arising on the acquisition of a business is, from the acquisition date, allocated to each of the cash-generating units or groups of cash-generating units to which it relates. An impairment loss is recognized when the carrying value of a cash-generating unit, including the allocated goodwill, exceeds its estimated recoverable amount. The impairment loss is the excess of the carrying value over the estimated recoverable amount, and is recognized in profit or loss in the period in which it is determined. The impairment loss is first allocated to reduce the carrying amount of the goodwill allocated to the cash-generating unit, and then to reduce the carrying amounts of the other assets in the unit on a pro rata basis.

(e) **Borrowing costs** • Borrowing costs consist primarily of interest expense calculated using the effective interest method. Any borrowing costs attributable to the acquisition, construction or production of qualifying assets, which are assets that take a substantial period of time to prepare for their intended use, are capitalized as part of the cost of those assets until such time as they are substantially ready for use. The Canada Post Group's qualifying assets primarily relate to the Corporation's Postal Transformation Program. All other borrowing costs are recognized in finance costs and other expense in the period in which they are incurred.

(f) **Provisions** • A provision is an obligation of uncertain timing or amount. Provisions are recognized when The Canada Post Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and the amount of the obligation can be reliably estimated. Provisions are measured at the best estimate of the expenditures expected to be required to settle the present obligation at the end of the reporting period. When there are a number of similar obligations, the likelihood that an outflow will be required in the settlement of obligations is determined by considering the class of obligations as a whole. Discounting, using a risk-free interest rate specific to the liability, is applied in the measurement of amounts to settle the obligation when the expected time to settlement extends over many years, and when coupled with the settlement amounts, would result in material differences if discounting was not considered. Provisions are remeasured at each reporting date using the current discount rate, as applicable. The accretion is presented in profit or loss as part of finance costs and other expense.

(g) **Revenue recognition** • The Canada Post Group's revenue is derived primarily from providing products and services represented by three distinct lines of business: Transaction Mail, Parcels and Direct Marketing. Transaction Mail includes the physical and electronic delivery of bills, invoices, notices and statements. Parcels includes regular parcels, all expedited delivery and courier services, as well as transportation and third-party logistics services. Direct Marketing includes Addressed Admail, Unaddressed Admail and Publications Mail, such as newspapers and periodicals. Other mail products and services include money orders and postal box rentals, as well as retail and philatelic products.

Revenue is recognized when the service has been rendered, goods have been delivered or work has been completed. Revenue from meter customers for which services have not been rendered prior to period end is deferred based on a sampling methodology that closely reflects the meter resetting practices of customers. Payments received in advance are deferred until services are rendered or products are delivered. Deferred revenue is also recorded when resellers are billed for postal product shipments prior to The Canada Post Group rendering the related services to customers.

The Canada Post Group may enter into arrangements with subcontractors to provide services to customers. If The Canada Post Group acts as the principal in such an arrangement, the amount billed to the customer is recognized as revenue. Otherwise, the net amount retained, which is the amount billed to the customer less the amount paid to the subcontractor, is recognized as revenue.

Consideration given to a customer is recorded as a reduction of revenue unless an identifiable and separable benefit is received by The Canada Post Group, in which case the fair value of the benefit is recognized as an expense.

(h) Incentive and lease inducements • The incentive received upon signing of a 10-year outsourcing contract in 2002 was deferred, and is being amortized on a straight-line basis over the term of the contract. Lease inducements are deferred, and are amortized on a straight-line basis over the initial fixed lease term. Amortization of the incentive and the lease inducement are presented as reductions of other operating costs. The current portion of the deferred incentive and lease inducement is presented in deferred revenue, and any remaining unamortized balance is presented in non-current other liabilities.

(i) Pension, other post-employment and other long-term benefit plans

(i.1) Defined contribution pension plans • Employer contributions to the defined contribution pension plans are expensed as employees render the service entitling them to the contributions.

(i.2) Defined benefit pension and other post-employment plans • The obligation for providing defined pension and other post-employment benefits is recognized over the period of employee service. The defined benefit obligations and related estimated costs are determined annually on an actuarial basis using the projected unit credit method. This actuarial method sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. The actuarial calculations include management's best estimate of the rates of return on plan assets, inflation, rates of compensation increase, retirement age, rates of employee disability and mortality, and growth rates of health-care and dental costs, as applicable. The expected long-term rates of return on plan assets are based on historical long-term returns provided by various asset categories weighted according to each pension plan's targeted asset allocation. The discount rates used to value the defined benefit obligations are determined by reference to market conditions at year end, assuming a theoretical portfolio of Corporate AA bonds with overall duration equal to the weighted-average duration of the respective defined benefit obligations.

Actuarial gains or losses on plan assets arise from the difference between the actual and expected returns on plan assets. Actuarial gains or losses on defined benefit obligations arise from the difference between actual and expected experience and changes in the actuarial assumptions used to determine the present value of the benefit obligations. On an annual basis, at a minimum, the plans' key assumptions are assessed and revised as appropriate. When the plans' key assumptions fluctuate significantly relative to their immediately preceding year end values, actuarial gains or losses arising from such significant fluctuations are recognized on an interim basis. Actuarial gains or losses are recognized in other comprehensive income and are included immediately in retained earnings or deficit without reclassification to profit or loss in a subsequent period.

When a funded plan gives rise to a pension benefit asset and The Canada Post Group cannot fully benefit from the asset in the future, a valuation allowance needs to be recorded. In addition, in circumstances where there is an existing shortfall on a funding basis, the minimum funding requirements, with respect to services already provided, may give rise to a further reduction of the pension benefit asset and could even create or increase a pension benefit liability. The effects of the valuation allowance are recognized in other comprehensive income in the period in which they occur, and are included immediately in retained earnings or deficit without reclassification to profit or loss in a subsequent period.

The pension benefit assets and the pension and other post-employment benefit liabilities are presented as non-current items on the consolidated statement of financial position.

Defined benefit costs include, as applicable, the estimated cost of employee benefits for current year's service, interest on defined benefit obligations, expected return on plan assets, gain or loss on curtailment or settlement and plan amendments. The vested portion of past service costs arising from plan amendments is recognized immediately as a benefit cost. The unvested portion is amortized on a straight-line basis over the average remaining period until the benefit becomes vested. Benefit costs are presented in employee benefits on the statement of comprehensive income.

(i.3) Other long-term employee benefits • Other long-term employee benefits include sick leave, workers' compensation benefits, the continuation of benefits for employees on long-term disability and long service awards. The same methodology and assumptions as for the defined benefit plans are applicable, except for the following:

- The obligation for providing workers' compensation benefits and the continuation of certain benefits for employees on long-term disability is recognized when the event triggering the obligation occurs;
- Management's best estimate takes into account the sick leave utilization experience as well as the experience and assumptions for provincial workers' compensation boards;
- Any actuarial gains and losses are recognized in profit or loss in the period in which they arise;
- Past service costs are recognized immediately; and
- Other long-term benefit liabilities are segregated between current and non-current components on the consolidated statement of financial position.

(i.4) Termination benefits • Termination benefits are generally payable when employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Canada Post Group recognizes termination benefits when it demonstrates commitment to terminating the employment of current employees according to a detailed formal plan without realistic possibility of withdrawal.

(j) Transitional support from the Government of Canada • The Government of Canada, as part of the *Federal Public Sector Pension Reform*, committed to provide transitional support to assist the Corporation with the incremental costs incurred as a result of establishing the Canada Post Corporation Pension Plan and the associated ancillary benefits. The final tranche of the transitional support was received in 2010. Receipt of the transitional support was conditional on the Corporation maintaining other retirement enhancements similar to those offered to the *Public Service Superannuation Act* participants and, also, on the Corporation showing visible commitment and progress towards achieving the financial and service performance objectives set out in the Policy Framework and reflecting them in future corporate plans. Therefore, transitional support was accounted for only when received. The entire amount of transitional support was deferred and drawn down on a first-in, first-out basis to cover the incremental costs incurred. The draw-down from deferred transitional support was recorded as a reduction of expense.

(k) Income taxes • Deferred tax assets and deferred tax liabilities are recognized for the tax effect of the difference between the carrying values and tax bases of assets and liabilities. Deferred tax assets are recognized for deductible temporary differences, for unused tax losses and income tax reductions to the extent that their realization is probable. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related benefit will be realized. Deferred tax assets and deferred tax liabilities are measured using substantively enacted income tax rates and income tax laws. These amounts are reassessed each reporting period in the event of changes in income tax rates.

Income taxes are recognized in profit or loss except to the extent that they relate to items recognized directly in other comprehensive income or equity, in which case the tax is recognized in other comprehensive income or equity, respectively.

Scientific research and experimental development ("SR&ED") tax credits are recorded as a reduction of the current cost of operations or property, plant and equipment, when there is reasonable assurance that the SR&ED tax credit will be realized.

(l) Foreign currency translation

(l.1) Subsidiaries and joint venture • Items included in the interim condensed consolidated financial statements of each of the Corporation's subsidiaries and joint venture are measured using the currency of the primary economic environment in which the subsidiary or joint venture operates ("the functional currency").

(l.2) Transactions and balances • Foreign currency transactions for each entity within The Canada Post Group are translated into Canadian dollars, the presentation and functional currency of The Canada Post Group, using the exchange rates prevailing at the dates of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities not denominated in the functional currency of The Canada Post Group are recognized in profit or loss. Assets and liabilities of entities with functional currencies other than Canadian dollars are translated at the period end rates of exchange, and the results of their operations are translated at exchange rates at the dates of the transaction. The resulting translation adjustments are recognized in other comprehensive income. Additionally, foreign exchange gains and losses related to certain intercompany loans that are permanent in nature are recognized in other comprehensive income.

(m) Leases • The Canada Post Group is party to many leasing arrangements, which requires management to determine whether the lease is a finance or an operating lease by assessing whether substantially all the risks and rewards of ownership have passed to The Canada Post Group. Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership of the asset to The Canada Post Group. All other leases are classified as operating leases.

Assets held under finance leases are recognized as assets of The Canada Post Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments as determined at the inception of the lease. The corresponding liability to the lessor is recorded as a finance lease obligation included in loans and borrowings. Lease payments are apportioned between finance charges and the reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in profit or loss under finance costs and other expense.

Rent payable under operating leases is recognized in profit or loss on a straight-line basis over the term of the respective lease.

3. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

The preparation of the Corporation's interim condensed consolidated financial statements requires management to make complex or subjective 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 considerable change in reported amounts and disclosures in the consolidated financial statements of future periods.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

(a) Critical judgements in applying accounting policies • The following are the critical judgements, apart from those involving estimations (see (b) below), that management has made in the process of applying The Canada Post Group's accounting policies and that have the most significant effects on the amounts recognized in the interim or annual consolidated financial statements.

(a.1) Capital assets • Capital assets with finite useful lives are required to be tested for impairment only when indication of impairment exists. Management is required to make a judgment with respect to the existence of impairment indicators at the end of each reporting period. Some indicators of impairment that management may consider include changes in the current and expected future use of the asset, external valuations of the asset, and obsolescence or physical damage to the asset.

(a.2) Provisions and contingent liabilities • In determining whether a liability should be recorded in the form of a provision, management is required to exercise judgment in assessing whether The Canada Post Group has a present legal or constructive obligation as a result of a past event, whether it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and whether a reasonable estimate can be made of the amount of the obligation. In making this determination, management may use past experience, prior external precedents and the opinions and views of legal counsel. If management determines that the above three conditions are met, a provision is recorded for the obligation. Alternatively, a contingent liability is disclosed in the notes to the consolidated financial statements if management determines that any one of the above three conditions is not met, unless the possibility of outflow in settlement is considered to be remote.

(a.3) Leases – The Canada Post Group as lessee • The Canada Post Group is party to many leasing arrangements, which requires management to determine whether the lease is a finance or an operating lease by assessing whether substantially all the risks and rewards of ownership have passed to The Canada Post Group. Factors used by management in determining whether a lease is a finance or an operating lease include, but are not limited to, whether there is a transfer of ownership at the end of the lease term, whether the lease term is for the major part of the economic life of the leased asset and whether at the inception of the lease the present value of the minimum lease payments amounts to substantially all of the fair value of the leased asset.

(b) Key sources of estimation uncertainty • The following are the key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to consolidated financial statements within the next twelve months.

(b.1) Capital assets • Capital assets, comprising property, plant and equipment and intangible assets with finite useful lives, are depreciated or amortized over their useful lives. Useful lives are based on management's estimates of the periods of service provided by the assets, and are included in note 2 (c.3) to the interim condensed consolidated financial statements. The useful lives of these assets are periodically reviewed for continued appropriateness. Changes to the useful life estimates would affect future depreciation or amortization expense and the future carrying values of assets.

Capital assets are tested for impairment as described in note 2 (c.5) to the interim condensed consolidated financial statements. The impairment test compares the carrying value to the asset's recoverable amount, which is the higher of the asset's fair value less costs to sell and its value in use. Determining both the fair value less costs to sell and its value in use requires management to make estimates, either regarding the asset's market value and selling costs or the future cash flows related to the asset or cash-generating unit, discounted at the appropriate rate to reflect the time value of money. Differences from estimates in determining any of these variables could materially affect the consolidated financial statements, both in determining whether impairment exists and in determining the amount of impairment. No impairment related to capital assets has been recorded in the current or prior comparative period, or current or prior year.

(b.2) Goodwill • The Canada Post Group tests annually, or more frequently if necessary, whether goodwill has suffered any impairment in accordance with the accounting policy provided in note 2 (d) to the interim condensed consolidated financial statements. Performing goodwill impairment testing requires management to determine the fair value of the relevant cash-generating units on the basis of projected future cash flows using internal business plans or forecasts, and discounting these cash flows to appropriately reflect the time value of money. While management believes that estimates of future cash flows and discount rates are reasonable, different assumptions regarding future cash flows or discount rates could materially affect the outcome of the goodwill impairment test. For assumptions relating to goodwill impairment testing, refer to note 8.

(b.3) Deferred revenue • The Canada Post Group estimates deferred revenue at the end of the reporting period relating to parcels deposited but not yet delivered, stamps distributed to dealers but not yet resold to customers, and meters filled but not yet used by customers. The estimate of deferred parcel revenue is made based on delivery service statistics maintained by The Canada Post Group. The estimates relating to deferred stamp and meter revenue are established using aggregate dealer outlet and meter customer actual usage patterns, respectively.

(b.4) Pension, other post-employment and other long-term benefit plans • Pension, other post-employment and other long-term benefit obligations to be settled in the future require assumptions to establish the benefit obligations. Defined benefit accounting is intended to reflect the recognition of the benefit costs over the employee's approximate service period or when the event triggering the benefit entitlement occurs based on the terms of the plan and the investment and funding decisions made. This accounting requires The Canada Post Group to make assumptions regarding variables such as discount rates, expected long-term rates of return on plan assets, long-term rates of compensation increase, retirement age, future health-care and dental costs and mortality rates. The Canada Post Group consults with external actuaries regarding these assumptions at least annually. Changes in these key assumptions can have a significant impact on the defined benefit obligations, funding requirements and pension, other post-employment and other long-term benefit costs.

For funded plans, assets are recognized only to the extent that The Canada Post Group can realize future economic benefits from them. In establishing the economic benefit, The Canada Post Group projects gains resulting from an expected rate of return on assets exceeding the going concern discount rate used for funding requirements.

Funded plans for which The Canada Post Group has a unilateral right to the surplus are not subject to the valuation allowance requirements.

(b.5) Provisions and contingent liabilities • When it has been determined by management that The Canada Post Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the obligation can be made, a provision is accrued. A contingent liability is disclosed in the notes to the consolidated financial statements if there is a possible outflow of resources embodying economic benefits or if no reliable estimate can be made. No contingent liability is disclosed if the possibility of an outflow of resources embodying economic benefits is remote.

In determining a reliable estimate of the obligation, management makes assumptions about the amount and likelihood of outflows, the timing of the outflows, as well as the appropriate discount rate to use. Factors affecting these assumptions include the nature of the provision, the existence of a claim amount, the opinions or views of legal counsel and other advisers, experience in similar circumstances, and any decision of management as to how The Canada Post Group intends to handle the obligation. The actual amount and timing of outflows may deviate from the assumptions, and the difference might materially affect future consolidated financial statements, with an adverse impact upon the consolidated results of operation, financial position and liquidity.

(b.6) Income taxes • The Canada Post Group operates in many jurisdictions requiring calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Liabilities are recognized for anticipated tax issues based on estimates of the additional taxes that are likely to become due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will affect the income tax and deferred tax provisions in the period in which such determination is made.

Deferred tax assets and liabilities are comprised of temporary differences between the carrying amount and tax basis of assets and liabilities, as well as tax losses carried forward. Deferred tax assets are only recorded to the extent that it is probable they will be realized. The timing of the reversal of the temporary differences is estimated, and the tax rate substantively enacted for the period of reversal is applied to the temporary difference.

If future outcomes were to adversely differ from management's best estimate of future results of operations and the timing of reversal of deductible temporary differences, The Canada Post Group could experience material deferred income tax adjustments. Such deferred income tax adjustments would not result in immediate cash outflows and, taken on their own, would not affect The Canada Post Group's immediate liquidity.

4. Accounting Pronouncements Requiring Implementation in Future Years

The following new standards and amendments have been issued by the International Accounting Standards Board ("the IASB"), which have been assessed as having a possible impact on The Canada Post Group in the future:

Standard or amendment	Effective for annual periods beginning on or after
IFRS 9 Financial Instruments	January 1, 2013
IFRS 10 Consolidated Financial Statements	January 1, 2013
IFRS 11 Joint Arrangements	January 1, 2013
IFRS 12 Disclosure of Interests in Others	January 1, 2013
IFRS 13 Fair Value Measurement	January 1, 2013
IAS 27 Separate Financial Statements	January 1, 2013
IAS 28 Investments in Associates and Joint Ventures	January 1, 2013
Amendments to IAS 19 Employee Benefits	January 1, 2013
Amendments to IAS 1 – Presentation of Items of Other Comprehensive Income	July 1, 2012

The Corporation is currently determining the impact of these standards and amendments on its consolidated financial statements.

5. Capital Assets

(a) Property, plant and equipment

Property, plant and equipment consisted of the following items:

(in millions)

	Land	Buildings	Leasehold improvements	Plant equipment	Vehicles	Sales counters, office furniture and equipment	Other equipment	Assets under development	Total property, plant and equipment
Cost or deemed cost									
January 1, 2011	$ 309	$ 1,590	$ 225	$ 1,129	$ 274	$ 409	$ 822	$ 37	$ 4,795
Additions	3	11	3	63	–	11	15	58	164
Reclassified as held for sale	(15)	(4)	–	–	–	–	–	–	(19)
Retirements	–	–	(4)	(73)	(8)	(9)	–	–	(94)
Transfers (nets to nil with note 5 (b))	–	7	2	5	–	–	–	(20)	(6)
July 2, 2011	**$ 297**	**$ 1,604**	**$ 226**	**$ 1,124**	**$ 266**	**$ 411**	**$ 837**	**$ 75**	**$ 4,840**
Accumulated depreciation									
January 1, 2011	$ –	$ 804	$ 160	$ 775	$ 163	$ 275	$ 491	$ –	$ 2,668
Depreciation	–	29	8	31	10	18	18	–	114
Reclassified as held for sale	–	(3)	–	–	–	–	–	–	(3)
Retirements	–	–	(4)	(73)	(8)	(8)	–	–	(93)
July 2, 2011	**$ –**	**$ 830**	**$ 164**	**$ 733**	**$ 165**	**$ 285**	**$ 509**	**$ –**	**$ 2,686**
Carrying amounts									
January 1, 2011	309	786	65	354	111	134	331	37	2,127
July 2, 2011	**$ 297**	**$ 774**	**$ 62**	**$ 391**	**$ 101**	**$ 126**	**$ 328**	**$ 75**	**$ 2,154**

(b) Intangible assets

Intangible assets consisted of the following items:

(in millions)

	Software	Software under development	Customer contracts & relationships	Total intangible assets
Cost				
January 1, 2011	$ 540	$ 26	$ 27	$ 593
Additions	13	7	–	20
Retirements	(1)	–	–	(1)
Transfers (nets to nil with note 5 (a))	7	(1)	–	6
July 2, 2011	**$ 559**	**$ 32**	**$ 27**	**$ 618**
Accumulated amortization				
January 1, 2011	$ 409	$ –	$ 23	$ 432
Amortization	28	–	–	28
Retirements	(1)	–	–	(1)
July 2, 2011	**$ 436**	**$ –**	**$ 23**	**$ 459**
Carrying amounts				
January 1, 2011	131	26	4	161
July 2, 2011	**$ 123**	**$ 32**	**$ 4**	**$ 159**

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

(a) Costs (recoveries)

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

For the 13 weeks ended (in millions)	**July 2, 2011**			July 3, 2010		
	Pension benefit plans	**Other benefit plans**	**Total**	Pension benefit plans	Other benefit plans	Total
Current service cost	$ 101	$ 35	$ 136	$ 77	$ 30	$ 107
Interest cost	242	47	289	233	47	280
Expected return on plan assets	(289)	–	(289)	(257)	–	(257)
Past service costs	70	(3)	67	–	(7)	(7)
Curtailment gain	–	–	–	–	(12)	(12)
Defined benefit costs	124	79	203	53	58	111
Return on segregated securities	–	(9)	(9)	–	(4)	(4)
Transitional support from the Government of Canada	–	–	–	–	(3)	(3)
Net costs	**$ 124**	**$ 70**	**$ 194**	$ 53	$ 51	$ 104

For the 26 weeks ended (in millions)	**July 2, 2011**			July 3, 2010		
	Pension benefit plans	**Other benefit plans**	**Total**	Pension benefit plans	Other benefit plans	Total
Current service cost	$ 201	$ 71	$ 272	$ 158	$ 59	$ 217
Interest cost	483	94	577	469	94	563
Expected return on plan assets	(579)	–	(579)	(518)	–	(518)
Past service costs	70	(5)	65	–	(9)	(9)
Curtailment gain	–	–	–	–	(13)	(13)
Defined benefit costs	175	160	335	109	131	240
Return on segregated securities	–	(15)	(15)	–	(9)	(9)
Transitional support from the Government of Canada	–	–	–	–	(6)	(6)
Net costs	**$ 175**	**$ 145**	**$ 320**	$ 109	$ 116	$ 225

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

(b) Total cash payments

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

(in millions)	13 weeks ended July 2, 2011	13 weeks ended July 3, 2010	26 weeks ended July 2, 2011	26 weeks ended July 3, 2010
Benefits paid directly to beneficiaries for unfunded other benefit plans	$ 39	$ 41	$ 79	$ 79
Employer regular contributions to funded pension benefit plans	84	92	164	157
Employer special contributions to funded pension benefit plans	112	222	221	228
Total cash payments	**$ 235**	$ 355	**$ 464**	$ 464

Pursuant to a December 31, 2010 pension valuation report, which was filed in June 2011, employer special contributions of $651 million are required in 2011 to fund going concern and solvency deficits. Subsequent to July 2, 2011, as permitted by existing pension legislation, the Corporation obtained approval from the Minister of Finance and the Minister of Transport, Infrastructure and Communities to reduce solvency special payments by $431 million for the remainder of 2011.

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

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

(in millions)	13 weeks ended July 2, 2011	13 weeks ended July 3, 2010	26 weeks ended July 2, 2011	26 weeks ended July 3, 2010
Current tax expense (income)	$ 22	$ (75)	$ 1	$ (52)
Deferred tax expense (income) relating to:				
Origination and reversal of temporary differences	(23)	73	(2)	61
Reduction in tax rate	–	–	2	1
Tax expense (income)	**$ (1)**	$ (2)	**$ 1**	$ 10

8. Goodwill

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

(in millions)			**July 2, 2011**	December 31, 2010	January 1, 2010
	Purolator segment	**Logistics segment**	**Total**	Total	Total
Balance, beginning and end of period	**$ 121**	**$ 4**	**$ 125**	$ 125	$ 125

Goodwill impairment testing

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

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

- Future cash flows were discounted in determining the value in use. The cash flows were based on Purolator's five-year plan, which is aligned with how Purolator is managed. Cash flows were extrapolated in perpetuity using a growth rate of 3.5 per cent (2010 – 3.5 per cent and January 1, 2010 – 3.5 per cent), which considers both growth and inflation, and reflects an acceptable percentage given the current market.
- The recoverable amount was calculated using a pre-tax discount rate of 19 per cent (2010 – 25 per cent and January 1, 2010 – 25 per cent), which is based on Purolator's weighted average cost of capital as at June 30, 2011 (2010 – June 30, 2010 and January 1, 2010 respectively).

9. Contingent Liabilities

(a) Two complaints have been filed with the Canadian Human Rights Commission ("the Commission") alleging discrimination by the Corporation concerning work of equal value.

The complaint filed by the Public Service Alliance of Canada ("PSAC") in 1983 was referred by the Commission to the Canadian Human Rights Tribunal ("the Tribunal"), which rendered a decision in October 2005 concluding that the Corporation had participated in "systemic discrimination" in the setting of wages for a group of PSAC members and ordered payment of lost wages at a discount of 50%.

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

On February 22, 2010, a majority of the Court of Appeal upheld the Trial Division's decision, finding in favour of the Corporation and dismissing both appeals. PSAC and the Commission sought leave to appeal to the Supreme Court of Canada, which was granted on December 16, 2010. The appeals will be heard by the Court on November 17, 2011. The estimated potential cost to the Corporation should PSAC's claim be successful is $175 million. However, as the Corporation does not consider it likely that the claim will succeed, this amount has not been accrued.

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

Settlement, if any, arising from resolution of these matters, is presently planned to be recovered in future postal rates (as determined in accordance with the *Canada Post Corporation Act*) and/or from the Government of Canada.

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

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

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

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

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

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

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

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

10. Other Operating Costs

Other operating costs consisted of:

	13 weeks ended		26 weeks ended	
(in millions)	**July 2, 2011**	July 3, 2010	**July 2, 2011**	July 3, 2010
Non-labour collection, processing and delivery	$ 299	$ 314	$ 651	$ 654
Property, facilities and maintenance	79	75	163	155
Selling, administrative and other	152	145	291	274
Total other operating costs	**$ 530**	$ 534	**$ 1,105**	$ 1,083

11. Investing and Financing Income (Expense)

Investing and financing income and expense consisted of:

	13 weeks ended		26 weeks ended	
(in millions)	**July 2, 2011**	July 3, 2010	**July 2, 2011**	July 3, 2010
Interest revenue	$ 4	$ 1	$ 9	$ 2
Gain on disposals of property, plant and equipment	3	1	3	–
Other income	–	–	–	1
Investment and other income	**$ 7**	$ 2	**$ 12**	$ 3
Interest expense	$ (12)	$ (2)	$ (25)	$ (5)
Other expense	(1)	–	(1)	–
Finance costs and other expense	**$ (13)**	$ (2)	**$ (26)**	$ (5)
Investing and financing income (expense), net	**$ (6)**	$ –	**$ (14)**	$ (2)

12. Foreign Exchange Risk

The Corporation's exposure to foreign exchange risk mostly arises from international settlements with foreign postal administrations and from the redemption of money orders denominated in foreign currencies. The Corporation's obligation to settle with foreign postal administrations is denominated in Special Drawing Rights, a basket of currencies comprising the US Dollar ("US$"), Euro, British Pound and Japanese Yen, whereas payment is usually denominated in US$.

In the first quarter of 2011, the Corporation implemented an economic hedging program to mitigate its exposure to foreign exchange balances. Where possible, exposures are netted internally and any remaining exposure may be hedged using foreign exchange forward contracts. These forward contracts are not designated as hedges for accounting purposes. The cumulative notional amount of contracts outstanding at July 2, 2011 were US$39 million to sell forward US Dollars, €16 million to sell forward Euros and £4 million to sell forward British Pounds. These contracts settle 10 days from period end and had a fair value of $1 million at July 2, 2011, which was included in current other assets. In addition, an unrealized gain of $1 million reflecting the change in fair value of these contracts was recorded in investment and other income for the 13 weeks and 26 weeks ended July 2, 2011. The fair value measurement of these contracts is level 2 in the fair value hierarchy.

13. Segmented Information

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

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

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

The accounting policies of the operating segments are the same as those described in the significant accounting policies (note 2).

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

As at and for the 13 weeks ended July 2, 2011
(in millions)

	Canada Post	Purolator	Logistics	Other	Elimination of intersegment	The Canada Post Group
Revenue from external customers	$ 1,338	$ 392	$ 31	$ –	$ –	$ 1,761
Intersegment revenue	4	23	3	41	(71)	–
Revenue from operations	$ 1,342	$ 415	$ 34	$ 41	$ (71)	$ 1,761
Profit before the undernoted items	$ 13	$ 39	$ 3	$ 5	$ (1)	$ 59
Depreciation and amortization	(57)	(14)	(1)	–	1	(71)
Investment and other income	12	–	–	–	(5)	7
Finance costs and other expense	(12)	(1)	–	–	–	(13)
Profit (loss) before tax	$ (44)	$ 24	$ 2	$ 5	$ (5)	$ (18)
Tax expense (income)	(9)	6	1	1	–	(1)
Profit (loss)	$ (35)	$ 18	$ 1	$ 4	$ (5)	$ (17)
Assets	$ 5,456	$ 699	$ 80	$ 212	$ (513)	$ 5,934
Unallocated amounts						11
Total assets						$ 5,945

As at and for the 13 weeks ended July 3, 2010
(in millions)

	Canada Post	Purolator	Logistics	Other	Elimination of intersegment	The Canada Post Group
Revenue from external customers	$ 1,446	$ 354	$ 33	$ –	$ –	$ 1,833
Intersegment revenue	4	19	3	41	(67)	–
Revenue from operations	$ 1,450	$ 373	$ 36	$ 41	$ (67)	$ 1,833
Profit before the undernoted items	$ 63	$ 37	$ 5	$ 6	$ (1)	$ 110
Depreciation and amortization	(51)	(13)	(2)	–	1	(65)
Investment and other income	12	–	–	–	(10)	2
Finance costs and other expense	(1)	(1)	–	–	–	(2)
Profit before tax	$ 23	$ 23	$ 3	$ 6	$ (10)	$ 45
Tax expense (income)	(12)	7	1	2	–	(2)
Profit	$ 35	$ 16	$ 2	$ 4	$ (10)	$ 47
Assets	$ 4,548	$ 688	$ 77	$ 211	$ (506)	$ 5,018
Unallocated amounts						(2)
Total assets						$ 5,016

As at and for the 26 weeks ended July 2, 2011
(in millions)

	Canada Post	Purolator	Logistics	Other	Elimination of intersegment	The Canada Post Group
Revenue from external customers	$ 2,894	$ 738	$ 62	$ –	$ –	$ 3,694
Intersegment revenue	9	49	6	76	(140)	–
Revenue from operations	$ 2,903	$ 787	$ 68	$ 76	$ (140)	$ 3,694
Profit before the undernoted items	$ 100	$ 46	$ 7	$ 9	$ (2)	$ 160
Depreciation and amortization	(114)	(27)	(3)	–	2	(142)
Investment and other income	18	–	–	–	(6)	12
Finance costs and other expense	(25)	(1)	–	–	–	(26)
Profit (loss) before tax	$ (21)	$ 18	$ 4	$ 9	$ (6)	$ 4
Tax expense (income)	(8)	5	1	3	–	1
Profit (loss)	$ (13)	$ 13	$ 3	$ 6	$ (6)	$ 3
Assets	$ 5,456	$ 699	$ 80	$ 212	$ (513)	$ 5,934
Unallocated amounts						11
Total assets						$ 5,945

As at and for the 26 weeks ended July 3, 2010
(in millions)

	Canada Post	Purolator	Logistics	Other	Elimination of intersegment	The Canada Post Group
Revenue from external customers	$ 2,970	$ 693	$ 66	$ –	$ –	$ 3,729
Intersegment revenue	9	40	4	74	(127)	–
Revenue from operations	$ 2,979	$ 733	$ 70	$ 74	$ (127)	$ 3,729
Profit (loss) before the undernoted items	$ 147	$ 49	$ 9	$ 10	$ (2)	$ 213
Depreciation and amortization	(101)	(26)	(4)	(1)	2	(130)
Investment and other income	13	–	–	–	(10)	3
Finance costs and other expense	(3)	(2)	–	–	–	(5)
Profit before tax	$ 56	$ 21	$ 5	$ 9	$ (10)	$ 81
Tax expense	(1)	6	2	3	–	10
Profit	$ 57	$ 15	$ 3	$ 6	$ (10)	$ 71
Assets	$ 4,548	$ 688	$ 77	$ 211	$ (506)	$ 5,018
Unallocated amounts						(2)
Total assets						$ 5,016

14. First Time Adoption of IFRS

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

The accounting policies set out in note 2 have been applied in preparing the interim condensed consolidated financial statements for the 13 and 26 weeks ended July 2 2011, the comparative information for the 13 and 26 weeks ended July 3, 2010, the year ended December 31, 2010 and the opening IFRS statement of financial position as at January 1, 2010. The policies selected and applied are based on IFRS issued and effective as at the time the interim condensed consolidated financial statements were prepared. However, the IASB continues to amend and add to current IFRS standards and interpretations with several projects underway. Consequently, the standards used to prepare the information in this note may differ from those used to prepare the Corporation's consolidated financial statements for the year ended December 31, 2011.

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

(a) IFRS 1 exemption elections

A brief description of the exemptions applied by The Canada Post Group upon transition to IFRS is set out below. The reconciliation of equity and comprehensive income, and the accompanying explanatory notes, provide additional detail about the significant adjustments recorded by The Canada Post Group as a result of the transition to IFRS.

(a.1) Employee benefits

The Canada Post Group elected to recognize all previously unrecorded actuarial gains and losses through equity on transition. Without the election of this IFRS 1 exemption, full retrospective application of IAS 19 "Employee Benefits" ("IAS 19") would have been required.

The Canada Post Group also elected to disclose the annual amounts of the present value of the defined benefit obligation, the fair value of the plan assets, the plan surplus or deficit as well as the related experience adjustments prospectively for periods commencing from the date of transition.

(a.2) Fair value as deemed cost

For a few selected buildings and land with some unique characteristics, the Corporation applied the exemption under IFRS 1 to measure items of property, plant and equipment at their fair value as deemed cost at the date of transition.

(a.3) Business combinations

The Canada Post Group elected not to apply IFRS 3 "Business Combinations" ("IFRS 3") retrospectively to business combinations that occurred before the date of transition, and adopted IFRS 3 prospectively from January 1, 2010. As required by the use of this exemption, a goodwill impairment test was performed at transition. No goodwill impairment write-down was required.

Concurrent with the election of this exemption, The Canada Post Group applied certain specified requirements of IAS 27 "Consolidated and Separate Financial Statements," relating to the allocation of income to any non-controlling interests and to any prior changes in ownership, on a prospective basis.

(a.4) Leases

The Canada Post Group elected to apply the IFRS 1 elective exemption relating to IFRIC 4 "Determining whether an Arrangement contains a Lease" ("IFRIC 4") to its outsourcing arrangements on transition. Under the exemption, The Canada Post Group was not required to reassess arrangements within the scope of IFRIC 4 where a comparable determination had previously been made under Canadian GAAP. Where no such assessment had been made previously, an assessment as to whether the arrangement contained a lease was carried out based on facts and circumstances at transition, as opposed to the inception date of the applicable arrangement.

(a.5) Cumulative translation differences

The Canada Post Group elected to use the exemption to reset the cumulative translation difference related to its foreign operations to zero upon transition to IFRS. The impact of this election on transition to IFRS was negligible.

(a.6) Designation of previously recognized financial instruments

The Canada Post Group elected to apply the exemption to designate cash and cash equivalents and marketable securities as fair value through profit or loss, and to designate segregated securities as available-for-sale at the date of transition, thereby maintaining the same classifications and carrying amounts as recorded under Canadian GAAP at the same date.

(a.7) Decommissioning obligations included in property, plant and equipment

The Canada Post Group elected to determine the amount of any liabilities included in the cost of property, plant and equipment using estimates of the liability at inception, the estimated historical risk-free discount rate from inception to transition and current estimates of useful life, as a practical permitted alternative to full retrospective application.

(a.8) Capitalized borrowing costs

The Canada Post Group elected to apply IAS 23 "Borrowing Costs" prospectively from January 1, 2010.

(b) Reconciliation of Canadian GAAP to IFRS

In order to explain how the transition from Canadian GAAP to IFRS affected the financial position and performance of The Canada Post Group, reconciliations of equity as at the date of transition, July 3, 2010 and December 31, 2010, and reconciliations of comprehensive income for the 26 weeks ended July 3, 2010 and for the year ended December 31, 2010 are included below. The Canada Post Group's transition to IFRS did not have a material impact on the total operating, investing or financing cash flows. The significant adjustments to equity and comprehensive income, as a result of the adoption of IFRS, are shown in the tables below. The adjustments relating to equity as at the date of transition and to comprehensive income for the year are further explained in the notes accompanying the tables. Following the notes, reconciliations of the statements of financial position and comprehensive income previously presented under Canadian GAAP to those prepared under IFRS are also presented as additional explanatory material.

(b.1) Reconciliations of equity and comprehensive income as at and for the 26 weeks ended July 3, 2010

(in millions)	Notes	Adjustments at transition January 1, 2010	Adjustments to comprehensive income Profit	Adjustments to comprehensive income OCI*	Cumulative adjustments July 3, 2010**
Equity of Canada, profit and OCI under Canadian GAAP		$ 1,787	$ 123	$ 7	$ 1,917
IFRS differences increasing (decreasing) reported equity of Canada, profit and OCI:					
Employee benefits					
Net actuarial losses	(i)	(1,194)	–	–	(1,194)
Expected return on plan assets	(ii)	–	(60)	–	(60)
Asset limit and minimum funding requirements	(iii)	(46)	–	–	(46)
Past service cost and funding excess	(iv)	99	(24)	–	75
Attribution period	(v)	169	(1)	–	168
Other long-term benefits	(vi)	(238)	13	–	(225)
Property, plant and equipment	(vii)	(84)	1	–	(83)
Leases	(viii)	5	–	–	5
Provisions	(ix)	(2)	–	–	(2)
Deferred tax	(x)	324	18	–	342
Non-controlling interest impact	(xi)	5	–	–	5
Equity of Canada, profit and OCI attributable to the Government of Canada under IFRS		$ 825	$ 70	$ 7	$ 902
Reclassification of non-controlling interests to equity under IFRS	(xi)	29	1	–	30
Non-controlling interest share of adjustments	(xi)	(5)	–	–	(5)
Total equity, profit and OCI under IFRS		**$ 849**	$ 71	$ 7	**$ 927**

* Other comprehensive income

** There is no additional explanatory material provided for the adjustments to equity and comprehensive income as at and for the 26 weeks ended July 3, 2010, respectively. However, the notes referenced above, which explain the adjustments on transition and for 2010, provide an understanding of the general nature of each adjustment.

(b.2) Reconciliations of equity and comprehensive income as at and for the year ended December 31, 2010

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

* The notes referenced provide additional explanatory material for the adjustments to equity on transition and to comprehensive income for 2010. Reconciliations of the statement of financial position at January 1, 2010 and December 31, 2010, and a reconciliation of the statement of comprehensive income are also included following the explanatory material.

(i) Employee benefits – Actuarial gains and losses

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

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

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

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

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

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

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

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

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

(v) Employee benefits – Attribution period

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

(vi) Employee benefits – Other long-term benefits

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

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

(vii) Property, plant and equipment ("PP&E") and depreciation – Fair value as deemed cost

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

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

(viii) Leases – Sale leaseback transaction

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

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

(ix) Provisions

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

(x) Deferred tax

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

(xi) Non-controlling interests

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

(xii) Significant changes in terminology and presentation under IFRS

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

- Provisions represent a new category of liabilities and are required to be presented as a separate line item. Certain liabilities included within salaries and benefits payable and accounts payable and accrued liabilities under Canadian GAAP have been reclassified to provisions under IFRS.
- Deferred tax was formerly referred to as future income tax under Canadian GAAP. Additionally, deferred tax is required to be presented as non-current in its entirety under IFRS, whereas Canadian GAAP required it to be segregated between current and non-current components.
- Non-current assets held for sale were previously classified as non-current assets under Canadian GAAP. As per IFRS guidance, non-current assets held for sale are to be presented as current assets, resulting in the reclassification of this balance on transition to IFRS.
- Further to the recognition of additional other long-term liabilities, a portion of this liability was determined to be current and was therefore classified as such on transition to IFRS to appropriately reflect this determination.

Reconciliation of Consolidated Statement of Financial Position at January 1, 2010

(in millions of Canadian dollars)	Canadian GAAP	Employee benefits: Net actuarial losses	Employee benefits: Asset limit and MFR	Employee benefits: Past service cost & funding excess	Employee benefits: Attribution period	Employee benefits: Other long-term benefits	PP&E	Leases	Provisions	Deferred tax	Non-controlling interests	Recognition and measurement adjustments	Presentation adjustments	IFRS
	Note	(i)	(iii)	(iv)	(v)	(vi)	(vii)	(viii)	(ix)	(x)	(xi)	(i) to (xi)	(xii)	
ASSETS														
Current assets														
Cash and cash equivalents	473											-	-	**473**
Marketable securities	270											-	-	**270**
Trade and other receivables	584											-	-	**584**
Income tax receivable	69											-	1	**70**
Other assets	76											-	6	**82**
Current portion of deferred tax assets	25											-	(25)	**-**
Total current assets	1,497	-	-	-	-	-	-	-	-	-	-	-	(18)	**1,479**
Non-current assets														
Property, plant and equipment	2,047						(84)		1			(83)	-	**1,964**
Intangible assets	169											-	-	**169**
Segregated securities	654											-	-	**654**
Pension benefit assets	1,335	(1,149)	(25)	35								(1,139)	-	**196**
Deferred tax assets	179									296		296	25	**500**
Goodwill	125											-	-	**125**
Other assets	23											-	(6)	**17**
Total non-current assets	4,532	(1,149)	(25)	35	-	-	(84)	-	1	296	-	(926)	19	**3,625**
Total assets	6,029	(1,149)	(25)	35	-	-	(84)	-	1	296	-	(926)	1	**5,104**
LIABILITIES AND EQUITY														
Current liabilities														
Trade and other payables	450											-	(28)	**422**
Provisions	-								1			1	96	**97**
Salaries and benefits payable	575											-	(67)	**508**
Income tax payable	2											-	-	**2**
Deferred revenue	142											-	-	**142**
Loans and borrowings	10											-	-	**10**
Other long-term benefit liabilities	-											-	82	**82**
Total current liabilities	1,179	-	-	-	-	-	-	-	1	-	-	1	83	**1,263**
Non-current liabilities														
Loans and borrowings	120											-	-	**120**
Pension, other post-employment and other long-term benefit liabilities	2,835	45	21	(64)	(169)	238						71	(82)	**2,824**
Deferred tax liabilities	36									(28)		(28)	-	**8**
Provisions	-								1			1	7	**8**
Other liabilities	43							(5)	1			(4)	(7)	**32**
Total non-current liabilities	3,034	45	21	(64)	(169)	238	-	(5)	2	(28)	-	40	(82)	**2,992**
Total liabilities	4,213	45	21	(64)	(169)	238	-	(5)	3	(28)	-	41	1	**4,255**
Equity														
Contributed capital	1,155											-	-	**1,155**
Accumulated other comprehensive loss	(1)											-	-	**(1)**
Retained earnings (deficit)	633	(1,194)	(46)	99	169	(238)	(84)	5	(2)	324	5	(962)	-	**(329)**
Equity of Canada	1,787	(1,194)	(46)	99	169	(238)	(84)	5	(2)	324	5	(962)	-	**825**
Non-controlling interests*	29										(5)	(5)	-	**24**
Total equity	1,816	(1,194)	(46)	99	169	(238)	(84)	5	(2)	324	-	(967)	-	**849**
Total liabilities and equity	6,029	(1,149)	(25)	35	-	-	(84)	-	1	296	-	(926)	1	**5,104**

* Non-controlling interests are not part of total equity under Canadian GAAP. The presentation above is representative of the IFRS format of the consolidated statement of financial position.

Reconciliation of Consolidated Statement of Financial Position at December 31, 2010

(in millions of Canadian dollars)	Canadian GAAP	Employee benefits: Net actuarial losses	Employee benefits: Expected return on plan assets	Employee benefits: Asset limit and MFR	Employee benefits: Past service cost & funding excess	Employee benefits: Attribution period	Employee benefits: Other long-term benefits	PP&E	Leases	Provisions	Deferred tax	Non-controlling interests	Recognition and measurement adjustments	Presentation adjustments	IFRS
	Note	(i)	(ii)	(iii)	(iv)	(v)	(vi)	(vii)	(viii)	(ix)	(x)	(xi)	(i) to (xi)	(xii)	
ASSETS															
Current assets															
Cash and cash equivalents	379												-	-	**379**
Marketable securities	1,082												-	-	**1,082**
Trade and other receivables	628												-	-	**628**
Income tax receivable	139												-	2	**141**
Other assets	72												-	1	**73**
Current portion of deferred tax assets	26												-	(26)	**-**
Total current assets	2,326	-	-	-	-	-	-	-	-	-	-	-	-	(23)	**2,303**
Non-current assets															
Property, plant and equipment	2,210							(83)					(83)	-	**2,127**
Intangible assets	161												-	-	**161**
Segregated securities	499												-	-	**499**
Pension benefit assets	2,063	(2,790)	(120)		3								(2,907)	956	**112**
Deferred tax assets	204										824		824	26	**1,054**
Goodwill	125												-	-	**125**
Other assets	12												-	(1)	**11**
Total non-current assets	5,274	(2,790)	(120)	-	3	-	-	(83)	-	-	824	-	(2,166)	981	**4,089**
Total assets	7,600	(2,790)	(120)	-	3	-	-	(83)	-	-	824	-	(2,166)	958	**6,392**
LIABILITIES AND EQUITY															
Current liabilities															
Trade and other payables	500												-	(23)	**477**
Provisions	-												-	64	**64**
Salaries and benefits payable	576												-	(39)	**537**
Income tax payable	-												-	-	**-**
Deferred revenue	120												-	-	**120**
Loans and borrowings	13												-	-	**13**
Other long-term benefit liabilities	-												-	84	**84**
Total current liabilities	1,209	-	-	-	-	-	-	-	-	-	-	-	-	86	**1,295**
Non-current liabilities															
Loans and borrowings	1,095												-	-	**1,095**
Pension, other post-employment and other long-term benefit liabilities	2,950	423			(48)	(167)	225						433	872	**4,255**
Deferred tax liabilities	40										(33)		(33)	-	**7**
Provisions	-									1			1	9	**10**
Other liabilities	37								(4)				(4)	(9)	**24**
Total non-current liabilities	4,122	423	-	-	(48)	(167)	225	-	(4)	1	(33)	-	397	872	**5,391**
Total liabilities	5,331	423	-	-	(48)	(167)	225	-	(4)	1	(33)	-	397	958	**6,686**
Equity															
Contributed capital	1,155												-	-	**1,155**
Accumulated other comprehensive income	9												-	-	**9**
Retained earnings (deficit)	1,072	(3,213)	(120)	-	51	167	(225)	(83)	4	(1)	857	6	(2,557)	-	**(1,485)**
Equity of Canada	2,236	(3,213)	(120)	-	51	167	(225)	(83)	4	(1)	857	6	(2,557)	-	**(321)**
Non-controlling interests*	33											(6)	(6)	-	**27**
Total equity	2,269	(3,213)	(120)	-	51	167	(225)	(83)	4	(1)	857	-	(2,563)	-	**(294)**
Total liabilities and equity	7,600	(2,790)	(120)	-	3	-	-	(83)	-	-	824	-	(2,166)	958	**6,392**

* Non-controlling interests are not part of total equity under Canadian GAAP. The presentation above is representative of the IFRS format of the consolidated statement of financial position.

Reconciliation of Consolidated Statement of Comprehensive Income

Year ended December 31, 2010
(in millions)

	Notes	Canadian GAAP	Recognition and measurement adjustments	Presentation adjustments	IFRS
Revenue from operations		$ 7,453	$ –	$ –	$ 7,453
Cost of operations					
Labour	**(vi)**	3,854	(32)	–	3,822
Employee benefits, net of transitional support of $13 million	**(i) (ii) (iv) (v) (vi)**	806	206	–	1,012
		4,660	174	–	4,834
Other operating costs*		2,202	–	–	2,202
Depreciation and amortization	**(vii)**	276	(1)	–	275
Total cost of operations		7,138	173	–	7,311
Profit from operations		315	(173)	–	142
Investing and financing income (expense)					
Investment and other income	**(viii)**	22	(1)	–	21
Finance costs and other expense	**(ix)**	(30)	1	–	(29)
Investing and financing income (expense), net		(8)	–	–	(8)
Profit before tax		307	(173)	–	134
Tax expense (income)	**(x)**	(136)	(44)	–	(180)
Profit before non-controlling interests		443	(129)	–	314
Non-controlling interests in profit of subsidiaries	**(xi)**	4	–	(4)	–
Profit		$ 439	$ (129)	$ 4	$ 314
Other comprehensive income (loss)					
Not reclassifying to Profit (loss)					
Actuarial losses on defined benefit plans	**(i)**	$ –	$ (2,002)	$ –	$ (2,002)
Asset limit and minimum funding requirements	**(iii)**	–	46	–	46
Reclassifying to Profit (loss)					
Unrealized gains on available-for-sale financial assets		16	–	–	16
Realized gains reclassified to Profit		(3)	–	–	(3)
Tax relating to all components of Other comprehensive income (loss)	**(x)**	(3)	489	–	486
Other comprehensive income (loss)		10	(1,467)	–	(1,457)
Comprehensive income (loss)		$ 449	$ (1,596)	$ 4	$ (1,143)
Profit attributable to:					
Government of Canada	**(xi)**				$ 310
Non-controlling interests	**(xi)**				4
					$ 314
Comprehensive income (loss) attributable to:					
Government of Canada	**(xi)**				$ (1,146)
Non-controlling interests	**(xi)**				3
					$ (1,143)

* The following costs, which were presented separately under Canadian GAAP, have been aggregated in the line 'Other operating costs' in the IFRS consolidated statement of comprehensive income: non-labour collection, processing and delivery; property, facilities and maintenance; and selling, administrative and other.

Selected Annual Disclosures under IFRS

These interim condensed consolidated financial statements represent the Corporation's initial presentation of its results and financial position under IFRS. The annual disclosures for the year ended December 31, 2010 that are significantly different under IFRS and are considered material to an understanding of the Corporation's interim condensed consolidated financial statements, are provided below as notes 15, 16 and 17.

15. Capital Assets

(a) Property, plant and equipment

Property, plant and equipment consisted of the following items:

(in millions)

	Land	Buildings	Leasehold improvements	Plant equipment	Vehicles	Sales counters, office furniture and equipment	Other equipment	Assets under development	Total property, plant and equipment
Cost or deemed cost									
January 1, 2010	$ 268	$ 1,438	$ 215	$ 1,055	$ 239	$ 408	$ 788	$ 139	$ 4,550
Additions	41	81	13	145	45	32	38	11	406
Reclassified as held for sale	–	(4)	–	–	–	–	–	–	(4)
Retirements	–	(3)	(7)	(78)	(10)	(39)	(4)	–	(141)
Transfers (nets to nil with note 15 (b))	–	78	4	7	–	8	–	(113)	(16)
December 31, 2010	$ 309	$ 1,590	$ 225	$ 1,129	$ 274	$ 409	$ 822	$ 37	$ 4,795
Accumulated depreciation									
January 1, 2010	$ –	$ 755	$ 150	$ 787	$ 157	$ 277	$ 460	$ –	$ 2,586
Depreciation	–	54	17	65	15	36	35	–	222
Reclassified as held for sale	–	(3)	–	–	–	–	–	–	(3)
Retirements	–	(2)	(7)	(77)	(9)	(38)	(4)	–	(137)
December 31, 2010	$ –	$ 804	$ 160	$ 775	$ 163	$ 275	$ 491	$ –	$ 2,668
Carrying amounts									
January 1, 2010	$ 268	$ 683	$ 65	$ 268	$ 82	$ 131	$ 328	$ 139	$ 1,964
December 31, 2010	309	786	65	354	111	134	331	37	2,127

(b) Intangible assets

Intangible assets consisted of the following items:

(in millions)

	Software	Software under development	Customer contracts & relationships	Total intangible assets
Cost				
January 1, 2010	$ 489	$ 33	$ 27	$ 549
Additions	25	4	–	29
Retirements	(1)	–	–	(1)
Transfers (nets to nil with note 15 (a))	27	(11)	–	16
December 31, 2010	$ 540	$ 26	$ 27	$ 593
Accumulated amortization				
January 1, 2010	$ 360	$ –	$ 20	$ 380
Amortization	50	–	3	53
Retirements	(1)	–	–	(1)
December 31, 2010	$ 409	$ –	$ 23	$ 432
Carrying amounts				
January 1, 2010	$ 129	$ 33	$ 7	$ 169
December 31, 2010	131	26	4	161

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

(a) Description of benefit plans

The Corporation has a number of funded and unfunded defined benefit plans that provide pension, post-employment and other long-term benefits for most of its employees. The Corporation also provides pension benefits to eligible employees through defined contribution plans. Unfunded plans are plans where benefits are paid directly by the Corporation. With funded plans, funds are transferred to external trusts and the benefits are paid directly from these trusts. The Corporation's defined benefit pension plan is a funded plan based on length of pensionable service, the average of the best five consecutive years of pensionable salary and retirement age. The plan provides for retirement pension, survivor's pension or a refund after termination of employment or death. Pension benefits are covered by the registered pension plan and the retirement compensation arrangement, for benefits in excess of statutory limits as defined under the *Income Tax Act*. Pension benefits in pay are indexed annually. Both the Corporation's contributions and the employees' contributions to the external trusts are made in accordance with the provisions of the plan. In addition, the Corporation's contributions are determined by actuarial valuations in compliance with the requirements of regulatory authorities, to ensure that the external trusts have sufficient assets to pay pension benefits when employees retire.

The post-employment defined benefit plans, other than pension, include unfunded health-care, dental, life insurance plans and employee termination benefits. Other long-term benefit plans include unfunded sick leave compensated absences, workers' compensation and health and dental coverage for employees receiving long-term disability benefits. The benefit costs covered by the Corporation and the costs assumed by employees and retirees are determined in accordance with the rules of each plan and the provisions of labour contracts.

By the end of 2006, the Corporation's employee termination benefit plan was fully curtailed. The curtailment of the plan froze the employees' entitlement based on the accumulation of years of service as of the curtailment date, and further benefit entitlements based on years of service was discontinued. On curtailment, employees were given the option of settlement by receiving the cash value of their accrued termination benefit or the option of deferring receipt of their benefit until departure, at which time the benefit would reflect their base salary at retirement or their base salary at the curtailment date if they resign or their employment is terminated. Most employees chose the option of settlement.

The Corporation is subject to the *Government Employees Compensation Act* and, therefore, is not mandatorily covered under any provincial workers' compensation act. The Corporation is a self-insured employer, responsible for workers' compensation benefits incurred since incorporation. The Corporation's unfunded obligation for workers' compensation benefits is based on known awarded disability and survivor pensions and other potential future awards for accidents that occurred up to the measurement date. Workers' compensation benefits are provided according to the respective provincial workers' compensation legislation. Benefit entitlements in the three territories are based on the Alberta legislation.

Purolator has a number of funded defined benefit pension plans. The defined benefit plans are based either on length of pensionable service and salary paid each year or on negotiated benefit rates, depending on the type of employee. Since these defined benefit plans are subject to the maximum pension payable under the *Income Tax Act*, a supplementary pension plan based on length of pensionable service and final average salary is offered to designated employees. Purolator also provides pension benefits to eligible employees through a defined contribution plan in which both employees and employer contribute. Plan members are neither required nor permitted to contribute to the defined benefit pension plans. Purolator also has a long-term benefit plan which consists of a long service award program.

Certain employees of SCI presently belong to a pension plan sponsored by SCI's former owner, Bell Canada. The BCE Inc. Pension Plan is a non-contributory, defined benefit pension plan that provides for benefits based on length of pensionable service and compensation. Pension benefits in pay are indexed annually. The assets of the pension plan are invested in units of the BCE Master Trust Fund with Royal Trust acting as trustee. However, in 2001 the Corporation entered into a Share Purchase Agreement with Bell Canada whereby the employees of SCI started participating in a new pension plan, disengaged from Bell Canada. The pension plan assets and liabilities for pensions and related benefits accrued at the date of change of ownership will be transferred to the new pension plan on completion of the related actuarial valuations, pending regulatory approval. The amounts of assets and liabilities included in these consolidated financial statements represent current minimum estimates of the amounts to be transferred to the new pension plan, adjusted for all activity subsequent to the change of ownership. The estimate of the transfer amount relating to plan assets includes management's best estimate of the effect of certain events related to the BCE Inc. Pension Plan that occurred prior to the purchase of SCI by the Corporation. The estimate was revised in 2007 based on a report provided by BCE Corporate Services. The amounts to be transferred into the new, separate Pension Plan will be finalized and transferred over only when regulatory approval has been obtained. SCI and BCE have each made differing submissions to the regulator as to what the final transfer amount should be. In 2005, a supplementary pension plan for designated employees was created to replace the current plan, whereby employees who reach the maximum pension payable from the registered plan would receive the excess pension payable by SCI. The results for this plan are included with those of the regular plan. After the acquisition, a defined contribution provision was added to SCI's pension plan.

The other post-employment benefit plans pertaining to SCI's employees consist of medical and dental benefits, and life insurance after retirement. SCI pays the full cost of these benefits, except for the dental plan which is paid 100% by the retirees who choose this coverage.

Innovapost has a funded defined benefit pension plan. Like the Corporation, pension benefits that are not permissible in the registered pension plan are provided by a retirement compensation arrangement. Pension benefits, based on length of pensionable service and average pensionable salary, are indexed according to the annual increase in the consumer price index. Employer and employee contributions are made in accordance with the plan. After October 31, 2002, no new members are eligible to join Innovapost's pension plan.

(b) Obligations and assets

The pension benefit plans of The Canada Post Group are funded through contributions made to separately administered funds.

The other benefit plans which include the other post-employment and other long-term benefits plans are unfunded.

A reconciliation of the defined benefit plan obligations, defined benefit plan assets and the surplus (deficit) status of the defined benefit plans to the amounts recorded in the consolidated statement of financial position follows:

As at and for the year ended December 31 (in millions)	2010	
	Pension benefit plans	Other benefit plans
Present value of the benefit obligations		
Balance, as reported under Canadian GAAP, as at December 31, 2009	$ 13,935	$ 2,698
Impact of change to the attribution period *	–	(112)
Additional other long-term employee benefits	–	238
Balance, as at January 1, 2010	13,935	2,824
Current service cost	313	118
Interest cost	934	188
Employee contributions	187	–
Benefits paid	(537)	(153)
Actuarial losses	2,067	346
Past service costs	–	(13)
Curtailment	(2)	(13)
Balance, end of year	16,897	3,297
Fair value of plan assets		
Fair value, beginning of year	14,135	–
Expected return on plan assets **	1,031	–
Actuarial gains	393	–
Employer regular contributions	356	–
Employer special contributions	441	–
Employee contributions	187	–
Benefits paid	(537)	–
Fair value, end of year	16,006	–
Deficit	(891)	(3,297)
Unrecognized past service credits	–	(39)
Total amount recognized	$ (891)	$ (3,336)

* On transition to IFRS, a change in the attribution period of certain other benefit plans reduced the present value of the benefit obligations by $112 million. This consisted of a $169-million reduction of the Canadian GAAP amount recognized on the statement of financial position at January 1, 2010, as detailed in note 14 (b.2)(v) *Fist Time Adoption of IFRS*, offset by a $57-million change in the unrecognized portion of past service costs.

** The actual return on plan assets for 2010 was $1,424 million.

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

(in millions)	December 31, 2010	January 1, 2010
Pension benefit assets	$ 112	$ 196
Pension benefit liabilities	$ 1,003	$ 41
Other post-employment and other long-term benefit liabilities	3,336	2,865
Less current other long-term benefit liabilities	(84)	(82)
Non-current pension, other post-employment and other long-term benefit liabilities	$ 4,255	$ 2,824

(c) Costs (recoveries)

The elements of employee benefit costs (recoveries) recognized in the year and presented in employee benefits on the consolidated statement of comprehensive income were as follows:

Year ended December 31 (in millions)	2010		
	Pension benefit plans	Other benefit plans	Total
Current service cost	$ 313	$ 118	$ 431
Interest cost	934	188	1,122
Expected return on plan assets	(1,031)	–	(1,031)
Actuarial losses *	–	18	18
Past service cost	1	(15)	(14)
Curtailment gain	(2)	(13)	(15)
Defined benefit costs	215	296	511
Defined contribution costs	5	–	5
Total costs	220	296	516
Transitional support from the Government of Canada	–	(13)	(13)
Return on segregated securities	–	(23)	(23)
Net costs	$ 220	$ 260	$ 480

* Actuarial gains and losses for other long-term benefits are recognized in profit or loss in the period in which they arise.

(d) Amounts recognized in other comprehensive income

Year ended December 31 (in millions)	2010		
	Pension benefit plans	Other post-employment benefit plans	Total
Cumulative actuarial losses *			
Balance, beginning of year	$ –	$ –	$ –
Actuarial losses	(1,674)	(328)	(2,002)
Balance, end of year	$ (1,674)	$ (328)	$ (2,002)
Cumulative effects of asset limit adjustments			
Balance, beginning of year	$ –	$ –	$ –
Effect of asset limit adjustments	46	–	46
Balance, end of year	$ 46	$ –	$ 46
Cumulative amounts recognized in other comprehensive income, end of year	$ (1,628)	$ (328)	$ (1,956)

* As a result of the employee benefits exemption, The Canada Post Group made the transitional election to recognize all previously unrecognized net actuarial losses in retained earnings at the date of transition of January 1, 2010.

(e) Total cash payments

Cash payments for pension, other post-employment and other long-term employee benefits were as follows:

Year ended December 31 (in millions)	2010
Benefits paid directly to beneficiaries for unfunded other benefit plans	$ 153
Employer regular contributions to funded pension benefit plans	356
Employer special contributions to funded pension benefit plans	441
Total cash payments for defined benefit plans	950
Contributions to defined contribution plans	5
Total cash payments	$ 955

17. Income Taxes

The sources of the temporary differences giving rise to net deferred tax assets (liabilities) were as follows:

(in millions)	December 31, 2010	January 1, 2010
Net deferred tax assets (liabilities)		
Capital assets	$ (1)	$ 10
Salaries and benefits payable	25	24
Pension, other post-employment and other long-term liabilities	1,012	437
Other	11	21
Net deferred tax assets	$ 1,047	$ 492
Presented in the consolidated statement of financial position as:		
Deferred tax assets	$ 1,054	$ 500
Deferred tax liabilities	7	8
	$ 1,047	$ 492

In 2009, The Canada Post Group had deductible temporary differences in the amount of $768 million for which no deferred tax assets had been recognized, as they were not expected to reverse in the foreseeable future. Those differences related mainly to the pension, other post-employment and other long-term liabilities. In 2010, The Canada Post Group recognized the entire balance of $768 million of previously unrecognized temporary differences as their realization was assessed to be probable.

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

Year ended December 31 (in millions)	2010
Current tax income	$ (111)
Deferred tax expense (income) relating to:	
Origination and reversal of temporary differences	122
Post-employment benefits	(192)
Reduction in tax rate	1
Tax expense (income)	$ (180)

Year ended December 31 (in millions)	2010
Profit before tax	$ 134
Federal tax at parent's statutory rate	37
Subsidiaries' and joint venture's provincial tax less federal tax abatement	3
Previously unrecognized difference in post-employment benefits	(192)
Effect of statutory tax rate changes on deferred taxes	(27)
Other	(1)
Tax expense (income)	$ (180)

The federal statutory tax rate decreased from 28.0% in 2010 to 26.5% in 2011. The long-term federal statutory tax rate is 25%, which will be applicable as of 2012.

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

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