CANADA POST CORPORATION

2014 First Quarter Financial Report

For the period ended March 29, 2014

CANADA POST POSTES CANADA

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis (MD&A) provides a narrative discussion outlining the financial results and operational changes for the first quarter ended March 29, 2014, for Canada Post Corporation (Corporation or Canada Post) and its subsidiaries – Purolator Holdings Ltd. (Purolator), SCI Group Inc. (SCI) and Innovapost Inc. (Innovapost). These companies are collectively referred to as the Canada Post Group of Companies or the Group of Companies. Each of the Corporation's quarters contains 13 weeks, and this MD&A covers the 13 weeks ended March 29, 2014. This discussion should be read with the unaudited interim condensed consolidated financial statements for the 13 weeks ended March 29, 2014, which have been prepared in accordance with the Treasury Board of Canada "Standard on Quarterly Financial Reports for Crown Corporations" and International Accounting Standard 34, "Interim Financial Reporting" (IAS 34), and are presented in Canadian dollars. We also recommend that this information be read in conjunction with the Corporation's annual consolidated financial statements and MD&A for the year ended December 31, 2013. Financial results reported in the MD&A are rounded to the nearest million, while related percentages are based on numbers rounded to the nearest thousand. The information in this MD&A is current to May 21, 2014, 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.

Materiality

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

Forward-looking statements

The unaudited interim condensed consolidated financial statements and the MD&A contain forward-looking statements that reflect management's expectations regarding the Group of Companies' objectives, plans, strategies, future growth, results of operations, performance, and business prospects and opportunities. Forward-looking statements are typically identified by words or phrases such as "plans," "anticipates," "expects," "believes," "estimates," "intends," and other similar expressions. These forward-looking statements are not facts, but only estimates regarding future results. These estimates are based on certain factors or assumptions regarding expected growth, results of operations, performance, business prospects and opportunities (assumptions). While management considers these assumptions to be reasonable based on available information, they may prove to be incorrect. These estimates of future results are subject to a number of risks, uncertainties and other factors that could cause actual results to differ materially from what the Group of Companies expects. These risks, uncertainties and other factors include, but are not limited to, those risks and uncertainties set forth in Section 5 – Risks and Risk Management on page 8 of this MD&A (risks).

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

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

The forward-looking statements included in the unaudited interim condensed consolidated financial statements and MD&A are made only as of May 21, 2014, and the Corporation does not undertake to publicly update these statements to reflect new information, future events or changes in circumstances or for any other reason after this date.

1 Executive Summary

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

The Canada Post Group of Companies consists of Canada Post and its subsidiaries – Purolator Holdings Ltd., SCI Group Inc., and Innovapost Inc. With 66,000 employees, the Canada Post Group of Companies is one of Canada's largest employers. Every year, our employees deliver approximately 9.4 billion pieces of mail, parcels and messages to 15.5 million addresses in urban, rural and remote locations across Canada. The Canada Post segment operates the largest retail network in Canada with over 6,300 retail post offices. A Crown corporation since 1981, Canada Post reports to Parliament through the Minister of Transport and has a single shareholder, the Government of Canada.

Pursuant to the *Canada Post Corporation Act*, the Corporation has a mandate to provide a standard of postal service that meets the needs of the people of Canada by providing quality postal services to all Canadians, rural and urban, individuals and businesses, in a secure and financially self-sustaining manner.

The unaudited interim condensed consolidated financial statements of Canada Post Corporation include the accounts for the Group of Companies. Canada Post is the largest segment with revenue of $1.5 billion for the first quarter of 2014 (79% of total revenue) and $5.9 billion for the full year ended December 31, 2013 (78% of total revenue). The Corporation manages its consolidated operations and determines its operating segments on the basis of the legal entities. There are four reportable operating segments: Canada Post, Purolator, Logistics, and Innovapost.

The following table presents the Canada Post Group of Companies' 2014 Corporate Plan:

(in millions of dollars)

Consolidated	**2014 Plan**
Revenue from operations	7,802
Cost of operations	8,058
Loss from operations	(256)
Investing and financing expense	(18)
Loss before tax	(274)

The Canada Post Group of Companies' 2014 Corporate Plan, approved by the Government of Canada, projects a loss before tax of $274 million for the year ending December 31, 2014, mainly as a result of the challenges in the Canada Post segment. At the end of the first quarter of 2014, actual losses were less than planned and improvements to the bottom line are expected to continue for the remainder of the year. This is mainly due to a non-cash reduction in employee benefit expenses, resulting from the beneficial impacts of an increase in the discount rate as at December 31, 2013, and higher-than-expected pension asset returns in 2013. While revenue from operations was close to plan at the end of the first quarter of 2014, Transaction Mail volumes are expected to continue to decline; however, the rate of erosion going forward remains uncertain. To address the decrease in Transaction Mail, Canada Post is implementing all aspects of its Five-point Action Plan to meet its Corporate Plan objectives.

Significant changes and business developments

Canada Post is facing a pivotal period in its history. Letter volumes are decreasing steadily every year as households and businesses have moved away from mail as a primary source of communication to electronic alternatives. This has led to a significant drop in Lettermail™ volumes. In fact, in 2013, we delivered 1.2 billion fewer pieces of Domestic Lettermail than we did in 2006. As a result, Canada Post's exclusive privilege to deliver letters no longer adequately funds the costly obligation of delivering mail to every Canadian address. In addition, competition is very intense for Direct Marketing. In this age of digital and social media, the Direct Marketing business is part of a very competitive and fragmented marketplace where marketers are now more able to convey their messages through a variety of products. Canada Post and Purolator parcels businesses also operate in a highly competitive environment. Changes to our business model are needed to ensure that we succeed and continue to play an important role in the lives of Canadians as their needs evolve.

In December 2013, after months of planning and consultation with Canadians, Canada Post unveiled its Five-point Action Plan that forms the foundation of a new postal system designed to serve Canadians' evolving postal needs and help the Corporation succeed in the digital age. The Five-point Action Plan (Action Plan) centres around five initiatives:

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

These initiatives are the foundation of a strategy to help Canada Post return to profitability and ensure that the Corporation remains financially viable and self-sustaining. The Action Plan is expected to take five years to complete, and once fully implemented, four of the five initiatives are expected to contribute an estimated $700 million to $900 million per year to the Corporation's bottom line. Activities to implement Action Plan initiatives have already begun in the first quarter of 2014.

In February 2014, Canada Post announced the first stage of converting households, who now receive mail at the door, to community mailbox delivery. This transition will begin in the fall of 2014 and will affect approximately 100,000 addresses in 11 communities across Canada. This is the first stage of a five-year national initiative that will involve roughly five million addresses. Canada Post also communicated its guiding principles for this conversion and is committed to following a robust municipal engagement strategy. Canada Post will work with elected officials, municipalities and residents to ensure open communication, collaboration and consultation at various stages of implementation. Residents will be asked to provide feedback on factors such as proximity of CMB locations, safety and accessibility. Throughout this process, Canada Post will ensure that all Canadian households whose delivery is converted from door-to-door to community mailbox will continue to be well served.

Canada Post introduced its tiered pricing structure for domestic and international letters on March 31, 2014. Under the new structure, customers who wish to purchase a single domestic stamp pay a higher price, with discounts available for customers who buy stamps in booklets, coils and panes, for businesses that use postage meters or indicia, and for incentive Lettermail customers who meet volume and preparation requirements. The pricing for U.S., international and oversized Lettermail has also increased, falling in line with the new pricing levels. However, these services do not include different prices for single stamps.

Canada Post is moving ahead with its retail strategy and is planning to open new dealer-managed outlets in 2014 and 2015 to provide added convenience to customers.

To streamline internal operations, Canada Post plans to extend the sequencing of mail to additional depots in 2014 by using available capacity in its sorting equipment. In addition, during the first quarter, as part of Postal Transformation, Canada Post began operations at the Pacific Processing Centre (PPC), a new facility located near the Vancouver International Airport. The PPC is the third largest processing plant in Canada, replacing the Vancouver Parcel Distribution Centre and the Vancouver Mail Processing Plant. The PPC, which handles all types of mail (parcels, packets and letters), is an important part of Canada Post's e-commerce strategy and a major link between Canada and the Pacific Rim.

On the labour front, following extended negotiations, the Public Service Alliance of Canada/Union of Postal Communications Employees (PSAC/UPCE) put Canada Post's final offer to a vote, and on April 27, 2014, the union communicated that PSAC/UPCE-represented employees had accepted the offer. The agreement provides modest wage increases in the first two years of the new four-year agreement. For existing employees, the offer also preserves job security provisions and the defined benefit pension plan. Employees hired after the new collective agreement is signed will receive a lower starting annual wage rate and be eligible for a defined contribution pension plan. The four-year agreement will help to provide stability to the Corporation as it adapts to the changing postal needs of Canadians.

In February 2014, the Government of Canada provided relief to Canada Post from the requirement to make special payments to its Registered Pension Plan (RPP) over the next four years (from 2014 to 2017), allowing the Corporation to address the Plan's sustainability. During the relief period, Canada Post will work with its unions and other representatives of Plan members to evaluate all options, including plan design changes to make the RPP financially sustainable. The Corporation expects to resume special payments in 2018, at the end of the temporary relief period. Canada Post has begun consulting with its unions on the pension plan. It is also studying and evaluating other jurisdictions' approaches to modifying the design of their pension plans and intends to respond to the Department of Finance's consultation paper on voluntary target benefit plans.

Financial highlights

For the first quarter ended March 29, 2014, the Canada Post Group of Companies experienced a loss from operations of $28 million, compared to a loss from operations of $51 million in the same period in 2013. The Group of Companies realized a loss before tax of $37 million in the first quarter of 2014, compared to a profit before tax of $51 million in the first quarter of 2013. The Group of Companies would have experienced a loss before tax of $58 million in the first quarter of 2013 had it not been for the $109-million gain from the sale of the Vancouver Mail Processing Plant. Operating losses have resulted primarily from mail volume erosion due to a number of factors, including electronic substitution, bill consolidation and intense competition.

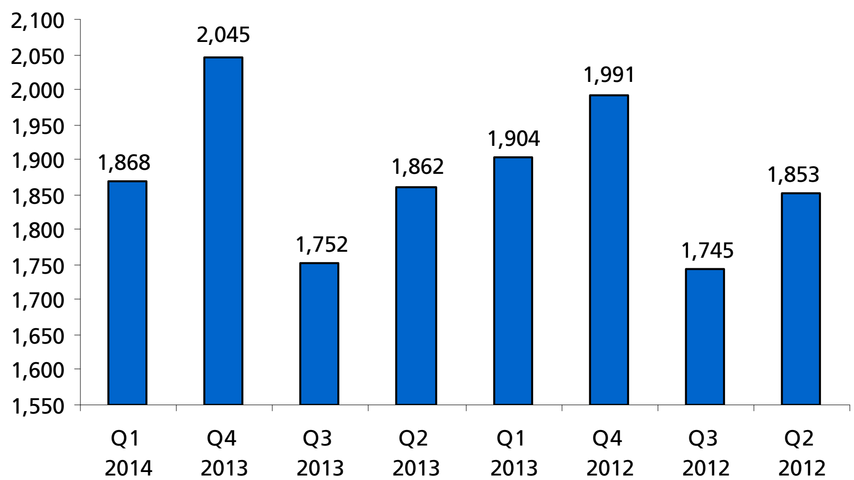
The Canada Post segment reported a loss from operations of $18 million and a loss before tax of $27 million for the first quarter of 2014. Revenue totalled $1,468 million in the first quarter of 2014, a decline of $45 million or 3.0% compared to the same period in 2013. Total volumes declined by over 118 million pieces or 5.0% in the first quarter of 2014 compared to the same period in 2013 and continued to be adversely affected by mail erosion driven by electronic substitution. Offsetting part of this overall revenue decline was revenue growth in Parcels of $23 million or 7.1% in the first quarter of 2014 compared to the same period in 2013. Parcels revenue growth was mainly attributable to strong performance in Domestic Parcels and Inbound Parcels.

Canada Post, as pension plan sponsor, is responsible for making current service contributions to its pension plans as well as special payments to cover any funding shortfalls. These pension commitments and other post-employment benefit obligations are substantial; they continue to significantly affect the Corporation's financial performance and put pressure on its cash resources, despite pension relief on the special payments. Fluctuations in discount rates, investment returns and other actuarial assumptions create volatility from one period to the next, resulting in sizeable financial and liquidity risks to the

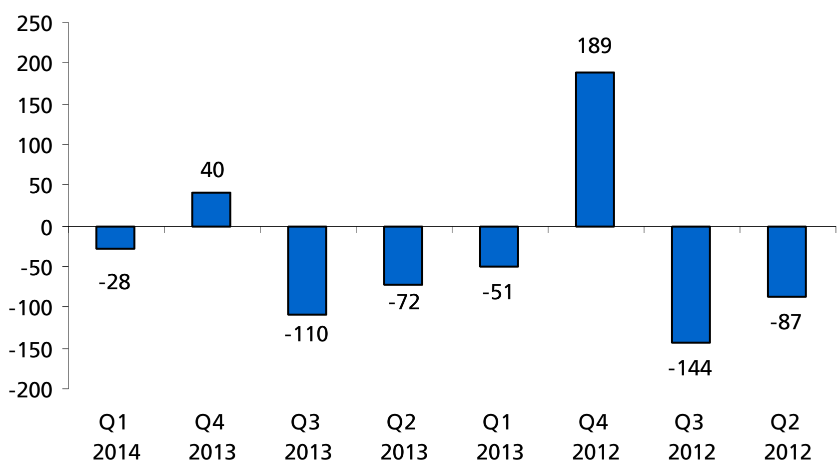
Corporation. During the first quarter of 2014, this volatility negatively affected the Group of Companies' defined benefit plans, causing remeasurement losses of $737 million, net of tax, recorded in other comprehensive income (loss). These remeasurement losses were mostly the result of a decrease in discount rates in the first quarter of 2014, partially negating increases in 2013. These losses further reduced the Group of Companies' equity balance to negative $1.1 billion as at March 29, 2014. Losses from operations in the first quarter of 2014 were less than in the same period in 2013, due to strong pension asset returns in 2013, and an increase in the discount rates as at December 31, 2013, which are used to calculate employee benefit expenses for 2014. This helped reduce non-cash employee benefit expenses and lower the Corporation's loss from operations. These results demonstrate how changing discount rates can cause significant volatility in the Corporation's financial statements.

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

Quarterly consolidated revenue from operations
(in millions of dollars)

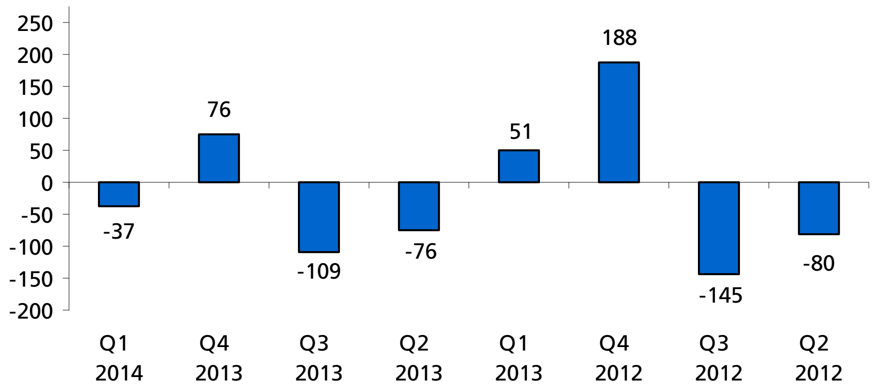


Quarterly consolidated profit (loss) from operations[1]
(in millions of dollars)

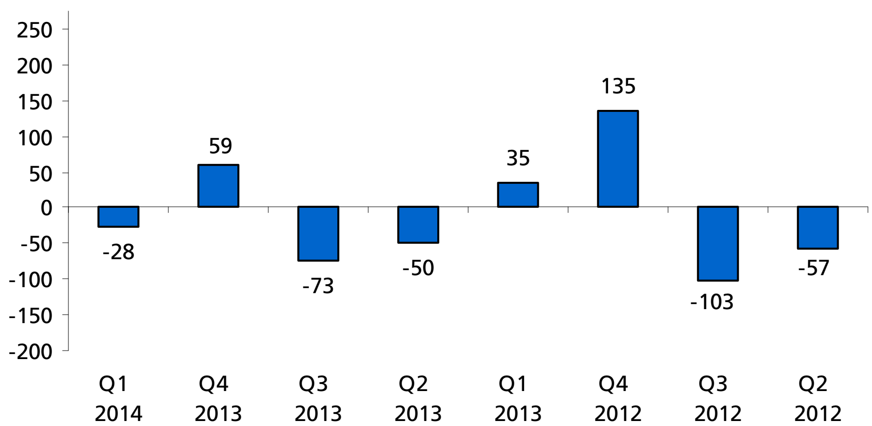


1. The amounts for 2012 have been restated as a result of the adoption of new or revised accounting standards. For more details, see Note 4 – Application of New and Revised International Financial Reporting Standards in the annual consolidated financial statements for the year ended December 31, 2013.

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



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



1. The amounts for 2012 have been restated as a result of the adoption of new or revised accounting standards. For more details, see Note 4 – Application of New and Revised International Financial Reporting Standards in the annual consolidated financial statements for the year ended December 31, 2013.

The following table presents the Corporation's consolidated performance for the first quarter of 2014, compared to the same period in the prior year.

(in millions of dollars)	13 weeks ended				
	March 29, 2014	March 30, 2013	Change	%	Explanation of change
Consolidated statement of comprehensive income					Highlights, as discussed in Section 8 – Discussion of Operations (page 15)
Revenue from operations	1,868	1,904	(36)	(1.9)[1]	Decrease in revenue primarily due to volume erosion in the Canada Post segment's Transaction Mail and Direct Marketing lines of business, partially offset by an increase in Parcels revenue.
Cost of operations	1,896	1,955	(59)	(3.0)	Decrease in cost of operations mainly the result of lower employee benefit expenses in the Canada Post segment.
Loss from operations	(28)	(51)	23	45.6	
Investing and financing income (expense), net	(9)	102	(111)	–	Decrease mainly due to a $109-million gain on the sale of the Vancouver Mail Processing Plant in the Canada Post segment in the first quarter of 2013.
Profit (loss) before tax	(37)	51	(88)	–	
Net profit (loss)	(28)	35	(63)	–	
Comprehensive income (loss)	(752)	313	(1,065)	–	Remeasurement losses on pension and other employee benefit plans recorded in the first quarter of 2014 mainly from a decrease in discount rates.
Consolidated statement of cash flows					Highlights, as discussed in Section 6 – Liquidity and Capital Resources (page 9)
Cash used in operating activities	(74)	(42)	(32)	(71.7)	Negative cash flow variance in first quarter of 2014 primarily driven by a net loss in 2014, compared to a net profit in 2013.
Cash provided by investing activities	6	146	(140)	(96.1)	Negative cash flow variance mainly due to the sale of the Vancouver Mail Processing Plant in the first quarter of 2013.
Cash used in financing activities	(6)	(5)	(1)	(10.7)	No material change.

1. Adjusted for trading days, where applicable.

2 Core Businesses and Strategy

A discussion of the business and strategy of our core businesses

Canada Post faces the same challenges as its global counterparts – managing the decline in core Transaction Mail volumes, while still maintaining an extensive and growing delivery network as required by the service mandate. As competition increases in all lines of business, the exclusive privilege is losing its ability to sustain the mandate. Growth of the e-commerce market has generated opportunities and increased competition. Canada Post also faces challenges as a result of an inflexible and expensive cost structure, and significant changes are required to improve its cost competitiveness. To remain sustainable in the long term, we have developed strategic priorities that will help us address our operational sustainability and grow the business, while meeting the evolving postal needs of Canadians.

Our core business and strategy are described in Section 2 – Core Businesses and Strategy of the 2013 Annual MD&A. There were no material changes to the strategies during the first quarter of 2014.

3 Key Performance Drivers

A discussion of the key drivers of our performance and our progress against 2014 objectives

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

As discussed in Section 2.3 – Our strategy and strategic priorities of the 2013 Annual MD&A, Canada Post's priorities include redefining postal service through the Five-point Action Plan, the pursuit of growth opportunities (such as becoming a leader in enabling e-commerce, repositioning Direct Marketing and strengthening digital commercialization) and focusing unrelentingly on cost savings. In this regard, Canada Post has developed a number of key performance measures that support progress toward achieving its strategic priorities.

Key performance measures include the following:

- financial imperatives for the physical and digital delivery networks (including business growth and cost efficiencies),
- service performance targets,
- employee safety (including injury frequency),
- customer experience enhancements,
- ongoing implementation of Postal Transformation and the Five-point Action Plan and realization of benefits.

Performance results for 2014 will be updated at the end of the year and included as part of the 2014 Annual MD&A.

4 Capabilities

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

A discussion of these topics appears in Section 4 – Capabilities of the 2013 Annual MD&A. Updates are provided below.

4.1 Labour relations

The number of employees covered by collective agreements as at December 31, 2013, and various bargaining activities are summarized in Section 4.1 – Our employees – Labour relations of the 2013 Annual MD&A. An update of collective bargaining activity by segment is provided below.

Canada Post segment

Pay equity update

On June 25, 2013, the parties signed a memorandum of agreement outlining details, such as eligibility, calculation methodology, application of interest and payment process, to implement the Supreme Court of Canada ruling in favour of the Public Service Alliance of Canada (PSAC) in a pay equity complaint against Canada Post dating back to 1983. A team of employees continues the lengthy and complex process of reviewing tens of thousands of employee files in preparation of payment. Pay equity payments, commenced in August 2013, are being made on an ongoing basis.

Labour relations activities

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

The collective agreement with PSAC/UPCE expired August 31, 2012. PSAC/UPCE represents two groups of employees, those who perform administrative work, including call centres, administration, pay and production, control and reporting, as well as technical employees in areas such as finance and engineering. Following extended negotiations, PSAC/UPCE put the Corporation's final offer to a vote, and on April 27, 2014, the union communicated to Canada Post that PSAC/UPCE-represented employees had accepted the final offer. The four-year agreement contains modest wage increases in the first two years. For existing employees, the offer also preserves job security provisions and the defined benefit pension plan. Employees hired after the new collective agreement is signed will receive a lower starting annual wage rate, and less vacation and job security. In addition, they will be eligible to receive a defined contribution pension plan in lieu of the defined benefit plan. The four-year agreement will help to provide stability to the Corporation as it adapts to the changing postal needs of Canadians.

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

Canada Post signed two collective agreements with CUPW at the end of 2012. The first is a four-year collective agreement expiring January 31, 2015, and the second is a one-year collective agreement expiring January 31, 2016. Canada Post continues discussions regarding business and pension-related challenges with CUPW.

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

Canada Post is in its third year of a four-year agreement with CUPW-RSMC, expiring December 31, 2015.

Association of Postal Officials of Canada (APOC)

The five-year collective agreement with APOC expired March 31, 2014. The Association represents supervisors and supervisory support groups, such as trainers, route measurement officers and sales employees. Negotiations for a new collective agreement began March 24, 2014, and continued during the last two weeks of April. After productive meetings, both parties have tabled their proposals, and meaningful discussions are under way. Canada Post and APOC have agreed to review each other's proposals and reconvene talks during the weeks of June 9 and June 16, 2014. The APOC collective agreement provides for final offer selection arbitration as a means of resolving outstanding issues when a negotiated settlement cannot be reached. The process is used in place of a strike or lockout.

Canadian Postmasters and Assistants Association (CPAA)

Canada Post is in its last year of a five-year collective agreement with the CPAA, which expires December 31, 2014. The CPAA represents rural post office postmasters and assistants. Collective bargaining is expected to commence in the fall of 2014. The Association has provided the Corporation with an early notice to bargain. The CPAA agreement refers to the final offer selection process as a means to resolve outstanding issues in place of a strike or lockout.

Purolator segment

The national collective agreement with the Canada Council of Teamsters for all hourly operations employees remains in force until December 31, 2016. The regional clerical agreements ratified with all Teamsters local unions and the Union of Postal Communication Employees in British Columbia remain in force until December 31, 2017.

On August 31, 2013, the Communications, Energy and Paperworkers Union of Canada (CEP) (known in Quebec as the Syndicat canadien des employés des communications, de l'énergie et du papier [SCEP]) merged with the Canadian Auto Workers (CAW) to create a new union – Unifor. The agreement between Purolator and Unifor, which governs the employment relationship with approximately 300 administrative and clerical employees in Quebec, expired at the end of 2013. Purolator commenced bargaining with Unifor in the first week of December 2013 and has met several times since. The parties continue to bargain toward a new agreement, with meetings scheduled in the second quarter of 2014.

Logistics segment – SCI Group

There were no developments in labour relation activities in the first quarter of 2014.

4.2 Internal controls and procedures

Changes in internal control over financial reporting

During the first quarter of 2014, there were no changes in internal control over financial reporting that have materially affected, or were reasonably likely to materially affect, the Group of Companies' internal control over financial reporting.

5 Risks and Risk Management

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

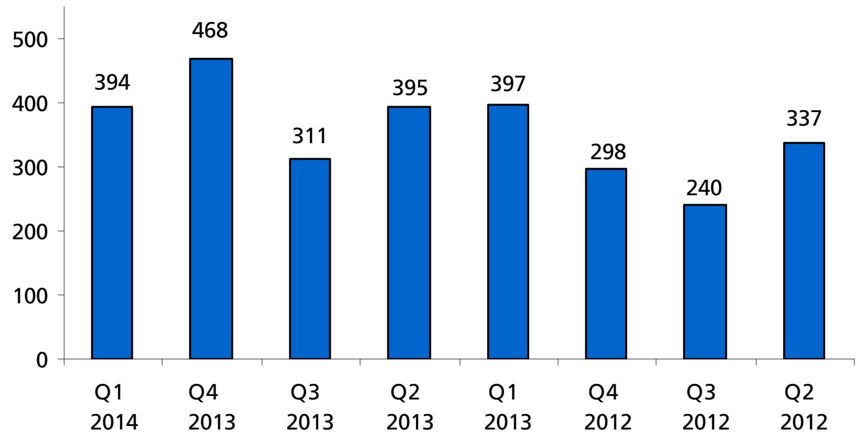
Management considers risks and opportunities at all levels of decision making and has implemented a rigorous approach to enterprise risk management (ERM). A description of the Canada Post segment's risks is provided in Section 5.2 – Strategic risks and Section 5.3 – Operational risks of the 2013 Annual MD&A. There were no material changes to these risks during the first quarter of 2014.

6 Liquidity and Capital Resources

A discussion of our cash flow, liquidity and capital resources

6.1 Cash and cash equivalents

(in millions of dollars)



The Group of Companies held cash and cash equivalents of $394 million as at March 29, 2014 – a decrease of $74 million compared to December 31, 2013. The decrease is mainly due to cash used in operating activities.

6.2 Operating activities

	13 weeks ended		
(in millions of dollars)	March 29, 2014	March 30, 2013	Change
Cash used in operating activities	(74)	(42)	(32)

Cash used in operations in the first quarter of 2014 increased by $32 million, compared to the same period in the prior year. This cash flow variance was primarily driven by a net loss in 2014 compared to a net profit in 2013.

6.3 Investing activities

	13 weeks ended		
(in millions of dollars)	March 29, 2014	March 30, 2013	Change
Cash provided by investing activities	6	146	(140)

Cash provided from investing activities decreased by $140 million in the first quarter of 2014. The first quarter of 2013 included proceeds of $153 million from the sales of capital assets (mainly the sale of the Vancouver Mail Processing Plant). The decrease was partially offset by lower capital asset acquisitions in the first quarter of 2014.

Capital expenditures

	13 weeks ended		
(in millions of dollars)	March 29, 2014	March 30, 2013	Change
Canada Post	37	71	(34)
Purolator	4	3	1
Logistics	2	1	1
Innovapost and intersegment	(1)	(1)	(0)
Canada Post Group of Companies	**42**	**74**	**(32)**

Capital expenditures for the Group of Companies declined by $32 million in the first quarter of 2014, when compared to the same period last year, mainly due to a decrease in spending on Postal Transformation in the Canada Post segment.

6.4 Financing activities

	13 weeks ended		
(in millions of dollars)	March 29, 2014	March 30, 2013	Change
Cash used in financing activities	(6)	(5)	(1)

There were no significant changes in financing activities in the first quarter of 2014, when compared to the same period in 2013.

6.5 Canada Post Corporation Registered Pension Plan

The Canada Post Corporation Registered Pension Plan (RPP) has assets with a market value of over $19 billion, making it one of the largest single-employer pension plans in Canada. A description of the effects of the RPP on liquidity is provided in Section 6.5 – Canada Post Corporation Registered Pension Plan of the 2013 Annual MD&A. An update is provided below.

In February 2014, the Government of Canada introduced the *Canada Post Corporation Pension Plan Funding Regulations* that provide relief to Canada Post from the need to make special payments into the RPP for four years (from 2014 to 2017). This temporary measure recognizes the serious operational challenges encountered by Canada Post. During this period, Canada Post will work with its unions and other representatives of Plan members to evaluate all options, including plan design changes, to make the RPP financially sustainable. Canada Post has begun consulting with its unions on the pension plan and is also studying and evaluating other jurisdictions' approaches to modifying the design of their pension plans. In April 2014, the Department of Finance issued a consultation paper soliciting submissions for potential legislative changes that would permit federally regulated employers and Crown corporations to voluntarily implement a target benefit pension plan. The Corporation intends to make a submission to the government and participate in the consultation process.

The current estimate of the financial position of the RPP as at December 31, 2013, is a going-concern deficit of approximately $296 million (using the smoothed value of RPP assets) and a solvency deficit to be funded of approximately $6.3 billion[1] (using the three-year average solvency ratio basis). These estimates are subject to change as valuations are being finalized. Final actuarial valuations as at December 31, 2013, will be filed by the end of June 2014.

Current service contributions amounted to $61 million and $77 million respectively for the first quarter of 2014 and 2013. The estimated amount of current service contributions for 2014 is approximately $250 million.

On December 14, 2012, the *Jobs and Growth Act, 2012,* Bill C-45, was enacted, enabling changes to the public service pension plans. Consequently, effective January 1, 2013, the cap for the employees' share of current service costs was increased from 40% to 50%. The Board of Directors of Canada Post has approved changes to the RPP, and the Corporation is moving to 50/50 cost sharing by 2015.

CUPW is challenging the decision to raise the rate of employee contributions as the union alleges that it is a violation of the terms of the collective agreement. In addition, CUPW has formally requested that the Office of the Superintendant of Financial Institutions (OSFI) replace Canada Post as administrator of the RPP. Canada Post has filed submissions with OSFI in support of its continuation as administrator of the RPP.

Canada Post, the RPP sponsor, records remeasurement adjustments, net of tax, in other comprehensive income. For the first quarter of 2014, remeasurement losses, net of tax, amounted to $539 million for the Canada Post RPP. The RPP is subject to significant volatility due to fluctuations in discount rates, investment returns and other changes in actuarial assumptions.

1. The solvency deficit when using the market value of plan assets is estimated at $5.1 billion.

6.6 Liquidity and capital resources

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

Liquidity

During the first quarter of 2014, the liquidity required by the Canada Post Group of Companies to support its financial obligations and fund capital and strategic requirements was provided by accumulated funds and immediately accessible lines of credit. The Canada Post segment had $848 million of unrestricted liquid investments on hand as at March 29, 2014, and $100 million of lines of credit established under its short-term borrowing authority approved by the Minister of Finance.

In February 2014, the Government of Canada introduced regulations that provide Canada Post with relief from making special pension payments to the Registered Pension Plan from 2014 to 2017. During the relief period, Canada Post will work with its unions and other representatives of pension plan members to restructure the pension plan. The Corporation expects to resume special payments in 2018. Without any pension relief, the Corporation would have been required to make special payments of approximately $1.3 billion in 2014. In addition, the Corporation has begun implementing the initiatives included in the Five-point Action Plan to address operational sustainability and help the Corporation return to profitability. Based on the temporary relief and the implementation of the Five-point Action Plan, Canada Post believes it has sufficient liquidity and authorized borrowing capacity to support its operations for at least the next 12 months.

The Corporation's subsidiaries had a total of $67 million of unrestricted cash on hand and undrawn credit facilities of $136 million as at March 29, 2014, ensuring sufficient liquidity to support their operations over at least the next 12 months.

Access to capital markets

Pursuant to *Appropriation Act No. 4,* 2009-10, which received royal assent on December 15, 2009, borrowing from other than the Government of Canada's Consolidated Revenue Fund is limited to $2.5 billion. Included in this total authorized borrowing limit is a maximum of $100 million for cash management purposes in the form of short-term borrowings as at March 29, 2014. In addition, pursuant to the *Canada Post Corporation Act*, the Canada Post segment may also borrow a maximum of $500 million from the Government of Canada's Consolidated Revenue Fund.

Borrowings for the Canada Post segment and the Corporation's subsidiaries as at March 29, 2014, amounted to $1,057 million and $69 million respectively. For more information on liquidity and access to capital markets, refer to Section 6.6 – Liquidity and capital resources in the 2013 Annual MD&A.

Dividends

For information on our dividend policy, refer to Section 6.6 – Liquidity and capital resources of the 2013 Annual MD&A.

6.7 Risks associated with financial instruments

The Canada Post Group of Companies uses a variety of financial instruments to carry out business activities, which are summarized in Section 6.7 – Risks associated with financial instruments of the 2013 Annual MD&A.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in external market factors, such as interest rates, foreign currency exchange rates and commodity prices. During the 13 weeks ended March 29, 2014, the Group of Companies continued its economic hedge programs to mitigate its exposure to foreign exchange balances and forecasted sales denominated in special drawing rights. These forward contracts are not designated as hedges for accounting purposes. For more information on foreign exchange risk, please refer to Note 13 – Fair Values and Risks Arising from Financial Instruments of the unaudited interim condensed consolidated financial statements for the 13 weeks ended March 29, 2014. There were no material changes to market risk during the first quarter of 2014.

Credit risk

Credit risk is the risk of financial loss due to the counterparty's inability to meet its contractual obligations. Credit risk arises from investments in corporations and financial institutions as well as credit exposures to wholesale and commercial customers, including outstanding receivables. Sales to consumers are settled by paying cash or using major credit cards. There were no material changes to credit risk during the first quarter of 2014.

Liquidity risk

Liquidity risk is the risk that the Group of Companies will not be able to meet its financial obligations as they fall due. Liquidity risk is managed by maintaining adequate cash reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecasted and actual cash flows and matching the maturity profiles of financial assets and liabilities. There were no material changes to liquidity risk during the first quarter of 2014.

6.8 Contractual obligations and commitments

Contractual obligations and commitments are explained in Section 6.8 – Contractual obligations and commitments of the 2013 Annual MD&A. There were no material changes to contractual obligations and commitments during the first quarter of 2014.

6.9 Related party transactions

The Corporation has a variety of transactions with related parties both in the normal course of business and in supporting the Government of Canada's public policies. These transactions are not materially different from what is reported in Section 6.9 – Related party transactions of the 2013 Annual MD&A. For more information on related party transactions, refer to Note 12 – Related Party Transactions of the unaudited interim condensed consolidated financial statements for the 13 weeks ended March 29, 2014.

6.10 Contingent liabilities

On April 15, 2014, a public complaint was made to the Canadian International Trade Tribunal (CITT) by CGI Information Systems and Management Consultants Inc. regarding the request for proposals for data centre services for the Group of Companies. The Corporation is preparing a response as required by the CITT.

Contingent liabilities are described in Note 9 – Contingent Liabilities of the unaudited interim condensed consolidated financial statements for the 13 weeks ended March 29, 2014.

7 Changes in Financial Position

A discussion of significant changes in our assets and liabilities between March 29, 2014 and December 31, 2013

(in millions of dollars)

ASSETS	Mar. 29, 2014	Dec. 31, 2013	Change	%	Explanation of change
Cash and cash equivalents	394	468	(74)	(15.7)	Refer to Section 6 – Liquidity and Capital Resources (page 9).
Marketable securities	521	570	(49)	(8.7)	Primarily due to the drawdown of short-term investments to pay for capital acquisitions in the Canada Post segment.
Trade and other receivables	784	779	5	0.7	No material change.
Income tax receivable	14	6	8	115.2	Primarily due to an expected refund in the Purolator segment.
Other assets	104	92	12	12.6	Mainly due to an increase in prepaid expenses in the Purolator segment.
Total current assets	**1,817**	**1,915**	**(98)**	**(5.2)**	
Property, plant and equipment	2,675	2,707	(32)	(1.2)	Primarily due to depreciation exceeding acquisitions in the Canada Post segment.
Intangible assets	123	129	(6)	(4.4)	Primarily due to amortization of software assets exceeding acquisitions.
Segregated securities	532	510	22	4.4	Mainly due to unrealized gains and interest income.
Pension benefit assets	168	177	(9)	(4.8)	Mainly due to actuarial losses partially offset by payments.
Deferred tax assets	1,341	1,093	248	22.7	Primarily due to the increase of temporary differences resulting from remeasurement losses recognized in other comprehensive income for Canada Post's Registered Pension Plan and post-employment benefits.
Goodwill	130	130	0	0.0	No change.
Other assets	7	6	1	18.6	No material change.
Total non-current assets	**4,976**	**4,752**	**224**	**4.7**	
Total assets	**6,793**	**6,667**	**126**	**1.9**	

(in millions of dollars)

LIABILITIES AND EQUITY	Mar. 29, 2014	Dec. 31, 2013	Change	%	Explanation of change
Trade and other payables	498	620	(122)	(19.7)	Primarily due to decreased goods received, international settlements and the timing of bond interest payments (made in January and July each year) in the Canada Post segment.
Salaries and benefits payable and related provisions	582	580	2	0.3	No material change.
Provisions	88	81	7	8.7	Mainly attributable to provision for return of 63-cent stamps from dealers due to price increase.
Income tax payable	1	1	(0)	(52.4)	No material change.
Deferred revenue	124	145	(21)	(14.2)	Primarily attributable to a reduction in stamp deferrals related to the 2014 stamp rate increases.
Loans and borrowings	22	23	(1)	(4.6)	No material change.
Other long-term benefit liabilities	71	71	0	0.0	No change.
Total current liabilities	**1,386**	**1,521**	**(135)**	**(8.9)**	
Loans and borrowings	1,104	1,108	(4)	(0.4)	No material change.
Pension, other post-employment and other long-term benefit liabilities	5,400	4,382	1,018	23.2	Primarily resulting from actuarial losses in the Canada Post segment.
Deferred tax liabilities	3	3	(0)	(1.1)	No material change.
Provisions	2	2	0	5.3	No material change.
Other liabilities	15	16	(1)	(2.7)	No material change.
Total non-current liabilities	**6,524**	**5,511**	**1,013**	**18.4**	
Total liabilities	**7,910**	**7,032**	**878**	**12.5**	
Equity					
Contributed capital	1,155	1,155	0	0.0	No change.
Accumulated other comprehensive income	31	18	13	76.6	Mainly due to net unrealized gains on available-for-sale financial assets in the Canada Post segment.
Accumulated deficit	(2,326)	(1,564)	(762)	(48.8)	Primarily due to net actuarial losses resulting from asset and accrued benefit remeasurement.
Equity of Canada	**(1,140)**	**(391)**	**(749)**	**(191.5)**	
Non-controlling interests	23	26	(3)	(9.8)	
Total equity	**(1,117)**	**(365)**	**(752)**	**(205.7)**	
Total liabilities and equity	**6,793**	**6,667**	**126**	**1.9**	

8 Discussion of Operations

A detailed discussion of our financial performance

8.1 Summary of quarterly results

Consolidated results by quarter

The following table shows the Group of Companies' consolidated results for the last eight quarters. Volumes have historically varied throughout the year, with the highest demand for services occurring during the holiday season in the fourth quarter. Volumes typically decline over the following quarters, reaching their lowest level during the summer months, in the third quarter. The Group of Companies' significant fixed costs do not vary, in the short term, as a result of these changes in demand for its services.

(in millions of dollars)	Q1 2014	Q4 2013	Q3 2013	Q2 2013	Q1 2013	Q4 2012[1]	Q3 2012[1]	Q2 2012[1]
Revenue from operations	1,868	2,045	1,752	1,862	1,904	1,991	1,745	1,853
Cost of operations	1,896	2,005	1,862	1,934	1,955	1,802	1,889	1,940
Profit (loss) from operations	**(28)**	**40**	**(110)**	**(72)**	**(51)**	**189**	**(144)**	**(87)**
Investing and financing income (expense), net	(9)	36	1	(4)	102	(1)	(1)	7
Profit (loss) before tax	**(37)**	**76**	**(109)**	**(76)**	**51**	**188**	**(145)**	**(80)**
Tax expense (income)	(9)	17	(36)	(26)	16	53	(42)	(23)
Net profit (loss)	**(28)**	**59**	**(73)**	**(50)**	**35**	**135**	**(103)**	**(57)**

1. The amounts for 2012 were restated as a result of the adoption of new or revised accounting standards. For more details, see Note 4 – Application of New and Revised International Financial Reporting Standards in the annual consolidated financial statements for the year ended December 31, 2013.

8.2 Consolidated results from operations

Consolidated results for the first quarter of 2014

	13 weeks ended			
(in millions of dollars)	March 29, 2014	March 30, 2013	Change	%
Revenue from operations	1,868	1,904	(36)	(1.9)[1]
Cost of operations	1,896	1,955	(59)	(3.0)
Loss from operations	**(28)**	**(51)**	**23**	**45.6**
Investing and financing income (expense), net	(9)	102	(111)	–
Profit (loss) before tax	**(37)**	**51**	**(88)**	**–**
Tax expense (income)	(9)	16	25	–
Net profit (loss)	**(28)**	**35**	**(63)**	**–**
Other comprehensive income (loss)	(724)	278	(1,002)	–
Comprehensive income (loss)	**(752)**	**313**	**(1,065)**	**–**

1. Adjusted for trading days, where applicable.

The Canada Post Group of Companies reported a loss before tax of $37 million for the first quarter of 2014 compared to a profit before tax of $51 million in the first quarter of 2013. The Canada Post Group of Companies would have experienced a loss before tax of $58 million in the first quarter of 2013 had it not been for the sale of the Vancouver Mail Processing Plant in January 2013, which generated a gain of $109 million.

Consolidated revenue from operations

For the first quarter of 2014, revenue from operations decreased by $36 million or 1.9% when compared to the same quarter in 2013. The decrease resulted primarily from volume erosion in both Canada Post's Transaction Mail and Direct Marketing lines of business due to electronic substitution, bill consolidation and intense competition, partially offset by an increase in Parcels revenue. A detailed discussion of revenue by segment follows in sections 8.4 to 8.7.

Consolidated cost of operations

The cost of operations decreased by $59 million or 3.0% in the first quarter of 2014 when compared to the same quarter last year. The decrease was mainly the result of lower employee benefit expenses in the Canada Post segment. A detailed discussion by segment is provided in sections 8.4 to 8.7.

Consolidated investing and financing income (expense)

Net investing and financing income decreased by $111 million in the first quarter of 2014 compared to the same period in 2013. The change primarily resulted from the sale of the Vancouver Mail Processing Plant in January 2013, which generated a gain on sale of $109 million.

Consolidated tax expense (income)

Consolidated tax income totalled $9 million for the first quarter of 2014 compared to a tax expense of $16 million in the first quarter of 2013. This change was primarily driven by lower profits in the first quarter of 2014 when compared to the same period in the prior year.

Consolidated other comprehensive income (loss)

The consolidated other comprehensive loss amounted to $724 million in the first quarter of 2014, mainly due to remeasurement losses on the pension and other post-employment plans. Volatility, caused from fluctuations in pension plan investment returns and changes to the discount rates used to measure these plans, continues to have a significant impact on the Group of Companies' other comprehensive income.

8.3 Operating results by segment

Segmented results – profit (loss) before tax

	13 weeks ended			
(in millions of dollars)	March 29, 2014	March 30, 2013	Change	%
Canada Post	(27)	68	(95)	–
Purolator	(11)	(12)	1	2.9
Logistics	2	1	1	48.9
Innovapost	(0)	0	(0)	–
Intersegment and unallocated	(1)	(6)	5	97.0
Canada Post Group of Companies	**(37)**	**51**	**(88)**	**–**

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

8.4 Canada Post segment

The Canada Post segment recorded a loss before tax of $27 million in the first quarter of 2014, compared to a profit before tax of $68 million in the first quarter of 2013. Canada Post would have experienced a loss before tax of $41 million in the first quarter of 2013 had it not been for the sale of the Vancouver Mail Processing Plant in January 2013, which generated a gain of $109 million.

Canada Post results for the first quarter of 2014

	13 weeks ended			
(in millions of dollars)	March 29, 2014	March 30, 2013	Change	%
Revenue from operations	1,468	1,513	(45)	(3.0)[1]
Cost of operations	1,486	1,554	(68)	(4.4)
Loss from operations	**(18)**	**(41)**	**23**	**56.6**
Investing and financing income (expense), net	(9)	109	(118)	–
Profit (loss) before tax	**(27)**	**68**	**(95)**	**–**
Tax expense (income)	(8)	19	27	–
Net profit (loss)	**(19)**	**49**	**(68)**	**–**

1. Adjusted for trading days, where applicable.

Revenue from operations

Canada Post earned revenue from operations of $1,468 million in the first quarter of 2014 – a decrease of $45 million or 3.0% when compared to the same quarter in 2013. The decrease was primarily the result of volume declines in Domestic Lettermail™ due to electronic substitution, bill consolidation and intense competition.

Quarterly revenue by line of business

	13 weeks ended			
(in millions of dollars)	March 29, 2014	March 30, 2013	Change	%[1]
Transaction Mail	777	827	(50)	(6.0)
Direct Marketing	287	302	(15)	(4.9)
Parcels	341	318	23	7.1
Other revenue	63	66	(3)	(4.2)
Total	**1,468**	**1,513**	**(45)**	**(3.0)**

1. Adjusted for trading days, where applicable.

Transaction Mail

Transaction Mail revenue of $777 million for the first quarter of 2014 was composed of the following three product categories: Domestic Lettermail ($704 million), Outbound Letter-post ($37 million), and Inbound Letter-post ($36 million).

In the first quarter of 2014, Transaction Mail revenue decreased by $50 million or 6.0% and volumes decreased by 79 million pieces or 6.9% compared to the same period in 2013. Revenue and volumes continued to decline in the first quarter due to the impact of volume erosion from the adoption of other alternatives. For Domestic Lettermail, the largest product category, revenue decreased by $44 million or 5.9%, and volumes decreased by 67 million pieces or 6.3% in the first quarter of 2014 compared to the same period in 2013. Households and businesses continue to rapidly move away from mail as their primary source of communication, given the many credible alternatives to paper-based communication, the implementation of pay-for-paper initiatives by some of our largest customers, especially in the banking and telecommunications segments, and the highly competitive environment.

Direct Marketing

Direct Marketing revenue of $287 million for the first quarter of 2014 was composed of the following four categories: Addressed Admail™ ($139 million), Unaddressed Admail™ ($90 million), Publications Mail™ ($52 million), and Business Reply Mail™ and Other mail ($6 million).

Direct Marketing revenue declined in the first quarter of 2014 by $15 million or 4.9%, while volumes decreased by 38 million pieces or 3.2% when compared to the same period in the prior year, primarily due to a drop in Addressed Admail and Publications Mail. Declines in Addressed Admail revenue and volumes was caused in part from commercial customers, especially in the financial and banking segments, reducing their marketing expenditures and redirecting some of them to other lower priced products or media channels. Declines in Publications Mail revenue and volumes continued with the increasing popularity of digital alternatives.

Parcels

Parcels revenue of $341 million for the first quarter of 2014 was composed of four product categories: Domestic Parcels ($234 million), Outbound Parcels ($52 million), Inbound Parcels ($51 million), and Other ($4 million).

Parcels revenue increased by $23 million or 7.1%, while volumes decreased by about 500,000 pieces or 1.4% when compared to the same period in the prior year. Domestic Parcels, the largest product category, continued to show positive results as revenue increased by $14 million or 5.9%, and volumes grew by over 1.2 million pieces or 4.9%. Overall revenue growth reflects the strength of the fast growing business-to-consumer e-commerce delivery market as customers continue to order more products online. The increase in revenue also reflects a change in the product mix, including the growth of Tracked Packet™ items introduced partway in 2013, which helped improve the average revenue per piece. Overall volumes were down 1.4% in the first quarter of 2014 as a result of a decrease in volumes of inbound U.S. parcels – due, among other things, to a change in the mailing pattern of some large U.S. customers.

Other revenue

Other revenue totalled $63 million in the first quarter of 2014 – a decrease of $3 million or 4.2%, when compared to the same period in the prior year. The revenue decrease was primarily the result of lower consumer product revenue, partially offset by an increase in Digital Delivery Network revenues, mainly from Mail Redirection.

Cost of operations

Cost of operations for the Canada Post segment amounted to $1,486 million in the first quarter of 2014 – a decrease of $68 million or 4.4% when compared to the same quarter last year.

	13 weeks ended			
(in millions of dollars)	March 29, 2014	March 30, 2013	Change	%
Labour	758	779	(21)	(2.7)
Employee benefits	275	330	(55)	(16.9)
Total labour and employee benefits	**1,033**	**1,109**	**(76)**	**(6.9)**
Non-labour collection, processing and delivery	208	209	(1)	(0.8)
Property, facilities and maintenance	67	63	4	7.4
Selling, administrative and other	113	107	6	5.8
Total other operating costs	**388**	**379**	**9**	**2.4**
Depreciation and amortization	65	66	(1)	(1.3)
Total	**1,486**	**1,554**	**(68)**	**(4.4)**

Labour

Labour costs decreased by $21 million or 2.7% for the first quarter of 2014 when compared to the same period in the previous year. The decrease was primarily the result of productivity improvements and having one fewer paid days in the first quarter of 2014, partially offset by regular annual wage increases.

Employee benefits

Employee benefits decreased by $55 million or 16.9% for the first quarter of 2014 when compared to the same period in the previous year. The non-cash decrease was due to the beneficial impacts of strong pension asset returns in 2013 and an increase in the discount rates used to calculate benefit plan costs in 2014.

Non-labour collection, processing and delivery

Contracted collection, processing and delivery costs decreased by $1 million or 0.8% for the first quarter of 2014, when compared to the same period in the prior year due to having one fewer paid days in the first quarter of 2014.

Property, facilities and maintenance

The cost of facilities increased by $4 million or 7.4% for the first quarter of 2014 when compared to the same period last year, mainly due to increases in the cost of utilities and maintenance and repairs.

Selling, administrative and other

Selling, administrative and other expenses increased by $6 million or 5.8% for the first quarter of 2014, when compared to the same period in the prior year, primarily as a result of an increase in program expenses relating to the implementation of the Five-point Action Plan and IT transformation.

Depreciation and amortization

Depreciation and amortization expenses for the first quarter of 2014 were comparable to the same period in the prior year.

8.5 Purolator segment

The Purolator segment experienced a net loss of $9 million for the first quarter of 2014, which is consistent with the same period in the prior year.

Purolator results for the first quarter of 2014

	13 weeks ended			
(in millions of dollars)	March 29, 2014	March 30, 2013	Change	%
Revenue from operations	386	379	7	1.7[1]
Cost of operations	397	390	7	1.7
Loss from operations	**(11)**	**(11)**	**(0)**	**(2.9)**
Investing and financing income (expense), net	0	(1)	1	82.5
Loss before tax	**(11)**	**(12)**	**1**	**2.9**
Tax expense (income)	(2)	(3)	1	19.9
Net loss	**(9)**	**(9)**	**(0)**	**(3.0)**

1. Adjusted for trading days, where applicable.

Revenue from operations

Purolator generated revenue from operations of $386 million in the first quarter of 2014 – an increase of $7 million or 1.7% when compared with the same period last year. The increase was mainly driven by slightly improved yields and volumes.

Cost of operations

Total labour costs

Costs of total labour were $188 million in the first quarter of 2014 – an increase of $5 million or 2.8% when compared to the same period in the prior year. The overall increase was mainly due to annual wage increases.

Total non-labour costs

Total non-labour costs were $209 million in the first quarter of 2014 – an increase of $1.6 million or 0.8% when compared to the same period in the prior year. The increase was driven primarily by fuel costs and IT expenses.

8.6 Logistics segment

The Logistics segment includes the financial results of SCI Group. The Logistics segment contributed $1 million of net profit to the consolidated results for the first quarter of 2014, an increase of 20.5% compared to the same period in the prior year.

Logistics results for the first quarter of 2014

	13 weeks ended			
(in millions of dollars)	March 29, 2014	March 30, 2013	Change	%
Revenue from operations	45	42	3	6.8[1]
Cost of operations	43	41	2	7.2
Profit from operations	**2**	**1**	**1**	**51.3**
Investing and financing income (expense), net	(0)	0	(0)	–
Profit before tax	**2**	**1**	**1**	**48.9**
Tax expense	1	0	1	–
Net profit	**1**	**1**	**0**	**20.5**

1. Adjusted for trading days, where applicable.

Revenue from operations

SCI generated revenue from operations of $45 million in the first quarter of 2014 – an increase of $3 million or 6.8%, when compared with the same period last year. The increase was mainly driven by volume growth from current clients.

Cost of operations

Total labour costs

Total labour costs were $20 million in the first quarter of 2014 – an increase of $1 million or 7.2% when compared to the same period in the prior year. The change was primarily the result of volume increases.

Total non-labour costs

Total non-labour costs were $23 million in the first quarter of 2014 – an increase of $1 million or 7.1% when compared to the same period in the previous year. The increase was mainly due to growth from existing clients.

8.7 Innovapost segment

Innovapost provides virtually all its services to the Canada Post Group of Companies. Results of Innovapost are consolidated and its revenue of $62 million was eliminated against the other segments' cost of operations upon consolidation.

9 Critical Accounting Estimates and Accounting Policy Developments

A review of critical accounting estimates and changes in accounting policies in 2014 and future years

9.1 Critical accounting estimates and estimation uncertainties

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

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

The Group of Companies' critical accounting estimates remain substantially unchanged from the prior year. For additional information, refer to our discussion of critical accounting estimates in the 2013 Annual MD&A and in Note 3 – Critical Accounting Estimates and Judgments of the 2013 consolidated financial statements, which are contained in the *Canada Post Corporation 2013 Annual Report*.

9.2 Accounting pronouncements

(a) New standards, amendments and interpretations effective January 1, 2014

The Corporation's 2014 First Quarter Financial Report includes the adoption of one interpretation issued by the IFRS Interpretations Committee (Interpretations Committee) that was mandatory for accounting periods beginning January 1, 2014. The following interpretation adopted by the Group of Companies January 1, 2014, did not have an impact on the interim condensed consolidated financial statements for the 13 weeks ended March 29, 2014:

IFRIC 21 "Levies" • This IFRIC addresses the accounting for a liability to pay a levy within the scope of IAS 37 "Provisions, Contingent Liabilities and Contingent Assets," as well as accounting for a levy whose timing and amount is certain. A levy is defined as an outflow of resources embodying economic benefits that is imposed by governments in accordance with legislation and excludes outflows of resources within the scope of other standards, including IAS 12 "Income Taxes," and fines or other penalties imposed for breaches of the legislation.

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

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

Amendment or interpretation	Effective for annual periods beginning on or after
Annual Improvements to IFRS – 2010-2012 Cycle	July 1, 2014
Annual Improvements to IFRS – 2011-2013 Cycle	July 1, 2014
Amendments to IAS 19 – Defined Benefit Plans: Employee Contributions	July 1, 2014
IFRS 9 Financial Instruments	Tentatively January 1, 2018

MANAGEMENT'S RESPONSIBILITY FOR INTERIM FINANCIAL REPORTING

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

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

President and Chief Executive Officer

Chief Financial Officer

May 21, 2014

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at (Unaudited – in millions of Canadian dollars)	**Notes**	**March 29, 2014**	December 31, 2013
Assets			
Current assets			
Cash and cash equivalents		**$ 394**	$ 468
Marketable securities		**521**	570
Trade and other receivables		**784**	779
Income tax receivable		**14**	6
Other assets	**4**	**104**	92
Total current assets		**1,817**	1,915
Non-current assets			
Property, plant and equipment	**5**	**2,675**	2,707
Intangible assets	**5**	**123**	129
Segregated securities		**532**	510
Pension benefit assets	**6**	**168**	177
Deferred tax assets		**1,341**	1,093
Goodwill		**130**	130
Other assets		**7**	6
Total non-current assets		**4,976**	4,752
Total assets		**$ 6,793**	$ 6,667
Liabilities and equity			
Current liabilities			
Trade and other payables		**$ 498**	$ 620
Salaries and benefits payable and related provisions		**582**	580
Provisions		**88**	81
Income tax payable		**1**	1
Deferred revenue		**124**	145
Loans and borrowings		**22**	23
Other long-term benefit liabilities	**6**	**71**	71
Total current liabilities		**1,386**	1,521
Non-current liabilities			
Loans and borrowings		**1,104**	1,108
Pension, other post-employment and other long-term benefit liabilities	**6**	**5,400**	4,382
Deferred tax liabilities		**3**	3
Provisions		**2**	2
Other liabilities		**15**	16
Total non-current liabilities		**6,524**	5,511
Total liabilities		**7,910**	7,032
Equity			
Contributed capital		**1,155**	1,155
Accumulated other comprehensive income		**31**	18
Accumulated deficit		**(2,326)**	(1,564)
Equity of Canada		**(1,140)**	(391)
Non-controlling interests		**23**	26
Total equity		**(1,117)**	(365)
Total liabilities and equity		**$ 6,793**	$ 6,667
Contingent liabilities	**9**		

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the 13 weeks ended (Unaudited – in millions of Canadian dollars)	**Notes**	**March 29, 2014**	March 30, 2013
Revenue from operations		**$ 1,868**	$ 1,904
Cost of operations			
Labour		**940**	956
Employee benefits, including losses from plan amendments	**6**	**324**	377
		1,264	1,333
Other operating costs	**10**	**553**	542
Depreciation and amortization	**5**	**79**	80
Total cost of operations		**1,896**	1,955
Loss from operations		**(28)**	(51)
Investing and financing income (expense)			
Investment and other income	**11**	**4**	114
Finance costs and other expense	**11**	**(13)**	(12)
Investing and financing income (expense), net		**(9)**	102
Profit (loss) before tax		**(37)**	51
Tax expense (income)	**7**	**(9)**	16
Net profit (loss)		**$ (28)**	$ 35
Other comprehensive income (loss)			
Items that will not be reclassified to net profit (loss)			
Remeasurements of defined benefit plans, net of tax	**8**	**$ (737)**	$ 281
Items that may be reclassified subsequently to net profit (loss)			
Unrealized gains (losses) on available-for-sale financial assets, net of tax	**8**	**13**	(3)
Other comprehensive income (loss)		**(724)**	278
Comprehensive income (loss)		**$ (752)**	$ 313
Net profit (loss) attributable to			
Government of Canada		**$ (27)**	$ 36
Non-controlling interests		**(1)**	(1)
		$ (28)	$ 35
Comprehensive income (loss) attributable to			
Government of Canada		**$ (749)**	$ 314
Non-controlling interests		**(3)**	(1)
		$ (752)	$ 313

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the 13 weeks ended March 29, 2014 (Unaudited – in millions of Canadian dollars)	Contributed capital	Accumulated other comprehensive income	Accumulated deficit	Equity of Canada	Non-controlling interests	Total equity
Balance at December 31, 2013	**$ 1,155**	**$ 18**	**$ (1,564)**	**$ (391)**	**$ 26**	**$ (365)**
Net loss	**–**	**–**	**(27)**	**(27)**	**(1)**	**(28)**
Other comprehensive income (loss)	**–**	**13**	**(735)**	**(722)**	**(2)**	**(724)**
Comprehensive income (loss)	**–**	**13**	**(762)**	**(749)**	**(3)**	**(752)**
Balance at March 29, 2014	**$ 1,155**	**$ 31**	**$ (2,326)**	**$ (1,140)**	**$ 23**	**$ (1,117)**

For the 13 weeks ended March 30, 2013 (Unaudited – in millions of Canadian dollars)	Contributed capital	Accumulated other comprehensive income	Accumulated deficit	Equity of Canada	Non-controlling interests	Total equity
Balance at December 31, 2012	$ 1,155	$ 52	$ (3,840)	$ (2,633)	$ 19	$ (2,614)
Net profit (loss)	–	–	36	36	(1)	35
Other comprehensive income (loss)	–	(3)	281	278	–	278
Comprehensive income (loss)	–	(3)	317	314	(1)	313
Balance at March 30, 2013	$ 1,155	$ 49	$ (3,523)	$ (2,319)	$ 18	$ (2,301)

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the 13 weeks ended (Unaudited – in millions of Canadian dollars)	**Notes**	**March 29, 2014**	March 30, 2013
Cash flows from operating activities			
Net profit (loss)		**$ (28)**	$ 35
Adjustments to reconcile net profit (loss) to cash provided by operating activities:			
Depreciation and amortization	**5**	**79**	80
Pension, other post-employment and other long-term benefit expense	**6**	**173**	227
Pension, other post-employment and other long-term benefit payments	**6**	**(131)**	(146)
Gain on sale of capital assets and assets held for sale	**11**	**–**	(111)
Tax expense (income)	**7**	**(9)**	16
Net interest expense	**11**	**8**	7
Change in non-cash operating working capital:			
(Increase) decrease in trade and other receivables		**(4)**	2
Decrease in trade and other payables		**(110)**	(34)
Increase (decrease) in salaries and benefits payable and related provisions		**2**	(76)
Increase in provisions		**7**	5
Net increase in other non-cash operating working capital		**(32)**	(19)
Other income not affecting cash, net		**(6)**	(8)
Cash used in operations before interest and tax		**(51)**	(22)
Interest received		**5**	5
Interest paid		**(25)**	(25)
Tax paid		**(3)**	–
Cash used in operating activities		**(74)**	(42)
Cash flows from investing activities			
Acquisition of securities		**(222)**	(269)
Proceeds from sale of securities		**270**	336
Acquisition of capital assets		**(42)**	(74)
Proceeds from sale of capital assets		**–**	153
Cash provided by investing activities		**6**	146
Cash flows from financing activities			
Payments on finance lease obligations		**(6)**	(5)
Cash used in financing activities		**(6)**	(5)
Net (decrease) increase in cash and cash equivalents		**(74)**	99
Cash and cash equivalents, beginning of period		**468**	298
Cash and cash equivalents, end of period		**$ 394**	$ 397

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the 13 weeks ended March 29, 2014
(Unaudited – in millions of Canadian dollars, unless otherwise indicated)

1. Incorporation, Business Activities and Directives

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

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

Under the Act, the Corporation has the sole and exclusive privilege (with some exceptions) of collecting, transmitting and delivering letters to the addressee thereof within Canada. Other lines of business not covered by the exclusive privilege include Parcels and Direct Marketing products and services.

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

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

2. Basis of Presentation

Statement of compliance • The Corporation has prepared its interim condensed consolidated financial statements in compliance with IAS 34 "Interim Financial Reporting." As permitted under this standard, these interim condensed consolidated financial statements do not include all of the disclosures required for annual consolidated financial statements, and should be read in conjunction with the Corporation's audited consolidated financial statements for its fiscal year ended December 31, 2013.

These interim condensed consolidated financial statements have been prepared based on International Financial Reporting Standards (IFRS) issued and effective as at the reporting date. They were approved and authorized for issue by the Board of Directors on May 21, 2014.

Basis of presentation • The interim condensed consolidated financial statements have been prepared on a historical cost basis, except as permitted by IFRS and as otherwise indicated within these notes. Although the Corporation's year end of December 31 matches the calendar year end, the Corporation's quarter end dates do not necessarily coincide with calendar year quarters; instead, each of the Corporation's quarters contains 13 weeks. Amounts are shown in millions, unless otherwise noted.

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

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

Significant accounting policies • Significant accounting policies used in these interim condensed consolidated financial statements are disclosed in Note 2 of the Corporation's annual consolidated financial statements for the year ended December 31, 2013, except for the application of new standards, amendments and interpretations effective January 1, 2014. The accounting policies have been applied consistently to all periods presented, unless otherwise indicated.

Basis of consolidation • These interim condensed consolidated financial statements include the accounts of the Corporation and its subsidiaries, Purolator Holdings Ltd. (Purolator), SCI Group Inc. (SCI) and Innovapost Inc. (Innovapost). The Corporation, Purolator, SCI and Innovapost are collectively referred to as the "Canada Post Group of Companies," or the "Group of Companies."

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

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which estimates are revised if revisions affect only that period, or in the period of revision and future periods if revisions affect both current and future periods. Critical judgments and key sources of estimation uncertainty are disclosed in Note 3 of the Corporation's annual consolidated financial statements for the year ended December 31, 2013.

3. Application of New and Revised International Financial Reporting Standards

(a) New standards, amendments and interpretations effective January 1, 2014

One interpretation was issued by the IFRS Interpretations Committee (Interpretations Committee) that was mandatory for accounting periods beginning on or after January 1, 2014. The following interpretation adopted by the Group of Companies January 1, 2014, did not have an impact on the Corporation's interim condensed consolidated financial statements:

IFRIC 21 "Levies" • This IFRIC addresses the accounting for a liability to pay a levy within the scope of IAS 37 "Provisions, Contingent Liabilities and Contingent Assets," as well as accounting for a levy whose timing and amount is certain. A levy is defined as an outflow of resources embodying economic benefits that is imposed by governments in accordance with legislation and excludes outflows of resources within the scope of other standards, including IAS 12 "Income Taxes," and fines or other penalties imposed for breaches of the legislation.

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

In the first quarter, there were no standards, amendments and interpretations issued by the IASB or the Interpretations Committee that would have a possible effect on the Group of Companies in the future. The standards, amendments and interpretations not yet in effect are disclosed in Note 4 (c) of the Corporation's annual consolidated financial statements for the year ended December 31, 2013.

4. Other Assets

Other current assets consisted of the following items:

As at	**March 29, 2014**	December 31, 2013
Prepaid expenses	$ 93	$ 82
Assets held for sale	11	10
Total other assets	**$ 104**	$ 92

The Group of Companies had several properties classified as held for sale at the end of the first quarter of 2014, the majority of them from the Purolator segment. It is anticipated that the carrying amount of the properties will be fully recovered through the sale proceeds.

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

5. Capital Assets

(a) Property, plant and equipment

Property, plant and equipment consisted of the following items:

	Land	Buildings	Leasehold improvements	Plant equipment	Vehicles	Sales counters, office furniture and equipment	Other equipment	Assets under development	Total
Cost or deemed cost									
December 31, 2013	$ 309	$ 1,785	$ 269	$ 1,300	$ 433	$ 440	$ 892	$ 202	$ 5,630
Additions	–	14	–	14	2	4	3	(3)	34
Reclassified as held for sale	–	(3)	–	–	–	–	–	–	(3)
Retirements	–	–	–	–	(1)	(1)	–	–	(2)
Transfers (nets to nil with Note 5 [b])	–	133	1	9	3	3	–	(147)	2
March 29, 2014	**$ 309**	**$ 1,929**	**$ 270**	**$ 1,323**	**$ 437**	**$ 446**	**$ 895**	**$ 52**	**$ 5,661**
Accumulated depreciation									
December 31, 2013	$ –	$ 910	$ 195	$ 681	$ 225	$ 337	$ 575	$ –	$ 2,923
Depreciation	–	15	4	20	10	9	9	–	67
Reclassified as held for sale	–	(2)	–	–	–	–	–	–	(2)
Retirements	–	–	–	–	(1)	(1)	–	–	(2)
March 29, 2014	**$ –**	**$ 923**	**$ 199**	**$ 701**	**$ 234**	**$ 345**	**$ 584**	**$ –**	**$ 2,986**
Carrying amounts									
December 31, 2013	$ 309	$ 875	$ 74	$ 619	$ 208	$ 103	$ 317	$ 202	$ 2,707
March 29, 2014	**$ 309**	**$ 1,006**	**$ 71**	**$ 622**	**$ 203**	**$ 101**	**$ 311**	**$ 52**	**$ 2,675**

During the first quarter of 2014, capitalized borrowing costs related to Postal Transformation amounted to $1 million (March 30, 2013 – $2 million), with a capitalization rate of 4.3% (March 30, 2013 – 4.3%).

(b) Intangible assets

Intangible assets consisted of the following items:

	Software	Software under development	Customer contracts and relationships	Total
Cost				
December 31, 2013	$ 640	$ 33	$ 30	$ 703
Additions	6	2	–	8
Transfers (nets to nil with Note 5 [a])	1	(3)	–	(2)
March 29, 2014	**$ 647**	**$ 32**	**$ 30**	**$ 709**
Accumulated amortization				
December 31, 2013	$ 547	$ 1	$ 26	$ 574
Amortization	11	1	–	12
March 29, 2014	**$ 558**	**$ 2**	**$ 26**	**$ 586**
Carrying amounts				
December 31, 2013	$ 93	$ 32	$ 4	$ 129
March 29, 2014	**$ 89**	**$ 30**	**$ 4**	**$ 123**

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

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

(a) Net defined benefit liability

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

As at	March 29, 2014	December 31, 2013
Pension benefit assets	**$ 168**	$ 177
Pension benefit liabilities	$ 1,859	$ 1,090
Other post-employment and other long-term benefit liabilities	3,612	3,363
Total pension, other post-employment and other long-term benefit liabilities	$ 5,471	$ 4,453
Current other long-term benefit liabilities	**$ 71**	$ 71
Non-current pension, other post-employment and other long-term benefit liabilities	**$ 5,400**	$ 4,382

(b) Defined benefit and defined contribution costs

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

For the 13 weeks ended	March 29, 2014			March 30, 2013		
	Pension benefit plans	**Other benefit plans**	**Total**	Pension benefit plans	Other benefit plans	Total
Current service cost	$ 89	$ 26	$ 115	$ 115	$ 30	$ 145
Interest cost	254	41	295	226	39	265
Interest income on plan assets	(243)	–	(243)	(189)	–	(189)
Other administration costs	3	–	3	3	–	3
Plan amendments losses	–	–	–	1	–	1
Defined benefit expense	103	67	170	156	69	225
Defined contribution expense	3	–	3	2	–	2
Total expense	106	67	173	158	69	227
Return on segregated securities	–	(5)	(5)	–	(5)	(5)
Component included in employee benefits expense	**$ 106**	**$ 62**	**$ 168**	$ 158	$ 64	$ 222
Remeasurement losses (gains):						
Return on plan assets, excluding interest income on plan assets	$ (534)	$ –	$ (534)	$ (744)	$ –	$ (744)
Actuarial losses	1,304	215	1,519	323	46	369
Component included in other comprehensive income (loss)	**$ 770**	**$ 215**	**$ 985**	$ (421)	$ 46	$ (375)

(c) Total cash payments

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

For the 13 weeks ended	March 29, 2014	March 30, 2013
Benefits paid directly to beneficiaries for other benefit plans	$ 33	$ 32
Employer regular contributions to pension benefit plans	78	87
Employer special contributions to pension benefit plans	17	25
Cash payments for defined benefit plans	128	144
Contributions to defined contribution plans	3	2
Total cash payments	**$ 131**	$ 146

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

The Group of Companies' estimated total contributions to the defined benefit pension plans in 2014 have not changed significantly from those disclosed in the Corporation's audited consolidated financial statements for the year ended December 31, 2013. These estimated total contributions take into consideration the Corporation's reduction of special solvency contributions until June 30, 2014, as permitted by legislation, and the Corporation's exemption from making special contributions into its registered pension plan from 2014 to 2017, as permitted by the *Canada Post Corporation Pension Plan Funding Regulations*. The Corporation expects to resume special payments in 2018 at the end of the temporary relief period.

7. Income Taxes

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

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

For the 13 weeks ended	**March 29, 2014**	March 30, 2013
Current tax expense (income)	$ (4)	$ (2)
Deferred tax expense (income) relating to origination and reversal of temporary differences	(5)	18
Tax expense (income)	**$ (9)**	$ 16

8. Other Comprehensive Income (Loss)

Amounts recognized in other comprehensive income (loss) were as follows:

	Items that may be reclassified subsequently to net profit (loss)	Items that will not be reclassified to net profit (loss)	
	Unrealized gains (losses) on available-for-sale financial assets	Remeasurements of defined benefit plans	Other comprehensive income (loss)
For the 13 weeks ended March 29, 2014			
Amount arising during year	$ 18	$ (985)	$ (967)
Income taxes	(5)	248	243
Net	**$ 13**	**$ (737)**	**$ (724)**
For the 13 weeks ended March 30, 2013			
Amount arising during year	$ (4)	$ 375	$ 371
Income taxes	1	(94)	(93)
Net	$ (3)	$ 281	$ 278

9. Contingent Liabilities

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

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

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

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

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

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

(c) In 2013, individual members of the Rural and Suburban Mail Carriers unit of CUPW (CUPW-RSMC) filed complaints (2013 complaints) with the Canadian Human Rights Commission (Commission) alleging, among other things, discrimination by the Corporation concerning work of equal value. The Commission had previously declined jurisdiction in respect of similar complaints filed in 2012 (2012 complaints). Consistent with the process already in place for the 2012 complaints, the Corporation requested that the Commission use its jurisdiction to decline to hear the 2013 complaints on the basis of procedural errors and that the non-litigated internal dispute process should first be exhausted.

After the Commission declined jurisdiction in respect of the 2012 complaints to the Commission, further claims were filed against the Corporation on behalf of individual members by CUPW-RSMC in various locations. These claims contend, among other things, that the Corporation is in violation of the *Canadian Human Rights Act* by denying pay equity between the RSMC unit and external employees in the Corporation's postal operations unit.

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

(d) On April 15, 2014, the Corporation received notice from the Canadian International Trade Tribunal (CITT) that CGI Information Systems and Management Consultants Inc. (CGI) had filed a public complaint in respect of the request for proposals for data centre services conducted by Innovapost on behalf of the Group of Companies for the contract awarded December 6, 2013. The complaint, accepted for inquiry by the CITT on April 17, 2014, is in respect of two issues – the lack of documents that CGI claims it is entitled to receive pursuant to its debrief requests, and the manner in which CGI's bid was evaluated. The Corporation is preparing a response to be filed as required by the CITT on or before May 23, 2014. While CGI has requested various forms of relief, including monetary relief, management believes that the requests for monetary relief are without merit and, accordingly, no provisions have been made in the Corporation's financial statements.

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

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

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

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

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

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

10. Other Operating Costs

Other operating costs consisted of the following:

For the 13 weeks ended	**March 29, 2014**	March 30, 2013
Non-labour collection, processing and delivery	$ 338	$ 337
Property, facilities and maintenance	96	90
Selling, administrative and other	119	115
Other operating costs	**$ 553**	$ 542

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

11. Investing and Financing Income (Expense)

Investing and financing income and expense consisted of the following:

For the 13 weeks ended	**March 29, 2014**	March 30, 2013
Interest revenue	$ 4	$ 3
Gain on sale of capital assets and assets held for sale	–	111
Investment and other income	**$ 4**	$ 114
Interest expense	$ (12)	$ (10)
Other expense	(1)	(2)
Finance costs and other expense	**$ (13)**	$ (12)
Investing and financing income (expense), net	**$ (9)**	$ 102

12. Related Party Transactions

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

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

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

For the 13 weeks ended	**March 29, 2014**	March 30, 2013
Related party revenue	**$ 65**	$ 80
Compensation payments for programs		
Government mail and mailing of materials for the blind	**$ 6**	$ 6
Payments from related parties for premises leased from the Corporation	**$ 2**	$ 2
Related party expenditures	**$ 8**	$ 8

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

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

As at	**March 29, 2014**	December 31, 2013
Due to/from related parties		
Included in trade and other receivables	**$ 31**	$ 20
Included in trade and other payables	**$ 10**	$ 16
Deferred revenue from related parties	**$ 4**	$ 3

(b) Transactions with the Corporation's pension plans

During the 13 weeks ended March 29, 2014, the Corporation provided administration services to the Canada Post Corporation Registered Pension Plan in the amount of $2 million (March 30, 2013 – $2 million). As at March 29, 2014, $9 million (December 31, 2013 – $4 million) relating to transactions with the Registered Pension Plan is outstanding and included in trade and other receivables.

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

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

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

In the normal course of business, the Group of Companies may interact with companies whose financial and operating policies are solely or jointly governed by key management personnel (KMP) of the Group of Companies. The affected KMP always recuse themselves from all discussions and decisions relating to transactions between the companies. The only significant transactions for the 13 weeks ended March 29, 2014, were between Purolator and a company controlled by one of the Group of Companies' KMP, who is a director and also a minority shareholder of Purolator. This company provided air services to Purolator in the amount of $27 million (March 30, 2013 – $27 million). As at March 29, 2014, $5 million is due to the company from Purolator (December 31, 2013 – $4 million) and is included in trade and other payables. These transactions were made at prices and terms comparable to those given to other suppliers of Purolator.

13. Fair Values and Risks Arising From Financial Instruments

Fair values of financial instruments

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

As at March 29, 2014

	Level 1[1]	Level 2[2]	Level 3[3]	Total
Measured at fair value				
Cash and cash equivalents	$ 270	$ 124	$ –	**$ 394**
Marketable securities	$ –	$ 521	$ –	**$ 521**
Segregated securities	$ –	$ 532	$ –	**$ 532**
Trade and other payables: risk management financial liabilities	$ –	$ 3	$ –	**$ 3**
Measured at amortized cost				
Loans and borrowings	$ –	$ 1,272	$ –	**$ 1,272**

As at December 31, 2013

	Level 1[1]	Level 2[2]	Level 3[3]	Total
Measured at fair value				
Cash and cash equivalents	$ 324	$ 144	$ –	$ 468
Marketable securities	$ –	$ 570	$ –	$ 570
Segregated securities	$ –	$ 510	$ –	$ 510
Measured at amortized cost				
Loans and borrowings	$ –	$ 1,232	$ –	$ 1,232

The credit rating of cash and cash equivalents, marketable securities and segregated securities remains in compliance with the Corporation's investment policy, which requires Dominion Bond Rating Service ratings of R-1 (middle) for short-term investments and A for long-term investments.

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

There were no transfers between levels of the fair value hierarchy during the period ended March 29, 2014.

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

Financial risk factors

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

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

(a) Market risk

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

During the 13 weeks ended March 29, 2014, the Group of Companies continued its economic hedge program to mitigate its exposure to foreign exchange balances and forecasted sales denominated in SDRs. The notional amounts of forward contracts outstanding were as follows:

As at March 29, 2014

Currency	**Notional value**	**Canadian equivalent**	**Average contract rate**	**Maturity range**	**Type**	**Fair value**
U.S. dollar	US$62	$ 68	$1.10/US$	April 10 – December 18, 2014	Sell forward	$ (1)
Euro	€38	57	$1.50/€	April 11 – December 19, 2014	Sell forward	(1)
British pound	£9	16	$1.80/£	April 11 – December 19, 2014	Sell forward	(1)
Yen	¥1,002	11	$0.011/¥	April 11 – December 19, 2014	Sell forward	–
Total		$ 152				**$ (3)**

As at December 31, 2013

Currency	Notional value	Canadian equivalent	Average contract rate	Maturity	Type	Fair value
U.S. dollar	US$35	$ 37	$1.07/US$	January 16, 2014	Sell forward	$ –
Euro	€17	25	$1.45/€	January 17, 2014	Sell forward	–
British pound	£3.5	6	$1.75/£	January 17, 2014	Sell forward	–
Yen	¥450	5	$0.010/¥	January 17, 2014	Sell forward	–
Total		$ 73				$ –

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

For the 13 weeks ended		**March 29, 2014**			March 30, 2013	
	Foreign exchange gains	**Derivative losses**	**Total**	Foreign exchange gains (losses)	Derivative losses	Total
Unrealized	$ 1	$ (3)	$ (2)	$ (1)	$ (1)	$ (2)
Realized	4	(2)	2	1	(1)	–
Total	**$ 5**	**$ (5)**	**$ –**	$ –	$ (2)	$ (2)

(b) Liquidity risk

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

In February 2014, the Corporation received relief from making special payments into its registered pension plan from 2014 to 2017. In addition, the Corporation has begun to implement initiatives included in the Five-point Action Plan to address operational sustainability and ensure future profitability. The Corporation believes it has sufficient liquidity and authorized borrowing capacity to support its operations for at least the next 12 months, having obtained relief and given the implementation of the Five-point Action Plan.

Refer to notes 17 and 24 (c) of the Corporation's annual consolidated financial statements for the year ended December 31, 2013, for the Corporation's current authorized borrowing facilities.

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

14. Segmented Information

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

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

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

	Canada Post	Purolator	Logistics	Innovapost	Intersegment and consolidation	Total
Revenue from external customers	$ 1,462	$ 365	$ 41	$ –	$ –	$ 1,868
Intersegment revenue	6	21	4	62	(93)	–
Revenue from operations	$ 1,468	$ 386	$ 45	$ 62	$ (93)	$ 1,868
Labour and employee benefits	$ 1,033	$ 188	$ 20	$ 23	$ –	$ 1,264
Other operating costs	388	196	22	38	(91)	553
Depreciation and amortization	65	13	1	1	(1)	79
Cost of operations	$ 1,486	$ 397	$ 43	$ 62	$ (92)	$ 1,896
Profit (loss) from operations	$ (18)	$ (11)	$ 2	$ –	$ (1)	$ (28)
Investment and other income	$ 4	$ –	$ –	$ –	$ –	$ 4
Finance costs and other expense	(13)	–	–	–	–	(13)
Profit (loss) before tax	$ (27)	$ (11)	$ 2	$ –	$ (1)	$ (37)
Tax expense (income)	(8)	(2)	1	–	–	(9)
Net profit (loss)	$ (19)	$ (9)	$ 1	$ –	$ (1)	$ (28)
Total assets	$ 6,283	$ 751	$ 89	$ 95	$ (425)	$ 6,793
Acquisition of capital assets	$ 38	$ 4	$ 2	$ –	$ (1)	$ 43
Total liabilities	$ 7,598	$ 308	$ 44	$ 45	$ (85)	$ 7,910

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

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

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